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FOCUS ON RESEARCH IN CONTEMPORARY ECONOMICS

RESEARCH ARTICLE

IMPACT OF THE ACTIVATION OF GENERAL ESCAPE CLAUSE DURING 2020-2023 ON THE FISCAL POSITION AND GDP GROWTH IN THE EU

Andraž Konc*

ABSTRACT

This article examines the impact of the activation of the general escape clause on the fiscal position and GDP growth within the European Union. It aims to analyse how the general escape clause influenced public finances and economic performance of EU Member States. The research employs a qualitative and quantitative analysis of secondary data, including economic reports, statistical indicators, and professional literature. The study draws on comparative fiscal data and macroeconomic indicators from EU and international institutions to assess the effects of the general escape clause. The findings indicate that the activation of the general escape clause provided Member States with greater fiscal flexibility, which facilitated a faster economic recovery following the Covid-19 shock. However, this fiscal expansion also led to increased public debt levels and raised concerns about long-term fiscal sustainability and discipline. It highlights the trade-off between economic recovery and fiscal discipline, underscoring the need for a balanced reimplementation of fiscal rules that supports growth without compromising debt sustainability. The article contributes to current debates on EU fiscal governance by providing an analysis of the implications of the general escape clause and its role in shaping the future of the fiscal policy in EU. We recommend future studies assess the effectiveness of the reformed rules in promoting economic stability across EU Member States.

KEY WORDS: *Fiscal rules, General escape clause, Fiscal policy, public Finance sustainability*

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1. INTRODUCTION

The reintroduction of fiscal rules in the European Union (EU) is an important topic, as fiscal rules play a key role in ensuring fiscal sustainability and macroeconomic stability. In this piece, we discuss the impact of the pandemic on public finances in the EU, with particular emphasis on Slovenia, how the activation of the general escape clause has affected GDP, the fiscal position, and provide a concise overview of the reform of the EU's fiscal framework. The choice of the topic is based on the importance of the (rei)enforcement of fiscal rules in the EU. Fiscal policy refers to the "application of government spending and tax policies to influence economic conditions, in particular macroeconomic conditions" (Hayes, 2023), and fiscal rules can be defined as an "institutional mechanism designed to support fiscal credibility and discipline, limit the size of government and ensure intergenerational equity" (Kumar et al., 2009, 6). It is in fact a mechanism that seeks to balance government budget revenues and expenditures over the medium term, with the aim of ensuring the long-term sustainability of public finances without excessive borrowing. An appropriate fiscal framework is essential for effective fiscal sustainability. According to Budina et al. (2012, 5), the rules aim to eliminate distorted incentives and limit excessive spending pressures, especially in good economic times, in order to ensure fiscal responsibility and debt sustainability.

At the time of pandemic, tackling the challenges of public finances had once again proved highly relevant. EU fiscal rules have been 'deactivated' through the use of a general escape clause in order to provide the necessary room for manoeuvre for expansionary policies. The Covid-19 pandemic caused a huge economic downturn, more severe than during the global financial crisis. The EU had to respond to the crisis swiftly, decisively and in a coordinated manner at all levels. Public finances suffered a significant blow and fiscal disparities between Member States widened. Budget deficits and public debts have risen sharply in all Member States, which European policy will need to address.

Empirical research (see for example Asatryan et al., 2015; Kraemer and Lehtimäki, 2023; and Leiner-Killinger and Nerlich, 2019) show that the pre-existing framework of fiscal rules in the euro area - notwithstanding inconsistencies in design, implementation and enforcement - has had a non-negligible effect on fiscal balances in the euro area, although the effects have varied by period and country due to differences in macroeconomic, fiscal governance and country regulatory frameworks (Marneffe et al., 2010, 22-23).

The new fiscal framework, adopted in 2024, foresees the Commission negotiating bilaterally with Member States a fiscal and structural framework with a minimum four-year horizon. It should ensure viable and sustainable public finances, provide adequate room for counter-cyclical policies, correct macroeconomic imbalances, while promoting sustainable and inclusive growth and job creation in all Member States through reforms and investment (European Council, 2024).

Despite the relevance of the topic, there is still a notable lack of comprehensive research that connects the activation of the general escape clause with medium-term macroeconomic outcomes, especially in the context of the EU's fiscal framework reform. The article begins with an overview of the Stability and Growth Pact and its reform, followed by an analysis of macroeconomic developments in the EU during the 2020–2023 period. This research contributes to the ongoing debate on how fiscal rules can be designed to support both stability and resilience in the face of economic shocks."

2. EU FISCAL FRAMEWORK: FROM THE STABILITY AND GROWTH PACT TO REFORM

The Stability and Growth Pact (SGP) is the European Union's key tool for ensuring fiscal discipline among Member States. It was introduced in 1997 with the aim of preventing excessive budget deficits and public debt in euro area countries and ensuring the stability of the euro. Designed to ensure fiscal discipline in the Union, the SGP requires national governments to commit to certain budgetary and debt ceilings. In particular, the SGP requires Member State governments to limit budget deficits to 3% of their gross domestic product (GDP) and to keep public debt below 60% of GDP, is based on two main pillars: a preventive and a corrective arm. The European Commission has decided that it is time to reform the preventive arm of the Stability and Growth Pact to make the European Union's fiscal rules clearer, more flexible, better adapted to national circumstances and more investment friendly.

Main aim is to guarantee that fiscal policy is implemented in a manner that promotes sustainable public finances throughout the short, medium, and long term. It mandates Member States to attain their medium-term fiscal objective (MTO). This is established in structural terms, cyclically adjusted, and excluding one-off and other transitory initiatives. Member States failing to meet their MTO must identify and propose a suitable adjustment trajectory towards the MTO. Compliance with the requirements of the preventive arm is assessed using a two-pillar approach (EC-DG ECFIN, 2019, 6). The assessment of the structural balance, which constitutes pillar one, is complemented by an analysis of the growth rate of expenditure net of discretionary revenue measures (i.e.

compliance with the expenditure benchmark), which constitutes pillar two. The Commission monitors and assesses Member States' budgetary plans and makes recommendations for fiscal policy corrections, if necessary. The MTO is country-specific and revised every three years under Regulation (EC) No 1466/97. The required annual fiscal effort—the change in the structural balance needed to meet the MTO—depends on each country's situation. Flexibility is allowed during crises (e.g. financial crisis 2008, Covid-19), including activation of an escape clause. The expenditure benchmark limits public spending growth in line with long-term economic potential, adjusted for one-offs, to prevent overheating and imbalances. The main legal basis for the corrective arm of the Stability and Growth Pact is Article 126 TFEU, which requires Member States to avoid excessive deficits and establishes budgetary accountability in terms of adherence with limits on the level of government deficits and debt (EC-DG ECFIN, 2019). It ensures that Member States take appropriate policies or measures to correct excessive deficits (or debt) through the Excessive Deficit Procedure. If a Member State exceeds the reference value of 3% of GDP for the budget deficit or 60% of GDP for the government debt, a procedure can be triggered requiring the Member State to take measures to reduce its deficit and debt. Countries under the excessive deficit procedure have then certain period to comply with the recommendations, which provide them with a concrete path to correct the excessive deficit within a set timeframe. Non-compliance may result in financial sanctions, such as non-interest-bearing deposits, which are returned once compliance is achieved. In practice, however, the debt rule has never landed countries in the Excessive Deficit Procedure, as the mechanism is not automatic.

The previous fiscal rules helped limit deficits and debt but did not prevent them and often led to procyclical policies (Arnold et al., 2022; Feás, 2023). The EU fiscal framework reform aims for sustainable public finances, room for counter-cyclical policies, macroeconomic balance, and inclusive growth (European Council, 2024). The main innovation under the reform is the adoption of a differentiated approach towards each Member State, taking into account the heterogeneity of the EU's fiscal positions, public debt and economic challenges (Council of the EU, 2023). The basic indicator for setting fiscal paths is a single operational indicator, namely net primary expenditure growth, which considers all elements of public expenditure under the direct control of the government, excluding discretionary measures on the revenue side and excluding interest and cyclical unemployment expenditure (Höflmayr, 2024, 4). Member States will follow a 4-year fiscal-structural plan, extendable up to 7 years with reform commitments, with expenditure paths ensuring debt and deficit targets.

Reforming fiscal rules is also essential to restructure our economies, as significant public investment will be needed to stimulate and complement the private investment that is essential for the digital and green transition.

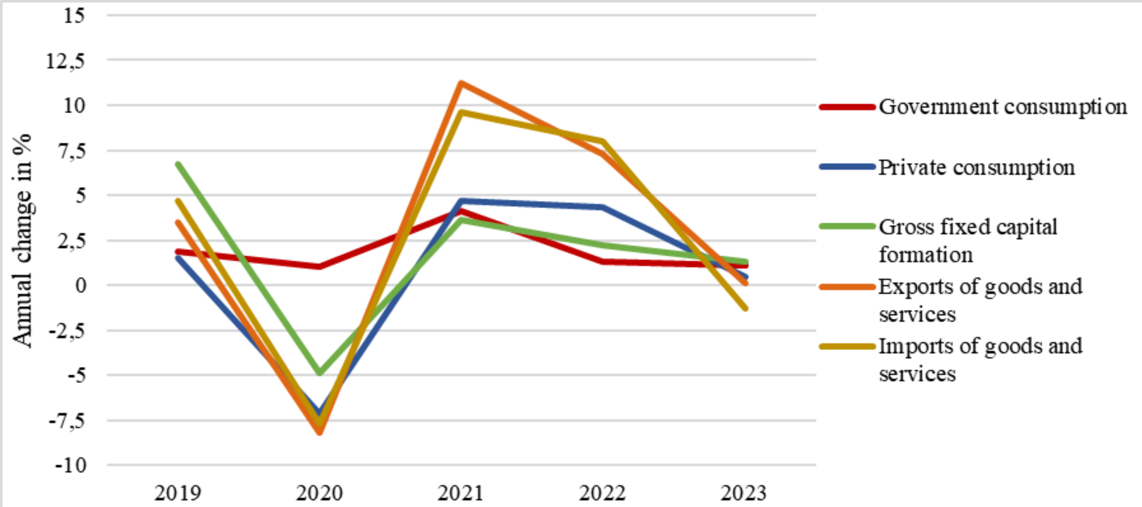
3. PERIOD OF EXCEPTIONAL ECONOMIC CIRCUMSTANCES

3.1. Macroeconomic Trends in the EU

In the wake of the Covid-19 pandemic, real GDP in the EU contracted by 13.1% year-on-year in the second quarter of 2020, and by 11.2% in Slovenia (Eurostat, n.d.). The fall in economic activity was severe due to a sudden drop in domestic demand as a consequence of the restrictive measures taken to cope with the pandemic, and spill-over effects from measures in other countries that affected external demand.

In Slovenia and the EU (as can also be seen in Figure 1), private consumption fell sharply in the wake of the Covid-19 pandemic. This is primarily due to a series of austerity measures taken and, with the increase in uncertainty, also to a rise in precautionary savings - the household savings rate rose from 12.6% in 2019 to 21.7% in 2020 (Eurostat, n. d.). Thereafter, this rate declined as gross disposable household income strengthened. Investment also contracted sharply in 2020, and imports and exports fell in the face of weakening foreign demand. After a fall in 2020, all expenditure components of GDP returned to growth the following year (except government consumption, which was also positive in 2020). In Slovenia, government consumption contracted in 2022, while investment grew strongly, also due to the floods in August 2023. However, investment in the EU had a lower average growth rate than Slovenia over the period 2021-2023. Throughout the observation period, Slovenia had higher growth in private consumption compared to the EU, with the exception of 2023. Imports and exports grew strongly in Slovenia and on average in the EU for the next two years after 2020, but then declined sharply, especially in Slovenia.

Fig. 1. Real GDP by expenditure components in the EU 2019-2023

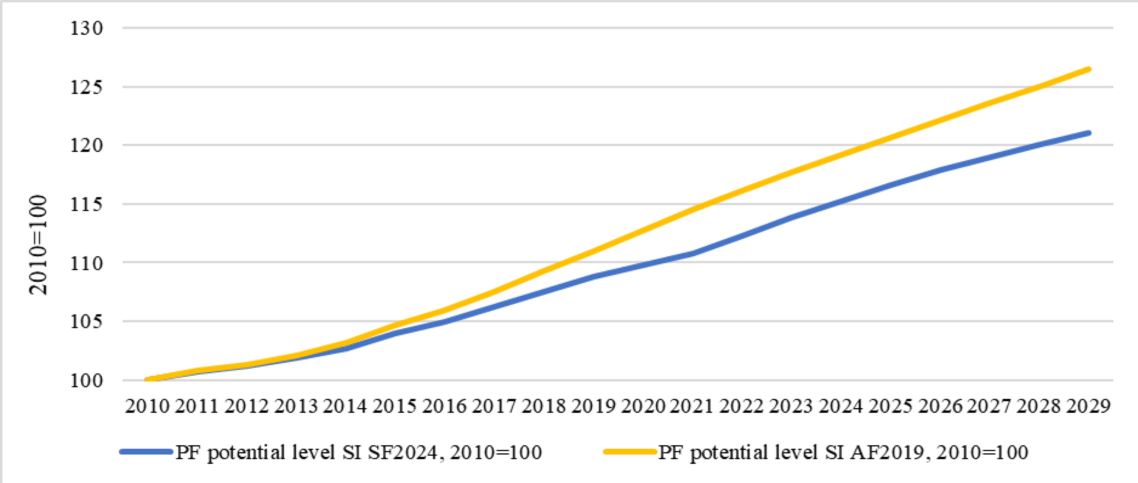


Source: Prepared by the author using AMECO Database.

Before the pandemic, Slovenia had slightly fewer total hours worked per person employed (1601) compared to the EU average (1623), as can be seen from the AMECO Database. In the year of the most intense crisis of the pandemic, we see a large drop in the number of hours worked in the EU and Slovenia, due to the closure of economies, restrictions on movement and various government schemes in the labour field, such as the 'waiting for work' measure. In 2020, the number of hours worked per employee fell by 5.6% on average in the EU and by 4.3% in Slovenia, so that the number of hours worked per employee in 2020 in Slovenia was roughly at the same level as in the EU average. In 2021 and 2022, the number of hours worked started to increase as European economies entered the recovery and adjustment phase of Covid-19. At EU level, even in 2023, they have not yet reached 2019 levels, which may also be due to the changing lifestyle habits of the working population. Slovenia, however, reached 1616 hours in 2023, above the EU average (1605). This may indicate better adaptation and perhaps less dependence on external shocks, or more likely a more limited labour pool. In the year before the coronavirus, inflation was low, below 2% in the European Union and Slovenia, in line with the ECB's objective of price stability, according to the AMECO Database. In 2020, inflation remained low. The Covid-19 pandemic had an impact on demand and supply, but this has not yet led to a significant increase in prices. However, inflation rebounded sharply in 2021 and 2022, both in the European Union and in Slovenia. This period was marked by a rapid economic recovery from the pandemic, which brought increased demand, together with disruptions in supply chains. Slovenia's inflation rate (9.3%) was still slightly higher than in the EU (9.2%). Inflation peaked in 2022, with prices continuing to rise. The energy crisis triggered by the war in Ukraine had a strong impact on energy prices, further fuelling inflation. Slovenia again slightly outperformed the EU average, reflecting the country's stronger price pressures - greater import dependence as a small country and large fiscal stimulus. In 2023, price growth started to moderate, but remained at a significantly higher level compared to the pre-pandemic period.

The EC Autumn Forecast 2019, issued before the Covid-19 pandemic and the energy crisis, foresaw a stable and rather optimistic increase in the level of potential GDP in the EU average (Figure 2) and Slovenia. However, according to the European Commission's Spring 2024 forecast, the estimated level of potential GDP from 2020 onwards is much lower, both in Slovenia and in the EU average. This points to the permanent effects of the Covid-19 crisis and the energy crisis on Slovenia's and the EU's economic potential. One of the reasons for this is the reduction in the TFP contribution. The pandemic has had a negative impact on R&D and innovation processes due to limited financial resources (Carpinelli et al., 2025), which may be the reason for the downward revision of the estimates of factor productivity growth (TFP), which is significant for Slovenia. Additional reasons for the lower TFP growth estimates after the pandemic may relate to disruptions in work processes (Fernald et al., 2025), the shift to teleworking, reduced interactions between employees and a consequently less productive workforce. Many people have also left the labour market due to closures, health problems or retirement, and not all have returned to the labour market even after the closures have been lifted, reducing the potential labour force and thus potential GDP in the short term (2020-2021). The energy crisis, which has hit Europe hard, has increased energy costs, especially for energy-intensive firms, affecting production costs and reducing the competitiveness of European firms, which could also explain the fall in productivity growth. The estimate of Slovenia's potential GDP based on the EC's Spring 2024 forecast deviates relatively less from the estimate in the EC's Autumn 2019 forecast than the estimate of the potential GDP of the EU average, suggesting a smaller effect of the so-called hysteresis hypothesis. The hysteresis hypothesis refers to the possibility that economic crises have a negative impact on economic potential, not only on real economic activity (Mourougane, 2017).

Fig. 2. Estimated average EU potential GDP level based on the EC Autumn 2019 and EC Spring 2024 forecasts



Source: Prepared by the author's own calculations based on data from EC Forecast 2019, 2024 and AMECO Database.

3.2. Fiscal developments in the EU and the use of general escape clause

In 2019, the EU had a budget balance close to its 2017-2019 average of -0.6% of GDP (Eurostat, n.d.). In 2020, all Member States experienced a significant deterioration in their budget balances as a result of the Covid-19 pandemic, with Slovenia recording a larger deterioration than the EU average. The budgetary impact was significant due to automatic stabilizers - namely, a decline in tax collections and an escalation in cyclical expenditures such as unemployment benefits - alongside the discretionary actions required to address the crisis. By 2021, budgetary balances had improved, with Slovenia catching up with the EU average, but with deficits well above the 3% of GDP reference limit (around 4.7% of GDP) for both Slovenia and the EU average. In 2022, the average budget deficit in the EU countries declined to 3.4% of GDP, before rising slightly again in 2023 (to 3.5% of GDP). In Slovenia, however, the deficit reached 3% of GDP in 2022, before declining by a further 0.5 percentage points in 2023. Public debt as a percentage of GDP rises sharply in 2020 due to higher budget deficits resulting from pandemic-related expenditure. In Slovenia, it rose from 65.4% of GDP in 2019 to 79.6% of GDP in 2020, and from 77.8% to 90.0% on average in the EU (Eurostat, n.d.). High nominal GDP growth due to inflation helped stabilise debt, though debt servicing costs will rise (DG ECFIN, 2023). Between 2021 and 2023, public debt in Slovenia and the EU started to decline slightly, indicating a gradual stabilisation after the pandemic. In 2023, it reached 69.2% of GDP in Slovenia and 81.7% of GDP on average in the EU.

In the wake of the sharp downturn in economic activity following the outbreak of the Covid-19 pandemic at EU level (Gbohoui and Medas, 2020), the European Commission has activated the general escape clause freezing fiscal rules in the EU, which allows Member States to take budgetary measures to adequately cope with a severe economic downturn under the preventive and corrective procedures of the Stability and Growth Pact. The general escape clause offers enhanced flexibility in the implementation of the preventive and corrective components of the Stability and Growth Pact during "periods of severe economic downturn in the euro area or the Union as a whole" (Council Regulation 1467/97). This flexibility to deviate from Member States' fiscal policies is allowed "provided that this does not jeopardise medium-term fiscal sustainability". The EU decided to activate the general escape clause also because of the negative experience of a too slow stimulative fiscal response during the 2008 crisis and too high fiscal consolidation during the recovery from the financial crisis, which led to hysteresis - a fall in potential GDP in the EU as a consequence of the crisis. In response to the Covid-19 crisis, as the energy crisis, countries have taken significant discretionary measures. The IMF (2020) believes that fiscal policy has been at the forefront of the fight against the pandemic. The majority of Member States' fiscal councils also consider that a strongly expansionary fiscal policy was key in 2020. In 2020, fiscal policy was markedly expansionary. Across all EU Member States combined, policy measures averaged around 5% of GDP in 2020 and 4% of GDP in 2021 (European Fiscal Monitor - EFM, 2021). As response to the crisis, the European Commission adopted the Recovery and Resilience Facility (RRF), temporary instrument and part of NextGenerationEU, through which the Commission raises funds by borrowing on the capital markets, which are then made available to Member States to implement reforms and investments. The RRF is expected to cumulatively contribute to economic growth of around 1.2% of the European Union's 2019 GDP over the period 2021-22 (EFM, 2021). There are significant differences in the fiscal response to the crisis between countries, with Greece having the relatively largest amount of fiscal measures taken in 2020 (around 13% of GDP), the countries with the smallest amounts of fiscal measures were Romania and Slovakia at 2 percent (EFM 2021). Many national fiscal authorities (20 out of 32 in the EFM - a further six national fiscal authorities did not report) consider that the government fiscal measures taken in response to the pandemic were adequate. Regarding the fiscal stance, the majority of National fiscal institutions (21 out of 32 surveyed) consider that the expansionary fiscal stance was also appropriate for economic and budgetary stability in 2021. Most EU countries maintained expansionary policies in 2021, but governments shifted from financing emergency first aid to supporting economic recovery. EU Member States' fiscal responses to the

Covid-19 pandemic have been heterogeneous. Common measures included tax deferrals, temporary VAT cuts, and reduced social contributions to support liquidity and employment (Karpova et al., 2020). The least common measure, taken only by Austria, helped to reduce tax liabilities for individuals and increase disposable income. Temporary tax breaks have been widely used, as they were introduced to reduce the tax burden on businesses and individuals during the crisis.

The Russian aggression on Ukraine contributed to a rapid reassessment of the economic outlook and risks, leading to a sharp increase in inflation and downside risks to economic activity. Given the rapid rise in energy and food prices, new discretionary fiscal measures to mitigate the impact amount to around 1.8% of euro area GDP in 2023 (1.9% of GDP in 2022), falling sharply to 0.5% of GDP in 2024 (Checherita-Westphal and Dorrucci, 2023). Overall, the national fiscal institutions consider the fiscal response to the increase in inflation to be appropriate and realistic. The ECB considers (Bonam et al., 2024, 11) that, in the context of an independent monetary policy aimed at returning inflation to target in a timely manner, it is still possible to design fiscal policy in a way that protects vulnerable segments of society from the costs of high inflation, without affecting the central bank's efforts to tame inflation. This is more likely if fiscal measures are targeted and transient. In February 2022, the Russian invasion of Ukraine brought drastic changes to the EU energy sector. Before the war, the EU was meeting more than half of its gas needs with imports from Russia. Since the war, energy prices have risen sharply and security of supply has become a serious problem. The EU was therefore forced to act quickly to reduce its dependence on Russian gas, oil and coal and to ensure the stability of its energy supply. The introduction of the AggregateEU platform was important, contributing to the diversification of energy sources and increased security of supply in 2023 and 2024. Over a period of two years, the EU's dependence on Russian gas has been significantly reduced. In 2021, the EU imported 150 billion cubic metres (bcm) of gas from Russia, accounting for 45% of total imports (EC-DG ENER, 2024). By 2023, this share had fallen to 15%, as Russian gas imports fell to 43 bcm. An important step in this direction was the REPowerEU plan launched by the European Commission in May 2022 to save energy, accelerate the transition to clean energy and diversify energy sources. Diversification of energy sources has become a key strategy for the EU. Increasing LNG imports and reliable supplies through pipelines from countries such as Norway and the US have reduced the risks of supply disruptions. In 2023, Norway and the US became the EU's main gas suppliers, with a 30% and 19% share of total gas imports respectively (EC-DG ENER, 2024). The EU set up the EU Energy

Platform in 2022 to coordinate demand pooling or joint gas purchasing. In 2023, the AggregateEU platform was launched to allow aggregated gas demand from energy companies and contracting with international suppliers. Slovenian nationally taken measures included capped energy prices, offered €1 billion in subsidies, and promoted solar power expansion (MOPE, 2024).

The validity of the general escape clause was extended due to the consequences of the outbreak of war in Ukraine but was finally deactivated at the end of 2023 (European Parliament, 2024). The Commission's Communication on the European Semester 2022 of May 2022 stated that the conditions for the deactivation of the general escape clause would be considered fulfilled as of 2024. European economy has recovered above pre-pandemic levels and survived the dangerous shock phase of rising energy prices caused by the Russia-Ukraine war, although geopolitical uncertainty remains high (EC, 2023). This underscores the necessity for fiscal regulations to possess sufficient flexibility to address unforeseen economic or significant geopolitical disruptions. It is especially significant for extraordinary occurrences that can exert substantial fiscal and economic impacts, such as the Covid-19 pandemic. However, the use of escape clauses should everywhere involve a well-defined and transparent process in order to preserve the credibility of the fiscal framework, which must strike the right balance between a sustainable fiscal position and sustainable growth.

3.3. F Fiscal effort and economic recovery

Empirical findings on the impact of fiscal policy on economic activity or on the effectiveness of the stabilising role of fiscal policy are mixed. For example, Tanchev and Mose (2023) link a 1% increase in government spending to an increase in real GDP of around 0.14%, as aggregate demand increases through government consumption. However, other studies, such as Stoilova and Todorov (2021) and Hodžić, Demirović and Bečić (2020), show that government consumption expenditure in CEE countries does not have a significant impact on economic growth. Jemec et al. (2013) find that an increase in public spending in Slovenia has significantly positive effects on output in the short run (a 1% increase in government expenditure results in an instantaneous increase in GDP of 1.61%), but that they cancel out in the long run. Even positive tax shocks have a significant negative effect on output only in the short run. The authors therefore conclude that fiscal multipliers are significant only at the event and that government measures on the expenditure side have a larger effect.

Slovenia pursued a very expansionary fiscal policy in 2020 in the wake of the Covid-19 pandemic, which helped to cushion the economic downturn. The European Union also reacted with expansionary policies, but to a lesser extent compared to Slovenia. The largest divergence in fiscal policy stance between Slovenia and the EU can be observed in 2021, when the EU pursued a still somewhat counter-cyclical expansionary fiscal policy, while Slovenia took a more counter-cyclical restrictive stance. The data below – Table 1, do not show a tangible correlation between higher fiscal effort, i.e. annual changes in the structural balance, and (faster) economic growth in the following years. The fiscal effort is the change in the structural budget balance. The structural balance was not stripped of significant crisis measures during the period under review, as is usually the case, due to the activation of the general escape clause at EU level. In principle, countries that take larger fiscal measures have a larger economic rebound, measured as economic growth in the following year. The correlation between average fiscal effort and average economic growth over the 2020-2023 period for the EU is -0.089. The insignificant correlation suggests that there is no significant linear relationship between average fiscal effort and average economic growth for the observed sample. The correlation between fiscal effort and economic growth in 2020 among EU countries is 0.416, indicating that, in principle, countries with higher economic downturns have also increased their structural deficit more. The correlation between the fiscal effort in 2020 and average economic growth in 2021 is weak for EU countries (below 0.4), at -0.163, suggesting that there is no statistically significant link between a higher accumulation of structural deficit, also as a consequence of a higher severity of crisis measures in a given country, in 2020 and a higher real GDP growth in 2021 (which implies faster economic rebound). The negative sign suggests that countries with a higher structural balance decline in 2020 (also as a result of the anti-crisis measures) did not experience a faster recovery in 2021, as measured by real GDP growth in 2021.

The appropriateness of fiscal policies is also judged against the results achieved over the medium term, as it is nominal deficits that are key to the accumulation of public debt and ultimately matter for fiscal sustainability. Fiscal adjustment in the EU will need to be implemented over the medium term to achieve long-term objectives such as adequate economic growth and increasing social welfare, while avoiding fiscal vulnerabilities such as the accumulation of public debt. The general government deficit ratio is projected to fall below the 3% deficit reference value in most countries by 2026, driven by higher tax and social security revenues stemming from GDP growth, employment and inflation (EC, 2024). The expiry of the emergency measures to mitigate the impact of higher inflation has also contributed to the improved outlook.

Table 1. Comparison Of Annual Fiscal Effort And Economic Growth for EU Member States 2020-2023

	FISCAL EFFORT (change in structural balance in o. t. of potential GDP)				ECONOMIC GROWTH (%)			
	2020	**2021**	**2022**	**2023**	**2020**	**2021**	**2022**	**2023**
EU average	-2.6	-0.6	0.4	0.4	-5.6	6.1	3.4	0.4
Slovenia	-5.2	0.4	1.6	1.6	-4.2	8.2	2.5	1.6
Belgium	-2.8	0.8	0.9	-0.3	-5.3	6.9	3.0	1.4
Bulgaria	-4.1	-1.6	0.6	1.1	-4.0	7.7	3.9	1.8
Czechia	-3.2	-0.5	1.5	0.4	-5.3	4.0	2.8	-0.1
Denmark	-1.3	1.2	-0.9	-0.1	-1.8	7.4	1.5	2.5
Germany	-3.6	-0.4	0.6	0.4	-3.8	3.2	1.8	-0.2
Estonia	-3.5	-0.1	3.3	-0.2	-1.0	7.2	-0.5	-3.0
Ireland	-5.4	-1.6	0.9	4.1	7.2	16.3	8.6	-5.5
Greece	-6.1	-1.5	2.2	0.9	-9.3	8.4	5.6	2.0
Spain	0.0	-0.2	-0.4	0.7	-11.2	6.4	5.8	2.5
France	-2.0	-0.8	1.0	-0.5	-7.4	6.9	2.6	0.9
Croatia	-0.7	1.5	0.6	-2.5	-8.5	13.0	7.0	3.1
Italia	-2.9	-3.8	-1.2	1.3	-9.0	8.3	4.0	0.9
Cyprus	-4.2	0.8	3.8	1.2	-3.4	9.9	5.1	2.5
Latvia	-2.0	-4.3	2.2	3.2	-3.5	6.7	3.0	-0.3
Lithuania	-5.4	4.5	0.8	1.2	0.0	6.3	2.4	-0.3
Luxembourg	-4.2	1.8	-0.6	0.4	-0.9	7.2	1.4	-1.1
Hungary	-2.3	-1.0	0.1	0.9	-4.5	7.1	4.6	-0.9
Malta	-4.0	-1.8	1.5	0.4	-8.2	12.5	8.1	5.7
Netherlands	-2.0	-0.9	0.8	0.3	-3.9	6.3	5.0	0.1
Austria	-4.3	0.5	0.4	1.7	-6.6	4.2	4.8	-0.8
Poland	-3.7	3.4	-2.3	0.1	-2.0	6.9	5.6	0.2
Portugal	-0.6	0.1	0.5	1.8	-8.3	5.7	6.8	2.3
Romania	-2.9	1.2	0.4	-0.1	-3.7	5.7	4.1	2.1
Slovakia	-5.2	0.4	1.6	1.6	-3.3	4.8	1.9	1.6
Finland	-2.3	-1.0	3.4	-2.8	-2.4	2.8	1.3	-1.2
Sweden	-2.7	1.5	2.4	-1.1	-2.0	5.9	1.5	-0.2

Source: Prepared by the author's own calculations based on data AMECO Database.

4. DISCUSSION AND CONCLUSIONS

IThis article examines the impact of the general escape clause on the fiscal position and economic growth of EU Member States in the aftermath of the Covid-19 pandemic. The results do not clearly show that the escape clause was instrumental in allowing countries the flexibility to implement fiscal policies, which would contribute to a faster economic recovery. Despite the positive effects on short-term economic growth, it highlights the risk of long-term fiscal unsustainability, mainly due to increased public debts. As part of our research, we have presented the fiscal rules of the European Union and analysed macroeconomic trends in the EU over the period 2019-2023. The research shows that while fiscal flexibility supported economic resilience, it also exposed structural weaknesses in EU fiscal governance, particularly regarding debt accumulation and inconsistent enforcement of fiscal rules. This observation is consistent with previous studies (e.g. Arnold et al., 2022; Larch et al., 2020), which criticize the procyclical tendencies and rigidity of earlier frameworks. In response to the pandemic and, later, to the energy crisis, countries and the EU have had to help households and the economy with hefty fiscal measures.

All Member States experienced a significant deterioration in budgetary balances as a result of the large fiscal measures, with Slovenia recording a larger deterioration than the EU average. By 2021, budgetary balances had improved, with Slovenia catching up with the EU average. In the EU, they were still above the 3% of GDP reference threshold in 2023. Higher budget deficits led to a rise in public debt from 77.8% to 90.0% of GDP in the EU, which, although mitigated by a period of elevated inflation through higher nominal GDP growth, was not the case in 2023. Our findings suggest that the correlation between fiscal effort and (post)-crisis economic growth was not statistically significant across Member States, highlighting country-specific dynamics and policy contexts. In next years, Slovenia and the EU are expected to have a more restrictive fiscal policy.

Going forward, it will be crucial to monitor how Member States react to the reintroduction of fiscal rules and what the long-term effects of these policies will be on public finances and economic growth. In particular, it will be important to assess whether the reformed fiscal rules will succeed in striking a balance between the need for economic recovery and ensuring sustainable fiscal policy, which the previous rules failed to do. A key limitation of this research lies in the relatively short observation period (2020–2023), which may not fully capture the medium- and long-term impacts of the fiscal measures taken during the crisis. Further research should monitor the implementation and effectiveness of these reformed rules, with particular attention to their impact on public debt trajectories, investment, and economic convergence in the EU.

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DISCLOSURE OF CONFLICT

The author declare that no conflicts of interest exist

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