THE FISCAL BOMB UNDER THE EUROPEAN ECONOMY

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Summary

- The EU's fiscal problems should be a key priority for the Danish Presidency this year. Our analysis indicates that since the introduction of the euro in 2000, the EU has experienced a structural increase in debt ratios, which may escalate into an acute debt crisis at some point. Almost half of EU countries exceed the Maastricht Treaty, 1993 (henceforth, the Treaty), debt ceiling of 60 per cent of the GDP; the deficit limit of 3 per cent of the GDP has been regularly breached. Our analysis also shows that this is mainly due to a lack of compliance with and enforcement of the deficit limit and the poor implementation of measures to reduce excessive debt.

- The EU has just revised its rules to ensure the enforcement of the Treaty's limits, but they are effectively a watered-down version of the previous, ineffective rules. At the same time, fiscal requirements for member states have been suspended for four out of the last five years, including (partially) for 2025.

- In addition, the Treaty's erstwhile ban on joint liability has effectively been cancelled. This has created a serious 'commons problem' with unhealthy incentives for member states to shift their fiscal burdens to one another.

- This problem has been exacerbated by the massive and extraordinary borrowing of common debt during the COVID-19 pandemic in the form of the €750 billion NextGenerationEU recovery fund, launched in July 2020. Disregarding the extraordinary circumstances that were used to justify increasing

the debt at that time, decision-makers within the EU continue to propose raising more common debt.

- Economic theory cannot justify maintaining government debt at current levels, where almost all countries have technically unsustainable public finances with large, deferred generational burdens.

- The EU's structural debt crisis could not only have serious economic consequences, but it could also lead to chaotic and unforeseen constitutional changes in the EU. In the long run, the commons problem, joint liability, and the lack of enforcement of the Treaty's rules are incompatible with the EU's current decentralised political structure. It is understandable that some citizens support the establishment of a federal state power in the EU. However, such complex and impactful decisions should be based on open and democratic discussions, rather than being made as a result of chaotic and opaque economic processes.

EU debt is growing beyond the limits of the Maastricht Treaty

The Maastricht Treaty, 1993 (henceforth, the Treaty), sets limits on the maximum public debt and deficit that member states are permitted to hold. It states that the annual public deficit of a member state may not exceed 3 per cent of its GDP, and the debt ratio may not exceed 60 per cent of its GDP. Ceilings are a cornerstone of the union and are necessary to maintain its stable, decentralised political structure. Ceilings are also necessary to prevent (a) debt crises, (b) countries from being incentivised to impose economic burdens on each other, and (c) chaotic economic development, which could lead to the unintended centralisation of political power and public finances.

Ever since the Treaty's adoption, the limits have not been fully respected. In 2000, the average debt of all member states stood at 66.6 per cent of their GDP. Instead of a gradual reduction of the average debt ratio to bring it below the debt ceiling – as the Treaty intended – debt problems have structurally worsened since 2000. In 2023, the average debt-to-GDP ratio of all member states stood at 80.8 per cent; for eurozone countries, it was 87.4 per cent. Effectively, this meant that 13 or half of the 27 member states had exceeded the debt ceiling. In 2023, five countries had a debt ratio of more than 90 per cent: Belgium, Greece, Spain, France, and Italy. (See Table 1).

Table 1: Debt ratios in the EU in 2000 and 2023 (in %)

	Debt/GDP (%)		Increase in debt ratio (%)
	2000	**2023**	**2000–2023**
EU (27)	66.6	80.8	14.2
Euro (20)	71.6	87.4	15.8
Belgium	115.4	103.1	-12.3
Bulgaria	75.3	22.9	-52.4
Czech Republic	15.1	42.4	27.3
Denmark	53.6	33.6	-20.0
Germany	60.3	62.9	2.6
Estonia	6.4	20.2	13.8
Ireland	46.6	43.3	-3.3
Greece	102.8	163.9	61.1
Spain	60.9	105.1	44.2
France	61.4	109.9	48.5
Croatia	28.8	61.8	33.0
Italy	113.1	134.8	21.7
Cyprus	56.5	73.6	17.1
Latvia	12.4	45.0	32.6
Lithuania	22.6	37.3	14.7
Luxembourg	8.1	25.5	17.4
Hungary	60.3	73.4	13.1
Malta	61.8	47.4	-14.4
Holland	58.7	45.1	-13.6
Austria	67.1	78.6	11.5
Poland	38.8	49.7	10.9
Portugal	55.4	97.9	42.5
Romania	21.7	48.9	27.2
Slovenia	23.8	68.4	44.6
Slovakia	47.1	56.1	9.0
Finland	44.1	77.1	33.0
Sweden	60.7	31.5	-29.2

Source: Eurostat

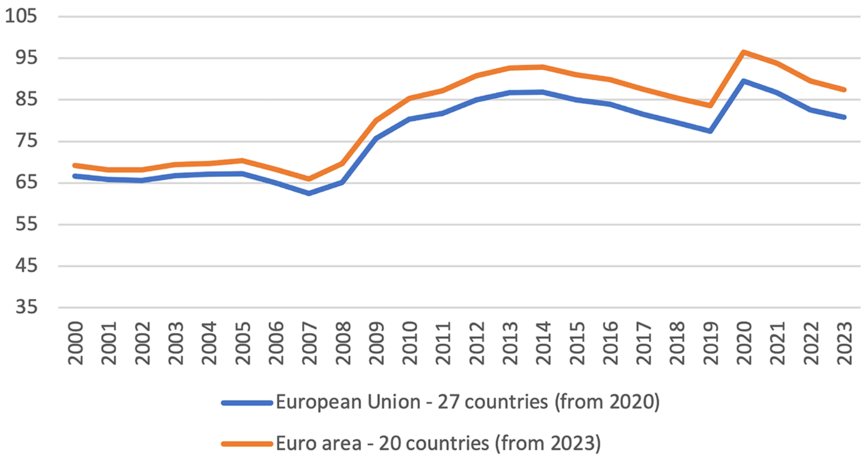
In addition to the national sovereign debt of individual states, in 2020, the EU took the exceptional decision to raise common debt to finance the €750 billion, NextGenerationEU recovery fund, which was equivalent to 5.5 per cent of the union's GDP. This common debt will ultimately have to be financed by member states, further weakening their capacity to raise debt. Although the common debt does not count towards the Treaty's debt ceiling, it should in reality be added to the 2023 debt ratios in Table 1.

In 2023, member states also exceeded the 3 per cent government deficit limit, with an average deficit of 3.5 per cent for all the EU countries combined. Eleven of the 27 member states exceeded the limit.

It is common for public finances to improve during an economic boom and then deteriorate during a recession. Therefore, both the deficit and debt ratios can shift significantly from year to year without reflecting a structural or underlying development.

Figure 1 depicts a statistical method (the Hodrick Prescott filter) used to smooth out temporary cyclical fluctuations. As can be seen in the figure, debt-to-GDP ratios rose sharply in response to large shocks, notably the 2009 financial crisis and the COVID-19 pandemic outbreak in 2020. Although debt-to-GDP ratios declined after these shocks, they have not entirely gone back to pre-shock levels. This asymmetry drives the structural increase in debt ratios and indicates that the current rules – and especially their enforcement – are not sufficient.

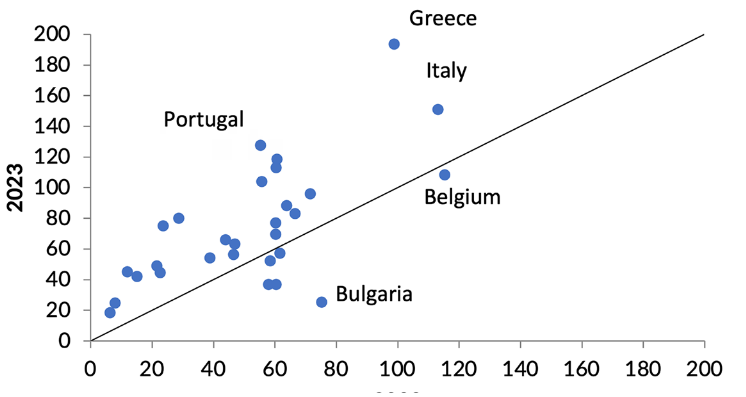
Figure 1: EU debt ratios cyclically adjusted from 2000 to 2023



Source: Eurostat

Figure 2 shows that debt ratios in 2023 were mostly higher and more dispersed than in 2000. Among the countries with high government debt, only Belgium's was lower in 2023 than in 2000, whereas Bulgaria moved out of this group of countries. Ireland was below the Treaty's debt ceiling in both 2020 and 2023, despite having exceeded it significantly in 2008 due to the shock of the financial crisis, illustrating how a country can consolidate its way out of significant fiscal problems.

Figure 2: Almost all national debt ratios across the EU have increased since 2000



Source: Eurostat

Debt problems are caused by a lack of compliance and enforcement

The Treaty's fiscal limits of 3 per cent of GDP for the deficit and 60 per cent of GDP for public debt are relatively arbitrary. However, an analysis by Otto Brøns-Petersen (2023) shows that these limits are necessary to stabilise the debt ratio in realistic economic conditions. For example, an interest rate of 4 per cent and a nominal GDP growth rate of 5 per cent will stabilise a debt at a debt ratio of 60 per cent and a deficit of 3 per cent of GDP.[1]

Therefore, it is remarkable that debt ratios have been structurally increasing across the EU for a quarter of a century. On the one hand, there have been severe shocks to economic growth, not least in the wake of the 2008 financial crisis and the COVID-19 pandemic in 2020. But on the other hand, in the interim, interest rates have been low and have continued to fall for the most part.

Table 2 shows the change in the debt-to-GDP ratio in countries with high debt – i.e., above 60 per cent of the GDP – between 2000 and 2023. It disaggregates the contribution of budget balances and economic growth to the change in debt. The contribution of budget balances is further broken down into the impact of deficits within

1 At a debt ratio of 60 per cent, the growth-adjusted interest rate (interest – GDP growth) will be (4 – 5)*0.6 = -0.6. The primary deficit will be 3 – 4*0.6 = 0.6. The two effects will thus stabilise the debt ratio.

the 3 per cent limit and deficits in excess of 3 per cent. On average, the debt ratios in these countries increased by 27.7 percentage points. Deficits exceeding the 3 per cent limit accounted for 34.7 per cent of the increase in average debt ratio. Without the excess deficits, the average debt ratio of these countries would have fallen by around 7 points.

Table 2: Decomposition of the change in the debt-to-GDP ratio of high debt countries from 2000–2023

	Debt/GDP		Change in debt ratio	Impact of budget deficit over 3%/ GDP	Impact of budget deficit upto 3%/GDP	Economic growth etc.
	Beginning of 2000	2023	2000–2023			
All countries (unweighted)	65.4	93.1	27.7	34.7	37.9	-44.8
Eurozone (unweighted)	65.8	94.8	29.0	33.5	47.8	-52.3
Belgium	115.4	103.1	-12.3	16.8	53.6	-82.7
Greece	102.8	163.9	61.1	94.9	-16.2	-17.6
Italy	113.1	134.8	21.7	28.0	61.3	-67.6
France	61.4	109.9	48.5	35.3	65.0	-51.8
Spain	60.9	105.1	44.2	55.4	94.7	-105.9
Portugal	55.4	97.9	42.5	47.3	46.1	-50.9
Austria	67.1	78.6	11.5	14.0	20.3	-22.8
Finland	44.1	77.1	33.0	2.5	98.7	-68.2
Cyprus	56.5	73.6	17.1	35.3	57.7	-75.9
Hungary	60.3	73.4	13.1	49.5	-81.7	45.3
Slovenia	23.8	68.4	44.6	28.8	66.1	-50.3
Germany	60.3	62.9	2.6	6.0	-38.5	35.1
Croatia	28.8	61.8	33.0	37.3	65.1	-69.4

Source: Eurostat

Thus, the increase in the debt-to-GDP ratio of high debt countries is not because the deficit ceiling is generally too lenient. Rather, it is because the ceiling has not been adhered to, enforced, or in some periods, has been suspended outright (most recently in 2020–23 and again partially in 2025). It is even likely that systematic compliance with the deficit limit would have made governments run a lower structural deficit to allow for cyclical fluctuations without compromising the limit in years with a negative cyclical impact on the balance. Managing their structural deficits better would have created room for high debt countries to reduce their debt ratios. Therefore, this indicates that the Treaty's limits are not generally too lax if the aim is to contain excessive public debt. (but still high relative to what sovereign debt theory suggests, see below).

However, there are a number of countries where the debt ratio has grown more than the deficits beyond the 3 per cent limit. This applies to France, Finland and Slovenia, for example. Enforcing the deficit limit is therefore not necessarily sufficient in itself to ensure stabilisation of the debt ratio. There is a particular challenge for countries with low economic growth.

Moreover, stabilising the debt-to-GDP ratio is not sufficient in countries with debt above the debt ceiling. On the contrary, there is a need for the debt-to-GDP ratio to fall, and even categorical enforcement of the 3 per cent limit is not enough to ensure this in all cases.

On several occasions, the EU has introduced additional rules and monitoring mechanisms to support the Treaty's fiscal limits and encourage countries with excessive debt and deficits to get back on track (See Box 1). A special procedure for countries with excessive deficits is being implemented on an ongoing basis.

Nevertheless, as mentioned, the debt ratios of many member states has grown structurally. Since 2000, almost a third of all EU countries have exceeded the 3 per cent deficit limit more frequently than they have complied with it. The rules were last revised with effect from 2024. The main points are summarised in Box 1.

Box 1. Main principles of the new EU fiscal rules to safeguard the fiscal limits of the Treaty

1. National medium-term fiscal structural plans: Member states are now required to submit these plans annually. These plans replace the previous stability and convergence programmes and national reform programmes. These plans must cover a period of 4–5 years and must show how countries intend to comply with the union's new fiscal rules.

2. Net primary expenditure as a monitoring variable: The focus of fiscal monitoring has shifted from structural budget balancing to the growth of 'nationally financed net primary expenditure'. This excludes the total government expenditure on relatively less certain items such as interest expenditure and cyclical unemployment expenditure.

3. Flexibility in adjustment periods: It is assumed that member states with a public debt above 60 per cent of the GDP, or with a budget deficit above 3 per cent of GDP, country-specific spending paths are set to ensure compliance with these limits. The standard adjustment period is 4 years, but it can be extended to up to 7 years if the country implements growth-enhancing reforms and investments.

4. New debt reduction requirements: The previous rules required an annual reduction of 1/20th of the debt exceeding 60 per cent of the GDP. The new rules have introduced more flexible and country-specific debt reduction paths that take into account a country's economic situation and its investment needs.

5. Reduced fines: Member states that do not comply with the fiscal limits can still be fined, but at a lower level than before. This is justified by the expectation that it is more realistic that the tool will be used, if the fine is modest.

It is evident that the new rules are more flexible and more customisable to each country's situation and that they aim to establish a long-term budget track for countries that do not currently comply with the limits. Similarly, there are fewer requirements for countries that respect the treaty limits and have the prospect of continuing to do so.

However, it is likely that the new set of rules will result in even more lenient practices than before. Countries may seek to leverage their flexibility and room for interpretation. Further, it may be difficult to bind democratically elected governments and parliaments to a long-term plan.

Flexibility also increases the well-known time inconsistency problem – discretionary decisions are less likely to be followed than fixed rules (Kydland and Prescott 1977).

In addition, both the Commission and a leading EU country, Germany, have already taken a less restrictive line. The Commission has initiated another, albeit partical, suspension of the excessive deficit procedure, which has only been in force for one year since its launch in 2020. In March 2025, Germany relaxed its constitutional debt brake and is now planning debt-financed public spending on defence, infrastructure, and climate interventions. The Treaty's fiscal limits were introduced mainly at German instigation. Since other countries' debt problems are mainly borne by Germany, the German approach is key to ensuring fiscal discipline across the EU.

Economic theory does not support high permanent government debt

The economic theoretical justification for allowing governments to raise debt is primarily that it may be appropriate to smooth tax revenues over the business cycle (Barro 1979). If the tax base weakens during a recession, it would otherwise be necessary to increase tax rates to finance spending, while the opposite would be true during a boom if it was not possible to smooth revenues through borrowing and saving. The so-called 'distortionary cost' of collecting taxes typically increases by the square of the tax rate. Therefore, the additional distortionary loss generated during a recession would exceed the smaller distortionary loss achieved during a boom. The average distortionary loss can thus be reduced by providing access to borrowing.

However, this reasoning cannot explain *permanent* indebtedness.

Another theory concerns the normatively 'right' distribution between generations. The idea is that if the current generation values later generations, it will favour saving because the returns on savings made now by forgoing consumption can increase consumption opportunities for future generations. Climate policy, among other things, is often based on such a consideration. In the world of continuous growth, there may be a justification to save for future generations. However, the theory of generational redistribution is often based on the assumption that there is a 'social planner' –

a 'benevolent dictator' who can and should take the decision on total savings. In a liberal democracy, in contrast, it is up to citizens to decide how they want to prioritise future generations and how much heritage they want to leave behind.[2] Keeping this in mind, the state cannot determine total savings, unless there are special types of savings that citizens cannot make. For example, there may be special types of infrastructure that citizens cannot organise or which they can only establish at a much higher cost.

This still does not provide an argument for public debt. However, *if* there is a very large potential for investing in public infrastructure, *and* it exceeds the desire to leave behind for future generations, it may be favourable to finance part of the investments with debt. The reasoning is that the debt is better for future generations because, it is more than offset by the future value of the investments.

Based on a normative theory of generational distribution, demographic changes can also influence public savings and deferral of public spending. For example, generationally neutral public pensions schemes such as old-age pensions, are designed to be fund-based, so that during periods when there are proportionally more people of working age, savings are made, and in periods when the working population is smaller, the fund is used.

However, the very high and uneven debt ratios of many Western countries, including in the EU, cannot be explained by normative theories of generational redistribution.

In general, all countries are impacted by an ageing population, which may call for some dissaving. However, very few countries have an initial corpus of funds. According to the European Commission

2 The original theory of optimal saving is designed for a 'central decision maker' who decides an optimal level of saving independent of the preferences of the population, but one which is informed by a utilitarian welfare function spanning all future generations (Ramsey 1928). In a liberal democracy, not only can citizens' preferences be given weight – for example, through their political participation – but they can also individually correct the legacy that they leave behind for deviations between actual and preferred public savings. Ultimately, public indebtedness can be completely neutralised by offsetting changes in citizens' wealth (Barro 1974).

(2025), only three countries have public finances that are sustainable in the face of demographic challenges.

There is also no tendency for countries with high debt to have made higher public investments, cf. Blesse, Dorn, and Lay (2023) , who also do not find that fiscal rules inhibit this type of investment.

According to Alesina and Passalacqua (2016), the high debt ratios and unsustainable public finances of Western countries generally deviate so much from optimal fiscal policy that only distorted political incentives – for instance, a fiscal illusion where voters are not sufficiently aware of the consequences of their choices – can explain the situation. The ability of a ruling political party to take on debt eases the budgetary constraints of political decision-making. The more of the cost that is external to the decision-makers when they take on debt, the more debt they will take on. This is a so-called 'commons problem'.[3]

Buchanan and Wagner (2000 [1977]) first introduced the 'commons problem' of public indebtedness and the constitutional[4] justification for limiting political access to debt (see also: Brøns-Petersen 2023).

3 In its original form, the commons problem is about the “tragedy of the commons”, where farmers with a common grazing area have the incentive to overgraze their animals because most of the cost of overgrazing an individual animal is borne by the other farmers (Hardin 1968). Overfishing is an example of the same issue.

4 Constitutional economics is about which constitutional rules are appropriate given the subsequent incentives they create (see Brøns-Petersen 2018) .

The commons problem of debt is greater in an economic union

For countries that are liable for their own sovereign debt, the incentive to take on more debt is limited by the costs present day decisionmakers will have to bear themselves. The ultimate cost is the risk of sovereign default, which can limit the country's ability to finance public spending in the future. Under normal circumstances, the political leadership has an incentive to avoid an actual bankruptcy. When sovereign default does occur, it may be because unexpectedly strong negative shocks have pushed the government into bankruptcy or because the debt incentive has heightened the country's vulnerability to risk too much.

However, countries that are members of an economic union may have an even greater incentive to take on debt because the costs can be partially shifted to other union members. For individual countries, this shifts the limit at which the risk of sovereign default could materialise for their economy. However, this incentive means that the union ends up bearing a greater overall risk. There is, therefore, an additional commons problem associated with an economic union.

In the EU, the commons problem has been addressed in two ways. First, it is a basic principle of the Treaty that countries cannot be held liable for each other's debts. Effectively enforced and with full credibility, this could prevent the commons problem from arising in the union. Second, fiscal limits and the associated set of rules exist precisely to limit the possibility of countries taking on too much debt.

None of these restrictions have proven effective.

The Treaty rule that countries cannot be held liable for each other's debts has been breached in practice. This is especially true for members of the eurozone. For example, the EU intervened in the Greek debt crisis in 2009; the European Central Bank (ECB) has circumvented the rules on not financing countries' debts by financing national central banks' purchases of government bonds; and a mechanism has been established to equalise the interest rate differences between the government securities of eurozone countries. The eurozone is thus relatively far along the path of becoming a debt and transfer union. The most notable example in recent times is the joint public borrowing of €750 billion during the COVID-19 pandemic to establish the NextGenerationEU recovery fund, for which countries are jointly liable, compounded by the lack of enforcement of the Treaty's fiscal limits (Brøns-Petersen 2023)

As mentioned, the Treaty's rules on deficit and debt have not been systematically observed or enforced.

The alternative to decentralised fiscal coordination is economic and political centralisation

In the absence of joint liability, and given the ineffective enforcement of the Treaty's rules, the alternative to decentralised discipline is to institute a centralised economic policy. This is the traditional way of solving the commons problem in an economic union.

An example of this is how the United States – during its 'Hamiltonian moment' – became a stronger federal state than originally intended after the 1775 Revolutionary War, in order to address the large and asymmetrical budget problems of its various states (Sargent 2012: 1–40). Centralisation is now even stronger than stipulated in the constitution, where the federal state power is assigned a limited list of "enumerated powers". For example, although the US federal government has formally had no competence in areas such as education, in practice, it steers the sector by granting subsidies to states under centrally determined conditions.

Currently, the EU has neither the power nor the financial clout to carry out centralised coordination of all its member states. The EU's total budget corresponds to barely 1 per cent of the EU's GDP. The union does not have much revenue of its own, and it is largely financed by direct contributions from member states. In fact, these limitations were one of the prerequisites for establishing a decentralised economic union of independent member states. However, if the member states are unable to maintain fiscal discipline in a decentralised manner, as Sargent (2012: 1–40) points out, it may be necessary to enforce much stronger centralisation or risk more countries leaving the union. It is also possible that both scenarios may occur.

Additional common debt could increase the EU's fiscal problems

As mentioned, in the wake of the COVID-19 pandemic, the EU decided to raise an extraordinary joint debt equivalent to 5.5 per cent of all member states' GDP. Known as the NextGenerationEU fund, it was launched in July 2020 to provide funding of up to €750 billion to member states.

Even though joint borrowing was considered extraordinary, different voices within the union have proposed raising additional joint debt. Both the newly elected president of the European Commission and the 2024 Draghi report propose taking on additional joint debt.

Joint borrowing makes it easier for high debt countries to finance their debt, especially if the only alternative for such countries is to raise their own debt, ostensibly at much higher interest rates. However, this ends up burdening the creditworthiness of the other countries. For the EU as a whole, joint borrowing does not increase the fiscal capacity to neither raise nor service debts. Thus, joint borrowing does not create an additional source of financing.

In contrast, joint borrowing can exacerbate the existing commons problem of joint liability, especially if high debt countries are unable to limit their individual borrowing. It can also worsen the commons problem if it is not clear in advance how much each member state should contribute to servicing the common debt. If the countries with the greatest fiscal capacity end up contributing relatively more, it weakens the incentive for individual countries to consolidate their public finances.

When it becomes easy to obfuscate who will bear the final cost, joint borrowing can be used as a tool to finance costly and disparate initiatives that could not otherwise be agreed upon between countries. For example, there are proposals within the EU to finance both additional investments, green transition and increased defence spending with common debt. However, there is no justification for using common debt other than that it diffuses the real costs and makes them more opaque, making it easier to advocate for this expenditure across diverse stakeholders.

Investments are usually financed by private investors who will have no difficulty attracting capital if the projects are considered profitable from a welfare-economic and business perspective. Public funding is only relevant in cases such as an industrial policy initiative that the market does not trust will pay off, and, thus, requires subsidies. In this case, however, the cost should at least be financed by the generations that make the decision rather than burdening future generations with debts. Ideally, however, such an investment should be avoided altogether.

Some public investments may have positive external benefits that do not directly accrue to private investors. In such cases, where the private sector may end up under-investing, there might be an argument in favour of some public financing. If the benefits do not materialise until far into the future, there may be an argument for leveraging public debt, as mentioned earlier. However, the Treaty's 60 per cent debt-to-GDP ceiling allows plenty of room for such investments. In the past, countries have typically exceeded the ceiling to borrow for the benefit of current generations, rather than for long-term benefit. Calls for supporting common debt may risk supporting unsustainable borrowing practices in already highly indebted countries.

Increased spending on a higher permanent level of armaments or more expensive but cleaner energy does not qualify for debt financing. These are ongoing costs that reflect, among other things, a new NATO objective to spend a higher share of GDP on defence. Further, in the case of defence spending, it is expected that expenditures as a share of GDP will continue to rise in the future. The benefits of increasing the European defence capability do not primarily accrue to future generations, but rather to those currently living under the heightened Russian threat level. While the benefits of a green transition do accrue directly to future generations, this is primarily true for poor countries that are the most vulnerable to climate change. Thus, there is no case for debt financing that burdens future generations in EU countries.

Shared debt will require and lead to more centralisation

Common debt will in itself lead to stronger centralisation.

Even if the funds are reallocated back to member states – in the case of the €750 billion recovery fund created by post-pandemic borrowing – they are bound by EU conditions. This is similar to how the US federal government ends up exerting its influence in areas that are otherwise left to the states or citizens. Secondly, the allocation would have to be decided by a majority vote, which limits the independence of each member state. Furthermore, majority decisions lead to distributive politics, which also leads to centralisation (Brøns-Petersen 2024).

It is still not clear how and who will service the debt behind the recovery fund. The Commission has argued that it should not be at the expense of other EU spending. In such a scenario, the recovery fund is being used as leverage to expand the budget. At the same time, it can rightly be argued that the EU may find it difficult to manage an additional debt burden without greater financial weight, leading to calls for a larger budget and expanding the EU's own resources. If the EU is given tax sources where it can influence the level of taxation, there will be a strong incentive to increase the level of taxation. This could create an additional commons problem where two authorities – the EU and nation states – tax a partially overlapping tax base.

Recommendations

For the EU as a whole, our recommendations can be summarised as follows:

- Enforce the Treaty's fiscal limits of a maximum 3 per cent government deficit and a debt ratio of up to 60 per cent of the GDP systematically.
- Countries exceeding the debt ceiling should be subject to a balance requirement that gradually increases year by year from 3 per cent until the debt ratio is reduced below the ceiling and a corresponding maximum debt-to-GDP ratio year by year until the debt ceiling is met.
- There should be no further joint EU debt. At the very least, every member state should be free to opt out of this mechanism. The EU should limit the borrowing and allocation of funds to countries that wish to participate in the mechanism.
- Place unconditional sanctions on countries that exceed the fiscal limits in the form of fines. The proceeds from the fines could, for example, be paid out to the other countries as a proportional refund of the EU membership fee. If there are rebates or similar mechanisms in the membership fee that alleviate the payment of fines, countries that do not participate in the decision should be entitled to a similar rebate from the countries that do participate in it.
- Prohibit increasing net transfers from the EU to countries with a debt ratio over the 60 per cent ceiling in real terms, unless their

debt ratio has been decreasing by at least 3 percentage points on an average for at least 3 years.

- Prohibit electing a president of the Council, president of the Commission, or president of the ECB from member states with a debt ratio of more than 60 per cent of the GDP. This could be initiated as a practice and put into a coming revision of the Treaty.

- Prohibit assigning government bonds issued by EU countries with excessive debt ratios a 100 per cent weight when risk weighting assets in financial institutions. Instead, assign them a lower weight in line with, for example, commercial bonds.

- Prevent counter-cyclical fiscal policy at the common level.

- Strengthen independent fiscal councils and introduce sanctions against them for systematic forecasting errors.

- Consider establishing feasible eurozone exit options for countries that do not comply with the Treaty's fiscal rules and appear unable to do so in the future.

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