IV. Improving compliance with the EU fiscal framework through stronger ownership and enforcement

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***Abstract**: This section examines compliance with the EU fiscal framework over the last decade. The corrective arm turned out to be an effective tool for reducing and maintaining government deficits below the 3% of GDP reference value of the Treaty. By contrast, fiscal performance under the preventive arm has been heterogeneous across Member States. The degree of compliance is linked to national ownership and to effective enforcement. The evidence also shows a weak compliance with national rules, pointing to a lack of ownership also vis-à-vis the national fiscal framework. The section also presents avenues for improvement. First, a stronger medium-term dimension could better meet national needs and capacities, with respect not only to fiscal adjustment but also to planned reforms and public investments. Second, simplification of the framework could improve compliance, for example, by relying on a single operational indicator rather than a complex set of rules. Third, a stronger involvement of national independent fiscal institutions can increase ownership. Finally, the use of a broader range of enforcement tools in the surveillance process, with a greater use of reputational sanctions and a strengthening of the debt-based EDP could improve enforcement.*

IV.1. Introduction

The six-pack legislative reform of the EU fiscal framework in 2011 strengthened the Stability and Growth Pact (SGP) in response to the vulnerabilities exposed by the economic and financial crisis ([110]). This included the introduction of a specific enforcement procedure for the preventive arm, the significant deviation procedure, coupled with a gradual system of financial sanctions for euro area Member States. It also included an attempt to operationalise the debt criterion of the Treaty (debt 'below 60%' or 'sufficiently diminishing' to that level) through the introduction of the debt reduction benchmark (for a reference see Section I).

However, compliance with the reinforced fiscal rules has been uneven. By and large, compliance can be seen as tightly related to national ownership, which implies the support and endorsement by national governments of the fiscal framework, and also to an effective enforcement. Against this background, this section discusses possible ways to increase national ownership, including a medium-term orientation for fiscal policy, an increased reliance on nationally-determined plans and stronger national frameworks. It also surveys various possible enforcement tools.

The section is structured as follows. Subsection IV.2 provides an assessment of recent compliance with the EU fiscal framework, looking at both the preventive and the corrective arms, offering some explanations for the lacklustre results. Subsection IV.3 assesses how to strengthen ownership of the EU fiscal rules, including the role of national fiscal frameworks, in order to improve compliance. Subsection IV.4 discusses different instruments to better enforce fiscal rules. Finally, Subsection IV.5 concludes.

IV.2. Compliance with the EU fiscal framework: mixed records and reasons

IV.2.1. A mixed record over the last decade: uneven between the corrective and preventive arms and across Member States

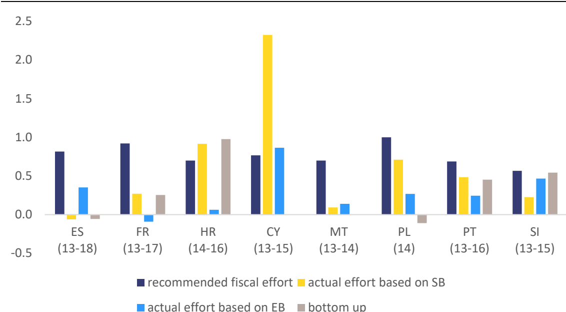
Since the six-pack reform of 2011, the corrective arm of the SGP ([111]) has been an effective tool for reducing and maintaining government deficits below the 3% of GDP reference value of the

([110]) The Maastricht Treaty focused initially mainly on the correction of 'gross errors', specifically through the excessive deficit procedure (EDP). In 2011, the six-pack reinforced the preventive arm, in particular by requiring the achievement of a differentiated MTO, with the aim of ensuring the sustainability of public finances or a rapid progress towards such sustainability while allowing room for budgetary manoeuvre, considering in particular the need for public investment. For more details, see Section I.

([111]) The corrective arm of the SGP ensures that Member States adopt appropriate policy responses to correct excessive deficits or debt levels by implementing the Excessive Deficit Procedure, which provides Member States with binding and operational recommendations on the fiscal adjustment needed to correct the excessive deficit situation within a given timeframe. See also Section II.

Treaty ([112]). However, after an initial period of strong consolidation (also reflecting market pressure), headline deficits were further reduced thanks to improving economic conditions rather than to discretionary fiscal efforts. As a consequence, the average fiscal effort in some Member States under the corrective arm remained far below the effort recommended by the Council (see Graph VI.1).

Graph IV.1: **Average fiscal effort under corrective arm by Member State since 2013 (% of potential GDP)**

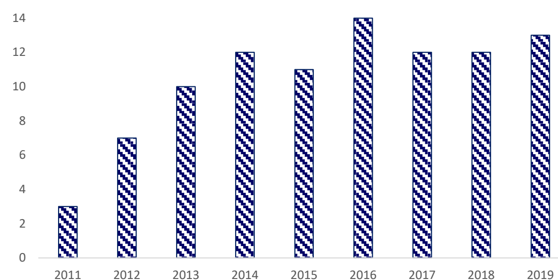


Note: *actual effort based on SB* refers to the annual change in the structural balance; *actual effort based on EB effort* refers to the fiscal effort as measured by the expenditure benchmark methodology; *bottom-up* refers to the (discretionary) changes in revenue and expenditure in comparison to the projections at the time of the EDP Recommendation.
Source: Commission staff calculations.

At the same time, no excessive deficit procedures have been opened on the basis of the debt criterion (so-called 'debt-based EDP'), despite its operationalisation in the 2011 reform. The dynamic of the general government debt has been uneven in the EU, with some Member States' debt ratios continuing to rise or, at best, stabilising (after the euro area debt crisis). Divergent debt dynamics across Member States reflected large differences in the pace of fiscal consolidation the impact of the economic growth-interest rate differential as well as in country-specific fiscal costs related to support measures for the banking sector. By 2019 around half of the Member States had debt levels below 60% of GDP while some others had their debt around or above 100% of GDP. While the decline in debt in some Member States fell short of the debt reduction benchmark, no EDPs have been initiated solely on the basis of the debt criterion, a decision in part justified by the unrealistically high effort imposed by the benchmark while these Member States broadly complied with the preventive arm requirements.

Since the six-pack reform of 2011, compliance with the preventive arm ([113]) has also been mixed, with a large heterogeneity between Member States. Between 2012 and 2016, most Member States corrected their excessive deficits and became subject to the (reinforced) preventive arm. They were required to gradually reduce their structural deficits until reaching their medium-term budgetary objective (MTO). On the one hand, around half of Member States had reached their MTO by 2016 (see Graph IV.2), sometimes helped by interest and revenue windfalls. Some of these Member States even exceeded their MTO substantially. After 2016, the number of Member States at their MTO did not further increase in spite of relatively favourable economic conditions.

Graph IV.2: **Number of Member States at MTO (2011-2019)**



Source: Commission staff calculations.

On the other hand, the other half of Member States did not reach their MTO or moved away from it after having reached it.

Among the Member States not complying with the average required net expenditure growth ceiling ([114]), some Member States, considered

([112]) See Box 1 in European Commission (2020), 'Staff Working Document on the Economic governance review', SWD (2020) 210 final.

([113]) The preventive arm of the SGP supports Member States in achieving their commitments on sound fiscal policies. It requires that Member States attain a country-specific budgetary objective over the medium-term, which takes into account the economic cycle, thus allowing for automatic stabilisation while it is conducive to sustainable public finances.

([114]) To better monitor how Member States implemented their budgetary commitments, the six-pack reform introduced an expenditure benchmark as a complement to the structural balance indicator. The expenditure benchmark provides more operational guidance to Member States in the conduct of prudent fiscal policies, by focussing surveillance on an indicator directly under the control of the government, notably the growth of primary expenditure net of discretionary revenue measures and cyclical unemployment spending ('net expenditure growth'). The allowed

broadly compliant with the SGP provisions, on the basis of the 'broad compliance margins' and flexibility provisions (e.g., unusual event clause) included in the legislation, despite a limited adjustment towards their MTO. Only Romania and Hungary were found to significantly deviate from the preventive arm requirements, resulting in the opening of significant deviation procedures in 2017 (for Romania), and in 2018 and 2019 (for both Member States).

IV.2.2. Reasons behind the uneven compliance

Deviations from the SGP requirements stem from various reasons.

- First, the assessment of compliance focused on annual figures rather than a medium-term orientation, allowing for an accumulation of deviations over time. While the SGP has in principle a strong medium-term focus, in practice, a strong emphasis is placed on an assessment of annual targets. The focus on medium-term performance (both backward- and forward-looking) has arguably further receded with recent reforms, including because of the link instituted between the assessment of compliance with the debt criterion of the EDP and that with the annual requirements of the preventive arm. Such emphasis on annual adjustments has made it more difficult to differentiate between Member States that have markedly different fiscal positions and sustainability risks ([115]).

- Second, the requirements associated with the debt reduction benchmark have proved not to be realistic. For example, enforcing the debt reduction benchmark during periods of weak real growth and very low inflation was politically and economically difficult ([116]). In some highly indebted countries, the debt reduction benchmark required particularly high fiscal efforts that could actually have aggravated the debt dynamics. Therefore, when assessing breaches of the debt reduction benchmark, the Commission's assessment and the subsequent opinions issued by the Economic and Financial Committee considered the debt criterion fulfilled on the basis that these Member States broadly compliant with the requirements of the preventive arm.

- Third, specific economic circumstances played a role. For example, in highly indebted Member States, the social scarring caused by contractionary fiscal policy in the wake of the global financial crisis and the sovereign debt crisis, prompted governments to slow the pace of adjustment after a very strong pro-cyclical consolidation in 2011-2013 which was primarily driven by market pressure. This implied that, under the corrective arm, the improving economic conditions as of 2014 helped Member States to reach the nominal targets of their EDP recommendations without implementing the structural adjustment targets ([117]). Then, once under the preventive arm, the abrogation of EDPs took away the pressure for fiscal consolidation, often against the backdrop of the complexity and difficulties to communicate to the public the requirements of the preventive arm. In some Member States, this also happened in a context of low potential output growth and fiscal fatigue. Against this background, the Commission and the Council did not trigger enforcement procedures.

- Fourth, national ownership has been insufficient in some Member States, where the preventive arm was not a reference for fiscal policy in the national debate. The Commission's caution in strictly enforcing the preventive arm might have reinforced this lack of national ownership. In many cases, weak compliance with the EU framework was mirrored by weak compliance with the national fiscal framework. Evidence shows that over the past two decades, Member States have complied on average only 60% of the time with EU fiscal rules and slightly less with national fiscal rules (see Graph IV.3). Also, empirical estimations show that, while the existence of national fiscal rules per se has no implications on compliance with EU rules, having a well-designed national rule

net expenditure growth is set at a rate consistent with medium-term potential growth, or at a lower rate for Member States that are not at their MTO in order to achieve the necessary structural improvement towards their MTO. See also Section II.

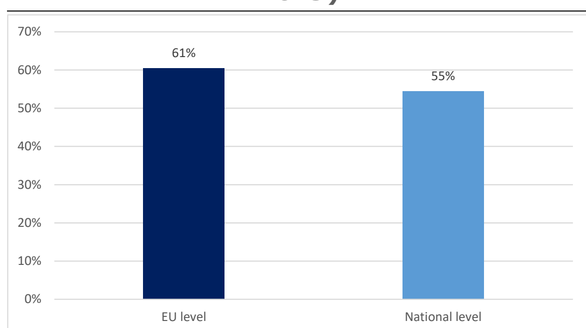
([115]) See European Commission (2020), 'Staff Working Document on the Economic governance review', SWD (2020) 210 final.

([116]) See Section I.

([117]) See: European Commission, 2018. 'Fiscal outcomes in the EU in a rules-based framework – new evidence', Report on Public Finances in EMU 2018, 105-156.

that is complied with supports compliance with EU fiscal rules ([118]).

Graph IV.3: **Average compliance rates with fiscal rules at EU and national level (1998-2019)**



(1) The numerical compliance rate refers to the average rate across four types of fiscal rules (structural balance, deficit, debt and expenditure rules), following the calculations in European Commission (2022). Compliance is measured as a dummy variable, where 1 refers to compliance and 0 to non-compliance.
Source: Commission staff calculations.

- Finally, the complexity of the overall fiscal framework and limited peer pressure further hindered compliance. Complexity, for example the reliance on multiple indicators including unobservable variables, hinders ownership and public communication. This makes it harder to get political traction, and easier to obscure a lack of compliance. A complex framework with many sub-rules provides incentives for Member States to follow the least constraining sub-rule, often in an inconsistent manner over time. Peer pressure might have been weak, as Member States tend to be reluctant to criticise each other's policy choices. In addition, serious peer surveillance requires a level of resources that goes well beyond what most Member States could make available.

IV.3.Supporting national ownership

Some features of a fiscal framework such as a strong medium-term orientation, simplification, and a strong national dimension can support ownership and compliance.

IV.3.1. A medium-term orientation

A medium-term approach helps reconciling different dimensions of fiscal policy, such as fiscal sustainability, macroeconomic stabilisation and the quality of public finances, in particular public investment. In addition, compared to annual targets, a medium-term approach might make it easier to take into account national priorities and needs, and can provide credibility and flexibility to the fiscal framework.

As most fiscal policy decisions have an impact that goes beyond the annual cycle, effective budget management requires medium-term planning. However, a medium-term dimension adds further challenges to the surveillance process, including changes in government and more uncertainty given the longer time horizon. Therefore, to be fully effective, such a medium-term orientation should rely on i) a binding commitment from the government, ii) regular, strong and independent monitoring, and iii) enforcement to limit frequent and discretionary revisions.

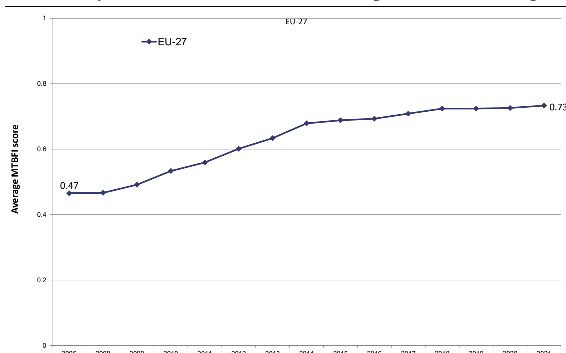
Spurred by the legislative momentum in the aftermath of the financial crisis, all Member States have developed medium-term budgetary frameworks (MTBFs), albeit to varying degrees. The Commission MTBF index points to a substantial improvement in the design and scope of MTBFs (Graph IV.4) ([119]). At the same time, empirical analysis shows MTBFs' positive contribution to fiscal outcomes ([120]).

([118]) European Commission (2022), "Do national fiscal rules support compliance with EU fiscal rules?". Part III, Report on Public Finances in EMU 2021.

([119]) The index compounds the following dimensions: coverage of the medium-term plans, link with the annual budget, involvement of national parliaments and IFIs and finally the level of details. All of these dimensions have improved over time.

([120]) See European Commission (2020) available here: https://economy-finance.ec.europa.eu/system/files/2020-02/swd_2020_211_en.pdf. The 2018 stakeholders' survey gathered evidence on the perceived effectiveness of Directive 2011/85 and was addressed to 73 national officials from Ministries of Finance, IFIs, and statistical offices.

Graph IV.4: **MTBF index (2006-2021)**



Source: European Commission Fiscal Governance Database

Despite these developments, there is room for improvement in various aspects. First, the binding nature of MTBFs remains unsatisfactory, as EU legal provisions do not prevent revisions of medium-term plans ([121]). In practice, annual updates to MTBFs are possible in many Member States; in most cases, conditions for updates are specified by national law ([122]).

Furthermore, EU legal provision do not require an explanation in case of revision, unless the revision is due to a change in government ([123]). In addition, unlike for national fiscal rules, there is no requirement on independent monitoring of compliance, nor for specifying consequences in the event of deviation from the medium-term targets. Finally, and reflecting the unsatisfactory binding nature of MTBF, consistency between annual budgets and multi-annual plans remains weak in many Member States ([124]).

IV.3.2. Simplification

Simplifying the current complex set of rules could contribute to better compliance. In this respect, focusing on one key anchor and one operational rule could facilitate the understanding of fiscal policy at the national level, thereby enhancing transparency and ownership.

As amply discussed in the relevant literature, among the various fiscal rules, expenditure rules seem to provide a better balance between budgetary discipline, as the aggregate is directly under the control of the policy makers, and macroeconomic stabilisation, as revenues would be allowed to fluctuate freely over the economic cycle ([125]). At the same time, they are transparent and easy to monitor, since the expenditure aggregate can be more easily translated into budgetary expenses. For this reason, an expenditure rule could serve as a good operational indicator.

In addition, an increased focus on gross errors could simplify the surveillance framework. This implies a focus of the EU framework on public debt sustainability and the actual risks associated to adverse dynamics over the medium term. This could become the anchor for fiscal policy, to be achieved by adhering to a single operational target, such as an expenditure rule. Such system would help improve the communication on the concrete economic risks associated to non-compliance and thus better reach out to national debates.

IV.3.3. A national dimension

Fiscal rules can be more credible and more owned by Member States if they take into account national preferences and policies, particularly reforms and investment programmes, which have implications for growth and debt sustainability. Therefore, the EU framework could give a larger role to national medium term budgetary plans, based on a technical dialogue between the EU and national governments, while maintaining a transparent common EU framework and multilateral surveillance.

At the same time, national independent fiscal institutions (IFIs) could also contribute to the surveillance process. IFIs are bodies that are structurally independent, or bodies endowed with functional autonomy vis-à-vis the budgetary authorities of the Member State, and which are

([121]) See Articles 9 to 11 in EU Council Directive 2011/85 on national budgetary frameworks.

([122]) In few cases, MTBFs are relatively stable over time (e.g. FR, IE, LT, NL).

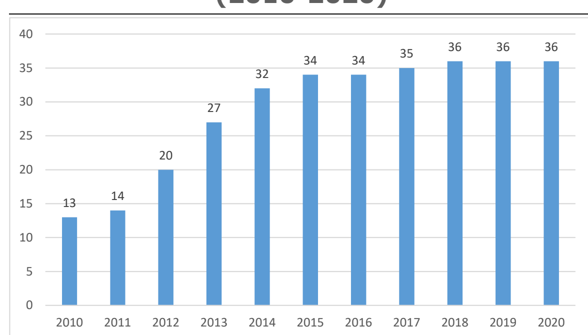
([123]) See European Commission (2020); and ECA 2019. Some of these points were also highlighted by ECA in its 2019 audit report on the EU budgetary framework provisions: namely, (1) a single process for preparing MTBF and annual budget and fully integrated documentation, (2) forward looking expenditure controls, (3) monitoring and accountability mechanisms, (4) indicative ceilings for out years and (5) spending estimates for out-years rolled over form one MTBF to the next.

([124]) In some Member States (e.g., BG, LU, LV) the MTBF and annual budget are prepared at the same time, which ensures consistency at least for the first year of the MTBF.

([125]) See Ayuso-i-Casals (2012), "National Expenditure Rules – Why, How and When", European Economy Economic Papers No 473, European Commission, Brussels, and Belu Manescu and Bova (2022) "National Expenditure Rules in the EU: An Analysis of Effectiveness and Compliance", ECFIN Discussion Paper 124.

underpinned by national legal provisions ensuring a high degree of functional autonomy and accountability. IFIs have gone a long way since their establishment in the Member States in the aftermath of the global financial crisis. They gained an established role in forecasting and monitoring compliance with fiscal rules. As shown in Graph IV.5, the number of IFIs has rapidly increased over time, particularly after the entry into force of EU requirements. In addition, their scope in terms of tasks and activities performed has increased over time, as captured by the Scope Index of Fiscal Institutions (SIFIs- Graph IV.6), which compounds information on the monitoring of rule compliance, production or endorsement of macroeconomic and budgetary forecasts, debt sustainability analyses, promotion of transparency and issuance of recommendations.

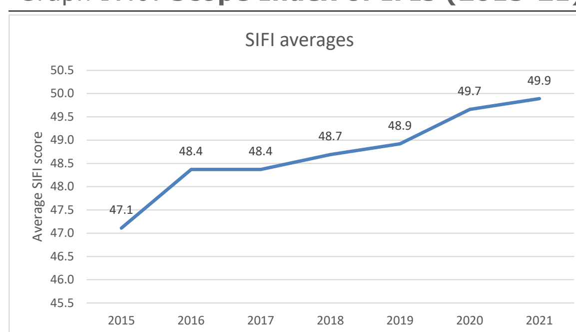
Graph IV.5: **IFIs in the Member States (2010-2020)**



Source: European Commission Fiscal Governance Database

The adoption of IFIs has been shown to increase accountability and improve fiscal performance, such as by enhancing the public debate on key fiscal policy decisions ([126]). For euro area Member States, IFIs also rely on rather strict independence requirements, such as i) not to take instructions from the budgetary authorities, ii) to have the capacity to communicate publicly, and iii) to have adequate and stable resources.

Graph IV.6: **Scope Index of IFIs (2015-21)**



Source: European Commission Fiscal Governance Database

Giving IFIs a role in the surveillance of the EU fiscal framework would require adequate safeguards for their independence and technical expertise. This could imply enhancing the competences and the resources of IFIs, while increasing their accountability by requiring regular external reviews of their activities, and/or, a 'comply or explain' principle to be applied to most IFI recommendations. The necessary distinction of roles between the national and the EU level in budgetary surveillance would also need to be preserved: while IFIs can provide inputs, enforcement of EU rules is the preserve of the Commission and the Council.

Strengthening national fiscal frameworks to support national ownership comprises more than MTBFs and IFIs. The production and publication of data on public finance as an indispensable base has improved in recent years, forecasts became more realistic and national fiscal rules are now better defined. Nevertheless, differences in accounting standards remain, budgeting is not as transparent as it could be, and rules are sometimes too complex.

IV.4. Enforcement instruments

In addition to more national ownership of fiscal requirements, a stronger enforcement could also contribute to better compliance. The EU fiscal framework contains a gradual system of financial sanctions that, however, have been used only to a very limited extent. For euro area Member States, the six-pack introduced a system of deposits and fines in the preventive arm and the EDP. The introduction of swifter sanctions and reverse qualified majority voting for Council decisions

([126]) See European Commission (2020), available here: https://economy-finance.ec.europa.eu/system/files/2020-02/swd_2020_211_en.pdf; Axiouglu and Grevesmuhl (forthcoming), Ecfin Discussion Paper Series and Beetsma et al. (2023) Beetsma, R. M. W. J., Debrun, X., & Sloof, R.. The political economy of fiscal transparency and independent fiscal councils. European Economic Review.

reinforced the role of the Commission [127]. Outside the scope of the Stability and Growth Pact, EU funding can be suspended - even must in some circumstances - in case of non-compliance with the EU's fiscal framework under the macroeconomic conditionality of structural funds [128].

The Commission proposed the suspension of EU cohesion funds only for Hungary in 2012 due to a lack of effective action under the excessive deficit procedure. Subsequently, Hungary was deemed to have taken effective action well before the deadline, thus allowing the lifting of the suspension before it had taken effect. In 2016, Spain and Portugal were found not to have delivered effective action to correct their excessive deficit. However, the Commission recommended the cancellation of the fine that Regulation 1173/2011 would normally impose. Both countries were found to have taken effective action to the subsequent notice under TFEU Art. 126(9) by the time the required 'structured dialogue' with the European Parliament on the possible suspension of commitments or payments under European structural and investment funds had taken place, making the possible suspension outdated before it was proposed.

Financial sanctions risk to come too late and could aggravate fiscal challenges if they are of macroeconomic significance. However, the existence of such sanctions may still be useful as a deterrent for lack of compliance with the fiscal rules, and a last resort in case of serious non-compliance. An interesting experience concerns the application of financial sanctions in the field of public finance statistics, which were also introduced in the context of the Six-pack reform [129]. These sanctions are based on a more detailed framework and carry mainly a reputational cost through adequate communication and small pecuniary costs (of no macroeconomic relevance) and therefore there seems to have been less reluctance to actively use them. For example, sanctions were imposed by the Council upon recommendation by the Commission on the Spanish region of Valencia in 2015, and on the Austrian state of Salzburg in 2018. Inspiration could also be taken from the case-law of the European Court of Justice, where financial sanctions linked to infringement of EU law are relatively modest but remain in place as long as the situation has not been addressed, providing an incentive for the government to rapidly correct the situation.

Even in the absence of financial sanctions, a credible threat of procedural steps in case of non-compliance could also act as a deterrent and therefore support compliance and enforcement. For example, since the two-pack reform, the reputational risk of seeing their budgetary plans being rejected by the Commission might have encouraged euro area Member States to better take into account the SGP's requirements when preparing their draft budgets [130]. Similarly, the success of the 3% of GDP deficit limit illustrates governments' willingness to avoid the opening or stepping-up of the EDP, which comes with reputational costs and stricter surveillance. The debt reduction benchmark does not seem to have the same impact, as it is no longer considered as a realistic and credible requirement. In this respect, a clarification of the criteria for the opening - and abrogation – of the EDP for non-respect of the debt-based criterion (debt above 60% not sufficiently diminishing) could strengthen add a more credible enforcement step. Also, outside the EDP, reputational costs, as well as making use of early warnings, and targeted communication in case of serious non-compliance in the preventive arm, can contribute to better compliance.

The introduction of a notional control account - keeping track of deviations from the fiscal requirements - would also contribute to avoiding

[127] The European Fiscal Board has argued that the introduction of reverse qualified majority voting has blurred the distinction between the analytical and (growing) political role of the Commission. It recommends a better separation between the economic analysis performed within the Commission and the policy decisions taken on the basis of that analysis. In addition, it proposes to remove the reverse qualified majority voting principle. See: European Fiscal Board (2019), "Assessment of the EU fiscal rules with a focus on the six- and two-pack legislation".

[128] Macro-conditionality of EU funds has often been perceived as a sanction by extension. However, it needs stressing that its ostensible aim is not to ensure compliance with the SGP but to protect the financial interest of the European Union by ensuring proper functioning national institutions.

[129] Regulation (EU) No 1173/2011 on the effective enforcement of budgetary surveillance in the euro area empowered the Commission to launch investigations if there are serious indications of manipulation of statistics, intentionally or due to serious negligence.

[130] Since Regulation No 473/2013, euro-area Member States have been required to submit their budget plans for the coming year to the Commission and the Eurogroup. They are subsequently assessed by the Commission. The Commission can request a Member State to submit a revised plan in case of particulary serious non-compliance.

small annual deviations to give rise to a large cumulative deviation over the medium term, as was the case under the current preventive arm due to its annual focus. This information device would help retain memory to the system over the medium term, while increasing transparency and then the reputational costs of systematic deviations. Of course, deviations of different signs could also offset each other.

Reinforced and more targeted communication by the EU institutions in case of breaches, especially those endangering sustainability, could help reach out to the national policy debate, likely increasing the reputational costs of non-compliance. For example, some observers have stressed the outreach to national parliaments as a powerful step, in the spirit of national ownership.

As mentioned earlier, clarifying the conditions for the opening and abrogation of debt-based EDPs might be useful in this respect. A simpler framework could also make peer pressure more effective. Efficiency of reputational sanctions goes hand in hand with more national ownership and Member States having more scope to set and implement a fiscal adjustment plan. At the national level, communication by independent fiscal institutions could be strengthened by inserting 'comply or explain' obligations for governments with respect to IFIs' recommendations. National ownership will also increase the media coverage, which is in turn facilitating compliance through reputational effects ([131]).

Reputational costs might also contribute – to some extent – to better framing the disciplining effect of financial markets. Member States, in particular those with high debt, are under close scrutiny by financial market actors. Financial markets can react on assessments in the framework of EU (or national) fiscal surveillance, signalling to policy makers its appreciation of fiscal policy developments via the cost of credit. However, experience has shown that markets tend to react too late and too strongly, thereby amplifying rather than preventing shocks. In any cases, financial markets would likely be reassured - and thereby stabilised - by the effective implementation of credible fiscal rules.

([131]) See for instance European Commission (2021), "Does media visibility make EU fiscal rules more effective?". Report on Public Finances in EMU 2020.

Overall, none of the available enforcement tools can be seen as a panacea. Traditional financial sanctions – of macroeconomic significance - have proven their limits as the main enforcement tool. A greater use of reputational sanctions could be part of a stronger enforcement mechanism. Furthermore, they would need to be coupled with stronger ownership and a more medium-term approach. To be effective, different instruments would thus need to be combined. Reputational sanctions would need to be gradual, reflecting the gravity of the situation. Early warnings could be useful for Member States that risk entering an EDP. Ultimately, ownership and the willingness of Member States to comply with EU and national fiscal rules will remain a key condition for effective implementation of the fiscal framework.

IV.5.Conclusion

This section examined compliance with the EU fiscal framework over the last decade. Evidence shows that the corrective arm has been an effective tool for reducing and maintaining government deficits below the 3% of GDP reference value of the Treaty. As a caveat, compliance in the corrective arm was obtained mostly thanks to favourable macroeconomic circumstances in some Member States rather than by underlying fiscal adjustments, since the end target - staying or getting below 3% - is expressed in nominal terms. Evidence also indicates that fiscal performance under the preventive arm has been heterogeneous across Member States. Lacklustre and uneven compliance is linked to limited national ownership and weak enforcement. As regards enforcement, evidence illustrates that the EU had only used a narrow array of available tools. Lastly, evidence points to a weak compliance with national rules, suggesting a lack of ownership also vis-à-vis the national fiscal framework.

More ownership of fiscal requirements and better enforcement could improve compliance. As regards ownership, a stronger medium-term dimension, based on national medium-term plans, would be better calibrated to national needs and capacities, with respect to fiscal adjustment and reforms and investments. It would allow for a better planning of reforms and investments. This medium-term dimension could be underpinned by a single and simpler indicator based on net expenditure developments, which would help to simplify the current complex set-up of EU fiscal rules. A stronger national dimension would also

emerge from more involvement of national independent fiscal institutions in the process. As regards enforcement, using a broader range of tools in the surveillance process, with a greater use of reputational sanctions and strengthening the debt-based EDP, could improve effective implementation of and compliance with the fiscal rules.