Consequences of the deactivation of the European Union's fiscal rules and their reinstatement

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Prethodno priopćenje / *Preliminary communication*
UDK / UDC: 336.02 (4-6EU)=111
Primljeno / Received: 23. prosinca 2024. / December 23rd, 2024.
Prihvaćeno za objavu / Accepted for publishing: 20. ožujka 2025. / March 20th, 2025.
DOI: 10.15291/oec.4662

Abstract: The article examines the deactivation and subsequent reinstatement of the European Union's fiscal rules in response to the COVID-19 pandemic and its aftermath. It evaluates the macroeconomic and fiscal consequences of suspended fiscal rules and their role in addressing unprecedented economic challenges. A review-based methodology is employed, utilizing secondary data from authoritative sources, including the European Commission and Eurostat. This study also employs a Monte Carlo-based assessment of Slovenia's debt sustainability. The findings reveal that suspending fiscal rules enabled EU Member States to implement expansive fiscal measures, mitigating the pandemic's economic impact but significantly increasing public debt levels. Despite these interventions, disparities in fiscal responses and outcomes among Member States persist. We also highlight the challenges of reinstating fiscal rules amidst high debt levels and evolving economic conditions, emphasizing the need for flexibility and tailored approaches. The results indicate that while Slovenia's debt is expected to remain on a sustainable path, external shocks, ageing costs, and prolonged low growth could alter this trajectory. Limitations include the reliance on aggregate data and a lack of primary empirical evidence. Recommendations include improving fiscal governance frameworks to balance sustainability with flexibility and enhancing compliance mechanisms for Member States.

Key words: EU fiscal rules, COVID-19 pandemic, fiscal policy, economic governance, public debt sustainability
JEL classification: H61, H62, E62

1. Introduction

The creation of the EU and the Stability and Growth Pact has had a positive effect on the reduction of public debt, showing that European and national fiscal rules are complementary and that policymakers can use a combination of rules to reduce debt levels or limit debt growth (Kraemer and Lehtimäki, 2023, 785-786). Fiscal rules in Europe are generally effective and also have a disciplining effect on fiscal decisions (Asatryan et al., 2015, 4). Debrun et al. (2008) showed that the introduction of fiscal rules in

EU Member States improves the health of public finances. Budget balance rules were effective at the level of the general government sector and the regional government. Estimates by Kraemer and Lehtimäki (2023, 795-797) show that the introduction of debt rules has an impact on reducing debt accumulation. The results are also encouraging in the case of the balanced budget rule. Expenditure rules have been effective for the social security system and other sectors, while they have increased debt for the central and local government level. For the general government sector, revenue rules have had a perceived impact on reducing the growth of public debt. These findings should be interpreted with some caution due to the macro-level approach to the study of fiscal rules, and the effectiveness of different forms of sectoral rules may vary considerably across Member States due to different specificities (Kraemer and Lehtimäki, 2023, 784-785). The number of fiscal rules in EU Member States has increased sharply since 2013 and has been almost flat in recent years (EC-Fiscal governance database, n.d.). However, the COVID-19 pandemic necessitated an unprecedented fiscal response, leading to the temporary suspension of these rules. In March 2020, the EU fiscal rules were temporarily "deactivated" under the general escape clause, enabling Member States to pursue expansionary fiscal policies (Davoodi et al., 2022). The suspension of fiscal rules raises the urgency of examining its macroeconomic implications in the EU and Slovenia. This study investigates the macroeconomic and fiscal consequences of these policy changes and evaluates the challenges associated with reinstating fiscal governance structures.

2. Literature review

Countries with a history of strong fiscal compliance were better positioned to respond decisively to the crisis (Davoodi et al., 2022). This allows the building up of fiscal buffers that allow a more decisive response to major crises. However, EU Member States have historically complied with fiscal rules only 55% of the time, with significant variation among countries (EC-Fiscal Governance Database, n.d.). There are significant differences between countries. Luxembourg, Sweden and Denmark have the highest compliance scores, above 80%, while France and Italy have the lowest, below 30%. Countries with lower compliance scores have higher average gross debt as a percentage of GDP. It can therefore be said that compliance is a very good predictor of public debt dynamics. The negative consequences of systematic non-compliance with debt, balanced budget or expenditure rules will accumulate over time and will inevitably be reflected in higher public debt, encouraging the implementation of pro-cyclical policies (Larch, Malzubris and Santacroce, 2023). Fiscal policy is relaxed when a cyclical improvement in the government deficit and debt provides a sense of security. It is tightened when an economic downturn reveals the real state of public finances (Larch and Santacroce, 2020, 35). The years of recovery before the COVID-19 pandemic are very similar to the period before the 2008-2009 crisis: many EU countries did not take advantage of the good times to build up proper fiscal space. In countries where independent national fiscal institutions were established before the 2011 reform of the Stability and Growth Pact, average compliance is 20 percentage points higher than in countries where these oversight bodies were established later (Larch, Malzubris and Santacroce, 2023, 39).

Fiscal rules play an important role in conducting sound fiscal policies and in the sustainability of public finances. However, countries have adjusted their fiscal frameworks in response to the pandemic, including through the activation of escape clauses and the suspension of fiscal rules (Davoodi et al., 2022, 17). In the context of increased fiscal pressures and associated risks, fiscal frameworks have been subject to greater scrutiny in the aftermath of the pandemic. This is because countries need to commit to economic and fiscal recovery and to the rehabilitation of public debt. At the same time, countries will

continue to face pressure on public spending from structural challenges such as ageing populations, healthcare, defence and energy transition. Further centralisation of institutions and fiscal policy decisions, in particular through the establishment of a central fiscal capacity and the completion of the Banking Union and the Capital Markets Union, will be of paramount importance for the future development of the euro area (De Grauwe, 2021). The crisis has highlighted the positive function that counter-cyclical discretionary fiscal policy and a coordinated European response to major economic shocks and the management of their social consequences can play. The existing fiscal rules of the European Union have had some impact in limiting government deficits and debt of countries, but have not prevented them, which has in the past threatened the stability of the monetary union and still causes vulnerabilities today (Arnold et al., 2022). As a result, the fiscal framework has failed to meet its fundamental objective of robustly managing fiscal risks and related externalities in all Member States. In the past, the fiscal framework has shown a lack of fiscal adjustment in periods of economic growth and excessive adjustment in periods of economic downturns. Applying the rules at today's significantly higher debt ratios would imply an excessively rapid fiscal consolidation for most countries with high debt, as soon as the general escape clause is deactivated. The framework does not provide sufficient tools to stabilise the euro area, as was most evident in the decade following the euro area debt crisis, where there was a persistent failure to meet the inflation target (Arnold et al., 2022). This lack of implementation, combined with an emphasis on annual budgets rather than credible medium-term plans (Larch et al., 2021, 2) and weak enforcement of the rules, led to a further accumulation of debt. Although the design of EU rules can be improved, the main problem is the very concept of EU fiscal rules, which are country- and time-dependent (Dermine and Larch, 2023, 26-29).

No single rule can even come close to matching the variety of possible situations, not least because many of them cannot be foreseen at all. The role of fiscal rules at EU level is fundamentally different from that of national fiscal rules. National fiscal rules exist to help countries achieve their preferred fiscal policy objectives. In contrast, the sole purpose of an EU fiscal framework should be to reduce the risk of debt spillovers associated with a debt crisis between Member States by ensuring that each country's debt remains sustainable (Dermine and Larch, 2023, 26-29).

Fiscal adjustments that are primarily expenditure-based are less likely to backfire and lead to more protracted reductions in the debt-to-GDP ratio (Alesina and Ardagna, 2013, 20; Carnot, 2013). The structure of fiscal adjustments is more important than the state of the business cycle (Favero et al., 2016). Expenditure-led fiscal adjustment is significantly more successful than tax-led adjustment in reducing debt levels (de Rugy and Salmon, 2020). Fiscal adjustment is defined as "... a year of restrictive fiscal policy in which the ratio of the primary balance to GDP increases by at least 1.5 percentage points." (Ziogas and Panagiotidis, 2021, 5)

Successful fiscal adjustments have almost always been somewhat longer in time and associated with higher growth during the adjustment (Alesina and Ardagna, 2013, 19). A successful adjustment must meet one of the following two conditions (Ziogas and Panagiotidis, 2021): in the three years after the adjustment year, the primary balance-to-GDP ratio is on average at least 2 percentage points above the level in the adjustment year, or in the three years after the adjustment year, the debt-to-GDP ratio is at least 5 percentage points below the level in the adjustment year. In designing fiscal adjustment plans, care should be taken to ensure an economic environment of low uncertainty and a sound financial environment at the same time (Karamysheva, 2022, 42-43).

3. Results and discussion

a. Macroeconomic and fiscal dimensions of the pandemic

The COVID-19 pandemic triggered a severe economic downturn in 2020, with EU real GDP declining by 6.1%, more than during the global financial crisis. The EU's response to the crisis was swift, decisive and well-coordinated. EU Member States - backed by the EU SURE instrument - provided strong support to businesses and workers (Verwey and Monks, 2021). "The effectiveness of the fiscal response in the EU has been quite impressive" (Jones, 2023, 6), as nominal GDP, although falling at the height of the pandemic, then quickly rebounded as the European population grew too large and restrictions on freedom of movement were also relaxed. The COVID-19 pandemic caused the worst recorded decline in employment and total hours worked in the second quarter of 2020 (Anderton et al., 2021). The number of EU firms filing for bankruptcy at the end of 2022 rose to its highest level in at least eight years in the fourth quarter, indicating that many firms survived during the pandemic with the help of state aid, which has been gradually withdrawn (Arnold and Jopson, 2023). In this sense, the economic disruption caused by the pandemic (and the measures taken by governments to protect national populations) passed much more quickly than during the global economic and financial crisis or the European debt crisis that followed (Jones, 2023, 6). It was also clear that the general escape clause will be deactivated and that the EU's fiscal rules will come back into force, requiring national governments to consolidate their rapidly rising public debts. Slovenia's real GDP at the start of the pandemic in 2020 has fallen less than in 2009 during the great financial crisis. The pandemic was a sudden drop-in economic activity due to emergency measures, whereas the Great Financial Crisis was more related to economic-structural problems (Li et al., 2021, 2428). During the pandemic, the government pursued an expansionary fiscal policy, and once the pandemic had subsided, the economy recovered more quickly than after the financial crisis. However, more recent forecasts also suggest a reduction in potential GDP, which would imply that COVID-19 also reduced the economic potential of Slovenia or the EU as a whole (AMECO, 2024). Figure 1 shows estimated potential GDP of Slovenia based on 2019 EC spring and 2024 EC autumn forecast.

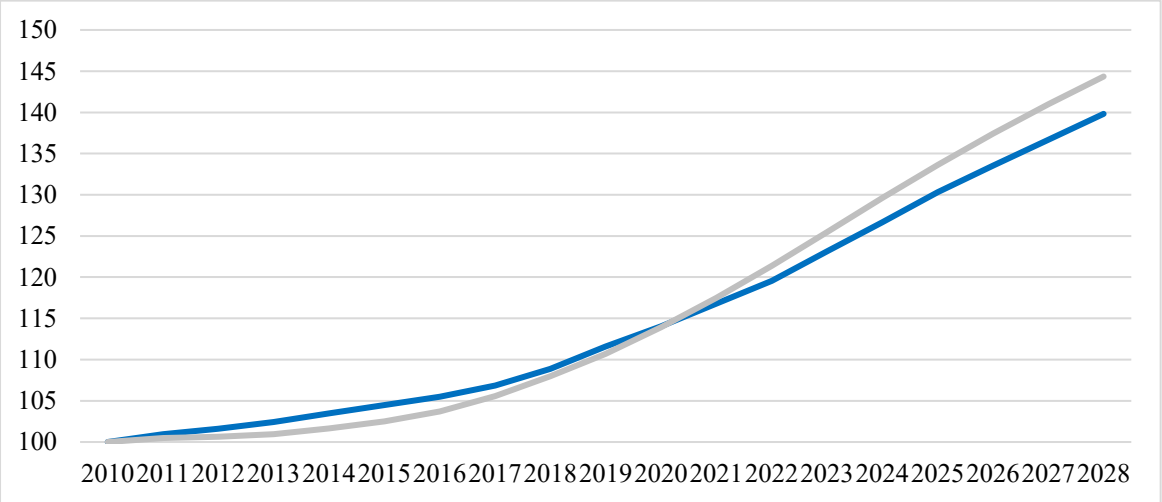

Figure 1. Estimated Potential GDP of Slovenia based on 2019 EC Spring and 2024 EC Autumn forecast
Source: Own calculations based on AMECO Database data, 2024.

The blue line in Figure 1 represents data from the European Commission's Spring 2024 Forecast, while the grey line represents the Autumn 2019 Forecast. The lower estimated level of potential GDP in Slovenia and the EU after the coronavirus crisis indicates the possibility of hysteresis - this refers to the possibility that economic crises have a negative impact not only on real economic activity but also on economic potential (Mourougane, 2017).

According to the AMECO database, the public debt ratio in the EU has increased from 79.4% of GDP in 2019 to 92.1% in 2021. The fiscal response to the pandemic has significantly increased public debt across Europe. This was expected and in March 2020, the European Commission (EC and DG Economic and Financial Affairs, 2020) triggered the general escape clause of the Stability and Growth Pact in order to accommodate the need for increased public spending. In particular, the deviations from the debt rules in 2020-21 were record high both in terms of level and share of countries. For about 90% of the countries with a balanced budget rule, their deficits in 2020 exceeded the limits set in the rules (Davoodi et al., 2022, 20). A larger share of countries exceeded the limits of the balanced budget rules and to a greater extent than during the global financial crisis.

Figure 2 shows Slovenian government deficit and annual change in real GDP.

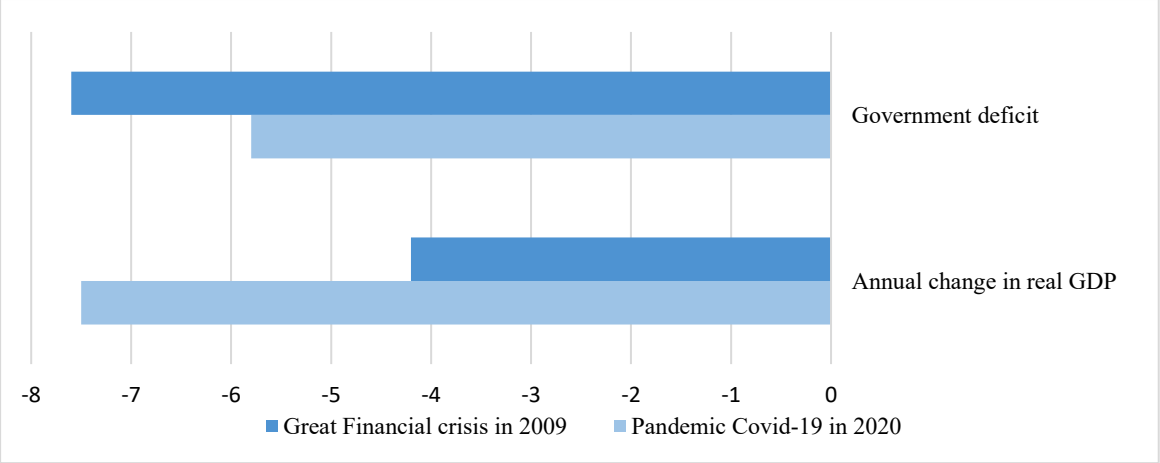

Figure 2. Slovenian government deficit and annual change in real GDP
Source: Eurostat Database, 2024.

Some countries benefited from a good compliance record before the crisis - this allowed them to respond more significantly fiscally (Davoodi et al., 2022, 5). The extent of counter-cyclical behaviour in 2020 and 2021 was unprecedented compared to previous crises in the EU, in which the Excessive Deficit Procedure (EDP) was suspended (Bökemeier and Wolski, 2022, 217-226). Nevertheless, the range of fiscal responses across EU countries exhibited considerable heterogeneity. For example, fiscal stimulus ranged from 3% of GDP in Italy and 4% in France to over 8% of GDP in Austria and Germany (Romer, 2021, 92-93). The stimulus was also accompanied by a different outlook from that during the global financial crisis, as a rapid return to fiscal consolidation was not expected (Bergsen, 2020, 132). Babin, Ivanov and Erić (2022, 80-81) argue that Member States were not prepared when the economic crisis hit in 2008, which means that they did not build up fiscal buffers in good times. By failing to build up reserves in good times to allow automatic stabilisers to reduce the impact of a fall in aggregate demand, Member States had to resort to pro-cyclical consolidation measures and face unwanted budget cuts. Moreover, expenditure has been spent on current consumption rather than on investments that could

have been more beneficial for countries in the longer term. Public expenditure related to COVID-19, in particular on public health, economic affairs and social protection, is responsible for the policy shift towards counter-cyclicality during the pandemic. However, the shift is still noticeable if these effects are excluded from the budget, but the fiscal policy shift is less pronounced in this case. In countries more severely affected by the pandemic crisis, fiscal accounts have on average deteriorated (Cottarelli, 2021, 14). Countries that entered the pandemic period with debt ratios close to or above 100% (Greece, Italy, Spain, etc.) suffered an increase in debt ratios of 20-25% points of GDP, while countries with lower debt recorded much smaller increases, Luxembourg and Ireland only 5 percentage points (Cottarelli, 2021, 14). In the relatively good times before the crisis, as already mentioned, there was insufficient economic and fiscal convergence. After the pandemic, the level of gross public debt as a percentage of GDP declined due to the impact of high inflation on repayment rates (Table 1). Rapid price increases also boost tax revenues, both because of the upward classification of taxpayers and the relative yield of indirect taxes. As a consequence, governments also have to pay higher prices for goods and services, but this change in the cost base affects only a fraction of total government expenditure and with a lag (Jones, 2023, 10). It is also evident that the dynamics and level of public debt differ across countries (Brändle and Elsener, 2023, 5).

Table 1. Gross Public Debt in the EU and Slovenia, 2019–2022

	2019	2020	2021	2022	2023
EU Public Debt (% of GDP)	79.4	91.7	89.0	84.8	82.9
Slovenia Public Debt (% of GDP)	65.4	79.6	74.4	72.5	69.2

Source: Eurostat Database, 2024.

The pandemic has also had a negative impact on investment levels. However, with the re-imposition of fiscal rules, it is also expected to maintain significant investment and create incentives for the private sector, "... public finances must lead and private actors must deliver scale" (European Commission, 2020). The additional combined public and private investment needed to meet the climate and digital goals is estimated at €650 billion per year over the next decade (Verwey and Monks, 2021). The need to build public infrastructure while remaining fiscally constrained and complying with fiscal rules has increased the interest of governments in public-private partnerships (PPPs), which will become important in new investment policies. As Afonso and Jalles (2015, 321) have shown for EU countries using the EC's Fiscal Rules Index, stricter budget balance rules reduce the amount of resources available for public investment. Cepparulo, Eusepi and Giuriato (2023, 199) have shown how these rules make PPPs an attractive alternative to increase policy discretion and finance infrastructure in countries that are under pressure to contain their budget deficits. Conversely, elevated levels of public debt create a sense of increased country risk and reduce the attractiveness of PPPs for private partners, so only a credible debt reduction path will be able to stabilise private expectations. The increase in public indebtedness needs to be contained to ensure fiscal sustainability. National governments in the EU will need to consolidate budgets and, in the medium term at least, ensure that deficits grow at a lower rate than GDP (Potrafke and Schaltegger 2022, 59), while carefully planning relevant investments that will stimulate future economic growth.

During the COVID-19 pandemic, the Government of Slovenia adopted Anti-Coronary Assistance Packages (PKPs) for the economy, health, labour market and other areas. Measures in the period 2020-2023 were mainly aimed at mitigating the effects of the epidemic, helping the economy and individuals to prevent a deeper decline in economic activity and employment. Among these, the most prominent (Government of the Republic of Slovenia, 2023) were measures for employees/employers (waiting time allowances, payment of contributions, reduced working hours), one-off assistance to more vulnerable groups, allowances for work in hazardous circumstances, tourist vouchers, and measures in the health sector, including protective equipment, vaccines and the provision of funds from the Health Insurance Fund, etc. The total volume of coronavirus-related measures is estimated at just under €5.8 billion over the period 2020-2023, or around 11% of GDP (Vlada RS, 2023). The expenditure on mitigation by year has been gradually declining and will come to an end in 2023. Expenditure peaked in 2020 at 5.2% of GDP, falling to 4.5% of GDP a year later, to 1.2% of GDP in 2022 and to just 0.4% of GDP in 2023 (Vlada RS, 2023). The pandemic ended several years of healthy GDP growth in Slovenia. As in other countries, Slovenia's economy was severely affected by measures to curb the spread of infection, support households and businesses, and address restrictions on international trade. Slovenia will be helped in the years following the pandemic by a European Union-funded financial mechanism aimed at repairing the economic and social damage and developing towards a modern and more sustainable Europe. The €750 billion Next Generation Recovery and Resilience Plan (Next GenerationEU) focuses on investment to create jobs and repair the damage caused by the Covenant-19 pandemic. Under NextGenerationEU, Slovenia will be able to benefit from an indicative €5.7 billion, of which €3.2 billion are loans and €2.1 billion are grants (EU-Funds, n.d.) The EU will be able to mobilise an indicative €5.7 billion, including €3.2 billion in loans and €2.1 billion in grants (EU-Funds, n.d.).

The validity of the general escape clause was extended due to the consequences of the outbreak of war in Ukraine, but was finally deactivated at the end of 2023 (European Parliament, 2024). In the Commission Communication on the European Semester 2022 of May 2022, it was stated that the conditions for deactivating the general escape clause would be considered fulfilled as of 2024.The Commission Communication on the European Semester 2022 of May 2022 stated that the conditions for the deactivation of the general escape clause would be considered fulfilled as of 2024. The Annual Sustainable Growth Survey of November 2022 confirmed this assessment and concluded that the European economy has emerged from a period of severe economic crisis. It has recovered above pre-pandemic levels and has now survived the dangerous shock phase of rising energy prices caused by the Russian-Ukrainian war, although uncertainty remains high (European Commission, 2023). This is also why it is crucial that fiscal rules are flexible enough to cope with unexpected economic or other large shocks (Eyraud et al., 2018). This is particularly important in the case of exceptional events that can have very large fiscal and economic impacts, such as the COVID-19 pandemic, and are likely to require the activation of an escape clause to allow temporary deviations from the rules. However, the use of escape clauses should everywhere involve a well-defined and transparent process in order to preserve the credibility of the fiscal framework, which must ensure the right balance between a sustainable fiscal position and sustainable growth. It is also essential for the renewal of the European economy, as substantial public investment will be necessary to stimulate and complement the private investment needed for the digital and green transition (de Guindos, 2022). The appropriateness of fiscal policies is also judged against the results achieved over the medium term, as it is nominal deficits that are key to the accumulation of public debt and ultimately matter for fiscal sustainability. Fiscal adjustment in the EU will need to be implemented over the medium term to achieve long-term objectives such as adequate

economic growth and increasing social welfare, while avoiding fiscal vulnerabilities such as the accumulation of public debt.

b. Fiscal Adjustments in the EU and Slovenia

The following Figure 3 compares the fiscal adjustment (as a percentage of potential GDP) between Slovenia and the EU in different years. Slovenia pursued a very expansionary fiscal policy in 2020 in the face of the coronavirus pandemic, which helped to cushion the economic downturn. The European Union also reacted with expansionary policies, but to a lesser extent compared to Slovenia. The largest divergence between Slovenia and the EU can be observed in 2014, when the EU pursued highly restrictive policies, while Slovenia maintained a more neutral fiscal stance. However, in 2024 and next year, data suggest that fiscal policy is expected to be slightly more restrictive in the EU and Slovenia. The Bruegel assessment (Darvas et al., 2023, 23) suggests that the required fiscal effort under the current and reformed fiscal framework is in the range of countries for which fiscal adjustment should be relatively small or large, with Slovenia in the middle.

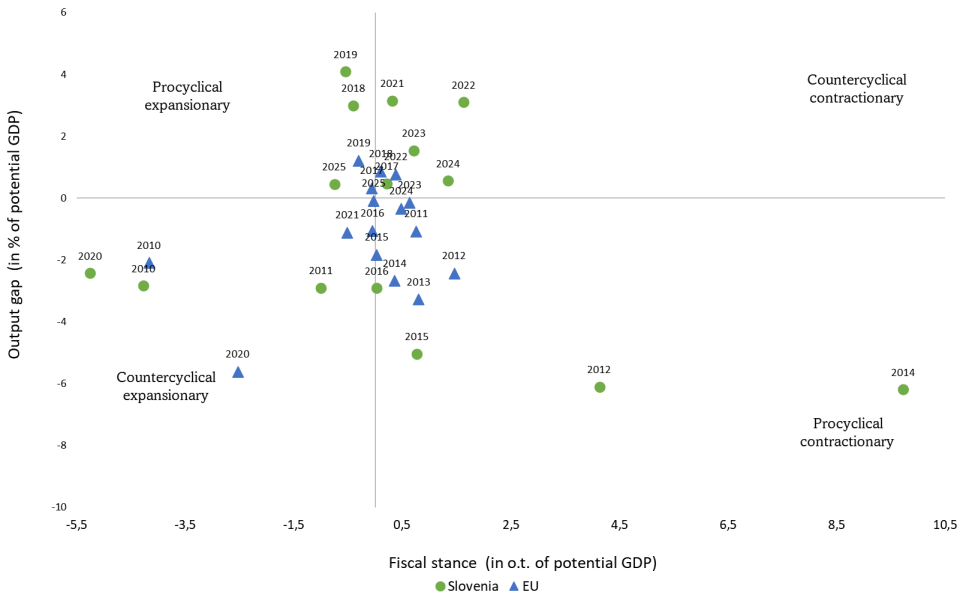

Figure 3. Fiscal policy stance of the European Union and Slovenia
Source: Own calculations based on AMECO Database data, 2024.

c. Debt Sustainability with Monte Carlo method for Slovenia

The suspension and reinstatement of the EU's fiscal rules raise fundamental questions about the long-term trajectory of public debt and the appropriate balance between fiscal consolidation and economic recovery. This analysis is helpful for policymakers to weigh long-term fiscal risks and the need for policy interventions. Reinhart and Rogoff (2010) identified a negative correlation between economic growth and debt levels exceeding 90% of GDP, highlighting that even before a default, high debt can hinder economic growth across both developed and developing countries. To assess debt sustainability a debt dynamics equation is often used, which identifies the variables that determine the long-term debt

trajectory (Blanchard et.al, 2021). We assess Slovenia's debt sustainability using a Monte Carlo simulation to forecast long-term debt trends.

The Monte Carlo method is used to model debt projections, incorporating shocks to key variables such as GDP growth, interest rates, and primary budget balances. These variables are based on historical averages over the past decade, with the assumption that the stock-flow adjustment is zero. The forecast horizon is set to 12 years, and use ten thousand draws. In the absence of a definitive value in the academic literature that identifies the threshold threatening debt sustainability, Vitols and Jekabsone (2023) propose a practical assumption, where, if the average increase in debt over a projection horizon does not exceed the historical increase over a comparable time frame, the risk to debt sustainability can be classified as medium. However, should the increase surpass the historical benchmark, the risk escalates to a high level. Public debt could be considered sustainable, if according to Article 126 of TFEU, is "sufficiently diminishing and approaching the reference value (of 60%) at a satisfactory pace".

Debt Dynamics Equation

Debt sustainability is assessed through the following equation:

$$\Delta b_t = \left(\frac{r-g}{r+g}\right) + b_{t-1} - 1 + pb_t + sfa_t \qquad (1)$$

Where:

- b_t is the debt-to-GDP ratio at time t,
- r is the effective interest rate,
- g is the economic growth rate,
- pb is the primary budget balance,
- sfa is the stock-flow adjustment.

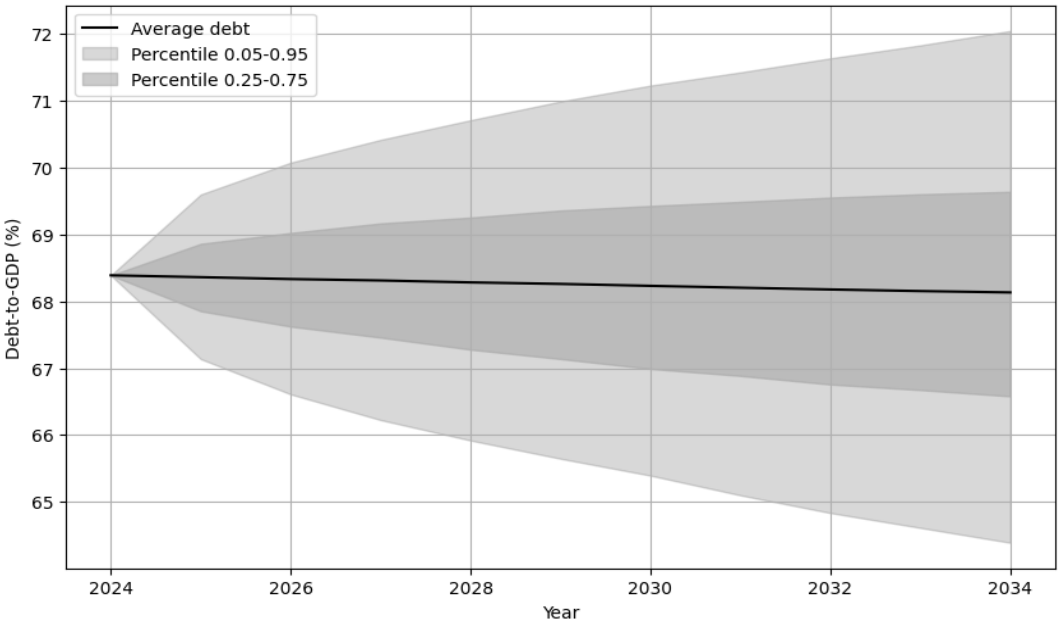

Figure 4. Monte Carlo simulation of Slovenia's debt (2024-2035)
Source: Own calculations based on AMECO Database data, 2024.

Reflecting on the trend in debt over the last 12 years, in 2012, the Slovenia's debt stood at 54% of GDP and by 2023, this figure had risen by 14.4 percentage points (Figure 4).
In Slovenia, the average debt is expected to be sustainable and to continue declining even if fiscal policy is not significantly different from the one pursued over the last 10 years. The long-term projections indicate that Slovenia's debt could increase marginally, but it is unlikely to exceed historical thresholds that would pose an immediate risk to sustainability. In comparison to some other EU Member States, Slovenia's public debt is projected to remain below the critical thresholds and is gradually declining towards the required 60% target. According to the previous fiscal path simulations under the revised rules based on the Spring 2024 forecast of the European Commission, Darvas and others (2023, 54; 2024), after the implementation of the seven-year fiscal period (between 2025 and 2031), Slovenia's gross debt is projected to decline to around 55% of GDP in 2031. However, cost of ageing or a prolonged period of low growth could alter this trajectory, necessitating fiscal adjustments. Some potential long-term debt sustainability risks could arise from the newly required increase in defence spending under EU plans. Policy reforms should aim at improving GVA, while prioritizing the reduction of dependency on external debt to ensure long-term fiscal stability.

4. Conclusion

The COVID-19 pandemic has had a clear negative impact on public finances in the European Union, including Slovenia. The European Union's real GDP has fallen by more than during the global financial crisis. A key reason for this was the need for economic interventions to mitigate the recession. In all EU countries, including Slovenia, there was a need to provide resources to people and businesses, leading to a deterioration of public finances and an increase in public debt. For example, in Slovenia, mitigation spending was highest in 2020, and slightly lower but still high the following year. EU interventions, including measures by the European Central Bank and fiscal measures under the NextGeneration Europe project, have been key to overcoming the pandemic's markedly short-term negative impact on the economic situation in Member States. The effectiveness of fiscal policy in the EU can be judged as a success, as nominal GDP, although contracting at the peak of the pandemic, quickly rebounded thereafter. In addition to the pandemic, other policies not directly related to the pandemic had an impact on public finances. Slovenia faces some challenges in terms of debt dynamics and will need to adjust its public finances (as indeed all European countries) to prevent further increases in debt ratios and to ensure that they do not become unsustainable. Using Monte Carlo simulations, we find that Slovenia's debt is projected to remain sustainable under current fiscal policies, though risks persist due to demographic pressures and external shocks, such as new EU demands for increased defence spending. The key challenges for EU Member States are to ensure long-term fiscal sustainability, to use public resources efficiently and to adapt national legislation to the new European fiscal rules. The activation of the general escape clause in the EU was necessary and in line with the EU legal framework. It was appropriate in view of the economic shock caused by the pandemic. In a pandemic situation, strict fiscal rules could jeopardise future economic growth and worsen public finances, and an expansionary deficit-financed fiscal policy was therefore justified. It allowed Member States to undertake large fiscal interventions without breaking the rules, which was essential to contain the economic crisis. We believe that some Member States have increased their public debt excessively as a result of the deviation from the reference values, which calls for a cautious deactivation of the clause and the introduction of reformed fiscal rules. However, the direct quantitative positive effects of fiscal rules are difficult to identify

because of possible sources of endogeneity. Fiscal and economic policy will always depend, as in the past, on the preferences and discipline of national politicians. In this respect, differences between countries may be exacerbated. Future research should explore the impacts of reinstated fiscal rules on economic recovery, public investment, and the EU's green and digital transitions. This would provide actionable insights for Member States navigating fiscal sustainability challenges. Also, new long-term debt projections should focus on a changing policy principle, with particular focus on addressing the challenges posed by ageing populations and external risks.

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Posljedice deaktivacije fiskalnih pravila Europske unije i njihove ponovne uspostave

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Sažetak: Članak analizira deaktivaciju i naknadnu ponovnu uspostavu fiskalnih pravila Europske unije kao odgovor na pandemiju COVID-19 i njezine posljedice. Procjenjuju se makroekonomske i fiskalne posljedice suspenzije fiskalnih pravila te njihova uloga u suočavanju s bezpresedanskim ekonomskim izazovima. Korištena je metodologija temeljena na pregledu literature, uz korištenje sekundarnih podataka iz relevantnih izvora poput Europske komisije i Eurostata. Studija također uključuje procjenu održivosti slovenskog javnog duga temeljenu na Monte Carlo simulacijama. Rezultati pokazuju da je suspenzija fiskalnih pravila omogućila državama članicama EU-a provedbu ekspanzivnih fiskalnih mjera koje su ublažile gospodarski udar pandemije, ali su istovremeno dovele do znatnog povećanja razine javnog duga. Unatoč tim intervencijama, i dalje postoje razlike u fiskalnim odgovorima i ishodima među državama članicama. Također se ističu izazovi ponovne uspostave fiskalnih pravila u uvjetima visokog javnog duga i promjenjivih gospodarskih okolnosti, uz naglasak na potrebu za fleksibilnošću i prilagođenim pristupima. Rezultati sugeriraju da se slovenski dug očekuje kao održiv, no vanjski šokovi, troškovi starenja stanovništva i dugotrajno niska stopa rasta mogli bi promijeniti taj trend. Ograničenja istraživanja uključuju oslanjanje na agregirane podatke i nedostatak primarnih empirijskih dokaza. Preporuke uključuju poboljšanje okvira fiskalnog upravljanja kako bi se postigla ravnoteža između održivosti i fleksibilnosti te jačanje mehanizama za osiguranje usklađenosti država članica s pravilima.

Ključne riječi: Fiskalna pravila EU-a, pandemija COVID-19, fiskalna politika, gospodarsko upravljanje, održivost javnog duga
JEL klasifikacija: H61, H62, E62