

EXPLORATORY ANALYSIS ON THE RECONFIGURATION OF THE EUROPEAN FISCAL GOVERNANCE FRAMEWORK AND THE IMPLICATIONS FOR ROMANIA

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Abstract: *The successive revisions of the European Union's fiscal governance framework were among the most frequent and important post-crisis institutional transformations, aimed at enhancing its efficiency and effectiveness by increasing the flexibility and adaptability of fiscal rules to the specifics of national economies. In this paper, an exploratory analysis of historical and recent changes in European fiscal governance and their implications for Romania is presented. The methodology used combines documentary analysis with descriptive assessment of relevant fiscal indicators. The main results indicate that the new rules allow for more gradual fiscal adjustments, but their effectiveness depends heavily on institutional capacity and fiscal discipline. For Romania, weak tax culture and non-compliance remain central issues.*

Keywords: *fiscal governance, fiscal rules, European Union, budget deficit, Romania.*

JEL classification: *H62; E62; F55.*

1. Introduction

Fiscal governance is an essential element for the macroeconomic stability of the European Union (EU), and for the proper functioning of the Economic and Monetary Union (EMU). Unlike monetary policy, which is centralized, fiscal policy remains the responsibility of member states, thereby inevitably generating tensions between national autonomy and the need for coordination at the European level.

In this context, the European fiscal and budgetary rules were designed to limit imbalances, prevent the excessive accumulation of public debt, and support budgetary discipline. The Stability and Growth Pact (SGP), introduced in 1997, was the basis of this framework by establishing clear limits for the budget deficit and public debt. However, the economic developments of the last decades – especially the financial, sovereign debt, and health crises – have highlighted the limits of this mechanism, particularly its rigidity and difficulty of application.

Against the backdrop of these developments, the European fiscal governance framework has been subject to continuous adjustment. The recent proposals of the European Commission (EC) reflect a change in approach, oriented towards flexibility and adaptation to the specifics of each economy, with an emphasis on the sustainability of public debt. For Romania, integration into this framework was not without difficulties. The fiscal evolution in recent years has been marked by persistent deficits and difficulties in complying with the assumed rules, a situation that led to the country being subject to the excessive deficit procedure.

In this context, the paper aims to analyze how European fiscal governance has evolved and to highlight the implications of these transformations for Romania, using an exploratory approach that examines the institutional framework and the dynamics of fiscal indicators.

2. Specialized literature

Fiscal governance has evolved significantly in recent decades, reflecting increased concerns for the sustainability of public finances and the role of institutions in ensuring fiscal discipline. In the specialized literature, fiscal governance is defined as the set of rules, institutions, and practices that guide fiscal policy to maintain macroeconomic stability and prevent budget imbalances (Kopits & Symansky, 1998).

A reference point is the work of Kopits and Symansky (1998), who define fiscal rules as permanent restrictions on fiscal policy, intended to limit the discretion of political decision-makers. Later, the literature highlighted that the effectiveness of fiscal rules depends not only on their design but also on institutional quality and the degree of compliance (Eyraud et al., 2018).

In the EU context, the SGP has been analyzed extensively, being considered both an essential tool for fiscal coordination and a source of rigidity and procyclicality (Buti, Eijffinger & Franco, 2003; CE, 2020). Subsequent reforms, including the Six-Pack and Two-Pack legislative packages, introduced additional oversight and sanction mechanisms, but were criticized for excessive complexity and difficulty in implementation (Darvas, Martin & Ragot, 2018).

Recent studies highlight the need to transition to "second-generation" fiscal rules, characterized by flexibility and orientation towards debt sustainability (Blanchard, Leandro & Zettelmeyer, 2021; Eyraud et al., 2018). The reforms proposed after 2020 reflect this paradigm shift, shifting the focus from rigid numerical rules to an assessment of overall fiscal sustainability (EC, 2023; EC, 2024).

For Romania, the literature identifies persistent dysfunctions, including frequent deviations from fiscal rules and political influence over budget policy (Fiscal Council, 2023; IMF, 2022). The Fiscal Council has repeatedly highlighted problems with the credibility of the fiscal framework and the lack of effective corrective mechanisms.

3. The stages of the reconfiguration of the European fiscal governance

The evolution of European fiscal governance is a complex process of institutional adaptation, shaped by the interplay of economic constraints, political dynamics, and the lessons of crises. The SGP, originally created to promote fiscal discipline in the monetary union, has undergone successive reforms, each addressing previously identified problems. These changes highlight the constant tension between rigidity and flexibility, rules and discretion, supranational oversight and national responsibility.

The initial form of SGP. Adopted in 1997 and implemented with the launch of the EMU, the SGP was based on two essential rules: a budget deficit limit of 3% of GDP and a public debt ceiling of 60% of GDP. They had the role of preventing adverse outcomes from unsustainable fiscal policies in a common monetary space. The main advantage of the original framework was its simplicity and clarity. Numerical rules were simple and easy to monitor, ensuring transparency and comparability among Member States. In addition, the Excessive Budget Deficit Mechanism (EDP) provided a formal tool for correcting fiscal deviations.

In practice, SGP has encountered significant limitations. The rigidity of the rules induced procyclical behaviors, forcing restrictive policies into recessions and amplifying economic fluctuations. The rules did not reflect the structural differences between economies, applying the same criteria to states with different development and structures. Another ineffective aspect was the selective application of the rules. In the early years of the SGP,

economies such as Germany and France exceeded deficit limits without effective sanctions, damaging the credibility of the European fiscal framework. This inconsistency emphasized the political nature of the decision-making process and undermined the authority of the rules.

In conclusion, the initial form of the SGP provided a clear but rigid disciplinary framework that was not adapted to the dynamics of business cycles (Buti et al., 2003). The selective application of the rules to large economies has undermined the system's credibility (EC, 2020).

2005 SGP reform. The first major reform of the SGP, carried out in 2005, was driven by political and economic pressures generated by difficulties in complying with the original rules. The main objective of the reform was to introduce greater flexibility by adapting the rules to the specific economic circumstances of each member state.

The reform introduced the concept of a "medium-term budgetary objective" (MTO), which allowed member states to define their own fiscal targets, depending on the level of public debt and the potential for economic growth. Also, greater importance was given to the structural deficit, considered a more relevant indicator for assessing the fiscal position.

Another important element was the expansion of the range of justifications for deviations from the rules, including structural reforms or unfavorable economic conditions. This flexibility was intended to reduce the procyclicality of fiscal policies and allow for a more gradual adjustment. However, the 2005 reform also had significant negative effects. Thus, the increase in flexibility was accompanied by a reduction in effective constraints, thereby weakening fiscal discipline. Member States have frequently used exceptions and derogations to avoid the necessary adjustments. While the introduction of more complex concepts, such as the structural deficit, reduced the transparency of the fiscal framework. The estimation of these indicators is highly uncertain and relies on questionable methodological assumptions, leading to divergent interpretations.

In short, the 2005 reform introduced flexibility through medium-term objectives and the use of the structural deficit, but reduced fiscal discipline and increased the framework's complexity (Eyraud et al., 2018).

Post-crisis reforms. The global financial crisis of 2008 and the sovereign debt crisis in the euro area highlighted major vulnerabilities of the European fiscal framework, including the inability to prevent the accumulation of macroeconomic imbalances and ensure the sustainability of public finances. In response, the EU adopted a broad set of reforms known as the *Six-Pack* (2011) and *Two-Pack* (2013). Their objectives were to strengthen fiscal supervision and increase the degree of automaticity in sanctions. Also, the concept of the "expenditure rule" was introduced, which limited the growth of public spending to economic potential, contributing to better anchoring of fiscal policy. However, these reforms have created an extremely complex framework, characterized by numerous rules, indicators, and procedures. This complexity reduced transparency and made it difficult for both national authorities and the public to understand and apply the rules.

Another problematic aspect was the excessive reliance on unobservable indicators, such as the structural deficit, whose estimation is sensitive to assumptions and methodological revisions. This affected the predictability and credibility of the fiscal framework. Furthermore, although sanctions were formally strengthened, their practical application remained limited, perpetuating the credibility problem.

Overall, the post-crisis reforms strengthened the institutional dimension of fiscal governance but introduced a high degree of complexity, reducing the operational efficiency of the framework (Darvas et al., 2018; European Court of Auditors, 2018).

Suspension of fiscal rules during the COVID-19 pandemic. The COVID-19 pandemic has generated an unprecedented economic shock, prompting the EU to adopt exceptional measures to support member states' economies. In this context, the SGP's general derogation clause was invoked, allowing the temporary suspension of the fiscal rules. This decision represented an explicit recognition of the limits of the existing fiscal framework in the face of major shocks. The flexibility afforded by the suspension of the rules enabled member states to adopt expansionary fiscal policies, helping mitigate the economic impact of the pandemic.

From an efficiency perspective, this stage demonstrated the EU's ability to adapt its institutional framework quickly in exceptional circumstances. At the same time, it highlighted the importance of fiscal coordination at the European level. However, the suspension of the rules also created significant risks. Rapid growth in public deficits and debt has exacerbated fiscal vulnerabilities, particularly in states with already fragile fiscal positions. In the absence of clear rules, there was a risk of a sharp divergence between member states.

This period highlighted the need for a more flexible yet more credible fiscal framework, capable of combining discipline with the ability to respond to shocks (IMF, 2021).

The recent reforms of the SGP. The recent reforms to European fiscal governance represent an attempt to overcome the limits of the previous framework by simplifying the rules and increasing member states' role in defining fiscal policy. The new approach is oriented towards the sustainability of public debt, the use of medium-term fiscal plans adapted to each state, and the increase of national responsibility.

A central element of the new approach is the negotiation of fiscal plans between the member states and the EC, which allows better adaptation to national specifics. At the same time, a European supervisory framework is maintained, designed to ensure fiscal coherence and discipline. Compared to previous reforms, it brings some improvements, in particular by simplifying the fiscal framework, increasing transparency, reducing rigidity and procyclicality, and focusing on sustainability-relevant indicators. However, the new framework is not without its challenges. Increased flexibility entails a greater risk of discretion and dependence on political will. In the absence of strong national institutions, there is a risk that the rules will be applied inconsistently.

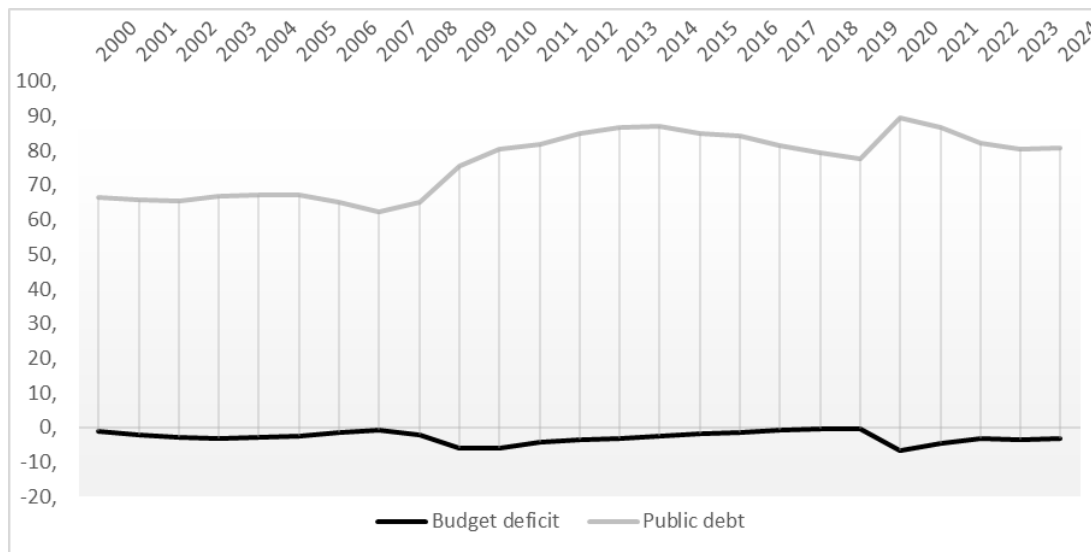


Figure 1. Evolution of the budget deficit and public debt in the EU (average, % of GDP), in the period 2000 - 2024

Source: made by the author based on Eurostat database data, https://ec.europa.eu/eurostat/databrowser/view/gov_10dd_edpt1_custom_20988890/default/table

The analysis of the reform stages of European fiscal governance highlights a continuous process of adjustment, marked by alternating periods of rigidity and flexibility. Each stage sought to correct previous deficiencies, but generated new challenges. A practical table of the results is presented in Figure 1, which shows the average evolutions, recorded at the EU level, of the budget deficit and the public debt (% of GDP) in the period 2000 – 2024. The evolution of public debt shows an upward trend, with more rapid increases during the crisis and post-crisis periods, while the deficit is more volatile, with pronounced deteriorations during both periods.

The EU is currently in a fragile equilibrium, with the success of the new framework largely dependent on member states' ability to exercise fiscal responsibility amid increased flexibility.

4. Analysis of the implications for Romania

The reconfiguration of European fiscal governance has complex implications for Romania, which is between the constraints of the European framework and internal structural vulnerabilities. Analysis of the impact of the new fiscal rules requires a broad assessment of the evolution of Romania's fiscal position, institutional capacity, and past budgetary policy.

Romania has a vulnerable fiscal trajectory, with recurring budget deficits, increasing public debt, and a limited capacity to mobilize fiscal revenues. These aspects influence how the new tax governance rules can be implemented.

4.1. The evolution of the budget deficit

The analysis of the budget deficit's evolution (Figure 2) reveals procyclical fiscal behavior and a persistent tendency to deviate from the assumed objectives (IMF, 2022).

During the specified period (2007–2008), Romania experienced a rapid deterioration in its fiscal position, with the budget deficit widening significantly amid expansionary policies and accelerated economic growth (IMF, 2008). This evolution highlighted one of the fundamental vulnerabilities of the Romanian fiscal policy: the inability to accumulate reserves in favorable periods.

The global financial crisis led to a steep fiscal adjustment, but the consolidation achieved in 2010–2013 was followed by significant fiscal easing in subsequent years. Since 2016, Romania has entered a new phase of fiscal expansion, characterized by tax cuts and increases in rigid expenditures (especially salaries and pensions), which have repeatedly led it to exceed the 3% of GDP deficit threshold (IMF, 2017; EC, 2024).

The COVID-19 pandemic has amplified these imbalances, with the budget deficit reaching very high levels (over 9% of GDP in 2020) due to economic support measures and declines in budget revenues (IMF, 2021). Although this evolution was common across Europe, in Romania it coincided with an already fragile fiscal position from a budgetary perspective.

In the post-pandemic period, fiscal adjustment was slow and incomplete, with Romania remaining among the member states with the highest budget deficits. This situation reflects both the rigidity of public spending and the difficulties of increasing tax revenues, which are relatively low compared to the EU average (EC, 2025).

4.2. The evolution of the budget deficit

As for public debt, it has grown significantly over the past two decades. If, before the 2008 crisis, the debt level was relatively low (below 20% of GDP), it increased steadily in the post-crisis period, exceeding the 60% of GDP threshold at the beginning of 2026. Although this level remains below the European average, the accelerated growth rate and the debt structure pose significant risks to fiscal sustainability.

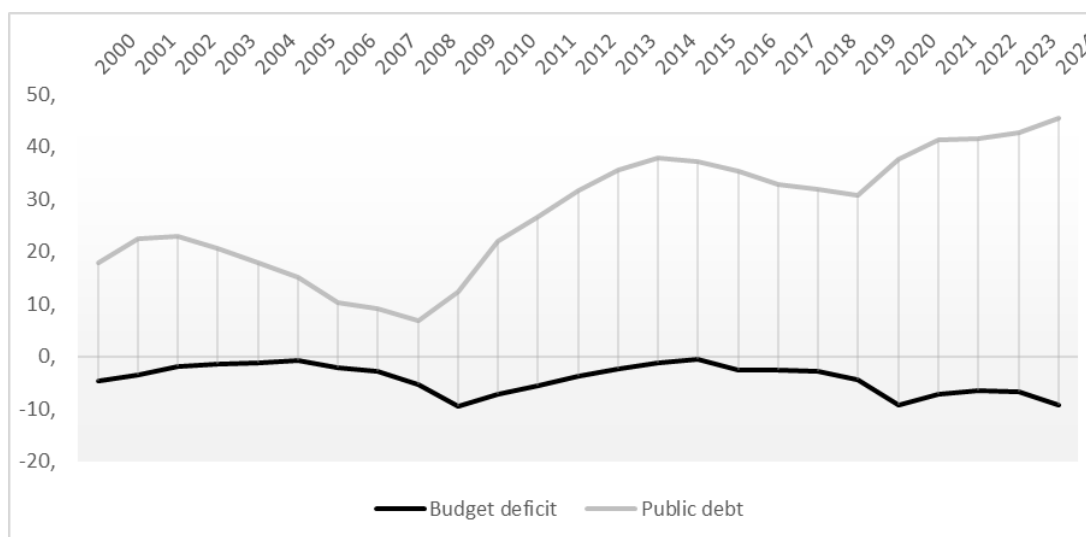


Figure 2. Evolution of the budget deficit and public debt in Romania (% of GDP), in the period 2000 - 2024

Source: made by the author based on Eurostat database data, https://ec.europa.eu/eurostat/databrowser/view/gov_10dd_edpt1_custom_20988890/default/table

The evolution of the two analyzed indicators - the budget deficit and the public debt - represented in Figure 2, is sinusoidal, with a direct correlation and synchronized oscillations, which highlights Romania's vulnerable position in relation to the objectives of European fiscal governance. In addition, Romania is under the excessive deficit procedure since 2020, which reflects the inability to maintain the budget deficit within the agreed limits (EC, 2024), but also a poor efficiency of the procedure that should work as a disciplinary mechanism, determining the adoption of fiscal consolidation measures. In practice, the fiscal adjustment required to meet the targets is often politically difficult to implement, especially amid social and economic pressures. In Romania, fiscal consolidation measures were frequently postponed or diluted, prolonging the process. Also, the increased flexibility of the European framework, especially in the post-pandemic period, has reduced pressure, allowing for greater deviations from fiscal targets.

On the other hand, the recent reform of European fiscal governance offers Romania a number of opportunities, especially through increased flexibility and emphasis on medium-term planning. Among the advantages, we can identify the possibility of defining fiscal trajectories tailored to national specifics, allowing for a gradual adjustment of the deficit and avoiding abrupt austerity measures that could negatively affect economic growth. An orientation towards public debt sustainability provides a more relevant framework for assessing fiscal policy than rigid rules based solely on the budget deficit. In Romania, this approach can facilitate the adoption of more balanced fiscal strategies. The implementation of medium-term fiscal plans can help increase the coherence of fiscal policies and reduce uncertainty.

But there are not only opportunities but also risks associated with the new fiscal rules, such as increased flexibility that can lead to a relaxation of fiscal discipline, especially in the context of weak institutions and a deficient fiscal culture, and Romania presents a high risk in this regard. Another risk factor is dependence on political will, as medium-term fiscal plans are effective only if consistently followed, a requirement that entails stability and political accountability.

The analysis of the implications of the new fiscal governance rules for Romania presents both opportunities and risks, and the final impact is largely determined by internal factors. Historically, fiscal (in)discipline in Romania has been attributed more to its own structural and institutional vulnerabilities than to the rigidity of European rules.

5. Conclusions

The analysis, which aimed to evaluate the reconfiguration of the European fiscal governance framework and its implications for Romania, highlighted several relevant directions.

The SGP reform process demonstrates that an optimal formula for its operation has not yet been identified, oscillating over time between rigidity and flexibility, with intentions and efforts to correct previous problems at each stage, yet also generating new difficulties.

The relatively modest results regarding the maintenance of the two indicators (deficit and debt) within the established ranges suggest that the efficiency of fiscal rules depends not only on how they are designed at the central level, but above all on states' ability to apply and respect them. Recent SGP adjustments provide a more adequate framework, but their

effectiveness remains closely linked to fiscal discipline and the functioning of national institutions.

In Romania, the analysis highlights persistent structural vulnerabilities. The evolution of the budget deficit and public debt indicates an unstable fiscal behavior, marked by frequent deviations from the assumed objectives. In addition, the rigidity of public spending and the low level of tax revenues limit the room to maneuver for budgetary policy. The excessive deficit procedure has had a limited impact in the absence of consistent domestic measures, with fiscal adjustments often delayed or partially implemented, suggesting that the main problem lies not only in the European framework but also in domestic implementation capacity.

The new fiscal governance framework offers opportunities for Romania, especially through greater flexibility and a greater orientation towards medium-term planning. However, these advantages can easily be canceled out in the absence of real fiscal discipline and institutional strengthening. In this sense, strengthening the role of independent institutions, such as the Fiscal Council, becomes essential for increasing the credibility of fiscal policy.

Statement on the use of AI in the process of writing the paper

In preparing this paper, the authors used ChatGPT, a generative artificial intelligence tool, for language support, to improve academic expression, reword passages, and optimize the text's structure. The scientific content, analysis, interpretation of results, and conclusions belong entirely to the authors.

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