

Reforming EU Economic Governance: Assessing the Balance Between Fiscal Sustainability and Political Flexibility

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Abstract

The reform of European economic governance in 2024 is a critical move in EU's fiscal system, aimed at improving debt sustainability and transparency of budgetary surveillance. This paper examines the impact of net primary expenditure as the newly implemented operating indicator on fiscal discipline, compliance and also evaluates possible trade-offs between fiscal responsibility, political maneuvering, and economic development. The primary objective is to appraise the relevance of the reform on the debt sustainability of the EU in order that member states maintain deficits and expenditure within sustainable limits. Secondary objectives are to investigate the streamlining of the systems, the institutional role of the European Commission, and the Italian experience as a reference point for highly indebted States. Methodological approach comparative study regarding the new EU legislation and Italian experience are combined with a theoretical analysis underpinned by qualitative empirical studies. The findings indicate that reform makes for easier tracking and buttresses the credibility of the fiscal policy, while at same time making it more agile. But question remains the discretionary powers of European Commission and the struggle of countries with high debt with adjustment. Such results suggest asymmetries across member states with serious political implications for EU stability and cohesion.

Keywords: European economic governance, reform, debt sustainability, transparency, budgetary surveillance, Italian experience.

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1. Introduction

The reform of the Economic Governance Structure for Economic and Monetary Union (EMU) of the European Union towards 2024 would be seen as a new stage in the development of fiscal policy coordination within the EMU². And for the first time since the Stability and Growth Pact (SGP) was officially adopted in 1997, the European

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² Gábor Orbán, György Szapáry, „The Stability and Growth Pact from the perspective of the new member states”, *Journal of Policy Modeling*, Volume 26, Issue 7, October 2004: 839-864, <https://doi.org/10.1016/j.jpolmod.2004.08.009>.

Union has carried out a radical reorganization of the structural levers of fiscal surveillance and discipline³.

The reform swaps out numerous intersecting factors for a single operative variable: net primary expenditure. This overhaul comes after years of backlash from academics and policymakers, who say the previous system was overly opaque, procyclical and too reliant on unobservable variables like the structural balance and the output gap. The shortcomings had already been outlined in the European Commission's 2020 Thematic Factsheet on Public Finance Sustainability, which acknowledged that long-term fiscal risk, especially, related to ageing populations and mounting healthcare costs, demanded a much more credible, transparent and forward-looking approach to debt management⁴.

This reform in 2024 directly aims to fill this gap by adopting a simplified and risk-based system, which aims to improve debt sustainability and fiscal ownership at the national level. The Council of the European Union approved on 29 April 2024 the legislative package amending the EU of its economic and fiscal governance. The Council, however, states that the objective of the reform is to *"bring public debt levels down, strengthen growth through reforms and investment, and make the framework simpler and more transparent, with better enforcement rules"* and other key policy imperatives. The European Commission (2024) also highlights the goal of the new package to *"strengthen the debt sustainability of the Member States and promote sustainable and inclusive growth in all EU countries."*⁵

The European Commission with the Communication COM(2024) 705 final thus acts as the first implementation and policy guidance on the reform and details the Commission's attitude towards the assessment of medium-term government plans, the assessment of their compliance with net primary expenditure paths, and its relationship of fiscal discipline with investments and reform goals. Three features are brought forward in the reform:

- *Medium (multi-annual) fiscal-structural plans by stabilizing a predictable fiscal trajectory over a period;*
- *The net primary expenditure index (the measure of aggregate debt), to supplant structural balance as the only operational principle;*
- *Distributed and risk-based monitoring enabling Member States with a high level of debt for extended periods of adjustment under credible reform and investment*

³ Séverine Menguy, *Reform of the Stability and Growth Pact: Which changes for the governments?*, „Journal of Government and Economics”, Volume 15, 2024, 100120, ISSN 2667-3193, <https://doi.org/10.1016/j.jge.2024.100120>.

⁴ European Commission. European Semester Thematic Factsheet – Sustainability of Public Finance, 2017, https://commission.europa.eu/system/files/2020-06/european-semester_thematic-factsheet_public-finance-sustainability_en_0.pdf; Patroklos Patsoulis, Marios Psychalis, Georgios A. Deirmentzoglou, „Stability and Growth Pact: Too Young to Die, Too Old to Rock ‘n’ Roll”, *Journal of Risk and Financial Management*, 15(12), 2022, 608. <https://doi.org/10.3390/jrfm15120608>.

⁵ Katarzyna Kołodziejczyk, „The 2024 Reform of the European Union's Economic Governance Framework as a Response to Contemporary Challenges”, *Studia Europejskie – Studies in European Affairs*, 4/2024, 59-76, DOI: <https://doi.org/10.33067/SE.4.2024.3>.

commitments⁶.

This paper also raises the key question whether the 2024 reform can effectively address the structural deficits of the previous fiscal policy design in a credible way within a debt sustainably national ownership manner⁷. In doing so, it adds to the doctrinal and comparative legal discussion, considering the reform from an institutional and legal framework. It looks at whether the new framework correctly reflects the Commission's aims of simplification, transparency and flexibility, and whether a shift to net primary expenditure will be more consistent with and be a legally enforceable criterion of a good fiscal policy⁸. They also examine trade-offs that characterize the relationship between national autonomy and fiscal discipline and reflect on the extent to which the tension between flexibility and credibility is realized in practice. The Italian case is employed as an analytical benchmark to assess the consequences of the reform in the case of Member States characterized by high debt⁹.

The paper is organized into sections related to the development of the EU's fiscal governance system and the sustainability rationale, review the critical legal and institutional interventions from the 2024 reform, analyze their implications for Member States with emphasis on Italy as a high-debt case. These sections additionally review and critique the tension between flexibility, fiscal discipline, and cohesion within the reformed framework. The last section highlighting the study's findings and suggesting potential avenues for academic, institutional and policy use.

Methodologically, the paper proposes a qualitative and interpretative, comparative legal approach based on the doctrinal interpretation of the provisions of the Regulation (EU) 1263/2024, Regulation (EU) 1264/2024, Directive (EU) 1265/2024, Italian Medium-term budget Structural Plan and the proposal of the Recommendation of the EU Commission, as well as an analysis of the institutional sources, including evidence from factsheets, communication materials, and country reports by the European Commission. The insights seek to produce a legally rigorous interpretation that combines fiscal flexibility with debt sustainability imperatives, supporting common implementation among Member States.

In conclusion, the paper seeks to enhance our understanding of the prospects for how the new governance framework can reconcile fiscal prudence and economic resilience with political legitimacy in the European Union.

⁶ Menelaos Markakis, „The New EU Economic Governance Framework: Principle, Policy, and Enforcement”, *European Law Review*, 49(5), 2024, 478-505, https://pure.eur.nl/ws/portalfiles/portal/172117610/Markakis_2024_49_ELRev_Issue_5_Offprint.pdf.

⁷ Jakob de Haan, Fabian Amtenbrink, „The Reform of the European Fiscal Rules: In Search of Mechanisms Ensuring Sustainable Debt Levels”, *The Economist's Voice*, 20(2), 2023, 169-178, <https://doi.org/10.1515/ev-2023-0063>.

⁸ Bram Gootjes, Jakob de Haan, „Do fiscal rules need budget transparency to be effective?”, *European Journal of Political Economy*, Volume 75, 2022, 102210, ISSN 0176-2680, <https://doi.org/10.1016/j.ejpoleco.2022.102210>.

⁹ Pompeo Della Posta, Enrico Marelli, Marcello Signorelli, „COVID-19, Economic Policies and Public Debt Sustainability in Italy”, *Sustainability*, 14(8), 2022, 4691. <https://doi.org/10.3390/su14084691>.

2. Development of the EU Economic Governance Framework

The European Union economic governance system has developed with reforms which incorporate lessons from previous crises and the objective of becoming more fiscally sustainable and fiscally consistent across EU Member states. From the beginning, the framework has aimed to reconcile fiscal discipline, macroeconomic stability and national ownership in the Economic and Monetary Union (EMU)¹⁰.

The initial part of the process started with the Treaty of Maastricht (1992), which set convergence criteria and made limits on government deficits (3% of GDP) and public debt (60% of GDP) in the Agreement¹¹. The principles were operationalised in the Stability and Growth Pact (SGP) of 1997, whose aim was to secure sound public finances as a condition for monetary stability. The SGP developed a preventive and corrective arm, but experiences early on had exposed enforcement weaknesses and inability to adapt to economic cycles. To overcome these limitations, the EU gradually strengthened its fiscal framework¹². Reforms of the Six-Pack and Two-Pack periods of reforms (2011–2013) improved surveillance, established the Macroeconomic Imbalance Procedure (MIP) and introduced the European Semester serving as a coordination mechanism and connecting budgetary and macroeconomic policies¹³. Such instruments intensified oversight but also enhanced complexity, counting on technical tools, such as the structural balance and output gap, often described as demystifying and irrelevant in terms of policy. The Fiscal Compact – Tacking Stock (2012) contained in the Treaty on Stability, Coordination and Governance obliged Member States to ensure that balanced budgetary rules were enshrined in national legislation¹⁴.

The Commission's 2017 Report on the Compact evaluated the conformity of 22 participating Member States (the euro area plus Bulgaria, Denmark, and Romania) with an appreciation for the enduring asymmetrical application of the Compact as well as institutional fragmentation¹⁵. Drawing on the Five Presidents' Report (2015)

¹⁰ Jasper F.M. De Jong, Niels D. Gilbert, „Fiscal discipline in EMU? Testing the effectiveness of the Excessive Deficit Procedure”, *European Journal of Political Economy*, Volume 61, January 2020, 101822, <https://doi.org/10.1016/j.ejpoleco.2019.101822>.

¹¹ Denis Vintu, „Maastricht Criteria and Public Debt”, *MPRA Paper* 125712, University Library of Munich, Germany, revised Aug 2025, <https://ideas.repec.org/p/pra/mprapa/125712.html>.

¹² Andreas Eisl, „European fiscal framework reform – a compromise for better or worse”, *Economics and Finance, Policy Brief*, Janvier 2024, https://institutdelors.eu/content/uploads/2025/04/PB_240112_Reforme_PSC_Eisl_EN.pdf.

¹³ Matteo Picchio, Raffaella Santolini. „Fiscal rules and budget forecasts errors of Italian municipalities” *European Journal and Political Economy*, Volume 64, September 2020, 101921, <https://doi.org/10.1016/j.ejpoleco.2020.101921>.

¹⁴ European Commission. *The Fiscal Compact – Taking Stock*, 2017, [https://economy-finance.ec.europa.eu/publications/fiscal-compact-taking-stock_en#:~:text=C\(2017\)1200%20%2D%20Communication,\(197.08%20KB%20%2D%20PDF\)](https://economy-finance.ec.europa.eu/publications/fiscal-compact-taking-stock_en#:~:text=C(2017)1200%20%2D%20Communication,(197.08%20KB%20%2D%20PDF)), accessed on 5 September 2025.

¹⁵ U. Michael Bergman, Michael M. Hutchison, Svend E. Hougaard Jensen, „Promoting sustainable public finances in the European Union: The role of fiscal rules and government efficiency”, *European Journal of Polical Economy*, Volume 44, September 2016: 1-19, <https://doi.org/10.1016/j.ejpoleco.2016.04.005>.

“Completing Europe’s Economic and Monetary Union”¹⁶, the EU implemented a number of initiatives for an even closer integration such as setting up national Competitiveness Boards, a European Fiscal Board to advise governments, and moving toward the completion of the Banking Union in the shape of a joint deposit insurance scheme¹⁷. Consequently, the 2015-2020 period represented a development toward a more holistic approach regarding the economic, fiscal, financial, and political implications of EMU governance¹⁸.

The second Economic Governance Review (2020) related to the Six-Pack and Two-Pack rules, also identified both strong sides and weaknesses¹⁹. The Commission highlighted excessive complexity, reliance on unobservable variables, and lack of national ownership as core weaknesses.

In the wake of a general public consultation re-launched in October 2021, pressing reform issues are further emphasized, especially due to the COVID-19 pandemic, which triggered SGP’s general escape clause to be activated and the establishment of the Recovery and Resilience Facility (RRF) in 2021²⁰. The RRF established a performance-based fiscal framework correlating between investments, reforms, and financial assistance – fundamentally changing the coordination paradigm²¹. This was realised at the conclusion of the process, when the new EU economic governance structure was adopted as the EU Economic Governance Framework entered into force on 30 April 2024. One operational measure, net primary expenditure, became central to the fiscal surveillance, simplifying the regulation, and improving its comparability, and also its transparency and enforcement²².

At present, Member States are obliged to provide medium-term fiscal-structural approaches that harmonise fiscal adjustment pathways along with growth-enhancing reforms and public-investment priorities. These plans are now the newest pillar of the

¹⁶ The Five President Report’s: An assessment of the measures proposed to complete Europe’s economic and monetary union, 2016, https://www.eeas.europa.eu/node/15689_en.

¹⁷ Jacopo Carmassi, Sonja Dobkowitz, Johanne Evrard, Laura Parisi, André Silva, Michael Wedow, „Completing the Banking Union with a European Deposit Insurance Scheme: who is afraid of cross-subsidisation?” in *Occasional Paper Series* No 208 / April 2018, European Central Bank, 2018, <https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op208.en.pdf>, accessed on 5 September 2025.

¹⁸ Rana Sajedi, Armin Steinbach, „Fiscal rules and structural reforms”, *International Review of Law and Economics*, Volume 58, June 2019: 34-42, <https://doi.org/10.1016/j.irle.2018.12.008>.

¹⁹ European Commission. *The Evolution of EU Economic Governance*, 2024 https://economy-finance.ec.europa.eu/economic-governance-framework/what-economic-governance-framework/evolution-eu-economic-governance_en, accessed on 5 September 2025.

²⁰ Jonatan Echebarria Fernández, „A Critical Analysis on the European Union’s Measures to Overcome the Economic Impact of the COVID-19 Pandemic”, *European Papers - A Journal on Law and Integration*, Vol. 5, 2020, No. 3 (European Forum, 16 January 2021): 1399-1423. https://www.europeanpapers.eu/system/files/pdf_version/EP_EF_2020_I_046_Jonatan_Echebarria_Fernandez_00437.pdf, accessed on 5 September 2025.

²¹ Alberto De Marco, Giulio Mangano, Filippo Maria Ottaviani, Giovanni Zenezini, Francesca Saba, Chiara Muzzolon, „Use of NextGenerationEU plan funds: Investigation of an Italian Region” in *Procedia Computer Science*, Volume 256, 2025: 1505-1512, <https://doi.org/10.1016/j.procs.2025.02.284>.

²² Christos Gortsos, „The Legal Framework Governing the European Economic Union: From the Maastricht Treaty to the 2024”, *Economic Governance Framework Reform*, November 09, 2024, <http://dx.doi.org/10.2139/ssrn.4958862>.

preventive arm of the SGP. The reformed framework is guided by three key priorities (European Commission 2024): - Simplification, through the replacement of multiple overlapping indicators by a single expenditure benchmark; - National ownership, via differentiated, risk-based adjustment pathways specific to challenges related to debt sustainability at the specific level of the country; - A sharper enforcement, leading to credible and predictable carrying out of fiscal commitments.

This change, from Maastricht to the 2024 reform, is an illustration of how the EU has made the gradual transition from uniform, rule-based fiscal system to a more integrated, flexibly future-oriented model. The new system of governance is a major step in the Union's mission to reconcile fiscal prudence with sustainable development, resilience and democratic legitimacy.

3. Legal and Institutional Innovations in Fiscal Governance in the European Union

EU framework for fiscal governance has introduced a comprehensive package comprising:

1. *Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97*²³;

2. *Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure*²⁴;

3. *Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States*²⁵.

The 2024 legislative reform in fiscal governance reshapes the European Union's legal framework by implementing effective preventive and corrective regimes, complemented by modern enforcement and sanctioning norms and procedures. Regulation (EU) 2024/1263, Regulation (EU) 2024/1264 and Directive (EU) 2024/1265 are key elements in this reset in order to reinforce fiscal discipline, all designed to give greater flexibility and reactivity to economic problems while at the same time ensuring a more effective and manageable stance are the cornerstone of this transition.

As detailed in the next subsections, Regulation (EU) 2024/1263 outlines the preventive arm according to medium-term fiscal-structural plans, while Regulation

²³ European Union. Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97, Document 32024R1263, OJ L, 2024/1263, 30.4.2024, <https://eur-lex.europa.eu/eli/reg/2024/1263/oj/eng>, accessed on 5 September 2025.

²⁴ European Council. Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure, Document 32024R1264, OJ L, 2024/1264, 30.4.2024, <https://eur-lex.europa.eu/eli/reg/2024/1264/oj/eng>, accessed on 5 September 2025.

²⁵ European Council. Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States, Document 32024L1265, OJ L, 2024/1265, 30.4.2024, <https://eur-lex.europa.eu/eli/dir/2024/1265/oj/eng>, accessed on 5 September 2025.

(EU) 2024/1264 contains the corrective arm relating to excessive deficit procedures, followed by a comprehensive review of the enforcement and sanctioning in the context of the new framework in Directive (EU) 2024/1265.

3.1. The Purpose and Innovations of the Regulation (EU) 2024/1263

Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 is an extensive improvement and strengthening of the EU's economic governance framework for the purpose of enabling effective coordination of Member States' economic policies with the help of a strong multilateral budgetary surveillance mechanism.

Regulation (EU) 2024/1263, repealing the earlier Council Regulation (EC) No 1466/97, brings important provisions from the Fiscal Compact into EU law, strengthening the fiscal discipline underlying the EMU. Regulation (EU) 2024/1263, also, links fiscal governance to broader policy objectives of the EU, related to its green and digital transitions, social resilience, energy security, and defense capacity.

At the heart of the Regulation (EU) 2024/1263 is to set up the preventive arm of the EU fiscal framework through the compulsory submission, assessment, endorsement, and monitoring of national medium-term fiscal-structural plans. Member States must define:

- *A clear and realistic fiscal measures that are consistent with, through a four-year or five-year horizon;*
- *The binding budget targets (on account of a public fiscal set-point);*
- *The structural transformations and investment priorities, both on structural reforms and investment imperatives that promote the sustainability of public finances and inclusive economic growth across the entire range in the EU, together with the commitment to fiscal policies towards the effective and efficient economy, that are fit to fit well with the needs, at least one way, of all Member States into the framework of these plans.*

Regulation (EU) 2024/1263 introduces the following innovations:

1. *Operational Indicator: Introduction of Net Primary Expenditure as the Operational Indicator:* In the first place, Regulation (EU) 2024/1263 turns fiscal control around a single, transparent operational indicator, net primary expenditure, which comports governmental expenditure net of unsustainable or temporary expenditures such as interest payments, one-offs, cyclical unemployment benefits, and revenue linked to Union funds. This novelisation makes it easier to examine Member States' discretionary fiscal decision-making choices for fiscal policy, and reconcile fiscal discipline with counter-cyclical policies and essential investments;

2. *MTE plans in the medium-run:* Member States need to develop and submit credible medium-term fiscal-structural plans (4 or 5 years) which specify a net expenditure trajectory consistent with lower or intact debt levels under reasonable limits and deficits not exceeding 3% of GDP. Not as purely quantitative deficit rules, these plans have built in the broader objectives:

- structural reforms that will be on the agenda to catalyze growth potential; - investments that are in line with EU policy goals including the digital and green transitions, energy security, social resilience, and defense;

- modifications for adjustments to countries to address macroeconomic imbalances; - coherence with the European Semester and also relevant country-specific recommendations;

- reference Trajectories Based on Country-Specific Risks, for Member States that exceed debt (60% of GDP) or deficit ($\geq 3\%$ of GDP) thresholds.

The Commission creates risk-based, country-specific net expenditure trajectories, with reference trajectories for Member States with net expenditure levels higher than debt (60% of GDP) and deficit ($\geq 3\%$ of GDP) thresholds. Fiscal adjustments are typically anticipated for a four-year period, with the option of a three-year extension in which credible, demonstrable reforms and investments prove improved growth potential, fiscal sustainability, and alignment with EU goals.

This mechanism drives growth-enhancing consolidation as it affords rewards to reforms in order to better meet fiscal goals, as well as better governance and transparency.

For Regulation (EU) 2024/1263, this is the necessity for strong procedural safeguards and inclusive governance mechanisms: - systematic submission, review (with an assessment process involving the submission and endorsement of documents) and approval timelines; - pre-submission technical dialogue between Member States and the Commission; - mandatory consultations of social partners, regional authorities, civil society, and national parliaments at the national level; - input and opinions from Independent Fiscal Institutions (IFIs) to improve objectivity and credibility; - plans and progress reports are regularly made public; - working with, and sharing of information with, European Parliament to solidify democratic oversight; - monitoring compliance and the responsibility of the European Fiscal Board.

Commission has a control account system to monitor compliance on an ongoing basis, in order to determine deviations from the net expenditure paths. Failure to comply can lead to recommendations or amendments for more flexible reforms, shorter adjustment periods or additional steps for remedial action, respectively, pursuant to the EU economic governance regulations.

The European Fiscal Board is given authority to: - provide independent advisory advice on the adoption and implementation of these recommendations, strengthening the credibility of policies and the uniformity of fiscal monitoring; - compliance with escape clauses in special events, taking into consideration that Regulation (EU) 2024/1263 contains escape clauses allowing for time-limited diversion of fiscal paths due to critical financial crises or exceptional shocks (such as major geopolitical or natural disasters) except in the case that medium-term fiscal sustainability is not at risk. This structural flexibility makes the fiscal rules feasible and responsive to shocks.

In conclusion, Regulation (EU) 2024/1263 updates the EU's preventive fiscal system to take a transparent and risk-based, growth-friendly approach focusing on medium-term planning backed up by well-functioning multilevel governance and

national ownership in line with the Union's evolving economic and strategic needs.

3.2. The Purpose and Innovations of the Regulation (EU) 2024/1264

Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure intends to modernize and strengthen the corrective arm of the EU's fiscal governance by reforming the Excessive Deficit Procedure (EDP). It responds to the recent economic and fiscal challenges confronting Member States in the post-pandemic era such as geopolitical tensions and immediate strategic investment requirements.

Specifically, the Regulation aims to:

- enhance the effectiveness, transparency, and enforceability of the EDP;
- ensure that EDP enforcement is risk-sensitive and differentiated depending on the fiscal environments of Member States;
- align the corrective process with the updated preventive fiscal frameworks - particularly the net expenditure paths as provided for in Regulation (EU) 2024/1263;
- allow for flexibility in exceptional situations, such as recessions, energy crises or defense spending;
- enhance national ownership by strengthening the roles of independent fiscal institutions and the European Fiscal Board;
- clarify procedural rules and sanction mechanisms to more closely address fiscal discipline.

New Regulation (EU) 2024/1264 features:

- the shift to Net Expenditure as central indicator: replaces the prior deficit/structural balance indicators with net expenditure, excluding interest payments, cyclical measures and temporary measures, which allows for more transparent and growth-compatible monitoring;
- reinforced Control Account System: a clearer limit for deviations from net expenditure paths, allowing for higher transparency and predictability;
- identification of Exceptional and Temporary Deviations: allowance for temporary deviations during an economic downturn or exceptional expenditure needs (e.g., defense), guaranteeing flexible mechanisms of enforcement;
- well defined Procedural Structure and Deadlines: establishes clear procedural requirements, which includes council recommendations, possible corrective paths, timelines for action, and the possibility of extensions under particular circumstances;
- stemming in Graduated Sanctions Regime: GDP-linked fine system which adds up to the desired standard but can adapt to actual progress (and failure), so as to complement the two functions: deterrence and incentives;
- integration to Preventive Fiscal Governance: incentivizes remedial measures to ensure aligned to medium-term net expenditure goals so that a coherent framework of economic governance prevails;
- increased transparency and national ownership: proactive monitoring by the Commission, public reporting for public monitoring and more involvement of external

fiscal institutions promote democratic accountability.

3.3. The Purpose and Innovations of the Directive (EU) 2024/1266

Council Directive (EU) 2024/1265, adopted on 29 April 2024, revises Directive 2011/85/EU to strengthen and modernize the national budgetary frameworks of EU Member States. Its main object is to ensure more effective adherence to obligations for fiscal discipline under the Treaty on the Functioning of the European Union (TFEU), and particularly avoid excessive government deficits as laid down in Article 126 of the TFEU. In tandem with other EU-wide administrative frameworks including Regulation (EU) 2024/1263 (preventive arm) and Regulation (EU) 2024/1264 (corrective arm), Directive (EU) 2024/1265 advances national fiscal governance and complements the broader framework.

Directive (EU) 2024/1265 is based on a solid defence of fiscal responsibility, increasing national ownership and raising transparency, medium-term fiscal planning, enforcement and consideration of sustainability of budgeted plans by (the Member States' fiscal planning and governance bodies).

The key innovations of Directive (EU) 2024/1265 are as follows:

- *Enhancing fiscal discipline and national ownership*: the directive aims to achieve credible medium-run budgetary structure in conformity with EU fiscal legislation through compliance with EU rules as well as national fiscal policies that support sound financial management and promote effective fiscal policy compliance, as well as to empower institutions and stakeholders in the European Union;

- *Improved transparency and data quality*: Member States must establish a full comprehensive public accounting system that must cover all general government subsectors, according to the European System of National and Regional Accounts (ESA 2010), subjected to internal control and auditing. The quarterly release of debt and deficit data by government subsectors improves fiscal transparency and timeliness of data. Eurostat has its task to issue harmonized quarterly fiscal statistics;

- *Strong Mid-Term Budgetary Planning*: the Directive sets a minimum of three (3) year multi-annual fiscal plans stipulating specific and common national budget objectives, including goals for deficit, debt and expenditure. Such plans need to include systematic reform, investment, and evaluation of fiscal sustainability, with special reference to medium to long-term implications and macro-fiscal risks, e.g. climate change;

- *Increased Capacity and Autonomy of Independent Fiscal Institutions (IFIs)*: The member states must develop IFIs with functional independence and legal prerequisites for independence. IFIs are entities responsible for the generation, endorsement or evaluation of macroeconomic forecasts, monitoring compliance with fiscal rules, assessing budget frameworks, planning, forecasting, and recommendations to national parliaments. IFIs need sufficient resources, access to information and tools, timely access in such a way that their analysis will be available, with external parties needing to make their evaluation, and in so doing publish their appraisals in a public and open manner, with obligations of two months for Member States to respond in a

timely manner;

- *More accurate and timely macroeconomic and budget forecasts and evaluations:* Fiscal forecasts must be accurate and up-to-date;

- *Based on existing data and realistic forecasts:* the Directive requires this ex post (external) evaluation process to take place after the analysis of these forecasts and thus improve forecast accuracy and accountability, independent of those who prepare the forecasts;

- *Significant biases in forecast over time lead individuals to develop appropriate measures to remedy these effects:* integration of Climate and Fiscal Risk. It sets a mandatory reporting requirement to cover macrofiscal risks from climate change and natural disasters, contingent liabilities associated with these risks and fiscal costs of implementing the same. This will thus serve as the lead indicator that has Member States following the path towards the sustainable fiscal goals and the development of green budgeting instruments which contribute to transparent and environmentally sustainable fiscal policy;

- *Clear Fiscal Rules and Escape Clauses:* Member States are required to apply national Numerical fiscal rules consistent with EU obligations to cover deficits, debt, or expenditure metrics. Escape clauses will be narrowly defined and aligned with the EU's rules which in the short run will be flexible while maintaining fiscal discipline;

- *Alignments of Enforcement and Sanctions on an enhanced level:* the Directive harmonizes national budgetary policies to the newly reformed EU enforcement and sanction tools, with a focus on transparent tracking and timely implementation of remedial actions when required;

- *Reporting, monitoring and review:* the European Commission is to undertake regular reviews up to 5-year intervals on public accounting practices, IFI capacity and effectiveness of General Directive in general. Timely and rapid progress reports will be prepared for the early period;

- *Implementation Timeline:* by 31 December 2025 member States should transpose the Directive into national law. They are invited to produce correlation tables between national and Directive transpositions as an instrument to encourage transparency.

Council Directive (EU) 2024/1265 substantially improves the EU's fiscal governance system by tightening the national budget system, consolidating medium-term fiscal planning, improving the quality and clarity of financial forecasts, and the independent role played by fiscal oversight bodies. It includes those emerging fiscal risks, relevant to sustainability and climate change, and expands on and complements the EU's preventive and corrective fiscal governance arms.

Directive (EU) 2024/1265 not only advances alignment of Member States' fiscal policies with EU rules, but promotes their fiscal transparency and accountability and sustainable and inclusive economic growth throughout the European Union.

4. Comparative Analysis: European Union Reform of Fiscal Governance and the Italian Experience

The 2024 EU fiscal governance reform marks another dimension of convergence in governing of the budget policies in Member States. The adoption of Regulations 2024/1263 and 2024/1264, along with Directive 2024/1265 established a new standardised and transparent framework around the net primary expenditure indicator, enhanced institutional roles and bolstered flexibility mechanisms for the EU. This comparison analyses how these legislative innovations work together to establish the preventive and corrective arms of the fiscal architecture, which are most significant when interpreting the Italian experience as it relates to this literature. Italy as one of the most heavily indebted EU countries provides an example of the difficulties of EU reform efforts in Italy and the possibilities for more meaningful reforms, needing to balance between fiscal restraint, investment need and institutional strengthening in the complex economic and political environment where Italy is based.

4.1. Comparative Analysis on the 2024 Fiscal Reform Package: Preventive, Corrective, and Budgetary Framework Instruments

The 2024 legislative reform package is made up of Regulation (EU) 2024/1263, Regulation (EU) 2024/1264, and Directive (EU) 2024/1265. One of the key features which distinguishes the three acts is the development and uniform implementation and enforcement of one operational fiscal measure (net primary expenditure) for preventive monitoring and corrective action. This integration is to replace what is already a broken set of indicators (deficit and structural balance) with one that is aimed of sustainability and does not call for interest payments, cyclical unemployment benefits, one-offs or EU fund revenues.

In Regulation (EU) 2024/1263, net primary expenditure is applied to define medium-term fiscal-structural plans matched to Member State debt and deficit profile and that also cater to EU policy priorities, like the green and digital transition. Regulation (EU) 2024/1264 places the identical indicator within reviewed Excessive Deficit Procedures which states that any deviation from net expenditure path is required to be followed up with transparent and proportionate corrective action. Directive (EU) 2024/1265 mandates Member States develop their national budgeting regimes based on net primary expenditure estimates for domestic fiscal policy and to integrate budgetary frameworks inside EU directives. This is a logical consistency that also facilitates cross-fiscal control measures and strengthens the extent and accuracy of a global fiscal policy coordination process at the EU level.

The reform package markedly reformulates the institutional mix by bolstering the independence and responsibility of Independent Fiscal Institutions (IFIs) and the oversight of the European Fiscal Board: Directive (EU) 1265/2024 establishes specific standards for IFI independence, tasks, transparency and funding, establishing IFIs as important national observers of macroeconomic forecasts and fiscal rule compliance and recommendations for the fiscal framework. Empowered technical dialogues,

control accounts and more transparent reporting further strengthen the Commission's surveillance functions for preventive (Regulation (EU) 2024/1263) and corrective (Regulation (EU) 2024/1264) arms. National parliaments, social partners and civil society groups including civil society in addition to national parliaments, social partners and administrative units political engagement is crucial if national ownership and democratic legitimacy is to be strengthened. The advisory function of the European Fiscal Board is further enhanced: credibility and reliability of credibility is strengthened. This institutional innovation also supports multilayered accountability, where multi-layered accountability is made to the level of public accountability where fiscal policy is accountable for being subjected to various institutions and more general public debates.

A central characteristic of the reform is that it is differentiated by risk and responds to the Member States' unique fiscal circumstances, economic structures and reform measures: the preventive arm (Regulation (EU) 2024/1263) defines country-specific net expenditure trajectories and adjustment periods, specific to the debt and deficit sustainability challenge. In the corrective arm (Regulation (EU) 2024/1264), escape clauses and procedural flexibility which can provide temporary deviation in the face of exceptional macroeconomic shocks, severe recession or the increase of strategic expenditure (including defence) are included. Directive (EU) 2024/1265 embeds such numerical and flexible fiscal rules through specially crafted escape clauses which mirror obligations with the EU, and create the conditions for realistic national fiscal planning. This tension between consistency and flexibility reduces enforcement disparities and political frictions, especially for high debt countries with difficult fiscal adaptation.

The reform package, specifically Directive (EU) 2024/1265, introduces revolutionary measures that make sustainability part and parcel of fiscal governance: requirement to explore, report, and manage fiscal risks of climate change, natural disasters, and contingent liabilities expand the range for fiscal surveillance at a fiscal level beyond conventional fiscal aggregates. Medium-term fiscal plans and domestic budgetary systems must incorporate macrofiscal effects of environmental governance policies and government spend on green transitions. These are elements that are being drafted to link the fiscal governance architecture to the EU's wider environmental and social aims and therefore support resilient, inclusive growth. It is a type of institutional innovation, indicative of the increasing relevance of environmental sustainability in a sound public finance system.

Transparency and quality of data have underpinned the overarching fiscal governance reform: all three of the acts require strengthened accrual accounting systems, comprehensive coverage of general government components and timely and consistent publishing of detailed fiscal information, such as quarterly data on debt and deficit. Improved systems around forecasting, ex post assessment and public reporting make it easier both to forecast and to reflect the effectiveness of fiscal plans and consequences. Mechanisms of monitoring, such as the control account system, multi-level financial reporting and public availability of fiscal assessments, provide market forces (including actors, communities and government) with reliable information for making decisions. Together, these developments enhance the institution's ability to

detect risks early and help coordinate policy.

As a result of combining these legislative reforms, the EU is able to form a more integrated, transparent and flexible fiscal governance system. A single operational measure strengthened institutional positions, flexibility in managing risk, sustainability considerations, and enhanced transparency together enhance the Union's ability to maintain fiscal discipline without compromising its growth and investment targets. This holistic legal structure links the preventive and corrective arms with modernized national fiscal frameworks to provide a strong platform for resilient, credible and inclusive fiscal policymaking in Member States.

4.2. Integration of Preventive and Corrective Fiscal Frameworks in the Italian Legislation

The 2024 reform of the European economic governance framework provides a completely redesigned and combined fiscal integration in the European Union as a new system for fiscal cooperation. This reform package has transformed the preventive and corrective fiscal surveillance system into one, with a harmonized and updated legal framework that is specifically addressed to the challenges faced by high-debt member nations, such as Italian State a member state²⁶ in order to guarantee the national budget sustainability in a long term²⁷.

A significant innovation of this reform is to introduce net primary expenditure as the single operational fiscal indicator as opposed to the scattered former metrics deficit and structural balance. This figure excludes interest payments, cyclical unemployment benefits, one-offs and EU fund receipts to centralise surveillance on discretionary government spending. And for Italy, whose public debt-to-GDP ratio stands one of the highest in the EU, this yardstick offers a sharper and more practical yardstick for understanding fiscal effort and sustainability, but without denying support for necessary investments and anti-cyclical policies²⁸.

Conformed to this approach²⁹, the Italian government released, on 27 September 2024, its first Medium-Term Structural Budgetary Plan (Piano Strutturale di Bilancio, PSB) 2025-2029 in terms of proposing a policy towards spending in the direction of moderate annual growth in nominal GDP (net primary expenditure of 1.6%) and an overall objective for the primary surplus slightly above 0.5% of GDP. Policies that promote financial sustainability (and reduce debt and deficit to below 3% of GDP)

²⁶ European Commission. In Depth Review 2024: Italy in *Institutional Paper* 284, April 2024, doi:10.2765/252915, https://economy-finance.ec.europa.eu/document/download/a7366bdf-d590-4af6-ba6c-d1fbf68654d7_en?filename=ip283_en_new.pdf, accessed on 5 September 2025.

²⁷ Cosimo Magazzino, Mihai Ioan Mutascu. „The Italian sustainability in a long-term perspective”, *Journal of Economic Asymmetries*, Volume 26, November 2022, <https://doi.org/10.1016/j.jeca.2022.e00254>.

²⁸ Commissione Europea. Decisione (UE) 2024/2124 del Consiglio del 26 luglio 2024 sull'esistenza di un disavanzo eccessivo in Italia, *Gazzetta Ufficiale dell'Unione Europea*, Serie L, 1.8.2024, https://eur-lex.europa.eu/legal-content/IT/TXT/PDF/?uri=OJ:L_202402124, accessed on 5 September 2025.

²⁹ European Council. Recommendation for a COUNCIL RECOMMENDATION endorsing the national medium-term fiscal-structural plan of Italy, COM/2024/718 final, Document 52024DC0718, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:52024DC0718>, accessed on 5 September 2025.

must also be included³⁰. The reform provides a degree of versatility for Italy through a routine four-year adjustment period that may be extended up to seven years depending on the implementation of major changes and investment targets. The extension meets Italy's unique challenges: in light of its strong debt burden and growth constraints, a gradual fiscal consolidation allows for socio-economic stability while preserving investment in the essential priority area, including digital and green transitions, social resilience, energy security and defense.

The propose that the following plans be considered, which forecast the restoration of Italy beneath the deficit threshold by 2027 and provide a means for reconciling efforts at fiscal consolidation against reforms to match the EU country-specific recommendations and the country efforts for recovery and resiliency:

- *Corrective Arm*: Flexible EDP Regulation (EU) 2024/1264 reform-based on net primary spending path, reinforces the enforcement mechanism and adds loopholes recognising special economic shocks or elevated defence spending. As the Council of the European Union's decision in 2023 to declare Italy's excessive deficit, the use of the corrective arm reflects its significance. The reform has structures in place to allow Italy to make the fiscal cuts it has made in these years without smothering growth-important spending. Importantly, transient provisions of the Regulation afford Italy (and other Member States) some latitude to achieve balanced improvement of the structural ratio under intensifying interest rates and inflation because of the economic intricacies that are reflected in funding in the debt;

- *National Budgetary Frameworks*: Transparency, Independent Oversight, and Sustainability Integration Directive (EU) 2024/1265 supplements the above by embedding the EU's fiscal rules and monitoring in national legal platforms.

Italy's budgetary regime has the following obligations:

- *transparent, accrual accounting and quarterly reporting of government fiscal figures by subsector;*

- *strong independent, regulatory and oversight functions;*

- *ex post analysis of economic and budgetary projections;* - *macro-economic risks related to climate change and contingent liabilities are considered and reported on.* These provisions deepen Italy's fiscal credibility, accountability and alignment with ecological aims.

The Italian Parliament spent a significant amount of time scrutinizing the PSB via dedicated committee hearings and subsequent plenary approval of relevant resolutions in October 2024. This parliamentary participation highlights the enhanced national ownership and political legitimacy brought about by the reform. The subsequent endorsement by the European Commission and the recommendation made

³⁰ Consiglio dei Ministri della Repubblica d'Italia. Piano Strutturale di Bilancio di Medio Termine - Italia 2025-2029, Ministero dell'Economia e delle Finanze, https://www.dt.mef.gov.it/export/sites/sitodt/modules/documenti_it/analisi_programmazione/documenti_programmatici/psb_2024/Piano-strutturale-di-bilancio-e-di-medio-termine-Italia-2025-2029.pdf; Consiglio dell'Unione Europa. Raccomandazione del Consiglio che approva il piano nazionale strutturale di bilancio di medio termine 5019/25, ECOGIN 12 UEM 11, <https://data.consilium.europa.eu/doc/document/ST-5019-2025-INIT/it/pdf>, accessed on 5 September 2025.

by the Council in January 2025 therefore reflect Italy's adherence to both the new EU fiscal governance rules and the particular difficulties and priorities of the current Italian fiscal path.

Finally, Italy as a benchmark for the high debt Member States in Italy, we can see the challenges and opportunities associated with the implementation of the EU reform to fiscal governance in general in a high indebted country. Together, a collective direction toward Net Primary Expenditure, flexible adjustment path and strengthened institutional review make Italy a credible, growth friendly framework for progressive debt reduction and fiscal sustainability. Italy's experience illustrates the reform's flexibility in addressing the tradeoff between fiscal prudence, investment demand and socio-political factors that is probably also relevant to other well situated Member States. So, the greater coupling between preventive planning and corrective enforcement within the reform represents an important step on the way of resilient and inclusive EU fiscal governance.

5. Conclusions

The 2024 EU's economic reforms is an important part of Europe's modernization and consolidation of the EU fiscal framework by means of the new operational indicator of net primary spending, which greatly simplifies and enhances the visibility of the surveillance system and its effectiveness which makes it more transparent. The analysis demonstrates that this innovation can facilitate a closer alignment of fiscal discipline with more political flexibility, fostering greater cooperation between fiscal discipline principles and political agility, with the goal of helping Member States align their observance of budgetary prudence with their commitment to investment, structural reforms and economic robustness.

The legislation, which includes Regulations (EU) 2024/1263 and 2024/1264 and Directive (EU) 2024/1265, re-conceptualizes in an integrated manner both prevention and correction, enhancing the role of independent monitoring bodies and the flexibility of fiscal plans with respect to external economic activities (in particular under certain circumstances and exceptional shocks, such as economic crisis or strategic spending), and the strengthening of the effectiveness of the public debt, so that the future sustainability of these plans cannot be threatened. In particular, the risk-based differentiated system involves adaptable adjustment paths and transparent monitoring channels that result from these flexible mechanisms, leading to a greater sense of national responsibility and political legitimacy.

The Italian reality, representing a country with one of the highest borrowing loads of public debt in the EU, attests that this reform works, as it equates the need for a tool with which to fit the European-centric and more suitable to the context of national fiscal policy by reconciling consolidation and in the case of the urgent need for investment in priority areas including but not limited to investments in digital, green shift transitions, energy security and defence. The proposal of the Medium-Term Structural Budgetary Plan for 2025-2029 and the very active participation of the Parliament is indicative of a stronger national budgetary mechanism consistent with

European directives, that may serve as an example for other nations experiencing similar fiscal crises to emulate. But these developments do not come without challenges: the European Commission's discretionary powers should be well-monitored; the adjustment difficulties suffered by more indebted Countries will lead to different balance problems that might result in asymmetric European fiscal governance patterns; more indebted countries also, potentially, affect integration across borders and make it difficult and therefore also political stability for the Union.

The reform will work through a dialectical mix of balance between rigor and flexibility on the one hand; transparency and multilevel engagement for ensuring sustainable, inclusive and legitimately responsible fiscal governance on the other hand. In short, the 2024 reform is indeed an important milestone towards a sustainable, open and flexible European economic governance system, which can be better suited to sustain debt sustainability, economic development and resilience, positive for the EU's political and social stability (in the medium-term and long term).

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