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# National Fiscal Frameworks during COVID-19: Weathering the Storm, Challenges Ahead

Christian Weise

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## National Fiscal Frameworks during COVID-19: Weathering the Storm, Challenges Ahead

Christian Weise

### Abstract

The COVID-19 pandemic brought severe challenges to fiscal policy and constituted an important test for the changes in national fiscal frameworks and institutions that were introduced after the Great Recession. Based mainly on information from the European Commission Fiscal Governance Database, this paper explains the strengthening of national frameworks since 2011 and shows that the reformed systems worked well during the pandemic. Nevertheless, some problems, like insufficient medium-term approaches to budgeting and sometimes not-yet-strong-enough independent fiscal institutions, persist. Addressing these problems has become even more pressing post-COVID as strong priority-setting for the green and digital transition is required and necessary increases in the quality of public finances demand an improved national debate on fiscal policy.

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**Contact:** Christian Weise, European Commission, Directorate-General for Economic and Financial Affairs, [christian.weise@ec.europa.eu](mailto:christian.weise@ec.europa.eu).

## ABBREVIATIONS

CG	central government
COVID	corona virus disease
DR	debt rule
EDP	excessive deficit procedure
ER	expenditure rule
EU	European Union
FRSI	fiscal rule strength index
GDP	gross domestic product
GEC	general escape clause
GG	general government
IFI	independent fiscal institution
IMF	International Monetary Fund
LG	local government
NBR	nominal balance rule
NFF	national fiscal framework
MTBF	medium-term budgetary framework
OECD	Organisation for Economic Cooperation and Development
RG	regional government
RRF	recovery and resilience facility
RRP	recovery and resilience plan
SBR	structural balance rule
SIFI	scope index for IFI activities
SS	social security

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# 1. INTRODUCTION

When the COVID-19 pandemic struck in early 2020, it was immediately clear that, in addition to the horrendous losses in human lives and health, it would have a severe negative economic and social impact. Governments throughout the world invested quickly and heavily in a wide range of support measures. While this was, in general, necessary and welcome, it implied a heavy burden for fiscal policy. Moreover, fiscal frameworks that were made for “normal times” and the usual swings in the business cycles needed to show their resilience and flexibility.

This paper focuses on the role of national fiscal frameworks of EU Member States during the pandemic. To understand how they coped with this crisis, a look back at their development since the global financial crisis is warranted. Legislative reactions to the global financial crisis triggered in fact significant changes in national fiscal frameworks in the EU, mainly via the Budgetary Framework Directive ([2011/85/EU](#); part of the so-called “six-pack” of reforms to the European economic surveillance), the regulation on draft budgetary plans ([regulation \(EU\) No 473/2013](#); part of the so-called “two-pack”) and the Fiscal Compact (Title III of the [Treaty on Stability, Coordination and Governance](#) in the Economic and Monetary Union). This new legislation aimed at strengthening national fiscal frameworks to remedy weaknesses that had become apparent during the crisis. However, while national fiscal frameworks showed clear improvements since the new legislation came into force, a review of the new rules by the European Commission (European Commission 2020b), published just before the outbreak of the pandemic, also found remaining weaknesses (see Box 1 below).

How national fiscal frameworks did cope with the challenges brought by the pandemic is an important question not only for the specific case at hand but as a test on how they can cope with shocks in general. A positive assessment would require that the frameworks continued working as usual as much as possible while showing sufficient flexibility to turn into ‘crisis mode’ as much as necessary. Where parts of the frameworks were suspended, this should happen in a clearly codified process, including clear prospects on how they would return to normality.

## Box 1. REVIEW OF THE SUITABILITY OF THE COUNCIL DIRECTIVE 2011/85/EU ON REQUIREMENTS FOR BUDGETARY FRAMEWORKS OF THE MEMBER STATES

The Budgetary Framework Directive (Article 16) required the Commission to produce a review on its suitability. The Commission used for this exercise information from the compliance checks (regarding transposition of the Directive in national legislation), results from the annual updates of the Fiscal Governance Database and opinions gathered by a wide survey among Member State practitioners.

The review, published on 5 February 2020 (European Commission 2020b), found strengthened frameworks in all areas covered by the Directive, in particular where Member States previously had only weak frameworks. It emphasised growth in the number and design strength of national fiscal rules, some progress in medium-term planning, improved fiscal transparency by stronger statistics, and more reliable forecasts.

However, some weaknesses remained:

- Medium-term budgetary frameworks were still too weak and too often subordinate to the annual budgetary process.
- National fiscal rules were not always sufficiently clearly defined as regards consequences of non-compliance and independent monitoring.
- Some high-frequency statistics were less useful and other statistics (e.g., on tax expenditures and extra-budgetary bodies) still too varied. In addition, public accounting was lacking a common European benchmark.
- Ex post forecast evaluation was unsatisfactory.

The stakeholder survey suggested that the Directive enactment increased fiscal discipline ownership and awareness, albeit more so among policy-makers than among the general public.

While, given the many areas covered by the Directive and the multiple other developments in the field, it is difficult to identify its specific contribution, the Directive is seen as having had a positive and strong influence on national fiscal frameworks. However, further strengthening remains necessary.

The remainder of the paper addresses in turn the central elements of fiscal frameworks covered by EU legislation, namely fiscal statistics, national fiscal rules, independent fiscal institutions (IFIs) and medium-term budgetary frameworks (MTBFs). A discussion of challenges ahead is then provided. The empirical analysis is based on the Fiscal Governance Database of the European Commission<sup>1</sup>, including results for the year 2021.

## 2. FISCAL STATISTICS

The Great Recession was, among other causes, also linked to weak reporting of fiscal data. Transparency of national reporting was weak, common standards were missing in some areas, and the scope for external quality checks was insufficient. In some Member States, the build-up of extra-budgetary obligations became apparent only at times of very critical indebtedness, adding dire strain to public financial management. For example, some spending obligations were shifted outside the budget, with a loss of control by the government over indebtedness by local governments and autonomous bodies and a build-up of contingent liabilities through public-private-partnerships and state-owned enterprises, or deficient data of public sector performances and poor risk estimates contributed to much turmoil in government bonds markets.<sup>2</sup> Once the crisis unfolded, accounting for its effects, in particular in real time, was made particularly difficult by the very heavy incidence of interventions in the banking sector.

To address these challenges, fiscal statistics were strengthened. This concerned all data related to a potential excessive deficit procedure (EDP), where statistical rules and practices were further harmonised and new standards were established. EDP-related data are reported to Eurostat twice a year and thoroughly checked, including by regular Eurostat missions to each Member State. To reinforce the external quality checks, Eurostat received access to the underlying accounts of general government entities (regulation [2009/479/EU](#)). Sanctions for the manipulation of relevant statistics were made possible (regulation [2011/1173/EU](#)). Even when these sanctions remain small, they carry reputational weight. They are relative to the misrepresentation in question (5% as a starting point but capped at 0.2% of GDP). This amount can be adjusted depending on whether the problem has a serious impact on economic governance, whether it was caused by a one-time negligence or by structural behaviour, whether it was due to an individual error or to concerted action, its repetition, frequency, and duration, and on the constructive cooperation with the Member State concerned.<sup>3</sup>

These substantial improvements in the level of harmonisation of statistical rules and practices over the last decade and the increased level of cooperation between statistical offices in the EU allowed an agile response to the pandemic based on reliable data. In the early days of the pandemic, the EU statistical community acted very quickly to establish consistent approaches to recording of the effects of COVID-19 and to harmonising statistical methods in all affected areas of economic, social and health statistics. Guidance on recording of main policy measures was published as early as 9 April 2020. New reporting streams were put in place to support Eurostat in assessing and validating fiscal data, which helped to preserve the quality of the data despite the challenges. The new reporting notably concerned COVID-19 related measures taken by governments (compulsory from April 2021) and flows related to the Recovery and Resilience Facility (RRF) (compulsory from October 2021). As

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<sup>1</sup> The Fiscal Governance Database [[https://economy-finance.ec.europa.eu/economic-research-and-databases/economic-databases/fiscal-governance-database\\_en](https://economy-finance.ec.europa.eu/economic-research-and-databases/economic-databases/fiscal-governance-database_en)] of the European Commission includes information on fiscal rules, MTBFs and IFIs in all EU Member States, partly since 1990, including related indicators of institutional strength and scope. It is compiled with the help of national administrations and IFIs whose contributions are gratefully acknowledged.

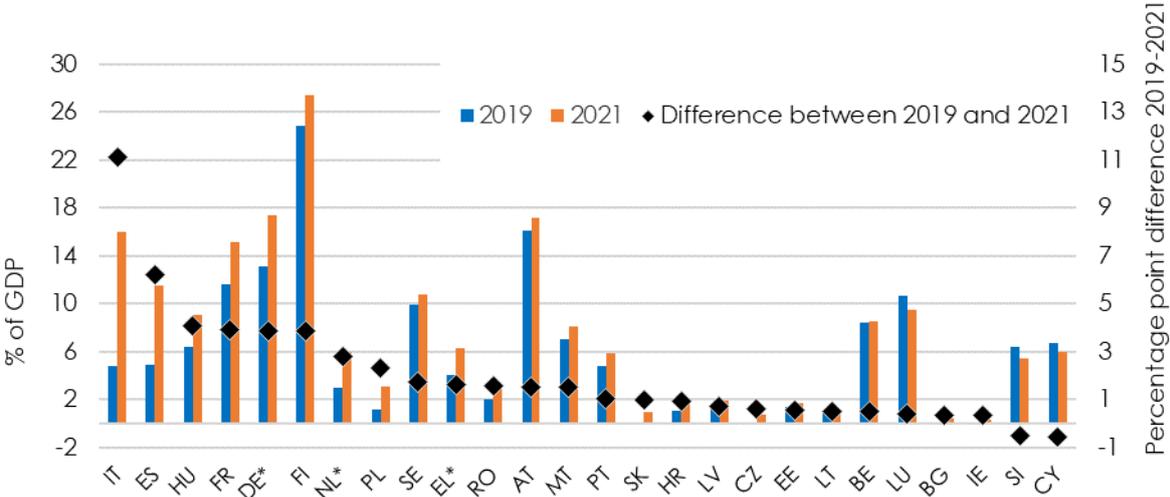
<sup>2</sup> See, for example, European Commission (2014), IMF (2013), IMF (2016) and the information on the European financial assistance for Greece: [https://economy-finance.ec.europa.eu/eu-financial-assistance/euro-area-countries/financial-assistance-greece\\_en](https://economy-finance.ec.europa.eu/eu-financial-assistance/euro-area-countries/financial-assistance-greece_en).

<sup>3</sup> Such sanctions have been applied twice by now, on Austria and Spain.

a result of these proactive steps, Eurostat was able to validate the reported fiscal data in the vast majority of cases throughout 2020-2021.<sup>4</sup>

An additional step forward in fiscal reporting was the introduction of new definitions and reporting standards for contingent liabilities. Specifically, the 2011 Directive required the publication of those contingent liabilities with potentially large impacts on public budgets, including government guarantees, non-performing loans, and liabilities stemming from the operation of public corporations. It also required the publication of the participation of general government in the capital of private and public corporations. At present, this information is published regularly by Member States as well as Eurostat. When COVID-19 hit and Member States took measures to protect their economies, the publication of data on state guarantees proved to be particularly important. Given the prominent role of state guarantees among measures supporting the EU economies throughout the pandemic (Graph 1), this reporting allowed a much better tracking and analysis of the economic impact of COVID-19 support measures.

Graph 1. Stock of government guarantees in 2019 and 2021\*, % of GDP



Source: Eurostat.

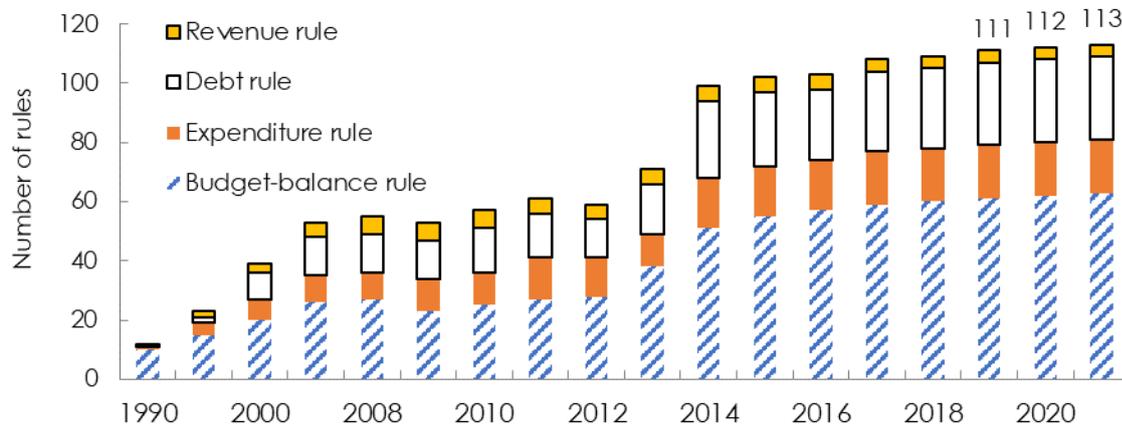
\* For Germany, Greece and the Netherlands data are unavailable for 2021 and the comparison is between 2019 and 2020. Denmark is not included on the graph due to incompatibility of two datasets. Change between 2019 and 2021 (or 2020) is calculated as percent of 2019 (pre-COVID) GDP.

### 3. NUMERICAL FISCAL RULES

Having clearly specified numerical fiscal rules in place is an important element of strong fiscal frameworks as they provide guidance and stabilise expectations regarding fiscal policy and planning. They can take the form of budget balance rules (structural or nominal), set out a specific maximum expenditure growth, or affect revenue or the debt level. The Budgetary Framework Directive, the two-pack and the Fiscal Compact, an intergovernmental agreement valid for 22 Member States (the 19 euro area members plus Bulgaria, Denmark, and Romania), led to the establishment of many new rules in EU Member States since 2011, from some 60 rules to 113 in 2021 (Graph 2). The biggest share among them are budget balance rules, followed by debt rules.

<sup>4</sup> Two reservations expressed on the quality of data for Denmark (in spring 2020) and Luxembourg (in spring 2021) were short-lived and withdrawn in the subsequent notification rounds (autumn 2020 and 2021, respectively).

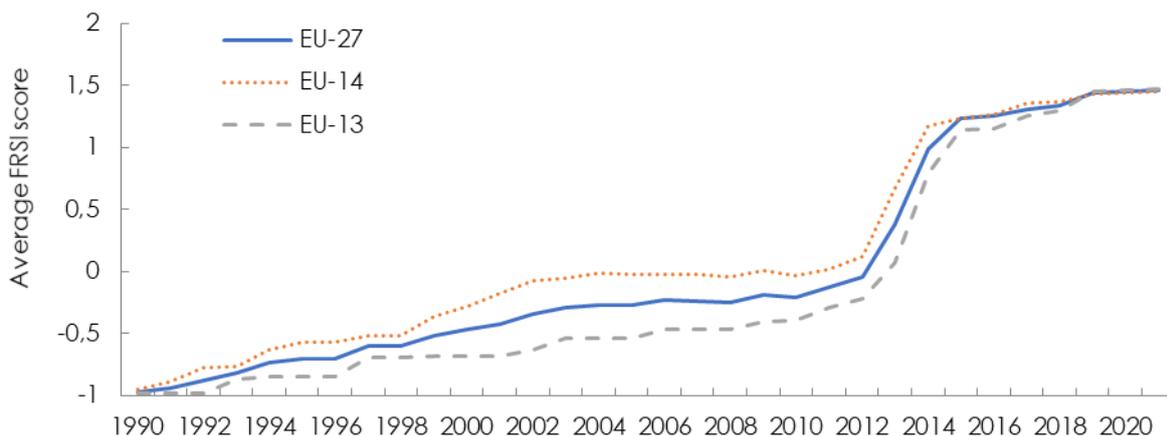
Graph 2. Number of fiscal rules in place in the EU 27



Source: Fiscal Governance Database.

These rules are national rules, thereby different from the EU set of rules and with fully national monitoring and enforcement mechanisms. In some cases, however, the design of national rules coincides with the one of the EU rules; both seem to reinforce each other when they are complied with and when rules are well designed (Belu Manescu et al. 2023). The strength of the national fiscal rules has increased significantly over the last ten years as documented in the European Commission Fiscal Governance Database (Graph 3). The average design strength of fiscal rules is calculated considering the strength of the legal basis of each rule, how binding the rule is, whether it is independently monitored, whether correction mechanisms are in place in case of non-compliance, and how resilient to shocks the rule is – including by triggering escape clauses.<sup>5</sup> This index rose rapidly after the entry into force of EU provisions on fiscal rules.

Graph 3. Average score Fiscal Rule Strength Index (FRSI)



Note: EU-13: Member States which joined since 2004; EU-14: Member States already in before.

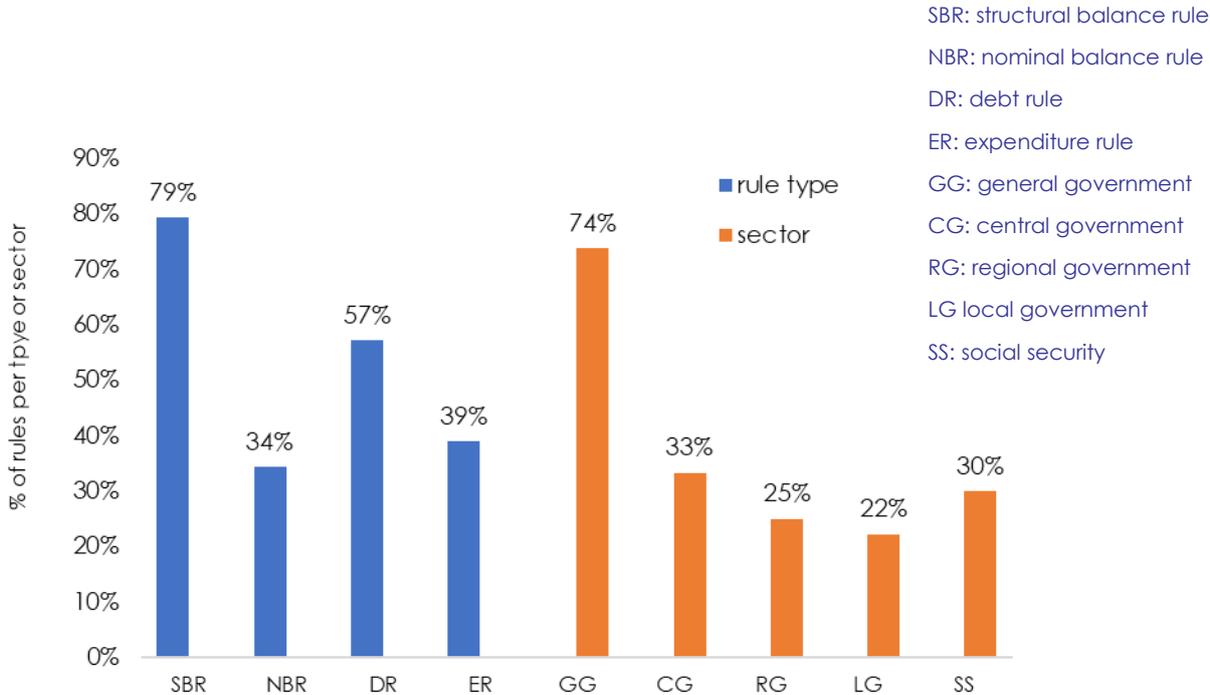
Source: Fiscal Governance Database

While clear rules create stability in normal times, they also need to allow a flexible reaction in extraordinary circumstances. Thus, the Budgetary Framework Directive as well as the Fiscal Compact call for endowing fiscal rules with escape clauses (so-called “second generation” rules); these enable the

<sup>5</sup> Based on this concept, which is relatively detailed and demanding and thus more appropriate for advanced economies, Davoodi et al. (2022) developed a lighter approach applicable for a wider circle of countries.

suspension of rules in a regulated way, i.e., in limited and well-defined circumstances. Escape clauses can, for example, demand that independent fiscal institutions assess whether the necessary circumstances for triggering them are met, they can define reasons to trigger them or set the procedure on how to terminate their use. About half of the national rules in the EU have escape clauses and many of them are directly linked to the Stability and Growth Pact by a reference in the national legislation. They are contained in the vast majority of rules covering general government and structural balance rules (Graph 4).

Graph 4. % of rules per type/sector containing an escape clause in 2020



Source: Fiscal Governance Database.

The national rule-based systems worked well in the COVID-19 pandemic and allowed a quick and flexible but also clearly regulated response of fiscal policy at the national level. They allowed Member States a prompt and needed expansionary fiscal response to the shock, by triggering escape clauses for 60 rules, 45 of them affecting general government. Where specific existing rules were insufficient, Member States also swiftly introduced changes to their rules by either establishing a new rule (one case in each 2020 and 2021 in Finland) or modifying them (19 cases). Among the latter, in nine cases an existing escape clause was expanded, and in three cases a new one introduced.

For a bit less than half of national fiscal rules no escape clauses are provided for, either because the rules affected government levels (local government) or budgetary elements (long-term targets, revenue rules, etc.), which were less sensitive to the shock or because other flexibility elements could be used (i.e., crisis-related expenditure was excluded from the ceilings or emergency transfers between levels of government were possible). Overall, the framework remained sound as two thirds of the 52 non-suspended rules were complied with also under the conditions of COVID.

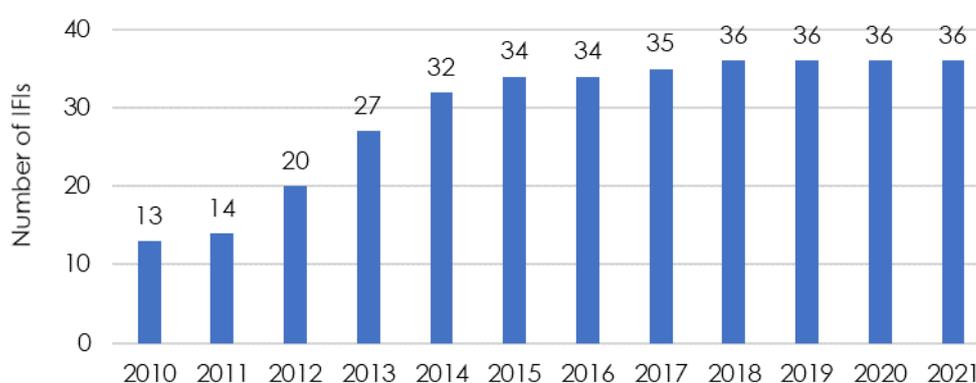
Thus, as with the Stability and Growth Pact at European level, the frameworks at national level were not suspended in general as ill-suited for the crisis but, on the contrary, proved well-prepared for dealing with an extra-ordinary situation by using clearly defined in-built flexibility. This positive assessment – that appropriate use of rules and escape clauses allowed an appropriate fiscal response to a sudden shock – would need to be substantiated in due time by a more granular analysis, which would also include how and when the use of escape clauses will be terminated.

## 4. INDEPENDENT FISCAL INSTITUTIONS

Independent Fiscal Institutions (IFIs) are expected to increase the quality of the national debate on public finances and national ownership of the relevant fiscal framework. Their role was strengthened by the new EU legislation which demands that the macroeconomic forecasts on which budgetary planning is based are either produced or endorsed by IFIs and that IFIs check whether national authorities comply with national fiscal rules (Axioglou et al. 2023).

While these institutions have been well-established in some Member States for decades, their number increased from 13 to 36 since 2010 (Graph 5). The scope of IFI activities has also increased (Graph 6).<sup>6</sup>

Graph 5. Number of IFIs in EU Member States



Source: Fiscal Governance Database.

Graph 6. Average for Scope Index for IFI Activities (SIFI)



Source: Fiscal Governance Database.

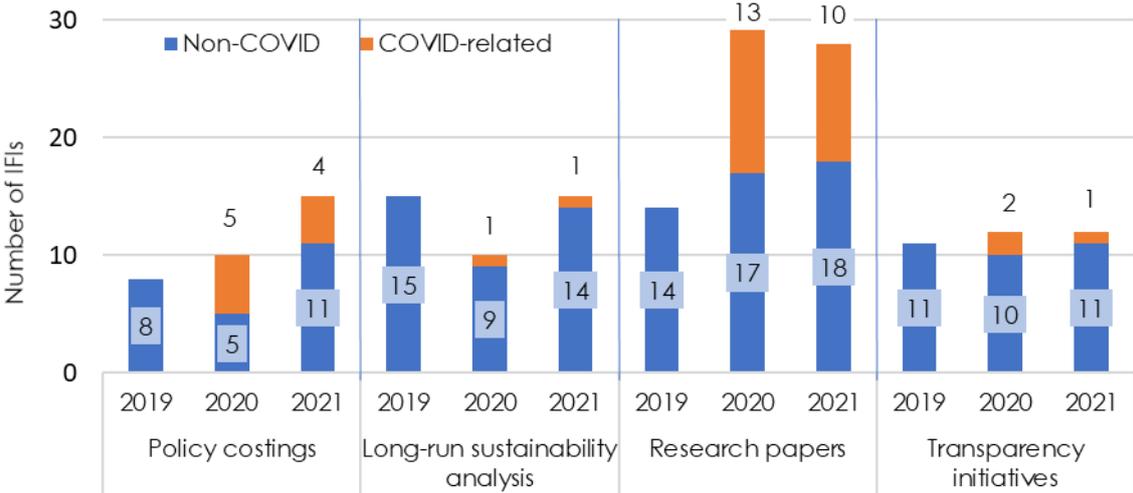
IFIs continued to fill their legally defined role in macroeconomic forecasting also during the COVID-19 pandemic. In all 19 euro area countries, independently produced or endorsed macroeconomic forecasts were well-established and this obligation from the Two-pack was respected also in very turbulent circumstances. Unusual or ad hoc forecast submissions

<sup>6</sup> The European Commission Fiscal Governance Database tracks six different categories of IFI activities since 2006 and calculates a Scope of IFI indicator (SIFI) since 2015. This covers compliance monitoring, macroeconomic forecasting, budgetary forecasting and policy costing, sustainability assessments, the promotion of fiscal transparency, and normative recommendations on fiscal policy.

happened in only two cases in spring 2020 (in the context of the stability and convergence programmes). In Belgium, the traditional independent forecast producer, the Federal Planning Bureau, prepared the forecast exceptionally together with the Belgian Central Bank. In Portugal, the stability programme did not contain a complete macroeconomic scenario. In autumn 2020, in the context of the draft budgetary plans, the standard national procedures were followed in all euro area members again.

To a certain extent, the pandemic changed the framework in which the IFIs work (for more detail, based on a survey among IFIs, see Box 2). Their task of checking compliance with national fiscal rules, obviously, was put on hold given the triggering of many escape clauses. However, IFIs were involved in assessing whether the necessary circumstances for triggering them were met; this happened mainly via non-binding opinions. More broadly, their set of tasks expanded, showing quite some versatility in adapting to new needs and demands. IFIs reported COVID-related activities for 2020 and 2021 mainly regarding their research papers and long-term sustainability analysis, i.e., tasks that are already high on their agenda (Graph 7). IFIs also engaged more in COVID-related policy costing than usually.

Graph 7. Number of IFIs mentioning involvement in various additional tasks



Source: Fiscal Governance Database.

## Box 2. INDEPENDENT FISCAL INSTITUTIONS DURING COVID – SOME SURVEY RESULTS

The update of the European Commission Fiscal Governance Database included in 2022 a section of in-depth questions and analysis covering IFIs during COVID (Hoogeland 2022) which pointed to the following observations:

60 (out of 113) numerical fiscal rules in force in 2021 contain an escape clause. Out of these, the IFI would be involved in the triggering of the escape clause for 31 rules. In a few cases, they are solely responsible for the decision to activate; otherwise, they would co-decide with other institutions such as (mainly) the Ministry of Finance or parliament, the court of auditors, research institutes and the national central bank or other government bodies. In other cases, IFIs are rather required to give an assessment before the Ministry can decide to activate. In response to the pandemic, in 2020 and 2021 many of the fiscal rules were suspended and at EU-level the General Escape Clause (GEC) was activated. In 2021, escape clauses were actually activated for 29 rules; in 10 cases the activation was done following the GEC and in 19 cases given an escape clause of the rule itself. For those 19 rules, in 12 cases IFIs played a role in the activation of the escape clause.

Despite the more difficult circumstances of the COVID pandemic, the IFIs role in macroeconomic and budgetary forecasting remained the same in almost every Member State. IFIs reported no structural changes on their mandate or activities in budgetary forecasting during this period. Evidence from the OECD (2020) further shows that, during the first phase of the pandemic, some IFIs provided ad-hoc assistance in creating new forecasts (sometimes together with the Ministries). This was based on the latest developments and sometimes also provided multiple scenarios for the expected long-term effects of the pandemic.

Many IFIs reported to have expanded work on other tasks, most notably in the field of conducting research and analytical work, or policy costing (Graph 7). In most cases, the expansion of tasks reflects COVID-related needs. For example, most research outputs related to COVID-19 issues. On policy costing, the increase in the reported output is largely due to the costing of pandemic-related policy measures. Production of long-term sustainability analyses saw instead a decrease from 2019 to 2020, possibly due to the challenges associated with the uncertainty on the duration and severity of the pandemic but returned to regular output numbers in 2021. IFIs continued to carry out transparency initiatives, also including three examples of transparency initiatives related specifically to COVID policies during 2020-2021. Other examples of such initiatives are efforts on database accessibility, IFI interventions in parliament, publishing material on forecasting methodologies and discussion papers on the calculation of fiscal indicators.

IFIs overwhelmingly reported that the COVID-19 pandemic did not lead to important changes in resources or access to information. Out of the 31 reporting IFIs, 30 reported that there was no significant change in funding as an effect of the COVID-19 pandemic. Only one IFI reported that their institution received more information from the government as a result of the pandemic (notably on the government's COVID-related measures) and thus increased expertise among their staff.

Evidence from the Fiscal Governance Database on funding supports the finding that resources for IFIs were not increased drastically during the pandemic. Comparing reported budgetary appropriation for 2020 and 2021 shows that overall funding for IFIs increased by about 3.1%. This was only slightly lower than the average increase from 2019 to 2020 (3.3%). Out of the 31 IFIs reporting, only five saw their budget increase by more than 15%. Furthermore, only three IFIs saw a decrease in funding (but all by less than 10% of their budgets).

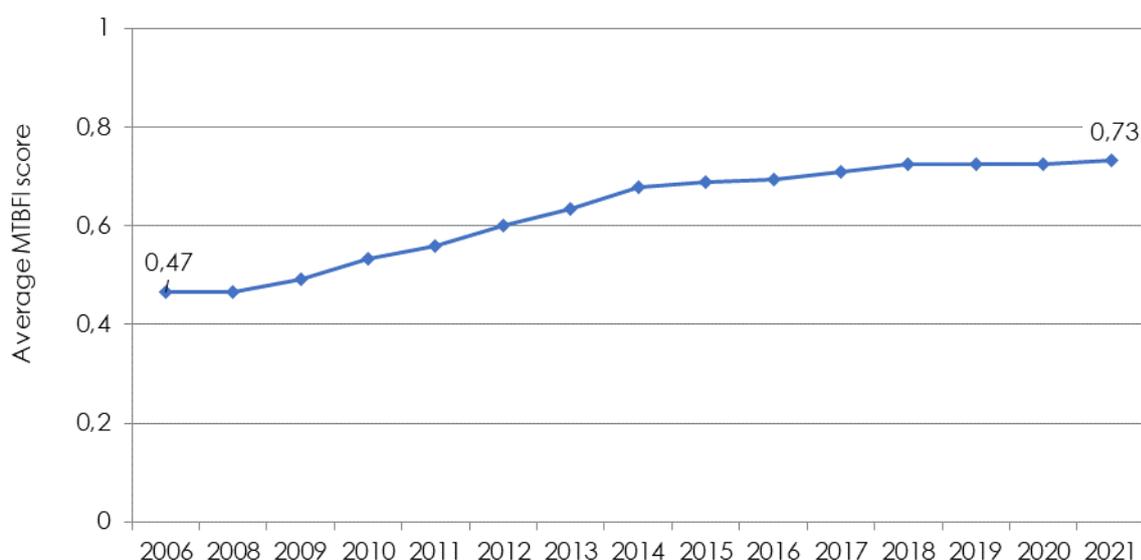
While not explicitly in their mandates, a few IFIs were also involved in preparing the Recovery and Resilience Plans (RRPs). On the involvement of IFIs in the RRP, the RRF regulation (recital 59) encourages Member States to seek the opinion of their national productivity boards and independent fiscal institutions on their plans, including a possible validation of their elements. Based on information from the European Commission's Fiscal Governance Database, at least nine IFIs contributed to ex ante assessments of the plans in some way and four expected to be involved in ex post analysis. As a main reason to their limited involvement in the assessment of RRP, IFIs indicated the objective difficulties to estimate economic and fiscal variables in an extremely uncertain economic situation, in addition to the lack of a mandate and limited access to information and resources. While the uncertainty and the time pressure can indeed explain a limited role for IFIs ex ante, in some cases their knowledge could be used during implementation and ex post. The COVID-19 crisis entails an expansion of the usual IFIs tasks, beyond the RRP assessments.

## 5. MEDIUM TERM BUDGETARY FRAMEWORKS

A medium-term approach to budgeting should stabilise expectations, help avoiding pro-cyclicality, and allow a more transparent setting of political priorities. Medium-term budgetary frameworks (MTBFs) were also strengthened by the new legislation after the Great Recession. The Budgetary Framework Directive demands that all Member States establish credible and effective medium-term planning with a horizon of at least three years, including projections of major expenditure and revenue items, a description of major policy plans and their expected budgetary impact as well as on the long-term fiscal sustainability. Annual budget legislation shall be consistent with the provisions of the medium-term budgetary framework, an element, however, which proved to be only weakly implemented.

The Fiscal Governance Database shows a strengthening of national MTBFs in recent years, although with the important caveat of a weak link to annual budgeting (Graph 8). The index aggregates how much of general government is covered by medium-term planning, to what degree parliament and IFIs are involved, the level of detail of budgetary items in the plan and, finally, the strength of the link to the annual budget. This last element, however, appears still to be relatively weak, often because (targets in) medium-term plans can be too easily changed (thus ensuring compliance of annual budgets but not real medium-term planning) or because they are not binding from the start. The involvement of IFIs and the level of detail could also be improved.

Graph 8. Evolution of the MTBF-index



Source: Fiscal Governance Database.

During the pandemic, the guiding power of planned budget figures was weakened by the crisis throughout the EU. Nevertheless, the MTBF-related process was generally upheld, even if sometimes in slightly adjusted formats. Some Member States had to make their MTBFs more flexible to adapt them to the conditions of the pandemic. In the Czech Republic, the ceiling for the allowed structural deficit had to be widened. In the Netherlands, COVID-related expenditure was taken out of the expenditure ceilings. In Finland, the government activated an “exceptional situation mechanism” (which had only been created in 2019) to increase spending limits for 2021.

Ex post compliance of the annual budget with the multiannual plans improved in 2021 compared to 2020. This situation can be explained by the forecasts for 2020 used for the annual budgets, which

proved outdated by the end of the year as the crisis unfolded and in view of unanticipated support measures that had to be taken during the year.

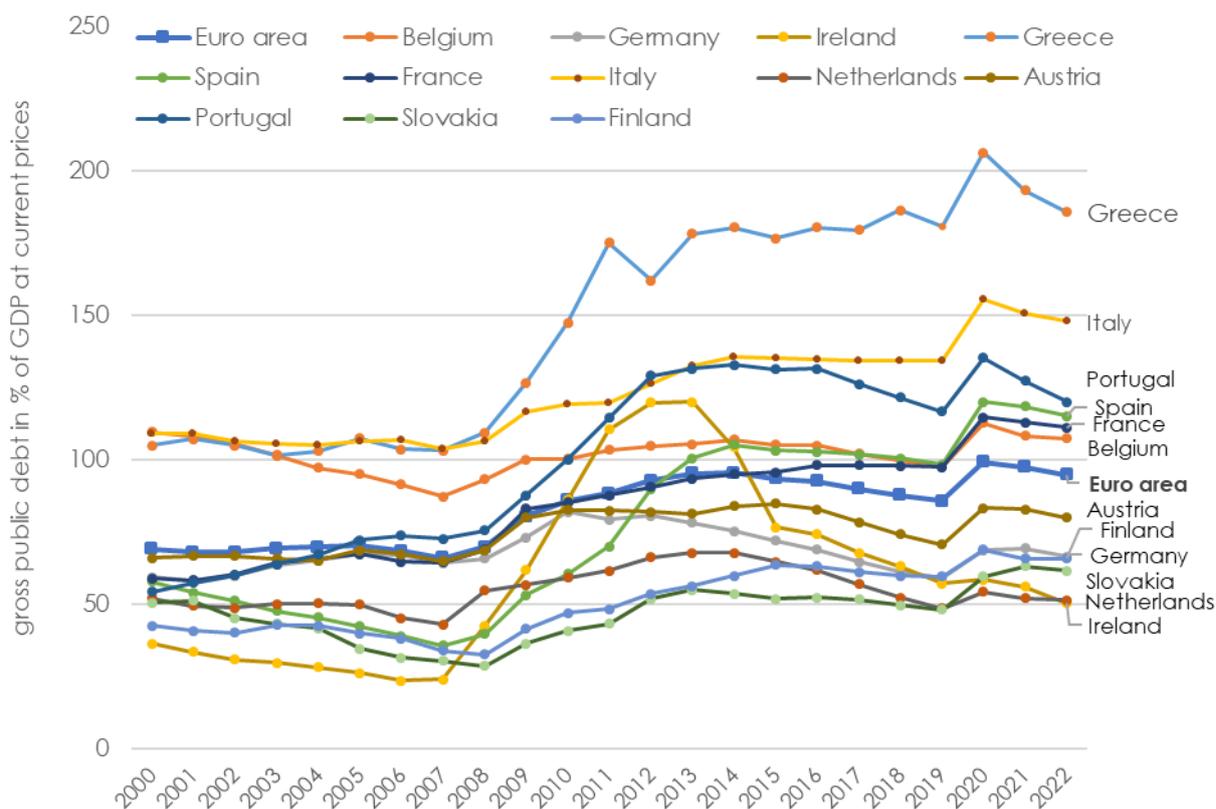
## 6. CHALLENGES AHEAD

Even if the immediate health impact of the COVID-19 pandemic has ebbed down and economic growth has resumed, the crisis intensified long-term challenges for fiscal policy and, thus, national fiscal frameworks and institutions.

The most prominent challenge stems from the increased debt levels, following downswings in GDP and expansionary fiscal policy to tackle the pandemic. This challenge is aggravated by the fiscal impact which Russia's war of aggression against Ukraine has on European economies in manifold ways. Public debt increased in the EU from 79.2% of GDP in 2019 to 91.5% in 2020. Keeping these debt levels under control and reducing them to a more sustainable level is an urgent task. Developments since the financial crisis, when debt in the EU first increased from 62.2% of GDP in 2007 to 88.9% in 2014 and was then reduced to below 80% in 2019, show that this is possible, although the situation is very different across Member States (Graph 9). Several euro area Member States successfully reduced debt-to-GDP ratios in the years between the financial crisis and the pandemic (AT, IE, DE, PT, NL), while others struggled to do so (EL, IT, FR). Evidence further shows that nearly all the selected euro area Member States saw an initial steep rise in debt in 2020, followed by a drop in 2021 and 2022. As of 2022, only some of the Member States are again close to pre-pandemic debt levels.

The European Commission analyses fiscal sustainability in its Member States in a much more detailed way, taking into account *inter alia* gross financing needs, sovereign financing conditions, the possible impact of economic shocks, population ageing, contingent liabilities and extreme weather and climate-related events (European Commission 2022a). This shows two Member States as having short-term vulnerabilities, eleven at medium-term high risk and nine at long-term high risk.

Graph 9. Development of debt-to-GDP ratio in selected euro area Member States



Source: Eurostat.

A second challenge is to overcome the weaknesses identified in the current fiscal frameworks. A fundamental issue is insufficient national ownership of rules and principles that are meant to ensure prudent fiscal policy. This leads to a tendency to pro-cyclicality, weak enforcement of complex rules, and a certain volatility in priorities (European Commission 2020a, 2020b and 2022a).

A third challenge is meeting high and increasing demand for public investment. Public investment has been low during and following the great recession. Thus, there is high pent-up demand. On top of this, the green and digital transitions demand high public investment in a more modern infrastructure and strengthened education and training systems.

The Recovery and Resilience Facility (RRF) is a particularly notable economic policy reaction of the EU to the pandemic. Out of its many important aspects, two are particularly noteworthy for national fiscal frameworks.

First, the RRF underlines the importance of public investment in the years to come as much of its resources will be used for this. Given the limited availability of public funds, the quality of public finances – here, the quality of public investment management – is decisive for the impact which the use of public resources can achieve. Empirical studies have shown that improving the public investment systems can reduce the efficiency gap of public investment spending in Europe, even if the average efficiency gap is lower than in other world regions (Baum et al. 2020). At the same time, information on the various approaches followed in the EU is patchy. The European Commission has therefore started to work with Member States to enable a mutual learning process on this matter (Belu Manescu 2021 and 2022).

Second, the RRF has a clear focus on achieving the green and digital transition to modernise EU economies and react to the challenges from climate change and biodiversity loss. For national fiscal

frameworks, this calls for the use of priority budgeting tools. Green budgeting tools can help to make the impact of the budget on the environment more transparent (Bova 2021, Pojar 2022)<sup>7</sup>. Mastering the green transition also implies adapting public finances to the disrupting potential of climate change. More frequent and more intense natural disasters are one consequence of climate change. How disaster risks are managed, however, has a significant impact on fiscal policy (Radu 2021 and 2022, Canova and Pappa 2021) with consequences also for medium- and long-term fiscal sustainability (Gagliardi et al. 2022).

## 7. CONCLUSION

National fiscal frameworks and institutions have been strengthened following the Great Recession and proved to be flexible and resilient during the COVID-19 pandemic. Fiscal statistics are more reliable and detailed, and they cover now important aspects, like contingent liabilities, that were previously neglected. The set of national fiscal rules showed sufficient in-built flexibility to allow coping with extra-ordinary demands of the pandemic in a regulated way. It is still too early to assess the return to normal times as many escape clauses still apply. Medium-term budgeting, however, was less prominent, perhaps not surprising, in crisis years. The role of independent fiscal institutions, and in particular their role in macroeconomic forecasting, remained unaffected. Nevertheless, their support in shaping the policy response could have been more relied upon. Among other elements, their resource level and the awareness of their mandate played a part in this outcome. All in all, national fiscal frameworks have proven to be resilient to a major economic shock. Where possible, they continued to work as before, while they showed enough flexibility, via clearly specified escape clauses, to allow a strong fiscal policy reaction to the shock.

The pandemic aggravated some long-existing challenges facing fiscal frameworks in the EU and emphasised the importance of other tasks. Debt levels rose markedly. This increased stress on the budgets and calls for more focus on the quality of public finances, specifically regarding the efficiency of public investments. Steering the policy response to the pandemic from immediate crisis reaction towards addressing pressing long-term tasks, like the green and digital transition, demands a medium-term approach to fiscal policy with stable and transparent priority-setting. There is still scope for strengthening national fiscal frameworks, in particular as regards the bindingness of medium-term budgetary frameworks and minimum standards for resources, tasks, and legal status of independent fiscal institutions.

Further research on national fiscal frameworks and economic shocks could focus, first, on the specific impact of the shock on medium-term budgetary frameworks as they differ significantly between Member States. An analysis of this question would currently seem still pre-mature. Secondly, national fiscal frameworks could be analysed more as a system whose reaction to shocks depends also on the interaction between its elements; this was beyond the scope of this paper which looked rather at the individual elements.

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<sup>7</sup> See also the European Commission Green Budgeting homepage: [https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/green-budgeting-eu\\_en](https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/green-budgeting-eu_en).

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