European fiscal integration *in euro absentia*. Budgetary compliance as a step stone to a fiscal union

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EPS European Politics and Society

Contents

List of abbreviations

AGS	Annual Growth Survey
AMR	Alert Mechanism Report
CSR	Country Specific Recommendations
ECB	European Central Bank
EU	European Union
EMU	Economic and Monetary Union
EDP	Excessive Deficit Procedure
EID	Excessive Imbalance Procedure
ESA	European System of Accounts
ESM	European Stability Mechanism
EFSF	European Financial Stability Facility
ECJ	European Court of Justice
FRL	Fiscal Responsibility Law
GDP	Gross Domestic Product
IMF	International Monetary Fund
MIP	Macroeconomic Imbalance Procedure
MS	Member State
LI	Liberal Intergorvernmentalism
NF	Neofunctionalism
HI	Historical Institutionalism
MTO	Medium-Term Budgetary Objective

OCA	Optimum Currency Area
SDP	Significant Deviation Procedure
TEU	Treaty on European Union
TFEU	Treaty on the Functioning of the European Union
TSCG	Treaty on Stability, Coordination and Governance in the EMU

Chapter I. Introductory remarks

Topic justification

As European citizen and student beneficiary of the generous support of the European Union, I desire to channel my experience and enthusiasm into this academic endeavour. Fully aware of personal constraints and the imperfect information I operate with, I nonetheless deploy the knowledge the Erasmus Mundus Joint Master Degree in European Politics and Society refined and merge it with my deep-seated, authentic passion for the European Union in an original and meaningful research. Within the EPS curricula, I found great academic potential and personal reasoning in studying fiscal convergence *in euro absentia*. Consequently, my thesis focuses on the furtherance of European integration on fiscal matters when a full-fledged fiscal union is rejected. Herein I focus on the budgetary positions of two Member States (MS [singular] and MSs [plural]) chosen as case studies. Nonetheless, investigating the remaining elements of a fiscal union – emerging banking union, joint debt issuance, collective crisis management mechanisms *inter alia* – is excluded. This selective analysis is explained by the inherent limitations of a master thesis, personal incomplete specialized knowledge, and the risk of topic "dilution" if the research delves into too many aspects in the same time.

The decision to bring non-euro MSs to the forefront of the research has multiple underlying motivations. Firstly, non-euro MSs are under-researched. The trove of literature on the emergence, evolution, and challenges to the European Economic and Monetary Union (EMU) is comprehensive. Alternately, the non-euro MSs – and in particular their budgets as a core element of the European macroeconomic governance – have received exponentially less academic attention. This results in a significant gap in the literature which aligns with my academic interest and is vast enough to allow for meaningful contributions. Furthermore, the non-euro MSs represent an assortment of vastly differing relations European countries have with the euro. As of February 2020, there are eight non-euro MSs: Bulgaria, Croatia, Czech Republic, Denmark, Hungary, Poland, Romania, and Sweden. Given data on budgets of all MSs is periodically and publicly issued and made gratuitously available on portals administered by European institutions, I avail of sizeable and statistically-accurate sources. Resultantly, investigating fiscal compliance *via* budgets in non-euro MSs is feasible due to the reliable and readily available information.

Secondly, by better understating the fiscal behavior of non-euro MSs, tendencies in European integration may be revealed. Looking at MSs' national budgets within a transnational framework based on EU-wide rules for fiscal discipline when a genuine fiscal union is missing might uncover valuable trends. On the one hand, a fiscal union has been deemed excessive, a sovereignty-threatening push for closer integration. On the other, the fiscal complement to the EMU is borderline indispensable for a genuinely functional monetary union. However, since non-euro MSs are not subject to the stringencies of the single currency, their fiscal behaviour makes for an even more interesting research focus. Is the EU membership without the constraints of the euro making them less fiscally compliant? Are the absence of the single currency and the alignment with EU-wide recommended fiscal practices completely unrelated? What if fiscal convergence occurs irrespective of the euro adoption prospects of a MS? In the end, no matter if the fiscal union is "nemesis" or "necessity", the sustainability of public finances manifested within the budgets of all MSs is vital for the resilience of the EU, hence, worthy of being studied.

Lastly, studying fiscal convergence bears potential for future additional research while also being related to my previous academic work. In these respects, in my Bachelor of Arts thesis, I examined the inevitability of further EU integration as caused by the sovereign debt crisis. Using the theoretical assumptions of Liberal Intergovernmentalism, Neofunctionalism, and Historical Institutionalism, I examined how the looming implosion of the Euro Area gave further impetus to EU-wide enhanced economic coordination. However, as some measures corresponding to a genuine fiscal union were politically unpopular (fiscal transfers spurring moral hazard) or not technically viable (required a country to partake the EMU), collectively disciplined budget-making became the lowest common denominator for all MSs. Ultimately, I became interested in what role the fiscal stances of non-euro MSs play in advancing or, alternately, halting European integration. In the end, studying the budgetary practices of euro and non-euro MSs can be of both academic value – hereby adding to the existing, yet fairly limited literature on the topic – and in praxis utility, should the findings stemming from this research serve policy-making purposes.

Research question and hypotheses

Did witnessing a monetary union without a fiscal counterpart almost failing make non-euro MSs embrace fiscal circumspection? Do non-euro MSs enact balanced budgets even if they reject the euro and have no need in complying with the debt limits of the Maastricht Convergence Criteria? Such rhetorical questions led me to the research questions on which this paper is based: “Is there fiscal convergence through budget-making in non-euro Member States? If so, is fiscal convergence influenced by a country’s status in the euro adoption process?” These questions delineate the timeline and loci of research. Chronologically, the thesis analyses budget-making in the aftermath of the 2008 financial and 2010 sovereign debt crises, in the context of ad hoc upgraded European macroeconomic governance. The loci of research are the MSs which do not use the single currency. Inasmuch as, I focus on the case studies of the Czech Republic and Romania within which I gauge indicators of fiscal convergence.

The research questions are grounded on a concise, yet fairly complex literature review. The first section delves in the literature regarding the causes, components, and criticism of fiscal unions. Based on authoritative scholars’ articles and books, together with reports issued by the European institutions, I attempt to define the optimal parametres for the emergence of a fiscal union. Alternately, I seek to discover why they are not attainable within the current EU. The second section looks into the European integration dynamics in a setting of crisis-to-cooperation. Inasmuch as, previous historical accounts where crises which almost led to collapse paradoxically consolidated the European project are tenuously referenced to. The herein analysed phenomena are meant to prove that further European integration is not just indicated, but inevitable. Thus, by interpreting these specific bodies of literature, I hope to find an explanation for a genuine fiscal union still not being possible, yet partial fiscal convergence happening nonetheless.

Furthermore, the research questions are complemented by research hypotheses:
"H1 – Cross-country dependencies and spillovers led to more integration in the form of the post-crises enhanced macroeconomic governance measures."
"H2 – Fiscal convergence in non-euro Member States due to enhanced macroeconomic governance occurs irrespective of the attitude of the country to euro adoption."

Firstly, H1 is subjected to the theoretical assumptions of Liberal Intergorvernmentalism (LI) on negative interdependence and those of Neofunctionalism (NF) concerning spillovers. I utilize LI and NF because they generated numerous writings on EMU and abundant post-2008 scholastic contributions concerning the sustainability of European (particularly economic) integration. I discuss the elements of LI and NF as potentially generating a composite theory that can explain meso-level phenomena (Hooghe & Marks, 2018:19) like the changes in budget-making canons across the EU. Simultaneously, I aim to minimise the academic bias by conflating LI and NF since both "can and should be mined for conflicting hypotheses that can be systematically tested against each other" (Hooghe & Marks, 2019:1128). Therefore, by looking at elements pertaining to two distinct theories, conceptual propositions of one theory that cannot be explained in praxis might be justified by the assumptions of the other theory. By doing so, theoretical gaps can be mutually covered while empirical phenomena receive complimentary explanations.

Secondly, H2 is tested by analysing the budgetary positions of the selected case studies – Czech Republic and Romania – through the lenses of the post-crises enhanced macroeconomic governance. The selection of the two case studies aims to be methodologically compliant, theoretically relevant, and empirically testable. The key indicators for fiscal convergence, herein represented by budget deficits and public debt, will be longitudinally observed. Likewise, the analysis concisely assesses the compliance tempo of the Czech Republic and Romania with the Maastricht Convergence Criteria, yet solely referring to the sustainability of public finances criterion and attitudes towards adoption of the single currency. In the end, if the hypotheses are confirmed, it can be speculated that irrespective of the relation a non-euro MS has with the euro, fiscal convergence happens and potentially gives impetus to more integration and, ultimately, to the creation of a genuine fiscal union.

Chapter II. Methodology

Methods

The outline of the thesis chapters reflects the successive testing of the two hypotheses. Firstly, there will be a literature review of materials discussing a potential fiscal union and crisis-engendered cooperation. Hereby, on the one hand, I try to uncover the rationale of establishing a full-fledged fiscal union and the reasons for which the EMU is still lacking one. On the other, I investigate why and how European cooperation paradoxically advances through crises. Secondly, I produce detailed descriptions of three mechanisms of macroeconomic governance: Stability and Growth Pact, Six-Pack, and the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. Their components and effects onto fiscal discipline across the EU will be in focus. The aforementioned mechanisms of macroeconomic governance are aggregately considered driver and manifestation of European integration in the context of a still rejected genuine fiscal union. Thirdly, the post- financial and sovereign debt crises integrationist dynamics are deemed inherent to these mechanisms and sought to be explained through the theoretical lenses of Liberal Intergovernmentalism and Neofunctionalism. Finally, should the theoretical assumptions confirm that these mechanisms of macroeconomic governance push for further integration with respects to fiscal matters, the second hypothesis can undergo testing.

The testing of the second hypothesis is an analysis of fiscal convergence indicators for a pair of non-euro MSs. By focusing on two cases only, I engage in intensive analysis, hereby delving in the complexity and particular nature of the cases (Stake, 1995). This becomes a comparative design which "entails studying two contrasting cases using more or less identical methods. In addition, it embodies the logic of comparison implying that we can understand social phenomena better when they are compared in relation to two or more meaningfully contrasting cases or situations" (Bryman, 2012:72). Resultantly, this comparative approach allows "to seek explanations for similarities and differences or to gain a greater awareness and a deeper understanding of social reality in different national contexts" (Hantrais, 1996:25). Moreover, the intensive nature of the case studies enhances my sensitivity to the underlying factors behind the operation of observed patterns within a specific context (Buchanan et al., 2009). Therefore, this dual-case study permits me to examine the operation of the generative causal mechanisms in contrasting, respectively similar contexts while connecting the case study findings to the assumptions of the theoretical chapter (Bryman, 2012:74-75). As far as the taxonomy of the cases is concerned, I use the revelatory case study to observe and analyse a lesser explored phenomenon (Yin, 2009:48).

The order of the research phases is impacted by the theory-methods interrelation. On the one hand, the research process is inductive. Firstly, the theoretical framework defines the boundaries of the potential findings. Secondly, the collection and interpretation of the budget-related information for the case studies can confirm or debunk the results prognosticated by the theories. This inductive process entails "analytic generalization" (Yin, 2009:50) or "theoretical generalization" (Mitchell, 1983). In other words, the case studies are meant to be the application domain for the confirmation or rebuttal of the theoretical assumptions. Ultimately, if the relation theory-case study is validated, then the methodology led to the conclusions. On the other, the research is multi-method. In order to insulate from sources' biases, I employ triangulation. In this sense, I combine methods and data sources as follows: qualitative methods represented by case studies and quantitative methods stemming from secondary data, herein mainly official statistics. Nonetheless, I resort to both simultaneous (whereby the qualitative questions do not compulsorily relate to or confirm the results of the quantitative analysis within the case studies) and sequential triangulation (where the results of the first phase of the research unlock the second one) (Clarke, 2005). As far as the research design is concerned, the thesis structure is moulded onto a qualitative format akin to that proposed by Creswell (Creswell & Creswell, 2018):

- Introduction
  - reasoning of the study
  - research question and hypotheses
- Procedure
  - descriptive account of the mechanisms of macroeconomic government
  - theoretical assumptions of LI and NF
  - theory application
  - intensive case studies
  - interpretation of findings
- Annexes

Notwithstanding, the research is not bereft of shortcomings. Firstly, in relation to the topic of interest, the quality of my theoretical research might be affected by the elusiveness of the notion of "fiscal union" and the real-time alterations within the EU. To minimise the risk of anchoring the research in "thin" theory, I use Liberal Intergovernmentalism and Neofunctionalism as reliable theories to explain the commencement and continuation of European integration. Thus, I proceed cautiously in expanding the theoretical framework beyond them. Secondly, there is criticism underlying the research design. On the one hand, case studies have restricted external validity (Bryman, 2012:71) which can be conducive to the "academic sin" of generalization. Inasmuch as, the differences pinpointed throughout the analysis of the cases may not be singularly attributed to the distinguishing features arbitrarily attached or empirically discovered in the cases. Therefore, justifying contrasts commands due caution (Idem:74). Furthermore, multiple-case study research is contested because the researcher might specifically seek the ways in which the cases contrasts – hereby serving the pre-determined focus of the research – doing so to the detriment of the specific context in which the cases are set (Dyer & Wilkins, 1991). Lastly, the singularity and significance of the cases might become apparent in too late of a research stage. Therefore, looking at the cases at hand might seem redundant or irrelevant at times.

Key concepts and indicators

To scale down the vast European fiscal dynamics within non-euro MSs to an academically approachable topic, I use concepts as categories for the organisation of ideas and observations. Hereby the concepts become "the building blocks of theory and represent the points around which social research is conducted" (Bryman, 2012:163) and permit measurement. By measuring, the differences between the concepts can be determined using consistent, replicable yardsticks, ultimately allowing to estimate the degree of relationship between concepts (Idem:164). Within my research, the core concept is that of fiscal convergence. Fiscal convergence rests on fiscal discipline which "requires that governments maintain fiscal positions that are consistent with macroeconomic stability and sustained economic growth" (Kumar & Ter-Minassian, 2007:2). Inasmuch as, three budgetary positions ensue from the spending rationale of a sovereign government: balanced (estimated government expenditure is equal to expected government receipts), surplus (expected government revenues exceed the estimated government expenditure), and deficit (estimated government expenditure exceeds the expected government revenue) (Economic Times, 2020).

Nonetheless, to render the concepts quantifiable in order to operationalize them, I work with fiscal convergence indicators. Theoretically, indicators are "precise definitions of any social phenomena in empirical terms ready for data collection" (Payne & Payne, 2004:117). In praxis, the key indicators utilized in this research are, as defined within the European Central Bank Glossary:

- budget balance = net lending/borrowing of the general government sector corresponding to the difference between total government revenue and total government expenditure;
- deficit = ratio of the planned or actual government deficit to GDP at current market prices, defined as net borrowing of the general government;
- debt = ratio of government debt to GDP at current market prices, defined as total gross debt at nominal value outstanding at the end of the year and consolidated between and within the sectors of general government.

For the EU specifically, the general government deficit is the "net lending (+)/net borrowing (−)", which is equal to "total revenue" minus "total expenditure" (ESA, 2010). Herein, the Gross Domestic Product (GDP) at current market prices is used to compute government debt and deficit ratios. Fiscal convergence in terms of prudent budgetary practices refers to the simultaneous compliance of non-euro MSs to fiscal provisions as set by: treaties (periodical reporting on the fulfillment of the EMU criteria *via* Convergence Reports, imposition of corrective actions within the EDP), secondary legislation (SGP and its regulatory updates to speed up the execution of the EDP and enhance fiscal surveillance), or intergovernmental agreements (fiscal rules required by the TSCG transposed into MS national legislation). To gauge fiscal developments, key indicators are used for sustainability (target longitudinal challenges for the government finances and focus on the links between deficit and debt evolution), effectiveness (expressed by the attainment of MTO and expenditure benchmarks), and correction (denoted by the observance of the debt reduction benchmark). Herein, the medium-term fiscal strategy of the MSs (outlined in their Convergence Programme) is observed. Special attention is paid to meeting of MTOs (as set by SGP and amended by Six-Pack) and the fiscal outlook for the debt ratio on the basis of current fiscal policies.

Data sourcing

In order to intensively research the case studies, data analysis must be executed. Notwithstanding, to efficiently process the data, the information has to be reduced within the limits prescribed by the theories of choice. The thesis relies on secondary data collected by other researchers, mainly information provided in official statistical reports and periodical technical assessments. In the context of my thesis, employing secondary analysis presents notable advantages: cost- and time-effectiveness, provision of high-quality data, opportunity for longitudinal analysis, and additional revelatory potential through reanalysis, *inter alia* (Dale et al., 1988). A particularly valuable feature of official statistics as a secondary data source is their lack of reactivity due to them being an unobtrusive method. (Denzin, 1968:502-504). However, there are downsides to secondary data as well: lack of familiarity with the data, complexity of the data, no control over the quality of the data, etc. (Dale et al., 1988).

To gather data, I refer to the national budget plans of individual MSs according to the European System of Accounts and interpret the data through the SGP as reinforced by the Six-Pack, respectively the TSCG. In the context of supranational budgetary surveillance, to allow for cross-MSs sound and reliable analyses, the Convergence Programmes are especially helpful since they contain comparable data, conceptualized pursuant to European standards, despite describing wildly differing country profiles. Thus, the Programmes contain "the fully-fledged multi-annual macroeconomic scenario, projections for the main government finances variables and the relevant components, and a description and quantification of the envisaged budgetary strategy" (ECOFIN Council, 2016:17-18). Ultimately, the European Semester will serve as the analysis timeframe, herein looking at the following elements which inform on the fiscal stance of the MSs:

• Country Reports – extensive country-by-country assessments of the progress on structural reforms, prevention, and correction of macroeconomic imbalances;
• Country Specific Recommendations (CSR) – documents that provide an analysis of each MS economic situation and recommend measures on maintaining sound public finances;
• Stability and Convergence Programmes – mandatory three-year outline of the fiscal plans of all MSs based on the SGP. They are supplemented by the annually issued Assessment of Stability Programmes and Convergence Programmes within which the Commission gauges compliance as per the annual economic governance cycle within the EU.

Chapter III. Literature review

Disunited on a fiscal union

When the *sui generis* EU faced the 2008 financial and 2010 sovereign debt crises, it became patently evident that allowing the single currency to fail is inadmissible (Eichengreen, 2012). Simultaneously, the crises proved that wielding a single currency bereft of tight fiscal scrutiny is borderline disastrous. Herein the case of Greece serves as an infamous example: the vitiated governance of the Euro Area and the Greek fiscal laxity led to severe systemic instability across the EU (Featherstone, 2011:210-212). As for this, the academic debates on fiscal unions have been abounding ever since the emergence of the EMU. Theoretically, a fiscal union is necessary as underpinned by the Optimum Currency Area theory (Thirion, 2017:10-12) to counter asymmetric shocks *via* fiscal discipline and debt redemption (Hafner & Jager, 2013:320-322). In praxis, a fiscal union would have to overcome spiraling debt and structurally feeble economic systems in multiple MSs (Balassone et al., 2014:19-20), while entrenching its multi-tier features: I. fiscal rules, policy coordination, and supervision; II. a crisis resolution mechanism; III. joint guarantee for government debt; IV. fiscal equalisation and other mechanisms for transfers between countries; and V. a EU budget and European taxes (Fuest and Peichl, 2012: 2-8).

Speculative effects of a fiscal union refer to allocation, redistribution, and stabilization functions of fiscal policy (Furceri, 2006), fiscal incentives versus quantitative easing in stimulating investment (Feldstein, 2015), European investment programmes stimulating economic growth over their national counterparts (Drèze & Durré, 2014:10-12), and fiscal policies countering cyclical variability in non-euro MSs as opposed to Euro Area countries (Staehr, 2008), *inter alia*. Nevertheless, such potential positive outcomes are disputed fiercely. For instance, it is argued that national fiscal policies might yield better results than a prospective fiscal union since the former preserve agents' accountability, diminish opacity of practices, and can avoid the "common pool" problem in public finances (von Hagen, 2012:65-71). Similarly, reform ought to target national fiscal policies over the allegedly "not savable" supranational endeavours to generate economic coherence (Eichengreen, 2005:20). Moreover, the Eurobonds are questionably adequate when MSs have greatly differing debt sustainability levels (Ahmad & Fanelli, 2014:297-302) and there lingers the moral hazard of debt mutualization. Finally, excessive idealism is dubbed as fruitless since "those who claim that only a full federation would be sustainable set the bar too high" (Draghi, 2012).

Consequently, a full-fledged fiscal union seems to remain economically unattainable and politically rejected for the foreseeable future. However, in the immediate aftermath of the crises, the EU had to decide between the Surveillance Model and the Classical Fiscal Federalism Model to steer its multilevel fiscal governance. Since the Federalist approach implied significant transfers of power, extensive institutional reforms, and left out the non-euro MSs, the Surveillance Model was favoured. Inasmuch as, the Surveillance Model is geared to permit natural progression in EU rules, having economic discipline at the forefront and the EU as its enforcer (Hinarejos, n.d.). With hindsight, daring calls for greater integration ensued: "A blueprint for a deep and genuine Economic and Monetary Union launching a European Debate", the Report by President of the European Council Herman Van Rompuy "Towards a genuine Economic and Monetary Union", and the Five Presidents' Report "Completing Europe's Economic and Monetary Union". Notwithstanding, their leitmotiv is strengthened economic and budgetary policy integration by means of fiscal discipline. In other words, a fiscal union has been advocated for, yet idealistic aspirations for a mature fiscal union were held in abeyance.

In these regards, the EU produced a compromissory solution to bypass the wide-spread discontent regarding a too premature and politically quixotic fiscal union. Since the financial and sovereign debt crises proved the deleterious effects of incomplete supranational fiscal coordination, calls for a more potent Economic, not just Monetary Union were made, with a "new focus on debt dynamics and the sustainability and quality of public finances, including national fiscal rules" (Rehn, 2010). Concisely, "EU's [new] economic governance strategy is based on three pillars; strengthening of SGP, enhancing macroeconomic coordination within EU and harmonisation of national budget frameworks of MSs" (Yurtsever, 2011:691). Ergo, fiscal discipline *via* budgetary orthodoxy became dauntingly necessary and a course of action consented to by most MSs. Accordingly, the EU commenced developing and implementing variegated enhanced mechanisms of macroeconomic governance, hereby admitting that the very survival of the EU may as well depend on the systematization and synchronization of budgets.

Therefore, understanding the furtherance of European integration by means of fiscal convergence is critical for the future of the EU. Inasmuch as, budgetary rules have come to play an instrumental role by discouraging budgetary slippage in MSs, hereby combating potential spillovers from irresponsible fiscal policies (Langenus, 2005:66-67). Yet, budgetary rules had to be astutely crafted to fortify economic convergence within the EU while simultaneously accounting for the idiosyncratic fiscal stances in the MSs. On the one hand, the EU was pressurized into coining budgetary rules defined by operational simplicity, flexibility, growth-orientation, accountability, and transparency (Kopits, 2001:67-74). On the other, EU had to ensure that the new fiscal framework will deliver in lowering debt-to-GDP ratios while shoring up credibility and avoiding an overly mechanistic application. So, to understand post-crises potential fiscal convergence, I investigate three budgetary discipline enhancers: Stability and Growth Pact, the Six-Pack, and the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union.

Changing crisis into cooperation

"*Europe will be forged in crises, and will be the sum of the solutions adopted for those crises*" (Monnet, 1978:417). A recent context for progress was engendered by the financial and sovereign debt crises which set in motion EU's dormant integrationist forces. Throughout the evolution of the European project, the literature on crises burgeoned. In these respects, attaching positive outcomes to historical predicaments is most prominently argued for by Philippe C. Schmitter. In his model of crisis-induced decision-making cycles, "good" crises prompt transcending cycles that are to ultimately mutate the economic union into a political one (Schmitter, 1971). Based on his theory – since occurring in a *sui generis* regional constellation of national sovereigns that are voluntarily integrated and face crises-induced causal complexity and unanticipated consequences – MSs are challenged by outcome unpredictability and costs and benefits attached to alternative courses of action (Schmitter, 2012:39). Simply put, the very unique integration dynamics of now the EU compel its MSs to embark onto ever more cooperation. In other words, the only options MSs are left with are either gradual total integration or sudden total disintegration.

Historically, aversion to further sovereignty transfers has been pervading European politics since the 1990s. Nonetheless, the opposition of MSs to "any intrusive European control in the field of economic policy has created conditions that allowed a series of drifts to go either unnoticed or unsanctioned, thereby facilitating the eruption of the sovereign debt crisis" (Dehousse, 2019:22). As a result, despite centrifugal tendencies and criticism targeting Brussels's ramped-up meddling into MSs' economic practices, intergovernmentalism has been revitalized as the post-Maastricht *modus operandi* (Dehousse, 2019:22), herein epitomized by the Treaty on Stability, Coordination and Governance. Moreover, the incomplete EMU operating within a multi-principal system where authority and accountability is atomized between the core European institutions (Dehousse, 2008:791-797) was conducive to a boost in supranational coordination. This is best reflected by the Commission being entrusted with extended prerogatives as the enforcer of fiscal discipline and supervisor of compliance through the updated SGP and the complementary provisions enshrined in the Six-Pack.

To further explain such integrationist shifts, the financial and sovereign debt crises challenged the institutional expectations of the MSs and prompted them "to redefine either the tasks or the level of authority (or both) of regional organizations by reaching a collective agreement that would «spill over» into previously mistreated or ignored policy areas" (Schmitter, 2012:40). Theoretically, the national actors should ultimately aim for "institutionalizing at the supranational level the mechanisms of planning, budgeting, and taxation characteristic of a federal government" (Schmitter, 2012:40). In addition, there are change-producing difficulties: I. existent alternatives in a supranational bargaining process are inherently different from national level negotiations, II. policies are almost surely to spawn unintended consequences, and III. the European project has been perpetually renewing its overriding goal (Schmitter, 2012:39). Thus, when the financial and sovereign debt crises unfolded, "collective reactions to crises by national actors have led to an increase in the authority and/or an expansion of the tasks of the institutions of the EU and its predecessors" (Lefkofridi & Schmitter, 2014:4).

Moreover, the financial and sovereign debt crises were inherently unique and posed intractable repercussions if left unaddressed. Since the European project has been devised as "a forward-looking organisational project, never as a quick fix to pressing problems" (Parsons & Matthijs, 2013:3), the crises forced the MSs into a double uneasy acknowledgement. Firstly, inaction would have caused imminent cross-country deleterious effects. The decades of incomplete macroeconomic governance and unruly fiscal behaviour of the individual sovereigns showcased how functionalist pressures sowed the seeds of both the crises and its resolution (Parsons & Matthijs, 2013:13). Likewise, the same crises prompted the EU to have its first standoff with the panic-driven financial markets whose confidence was sought to be restored irrespective of the costs (Grauwe & Ji, 2013:31). Aggregately, the institutional incompleteness and recklessness of the financial markets resulted in an uneven and cumulative impact, the crises "striking some distinct group of members in multiple dimensions with particular force and leaving the others relatively unaffected or, worse, relatively better off" (Lefkofridi & Schmitter, 2014:11). Hence, these crises were authentically transformative upheavals proving they "could precipitate [either] fundamental institutional change in the EU or its demise" (Webber, 2013:347).

Secondly, the crises warranted necessary a host of actions which expelled "the EU from its technocratic comfort zone due to the explicit politicization of European decision-making" (Lefkofridi & Schmitter, 2014:13). By upgrading the European macroeconomic governance, MSs were relegated while the Commission or the Council saw their prerogative revitalised, especially concerning control over national fiscal policy. As a consequence, the expanded delegation of competences to supranational actors "would transfer a very substantial set of new competences to the EU level, thereby enhancing the role for EU institutions in such sensitive policy areas as public expenditure, revenues, and borrowing" (Lefkofridi & Schmitter, 2014:8). Ergo, though "national politicians were explicitly expected to reject further extensions of regional competence because these increments would threaten their acquired status and undermine their historical importance" (Lefkofridi & Schmitter, 2014:14), the crises revealed that domestic and regional politics are intertwined and further integration had to be acquiesced to by national leaders because it was not an option, but the only way to avert an implosion of the EU.

Thus, the financial and sovereign debt crises seem to bear the potential of being "good" crises for Europe. The crises proved that the heterogeneously developed monetary and economic unions are deeply flawed and will likely foment future upheavals. Yet, these crises can make the current cycle the transcending one, a cycle where MSs are "compelled to consider major extensions of scope and authority in favor of fiscal and banking unity" (Lefkofridi & Schmitter, 2014:4) as preambles to a complete political union. Notwithstanding, despite the stronger oversight of national budgets by a cluster of bolstered supranational institutions, this is not inherently sufficient to permanentize fiscal righteousness (Parsons & Matthijs, 2013:17). In praxis, the crises produced a concoction of results: “build-up (e.g. the role of the ECB), spill-around (e.g. fiscal policy), and retrenchment (e.g. the European Stability Mechanism)” (Lefkofridi & Schmitter, 2014:18). Yet, such eclectic measures may as well have produced more uniformity in fiscal stances across MSs. In the end, to the extreme, there even lies the argument that budgetary federalism has been unlocked by the crises, the evolution towards federalism being inexorable since the “European governments have accepted, rather than chosen, the inevitable” (Amato & Mény, n.d.:50).

All in all, this schematic literature review shows that the design of the EMU warrants necessary a fiscal union, but the current circumstances make it either technically unattainable or politically undesired. However, some authors pertinently made the case for some sort of fiscal complement to the EMU if the latter is to withstand future crises. To this extent, the call for a fiscal union – in one form or another – becomes even more pressing after reviewing the literature on crises. Given crises are repetitive and unavoidable precisely due to the imperfect nature of integration, the EU has strong incentives to continue consolidating its cooperative efforts. Moreover, after establishing that the project of European integration has been relying on the crisis-to-cooperation “mantra” ever since its beginning, the financial and sovereign debt crises of the 21st century can be labeled for the purpose of this research as drivers of further integration. By doing so, the mechanisms of enhanced macroeconomic governance become the manifestation of how crises cause more cooperation. Simply put, analysing the mechanisms of enhanced macroeconomic governance might explain why post-crises fiscal convergence happens even when a fiscal union is not wanted.

Chapter IV. Post-crises fiscal status quo

Piecemeal fiscal convergence

Stability and Growth Pact: deficit corrections, debt thresholds, and budgetary timelines

Budgetary discipline is coterminous with the signing of the Treaty on European Union – colloquially Maastricht Treaty – establishing the Economic and Monetary Union of the European Union (TEU, 1992:27-29). Herein the limits of 3% for the ratio of deficit to GDP, respectively 60% for debt became *sine qua non* for adopting the single currency. In 1997, a resolution passed by the European Council launches the Stability and Growth Pact (SGP) (Council of EU, 1997) in a bid to "strengthen the monitoring and coordination of national fiscal and economic policies to enforce the deficit and debt limits established by the Maastricht Treaty" (European Commission, 2018a). Legally founded on the Treaty on the Functioning of the European Union (TFEU) Article 121 on multilateral surveillance (TFEU, 1997a) and Article 126 on Excessive Deficit Procedure (EDP) (TFEU, 1997b), the SGP henceforth became a bundle of periodically upgraded resolutions in the European secondary legislation. In 1998, the SGP was amended with preventive rules (preventive arm) to forestall deviations from the TFEU-enshrined limits for deficit and debt. As a result, it strengthened the surveillance of budgetary positions and coordination of economic policies. In 1999, corrective rules (corrective arm) to speed up and clarify the implementation of the EDP established a mechanism for promptly rectifying divergent deficits.

However, throughout its first years of enforcement, it became evident the SGP was fraught with fault lines: generated an inorganic mix of monetary and fiscal policies (Bofinger, 2003), was too weak to effectively address regional cyclical imbalances across the entire EU (Canzoneri & Diba, 1999), displayed institutional impotency concerning implementation (Bacho, 2009), boasted too feeble enforcement mechanisms (Haan et al., 2004), and allowed for breaches by France and Germany. Subject to mounting criticism, the SGP soon became the target of extensive revision based on allegations that it stifles budgetary flexibility, works asymmetrically, fails to sanction politically-motivated fiscal policies, discourages debt-fueled public investments, disregards the aggregate fiscal stance of the EU, and emphasises short-term commitments to the detriment of structural reforms (Buti et al., 2003:9-11). Consequently, the SGP underwent two revisions.

Firstly, in 2005, the Council of the European Union reformed it, on the one hand, to strengthen surveillance and coordination (Council of EU, 2005a) and, on the other, to further clarify and expedite the execution of the EDP (Council of EU, 2005b). Secondly, in 2011, the SGP was extensively overhauled *via* the Six-Pack.

The SGP "toolbox" for constructing a supranational economic union contains "thresholds" and "timelines". SGP's universal "threshold" to prevent imprudent debt accrual is the triennially-updated Medium-Term Budgetary Objective (MTO) (European Commission, 2018b). The MTO is the crux of the preventive arm of the SGP, depict the cyclically-adjusted general government budget position and "I. provide a safety margin with respect to the 3% of GDP deficit limit; II. ensure sustainability or rapid progress towards sustainability, and III. allow room for budgetary manoeuvre" (European Commission, 2019e:7). Also, the MTO "indicates the budgetary position in structural terms that provides a safety margin against breaching the 3% of GDP deficit criterion in normal economic cyclical fluctuations" (Idem:10). Yet, pursuant to the call for enhanced flexibility, within the revised SGP, "MTOs are differentiated for individual MSs to take into account the diversity of economic and budgetary positions and developments as well as fiscal risk to the sustainability of public finances" (ECOFIN Council, 2016:4). Resultantly, benchmark-led fiscal adjustments towards MTOs were introduced under the preventive arm. Now, the SGP is based on "cyclical modulation [which] encourages MSs to increase their fiscal effort in good times to make our economies more resilient" (European Commission, 2018c).

Furthermore, MTOs serve as compliance yardsticks within the SGP "timelines": if the adjustment path is derailed from, MSs are subjected to the preventive Significant Deviation Procedure (SDP) (European Commission, 2019f). The SDP (Annex 1) is an enhanced surveillance regime and a pre-EDP remedial step activated due to deviations (Annex 2) in view of timely addressing deficits and returning to the adjustment path (European Commission, 2019e:37). The failure to comply with the SDP triggers the EDP, the corrective arm of the SGP. The EDP is established by TFEU Art. 126 and its encompassing Protocol no. 12 and was sequentially upgraded to reflect the need for augmented surveillance, differentiated approaches towards MSs, and expedite intervention (Idem:39-42). EDP is reliant on peer pressure and sanctions "in order to dissuade governments from incurring unsustainable deficits" (ECB, 2003:58). In praxis, the EDP is biphasic: firstly, there is a European Commission report-based assessment determining if reference values are exceeded and there is a risk of excessive deficit. The Council is notified to evaluate the situation and subsequently confirm/refute the risk. Should excessive deficits be identified, they are conducive to a correction timeline. Secondly, the MS under EDP must act on the corrective measures. If remedial actions are timely and sufficient, the Council halts the EDP (Annex 3). Alternately, failure to comply results in sanctions as a non-interest-bearing deposit of up to 0.5% of GDP that could turn into a fine if excessive deficits persist (Ibidem).

Within the same "timelines", MSs are under the obligation of submitting three-year budget plans in the form of Stability (for Euro Area countries) or Convergence Programmes (for non-euro MSs). These are "at the basis of the Council's surveillance of budgetary positions and its surveillance and co-ordination of economic policies" (ECOFIN Council, 2016:17); herein MSs outline their MTOs. Resultantly, MSs which do "not follow the appropriate adjustment path will explain the reasons for the deviation in the annual update of their Stability/Convergence Programme" (Idem:6). The submission and assessment of the Programmes occur within the European Semester as the annual cycle of economic policy coordination across the EU (Annex 4). Operational from January 2011, this is an instrument for ex ante policy coordination which ensures the "timing of the various surveillance processes is aligned to ensure consistency, while they remain legally and procedurally separate" (ECB, 2012a:80-95). Lastly, in 2015, cyclical modulations of required budgetary adjustments were permitted, structural reforms became conditional on scope, long-term budgetary impact, respectively degree of implementation, and the European Fund for Strategic Investments was established (Council of EU, 2015). After these amendments, the SGP accommodated country-specific measures, extended the deadline for the correction of the excessive deficits, generated customized MTO expenditure benchmarks, and became more permissive of deficit-demanding circumstances (Afonso & Alves, 2009:855-858).

Aggregately, the aforesaid reforms testify to the institutional awareness of the EU concerning the necessity for a more flexible SGP, with the ultimate aim of producing and preserving stable and sustainable fiscal positions across all its MSs. Overall, the current SGP considers the distinct macroeconomic paces of MSs while it "contains sufficient flexibility to accommodate an unexpected drop in economic activity and has the margins needed to finance structural reforms" (Micossi & Peirce, 2014:1). As a result, after years of only the Euro Area countries benefitting from a formal legislative framework within which to align their budgets (European Commission, 2014), the revamped SGP could offer the non-euro MSs a milieu to orderly coordinate their fiscal stances. Inasmuch as, in all MSs, a more harmonised fiscal policy *via* fortified budgetary discipline can preclude pro-cyclical policies and contribute to attaining sufficient and sustainable budgets. Consequently, such circumspect budgetary practices would give leeway "to accommodate economic downturns and reduce government debt at a satisfactory pace, thereby contributing to the long-term sustainability of public finances" (ECOFIN Council, 2016:5) even in the absence of a full-fledged fiscal union.

Six-Pack. Upgrading fiscal surveillance

In 2011, the Six-Pack was created as a supranational crisis prevention tool to complement the SGP. Being the product of a high-level taskforce ordered by the European Council at the onset of the European sovereign debt crisis, the Six-Pack was jointly adopted by European Council and the European Parliament on December 13, 2011 (Streel, 2013:338). It encompasses legislative proposals to tighten further consolidate the policy coordination demanded by the European Semester and the Stability and Growth Pact, herein entailing five regulations and one directive:

1. Regulation (EU) No. 1173/2011 of the European Parliament and of the Council of November 16, 2011 on the effective enforcement of budgetary surveillance in the Euro Area;
2. Regulation (EU) No. 1174/2011 of the European Parliament and of the Council of November 11, 2011 on enforcement measures to correct excessive macroeconomic imbalance in the Euro Area;
3. Regulation (EU) No. 1175/2011 of the European Parliament and the Council of November 16, 2011 amending Council Regulation (EC) No. 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies;
4. Regulation (EU) No. 1176/2011 of the European Parliament and of the Council of November 16, 2011 on the prevention and correction of macroeconomic imbalances;

5. Council Regulation (EU) No. 1177/2011 of November 8, 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure;
6. Council Directive 2011/85/EU of November 8, 2011 on requirements for budgetary frameworks of the member states (European Commission, 2011a).

Firstly, the Six-Pack sought to remedy the insufficient leverage of the SGP since the latter's "institutional and economic framework was not formed in a way to incentivize reaching good budgetary position during economic times of prosperity" (Babic, 2015:16). Prior to the Six-Pack, the SGP was a coordination instrument targeting exclusively the fiscal policy metric of governments' debt and limiting deficits, its proven major deficiency being its inability to effectively enforce fiscal discipline. Moreover, the SGP was too feebly enforced, its efficacy being severely impeded by the lack of automatism in enacting corrections (ECB, 2012b:81-82). To address these operational deficiencies of the SGP, the Six-Pack introduces an expenditure benchmark on the MTOs of the MSs. The benchmark dictates a ceiling for the annual growth of a country's expenditure, requiring MSs to have MTOs pursuant to budgetary targets defined in accordance with market conditions and economic cycles.

Secondly, the Six-Pack demands surveillance of fiscal and economic policies within the European Semester, thus "strengthening the EU dimension in national policy making" (Catania, 2011:4). Specific requirements on the budgetary procedures of the MSs – targeting the accounting systems, budgetary forecasting practices, fiscal relations between different levels of government, multi-annual budgeting perspective – are set in place. In addition, the Six-Pack introduces "a Macroeconomic Imbalance Procedure based on an early-warning system and enforcement regime, allowing the Commission and the Council to insert preventive recommendations in the country-specific recommendations, before the imbalances of a MS become too large, or if this fails, to open an Excessive Imbalance Procedure and oblige it to follow a corrective action plan" (Delivorias, 2014). In these respects, the Excessive Imbalance Procedure involves an early warning system based on a scoreboard of indicators which also establish the legal grounds for preventive and corrective actions, including the possibility of financial sanctions (European Commission, 2019g).

Lastly, the Six-Pack preserves elements of the SGP proven efficient and revamps the less effective ones. For instance, the Six-Pack keeps the EDP hinged on the debt criteria of 3% of GDP ratio for the deficit and 60% ratio for the debt, as defined by the Maastricht Convergence Criteria. Ultimately, the Six-Pack measures which engender fiscal discipline across all MSs are conducive to fulfilling the criteria for euro adoption. Consequently, while being primarily concerned with fiscal orthodoxy, the current non-euro MSs progress in prospectively joining the monetary union. In addition, to reinforce the consequentiality of non-compliance, the Six-Pack prescribes financial sanctions up to 0.5% of the GDP, yet solely for the Eurozone countries (European Commission, 2011b). Ultimately, to reduce potential decisional deadlocks over sanctioning, the "reverse qualified majority" voting procedure is herein applied, making the corrective capacity of the Six-Pack more expeditious and easily enforceable. *In nuce*, the aim of the Six-Pack is that of "reducing macroeconomic imbalances and ensuring the viability of national finances through either preventive or corrective actions" (Delivorias, 2014), hereby strengthening the SGP's preventive prescriptions and fortifying its corrective clout.

After "defying the little appetite among Member States for more integration in the fiscal policy making" (Pisani-Ferry, 2010), the Six-Pack placed a new premium on the sustainable public finances of the MSs and revitalised the SGP. Firstly, the regulations streamlined the attainment of MTOs through the new expenditure rule and expanded surveillance so as to cover macroeconomic imbalances. Secondly, the "directive on national budgetary frameworks constituted the first step to decentralise fiscal governance, whilst the European Semester was a first step towards *ex-ante* coordination of national budgets" (Catania, 2014:6). After all, despite being degraded sometimes as "too little, too late" (Ibidem), the Six-Pack may as well have been the best common denominator among "Member States not willing to accept more fiscal integration than the minimum necessary to address the crisis" (Ibidem). Therefore, while still leaving fiscal policies under the remit of the individual sovereigns, the Six-Pack was a compromise solution relying on institutional reforms at national level. Alternately, in the absence of a strictly-enforced fiscal discipline across the EU, MSs would continue to have divergent budgetary strategies, hereby flaring susceptibility to asymmetric shocks in the absence of a full-fledged fiscal union.

Treaty on Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. A legally-binding Fiscal Compact

Throughout the past decade, the EU executed the most extensive consolidation of its macroeconomic governance, the reinforcement of the SGP and the emergence of the Six-Pack *inter alia*. Nonetheless, though these measures instilled more fiscal discipline across MSs, the fiscal conduct of individual MSs remained in a regulatory gray area. In these respects, MS continued arbitrarily interpreting and applying the budget-related measures prescribed by the existing mechanisms of macroeconomic coordination. As a consequence, the resulting fiscally-disparate stances have been building up unsustainable debt. Hence, when the financial and sovereign debt crises showed how mismanaged European macroeconomics were, immediate fiscal corrections and long-term fiscal circumspection in all MSs were warranted. Ultimately, this "created the political willingness to support steps towards further strengthening the economic union to make it commensurate with the monetary union" (ECB, 2012a:80).

As a result, on March 2, 2012, the Heads of State or Government of all EU MSs signed the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG). The TSCG entered into force in January 2013, with the signatory MSs being "Contracting Parties". The TSCG has a three-pronged mission: "(1) ensure national budgets are balanced or in surplus, (2) boost the impact of recommendations made by the European Commission when Euro Area countries' public deficits become too large, and (3) improve coordination of national economic policies" (EUR-Lex, 2014). The critical components of the TSCG are: Title III: Fiscal Compact, Title IV: Economic Policy Coordination and Convergence, and Title V: Governance of the Euro Area. Inasmuch as, the TSCG incorporates an element of an unprecedented scope: a Fiscal Compact mandating the introduction of a compulsory, ideally constitutionally-binding balanced budget rule. Likewise, the Fiscal Compact includes an automatically triggered correction mechanism at the national level and reinforces the automaticity of the EDP as defined within the SGP (ECB, 2012a:79).

Firstly, by ratifying the TSCG, the Contracting Parties are obliged to transpose the balanced budget rule into their national legal systems, preferably as permanent constitutional provisions (TSCG, 2012:11). Observance of this rule should result in an annual structural balance aligned with the country-specific MTO or "to be heading towards them by adjusting their structural budgetary positions at a rate of 0.5% of GDP per year as a benchmark" (European Commission, 2018b). Resultantly, those MSs whose general government debt exceeds 60% of GDP must reduce the debt at an average of 1/20 per year (TSCG, 2012:14), exceptions being accounted for. On the one hand, where the ratio of debt to GDP is beneath the 60% threshold – thus indicating fiscally-sound and risk-low public finances – a leeway of 1%, instead of 0.5% on MTO is permitted (Idem:12). On the other, the Fiscal Compact allows for temporary deviations under exceptional circumstances, for instance, bouts of economic downturn or occurrences which undermine the financial position of the MSs (Idem:11). In addition, to tackle any potential persistent, severe MTO deviations, the balance budget rule entails an automatically triggered correction mechanism (Idem:12). Moreover, this correction mechanism is fortified by national independent institutions, herein fiscal councils tasked with monitoring compliance in all Contracting Parties (European Commission, 2017:2).

Secondly, the Fiscal Compact aims to reinforce the EDP. To this extent, the Fiscal Compact confers more automaticity to the EDP in Eurozone countries than the previous EDP overhaul *via* the Six-Pack did. Also, the Fiscal Compact imposes the novel request of submitting "budgetary and economic partnership programmes, including a detailed description of structural reforms, the aim being to ensure an effective and durable correction of the excessive deficit" (TSCG, 2012:14). The aforementioned partnership programmes are filed with the Council of the European Union and to the European Commission within the processual logic of the SGP. Moreover, the Fiscal Compact demands *ex ante* reporting of public debt issuance plans to the Commission and the Council (Idem:15), which should allow for "a better coordination of debt financing among Contracting Parties and in any case help to increase the transparency of governments' debt management strategies" (ECB, 2012a:84).

Lastly, the Fiscal Compact prescribed punitive measures should EDP remedial prescriptions fail to be followed. If a Contracting Party fails to act upon the EDP measures, the other Parties can bring the breaching MS to the European Court of Justice (ECJ). Depending on the ECJ judgement, there is a timeline for corrections to be carried out or, alternately, financial sanctions are imposed (lump sum/penalty payment not bigger than 0.1% of that country's GDP) (TSCG, 2012:16). For Euro Area countries, "the proceeds of such a fine will be transferred to the European Stability Mechanism and for all other contracting parties to the EU budget" (ECB, 2012a:83). The levying of the fine towards financing a joint rescue fund reaffirms the conditionality between the implementation of the Fiscal Compact and the activation of the European Stability Mechanism (ESM) (Babic, 2015:31).

Nevertheless, the TSCG displays inherent peculiarities. Membership-wise, in 2012, the TSCG included as Contracting Parties all MSs, with the exception of Croatia (issuance of the TSCG predated its accession), the Czech Republic (ratification of the TSCG was postponed to 2018), and the United Kingdom (Brexit nullified its EU membership starting February 2020). On the one hand, the 2012 Euro Area membership – which expanded with Latvia in 2014 (European Commission, 2014) and Lithuania in 2015 (ECB, 2015) – convened to be immediately bound by the TSCG. On the other, the non-euro MSs voluntarily joined, yet exclusively to Title III, respectively IV (TSCG, 2012:8). In 2020, the TSCG is applicable to 22 Contracting Parties: 19 Eurozone countries joined by non-euro MSs adhering to different combinations of the TSCG Titles (Council of the EU, 2017). Ultimately, this euro/non-euro cluster adherence might be indicative of a pan-Europe fiscal convergence irrespective of MSs being or not in the Eurozone.

From a legal standpoint, the TSCG is an intergovernmental treaty designed to become an integral part of EU law. The deadline for the incorporation of the TSCG into the *acquis communautaire* is set in its Preamble as of January 1, 2018. By attaching this legal precondition to the TSCG, two goals became concomitantly attainable. Firstly, "with the integration of the Fiscal Treaty [Compact] into Community law, greater transparency and democratic accountability are sought and also the simplification of the legal framework" (Sermento, 2018:37). Secondly, prospective deadlock is minimised since "the Fiscal Compact is applied and interpreted in accordance with the Treaties in which the European Union is founded, being only applicable in the extent that it is compatible with the remaining Treaties, not colliding with the competences from the EU to act in the economic union scopes" (Idem:50). Nevertheless, legal controversies abound regarding the TSCG's content inconsistency, unconstitutionality in relation to European sovereigns, or disruption of Common Law (Kocharov, 2012). Inasmuch as, particularly concerning is the risk of non-inclusive integration since the Contracting Parties are bound based on categories (euro, respectively non-euro countries) and to differing extents (adhesion to specific Titles).

Fiscal convergence-cum-compromise

Though following the financial and sovereign debt crises the MSs were "weary of ceding further sovereignty to the EU after giving up national currencies and monetary policy under EMU" (Chang, 2013:266), there has been a piecemeal correction of the enduring fiscal hiatus within the So, these measures assisted in aligning fiscal positions across MSs since "the sovereign debt crisis simply made this kind of preventative monitoring much more appealing to countries that were anxious to see their partners' fiscal discipline monitored more closely" (Dehousse, 2019:24). This can be explained by the effort to create an embryonic fiscal union without excessively impinging on the sovereignty of the MSs, hereby avoiding accusations of Brussels meddling or even monopolizing control over fiscal matters. In a bid to depoliticize decision-making concerning fiscal coordination, "the same rules, with targets and thresholds, are agreed and applied to all countries and mechanisms for corrections are made as automatic as possible" (Alcidi et al., 2015:20). By doing so, in spite of "various components of the new system of governance [that] imply different degrees of EU intrusion in the definition of national economic policies according to different situations" (European Parliament, 2014:29), core political decisions on budgets continue to be made by national governments. Quintessentially, fiscal convergence is occurring as policies are country-tailored, but coordinated within a supranational framework.

To conclude, the aforementioned mechanisms of enhanced macroeconomic governance have been addressing the paucity of integrated economic and fiscal policies across the EU. In these respects, the actions aiming to fortify fiscal convergence seem to have been simultaneously pre-planned and impromptu. Pre-planned in the sense that the SGP was inherently incomplete and required sequential reviews to cater for the economic realities attached to the widely different fiscal stances of the MSs. Impromptu because the financial and sovereign debt crises exposed the asymmetric shocks produced by the EMU as not complemented by a fiscal union, thus hastening EU-wide fiscal convergence. *In nuce*, the enhanced mechanisms of macroeconomic governance successively built upon each other in a supranational setting (Annex 5): the Six-Pack ramped up the preventive clout of the SGP, while the TSCG conferred greater legal leverage to the feebly-enforced SGP corrective capacities. Ultimately, by accounting for the diverse fiscal objectives of the MSs, these mechanisms imprinted incremental flexibility in framing national budgetary policies, concomitantly consolidating supranational fiscal convergence.

Chapter V. Hypothesis 1: Theory testing

Theoretical framework

Liberal Intergovernmentalism: hedging against negative interdependence

Tenets of LI

Even though LI is not a theory of integration crises or seeks to explain macroeconomic governance in the EU, it can still suitably explain why the financial and sovereign debt crises boosted European cooperation in times of global economic turmoil. LI is a development on the intergovernmental theory of European integration, merging the liberal theory of state preferences with the neoliberal theory of international interdependence and institutions ((Hatton & Sonny, 2011:1). According to LI, integration stems from an amalgamation of national interest and state bargaining power (Schimmelfennig, 2018:970-971). LI is "a tripartite explanation of integration – economic interests, relative power, and credible commitments – [which] accounts for the form, substance, and timing of major steps toward European integration" (Moravcsik, 1998:17). In the integration logic of LI, prime importance is attached to national sovereignty, given institutions perform merely mediational functions while upholding individual country interests. Simultaneously, inter-state "grand bargains" prevail over the inert spillovers empahsised by NF (Leška, 2013:437). Nonetheless, asymmetrical interdependence is inherent to the negotiations and the typical outcome overlaps with the lowest common denominator engendered as a functional response to a cooperation problem (Hooghe & Marks, 2018:4).

LI is hinged on two intertwined components: national preferences and interstate bargaining. On the one hand, LI perceives states as actors attaining goals by means of intergovernmental negotiation and bargaining, doing so to the detriment of centralised institutional decision-making (Schimmelfennig & Moravcsik, 2009:68). LI proposes that preferences are nation-specific and replicate the "the macro-economic preferences of ruling governmental coalitions" (Moravcsik, 1998:3) concomitantly being "shaped by the economic interests of powerful domestic groups in a situation of international interdependence" (Schimmelfennig, 2015:178). On the other, states engage in negotiations pursuing mutually advantageous bargains. Nonetheless, LI places integration at the intersection of cooperation and competition: sovereign states act in a milieu of skewed powers conducive to outcomes disproportionately advantageous to specific actors. Therefore, by juxtaposing economic interdependence over national preferences a win-win situation is rendered possible, though actors bargain while endowed with different clouts (Hooghe & Marks, 2018:4). In praxis, the decisional power is triphasic: "I. domestic formation of national preferences, II. intergovernmental bargaining, and III. creation of European institutions to secure agreements" (Ibidem). The states – deemed to be rational and emboldened by nation-centred motives – partake asymmetrical bargaining most often to "create (or adjust) institutions to secure those outcomes in the face of future uncertainty" (Schimmelfennig & Moravcsik, 2009:68).

Crisis-LI interrelation

When the sovereign-bank nexus produced a self-reinforcing loop of liquidity shortages and a credibility crunch (Bellia et al., 2019:5-8), the Eurozone became polarised: creditors versus debtors. The debtors (Greece, Ireland, Italy, Portugal, and Spain) became financially paralysed by the looming debt default and the financial markets' distrust. In the same time, the creditors found themselves pressurized into bailing out the insolvent MSs because of economic interdependence. The EMU rallied countries of antipodal economic growth approaches: a supply-side, export-led growth strategy based on wage restraint, productivity and competitiveness against a demand-led growth strategy built on fiscal expansion and wage inflation (Hall, 2012:358-359). Simply put, divergent clusters of MSs espoused either fiscal contraction or fiscal stimuli. Consequently, within such a heterogenous union, distributional conflict concerning the terms of integration was unavoidable. Contrasting solutions were speculated: mutualised adjustment costs (Eurobonds and fiscal equalization schemes) in opposition to nationalised adjustment costs (austerity shorn of any external bail out prospects) (Schimmelfennig, 2015:181). Ergo, when European sovereigns of distinct economic fitness with colliding fiscal strategies had to negotiate to secure mutually acceptable solutions, LI integration dynamics came into play.

Interstate bargaining between countries of uneven clouts can be held as the cause and recurrent driver of European integration, the financial and sovereign debt crises leading again to negotiation-driven enhanced cooperation. Interdependence is inherent to integration crises: externalities engender demand for more policy coordination and incite stark national preferences regarding the damage induced by the crises (Moravcsik, 1993:485). So, once national preferences were outlined, the MSs sought to devise institutionalised intergovernmental agreements *via* inter-state negotiation. As per LI assumptions, the countries hardest hit by the crises and which can gain more/the most from further integrating or lose more/the most from disintegration have a weak bargaining position. Alternately, the states least impacted by the crises and relatively content with the *status quo* can realistically secure their policies of preference (Moravcsik, 1993:497-507). Resultantly, throughout the financial and sovereign debt crises, despite aspiring to a Pareto-efficient integration (Frieden & Walter, 2017:19-23), the MSs were individually "bargaining to attain the agreement that maximizes their gains" (Schimmelfennig, 2015:184). Notwithstanding, LI predicts that the common interest to secure the survival of the Euro Area and hedge against unsustainable losses prevailed over conflicting preferences with respects to burden-sharing.

Firstly, outcome-oriented negotiations between actors of unequal power ensued. Even though MSs engaged in hard bargaining comprising "credible threats to veto proposals, to withhold financial side-payments, and to form alternative alliances excluding recalcitrant governments" (Moravcsik, 1993[a]:3) the final negotiations emulated a "chicken game". Herein "the actors have a strong joint preference for avoiding an extremely costly common bad" (Schimmelfennig, 2015:184), in this instance, the dismembering of the Eurozone. This responsibility-dodging practice resulted in brinkmanship: measures to alleviate the critical situation are only enacted when disaster is almost impossible to avert. Concretely, during the Euro Area crisis, brinkmanship was represented by the legal, political and financial constraints the solvent countries imposed on the indebted MSs (Monastiriotis et al., 2013). On the other hand, the indebted countries marched on their inherent incapacity to tackle alone the undue pressure exerted by the financial markets (Smith, 2011), ergo, vindicating rescue inevitable. The outcome was "a series of lowest-common denominator deals constrained by divergent preferences on the distribution of adjustment costs" (Hooghe & Marks, 2018:6): temporary preservation of the Eurozone, moderate salvation costs for the creditors, and long-term afflicting reforms for the debtors. In praxis, the solvent countries disproportionately dictated the fiscal order, while the insolvent MSs were enmeshed in fiscal discipline.

Secondly, the bargaining produced a European institutional design meant to render MSs' commitments credible. Despite the national governments being assertive in their national preferences, the crises showcased that "each state negotiated on the basis of their own interests, but none of them has rigidly enforced their own interest at any price, but sought mutually acceptable compromises" (Leška, 2013:437). The sovereigns are prone to engage in collective decision-making and entrust supranational institutions with additional prerogatives to maximize the benefits of integration (Moravcsik, 1993:510). In the same vein, unpredictable commitments on behalf of domestic actors lead to the increased likelihood of divesting increasingly more power to EU institutions to hedge against losing too substantial bargains (Moravcsik, 1998:486-487). Furthermore, the incompleteness of the EMU confirmed the LI proposition that "states are more willing to centralize decision-making and delegate powers of monitoring and sanctioning to supranational organisations in the case of enforcement problems" (Schimmelfennig, 2015:188). As a result, *de novo* or updated European institutional arrangements spurred. Notwithstanding, "the institutional design tends to follow the institutional preferences of the states with superior bargaining power" (Ibidem). In effect, the post-crises institutional set up contributed to stabilising the Eurozone by means of financial assistance and supervision.

As LI predicts, governments deepened integration for fear of costs induced by economic dependence: "interdependence creates a strong incentive for more integration under the condition that Euro Area governments perceive that integration would produce lower losses than stagnation or even disintegration" (Schimmelfennig, 2015:181). When the crises unfolded, economic intertwinement across EU and reliance on strong state actors justified the "steps of integration taken in the Euro Area crisis [as] driven by common perceptions of interdependence and the desire to avoid losses and reap benefits" (Idem:179). LI proved that "divergent national preferences, hard intergovernmental bargaining, asymmetrical interdependence, and differential bargaining power remain consequential" (Idem:192) when alternative courses of action are not just too costly, but calamitous. In brief, LI explains how intractable international interdependence creates collective institutional outcomes deemed abstruse in the nascent phases of the EMU. After all, LI can be potentially held accountable for future integrationist tendencies because the lowest common denominator MSs settle for can germinate new intergovernmental bargaining due to current fragmentary integration responses.

Neofunctionalism: unavoidable and unfolding spillovers

Tenets of NF

Upon the onset of the financial and sovereign debt crisis, questions about the sustainability of European economic integration troubled citizens, pundits, and financiers. Yet, it seemed that European supranationalism did not reach its terminus. In these respects, NF possesses the theoretical acumen to partly account for policy-making outcomes in times when cancellation seemed to prevail over cooperation. The NF integration rationale rests upon positive feedback triggered by regime failure or systemic inefficiencies. In other words, advancements in European integration are perpetually "produced by the very functioning of the integration process" (Lefkofridi & Schmitter, 2014:10). For instance, regional integration is determined by functional consequences manifested in "functions or issue areas [which] provide the usual foci for the integration process" (Schmitter, 2005:259). Nonetheless, for the genuine furtherance of European integration, inert functional consequences are not sufficient. Resultantly, there is the need for political impetus exercised by a high authority monitoring and manifesting the aggregate EU interests over those of individual MSs. Ultimately, politicization will compel actors to "resolve their problems so as to upgrade common interests and, in the process, delegate more authority to the center" (Haas & Schmitter, 1964:77), herein, the novel supranational authorities towards which national loyalties are expected to converge.

According to NF, integration is an intermittent and volatile process, yet endogenously dynamic because "under conditions of democracy and pluralistic representation, national governments will find themselves increasingly entangled in regional pressure and end up resolving their conflicts by conceding a wider scope and developing more authority to the regional organizations they have created" (Schmitter, 2005:257). In the same time, integration is characterised by multiple, diverse, and changing actors forming transnational coalitions (Graubard & Haas, 1964:68). Decisions are attributed to rational actors as impacted by cooperative decision-making processes (Haas, 1958:xxiv). Thus, NF theorizes that integration stems from incremental decision-making instead of grand designs: integration comes from marginal adjustments, often driven by the unintended consequences of previous decisions. This is the case since most political actors fall short of a long-range purposive behaviour, decisions on integration being normally taken without fully considering the potential repercussions and oftentimes against looming deadlines (Ibidem). Notwithstanding, despite such fault lines, NF-style integration engages actors in "positive-sum games and a supranational style of decision-making where participants seek to attain agreement by means of compromises upgrading common interests (Graubard & Haas, 1964:66).

Crisis-NF interrelation

Firstly, the evolution of crises-led economic integration is explained by NF *via* a threefold spillover: functional, political, and cultivated (Jensen, 2013:62-64). Spillovers have a plurality of causes: inter-state increased interdependence, variegated crises, emergence of a powerful regional bureaucracy, development of independent, regionally-potent interest-based organisations (Schmitter, 2005:258). In praxis, "spillover refers […] to the process whereby members of an integration scheme – agreed on some collective goals for a variety of motives but unequally satisfied with their attainment of these goals – attempt to resolve their dissatisfaction by resorting to collaboration in another, related sector (expanding the scope of mutual commitment) or by intensifying their commitment to the original sector (increasing the level of mutual commitment), or both" (Schmitter, 1969:162). Simply put, cooperation in one policy area would pressurize another proximate policy area into following suit. Based on the taxonomy of spillovers, the fragmentary EMU design was the main functional spillover that reignited European integration.

Secondly, there are functional dissonances caused by deficient, incomplete and unstable initial integration steps caused by the lowest common denominator of national preferences prevailing over functional requirements. Nevertheless, functional structures *per se* cannot alter the behavioural responses of the actors since the latter "must regard functional logics as plausible and compelling in order for them to unfold their potential" (Niemann, 2010:31). In other words, functional logics are self-fulfilling prophecy: they have that much power to operate change as the actors bestow upon them. In the case of the financial and sovereign debt crises, the simmering functional dissonances have been fostering shocks and gradually unveiled the intra-EMU incongruities, hereby compelling the actors to take further integrational steps to correct them. This leads to the third core element of NF: principal agents (technocratic elites, politicians, supranational interest groups, and other lobbies) and their gravitation towards supranational institutions. If governments could be disaggregated into their component group actors, then actors' interests may prevail over states' interests, international relations ultimately becoming an interplay of societal actors.

As a result, MSs acquiesce to ceding progressively more sovereignty when it favours their interest. If supranational institutions are regarded as more competent in delivering than national entities, then regional integration is likely to occur. National actors are persuaded to shift their loyalties, expectations, and political activities to a new centre whose institutions possess or demand jurisdiction over encompassing states. This incrementalism implicitly bestows more leverage on economic interest groups and supranational institutions which, in turn, galvanize functionally linked policy areas (Vilpišauskas, 2013:364). Moreover, if the supranational agent better caters for the MSs' needs, "individuals and groups begin to see this agency, actor as their benefactor as much or more than the previous state level agency" (Leška, 2013:435). The end product is a new political community, superimposed over the pre-existing ones (Haas, 1958:14-16) where economic-social integration might spillover into political integration (Schmitter 2005:257). Alternately, integration can be seen as "the (1) process whereby nations forgo the desire and ability to conduct foreign and key domestic policies independently of each other, seeking instead to make joint decisions or to delegate the decision-making process to new central organs; and (2) the process whereby political actors in several distinct settings are persuaded to shift their expectations and political activities to a new center" (Lindberg, 1963:6).

Within a EU challenged by the financial and sovereign debt crises, multiple functional dissonances came to the forefront and accelerated its further integration. First and the most impactful of the dissonances was the coexistence of centralized monetary policies and decentralized fiscal policies. Hence, the functional dissonance between supranational monetary policy and intergovernmental budgetary, fiscal and structural policy started being progressively addressed by the emergence of additional mechanisms of macroeconomic governance. The second functional dissonance coincided with the issuance and extensive circulation of the single currency within extensively integrated, but insufficiently surveilled financial markets. To address the insufficiently regulated banking system within the pan-European purview, a banking union started to concretize (Papasavvas, 2015:21-23). Last but not least, the third functional dissonance stemmed from the sovereign-bank nexus: domestic banks were overexposed to failing sovereign debt because the latter had to rescue the banking institutions (Niemann & Ioannou, 2015:200). To prevent this labile duo from spiraling out of control, bank recapitalisation, debt restructuring, and financial assistance *via* ESM were performed (Council of the European Union, 2012).

Ergo, integration gathered pace due to pressures exerted by transnationally organised interests, panic-driven financial markets, and the institutional conglomerate in Brussels and Frankfurt. Institutional reforms and newly-minted mechanisms emerged or were reinforced to contain contagion and confirm commitment to the safeguarding the EMU and EU (Niemann & Ioannou, 2015:199-200). "Eventually, both crisis management and broader institutional integrational steps took place to alleviate these functional pressures, including the pooling of resources to manage the crisis and ensure economic and financial stability, the adjustment of the fiscal and economic co-ordination rules especially in the Euro Area, together with rules governing the regulation, supervision and resolution of banking institutions" (Idem:199-203). So, according to the NF "domino effect" of functional dissonances and spillovers, these vast reforms of the European macroeconomic governance may as well be a preamble to a European fiscal union. If so, the reinforcement of the SGP and the introduction of the Six-Pack and the Fiscal Compact – amounting to the fiscal union building block of rules and coordination – represent a spillover of the already synched supranational monetary into the still atomized fiscal positions of the individual MSs.

Theories in praxis

Overall, the financial and sovereign debt crises created a paradoxically propitious environment for giving European economic integration a new lease of life. Nonetheless, the divergent objectives of the MSs (manifested as LI national preferences) called for continued flexibility in framing the widely-disputed, but imperiously needed supranational fiscal coordination (executed by supranational institutions). Despite knowing how consequential it is to establish a monetary union incomplete in at least three crucial respects: fiscal policy, macroeconomic adjustment policies, and banking regulation (Copelovitch et al., 2016:811-834), prior to the crises, the EU relied on a "minimalist approach [which] meant that the only element of fiscal integration was the intergovernmental Stability and Growth Pact; no enforceable economic policy coordination was expected, no banking union was envisaged, no lender of last resort was set up, nor was a shock-absorption mechanism" (Nicoli, 2019:30). Nonetheless, between individual governments cutting losses by discontinuing European integration altogether (Feldstein, 2012) and bolstering it by buttressing the incomplete Maastricht macroeconomic architecture, the European actors settled for the latter.

By applying the theoretical dyad of LI and NF, the post-crises measures upgrading the European macroeconomic governance can be described as "failing forward". This is "an explanation of the EU's response to the Eurozone crisis that fuses together these two theories, despite their seemingly distinct ontologies and epistemologies" (Jones et al., 2015:1015). Inasmuch as neither theories of integration can stand-alone account for the post-crises policy implications. Notwithstanding, by merging the two theories, the short-term negotiations seem to have followed LI national preference bargaining while the integration dynamics in the long-run pursue the NF logic of spillover and supranational activism (Ibidem). Concisely, the expected dynamic of the "failing forward" is as follows: "(a) member governments should introduce incomplete governance structures as a result of lowest common denominator bargains, (b) at least some national leaders involved in these bargains should indicate that they believe the incomplete governance structures are likely to prove inadequate, (c) the incomplete governance structures should generate functional spillovers that help spark future crises, and (d) the cycle should repeat itself" (Idem:1017).

The post-Maastricht imperfect design offered the ideal conditions for “failing forward”, especially with respects to budgetary coordination and fiscal policies. Given full-fledged bailouts have been averted ever since the emergence of the EMU, developing a policy of financial assistance conditional on internal macroeconomic reforms was second best. To avoid moral hazard and free-riding while saving the deeply interconnected European economies, the “EU institutions and member state governments drew on a mix of theoretical insights about optimal policy solutions […] by introducing policy coordination through a mix of benchmarking, rules and sanctions” (Howarth & Verdun, 2020:291). Consequently, to substitute the prohibited direct bailout, formal fiscal rules across the EU were extensively reinforced. In the end, since the “establishing of sound foundations of fiscal discipline has a key importance for sustainability of a monetary union” (Daborwski, 2015:27), the surveillance of macroeconomic imbalances, excessive deficits, and unsustainable debt became top priorities in EU’s macroeconomic governance. Nevertheless, to lock in fiscal prudence and deliver macroeconomic relief while circumventing treaty-making or -changing, MSs negotiated their national preferences in a supranational setting. Yet, the ensuing institutions are neither exclusively intergovernmental, nor neofunctionalist.

In praxis, the reaction of the EU to the financial and sovereign debt crises is hybrid. On the one hand, it was conformant with LI prescriptions of negative interdependence due to the sunk costs of dismantling the Eurozone. Moreover, the predominance of the Franco-German national preferences of fiscal discipline transpired into the Six-Pack and the Fiscal Compact while the credible commitments were upheld by investing the Commission with greater enforceability (Aumaitre, 2018:21-22). Disguised as regulatory issues, the hereby upgraded macroeconomic governance persuaded MSs to acquiesce to ampler transfers of authority to the EU level (Genschel & Jachtenfuchs, 2015:45-46). Simultaneously, this bypassed electoral accountability by shifting the implementation from the Council to the Commission (Börzel & Risse, 2017:89-90). On the other, this delegation of regulatory authority to non-majoritarian, technocratic institutions bestowed upon the Commission and the ECB sufficient agency to claim a revitalisation of supranationalism (Chang, 2016:491-497). In other words, the NF dissonance between a supranational monetary policy and an intergovernmental fiscal coordination triggered a spillover calling for additional fiscal competencies to be passed onto the EU level. Herein the NF justification for the crises-to-cooperation oscillation is reinforced by the Commission’s role as assertive policy entrepreneur and the tighter fiscal regulation enacted in almost all MSs to curb economic imbalances (Aumaitre, 2018:19-20).

In other words, the revamped European macroeconomic governance started heavily revolving around pan-European fiscal discipline *via* sustainable budget-making. Inasmuch as, fiscal convergence across the EU – not just within the Eurozone – was driven by treaty-dissociated mechanisms which also prevented a political-cum-federal spillover and fuelled greater fiscal integration. So, even though the economic, fiscal and budgetary policies formally remained the prerogative of national sovereigns, the more exigent fiscal framework prescribed by the revitalised SGP and a more assertive Commission in surveying and sanctioning excessive deficits significantly obstruct the discretion of MS (Börzel & Risse, 2017:88). Concretely, by supplementing the SGP with the Six- and Two-Pack, macroeconomic adjustment programmes, enhanced surveillance of countries under financial difficulties, corrective actions for excessive deficits and imbalances, alongside the coordination and surveillance of fiscal and macroeconomic policies became the norm throughout the EU. Hereby the EU displays varying degrees of intrusion into the fiscal stances of the MSs based on the underlying rationale that the aggregate EU is better endowed to tackle externalities than its encompassing countries in silo (Alcidi et al., 2015:21).

Chapter VI. Hypothesis 2: Case studies

The Czech Republic and Romania are chosen as revelatory case studies based on a series of idiosyncrasies. On the one hand, since their accession occurred a few years apart, the socialization time within the EU is only marginally different. Moreover, due to the timing of their memberships, a consistent, data-based analysis can be applied to both case studies from 2015 to 2020. This is made possible due to the simultaneous issuance of standardized national Convergence Programmes and their Assessments by the Commission which look at indicators of fiscal convergence within identical analytical frameworks. On the other hand, the context of these MSs integration differed widely. Inasmuch as, the Czech Republic joined within a ten-country cluster whereas Romania entered in tandem with Bulgaria while strictly conditioned by the Cooperation and Verification Mechanism. However, what renders these MSs particularly relevant for understanding fiscal convergence via budgetary discipline in euro absentia is their rapports with the enhanced mechanisms of macroeconomic governance in junction with their stance on the adoption of the single currency.

For instance, the Czech Republic displayed overt reluctance towards alleged sovereignty-weakening measures like the ratification of the TSCG, while Romania timely got on the fiscal discipline bandwagon. Moreover, the status of their public finances as required for the adoption of the single currency is also revelatory. Inasmuch as, the Czech Republic better complies with the Maastricht Convergence Criteria, but lacks the political will to use the euro. In stark opposition, Romania underperforms in meeting the Criteria, yet actively endorses the introduction of the single currency. So, investigating the Czech and Romanian budgets might showcase how fiscal convergence has been faring in euro absentia when sound public finances are required of every MS but the adoption of the single currency is or is not an incentive to keep the budget balanced.

To see the impact on budgetary positions of the mechanisms of macroeconomic governance and their implications for EU-wide fiscal convergence, I run a multi-year analysis of the budgets of the Czech Republic and Romania. To discern the fiscal indicators concomitantly monitored by national and supranational institutions regarding the budgetary position of a MS, I resort to segmentation of sources. On the one hand, there are the yearly analyses conducted by national institutions like the National Bank, Ministry of Finance, and Fiscal Council of each MS. On the other, the European Commission and the ECB regularly produce reports at their discretion or by request from MSs. The following sources are used for harvesting data and determining trends of fiscal convergence:

- SGP: Convergence Report & Assessment of Convergence Programme;
- Six-Pack: Country Report & CSRs within the European Semester;
- TSCG: National Fiscal Council & National Budgetary Act (or miscellaneous legislation enforcing fiscal discipline).

To streamline tracking data sources, the unfolding chapter will use differing parenthetical references. Inasmuch as, the author of the reports – primarily the European Commission – will be omitted. Instead, the title of the report will be used so as to point directly to the evaluative nature and timing of the reports. Resultantly, this chapter will contain references to "Country Reports" and "(Assessment of the CP [Convergence Programme]).

Czech Republic. Fiscal follower and euro dissenter

Fiscal convergence status

A decade after adhering to the EU, the Czech Republic boasted one of the weakest fiscal frameworks among the MS at that time. While undergoing institutionally protracted reforms, the worryingly growing unsustainability of public finances due to incremental healthcare and pension costs made it evident that the changes were internally warranted, not just desired by Brussels. So, the sluggish progress in overhauling the long-term sustainability of the public finances resulted in multiple CSRs targeting this item specifically. Nonetheless, the Czech Republic has failed from 2015 to 2018 to make more than very limited progress in these respects. Resultantly, the Commission repeatedly assessed long-term fiscal sustainability as greatly impacted by age-related expenditures despite the very promising short- and medium-term fiscal outlook. Hence, the aging population remained a constant systemic issue throughout the budgetary frameworks despite the particularly positive predictions concerning the general government balance. As of late 2019, the issue of unsustainable public finances stood at the forefront of the Czech public finances and politics. Nonetheless, while pension reform has been discussed, the Czech government "recently decided not to link expected gains in life expectancy with the statutory retirement age for the next 5 years or to implement alternative measures" (Country Report Czechia, 2020:5), hereby defying reiterated calls from the EU to brace its fiscal sustenance for the generations to come, alternately opting to cater for the generations that age now.

Public finances outlook

From 2015 onwards, the public finances of the Czech Republic have shown robust budget balance improvement, yet relatively weak consolidation in the long run. As of 2016, the general government deficit was projected to fall, the Commission positive forecasts supplementing the Czech assessment of an improved nominal deficit paired with a Treaty-compliant level of debt (Country Report Czechia, 2016:10). Nonetheless, ever since 2015, apart from yearly deficit betterment, the Czech Republic confronted the same yearly issues: extensive tax evasion and long-term tenability due to costs associated with the aging population (Country Report Czechia, 2016:15). Inasmuch as, the 2018 budgetary outline showcased that public expenditure is strained by boosted wages, pensions, and social benefits. Consequently, the structural surplus was mildly reduced, yet it stayed in a positive territory while the debt levels remained at almost half of the 60% to GDP threshold (Country Report Czechia, 2018:10).

In the meantime, in accordance to the 2017 CSR, the Czech Republic decisively improved its fiscal framework by passing the Fiscal Responsibility Law while recording substantial progress in curbing tax evasion. However, despite successfully reining in its excessive deficits and keeping to the MTO, the Czech Republic continued leaving unaddressed the long-term sustainability of public finances (Country Report Czechia, 2018:13-14). Emboldened by economic growth, in 2018, the Czech Republic engaged in more expenditures driven by increased public wages and pensions. Thus, the surplus was pushed to zero while, surprisingly, the debt-to-GDP ratio was further lowered (Country Report Czechia, 2019:12). Notwithstanding, in 2020 still, the long-term sustainability of public finances as undermined by the pension system remains a perennial concern (Country Report Czechia, 2020:13).

Deficit and debt developments

Concerning the deficit, in only one year, the headline general government deficit leaped impressively from 2% in 2014 to 0.4% to GDP in 2015 despite an overall increased expenditure (Assessment of the CP for Czech Republic, 2016:5). This flurry of fiscal abundance continued when deficit developments for 2017 exceeded by a large margin the expectation, scaling up from an expected fiscal outcome 0.4% to a factual 1.6% to GDP. In 2018, the fiscal outcome remained in a positive territory. Herein the government surplus perched at 0.9% to GDP, but was lower than the estimated 1.5% to GDP laid down in the 2018 Czech Convergence Programme, mainly due to an upward revision of expenditures (Assessment of the CP for Czech Republic, 2019:16). On the debt side, starting 2015, considerable reductions in the general government debt were expected (Assessment of the CP for Czech Republic, 2015:9).

Inasmuch as, in 2016, the yearly debt decreased by 1.6% to GDP, thus reaching a value of 41.1% to GDP. Furthermore, this outstandingly good debt was preserved throughout 2016 (Assessment of the CP for Czech Republic, 2016:10-11), the national Convergence Programme foreseeing a continual debt reduction in 2017, respectively 2018 (Assessment of the CP for Czech Republic, 2017:9). Notwithstanding, from 2018 onwards – while still planning to keep to the MTO by observing the structural deficit of 1% to GDP – the Czech Convergence Programme started pointing to surpluses throughout 2019-2021. Yet, given the Czech MTO government balance (1% to GDP) is stricter than the SGP deficit benchmark (3% to GDP), the intended degradation of the surplus from 1.1% of GDP in 2018 to 0.6% of GDP in 2019 was still tenable and compliant (Assessment of the CP for Czech Republic, 2018:16). In the same time, the progressively lower debt levels outlined within the Czech Convergence Programme (from 34.7% in 2017 to 32.7% to GDP in 2018) aligned with the forecasts of the Commission, so reflecting a fairly accurate self-assessment by the Czech Republic of its fiscal fitness (Assessment of the CP for Czech Republic, 2019:10-11).

MTO targets

From 2014 onwards, the primary focus of the medium-term fiscal strategy has been to decrease the headline government deficit in view of attaining the MTO. Yet, after initially aiming for 2018, the MTO was attained in 2016 upon timely and extensively reducing the deficit (Assessment of the CP for Czech Republic, 2015:5-6), even registering a structural balance below the 1% to GDP MTO. The so created permissive fiscal leeway allowed the Czech Republic a more expansionary stance, yet still cautious and MTO-aligned (Assessment of the CP for Czech Republic, 2016:6). For the following years, the Czech Convergence Programmes described plans to keep to the MTO while also "pursuing an improvement in the state budget deficit in cash terms" (Assessment of the CP for Czech Republic, 2017:5). Though expected to stabilise at 0.5% to GDP from 2019 onwards, the 2019 national Convergence Programme presciently projected a rising structural surplus (Assessment of the CP for Czech Republic, 2017:6). Moreover, pursuant to the updated MTOs for 2020-2022, as per the Czech 2019 Convergence Programme, the structural deficit of 1% of GDP in 2019 was to lower to 0.75% of GDP as of 2020. Notwithstanding, from 2020 onwards, based on the predictions of both the Czech government and the forecasts of the Commission, the neutral stance was to move towards a deficit by 2022, remaining yet MTO-compliant (Assessment of the CP for Czech Republic, 2019:7)

Compliance with SGP

After addressing the excessive deficits it was running in 2013, the Czech Republic displayed an enviable alignment with the SGP by means of MTO observance. Starting 2014, compliance with the SGP and a structural balance remarkably lower than the applicable expenditure benchmark became the norm. Inasmuch as, SGP compliance was preserved throughout 2015, "the adjustment path towards the MTO [being] appropriate and compliant with the requirement of the preventive arm of the Pact" (Assessment of the CP for Czech Republic, 2015:13-15). Notwithstanding, upon recording a structural balance improved by 0.3% in 2015, within the framework of the European Semester, the Council recommended the Czech Republic via CSR to achieve a fiscal adjustment of 0.5% of GDP in 2016 (Assessment of the CP for Czech Republic, 2016:13). Yet, come 2016, the Czech Republic failed to act accordingly on the CSR and was subjected to the preventive arm of the SGP. Concomitantly, the Convergence Programme issued by the Czech government started including planned budgetary surpluses for the remaining of the programme horizon.

However, despite a slightly more expansionary stance, the structural surplus of 0.5% to GDP in 2016 permitted the Czech Republic to stay above its MTO (Assessment of the CP for Czech Republic, 2016:13), implicitly remaining SGP observant. In 2017, despite being subjected still to the preventive arm of the SGP, the Council no longer issued an SGP-related CSR to the Czech Republic. Therefore, given the general government debt registered a surplus of 1.6% of GDP in 2017, the Czech Republic met its MTO by a large margin, hereby meeting the requirements of the preventive arm (Assessment of the CP for Czech Republic, 2018:12). In 2018, both the general and structural balance registered surpluses which kept the Czech Republic comfortably aligned with the SGP. However, as of 2019, the budget surplus turned neutral, with the structural balance expected to vie for deficit in 2020, but even so remain above the MTO (Assessment of the CP for Czech Republic, 2019:13).

Fiscal framework

In 2016, the fiscal framework of the Czech Republic was rated as one of the weakest in the EU in spite of tending to medium-term budgetary planning and nominal expenditure ceilings. Firstly, what rendered the fiscal framework particularly susceptible to pro-cyclicality was the fact the fiscal plans were successively revised throughout the budgetary process. Secondly, the limited coverage of expenditure ceilings outside the central government was equally detrimental. Thirdly, "fiscal documentation is not entirely robust and does not benefit from independent scrutiny" (Country Report Czechia, 2016:18), back then the Czech Republic being one of the very few MS still lacking an independent fiscal council. To address these shortcomings, a comprehensive reform process commenced in 2014. To this extent, of paramount importance was the transposition in the national legislation of the core elements within the Council Directive 2011/85/EU on budgetary frameworks (Assessment of the CP for Czech Republic, 2015:17). Herein the government was compelled to devise a budget ensuring the long-term sustainability of public finances as per the SGP, lower the general government debt rule to 55% to GDP and establish the fiscal council (Country Report Czechia, 2016:18). This process gained momentum in 2015 – though it was already severely overdue, given the transposition deadline was 2013 –, but the parliamentary ratification was intentionally protracted. Consequently, the process was still unfinished in 2018.

Notwithstanding, in February 2017, the fiscal framework was greatly consolidated by the adoption of the Act No. 23/2017, colloquially Fiscal Responsibility Law (FRL). Concretely, the FRL introduced a debt rule for general government – to be activated once adjusted public debt breaches the 55% of GDP threshold – with exceptional debt clauses for municipalities, and demanded the creation of an independent fiscal council (Assessment of the CP for Czech Republic, 2017:16). As a result, shortly after, the National Budgetary Council was set up, becoming operational in 2018 (Country Report Czechia, 2018:18). The rapid implementation of the FRL was conducive to the significant consolidation of the Czech fiscal framework, hereby finally transposing the Council Directive 2011/85/EU inherent to the Six-Pack (Assessment of the CP for Czech Republic, 2018:16). Later in 2018, the Committee on Budgetary Forecast tasked with assessing government-issued macroeconomic and fiscal forecast complemented the fiscal council. Moreover, after pledging in February 2018 to finally adhere to the TSCG, in December 2019 the Czech Republic performed a very belated ratification of this intergovernmental agreement on fiscal discipline (Assessment of the CP for Czech Republic, 2018:16). Nevertheless, the Czech powers that be refused to be legally bound by the Fiscal Compact (Country Report Czechia, 2019:18). Herein, just the Title of the TSCG on governance was accepted, even though "past, planned and forecast fiscal performance in the Czech Republic appears to comply with the requirements of the applicable national numerical fiscal rules" (Assessment of the CP for Czech Republic, 2019:17).

Euro adoption status

As an implicit condition to the EU membership, the Czech Republic automatically consented to the adoption of the single currency before 2004. Nonetheless, almost two decades later, it is still a non-euro MS and does not have a target date for the adoption of the euro (European Commission, 2019a). Leaving aside that the Czech Republic has yet to join the Exchange Rate Mechanism (ERM II) (European Commission, 2019b) and recorded a top three EU highest inflation rates in 2020 (Plecher, 2020), its public finances have been consistently sound and satisfactorily stable following the decisive correction of its excessive deficits in 2013. Hereby, as of today, the Czech Republic unquestionably meets the sustainable and sound public finances criterion. However, the Czech Republic seems to be a particularly outstanding case of euro avoidance. Hypothesising that all the Maastricht Convergence Criteria were to be satisfied, there seems to be a long-lasting tradition of euro rejection immanent in the echelons of national economics and finances, the political realms, and the public sphere. Akin to its Visegrad non-euro neighbours – Hungary and Poland – the Czech Republic "changed from being among the pacesetters in the early years to now being laggard" (Dandashly & Verdun, 2011:10).

The timeline of the euro adoption in the Czech Republic reflects the initial commitment followed sharply by skepticism and, later on, full-blown dismissal. In September 2003, the Czech Republic published its Euro Area Accession Strategy, while the 2005 Institutional Arrangements for Introduction of the Euro timed the adoption in 2010. However, in 2006, the refusal to accede to the ERM II was conducive to an indefinite postponement. 2007 saw the Updated Euro Area Accession Strategy, which, nonetheless, provided no specific adoption date. Despite being marred with uncertainty, between 2003 and 2008, the Czech Republic enacted measures meant to assist its compliance with the Convergence Criteria. For instance, in November 2005, a National Coordination Group was appointed. One year later, the Czech authorities opted for the "Big Bang Scenario", hereby aiming for a single-step introduction of cash and noncash euro. In 2007, the government approved the National Euro Changeover Plan (also encompassing reports amending the Plan) which was complemented in 2008 by the General Act on Introduction of the Euro in the Czech Republic spelling the basic principles for the adoption (Helísek, 2013:3). Resultantly, the Czech Republic actively pursued a timely and comprehensive preparation despite lacking an adoption deadline. Yet, after first-hand experiencing the 2008 financial crisis and witnessing the effects of the sovereign debt crisis in the Euro Area, the Czech Republic had an attitudinal U-turn and started halting the pre-adoption process.

Apart from the contagion fear arising from the crises, reasons ranging from rampant Euroscepticism in top-tier public offices to widely-spread, but poorly-informed distrust among citizens of an externally-imposed currency affected the euro retraction. Furthermore, explanations for such an about-turn factored in less conventional motives. For instance, within the Czech Republic-Slovakia dyad, the latter adopting the euro was attributed to an inferiority-superiority complex which meant that “in the Czech case, the predominant feeling among elites was that the country was advanced enough to adopt policies based on national choices independent of what others might think it «ought» to do” (Verdun & Dandashly, 2015:5). Furthermore, even an overt attachment to the symbolism of koruna was speculated as a deterrent for the euro (Idem:5-6). Notwithstanding, there are economically-sounder explanation for this currency allegiance since for years there was a trend of koruna appreciated to euro (Helísek, 2013:5).

Yet, more plausible explanations stem from the convoluted domestic politics. Inasmuch as, an openly Eurosceptic president and the strained relation between the presidential administration and the Central Bank led to procrastination and ultimately suspension of the euro adoption in the foreseeable future (Dandashly & Verdun, 2011:18-28). Lastly, the public seems to be at best lukewarm about swapping currencies, herein two thirds of the population disagreeing with the euro since “many people are uncertain about the benefits of Euro adoption and regard it as unnecessary or even harmful” (Helísek, 2013:8). After all, be it the lack of political will (Dandashly & Verdun, 2011:12), a lingering “mental barrier” (RT International, 2017), or simply the redundancy of the euro given some Convergence Criteria are met without any pretence of joining the Eurozone (Hurník et al., 2010:194), the Czech Republic remains firmly opposed to welcoming the euro.

Romania. Euro enthusiast and fiscal rule-breaker

Fiscal convergence status

Part of the relatively recent 2007 enlargement, Romania become subject to the post-crises mechanisms of enhanced macroeconomic governance without further ado. Nonetheless, adhering constantly and consistently to the provisions stipulated by the amended SGP, Six-Pack, and TSCG proved to be progressively more unsustainable. Throughout the case study timeline, spanning 2015-2020, Romania's budgetary position has been underpinned by incautious fiscal behaviour. Starting 2015, Romania's public finances have been degenerating, departures from the MTO being forecasted for as early as 2016. The primary cause of the unruly budget was an expansionary fiscal policy which not only undermined the budgetary consolidations of the previous years, but also spurred Romania's ever-more expanding deficits. Moreover, since 2015, Romania's performance with respects to the execution of the CSR has been stalling. Inasmuch as, the perpetual recommendation of improving and effectively implementing a national fiscal framework recorded no or severely limited progress. Thus, bereft of genuine reform, the worryingly growing deficits undermine the long-term sustainability of Romania's finances while simultaneously hampering its full compliance with the Maastricht Convergence Criteria. As of 2020, Romania's economic growth seems to have been artificially fueled by fiscal prodigality leading to bulging deficits beyond Treaty thresholds and repeated flagrant breaches of the national fiscal framework as commanded by the European macroeconomic governance.

Public finances outlook

In the realm of public finances, in the immediate aftermath of the 2008 financial crisis, Romania's fiscal imbalanced have progressively subsided. Nonetheless, they failed to be upheld up to today. Following international assistance from the EU and the International Monetary Fund (IMF), Romania attained the MTO earlier and maintained it throughout 2015. Nonetheless, internal policy ceteris paribus, the structural deficit was already bound to heighten (by 2 % of GDP in 2016 and 3 % of GDP in 2017) while the public debt to ultimately surpass the permitted 60% to GDP by 2026 (Country Report Romania, 2016:10-11). In 2018, some of these bleak predictions started taking shape, with the public deficit widening due to a pro-cyclical fiscal policy resting on multiple tax cuts. Consequently, the concomitant tax reductions and increased expenditure came to be financed with public debt (Country Report Romania, 2018:12). Unsurprisingly, in 2019, the aforementioned trends continued, Romania's deteriorating budget balance and swelling general government debt resulting in overall worse public finances than those of peer countries (Country Report Romania, 2020:14). Therefore, the deficit-boosting pro-cyclical fiscal policy Romania embraced from 2014 onwards considerably undermined its structural balance and hereby led to deviations from the MTO and "put public debt on an upward path" (Country Report Romania, 2016:36-38) rife with risks and bound for unsustainability.

Deficit and debt developments

On the one hand, the deficit developments started showing alarming trends as of 2014. Hereafter, the deficit headline expressed in the Romanian Convergence Programme was to steadily raise (2014-1%, 2015-1.45% of GDP), hereby departing from the MTO (Assessment of the CP for Romania, 2015:5-6). In 2016, Romania's structural deficit took a positive turn and remained below the 1% MTO (Assessment of the CP for Romania, 2016:5). Notwithstanding, the deficit grew exponentially throughout 2016 and 2017 to an upper-most permitted limit of 3% of GDP (Assessment of the CP for Romania, 2017:4-5). However, if the Commission's forecast pointed to future underperformance (European Commission, 2017a), in 2017, Romania managed to meagerly decrease its government deficit to 2.9% of GDP (Assessment of the CP for Romania, 2018:5). Yet, for the upcoming years, the general government deficit started to dangerously exceed the 3% of GDP threshold (Assessment of the CP for Romania, 2019:5).

On the other hand, the debt recorded in-tandem distressing upward trends. If back in 2014 and 2015 the debt levels were safely below the Treaty benchmark of 60% to GDP (39.7%, respectively 40.1% to GDP), the next years, the debt projections generated by the Romanian government pointed to debt accrual since the primary balance moved in the negative territory (from surplus of 0.9% of GDP in 2015 to deficit of 1.3% of GDP in 2016) due to fiscal relaxation measures (Assessment of the CP for Romania, 2016:9). Thus, the trend of greater deficits and matching growing debt appears to pace up for the foreseeable future, the debt even being calculated to hit

>90% of GDP in 2030 under Commission's baseline, alternative scenarios and sensitivity tests (European Commission, 2020).

MTO targets

The general aim of the Convergence Programme is to continue fiscal consolidation by means of a medium-term strategy which is to ensure sustainability of public finances in the long run. Within the FRL demanded by the Fiscal Compact, Romania settled for a 1% MTO which is more stringent than the 3% to GDP the SGP demands, but nonetheless considers the requirements of the TSCG. According to the national Convergence Programme, in 2015, the recalculated deficit of 0.9% of GDP met the MTO (Assessment of the CP for Romania, 2015:6). Nevertheless, hereafter the headline deficit on which the MTO rests on has been irreversibly worsening. So, after meeting the MTO in 2014 and 2015, starting 2016, the Convergence Programme planed a deviation from the adjustment path with a return from 2018 onwards (Assessment of the CP for Romania, 2016:5).

Yet, as of 2018, it became obvious that the Romanian predictions were more positive – pinning the headline deficit to 2.9% of GDP – while the Commission foresaw its increase to 3.7% of GDP, with medium-term deficit targets becoming more permissive year by year (Assessment of the CP for Romania, 2017:6-7). As a consequence, the adjustment to the MTO was gradually postponed, Romania not intending to reach the MTO beyond 2021 when the triennial reassessment of the MTO occurs (Assessment of the CP for Romania, 2018:5). However, in spite of the Romanian Convergence Programme pledging the improvement of the headline balance over the period 2019-2022, the herein progressively higher deficit targets and the prolonged delay in complying with the MTO indicate Romania's feeble commitment to its medium-term strategy.

Compliance with SGP

Since 2013 Romania has been under the preventive arm of the SGP. With its significantly stricter MTO of 1% of GDP, Romania was at first over-performing its requirements under the SGP. In these circumstances, the deficit remained within the boundaries set by the MTO only until 2016. Nonetheless as above proven through the analysis of the budget balance evolution, 2014 and 2015 were the last years when the MTO was successfully met (Assessment of the CP for Romania, 2015:14-15), ever since Romania departing from the required adjustment path. Even though

Romania was complying with the deficit and debt limits by a large margin in 2015, 2016 brought "a deliberate and large deviation from all fiscal rules imposed by both national legislation and the European treaties signed by Romania and induces a significant vulnerability for the position of the public finances" (Assessment of the CP for Romania, 2016:16). Hence, Romania failed to respect the national numerical fiscal rules demanded by the TSCG-imposed FRL. Concomitantly, the headline general government deficit increased from 0.8% of GDP in 2015 to 3%. Nevertheless, while the national Convergence Programme declared the deficit likely to remain below the reference value of 3% to GDP, with hindsight, such optimistic estimations were voided when Romania deviated by 1.6% of GDP in 2016.

Ergo, Romania's irresponsible budget-making elicited preventive measures. In June 2017, the Council recommended activated the SDP (Council of the European Union, 2017) after Romania violated Art 10(3) of the SGP and recorded growth of the government expenditure beyond the benchmark. In 2018, after Romania failed to act on the SDP, recommendations from the Commission followed but to no effect since the deviations were to spillover into the budget of 2019 as well. Resultantly, in June 2019, the Commission issued "a warning to Romania and recommendation for a Council recommendation in accordance with Article 121(4) TFEU and Article 10(2) of Regulation (EC) No 1466/97, with a view to correcting the observed significant deviation from the adjustment path towards the medium-term budgetary objective" (Assessment of the CP for Romania, 2019:14). Yet, after the Council launched the SDP in 2017, Romania's inaction onto the nonviable deficit and its ignorance of the Council's successive revised recommendations the significant deviations lingered into 2019 and 2020 (European Commission, 2019c). In the end, Romania's placid reactions towards the reparative conditions of the preventive SDP led to harsher measures. Ultimately, all of these culminated with the opening of the EDP in March 2020 (European Commission, 2020b), Romania being the only MSs currently subjected to the corrective arm of the SGP.

In the same vein, the progress with CSRs on reforming the public finances and taxation schemes was either snail-paced or came to a standstill altogether. So, in a context where "the authorities have been systematically and repeatedly derogating from the national fiscal rules, thereby rendering them largely inoperable" (Country Report Romania, 2020:18), the risk to fiscal sustainability run high and required expeditious measures. Inasmuch as, some reform priorities came clearly into focus. Consequently, fiscal policy has to be revamped in order to guarantee durable and doable financing of the public expenditures. However, from 2015 to 2019, Romania has been registering an ever-greater headline deficit which is “projected to widen further due to significant increases to old-age pensions” (Country Report Romania, 2020:26). In addition, due to a high structural primary deficit – should no policy progress be made – the debt-to-GDP is prognosticated to exceed 90% of GDP by 2030 (Country Report Romania, 2020:27).

Fiscal framework

A country’s fiscal framework plays and instrumental role in the execution of public finances. Implicitly, Romania’s inadequate implementation of the fiscal framework breeds budgetary irresponsibility and fiscal profligacy. The budgetary process and the medium-term fiscal policy of Romania are grounded on the Fiscal Responsibility Law (Law 69/2010) (FRL), the public finances law (Law 500/2002) and the local public finances law (Law 273/2006). The FRL was amended in 2013 (by Law 377/2013) to include specific provisions of the SGP the Fiscal Compact. Inasmuch as, novel fiscal rules, a medium-term fiscal planning and the emergence of an independent national fiscal council formally aligned Romania with the TSCG. Nonetheless, the mere legal enunciation of these measures consolidating fiscal discipline did not manifest concretely in Romania due to perfunctory implementation of the fiscal rules, ad hoc government acts, and patent derogations from the FRL (Country Report Romania, 2016:49-50). For instance, recurrent breaches of the deficit rule are cunningly covered by covert budget rectifications and arbitrary government ordinances distorting the application of the fiscal responsibility law. Resultantly, “the fiscal strategy essentially mirrors and accommodates ex post ad hoc decisions taken during the year” (Country Report Romania, 2016:53). Moreover, the Fiscal Council of Romania retains its independence, yet it is often disregarded in the policymaking process or “given very little time to react to budgetary proposals before they were adopted by the government” (Country Report Romania, 2016:54).

In these respects, the longitudinal study based on SGP annual Convergence Reports issued by Romania, its complementary Assessments of the Convergence Progamme from the Commission, and Country Reports demanded by the Six-Pack No. 1176/2011 regulation showcases Romania’s recurrent practice of not respecting the national fiscal framework. The generally sound, but poorly implemented fiscal framework commenced being systematically enfeebled starting 2015 via a series of tax measures exogenous to the regular budgetary process (Country Report Romania, 2015:14). Furthermore, the exclusion of the back-then new draft fiscal code from the government-produced Convergence Programme contravened the SGP Code of Conduct (ECOFIN Council, 2016). Additional criticism came from the Fiscal Council which rendered the 2016 budget "a textbook example for everything that the FRL no. 69/2010 was designed to prevent" (Fiscal Council of Romania, 2016:1), "the draft budget for 2017 deviates deliberately and substantially from the fiscal rules imposed by both national laws and European treaties signed by Romania" (Fiscal Council of Romania, 2017:11), and the 2018 as "in flagrant contradiction with the fiscal rules set up by the FRL" (Fiscal Council of Romania, 2018:2).

Explicitly, the FRL outlines the fiscal rules which ought to be observed during the planning and execution of the budget. Inasmuch as, these rules entail "compliance with or convergence to MTO; compliance with the expenditure and debt levels required by EU regulations and the Fiscal Compact; upper ceilings for a large number of budgetary indicators including staff expenditures; restrictions on the redistribution of unused investment expenditure; restrictions on the use of a better-than-expected general government balance. For the deficit, the FRL requires the annual structural general government balance to remain or converge towards the medium-term budgetary objective of -1 % of GDP (Country Report Romania, 2016:49). In praxis, Romania was veering significantly from the fiscal rules. Equally grave, the correction mechanism accompanying the national structural deficit rule failed to be activated for "both the 2017 and the 2018 budgets contain derogations from the non-respected national fiscal rules, as well as from the correction mechanism itself" (Assessment of the CP for Romania, 2018:18), a situation which lingered into 2019 budget too (Assessment of the CP for Romania, 2019:19). Lastly, the rules contained by the FRL "remained inoperable" throughout 2019 and 2020 budgetary laws, as the authorities continued the practice of derogating from them (Fiscal Council of Romania, 2019a/b).

Euro adoption status

Bound by the same Treaty requirements of membership-cum-euro adoption, Romania pledged to align with the nominal Convergence Criteria. In the meantime, in praxis, its fiscal position became one of the many areas where deviations are noticeable. However, despite a steadily degrading nominal compliance and a lagging real convergence, Romania ambitiously set 2024 as the target year for the switch to the single currency (European Commission, 2019d). Inasmuch as, one day after the Prime Minister announced 2024 as the deadline for acceding to the Euro Area, the Representation of the European Commission declared that Romania barely meets one of the four Converge Criteria (Digi24, 2019), respectively that regarding public finances. Ironically, as shown in the case study longitudinal analysis of fiscal convergence from 2015 onwards, Romania's fiscal position has been linearly deteriorating. Consequently, by adopting the euro, Romania will relinquish control over its monetary policy, hereby being left with its currently worsening national fiscal policy as the only deleveraging tool should economic hardships arise. Moreover, entering the Euro Area implies further fiscal constraints on the stabilizing role of fiscal policy in Romania. In these respects, a more limited fiscal space in altering deficits and the full implementation of the Fiscal Compact's rigorous debt rules mean that "adopting the Euro would be a bad news for the entire national economy due to lack of adjustment mechanisms of the economic shocks" (Marinaș, 2013:13-15).

As the pre-euro adoption chronology goes, Romania has been seesawing between optimism in projection to stark incompetency in reality. Between the signing of the 2005 Treaty of Accession and gaining EU membership per se in January 2007, the National Bank of Romania described the Romanian desiderum: "for the Romanian economy, joining the euro area is an extremely important strategic objective, the timetable for implementation was developed taking into account the benefits and costs that this process entailed" (National Bank of Romania, 2006). Concomitantly, the same central monetary authority claimed that "the Romanian economy has no problems in terms of sustainability of public finances, shares in GDP of the public debt and budget deficit – these indicators in recent years (for the 2006 moment) are well below the thresholds set by the Maastricht Treaty" (Ibidem). Nonetheless, Romania's overly optimistic projections were internationally questioned. For instance, after the Romanian government announced an expected adherence to the ERM II in 2012, Jean-Claude Trichet – then president of the ECB – (2007)

answered that “Romania has a lot of homework to do over a number of years before joining ERM” (Trichet, 2017). As a result, the contrast between reverie and reality became evident when Romania had to delay the adoption from 2015 to 2019. Yet, this was not to be the last postponement.

In this context marked by underperformance, internal dissent about Romania’s capacity to align with the rigours of the euro adoption further hampered the compliance efforts. In these respects, Klaus Johannis, the President of Romania, deemed 2019 an unrealistic term, but continued to acknowledge the paramount importance of adopting the single currency. The same commitment was avowed by the 2016 Prime Minister Dacian Cioloș upon the issuance of the 2016-2019 Convergence Programme (Iancu, 2017:4). However – as shown in the analysis of the fiscal convergence from 2015 to 2019 – Romania arbitrarily increased public expenditure and had a lax observance of the European fiscal discipline requirements. Consequently, the progress on the Maastricht Convergence Criteria was undone, the 2019 planned adoption failing as well. Unsurprisingly, another series of optimistic pledges ensued, on January 31, 2019, the Romanian Prime Minister Viorica Dăncilă announced 2024 as a firm euro adoption deadline (Romania Insider, 2019). However, shortly after this statement, doubts about the attainability of this target followed. Inter alia, a report drafted by the body charged with preparing Romania’s accession to the Euro Area rendered 2025-2026 a more realistic date (Benakis, 2019). In the same vein, in January 2020, the incumbent Finance Minister considered 2024 “very ambitious” (Reuters, 2020) given the considerable economic imbalances which must be addressed. In the end, it seems that adopting the euro in Romania is “no longer technically possible even if we’d still politically like to do so” (EUbusiness, 2015).

Chapter VII. Findings and conclusions

The current research investigated and attempted to prove to the extents permitted by a Master thesis how fiscal convergence has been faring *in euro absentia*. After narrowing down the topic of fiscal convergence to fiscal discipline in budget-making, the selected mechanisms of macroeconomic governance could be extensively described, theoretically explained, and assessed in praxis in relation to the two hypotheses. Inasmuch as, the first hypothesis posited that cross-country dependencies and spillovers within the EU called for more integration in the aftermath of the crises. After rendering a full-fledged fiscal union economically untenable and politically contested in the current circumstances as per the critical review of the literature, the much-needed fiscal convergence had to be manifested alternately. Resultantly, the enhanced mechanisms of macroeconomic governance became the lowest, yet most feasible common denominator. Nonetheless, these efforts for ensuring fiscal discipline only targeted the public finances of MSs, while other equally indispensable elements of a fiscal union (banking union, fiscal transfers, etc.) remained unaddressed. Yet, by investigating only a facet of fiscal convergence, this research could include two intensive case studies. In these respects, the fiscal status of the Czech Republic and Romania under the application of the SGP, Six-Pack, and the TSCG became the intended domains of application where the theoretical assumptions of LI and NF concerning the furtherance of European integration in economic governance could be tested.

Firstly, the enhanced mechanisms of macroeconomic governance were enforced beyond the exclusive membership of the Euro Area. The differential treatment MSs are subjected to *via* the enhanced mechanisms of macroeconomic governance blurs the division of competences between MS and EU levels, areas of customarily sovereign regulation (ie. labour market, social policy) being now under supranational purview. This was possible since the rationale and regulatory remit of these mechanisms circumvent the integration logic inherent to the EMU. In these respects, they are exogenous to the legal setting of the Treaties, they apply to all MSs no matter if a country uses or not the single currency, and they can lead to incremental integration. Therefore, upon factoring in the theoretical assumptions of LI and NF, it was determined that the EU is "failing forward" into additional integrative steps. Hereby European integration dynamics are perpetual even when politically unpopular. Overall, within the framework of the SGP, as consolidated by the Six-Pack (secondary legislation) and the TSCG (intergovernmental treaty), fiscal norms were affected in almost all MSs. With hindsight, in the attempt to fend off bail out in the Eurozone, the EU unintentionally strengthened the fiscal rules for MSs beyond the Euro Area. Ergo, the post-crises augmented integration in economic governance is, on the one hand, the result of cross-country dependencies and multi-level governance spillovers and, on the other, it pervaded the EU. Thus, H1 is broadly confirmed.

Secondly, it was shown that the financial and sovereign debt crises were stark reminders that sound and sustainable fiscal practices are vital for the sustainability of the EMU and EU in its entirety. In this context, national budgets started playing an ever more critical role in ensuring prudent national fiscal management. Since the current macroeconomic integration architecture extends beyond the Eurozone through the SGP, Six-Pack, and TSCG, a multi-level, yet still incomplete fiscal union continues to expand. As budget and off-budget bailout facilities, the EU's own revenue sources, harmonization of indirect taxes at the national level, substantial cross-country transfers, and fiscal rules and their surveillance persist, the use of the single currency seems to be not necessarily *a sine qua non* condition, but rather a by-choice or -constriction adjuvant. In other words, the reform of fiscal convergence includes all MSs, irrespective of their currency. As justified by the theoretical dyad LI-NF, the fiscal convergence needed to strengthen the EU seems to be happening even *in euro absentia*, and the budgets of the non-euro MSs stand as testimony. Hereby, H2 started gaining empirical traction within the chosen case studies.

As shown by the analysis of its budgetary positions from 2015 to 2019, the Czech Republic has been an almost exemplary complier with the provisions of the post-crises enhanced mechanisms of macroeconomic governance. Ever since it corrected its excessive deficits in 2013, the structural balance has been almost exclusively in surplus. It is only from 2018 onwards that the balance moved into a negative territory; yet it remained aligned with a stringent MTO of 1% to GDP. In the same vein, though embracing a slightly more expansionary position since 2016, the general government debt is yet safely below the Treaty threshold of 60% to GDP. Likewise, the Czech Republic has committed to a medium-term strategy yielding sustainable public finances, a cautious fiscal outlook, and relatively low risks. Hereby, the compliance with the MTO demanded by the SGP, the Directive within the Six-Pack, and the fiscal requirements embedded in the TSCG point to an extensively consolidated, though not fiscally flawless position. Inasmuch as, the lingering minimal or inexistent progress in addressing the recurrent CSRs concerning the sustainability of public finances in the long run undermines the viability of the Czech budget, balanced as it is. Lastly, the multi-year postponement of transposition of the Council Directive 2011/85/EU on budgetary frameworks and the ratification of the TSCG indicate a deeply-seated reluctance towards relinquishing greater fiscal acumen to the EU. Overall, the Czech Republic remains a stubborn sovereign, but a surprisingly disciplined fiscal actor when it comes to budgets.

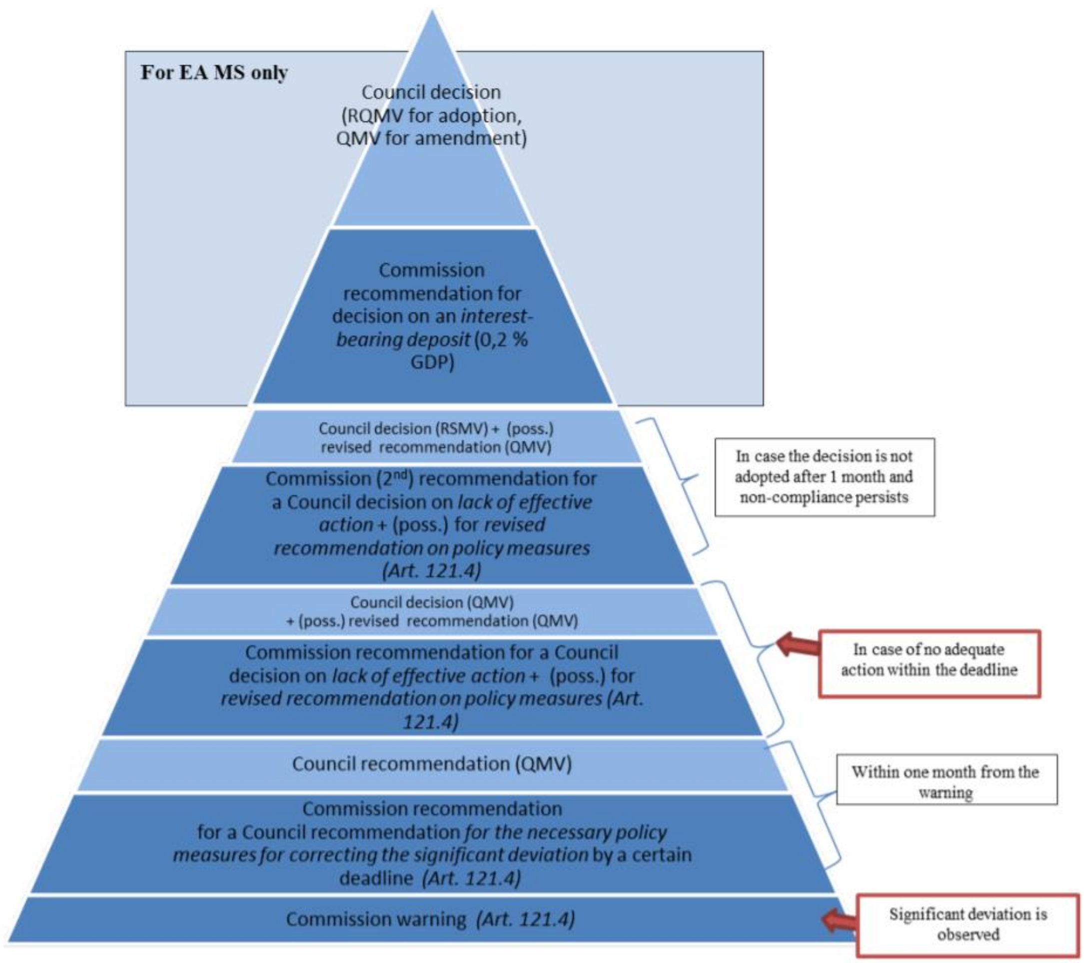
Based on an identical analysis, Romania was shown to engage in progressively deviant fiscal practices. Starting 2015, its fiscal outlook degraded steadily. As early as 2014, Romania’s structural balance moved into negative territory and resultantly pushed up the general government debt levels. Yet, despite keeping to the Treaty debt threshold in 2020, the long-term predictions point to spiraling debt by 2030. In these respects, Romania started outright ignoring the milestones of the medium-term strategy, intently delaying the fulfillment of the MTO. Furthermore, the repeated dismissal of the CSRs was conducive to the activation of the EDP, in 2020, Romania being the sole MS within the grasp of the SGP corrective arm. Moreover, Romania seems to only pay lip service to the Fiscal Compact. Inasmuch as, the fiscal rules were expeditiously transposed into the national legislation, but soon flagrantly breached, the government outstretching the deficit limits by acting outside of the budgetary strategy and being oblivious to the recommendations of the Fiscal Council. All in all, Romania showed eagerness in aligning with the older MSs in terms of fiscal discipline. Nonetheless, it also lost no time in bending or breaking altogether the rules despite remaining unwaveringly committed, at least declaratively, to the adoption of the euro.

So, H2 is greatly substantiated by the relations the case studies have with the euro adoption status. In these respects, the Czech Republic and Romania embarked in 2015 on diametrically opposed roads concerning their public finances. Thus, when the Czech Republic started correcting excessive deficits, Romania began undermining its structural balance. While Romania immediately adhered to the Fiscal Compact, the Czech Republic took years and only accepted specific provisions of the TSCG. Yet, the Czech Republic enacted the belatedly adopted fiscal rules while Romania untimely disregarded them. When the Czech Republic came close to meeting the Maastricht Convergence Criteria, nation-wide rejection of the euro led to the indefinite postponement of its adoption. By contrast, Romania started widening the compliance gap, but simultaneously exalted its determination to swap to the euro and ended up pushing for repeatedly unrealistic adoption dates. Therefore, these two non-euro MSs indicate distinct, yet intertwined phenomena of paramount importance to the advancement of the European integration. On the one hand, the increasingly uniform application of fiscal discipline onto non-euro MSs proves that fiscal convergence *via* budgets is not exclusive to the members of the Eurozone. In other words, a preamble to a genuine fiscal union is in the making, with or without the single currency. On the other, observing stronger fiscal convergence across budgets in a MS openly declining the euro might be indicative of fiscal convergence persisting and being consolidated even *in euro absentia*.

Tentatively, this research loosely confirms that fiscal convergence occurs even in isolation from the EMU. Hereby H2 is confirmed, yet subject to caveats on the generalization of the findings within the case studies, the non-exhaustive research approach, and contingencies in the evolution of the EU. Consequently, this topic warrants a long-term perspective analysis. Monitoring the economic and political developments within the EU is vital to observing trends, timely addressing deviations, and creating mechanisms to encourage sustainable practices and regulatory compliance. To this extent, I aver that my research is only a meagre contribution to understanding the unique dynamics of European integration as an admirable obstacle-turned-opportunity recurrent process. By focusing on the lesser studied topic of fiscal convergence, the research process has been challenging, yet rewarding. Knowing that this is not an academically irrefutable endeavour, I believe the above-stated suppositions are momentarily revelatory and worthwhile of supplemental scientific investigation in the future.

Annexes

Annex 1. Significant Deviation Procedure actions



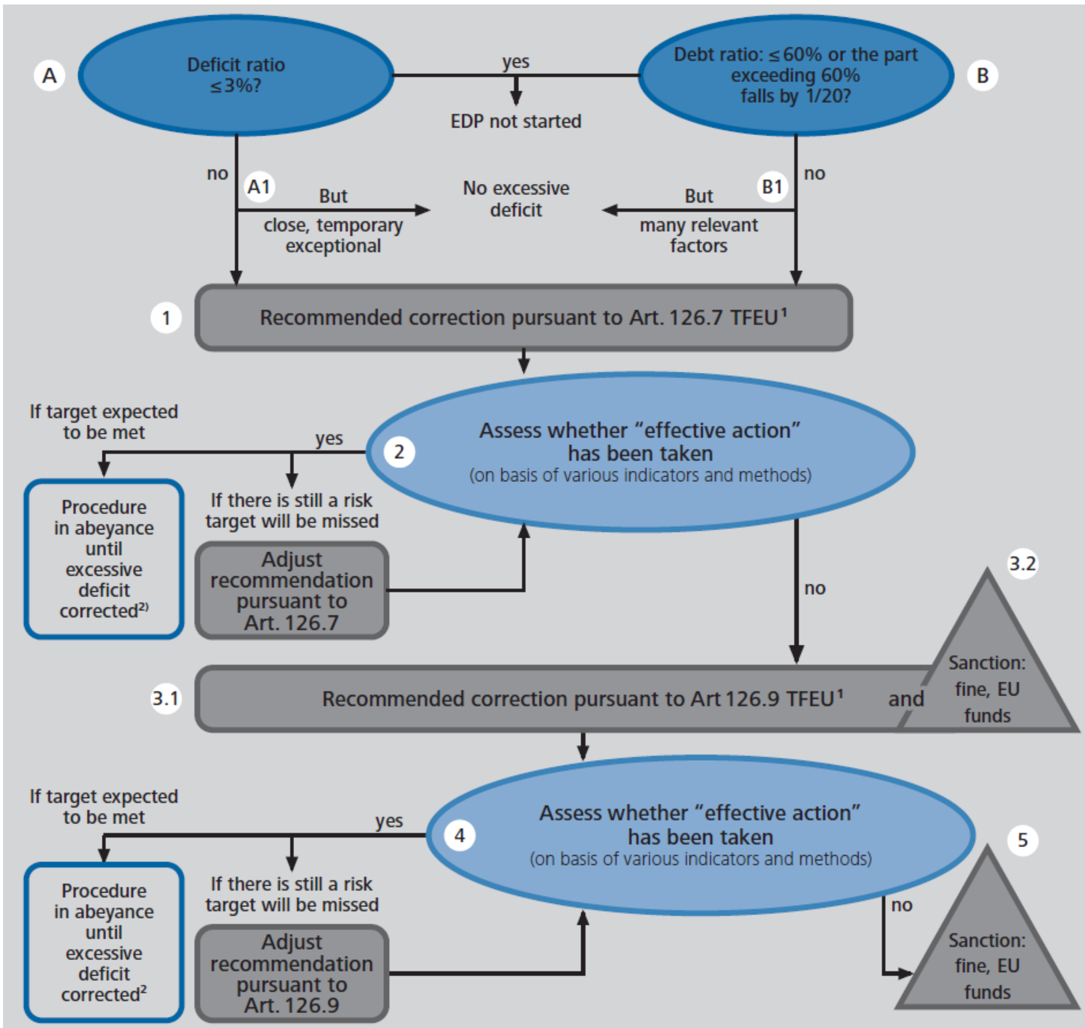
(European Commission, 2013:41)

Annex 2. Assessment of deviations under Stability and Growth Pact preventive arm

ΔSBal / Dev. from the EB	**Adjustment delivered**	**Deviation**	**Breach of the threshold of significance**
Benchmark Respected	Compliance	*Need an overall assessment* (cannot lead to a Significant Deviation Procedure)	*Need an overall assessment* (can lead to a Significant Deviation Procedure)
Deviation	*Need an overall assessment* (cannot lead to a Significant Deviation Procedure)	*Need an overall assessment* (cannot lead to a Significant Deviation Procedure)	*Need an overall assessment* (can lead to a Significant Deviation Procedure)
Breach of the threshold of significance	*Need an overall assessment* (can lead to a Significant Deviation Procedure)	*Need an overall assessment* (can lead to a Significant Deviation Procedure)	*Need an overall assessment, but strong presumption of* significant deviation (can lead to a Significant Deviation Procedure)

(European Commission, 2019a:36)

Annex 3. Excessive Deficit Procedure sequential steps



1 Treaty on the Functioning of the European Union (TFEU). **2** Or, in the case of correction deadlines running several years, repeated assessments of whether effective action has been taken.

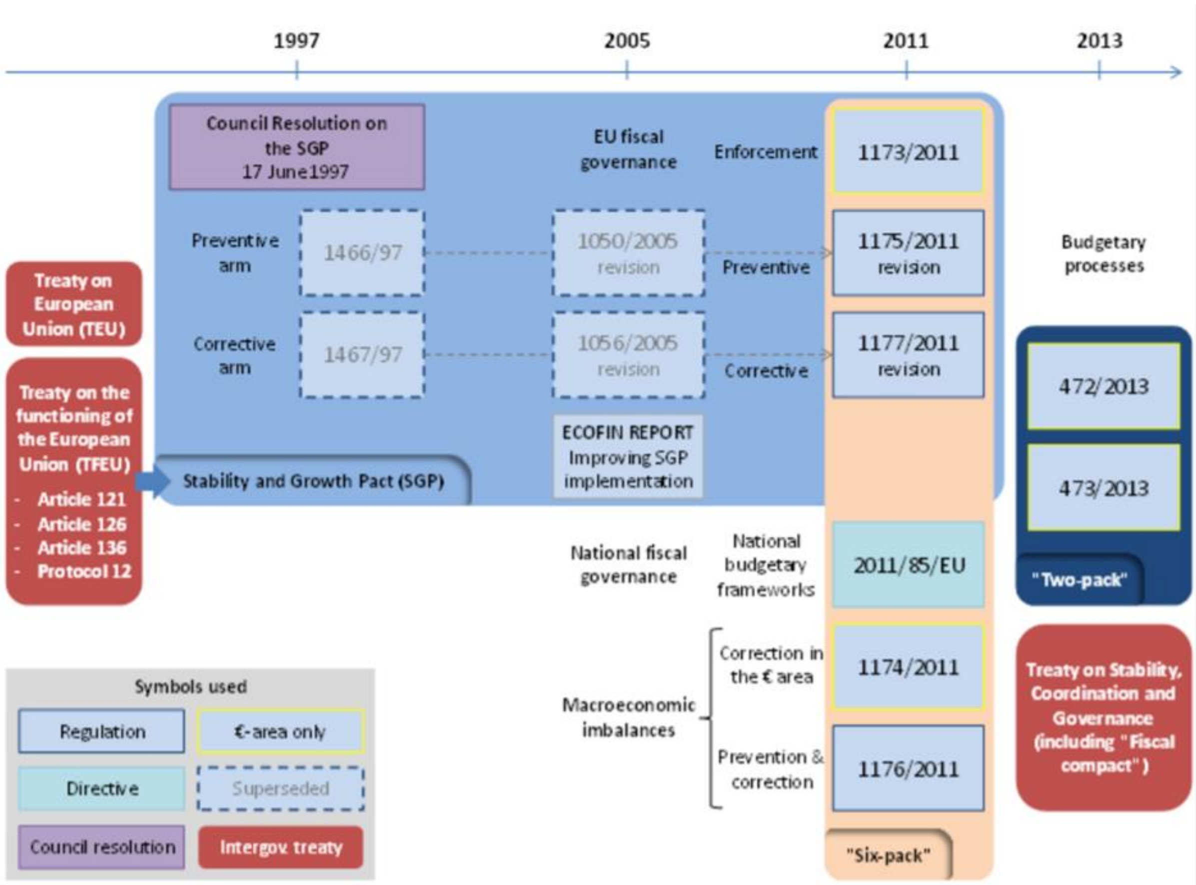
(Deutsche Bundesbank, 2017:37)

Annex 4. European Semester stages

Month	
November	The Annual Growth Survey (AGS) sets out the overall economic priorities for the EU for the following year. The Alert Mechanism Report (AMR) screens Member States for economic imbalances. The Commission publishes its opinions on draft budget plans (for all euro area countries) and Economic Partnership Programmes (for euro area countries with excessive budget deficits). The budget plans are also discussed by euro area finance ministers
December	Euro area Member States adopt final annual budgets, taking into account the Commission's advice and finance ministers' opinions
February/ March	The European Parliament and relevant EU ministers (for employment, economics and finance, and competitiveness) meet in the Council to discuss the AGS. The Commission publishes its winter economic forecast. The European Council then adopts economic priorities for the EU, based on the AGS. It is around this time that the Commission publishes in-depth reviews of Member States with potential imbalances (those identified in the AMR)
April	Member States submit their Stability/Convergence Programmes (medium-term budget plans) and their National Reform Programmes (economic plans), which should be in line with all previous EU recommendations. These are due preferably by 15 April, but no later than 30 April each year. *Eurostat* publishes verified debt and deficit data from the previous year, which is important to check whether Member States are meeting their fiscal targets
May	The Commission proposes country-specific recommendations (CSRs), which is focused policy advice for Member States based on the priorities identified in the AGS and information from the plans received in April. In May, the Commission also publishes its spring economic forecast
June/July	The European Council endorses the CSRs, and EU ministers meeting in the Council discuss them. EU finance ministers ultimately adopt them in July
October	Euro area Member States submit draft budget plans for the following year to the Commission (by 15 October). If a plan is out of line with a Member State's medium-term targets, the Commission can ask for it to be redrafted. Member States in the Excessive Deficit Procedure must not only submit budgetary plans, but also Economic Partnership Programmes, which contain detailed fiscal-structural reforms (e.g., regarding pension systems, taxation, or public healthcare) which will correct their deficits in a lasting way

(Sermento, 2018:5)

Annex 5. Evolution of the European macroeconomic governance



(European Commission, 2013:15)

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