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Assessment of the Commission proposal for a reformed EU economic governance framework

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1. Introduction

The reform of the economic governance framework is recently gaining more political relevance within the EU agenda. A revision of the current system is needed to cushion macroeconomic shocks, reach debt sustainability and foster EU economic growth and convergence through sound fiscal policies. This is a crucial challenge, especially in light of the numerous crises which have heavily affected the EU over the last 15 years (i.e. the great financial crisis, the sovereign debt crisis, the pandemic crisis and the energy crisis).

Moreover, from a policy mix perspective, reforming the fiscal framework is of outmost importance in order to counterbalance the restrictive monetary policy implemented by the ECB to face the inflationary trend in Europe.

The paper starts by reviewing the shortcomings of the Stability and Growth Pact and explaining the reasons why a new framework is needed. Moreover, it presents the main results of the open public consultation requested by the Commission in the context of the economic governance review, focussing in particular on the proposals advanced by 'Astrid' Foundation at the end of 2021. The contribution then provides a detailed analysis of the Communication presented by the Commission in November 2022,

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which represents the first official document defining a concrete proposal for a new framework. After assessing its features and implications, the paper concludes by providing final considerations to the ongoing debate.

2. Weaknesses of the Stability and Growth Pact and challenges of a new EU fiscal framework

The Stability and Growth Pact (SGP), suspended since May 2020 in response to the Covid crisis, is highly criticized. Regardless multiple attempts of fiscal coordination, the current EU fiscal framework was not able to achieve its objectives of sound fiscal policy and debt sustainability due to a variety of reasons, confirmed by a large strand of literature, which remain the main challenges to face.

First, the framework is too complex: on top of the 3 percent deficit threshold and the adjustment path towards the target of 60 percent debt-to-GDP, defined in the Maastricht Treaty, the Six Pack and the Two Pack introduced several rules (the expenditure benchmark, the medium-term objectives – the so called MTOs – and the 1/20th debt reduction criterion) 'aiming at strengthening budgetary surveillance' (European Fiscal Board, 2019) within the so-called Preventive and Corrective Arms. However, these rules were designed to perform only under a 'controlled' scenario, meaning they don't consider the possible impact of a persistent demand shock such as the one experienced after the 2008 and 2011 economic crises, that may induce pessimistic estimates of potential output (hysteresis effect), as outlined by Coibion et al. (2018). Similarly, they don't account also for the impact of a supply shock, such as the one of the Covid crisis. In particular, the MTOs failed in targeting the adjustment of the member states' structural budgetary positions needed in order to ensure their debt sustainability. Albeit their calculations consider the debt levels of each member state (structural deficit at or above 0.5 percent of GDP for countries with a debt-to-GDP ratio above 60 percent or at least 1 percent for those whose ratio is below the debt target), as well as its fiscal risks and its economic actual status and development, most of peripheral European countries experienced only a mild debt reduction, while some of them increased their debt-to-GDP ratios. Moreover, a constitutional provision on the debt, i.e. a mandatory reduction of the debt under given protocols, was included only in certain countries.

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Second, the key fiscal indicator that has been used, i.e. the change in structural balance (included in 2005 in substitution of the original change in headline deficit to remove the cyclical economic component from the previous indicator) doesn't merely depend on observable government revenues and expenditures, but relies on uncertain real-time output gap estimates and is subject to large measurement forecast errors, impairing the transparency of the instrument (Feld et al., 2018).

Third, the current system provides only limited incentives for investments and reforms: as prescribed by Art. 104.3 of the EC Treaty, the Commission 'shall also take into account whether the government deficit exceeds government investment expenditure' if at least one of the Maastricht criteria is breached, but there is no rigorous definition of what could be exempted from the deficit calculation.

The same rationale is applicable to Art. 126.3 TFEU, acknowledging that, in case a member state fails to comply with the obligations included in Art. 126.2 TFEU, the Commission must prepare a report which should consider, inter alia, the extent to which 'government deficit exceeds government investment expenditure' (Tosato, 2021). As a result, during periods of fiscal consolidation following the Great Financial crisis and the EU sovereign debt crisis, highly indebted member states were forced to steeply reduce the amount of resources dedicated to growth-enhancing public investments.

Fourth, the frequent use of escape clauses and flexibility in order to avoid the opening of excessive deficit procedures (EDPs) weakened fiscal rules compliance (Darvas et al., 2018), leading to an overall low level of SGP enforcement. On the other hand, member states complained their instances were not sufficiently heard by the Commission, signalling a problem of lack of ownership.

All these issues contributed to the development of fiscal and macroeconomic imbalances, inducing a procyclical fiscal policy reaction to the economic cycle and the inability to cushion economic shocks in the short and medium term, as well as the failure in ensuring long-term debt sustainability. Procyclical measures exacerbated economic and social problems, negatively affecting public budgets, potential growth and unemployment (Darvas et al., 2018).

3. Results from the public consultations: a focus on 'Astrid' proposals

To respond to the need for reform, without altering the overall SGP structure, an online public consultation with stakeholders and member states was launched in February 2020, just before the start of the Covid crisis. However, the debate was put on hold in March 2020 to focus on the unexpected and immediate challenges resulting from the pandemic shock. The European Commission then relaunched the public debate on the future of the EU economic governance framework in October 2021, calling for stakeholders' feedback through various means including an online public survey which closed on 31 December 2021.

The survey received 225 contributions from respondents in 25 countries. About 40 percent of them, in particular those from academia and think tanks, provided extensive analyses through detailed papers. Overall, responses mainly focused on a selection of themes (European Commission, 2022a):

- The support of investment in the green and digital transitions;
- The safeguard of fiscal sustainability through country-specific debt targets and adjustment paths;
- The need for a central fiscal capacity to improve macroeconomic stabilisation and increase EU resilience to shocks;
- The improvement of compliance through a simpler and more transparent economic governance framework, able to foster national ownership;
- The prevention of macroeconomic imbalances and the support of economic and social cohesion;
- The deepening of the EMU, by the completion of the Banking Union and the Capital Markets Union.

The highest share of contributions came from Italy, accounting for 28 percent of the overall amount (European Commission, 2022a). Among them, two (Amato et al., 2021; Bordignon and Pisauro, 2021) were presented by the 'Astrid' Foundation.

Amato et al. (2021) illustrated the benefits of using features of the RRF within the context of the new EU governance framework, aiming to enhance the process of 'vertical coordination' between the centralised fiscal policy and the national ones (Buti and Messori, 2021). The authors suggested to model the revised framework on the bilateral relation between the Commission and EU member states, respecting clear-cut criteria but leaving room for country-specific manoeuvre, thereby mimicking the

process adopted to design and implement national Recovery and Resilience Plans (NRRPs). Following the same logic, member states could design their 'Fiscal and Structural Plans' (FSPs), aimed at adjusting disequilibria and supporting economic and social convergence within the EU, which would be approved by the Council and assessed through their implementation phases by the Commission. As highlighted by Martin et al. (2021), the assessment could be potentially strengthened by involving even national fiscal councils in the process of evaluating the economic validity of the plans and their potential implications on debt sustainability.

Bordignon and Pisauro (2021) agreed with Amato et al. (2021) the RRF methodology should be taken as a reference point when considering the new fiscal framework. They specified the national debt adjustment plans for high debt countries should be defined on a three-year rolling basis while considering the achievement of country-specific long-term debt reduction objectives in a 10 years' time span.

The two contributions stated that, despite the possibility to modify the 60 percent debt to GDP target and the 3 percent deficit threshold without changing the Treaties (Tosato, 2021), this does not necessarily imply a significant improvement of the current status quo. Both Amato et al. (2021) and Bordignon and Pisauro (2021) pointed to the necessity of a clear definition, within the national fiscal plans, of the reforms and investments which every country is committed to implement, always accounting for the full respect of European priorities and national needs.

Moreover, the two Astrid papers claimed that the introduction of a EU central fiscal capacity would ensure a swifter reaction to external shocks, a more responsive macroeconomic stabilization and an easier enforcement of the rules, by denying the funding or imposing unilateral sanctions to member states which would be non-compliant to their FSPs.

Accordingly, the two papers recognized the need for recurrent European funds to finance public investment and boost the (green and digital) transition processes. In this way they aimed at acting against the recurrence of exceptional circumstances and events which cannot be controlled by policy makers, while leaving no room for manoeuvre to the so-called 'gross errors' and preventing the recourse to a permanent 'general escape clause'.

The two contributions presented different solutions with respect to the objective of fiscal rules' simplification.

Amato et al. (2021) stressed the importance of introducing a ‘golden rule’ exempting public investments that produce insufficient monetary returns in the short term but pivotal positive externalities in the medium and long term (i.e., those related to green and digital transitions) from the national balance sheets.

Bordignon and Pisauro (2021) proposed to replace the current fiscal indicator with a single operational rule: a ceiling on the growth rate of public expenditure net of cyclical components and of discretionary tax changes, based on real GDP growth forecasts for the medium term endorsed by national fiscal councils (Giavazzi et al., 2021) as opposed to the potential output.

In terms of enforcement, Bordignon and Pisauro (2021) conceived the operational rule as the unique tool to check the implementation of the debt adjustment plans, allowing only small annual deviations from the three-year pre-determined paths. Amato et al. (2021) put at the core of the enforcement procedure the implementation of the FSPs and the actual use of European funds, managed and monitored by the Commission on a yearly basis within the context of a revised European Semester, conceived as the new central coordination tool in the EU. In particular, the authors differentiate between normal circumstances and exemptional ones, underlining the prevention of opportunistic behaviours by member states would be ensured by suspending from European funds those countries which fail to take effective action to meet the targets.

4. The way forward: the Commission’s proposal

Based on the extensive feedback received by experts and stakeholders, on 9 November 2022 the European Commission released its proposal for a reformed EU economic governance framework through the adoption of a Communication.

The document includes several of the recommendations highlighted by the contributions discussed in the previous section.

In particular, it tries to reconcile three objectives, as claimed by the Commissioner for Economy Paolo Gentiloni: to support growth and enhance debt sustainability; to strengthen national ownership of economic decisions and embed them in a revised common framework; to simplify fiscal rules while preserving their intelligence and scope (European Commission, 2022b).

Figure 1: The objectives of the revised fiscal framework

National ownership embedded in EU framework	Simplification and focus on fiscal risks	Enforcement
0. Commission puts forward reference adjustment paths 1. Member States propose medium-term fiscal structural plans 2. Annual budgets will commit to follow the fiscal trajectory and ensure that debt will start converging to prudent levels within horizon of the plan 3. Member States can request a longer adjustment period underpinned by reforms and investments 4. Council endorsement of the plan 5. Stronger role of national IFIs	1. Net expenditure path anchored on debt and agreed by Council will be the single fiscal indicator 2. Surveillance and enforcement will be risk-based 3. Debt reduction benchmark, benchmark for reduction in structural balance, significant deviation procedure and matrix of requirements no longer exist	1. Deficit-based EDP (3% of GDP threshold) maintained 2. Debt based EDP will be operationalised and strengthened, as a tool to ensure compliance with the agreed net expenditure path 3. Financial sanctions toolbox will be enriched with smarter sanctions 4. Macroeconomic conditionality will be maintained 5. A new tool to ensure delivery of reforms and investments underpinning gradual adjustment path

Source: European Commission (2022c)

To ensure a proper national ownership, the Commission recommends the introduction of member states' medium-term fiscal-structural plans, giving countries more leeway to set the adjustment paths thanks to a risk-based surveillance, and a strengthened role of independent fiscal institutions, supporting national governments during the drafting process of these plans.

To simplify the framework and increase its transparency, a single operational indicator is suggested: the net expenditure path. According to the Commission, 'the use of nationally-financed net primary expenditure, i.e. expenditure net of discretionary revenue measures and excluding interest expenditure as well as cyclical unemployment expenditure, as the single operational indicator for surveillance, would allow for the operation of automatic stabilisers, including revenue and expenditure fluctuations outside the direct control of the government' (European Commission, 2022c). The ultimate aim is ensuring a higher degree of macroeconomic stabilisation and debt sustainability while reducing the monitoring burden by the Commission, which would focus its efforts on assessing member states' compliance.

In terms of enforcement procedures, they would be automatically triggered once deviations from the medium-term expenditure path realise. While the deficit-based EDP would remain unchanged, the debt-based EDP would be strengthened. For

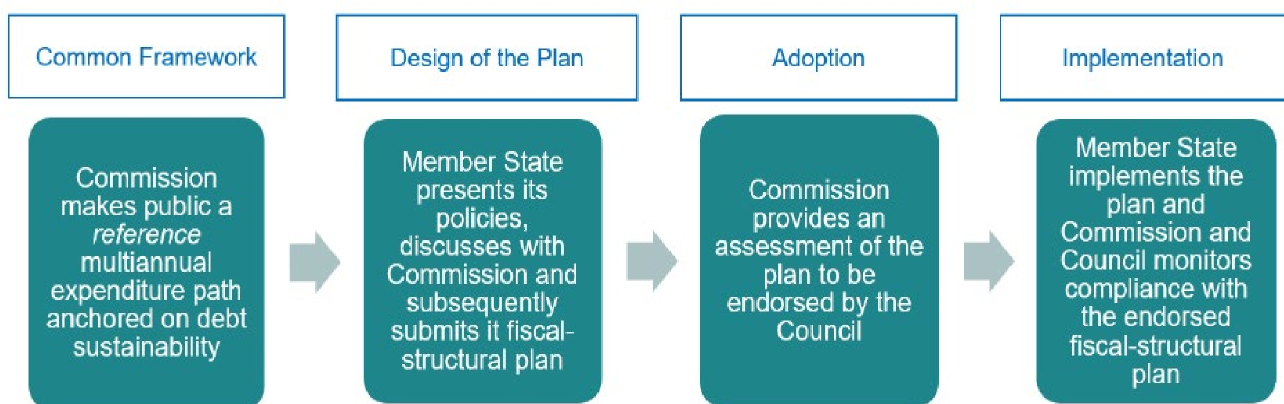
member states with a substantial public debt challenge, departures from the agreed fiscal path would by default result in the opening of the EDP, while for member states with a moderate public debt challenge departures could still lead to the opening of an EDP, if assessed as giving rise to 'gross errors'.

Furthermore, the enforcement mechanism would be reinforced by lowering financial sanctions to enhance its credibility, defining stronger reputational sanctions and including the macroeconomic conditionality for structural funds and the RRF.

In a nutshell, the proposed EU fiscal framework would be a risk-based surveillance framework which keeps the objective of debt sustainability and the adherence to the reference values of the Maastricht Treaty at its core, although introducing a degree of differentiation between countries based on their public debt challenges and giving more relevance to structural reforms and public investments included in national medium-term plans.

By focussing on the implementation process of the proposal from a practical perspective, the Commission attempts to establish a common framework, followed by the design of medium-term plans by member states, which would be ultimately adopted by the Council on the basis of a positive Commission assessment, implemented and ultimately monitored by the Commission and the Council under the European Semester.

Figure 2: Overview of the process proposed by the Commission



Source: European Commission (2022c)

The role of the Commission would be to put forward for each member state a reference multiannual adjustment path in terms of net primary expenditures covering four years. The classification of countries will depend on three categories (member states with a substantial, a moderate or a low public debt challenge), based on the Commission's debt sustainability analysis framework. While for countries with a low public debt challenge the 3 percent deficit-to-GDP threshold would be maintained as the reference anchor at unchanged policies over a 10-year period, for the remaining two categories the path should ensure that, by the horizon of the plan (in case of substantial debt challenge) or at most three years after such horizon (in case of moderate debt challenge), the 10-year debt trajectory – ceteris paribus – would be on a plausibly and continuously declining path.

The role of member states would consist instead in the periodic submission of the medium-term fiscal-structural plans, preceded by an in-depth dialogue with the Commission. The plan would include the outline of the medium-term fiscal adjustment path, set in terms of net primary expenditure and translated into corresponding annual spending ceilings, as well as reform and investment commitments. For member states identified with imbalances under the macroeconomic imbalance procedure (MIP), the plans would also include reforms and investments to correct those imbalances.

Member states can ask to possibly extend the adjustment path period in case additional time is required for the adoption of growth-enhancing reforms or investments. In this case, it would be necessary to establish a new enforcement to monitor the compliance of investments and reforms commitments. The focus on reforms and investments would be stressed even looking at the interaction of further government measures with the Recovery and Resilience Facility (RRF).

Additionally, the Commission's proposal points to the need for a change of the MIP. To strengthen its preventive role, both the alert mechanism report (AMR) and the in-depth reviews (IDRs) would be designed to have a more forward-looking approach. More weight would be given on growth variables, trend developments that are expected to be sustained and national policies that have been implemented to address imbalances.

Lastly, a more holistic approach would be considered to take into account the impact of global macroeconomic challenges, differencing between the country-specific, the euro area and the EU dimensions of imbalances.

5. Pros and cons of the Commission's Communication

The Commission's proposal represents only the first step of a long debate that would last foreseeably almost two years, until 2024, before a conclusive decision about the new EU fiscal framework would be made. This ongoing process would involve the European Parliament and Council, as well as member states and academia.
In addressing this challenging task, the proposal includes several novelties which could represent an improvement with respect to the original structure of the SGP.

First, the identification of a single operational indicator which is linked to observable government expenditure aggregates is justified by the need to overcome transparency issues linked to the adoption of the change in structural balance. Differently from the latter, the growth of net public expenditure is neither dependent on revenues, verified to be more positively correlated with the business cycle than expenditures (Christofzik et al., 2018), nor on unemployment and interest expenditures, with the latter particularly sensible to shifts in market sentiment (Claeys et al., 2016).

Second, the proposal acknowledges the objective of debt sustainability has to be reached following differentiated debt reduction paths, diversifying the process to fulfil the debt target and linking it to the member states' expenditure paths.

Third, the document attempts to explain how the roles of EU institutions (European Commission, Parliament and Council) and of member states would be balanced in the context of a new EU economic governance. Within this scenario, the political bias could be at least partly eliminated by embedding the member states fiscal policy choices in the performance-based and timeliness logic of the RRF.

However, focussing on the objectives proposed by the Commission's proposal, some caveats have to be carefully evaluated.

As far as ownership is concerned, the new procedure could be perceived as more intrusive than the preceding one, since it is centred on the control of net expenditures. The idea of creating in the medium term an intermediate target, expressed in terms of government spending growth, to attain in the long term a final target, expressed in terms of debt reduction, implies that one controls ex-ante not only the balance of national budgets but even their expenditures and revenues composition for a long horizon of four years. This could be seen as dangerous, especially when dealing with short political cycles, changing governments as well as unstable political priorities and macroeconomic environment. It is likely that, as a result of this process, many countries

would like to renegotiate their previously agreed medium-term fiscal-structural plans within the four-year adjustment period.

Related to this point is the question about how to adjust the old path with the new circumstances and contingent factors. Providing the role to judge the relevance of these factors solely to the Commission, which would ultimately decide whether to disburse RRF funds or not to the member states in case of non-compliance to their pre-determined plan of reforms and investments (outside of the ones included in the NRRPs), could be risky. However, this is mitigated by the fact that, in the reformed EU governance framework, the Commission would always be supervised by the European Parliament. Additionally, all medium-term plans are going to be revised by the Council and are agreed upon by member states, thereby passing through the control of national parliaments.

With respect to the simplification objective, the elimination of the economic cycle adjustment (believed by some as a mistake given its usefulness in making forecasts and in adequately evaluating fiscal policies) is compensated by the introduction of debt sustainability analyses, carried out by the Commission, which could be very complicated and dependent on arbitrary assumptions.

Furthermore, another source of complexity could come from stress test analyses, which are also mentioned in the proposal. An additional consideration must be made in reference to the definition of sustainable deficit and expenditure paths, that do not only depend on the assumptions about the growth rate and the real interest rate, but also on the external environment. External shocks are now radically changing the macroeconomic outlook, but are extremely difficult to predict, especially in the current condition of particularly high uncertainty. It would be therefore prudent to wait until this period of extreme volatility would normalise to make a final decision on how to properly evaluate debt sustainability.

Relatively to enforcement, the intention to make the new fiscal framework compatible to the structural reforms and public investments inherent in the RRF can hide a threat: since it is politically more difficult to control current expenditures as opposed to government investment spending, by controlling the total amount of net expenditures one risks that, once again, public investment would be sacrificed. Controlling public net expenditures in such a way could give the perception that the EU institutions are willing to control the size of the member states’ public sectors, possibly deviating from the philosophy standing since the Treaty of Rome according to which the EU keeps its

neutrality with reference to the national public and private sectors (provided that each of them respect the rules of functioning of the EU).

Moreover, it is likely to create an incentive for governments to act on the revenue side. This means that if the expenditure rule turns out to be too tight in certain circumstances, the governments would have an incentive to reduce taxes, maybe in an unsustainable way, and would be able to do so at least for a period of four years. Furthermore, linking the enforcement mechanism of new fiscal framework to the (until now) temporary RRF framework, financially covered by NGEU funding only until 2026, could potentially deviate from the main focus of obtaining debt sustainability.

Finally, even though the reference to 'gross errors' is underlined in the proposal, a clear-cut interpretation of such errors, especially in light of the difficult case of Italian public debt management, is not defined.

Looking back at the Commission's proposal goals, one can state the ambition to achieve them in a complementary way is rightly ambitious but would reveal to be harder than expected. Therefore, some claim treating them as trade-offs would possibly result in a better overall solution.

Outside the perimeter of the Commission's objectives, other concerns could be raised about the proposal. First, the problem of asymmetry, which has been one of the main reasons of economic divergence between member states leading to underinvestment in southern Europe during fiscal expansionary phases since the EU sovereign debt crisis, is not stressed enough. Likewise, the need for a more developed Banking Union and Capital Markets Union is not mentioned.

6. Further obstacles on the path towards a functioning EU fiscal framework

One of the main issues underlying the current EU fiscal framework reform, which could at least partially hamper its success, is linked to the unwillingness by some member states, and in particular by large member states such as Germany, France and Italy, to receive indications by the Commission on how to manage their national budgets. Despite each country agrees on the principles of sound fiscal policy and debt sustainability, when it comes to specific circumstances that in the member state's view require exceptions, especially during critical periods for the national economy,

difficulties and tensions with the Commission periodically arise. The first example of the request for preferential treatment of national budgets' deficits is related to the prevention of the opening of the EDP for France and Germany, which in 2003 breached the SGP deficit fiscal rule but voted against the EDP activation in the Council. Following that first deviation, highly indebted countries such as Italy tried to be exempted from the procedure, claiming for more flexibility.

After the Covid crisis, however, the European economic equilibrium has been reshaped, with France figuring among the highly indebted countries along with Italy as opposed to the low indebted Germany. In political terms, the opposition between France and Germany's interests could potentially undermine any effort to proceed on the path towards more European integration, thereby leading again to the eventuality of discretion and preferential treatments as well as rising tensions between countries. At the same time, signalling the EU indifference to the power and size of member states by imposing sanctions in an impartial manner would restore the credibility in the enforcement mechanism.

Indeed, a functioning correction procedure, as already mentioned, remains still a priority: fiscal procyclical bias was observed again in 2021, with public expenditure growth exceeding estimates of medium-term nominal potential growth. This means that a soft fiscal coordination is insufficient to achieve long-term debt sustainability, especially in highly indebted countries. The rationale behind the EDP is that once a member state of the EMU enters a financial tension and has problems with refinancing its public debt, that is likely to produce negative spillover effects on the others. Hence, the ultimate goal of implementing structural reforms and public investments is to reduce the likelihood that this phenomenon would take place, by creating positive externalities which would be beneficial not only in the implementing countries but even cross-border, at the EU level. This would mean a higher degree of EU integration in the long term, as well as more resilient national economies. At the same time, assuming that every country would be able to achieve the debt target by boosting public investments could be too simplistic.

7. Conclusions

All in all, the reform of the EU economic governance framework is a crucial step to re-establish mutual trust between member states and a prerequisite for a stronger European economic integration. A wide agreement on certain principles as EU fiscal rules simplification, sound and sustainable public finances, growth-friendly debt reduction, stronger medium-term orientation of fiscal policies and improvement of the enforcement procedure seem to be consolidated.

In this context, the Commission's proposal represents a significant game changer creating new premises for future negotiations between member states and EU institutions. The new framework presented in the Communication should be recognized as a significant improvement of the SGP as it directly addresses the shortcomings of the current system and provides concrete solutions to solve them. It is now important for the EU countries to invest their national and collective political capital to further ameliorate and finalise the reform before 2024, when the SGP general escape clause would be deactivated, even because a return to the inefficient status quo is not an option (Buti, 2022).

Coming back to the old SGP reference values is unrealistic: the convergence towards the 60 percent debt-to-GDP ratio should be at least de-emphasised, in a context where the average EU debt-to-GDP ratio is around 100 percent. However, the removal of the actual numerical target is far to be achieved. At the same time, by adjusting the $1/20^{th}$ debt reduction criterion, the relevance given to the numerical target per se could be downsized.

Regarding the 3 percent deficit-to-GDP threshold, a realistic compromise would consist in preserving it while exempting from the deficit measurement key public investments, especially related to the green, digital (and social) transitions, through the introduction of a golden rule (see Alcidi et al., 2022; Amato et al., 2021; Darvas and Anderson, 2020; Gros and Jahn, 2020). This could be easily justified by the general agreement reached via the RRF, suggesting that more public investment is needed for the structural reforms that the EU wants to undertake.

In a context characterized by new priorities, the role of economies of scale and public spending externalities would be potentially emphasised within a larger EU budget, with centralised policy choices and stronger coordination between member states guaranteed by a more prudent management of the fiscal stance. As claimed by Buti and

Messori (2021), 'a central fiscal capacity (CFC) could focus on three functions: cyclical stabilisation, support for the implementation of national structural reforms and investment, and the supply of European public goods (EPGs)'. Such capacity would complement the reaction by the ECB and by national fiscal policies to symmetric and country-specific shocks, while boosting potential output in case of negative supply shocks: stagflationary threats could be potentially mitigated by providing EPGs, whose scope would be to increase the supply side of the member states' economies (Buti and Messori, 2022; Messori and Buti, 2022).

On the other hand, to proceed further in the integration process towards a more centralised fiscal framework, more cooperation and mutual trust between countries is required. To this extent, Larch et al. (2022) are sceptical about the possibility of a successful agreement on the establishment of a central fiscal capacity, unless this would be paired by an adequate level of political representation and accountability at the EU level along with tighter constraints on national discretionary policies. The authors claim 'the majorities required to establish a permanent fiscal stabilisation capacity to address instability […] are a fairly distant prospect', adding that 'the Commission Communication […] predicates on the assumption that less demanding and more differentiated adjustment requirements will improve the willingness to cooperate' (Larch et al., 2022).

As soon as the context will normalise, it would be clearer whether tensions between member states in favour of risk sharing and those supporting risk reduction would resurface. Until then, the debate is going to develop further: is the ambition of a fully-fledged reformed EU economic governance framework going to prevail over the achievement of a 'mere' compromise?

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