Economic and Financial Affairs Council (ECOFIN)

Topic 2: Reforming EU Fiscal Rules to Balance Debt Control and Strategic Investment.

President: Karim Al Shurafa

President's Letter

Dear Delegates,

It is my honor to welcome you all to the Economic and Financial Affairs Council (ECOFIN). This committee carries a special weight, as the issues we face are not only technical, but deeply tied to the future stability and prosperity of our world. From shaping fair fiscal rules to strengthening financial systems, and from addressing crises to unlocking investment in green and digital growth, the work you do here will reflect diplomacy at its best.

ECOFIN stands out as one of the greatest committees because it sits at the heart of global economic decision-making. With Europe long serving as a center of trade, finance, and innovation, the discussions we hold here go far beyond numbers, they shape how economies interact, how crises are managed, and how cooperation is built across borders. The influence of this committee reflects the reality that when Europe acts together, it has the power to guide not only its own future but also the direction of the global economy.

As your President, my role is to guide and support you in creating meaningful debate that is fair, respectful, and productive. You will find that ECOFIN thrives when every voice is heard whether you are representing a large economy or a small one, your ideas matter. I encourage you to step forward, take risks in your arguments, and most importantly, work with one another. True diplomacy is not about speaking the loudest, but about building bridges, negotiating differences, and finding solutions that leave no member behind.

This committee will challenge you, but it will also reward you. The rules of procedure, the pace of debate, and the responsibility of resolution-writing are all here to test your skill and focus. But remember you are not alone in this process. Alongside the chairing panel, I am committed to making sure every delegate has the tools, guidance, and support they need to succeed.

Yours sincerely,

Karim Al Shurafa

President of ECOFIN

Terminology

- **Fiscal Rules:** Permanent numerical limits placed on a government's budget to ensure responsibility in financial management and long-term debt sustainability.

- **Convergence criteria:** A set of economic conditions set by a monetary union (such as the EU) that an entity or system must meet to be considered unified, or have reached a stable economy.

- **Economic and Monetary Union (EMU):** Aimed at economic integration within the European Union (EU) that has led to the creation of common currency, the euro, and a unified approach to economic and fiscal policies across its member states.

- **Gross Domestic Product (GDP):** Total monetary value of goods and services produced within a country's borders during a specific period of time.

- **Public Debt:** The total amount of money owed by a government to others, such as citizens, financial institutions, or other nations.

- **Excessive Deficit Procedure:** A set of rules by the EU that forces member governments to correct their high government budget deficits and public debts.

- **Debt Reduction Rule:** A fiscal policy that requires a nation to reduce its government debt if it exceeds a certain amount.

- **Autonomy:** The freedom of a nation to make independent economic decisions and manage its own resources with minimal external influences or control.

- **General Escape Clause:** A provided clause in a contract or treaty that allows member parties to be relieved of their obligations under specific, predefined circumstances.

- **Expenditure:** The action of spending funds.

- **Revenue:** Income, especially when of an organization and of a substantial nature.

History and timeline of events

The reform of the European Union's fiscal rules is a long history of trying to manage national budgets within the Eurozone economy:

- **1992, Maastricht Treaty:** The Maastricht Treaty set the foundational fiscal rules for convergence criteria for joining the Economic and Monetary Union (EMU), establishing two vital values that remain at the core of EU fiscal rules to this day: a fiscal cap of 3% of Gross Domestic Product (GDP) and a public debt target of 60%.

- **1997, Stability and Growth Pact (SGP):** The SGP operationalized the limits in the Maastricht Treaty, and created a framework with a preventative and corrective arm (Excessive Deficit Procedure). The preventative arm conducted monitoring of fiscal policies to ensure that nations' budgets remained stable, while the corrective arm set measures to sanction nations that breached the 3% and 60% caps, in order to prevent a single nation's poor fiscal management from creating economic instability in the entire Eurozone.

- **2005**: The first reform introduced more flexibility and the concept of a structural deficit, which tried to distinguish between temporary economic downturns and permanent fundamental imbalances between government revenue and expenditure. This reform was criticized due to it making the rules more complex and lessening transparency.

- **2008-2012:** The sovereign debt crisis (Eurozone crisis) exposed the flaws of the SGP.

- **2011 “Six-Pack” and 2013 “Two-Pack”:** Adoption of these two judicial packages to strengthen the SGP by introducing a debt reduction rule and greater autonomy for sanctions. This period saw a significant emphasis on austerity and debt reduction, at the cost of potential economic growth.

- **2020-2023:** In response to the COVID-19 pandemic and the energy crisis, the General Escape Clause was activated, in order for governments to spend freely.

- **2024:** The most recent reform created a new framework to address the complexity, lack of ownership, and bias against investment in the old system. This framework shifted surveillance to country-specific medium-term (4–5-year) fiscal-structural plans.

Current situation

The European Union's fiscal architecture is showing signs of strain. Under the current SGP, Member States often face a stark trade-off between reducing debt and addressing urgent investment needs. The COVID-19 pandemic, the energy crisis, and geopolitical tensions have underscored the inadequacy of rigid fiscal ceilings when economies require flexibility to respond to shocks. As a result, temporary suspensions of the SGP have become increasingly common, highlighting its lack of adaptability.

At the same time, the twin imperatives of climate neutrality by 2050 and global digital competitiveness demand unprecedented levels of public investment. Estimates suggest that achieving Europe's climate goals alone will require hundreds of billions of euros annually, while digital infrastructure upgrades from artificial intelligence to secure data networks are equally resource-intensive. Without reform, the SGP risks constraining Member States to a pro-cyclical policy path: cutting spending during downturns, underinvesting in long-term growth, and amplifying divergences between stronger and weaker economies.

Failure to update the rules could erode the credibility of the EU's fiscal governance, exposing the euro area to renewed instability. Conversely, a well-designed reform could strike a balance between debt sustainability and strategic investment, ensuring that Europe’s fiscal rules remain not only a tool of discipline, but also an enabler of resilience and growth.

Parties involved

- **European Commission (DG ECFIN):** Designs and proposes the fiscal-rule reforms, issues each country's "reference" net-expenditure path, vets 4 5-year medium-term fiscal-structural plans, and monitors compliance (including proposing EDP steps).

- **Council of the EU / ECOFIN (finance ministers):** Co-legislates/adopts the 2024 reform package and takes the key decisions in the Excessive Deficit Procedure (EDP) (opening/steering/closing).

- **The European Parliament:** Co-legislator and democratic watchdog; scrutinises how the new framework works and its impact on investment and debt sustainability.

- **Eurogroup (euro-area finance ministers):** Sets the fiscal policy orientation for the euro area and coordinates positions so national plans line up with euro-wide stability.

- **The Economic and Financial Committee (EFC):** Senior officials who prepare ECOFIN decisions, provide opinions to Council/Commission, and help coordinate fiscal surveillance.

- **European Fiscal Board (EFB):** Independent advisory board that evaluates how the fiscal rules are applied and advises on the appropriate fiscal stance for the euro area.

- **National Governments / Ministries of Finance:** Draft and submit the medium-term fiscal-structural plans (4 - 5 years, extendable to 7 with reforms/investments) and execute annual budgets consistent with the agreed net-expenditure path.

- **National Parliaments:** Debate and adopt the budgets and reform packages that implement the agreed multi-year paths domestically (the plans are binding anchors for annual budgets).

- **National Independent Fiscal Institutions (Fiscal Councils):** Country-level watchdogs that assess forecasts/compliance and track the new net-expenditure growth paths; they form an EU-wide network.

- **European Central Bank (ECB):** Not an enforcer, but issues formal opinions on the legal acts underpinning the fiscal framework and weighs in on euro area fiscal stance from a monetary policy perspective.

European Investment Bank (EIB) Group: The EU's long-term lender that finances climate/digital/security projects - crucial when national budgets are tight; complements fiscal rules by mobilizing off-budget investment (e.g., under Invest EU).

Guiding questions

- What simple problem are these fiscal reforms trying to fix?

- What counts as a strategic investment (for example, climate, digital, energy security), and who checks that it is real and high-quality?

- How can we ensure equal implementation of fiscal strategies between more and less economically developed countries when plans are approved and monitored?

How can EU-level tools like the European Investment Bank or InvestEU support investment without blowing up national deficits?

Written structure of a policy paper

1. **Thematic focus** → Preambulatory clauses that tackle the main issue and provide a summary of the delegates' stance + action plan.

2. **Operative clauses** → Numbered and kept relatively short.
   - Action statements.
   - Legislation references or new legislation proposed.
   - Subclauses are optional; it is recommended to keep them short.
   - Must use the appropriate economic and financial terms.

3. **Evaluation** → Maintenance and upkeep, contains technical details that are not mentioned in the operative clauses.
   - Monitoring Mechanisms.
   - Timelines.
   - Reporting requirements (When? How often? To who? Why?)

Draft Policy Paper (Resolution) – ECOFIN Committee.pdf

Citations

1. European Central Bank. “Medium-Term Fiscal-Structural Plans under the Revised Stability and Growth Pact.” ECB Economic Bulletin, Mar. 2025, https://www.ecb.europa.eu/press/economic-bulletin/articles/2025/html/ecb.ebart202503_01~1b1a292f83.ro.html.
2. European Parliament. “New Economic Governance Rules.” European Parliamentary Research Service (EPRS), July 2023, https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI(2023)747906.
3. Council of the European Union. “Economic Governance Review: Council Adopts Reform of Fiscal Rules.” Consilium Europa, 29 Apr. 2024, https://www.consilium.europa.eu/en/press/press-releases/2024/04/29/economic-governance-review-council-adopts-reform-of-fiscal-rules/.
4. Council of the European Union. “Economic Governance Review: Council Agrees on Reform of Fiscal Rules.” Consilium Europa, 21 Dec. 2023, https://www.consilium.europa.eu/en/press/press-releases/2023/12/21/economic-governance-review-council-agrees-on-reform-of-fiscal-rules/.
5. Council of the European Union. “Stability and Growth Pact: Council Launches Excessive Deficit Procedures against Seven Member States.” Consilium Europa, 26 July 2024, https://www.consilium.europa.eu/en/press/press-

releases/2024/07/26/stability-and-growth-pact-council-launches-excessive-deficit-procedures-against-seven-member-states/.

6. Council of the European Union. “Stability and Growth Pact: Council Adopts Recommendations to Countries under Excessive Deficit Procedure.” Consilium Europa, 21 Jan. 2025, https://www.consilium.europa.eu/en/press/press-releases/2025/01/21/stability-and-growth-pact-council-adopts-recommendations-to-countries-under-excessive-deficit-procedure/.
7. Council of the European Union. “Stability and Growth Pact: Council Opens New Excessive Deficit Procedure for Austria and Revises the Corrective Path for Romania.” Consilium Europa, 8 July 2025, https://www.consilium.europa.eu/en/press/press-releases/2025/07/08/stability-and-growth-pact-council-opens-new-excessive-deficit-procedure-for-austria-and-revises-the-corrective-path-for-romania/.