

## Fiscal policy in times of crises An analysis of EMU constitutional framework<sup>1</sup>

### ABSTRACT

This study, commissioned by the European Parliament's Policy Department for Citizens' Rights and Constitutional Affairs at the request of the AFCO Committee, examines the fiscal responses of the EU to the Covid-19 pandemic and the war in Ukraine. It claims that the law & policy tools developed to address these crises have led to the establishment, and consolidation, of an EU fiscal capacity – contributing to overcoming the original imbalance of the EU's Economic & Monetary Union. Nevertheless, the study claims that these developments now require appropriate institutional adjustments, and considers options to achieve them.

This study examines from an EU law and policy perspective the fiscal responses of the European Union (EU) to the recent and ongoing crises, in particular the Covid-19 pandemic and the war in Ukraine, with the aim to assess their impact on the European constitutional architecture of economic governance – what is technically known as Economic & Monetary Union (EMU). The study argues that the EU's responses to the pandemic and now the war have had profound consequences on EMU, leading first to the establishment and then to the consolidation of an EU fiscal capacity – meaning a centralised budget, funded by common borrowing, to undertake EU domestic and foreign spending programs, and to be prospectively repaid by common taxes. As such, the legal developments that have occurred since 2020 have contributed to rebalancing the original asymmetry of EMU and to advancing European fiscal integration in remarkable ways.

Nevertheless, as the study shows, these developments in fiscal integration have not been so far accompanied by corresponding institutional adjustments to enhance the EU's effectiveness and legitimacy. Several constitutional and governance shortcomings still limit the EU's ability to mobilise resources and leverage power on the international stage. In particular, from a constitutional viewpoint, it is concerning that the EU constitutional architecture of economic governance continues to exclude the European Parliament – the only EU institution directly elected by EU citizens – from decisions on borrowing, taxing and spending. Moreover, the EU decision-making system on fiscal matters remains subjected to unanimity rule, which constantly threatens EU action due to national vetoes. As such, this study discusses the need, and options, for further treaty reforms in the area of EMU.

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<sup>1</sup> Full study in English:

[https://www.europarl.europa.eu/RegData/etudes/STUD/2023/753369/IPOL\\_STU\(2023\)753369\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2023/753369/IPOL_STU(2023)753369_EN.pdf)



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