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THE EVOLVING ARCHITECTURE OF ECONOMIC POLICY COORDINATION IN THE EUROPEAN UNION

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Abstract. ***This paper analyses the evolution of economic policy coordination in the European Union (EU), tracing its development from the rules-based framework of the Maastricht Treaty to the crisis-driven innovations of the 21st century. It argues that the EU's economic governance architecture is not the product of a grand design but rather a path-dependent process of institutional adaptation in response to successive crises. The paper first examines the theoretical underpinnings of policy coordination in a monetary union, highlighting the challenges posed by the Eurozone's status as a non-optimal currency area. It then charts the history of the coordination framework, beginning with the original Stability and Growth Pact (SGP), whose rigidities and enforcement weaknesses were starkly exposed by the sovereign debt crisis. The analysis proceeds to dissect the complex tapestry of post-crisis governance reforms-including the Six-Pack, Two-Pack, Fiscal Compact, and the European Semester—which significantly deepened surveillance but also increased complexity and raised questions of democratic legitimacy. Finally, the paper assesses the paradigm shift represented by the Next Generation EU (NGEU) recovery instrument, a response to the COVID-19 pandemic. NGEU introduced common debt issuance and investment-focused conditionality, moving away from the austerity-driven logic of the previous crisis. The paper concludes that while the EU's coordination framework has become more resilient, it remains fraught with fundamental tensions between rules and discretion, supranationalism and intergovernmentalism, and solidarity and responsibility. Resolving these tensions is the central challenge for the future of the Economic and Monetary Union.***

Keywords: *economic governance, Economic and Monetary Union, fiscal policy, economic crises.*

Introduction

The European Union's Economic and Monetary Union (EMU) represents one of the most ambitious projects in modern international political economy. At its core lies a fundamental asymmetry: a centralized, supranational monetary policy conducted by the European Central Bank (ECB) and decentralized fiscal, structural, and social policies that remain largely the prerogative of sovereign member states. This inherent structural imbalance necessitates a robust framework for economic policy coordination. Without it, the negative spillovers from one member state's irresponsible fiscal policy or unaddressed macroeconomic imbalance could threaten the stability of the entire single currency area. The history of the Eurozone is, in essence, the history of the EU's struggle to design and implement such a framework.

The initial blueprint, enshrined in the Maastricht Treaty and later codified in the Stability and Growth Pact (SGP), was one of constrained discretion. It was built on the

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ordoliberal conviction that a stable currency required a clear set of binding fiscal rules to prevent moral hazard and ensure long-term sustainability (Brunnermeier, Harold, Landau 2007: 165-166). National governments were expected to keep their budgetary deficits below 3% of GDP and public debt below 60% of GDP. Coordination was to be achieved through mutual surveillance and the credible threat of sanctions, thereby creating a „straitjacket" that would enforce fiscal discipline from which there was no escape. This rules-based architecture, however, proved ill-equipped to handle the political realities of economic governance and the economic shocks of the 21st century.

The central thesis of this paper is that the EU's economic policy coordination has evolved reactively, shifting from a simple, rules-based framework to a complex, discretionary, and crisis-driven system. This evolution, while adding necessary tools for crisis management and macroeconomic surveillance, has created a convoluted and politically contested architecture. The journey from the SGP to the sovereign debt crisis reforms and, ultimately, to the Next Generation EU (NGEU) instrument reveals a continuous negotiation between competing economic philosophies and national interests. It is a story of institutional bricolage, where new layers of governance are added in response to emergencies, often without removing or fully integrating the old ones.

This paper will proceed in five chapters. Chapter one will explore the theoretical foundations of policy coordination, drawing on the theory of Optimum Currency Areas (OCA), the logic of policy spillovers, and game-theoretic perspectives to explain why coordination is indispensable in the EMU. Chapter two will analyse the original pre-crisis architecture, detailing the Maastricht criteria and the design of the Stability and Growth Pact, and assessing its early failures. Chapter three will examine the profound transformation triggered by the Eurozone sovereign debt crisis, which led to the creation of financial firewalls like the European Stability Mechanism (ESM) and a raft of new surveillance tools, collectively known as the European Semester. Chapter four will assess the post-crisis landscape and the paradigm shift brought about by the COVID-19 pandemic and the creation of NGEU, which for the first time introduced large-scale common debt issuance and grant-based fiscal transfers. Finally, conclusions will discuss the enduring challenges and future prospects for EU economic governance, focusing on the unresolved tensions between rules and discretion, supranationalism and intergovernmentalism, and the quest for democratic legitimacy.

Problem of coordination

Coordination stands as one of the most central, persistent, and yet elusive concepts in the study and practice of public administration. It is a perennial challenge for all governments, representing the fundamental task of orchestrating disparate parts of the state apparatus to achieve common goals (Ansell, Gash, 2008: 543-571). The need for coordination arises from the very structure of modern government, which relies on specialized organizations to manage complex policy domains. While this specialization fosters expertise, it also risks creating fragmentation, duplication of effort, waste, and counterproductive „turf-fighting" between agencies (Exadaktylos, Radaelli, 2009: 507-530). At its core, coordination is the process of getting different, and often interdependent, organizations to contribute toward a shared objective, a task that has been a primary concern of public administration for well over a century (Kraft, Furlong, 2007: 92-94).

This paper argues that the definition of „coordination" has undergone a significant transformation, evolving in lockstep with broader paradigm shifts in how we understand the state, its organizations, and its role in society. The concept has moved from a mechanistic function of executive control within a rigid hierarchy to a dynamic process of managing interdependence across complex networks of state and non-state actors.

The very persistence of coordination as a „problem" to be solved reveals a fundamental tension at the heart of public administration: the simultaneous and often conflicting needs for specialization and integration. Governments create specialized agencies—ministries of health, transport, or environment—as a rational response to the complexity of modern society, allowing for the development of deep expertise and focused attention on specific policy problems. However, the most pressing challenges facing contemporary governments, often termed „wicked problems" like climate change, systemic poverty, or global pandemics, do not respect these neatly drawn organizational boundaries (Webber, 2019: 1134-1152). They are inherently cross-cutting and interdependent. Consequently, the very act of specializing and dividing administrative labour creates an immediate and corresponding need for coordination to reintegrate that labour toward a coherent purpose. This reframes coordination not as an external affliction that plagues government, but as an endemic condition generated by the essential structure of modern bureaucracy. The quest for coordination is, therefore, a perpetual effort to manage the negative externalities of specialization, a core structural dilemma of governance that each theoretical paradigm has attempted to resolve in its own way.

Theoretical Foundations of Economic Policy Coordination

The need for economic policy coordination within the EMU is not merely a political preference but an economic necessity rooted in the fundamental structure of a monetary union. When countries share a single currency, they relinquish two crucial adjustment mechanisms: an independent monetary policy and a national exchange rate. Consequently, the economic shocks and policy decisions of one member have profound and immediate effects on all others. Understanding the theoretical basis for this interdependence is crucial to appreciating the design and evolution of the EU's governance framework.

The foundational theory for analysing monetary unions is Robert Mundell's concept of an Optimum Currency Area (OCA) (Mundell, 1961: 657–659). An OCA is a geographical region where a single currency would maximize economic efficiency. According to Mundell and subsequent scholars like McKinnon and Kenen, the key criteria for an OCA include high levels of labour mobility, wage and price flexibility, trade integration, and the existence of a centralized fiscal system capable of making transfers to regions hit by asymmetric shocks—that is, economic disturbances that affect one region or country differently from others (McKinnon, 1963: 717–725).

When the Eurozone was established, it was widely acknowledged that it did not meet the classic OCA criteria. Labour mobility is limited by linguistic and cultural barriers, wage-setting mechanisms are often rigid, and, most critically, the EU budget is minuscule (around 1% of EU GNI), precluding the possibility of significant automatic fiscal transfers akin to those found in federal states like the United States. In the absence of these automatic adjustment channels, the onus of adjustment to asymmetric shocks falls squarely on national fiscal and structural policies. If a country like Greece experiences a sudden stop in capital flows, it cannot devalue its currency to regain competitiveness, nor can it rely on large-scale automatic transfers from Brussels. It must undergo a painful „internal devaluation" through wage cuts and fiscal austerity, a process with severe social and economic costs. This inherent vulnerability makes policy coordination not an option, but a prerequisite for the survival of the monetary union. Coordination is the man-made substitute for the missing OCA properties.

In a deeply integrated economic and financial area, national policies create significant externalities, or „spillovers." Fiscal policy is the most prominent example. An overly expansionary fiscal policy in one large member state can contribute to higher aggregate inflation across the Eurozone, forcing the ECB to adopt a tighter monetary stance than would otherwise be necessary, thereby harming all members. Conversely, a pro-cyclical fiscal consolidation (austerity) in a large country during a recession can depress aggregate demand across the entire bloc.

Beyond direct demand spillovers, financial channels are equally potent. The sovereign debt crisis provided a catastrophic demonstration of this through the „doom loop," where the deteriorating fiscal position of a sovereign state casts doubt on the solvency of domestic banks that hold its debt. This banking distress, in turn, further weakens the sovereign, which is implicitly liable for bailing out the banks. This vicious cycle can quickly spill across borders as interconnected European banks suffer losses, leading to a systemic financial crisis.

Coordination, therefore, is essential to internalize these externalities. The Macroeconomic Imbalance Procedure (MIP), introduced after the crisis, was a direct response to the realization that spillovers were not just fiscal. It acknowledged that large and persistent current account deficits, housing bubbles, or losses in competitiveness in one country were a collective concern for the stability of the union.

The challenge of fiscal policy coordination can also be framed using game theory. The situation often resembles a „Prisoner's Dilemma." The collectively optimal outcome is for all member states to maintain prudent fiscal policies. However, each individual government may have a short-term incentive to defect. By running a larger deficit, a government can boost domestic demand and employment, while the negative consequences (higher inflation risk, pressure on the common interest rate) are shared among all Eurozone members. If all governments succumb to this temptation, the result is a collectively suboptimal outcome of excessive debt accumulation and macroeconomic instability.

The SGP was conceived as a commitment device to solve this problem. By establishing a set of external rules with the threat of sanctions, it aimed to alter the payoffs for governments, making fiscal prudence the dominant strategy. However, the effectiveness of such a rules-based system depends entirely on the credibility of its enforcement mechanism. As the history of the SGP shows, when large member states are the ones to violate the rules, the political will to enforce them often evaporates, undermining the entire framework (Hassel, 2011: 37-52). This highlights the perpetual tension between a rules-based system designed to overcome time-inconsistency problems and the discretionary power of sovereign states, particularly the larger ones.

The Maastricht Treaty and the Stability and Growth Pact (SGP).

The architecture for economic governance in the EMU was not an afterthought but a central component of the Maastricht Treaty of 1992. The design was heavily influenced by the German ordoliberal tradition, which prioritized price stability and fiscal rectitude as the cornerstones of a successful monetary union (Marsh, 2009). This philosophy translated into a framework that was predominantly rules-based, focused on preventing fiscal profligacy, and minimalist in its conception of supranational coordination, reflecting a deep-seated reluctance among member states to cede fiscal sovereignty.

Before a country could adopt the euro, it had to demonstrate a period of sustained economic convergence by meeting the five Maastricht criteria. These were:

1. Price Stability: An inflation rate no more than 1.5 percentage points above the average of the three best-performing member states.
2. Long-Term Interest Rates: Nominal long-term interest rates not exceeding by more than 2 percentage points those of the three best-performing member states in terms of price stability.
3. Exchange Rate Stability: Participation in the Exchange Rate Mechanism (ERM II) for at least two years without severe tensions or devaluing against the euro.
4. Fiscal Deficit: A government deficit not exceeding 3% of Gross Domestic Product (GDP).
5. Public Debt: A government debt-to-GDP ratio not exceeding 60%.

These criteria were intended to ensure that only countries with sound and stable macroeconomic fundamentals would join the currency union, thereby minimizing the risk of shocks emanating from new members. The fiscal criteria were seen as the gateway to a permanent state of fiscal discipline. However, critics argued that the criteria were arbitrary and that political considerations often led to a flexible interpretation of the rules, notably in the cases of Italy and Belgium, which entered with debt levels well above the 60% threshold. This early flexibility foreshadowed the enforcement challenges that would later plague the SGP.

Fears that the discipline of the Maastricht criteria might wane after countries joined the euro led to the creation of the Stability and Growth Pact in 1997. The SGP was designed to make the fiscal rules a permanent feature of EMU. It consisted of two main parts:

- **The Preventive Arm:** This required member states to submit annual Stability or Convergence Programmes (for euro and non-euro members, respectively), outlining their strategy to achieve and maintain their Medium-Term budgetary Objective (MTO). The MTO was defined as a structural budget position of "close to balance or in surplus." The Commission and the Council would assess these programmes and could issue an "early warning" if a significant deviation was detected. The goal was to build up fiscal buffers during good economic times that could be used to let automatic stabilizers operate during downturns without breaching the 3% deficit limit.

- **The Corrective Arm:** This detailed the Excessive Deficit Procedure (EDP). If a member state breached the 3% deficit reference value (unless under exceptional circumstances), the ECOFIN Council, on the recommendation of the Commission, could declare an "excessive deficit." This would trigger a sequence of recommendations and deadlines for the country to correct the situation. If the country failed to comply, the procedure could ultimately lead to the imposition of financial sanctions (European Commission, 2013).

The entire framework was built on the logic of mutual surveillance and peer pressure. The Commission was cast as the technical guardian of the pact, while the final decision-making power rested with the Council, composed of the member states' finance ministers. This design choice embedded a fundamental tension: the enforcers of the rules were the political.

Even before the global financial crisis, the SGP was beset by problems that undermined its credibility and effectiveness. The pact's credibility suffered a decisive blow in 2003 when the ECOFIN Council, led by France and Germany, voted against the Commission's recommendation to launch an EDP against them, despite both countries running deficits above 3%. When the two largest member states could flout the rules with impunity, the threat of sanctions lost all credibility for smaller states. This episode demonstrated that the pact was a „tiger without teeth" when confronted with powerful political interests.

The SGP was often criticized for encouraging pro-cyclical fiscal policy. During economic booms, governments failed to consolidate their budgets sufficiently to meet their MTOs, a phenomenon often referred to as the „good times, bad policies" problem (Raudla, Douglas, 2020: 121-138). Consequently, when a recession hit, they had little fiscal space and were forced to tighten policy to stay within the 3% deficit limit, thereby exacerbating the downturn. The 2005 reform of the SGP attempted to address this by putting more emphasis on structural balances and allowing for more flexibility, but the underlying pro-cyclical bias remained. The SGP's exclusive focus on fiscal variables was its greatest flaw. It completely ignored the build-up of other, more dangerous imbalances during the 2000s. While countries like Spain and Ireland were respecting the SGP's fiscal rules, they were experiencing enormous credit-fuelled housing bubbles and running massive current account deficits. These private sector imbalances, financed by cheap credit flowing from core Eurozone countries like Germany, were the true source of the subsequent crisis (Pisani-Ferry, 2014: 178-180). The SGP provided a false sense of security, leading policymakers to believe that if public finances were in check, the EMU was stable. The sovereign debt crisis would prove this assumption catastrophically wrong.

In summary, the original architecture of EU economic coordination was a brittle, rules-based system that was ill-suited to the complexities of the EMU. Its weak enforcement mechanisms, inherent pro-cyclical bias, and myopic focus on public finances left the Eurozone dangerously vulnerable to the financial storm that was about to break.

The Eurozone Crisis and the Transformation of EU Governance The period from 2009 to 2012 represents the most profound crisis in the history of European integration. The sovereign debt crisis was not just an economic and financial cataclysm; it was an existential threat to the single currency that forced a radical, and often chaotic, overhaul of the EU's economic governance framework. The pre-crisis architecture, predicated on the "no-bailout" clause of the Maastricht Treaty (Article 125 TFEU) and the disciplinary power of the SGP, crumbled under the pressure of market panic and systemic contagion. In its place, EU leaders constructed a complex, multi-layered system of crisis management tools and enhanced surveillance mechanisms that fundamentally altered the nature of economic coordination. The crisis began in late 2009 when the newly elected Greek government revealed that its predecessor had grossly understated the country's budget deficit. This revelation triggered a rapid loss of market confidence, causing borrowing costs for Greece to skyrocket. What initially appeared to be an isolated fiscal problem in a small member state soon metastasized into a systemic crisis. The "doom loop" between weak sovereigns and their banking systems took hold, and financial contagion spread to Ireland, Portugal, Spain, and Italy.

The crisis exposed two critical flaws in the EMU's design. First, the "no-bailout" clause, intended to enforce market discipline, proved to be non-credible. Allowing a member state to default was deemed too risky, as it could trigger a "Lehman Brothers moment" in Europe, leading to the collapse of the financial system (Baldwin, Wyplosz, 2019: 311-312). Second, the EMU lacked any institutional capacity for crisis resolution. There was no lender of last resort for sovereigns and no framework for providing conditional financial assistance. EU leaders were forced to improvise under immense market pressure, leading to a series of ad-hoc decisions that often seemed one step behind the escalating crisis.

The response to the crisis unfolded on multiple fronts, leading to a "silent revolution" in EU economic governance (Dinan, 2014: 78-79). The first step was to contain the immediate financial panic. The "no-bailout" principle was de facto abandoned with the creation of bilateral loans for Greece, followed by the establishment of temporary financial backstops: the European Financial Stability Facility (EFSF) and the European Financial Stabilisation Mechanism (EFSM). These were later consolidated into a permanent institution, the European Stability Mechanism (ESM), in 2012. The ESM is an intergovernmental organization funded by Eurozone member states, capable of providing conditional loans to countries that have lost market access. This marked a monumental step towards fiscal risk-sharing, albeit in the form of loans, not transfers, and tied to strict policy conditionality (austerity programs) designed by the "Troika" (the European Commission, the ECB, and the International Monetary Fund).

Recognizing the SGP's failures, the EU enacted a raft of new legislation to tighten fiscal rules and enhance their enforcement. The "Six-Pack" (2011) and "Two-Pack" (2013) legislation introduced several key innovations. They created a system of semi-automatic sanctions for non-compliant states (making them harder for the Council to block), established an independent expenditure benchmark alongside the deficit rule, and for the first time, gave the European Commission the power to review national draft budgets before they were adopted by national parliaments. Furthermore, the intergovernmental Treaty on Stability, Coordination and Governance (TSCG), better known as the Fiscal Compact (2012), required signatory states to enshrine a "debt brake" or structural balance rule into national law, further binding the hands of future governments.

Perhaps the most significant structural reform was the creation of the European Semester in 2011. This is an annual cycle of policy coordination where member states align their budgetary and economic policymaking calendars. Each year, the cycle begins with the Commission's Annual Growth Survey, which sets out broad EU priorities. Member states then submit their National Reform Programmes and Stability/Convergence Programmes, which are assessed by the Commission. Based on this assessment, the Commission issues Country-Specific Recommendations (CSRs) for policy action, which are then endorsed by the Council.

Crucially, the Semester became the operational vehicle for the new Macroeconomic Imbalance Procedure (MIP). The MIP was designed to address the oversight of the original SGP by monitoring a scoreboard of indicators (e.g., current account balances, unit labour costs, house prices) to detect and correct potentially harmful imbalances. This represented a major expansion of the scope of EU surveillance beyond public finances into the heart of national economic and social policy (Schelkle, 2017: 201).

No account of the crisis response would be complete without mentioning the pivotal role of the ECB. Faced with the risk of the Eurozone's disintegration, the ECB under President Mario Draghi went beyond its narrow mandate of price stability. In his famous "whatever it takes" speech in July 2012, Draghi signalled the ECB's commitment to preserving the euro. This was followed by the announcement of the Outright Monetary Transactions (OMT) program, a conditional promise to purchase the government bonds of struggling countries on the secondary market. Although never activated, the OMT acted as a powerful circuit breaker, calming markets and effectively establishing the ECB as a de facto lender of last resort for sovereigns (De Grauwe, 2013: 352-362).

This period marked a decisive shift in the mode of EU governance. While the new rules appeared to create a more technocratic, supranational system, the reality was more complex. The most critical decisions were taken not within the classic EU institutions, but through intergovernmental bargaining in the European Council and the Eurogroup. The ESM and the Fiscal Compact are intergovernmental treaties outside the formal EU legal framework. This created a dual-track system, increasing governance complexity and raising serious concerns about democratic accountability and transparency, as crucial decisions affecting national budgets and social policies were made in closed-door negotiations (Habermas, 2012: 161-165). The crisis response saved the euro, but it did so at the cost of creating a far more intrusive and politically contested governance system.

The Post-Crisis Landscape and the COVID-19 Shock

Following the acute phase of the sovereign debt crisis, the Eurozone entered a „new normal." The hastily constructed crisis-era governance architecture, centered on the European Semester and strict fiscal surveillance, became the established routine. This period was characterized by a slow economic recovery, persistent debates over the procyclicality of the reformed SGP, and a political stalemate on further integration projects like the completion of the Banking Union. This fragile equilibrium was shattered in 2020 by an entirely different kind of crisis: the COVID-19 pandemic. The policy response to this symmetric, exogenous shock marked a dramatic and unexpected departure from the playbook of the previous decade, culminating in the creation of the Next Generation EU (NGEU) recovery fund.

The post-crisis framework was significantly more comprehensive than its predecessor. The European Semester integrated surveillance of fiscal, macroeconomic, and structural policies into a single, year-long cycle. The Macroeconomic Imbalance Procedure (MIP) ensured that issues like competitiveness and private debt were now on the EU's radar. However, this complex system was not without its critics.

Compliance with the Country-Specific Recommendations (CSRs) issued under the Semester remained weak. Member states often ignored or only superficially implemented politically difficult recommendations, especially those concerning pension systems, labour markets, or tax reforms (European Court of Auditors, 2020). The SGP, despite its reforms, continued to be criticized for its complexity and pro-cyclical bias. The Commission often relied on discretionary judgments and political negotiations to avoid triggering Excessive Deficit Procedures, leading to accusations of inconsistent application (Darvas, Leandro, 2015). Moreover, the austerity-focused logic that had dominated the crisis response was blamed for stifling growth, increasing inequality, and fuelling populist and Eurosceptic political movements across the continent. There was a growing sense that the governance framework was overly focused on punishment and discipline, lacking a corresponding capacity to promote investment and convergence.

The COVID-19 pandemic presented a challenge of a fundamentally different nature from the sovereign debt crisis. First, it was a purely exogenous shock, not attributable to the policy errors of any single member state. Second, it was a largely symmetric shock, affecting all countries simultaneously, albeit with varying intensity. This blunted the moral hazard arguments that had dominated the Eurozone crisis debates, where a narrative of „profligate" southern European countries versus „frugal" northern ones had taken hold (Blyth, 2013: 306-309). The shared external threat created a political opening for a response based on solidarity rather than discipline.

The immediate economic policy response was swift and substantial. The SGP's general escape clause was activated for the first time in March 2020, suspending the fiscal rules and allowing member states to provide massive fiscal support to their economies through health spending, wage subsidy schemes, and loan guarantees for firms. The ECB launched its own massive asset purchase program, the Pandemic Emergency Purchase Programme (PEPP), which stabilized financial markets.

The centrepiece of the EU's response, however, was the establishment of the Next Generation EU (NGEU) recovery instrument in July 2020. NGEU was a €750 billion (in 2018 prices) fund, financed by the European Commission borrowing for the first time on a large scale on the capital markets. This represented a historic breakthrough, creating a common EU debt instrument to finance a common policy response.

NGEU differed from the Eurozone crisis response in several critical ways. The core of NGEU is the Recovery and Resilience Facility (RRF). Crucially, a significant portion of the RRF's funds (around half) are disbursed as grants, not loans. This constitutes a direct fiscal transfer from the EU level to member states, a step that was politically taboo during the previous crisis. The allocation of grants is tilted towards the countries most affected by the crisis, not necessarily the largest economies.

The conditionality attached to NGEU funds is fundamentally different. Instead of demanding fiscal consolidation and austerity, the RRF requires member states to devote their funds to pre-defined EU priorities, namely the green transition (with a 37% spending target) and the digital transformation (a 20% target). This marks a strategic shift in EU coordination, using the central budget not just to enforce discipline but to actively steer national economies towards common long-term goals.

The disbursement of RRF funds is conditional on the approval of national Recovery and Resilience Plans (RRPs). These detailed plans, prepared by each member state, must outline a coherent package of investments and reforms. They are assessed by the Commission and approved by the Council. This creates a new, powerful coordination tool. The RRPs are designed to implement the Country-Specific Recommendations from the European Semester, thereby creating a direct financial incentive for compliance that was previously lacking.

NGEU can be seen as a temporary, but significant, step towards a fiscal union. It established the principle of common borrowing for common purposes and used the EU budget as a tool for macroeconomic stabilization and strategic investment. While its creators stressed its one-off nature, it has set a powerful precedent that will inevitably shape the future debate on the permanent architecture of EU economic governance.

Conclusions

The evolution of the EU's economic policy coordination from the simple rules of Maastricht to the complex, multi-faceted system incorporating the European Semester and Next Generation EU is a testament to its capacity for adaptation. The EMU is undoubtedly more resilient today than it was in 2009. It now possesses a permanent crisis resolution fund (ESM), a lender of last resort for sovereigns (the ECB's OMT), a framework for banking resolution (the Single Resolution Mechanism), and a tool for common fiscal stabilization (NGEU). However, this institutional bricolage has not resolved the fundamental political and economic tensions that lie at the heart of the EMU. The future of EU economic governance will be defined by how it navigates these enduring challenges.

The tension between a rules-based system and discretionary political judgment remains unresolved. The SGP has become an incredibly complex web of rules, exceptions, and interpretative clauses, leading the European Fiscal Board to declare it „too complex to be communicated and hence to be owned by the public."[^26] Its suspension via the general escape clause from 2020 to 2024, while necessary, has further eroded its credibility. The ongoing debate on SGP reform pits those who advocate for simpler, more credible rules (e.g., a single expenditure rule) against those who call for a greater role for country-specific, discretionary assessments. Finding a framework that is both credible enough to ensure debt sustainability and flexible enough to allow for counter-cyclical fiscal policy and public investment remains the holy grail of EMU governance.

The governance framework is a hybrid of supranational and intergovernmental elements. The Commission holds significant powers of surveillance and proposal, but final decisions on sanctions (under the SGP) or the approval of national plans (under the RRF) rest with the Council, where national interests dominate. The Eurozone crisis strengthened intergovernmental bodies like the European Council and the Eurogroup, which operate with less transparency than the traditional EU institutions. This creates a governance structure where technocratic oversight by the Commission is constantly checked by political bargaining among member states, which can undermine the consistent application of rules.

The deepening of economic surveillance has significant implications for democratic legitimacy. Decisions made within the European Semester or as part of ESM conditionality reach deep into the core of national sovereignty, affecting budgets, pension systems, and labour laws. Yet, these decisions are often made in complex, opaque processes with limited involvement from national parliaments or the European Parliament. The „output legitimacy" of this system (its ability to deliver economic stability and prosperity) has been severely tested, particularly in countries that underwent harsh austerity programs. Strengthening the democratic accountability of EU economic governance, for instance by giving a greater role to parliaments in the European Semester process, is a critical and unresolved task.

The ultimate goal of economic coordination is to foster sustainable convergence among member states. The record on this is mixed at best. While there was some income convergence in the EMU's first decade, the sovereign debt crisis triggered a sharp divergence, with Southern European economies suffering from lost growth, high unemployment, and soaring debt. NGEU was explicitly designed to counteract this divergence, with its grant allocation formula favouring the harder-hit economies. Whether this temporary instrument can put the EU back on a path of sustainable convergence remains a key question. The success or failure of NGEU in stimulating growth and reform will be a crucial test for the EU's capacity to generate shared prosperity. The EU stands at a crossroads. The geopolitical shocks of the war in Ukraine and the ensuing energy crisis have added new imperatives for coordination on energy policy, defence spending, and industrial strategy. These new challenges will interact with the old dilemmas of EMU governance.

The most pressing question is the future of the EU's fiscal framework. Will the experience of NGEU lead to the creation of a permanent central fiscal capacity, capable of providing macroeconomic stabilization and financing European public goods? Such a step would represent the logical completion of the monetary union, but it faces formidable political opposition from fiscally conservative member states wary of moral hazard and permanent transfers. The alternative is a return to a revised SGP, which will have to somehow reconcile the need for debt reduction with the massive public investment requirements of the green and digital transitions.

In conclusion, the EU's journey in economic policy coordination has been one of „failing forward," where crises expose deficiencies and force incremental, often incomplete, reforms. The current architecture is a patchwork of rules, institutions, and instruments created at different times and for different purposes. It is more robust than the original Maastricht design, but it is also more complex, more intrusive, and more politically contested. The future stability and success of the Economic and Monetary Union will depend on the political will of its members to finally address its foundational tensions and build a more coherent, effective, and legitimate system of shared economic governance.

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