Lisbon School of Economics & Management
Universidade de Lisboa

MASTER
INTERNATIONAL ECONOMICS AND EUROPEAN STUDIES

MASTER'S FINAL WORK
DISSERTATION

THE EU'S ECONOMIC AND FINANCIAL GOVERNANCE REFORM AFTER THE SOVEREIGN DEBT CRISIS: ASSESSING THE DEEPENING OF THE EMU

PEDRO SANTOS GALANDIM

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SUPERVISION:
PROF. ANTÓNIO GOUCHA SOARES

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Glossary

BES: Banco Espírito Santo

CMU: Capital Markets Union

CSR: Country-Specific Recommendations

ECB: European Central Bank

EDIS: European Deposit Insurance Scheme

EMU: Economic and Monetary Union

EPSR: European Pillar of Social Rights

ESM: European Stability Mechanism

ESMA: European Securities and Markets Authority

EU: European Union

FGD: Fundo de Garantia de Depósito

MFF: Multiannual Financial Framework

MIP: Macroeconomic Imbalance Procedure

NGEU: NextGenerationEU

OMT: Outright Monetary Transactions

PEPP: Pan-European Personal Pension Products

RRF: Recovery and Resilience Facility

SGP: Stability and Growth Pact

SME: Small and Medium Enterprise

SRB: Single Resolution Board

SRM: Single Resolution Mechanism

SSM: Single Supervisory Mechanism

ABSTRACT AND KEYWORDS

The financial crisis that affected the European Union with particular emphasis between 2007 and 2010, and the sovereign debt crisis that jeopardised the European integration project between 2010 and 2015, demanded a response from the European institutions. Whereas between 2010 and 2015, the EU's response aimed at containing the emergency posed by the crisis, between 2015 and 2025, the EU sought to address the underlying weaknesses of the Economic and Monetary Union and complete it, namely via the initiatives embedded in the 2015 Five Presidents' Report. The structural initiatives embodied in the Report, with the scope to actively contribute to completing the EMU, notably the strengthening of the European Semester, the completion of the Banking Union, the development of the Capital Markets Union, and the creation of an EU common fiscal capacity, embody what this dissertation considers to be the intended Economic and Financial Governance Reform of the post-crisis. This dissertation seeks to assess the results, scope, and status of implementation of this Reform and whether, as intended by the European institutions in the aftermath of the sovereign debt crisis, the EMU was significantly strengthened in the period between 2015 and 2025. The findings indicate that the results have been limited and asymmetrical. While the European Semester has been significantly strengthened, the developments in the Banking Union and Capital Markets Union are substantially more limited, and the EU's permanent fiscal capacity is yet to be created, but with important developments and future implications regarding a temporary fiscal capacity – the NGEU. The results suggest, thus, that the Economic and Monetary Union remains incomplete, with severe consequences for economic growth and financial integration, and constraining the EU's potential.

KEYWORDS: Economic and Financial Governance Reform; Sovereign Debt Crisis; Economic and Monetary Union; European Union; European Semester; Banking Union; Capital Markets Union; Fiscal Capacity

RESUMO E PALAVRAS-CHAVE

A crise financeira, que assolou a União Europeia no período 2007-2010, e a crise das dívidas soberanas, que colocou em risco o processo de integração Europeia no período 2010-2015, exigiram uma resposta por parte das Instituições Europeias. Se, entre 2010 e 2015, a UE procurou responder de forma rápida face à conjuntura de emergência colocada pela crise, entre 2015 e 2025, a UE procurou retificar as fragilidades estruturais da União Económica e Monetária e completá-la, nomeadamente através de iniciativas como as estabelecidas pelo Relatório dos Cinco Presidentes de 2015. As iniciativas de carácter estrutural que compõem o Relatório e com capacidade para completar a UEM, designadamente o fortalecimento do Semestre Europeu, a conclusão da União Bancária, o desenvolvimento da União de Mercados de Capitais e a criação de uma capacidade fiscal comum à UE, consubstanciam o que a presente dissertação considera ser a tentativa de Reforma da Governação Económica e Financeira do pós-crise. A presente dissertação procura aferir os resultados, o alcance e o grau de concretização desta Reforma e se, tal como pretendido pelas Instituições Europeias no rescaldo da crise das dívidas soberanas, a UEM foi significativamente reforçada no período entre 2015 e 2025. Foi possível concluir que os resultados são limitados e de natureza assimétrica. Se, por um lado, o Semestre Europeu foi significativamente fortalecido, por outro lado, os resultados relativamente à União Bancária e à União de Mercados de Capitais são substancialmente mais limitados, e a capacidade fiscal permanente da UE não foi estabelecida, ainda que se verifiquem resultados significativos e com implicações para o futuro no que diz respeito à capacidade fiscal temporária da UE – o NGEU. Os resultados, neste sentido, sugerem que a União Económica e Monetária permanece incompleta, com consequências severas para o crescimento económico, a integração financeira, e limita o potencial da UE como um todo.

PALAVRAS-CHAVE: Reforma da Governação Económica e Financeira; Crise das Dívidas Soberanas; União Económica e Monetária; União Europeia; Semestre Europeu; União Bancária; União dos Mercados de Capitais; Capacidade Fiscal

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1. Introduction

The unprecedented 2010 sovereign debt crisis of the Eurozone shed light on structural weaknesses of the European Union (EU) institutional crisis-management framework. The Economic and Monetary Union's (EMU) economic governance model failed to provide effective fiscal and macroeconomic oversight, thereby not fulfilling its intended mandate and jeopardising the sustainability and cohesion of the single market and the Euro. Consequently, between 2010 and 2015, the EU adopted several initiatives and mechanisms, along with significant legal and institutional reforms, to mitigate the effects of the crisis and improve the EU's response to challenging economic conditions.

Whereas these reforms aimed at stabilising the "walls and roof" (European Commission, 2015b: p.4) of the EMU, as articulated in the Five Presidents' Report published in 2015 during the Juncker Presidency, from 2015 onwards, the EU sought to address the underlying structural weaknesses of the EMU and "reinforce its foundations and turn it into what EMU was meant to be" (p.4). From 2015 to 2025, as outlined in the timeline defined by the Five Presidents' Report, the EU expressed its intention to deepen and complete the EMU.

This Report – created by the five most influential presidents of the European institutions[1] – outlines several initiatives aimed at deepening and ultimately completing the EMU. The Report collectively provides a roadmap for deepening the EMU, addressing the areas that were currently lacking or not sufficiently in-depth.

As argued by a vast literature, the structural weaknesses of the EMU stem from two primary factors. Firstly, the economic policies within the EU are largely based on national interests, leading to insufficient integration and coordination. Secondly, the existence of a single monetary policy in an asymmetrical EU without automatic macroeconomic stabilisers and risk-sharing financial instruments (De Grauwe, 2011; Kenen, 1994; Mundell, 1961; Padoa-Schioppa, 2000; Pisani-Ferry, 2012; Stiglitz, 2016; Verdun, 2022).

[1] Jean-Claude Juncker (European Commission), Donald Tusk (European Council), Jeroen Dijsselbloem (Eurogroup), Mário Draghi (BCE), and Martin Schulz (European Parliament).

From this standpoint, this dissertation aims to analyse and assess the implementation and development of the structural initiatives proposed by the Five Presidents' Report for the period 2015-2025 that, in this dissertation's view, more effectively address the aforementioned fragilities, actively contributing to the completion of the EMU. This study identifies four initiatives outlined in the Five Presidents' Report, which together represent what this dissertation considers to be the attempted Economic and Financial Governance Reform of the EMU in the post-crisis period.

Firstly, the intended strengthening of the European Semester (hereafter referred to as "the Semester") and the growing importance of the Country-Specific Recommendations (CSRs) in implementing structural reforms in member states, namely when in the Macroeconomic Imbalance Procedure (MIP)[2]. Since its creation in 2010, the Semester has been widely regarded as the core of the new economic governance model of the Union (Armstrong, 2013; Verdun & Zeitlin, 2018; Zeitlin & Vanhercke, 2018), and the CSRs have emerged as its main output-oriented policy (Tkalec, 2019), making them a particularly adequate channel for analysing the effectiveness of the Semester's coordination mechanisms.

The second and third initiatives should be analysed and assessed as a cohesive unit due to their interdependent and complementary nature, as supported by the existing literature (Constâncio, 2017; Beck et al., 2022; Marimon & Wicht, 2021; Pisani-Ferry, 2012; Sapir et al., 2018). These initiatives comprise the deepening and completion of the Banking Union and the Capital Market Union (CMU), which have been widely recognised in the existing literature as crucial missing components of the EMU and as fundamental instruments to address the fragmentation of the financial market (Beck et al., 2022; Demertzis & Wolff, 2016; Marimon & Wicht, 2021; Pekanov, 2024; Sapir et al., 2018; Véron, 2024a,b,c).

The fourth initiative regards the creation of an EU common fiscal capacity and a Eurozone Treasury, as articulated by the Five Presidents' Report. Since the Maastricht Treaty in 1992, which set up the EMU, the lack of a mechanism with stabilisation capacity

[2] The MIP is part of the European Semester and "aims to identify potential macroeconomic risks early on, preventing the emergence of harmful imbalances, and correcting those already in place (Eurostat, n.d.).

to mitigate asymmetrical macroeconomic shocks has been widely regarded as one of the EMU's most significant fragilities (De Grauwe, 2011; Fabbrini, 2022; Verdun, 2022).

The dissertation aims to provide an in-depth assessment of the effective implementation of the structural initiatives proposed in the 2015 Five Presidents' Report, by answering the following research question: *What have been the scope and impact of the post-crisis Economic and Financial Governance Reform in the EU?*

From a methodological point of view, this dissertation adopts a predominantly qualitative approach, complemented by empirical exercises. Given its objective of assessing the implementation and scope of the structural initiatives outlined in the Five Presidents' Report between 2015 and 2025, the study combines descriptive and evaluative analysis of the proposed initiatives over the selected period. The analysis is primarily based on relevant scientific and interpretive literature, as well as official communications and policy documents produced by the EU's institutions. In addition, empirical exercises are conducted to further assess the effectiveness of the European Semester through the analysis of the Country-Specific Recommendations (CSRs), and the scope of the Banking Union in its incomplete form through the financial capacity of the Single Resolution Mechanism (SRM) and the European Deposit Insurance Scheme (EDIS). This combination of qualitative and empirical approaches allows for a thorough assessment of the evolution of EMU reforms and a more practical evaluation of their effectiveness.

This research aims to contribute to the existing literature in three main ways. First, it uses the Five Presidents' Report as a benchmark for evaluating the effective implementation of the structural developments of the EMU, which has been largely analysed as exclusively a policy paper instead of an evaluative benchmark. Second, the timeline defined by the Report – 2025 – ended last year, making an *ex-post* assessment in 2026 especially significant. Finally, this dissertation adopts a comprehensive approach to a collective of interdependent initiatives, covering both economic, financial, and monetary policy, thus assessing the EMU development as an integrated and cohesive unit.

The dissertation is organised into six chapters. Following this introduction, Chapter 2 presents the Literature Review focusing on the sovereign debt crisis, the EU's response, and the EMU as a whole. It begins by addressing the literature discussion about the causes of the crisis, then examines the political and legal implications of the new economic governance framework that has emerged since 2010, and the theoretical and historical perspective on the EU's financial system structures – including the Banking Union and Capital Markets Union – and concludes by addressing the implications of a common fiscal capacity. Chapter 3 explores the developments related to the economic governance framework, especially the European Semester, and assesses whether it was significantly strengthened between 2015 and 2025. Chapter 4 evaluates the progress made in deepening the EU's financial system, particularly the Banking Union and the Capital Markets Union, during the same period. In Chapter 5, the focus shifts to the creation of a common fiscal capacity in the EU, analysing developments from 2015 to 2025 and discussing the implications of the creation of the NextGenerationEU in 2021. Finally, Chapter 6 concludes by summarising the key findings of this dissertation and answering the following research question: *What have been the scope and impact of the post-crisis Economic and Financial Governance Reform in the EU?*

2. Literature Review

2.1. Fiscal Irresponsibility of Southern Member States vs Underlying Structural Weaknesses of the EMU: Theoretical Debate Review

The severity of the crisis in the Eurozone and the mutation of a financial crisis into a sovereign debt crisis, which threatened the integrity of the European economy and the common currency, have been among the most studied subjects regarding the EU in the 21st century. (Arghyrou & Tsoukalas, 2010; Bohoslavsky & Raffer, 2017; Darvas et al., 2011; Hespanha & Serapioni, 2019; Hodson & Puetter, 2022; Leão et al., 2017, 2026; Pisani-Ferry, 2012; Reinhart & Rogoff, 2009a,b; Stiglitz, 2016; Verdun, 2022).

Although the existing literature generally agrees on the challenges of delivering an efficient response within the Eurozone amidst a crisis of such proportions, the reasons behind these specific difficulties and the north-south asymmetrical impact of the crisis create divisions among scholars.

On one side, a significant number of decision-makers in the EU, along with a part of the existing literature, attribute the Eurozone crisis to fiscal irresponsibility and the lack of essential reforms in the Southern European countries, which are historically aligned with the so-called "Frugal"[3] member states and their concerns about moral hazard in the EU (Howarth & Schild, 2021). In the literature, Sinn (2017) is a prominent advocate for this perspective. At an institutional level, the public positions of high-ranking decision-makers, such as the former chief economist of the European Central Bank (ECB), Otmar Issing, the ex-Eurogroup president, Jeroen Dijsselbloem, and the former German Chancellor, Angela Merkel, have supported this viewpoint.

On the other side, there is a viewpoint that advocates that the reasons behind the Eurozone crisis are the underlying weaknesses of the EMU, characterised by insufficient economic integration and the deficiencies in economic coordination and fiscal enforcement (Hodson & Puetter, 2022; Pisani-Ferry, 2014; Verdun, 2022), as well as

[3] Traditionally, they are four – the "Frugal Four" – Austria, Denmark, The Netherlands, and Sweden. During the crisis, Germany could also be associated with the group, along with Finland. This informal coalition usually advocates for stricter fiscal discipline and lesser risk-sharing mechanisms.

insufficient financial integration and a single monetary policy without stabilisation mechanisms (Beck et al., 2022; De Grauwe, 2011; Kenen, 1994; Verdun, 2022).

Considering these distinct viewpoints regarding the diagnosis of the sovereign debt crisis, the initiatives that embodied the official EU response comprise both these perspectives.

2.2. The New Economic Framework of the Eurozone: Theoretical, Legal, and Political Implications

At the core of the new fiscal discipline of the EU is a "straitjacket" (Soares, 2015:p.1) of legislative packages, which includes the "Six-Pack" and the "Two Pack", made operational in 2011 and 2013, respectively, and a new intergovernmental Treaty known as the "Fiscal Compact"[4], effective since 2013.

The studies of Armstrong (2013), Soares (2015), and Verdun (2022) provide a thorough analysis of the features and governance implications of the plurality of the EU's instruments, regulations, and directives. As noted by Soares (2015), the preventive and corrective arms of the Stability and Growth Pact (SGP) were significantly strengthened, and these new rules of the EU's fiscal discipline framework were aligned with the policy coordination structures, notably the European Semester (Armstrong, 2013). This coordination enhances the flow of information and data, which strongly reinforces the surveillance of the EU's economic policy, thus illustrating that the "rules-based governance is embedded within the accountability structures of the policy coordination" (Armstrong, 2013:p.27).

Regarding the European Semester, the existing literature is generally in agreement that it is at the core of the new socio-economic governance architecture of the EU (Armstrong, 2013; Verdun & Zeitlin, 2018; Zeitlin & Vanhercke, 2018). Armstrong (2013) covers the origin of the Semester in the Lisbon Strategy at the beginning of the century, as a way of incentivising employment and economic integration in the member

[4] Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG), commonly referred to as the Fiscal Compact.

states under a common framework of guidelines and reporting structure to the European Commission and Council. Later, with the “Six-Pack” and “Two-Pack,” the Semester’s “mandate” was extended to include the coordination exercise for the Macroeconomic Imbalances Procedure within the EU and the monitoring of member states’ budgets, hence featuring a significantly more developed economic dimension than social (Costamagma, 2013; Zeitlin & Vanhercke, 2018)

The annual cycle of the Semester is explained in-depth by the existing literature, as well as by the official communications of the EU’s institutions (Armstrong, 2013; Cini & Borragán, 2022; European Council & Council of the European Union, n.d.; Soares, 2015; Verdun & Zeitlin, 2018). It consists of an inter-institutional procedure between the Council, the Commission, and the national governments. During this process, the European institutions assess the stability and convergence plans of the member states. Reflecting the EU’s annual guidelines, the European institutions produce Country-Specific Recommendations (CSRs) for each member state. As articulated by Verdun & Zeitlin (2018), the Semester embodies different socio-economic instruments and mechanisms, albeit with different legal bases.

The legal, political, and theoretical implications of the post-crisis Eurozone economic governance framework have sparked an important and divisive debate in the literature concerning the EU’s evolving institutional balance. Dating back to the Maastricht Treaty of 1992 (Dawson, 2015; Fabbrini, 2013), this debate centres on the tension between new-supranationalism (following the “community” method) and new-intergovernmentalism (following the intergovernmentalism method), often conceptualised through principal-agent power dynamics (Chang, 2013; Pereira, 2008).

The consensus-seeking and deliberation as the primary methods for decision-making and setting the political agenda, while considering their own power and interests to a lesser extent, emerge as common features of both these theoretical approaches (Schmidt, 2016).

However, prominent new-intergovernmentalism advocates, including Bickerton et al. (2015), Chang (2013), Fabbrini (2013), and Puetter (2012), argue that the Council of the EU and the European Council emerge as the most prominent and empowered actors within the Eurozone’s new economic governance framework, playing the central role of supervision, decision-making, and political agenda-setting. As argued by Chang (2013) and Puetter (2012), the European Council emerges as the key player in the Eurozone economic governance, marking the decline of the supranational power of the Commission. In this dynamic, the Commission acts as the agent and the European Council acts as the principal (Chang, 2013).

The rationale for this position is based on the intergovernmental solutions that have been developed to effectively address the crisis, including the intergovernmental-based Treaties such as the "Fiscal Compact" and the European Stability Mechanism (ESM) Treaty. Hence, the EU has moved towards greater integration through these new intergovernmental solutions, rather than reinforcing the existing supranational features (Bickerton et al., 2015).

The concept of new-supranationalism, as explored in the existing literature by Bauer & Becker (2014), Dehousse (2016), Menéndez (2014), and Wilkinson (2013), acknowledges the European Council's central role in setting the agenda during the crisis. However, it argues that the new Eurozone economic governance and the reforms that emerged have significantly enhanced the powers of both the European Central Bank (ECB) and the European Commission.

On the one hand, the Commission has expanded its competencies in supervising member states' fiscal discipline, shifting its role "from policy entrepreneurship to policy management" (Bauer & Becker, 2014:p.226). On the other hand, the ECB's Outright Monetary Transactions (OMT) and the application of Quantitative Easing, along with Mario Draghi's famous assertion of doing "whatever it takes to save the Euro" – acting as a lender of last resort – position the ECB as a pivotal player in the EU's macroeconomic policy (Dehousse, 2016).

Nevertheless, part of the academic debate underscores that neither theoretical school can fully explain the institutional arrangement and balance of power reflected in the new Eurozone institutional structure (Dawson, 2015; Schmidt, 2016; Valle-Flor, 2015). As Dawson (2015) contends, the EU's post-crisis economic governance architecture follows "the decision-making structure of inter-governmentalism with the supervisory and implementation framework of the Community method" (p.990).

From a legal and institutional mutation standpoint, Menéndez (2014) argues that the new economic governance framework marks an idiosyncratic mutation of the EU-level structures through ordinary law-making rather than the traditional method of Treaty amendments, along with a transition from soft law to hard law in some new legal provisions (Armstrong, 2013). At the same time, these institutional changes also undermine parliamentary scrutiny and control in favour of the European Council and Commission (Crum, 2018), namely through the Semester (Soares, 2015), without due rebalancing at the EU level (Wilkinson, 2013).

2.3. The Case for Financial Integration in the EU after the Crisis: State of the Literature

Due to the significant interference in a traditional domain of member states – banking supervision and resolution – the creation of the Banking Union, which became operational in 2014, is emphasised in the existing literature as one of the most ambitious and structural initiatives of the crisis response (Beck et al., 2022; Quaglia, 2019; Schäfer, 2016; Véron, 2024a,b). Expanding on this point, Schäfer (2016) argues that it is the most important EU agreement since the Maastricht Treaty in 1992.

The main features of the Banking Union, notably the Single Supervisory Mechanism (SSM), which acts as the EU's common framework for banking oversight in the member states, the Single Resolution Mechanism (SRM) that implemented the Single Resolution Board (SRB) to assist ailing or insolvent banks, and the European Deposit Insurance Scheme (EDIS) are thoroughly studied in the literature (Beck et al., 2022; Howarth & Quaglia, 2016; Quaglia, 2019; Penetti, 2019; Schäfer, 2016; Verdun, 2022; Véron, 2024a,b,c).

The rationale behind the creation of the Banking Union can be attributed to enhancing the EU's financial integration; restoring private liability in the banking sector; strengthening and harmonising banking supervision; boosting growth; and breaking the banking-sovereign doom loop. Among these, the strengthening through a harmonised banking supervision and breaking the banking-sovereign doom loop stand as the most discussed subjects in the literature (Beck et al., 2022; Howarth & Quaglia, 2016; Quaglia, 2019; Penetti, 2019; Schäfer, 2016; Verdun, 2022; Véron, 2024a,b,c).

As Véron (2024b) argues, after the crisis, the general failure of an almost exclusively national supervisory banking system in the EU could not be overlooked. Moreover, "the market and monetary integration on the one hand, and preservation of near-exclusively national prudential supervision on the other hand, distorted the supervisors' incentives towards banking nationalism as opposed to their ostensible mandate of enforcing safety and soundness" (p.32).

For the banking-sovereign cycle, later acknowledged as the core of the crisis in southern Europe, albeit in Greece and Portugal the crisis extrapolates this phenomenon alone (Leão et al., 2026; Véron, 2024b), it increases the financial contagion hazard in member states. This phenomenon is explained in the literature as the phenomenon in which national banks hold a significant amount of their own government's debt, making them vulnerable to a decline in the bond's market value, often occurring when the country is experiencing financial and economic stress. The distress of banks triggers a bailout, which increases public debt (Epstein & Rhodes, 2016; Quaglia, 2019). As highlighted by Véron (2024b) for the EU context in 2024, the average amount of sovereign bonds held by national banks was about 70%, representing what the literature calls "home-bias" (Bénassy-Quéré et al., 2018; Véron, 2024b).

Although it brings a significant development to the EU's financial system supervision, the incomplete nature of the Banking Union – implemented without a common backstop for the Resolution Mechanism and lacking the Deposit Scheme – severely hinders its effectiveness in addressing the bank-sovereign doom loop (Bénassy-Quéré et al., 2018) and creates asymmetrical power dynamics within the EU, particularly by allocating an uneven power to the ECB (Quaglia, 2019).

From a theoretical standpoint, the power dynamics of the EU after, and within the context of the Banking Union, are divisive in the literature. While generally recognising the enhanced supervisory power of the ECB within the Banking Union (Epstein & Rhodes, 2016; Quaglia, 2019; Schäfer, 2016), some authors argue that its design is the watermark of the superior bargaining power of the intergovernmental actors, namely Germany (Howarth & Quaglia, 2016; Quaglia, 2019; Schimmelfennig, 2015), whereas other scholars argue that the Banking Union decision-making and setting of the agenda where pushed by the supranational actors such as the Commission through "venue-shopping" (Epstein & Rhodes, 2016:p.416). A middle ground between these positions, notably Cartensen & Schmidt (2017) and Nielsen & Smeets (2018), argues that during the moments with the greatest sense of urgency, the intergovernmental actors took the lead, while after that sense of urgency, the supranational actors exercised greater power, thus gaining a role as concrete implementers of the reforms.

Complementary to the Banking Union, the implementation of an effective Capital Markets Union (CMU) has been widely regarded as one of the key missing features of the EU's financial system (Pekanov, 2024; Sapir et al., 2018; Véron, 2024a).

The term "capital market" was first applied to the European context in the Segré Report of 1966. Later, the call for increased financial integration was echoed by the European Commissioner Mario Monti in 1999. More recently, the Larosirère Report in 2009 made a strong case for this integration, leading to the CMU gaining prominence in the EU's agenda. During the Juncker Presidency in 2014, the CMU was officially introduced, and the project for its implementation was initiated (Juncker, 2014; Véron, 2024b).

The literature presents a range of supporting arguments for the implementation of the CMU, including mitigating fragmentation of the financial system; enhancing regulatory and supervisory mechanisms to ensure financial stability; ameliorating the bank-based nature of the EU's financial system; stimulating consolidated growth; increasing the funding for firms; and reinforcing the capital markets of the EU after BREXIT (Adrian & Shin, 2010; Arampatzi et al., 2025; Langfield & Pagano, 2016; Pekanov, 2024; Sapir et al., 2018; Véron, 2024b).

Among these, reducing the fragmentation of the capital markets and, by extension, the financial market, and countering the EU's bank-based financial system, are two of the most studied aspects of the case for implementing the CMU. The fragmentation of the capital markets and the lack of a single framework in the EU hinder growth and financing scale-up, as well as restrain funding conditions and opportunities for firms, namely Small and Medium Enterprises (SMEs) (Pekanov, 2024; Sapir et al., 2018). As for the bank-based nature of the EU's financial system and its fragilities, Langfield & Pagano (2016) argue that banks' lending nature makes bank-based financial systems more vulnerable to macroeconomic shocks. In the same vein, Adrian & Shin (2010) advocate that economies dominated by banking finance take a longer time to recover from financial crises.

Focusing on the connection between the CMU effectiveness and the ECB's monetary policy, Pekanov (2024) highlights that the fragmentation of the financial market poses a challenge for the single monetary policy within the EU, and that the greater integration of capital markets encompasses greater risk-sharing, thus acting as a channel for private capital mobility and a mechanism for macroeconomic stabilisation.

2.4. Fiscal Capacity: Literature and Historical Review

The classical literature on Optimal Currency Areas, notably Mundell (1961), emphasises that moving towards an effective common currency area requires a substantial degree of political integration. The author also suggests the importance of creating stabilisation mechanisms for such a common currency area. Expanding on this idea, Kenen (1994) clearly argues that monetary policy should "go hand in hand" (p.7) with fiscal policy, thus leading to the creation of "a treasury, empowered to tax and spend" (p.8).

In a similar vein, more recently, De Grauwe (2011) and Duarte (2022) point out the disadvantages of a common monetary policy, particularly the loss of national control over interest and exchange rates, thus undermining member states' ability to implement counter-cyclical budgetary policies. To address this vulnerability, De Grauwe (2011) advocates for the implementation of a European Monetary Fund and jointly issuing Eurobonds, thereby promoting greater political integration.

The existing literature generally agrees that the NextGenerationEU (NGEU), which came into force in 2021 as part of the COVID-19 pandemic response, represents a significant, albeit temporary, approach to a fiscal capacity or a "temporary EU Treasury", marking a major step towards European integration (Armingeon et al., 2022; Beck et al., 2022; Fabbrini, 2022, 2023; Howarth & Schild, 2021; Mayer, 2024).

Discussions about the political and institutional implications of the NGEU for the EU's permanent fiscal capacity have sparked considerable debate among scholars. Fabbrini (2022) argues that the NGEU represents an unprecedented leap forward, constituting an "embryonic federalisation of economic policy at supranational level" (p.46), providing a means to rebalance the EMU. The author also discusses the specific conditions under which the NGEU was implemented. Contrary to the prevailing line of thought in the literature (Beck et al., 2022; Marimon & Wicht, 2021; Mayer, 2024), Fabbrini (2023) argues that the NGEU is primarily a result of the inherent weaknesses within the EMU, following pre-existing economic criteria rather than being a comprehensive response based on pandemic-related criteria, such as mortality rate. In a more moderate tone, Mayer (2024), while acknowledging the major significance of the NGEU, refutes the notion of a "Hamilton moment" (p.174) for the EU and emphasises the "one-off" nature of the NGEU, invoking the incompatibility with the national constitutions of some member states, such as Germany, as a major obstacle to implementing a permanent fiscal capacity.

As for the political dynamics within the EU inter-institutional model that catalysed the creation of the NGEU, Howarth & Schild (2021) examine the shift in Germany's stance on the EU's fiscal capacity, from a historically moral hazard-concern reluctance to becoming an active driver of this initiative, along with France, in pushing the agenda forward.

This dissertation aims to contribute to filling the gap in the existing literature in two main ways. Firstly, by assessing the effectiveness of the deepening and completion of the EMU using the Five Presidents' Report as an output benchmark, rather than exclusively as an institutional policy document, as it has generally been used in the literature. Secondly, it provides an integrated and comprehensive analysis of the multiple interdependent initiatives as a cohesive unit, ultimately leading to what this dissertation considers to be the intended Economic and Financial Governance Reform of the post-crisis in the EU. In doing so, it complements the existing literature.

3. The European Semester at the Core of the New Economic Governance Framework: More than a Coordination Structure

The lack of compliance with, and enforcement of, the Stability and Growth Pact (SGP) rules during the financial crisis – particularly regarding fiscal deficits and sovereign debt – prompted a robust response from the EU. To reinforce both the preventive and corrective arms of the SGP and strengthen the enforcement capacity of the EU institutions, three major initiatives were adopted between 2011 and 2013: the “Six-Pack”, the “Two-Pack”, and the intergovernmental “Fiscal Compact”, all approved at an unusually rapid pace for the EU (Soares, 2015).

At the centre of this new framework for fiscal surveillance and macroeconomic coordination was the European Semester, which has improved the EU institutions’ capacity to monitor and influence the economic, fiscal, and social policies of member states. Since its implementation in 2010, the Semester has become the core of the EU’s new socio-economic governance framework.

Given the central role of the Semester, the Five Presidents’ Report emphasises its potential and capacity to exercise an even more decisive role in the EU’s economic governance architecture, with the scope to contribute to the deepening and completion of the EMU.

Among the initiatives proposed by the Report, two are particularly relevant to this objective. Firstly, enhancing the role of the Country-Specific Recommendations (CSRs) in shaping structural reforms at the member state level. Secondly, strengthening and expanding the Semester’s scope and mandate. This chapter proceeds with an analysis and subsequent assessment of the implementation of these initiatives over the period outlined by the Five Presidents Report (2015-2025).

3.1. The Role of the Country-Specific Recommendations in Promoting Structural Reforms in the Member States

As the main output-oriented mechanism within the European Semester (Tkalec, 2019), the CSRs provide a particularly adequate channel to analyse whether the policy recommendations provided by the European institutions effectively contribute to structural reforms in the member states, especially when national choices and policies lead to macroeconomic imbalances.

To do so, this dissertation accessed the European Commission's *CeSar* database, which registers the Commission's recommendations and assessments of their implementation in the member states. In order to obtain the relevant data for assessing the CSRs' contribution to structural reforms in the member states, this dissertation adopted a six-criterion data filtering.

The first criterion was the inclusion of only recommendations within the Macroeconomic Imbalance Procedure (MIP), as it reflects a situation where structural reforms are most urgently needed in the member states. The second was the inclusion of all member states assessed by the Commission, since the MIP covers them all. The third criterion was the inclusion of only recommendations assessed as "substantial progress" or "full implementation", as this dissertation argues that only these mark a significant alignment with comprehensive structural reforms[5]. The fourth was the incorporation of only primary (CSR level) recommendations, thus excluding secondary (subpart) recommendations, since broad-spectrum reforms can only be achieved following a CSR level. The fifth criterion was the sole inclusion of multiannual recommendations, because structural reforms can hardly be achieved over one year. The sixth and last criterion rests on the analysis timeframe, in which this dissertation considered the total number of years the procedure has been in operation, during which it is possible to identify a CSR multi-annual Commission assessment – 2012-2024 (European Commission, n.d.a.).

[5] The EU's assessment regarding the CSRs can be of five different levels: "No Progress", "Limited Progress", "Some Progress", "Substantial Progress", and "Full Implementation" (European Commission, n.d.a.).

In line with this analytical methodology, the following table presents the number of CSRs issued and assessed by the European Commission over the 2012-2024 period.

TABLE 1:

CSRs assessed by the EU between 2012 and 2024

	CSRs assessed by the EU (Total)	CSRs assessed by the EU as "Substantial Progress" or "Full Implementation"	Ratio
2012-14	653	155	≈24%
2015-24	907	116	≈13%

Source: European Commission (n.d.a.)

This study shows that Country-Specific Recommendations intended to promote structural reforms under the Macroeconomic Imbalance Procedure have received limited follow-up in the member states concerned. On the contrary, the implementation of these recommendations shows a declining trajectory, both in relative and absolute terms.

The analysis of the influence of the CSRs – the primary policy instrument and output-oriented mechanism of the European Semester – in promoting structural reforms suggests two main findings. Firstly, it challenges more ambitious interpretations of the implications of the post-crisis economic governance framework, especially the notion of "quasi-legislative nature" (Armstrong, 2013:p.24) of the European Semester and the alleged mutation of the EU's macroeconomic framework from soft law to hard law (Menéndez, 2014). Secondly, the results cast doubt on the extent to which the Semester has effectively enhanced economic policy harmonisation across member states.

Albeit significantly increasing oversight and the flow of information and data, the Semester has not been capable of overcoming the predominantly national nature of economic policymaking. Where substantial follow-up has occurred, it has largely reflected a "low-hanging fruit" rationale, whereby member states prioritise recommendations that are easier to implement and yield short-term gains (Deroose & Griesse, 2014).

These fragilities thus highlight that, whereas the EU's post-crisis economic governance architecture significantly increased supranational monitoring, it remains fundamentally based on national interests, reflecting the continued dominance of economic national-level policymaking at the end of 2025.

3.2. The Strengthening of the European Semester between 2015 and 2025

Whereas the economic coordination and rules-based fiscal enforcement within the Semester were significantly strengthened through the adoption of the "Six-Pack", "Two-Pack", and the "Fiscal Compact" between 2011 and 2013, there has been limited equivalent strengthening of its social dimension in the same period. Hence, an imbalance within the coordination cycle was created (Costamagna, 2013; Zeitlin & Vanhercke, 2018).

As stressed in the Five Presidents' Report, the strengthening and expansion of the Semester's scope is inseparable from the deepening of its social coordination dimension.

Since 2011, the Semester has been increasingly "socialised" as noted by Zeitlin & Vanhercke (2018). However, this dissertation argues that it was not until November 2017, with the introduction of the European Pilar of Social Rights (EPSR), that the Semester truly acquired a social framework based on the 20 principles outlined in the EPSR[6].

In this vein, this dissertation analysed the Country-Specific Recommendations issued addressing at least one social policy area before and after the creation of the EPSR, focusing on 2017 and 2018. Following the Semester cycle, the Country Reports were published in year t to assess the implementation of the CSRs issued in year $t-1$. However, the Commission's implementation assessments were not included in this analysis, as the objective was to determine whether the recommendations regarding social policy areas increased in number after the creation of the Pillar[7]. The results are displayed in the following table.

[6] See Appendix I.

[7] This dissertation selection criterion of the CSRs in social policy areas is aligned with the 20 principles of the EPSR. To see the full selection, consult Appendix II.

TABLE 2

CSRs accessed by the EU in Social Policy Areas in 2017 and 2018

	Total of CSRs	CSRs addressing social policy areas	Ratio
2017	313	123	≈39,3%
2018	295	128	≈43,4%

Source: European Commission (n.d.a.).

This analysis suggests that the European Pillar of Social Rights has had a relevant impact on strengthening the social dimension of the Semester by providing a common framework for the member states within the socio-economic governance architecture, supported by the increase of CSRs in this domain. During the period 2015-2025, particularly with the implementation of the Pillar in 2017, this dissertation argues that the Semester effectively expanded its scope and mandate towards a more balanced socio-economic governance framework.

Notwithstanding, the fundamental nature of the Semester remains macroeconomic-oriented, with significantly more monitoring and enforcement powers, and the majority of the CSRs and procedures addressed at the member states' economic and fiscal policies, as argued by Adranghi et al. (2019).

Regarding the expansion of the Semester framework, it is also important to underline that the Semester subsequently integrated the two greatest policy initiatives of the EU between 2015 and 2025: the principles of the European Green Deal in 2020 (European Commission, n.d.d.) and the implementation framework associated with the NextGenerationEU in 2021 (European Commission n.d.c.).

The European Semester has gradually integrated and consolidated its role as the key coordination structure in areas such as the economic, social, and environmental, thus emerging as a "living structure" in the interconnection between member states and the European institutions.

In a similar vein, the European Semester was at the heart of a significant reform in 2024, articulated by the European Commission (2024) as "the most ambitious and comprehensive reform of the EU's economic governance framework since the aftermath of the economic and financial crisis" (p.1).

This new "reform" rests on a dual approach: fiscal sustainability and national ownership (Pench, 2023; European Commission, 2024). Legally supported by three legal acts – Regulation 2024/1263, Regulation 2024/1264 (amending Regulation 1467/97), and Directive 2024/1265 (amending Directive 2011/85/EU) – the main innovation and at the heart of this "reform" is the new medium-term fiscal structural plans (European Commission, 2024). Through these, the member states provide the EU institutions with their medium-term plan by 30 April, which addresses a comprehensive approach that goes beyond exclusively fiscal targets, including also priority reforms and investments. These plans are then assessed by the Commission using a single indicator: the net expenditure growth over the medium term (Darvas et al., 2024). For countries with a debt-to-GDP ratio greater than 60% and a general government deficit greater than 3%, the Commission provides "reference trajectories" over a period of four years, subject to extension to seven years if specific conditions are met (e.g. the following of the CSRs) (EUR-Lex, 2024a,b,c).

This "reform" marks the gradual transition from an "emergency" framework set of procedures, stricter and exclusively fiscal-targeted due to the crisis period in which it was implemented, to a less automatic fiscal enforcement that reflects a more comprehensive approach to financial sustainability.

In this regard, it is also important to note that, at the time of completing this dissertation, the European Commission, the European Parliament, and the Council are currently engaged in political and technical trilogues to amend the two regulations that embodied the Two-Pack – Regulation 472/2013 and 473/2013 – along with one regulation from the Six-Pack – Regulation 1173/2011. These amendments are part of an adjustment effort related to the 2024 reform, stressing the gradual transition to a less automatic post-emergency fiscal framework.

Moreover, the new fiscal surveillance architecture is embedded within the European Semester, hence reinforcing its position at the core of the socio-economic governance framework and supporting the view presented by this dissertation that the Semester represents a "living structure" within the EU.

4. THE BANKING UNION AND THE CAPITAL MARKETS UNION: A COMMON RESPONSE TO THE EU'S FINANCIAL FRAGMENTATION

In the wake of the crisis, the EU's financial system remained predominantly bank-based and comparatively underdeveloped concerning its capital market dimension (Véron, 2024a). These asymmetries generate structural fragilities within the EU's financial framework, as bank-based financial systems may be more vulnerable to macroeconomic shocks (Langfield & Pagano, 2016) and may require longer recovery periods following financial crises (Adrian & Shin, 2010). Moreover, the limited capital markets development may constrain financial diversification, investment capacity, and consolidated economic growth (Pekanov, 2024).

In response to the major failures in the banking sector during the crisis, the Banking Union, albeit incomplete, came into operation in 2014. Hence, the EU's financial system continued to reflect substantial asymmetries, thereby amplifying the aforementioned structural fragilities.

In this regard, the Five Presidents' Report stresses the need to address the Banking Union and the Capital Markets Union (CMU) as components of a broader "Financial Union" (European Commission, 2015b:p.11). This objective involves, on the one hand, completing the Banking Union via the adoption of a common backstop for the Single Resolution Mechanism and the creation of the European Deposit Insurance Scheme (EDIS), and, on the other hand, the effective implementation of the Capital Markets Union. This chapter assesses the implementation of these initiatives over the period set out in the Five Presidents' Report (2015-2025).

4.1. The Banking Union after the Five Presidents Report

The faltering state of the EU's banking sector in the aftermath of the crisis, which was one of the epicentres of the crisis, namely the major failure of banking supervision and the sovereign-bank doom loop, led to the implementation of the Banking Union – the only institutional creation of the crisis response and one of the EU's most ambitious reforms since the Maastricht Treaty (Schäfer, 2016).

Notwithstanding, the Banking Union was created in an incomplete form. The Single Supervisory Mechanism (SSM), featuring a common framework for banking oversight, was developed in full, but the Single Resolution Mechanism (SRM) and its Single Resolution Board, aimed at assisting ailing or insolvent banks, were incomplete, and the European Deposit Insurance Scheme (EDIS) was lacking (Véron, 2024b).

As stressed by the Five Presidents' Report regarding the SRM, a common backstop should be provided to enhance its financial capacity and resilience, given that it is financed through financial institutions, thereby posing potential financial instability during a crisis, as argued by Schoenmaker (2014). The Report also suggests that this backstop should be preferentially provided by the European Stability Mechanism (ESM) for two main reasons: firstly, and foremost, it acts like a bank and borrows funds on the financial markets with favourable interest rates due to its strong credit rating, and relies on member states' contributions, representing a greater financial resilience in times of crisis; secondly, it has a bigger financial capability – up to 500 billion (EUR-Lex, 2012; European Commission, 2015b, n.d.b.).

This proposal has made significant headway in the period from 2015 to 2025. As a result of the amendments to the intergovernmental Treaty that legally support and bind the ESM in 2021, this mechanism has come to include a common backstop of 68 billion to the Single Resolution Mechanism, thus almost doubling the funds available for bank resolution (Barata, 2022).

However, since it is an intergovernmental Treaty legally binding for the Eurozone member states, it requires the signing and ratification of all 21 Eurozone member states. While all of them signed, Italy has failed to ratify this agreement as a consequence of the national parliament's rejection in 2023, as noticed by Reuters (Fonte & Amante, 2023), with no estimate of when this deadlock may be resolved, if at all, thus reflecting an old hard-line stance of Italy regarding its sovereign exposures (Véron, 2024b).

Although the common backstop of the Resolution Mechanism through the European Stability Mechanism advanced considerably in terms of consensus-building among the vast majority of member states in the policymaking process – culminating in the signing of the Treaty amendments by all member states in 2021 – these developments did not translate into a substantively more complete SRM by 2025, whose effective implementation remained unchanged from its incomplete nature in 2015.

This dissertation finds similar outcomes when considering the European Deposit Insurance Scheme (EDIS). The intended development of the EDIS, in which the main features of the national insurance schemes, such as the cover of all the deposits below EUR 100 000 and the adoption of a deposit insurance fund equivalent to 0,8% of the total deposits, would be transferred to the EU level (Penetti, 2019), has not materialised in any progress.

The significant risk-sharing between asymmetrical banking systems in the member states has resulted in a deadlock. Italy's hard stance on a common backstop has matched Germany's inflexibility regarding the adoption of a European Deposit Insurance Scheme (Véron, 2024b). This situation reflects ongoing concerns about moral hazard, which have contributed to and continue to constrain greater European integration and the mutualisation of key mechanisms, thus reflecting the superior bargaining power of Germany within the EU governance framework, not least in the Council, in the agenda setting of the Banking Union (Howarth & Quaglia, 2016; Quaglia, 2019; Schimmelpfennig, 2015).

The unchanged nature of the Banking Union by the end of 2025 poses significant liabilities to the EU's bank-resolution policy. To assess this vulnerability, this dissertation conducted two empirical exercises based on actual cases concerning bank resolution during the crisis.

The first empirical exercise simulates the emergence of a crisis similar to that of 2007-2008 in order to assess whether the resolution fund embedded in the Single Resolution Mechanism, in the absence of the common backstop, would possess sufficient financial capacity to respond effectively.

By the end of 2023, the Single Resolution Fund had reached its target level of 1% of the amount of covered deposits held by credit institutions across the 21 Eurozone member states, amounting to EUR 78 billion (SRB, 2024). However, according to the European Commission (2015c), between 2007 and 2014, EU member states provided approximately EUR 671 billion in capital injections and loans to distressed banks and credit institutions during the crisis. This suggests that the SRF alone would represent only a small fraction of the financial resources mobilised during a crisis of equivalent magnitude. Even when accounting for the additional EUR 68 billion from the ESM common backstop, the combined resources remain substantially below the support needed during the crisis. Moreover, although the ESM's maximum lending volume amounts to 500 billion, this would still not be sufficient for the total support granted to the banking sector during the crisis.

The secondary and complementary empirical exercise focuses on the consequences of lacking an EU-level Deposit Insurance Scheme, particularly in the event of a major bank bankruptcy. This dissertation focuses on the 2014 bankruptcy of Banco Espírito Santo (BES) – one of Portugal's largest banks at the time of the crisis. It simulates a similar scenario to evaluate whether the financial capacity of the national-level Deposit Insurance Scheme would be adequate to respond effectively.

In 2024, the Portuguese Deposit Insurance Scheme's financial build-up reached EUR 1.79 billion (FGD, 2025). The journal ECO (Teixeira, 2025) noticed that the total deposit amount (covered by the reference EU directive 2014/14/UE) for 2024 in Portugal accounted for EUR 187.244 billion, resulting in a coverage rate of 0,95% – above the 0,8% requested by the EU directive. The news channel SIC Noticias (Tomás & Gamito, 2024) noticed that, at the time of the BES bankruptcy, the Portuguese government immediately injected EUR 4.9 billion to ensure the banks' functioning and, thus, ensure deposits – 2,7 times superior to the total financial amount raised by the Portuguese Deposit Insurance Scheme. Although the EUR 4.9 billion was not exclusively aimed at reimbursing the covered deposits, it is noteworthy that the funds mobilised to address the bankruptcy of BES substantially exceed the financial capacity of the Portuguese Deposit Guarantee Scheme.

The two empirical exercises suggest that the incomplete framework of the Banking Union poses a significant source of vulnerability for the EU's banking system and the financial system as a whole. The financial resources of both the Single Resolution Fund – even when complemented with the ESM common backstop – and the national-based Deposit Insurance Scheme are unlikely to be sufficient to effectively respond to a systemic crisis triggered by the failure of major banks without substantial public sector interventions.

Accordingly, the absence of an operational common backstop and a European Deposit Insurance Scheme, due to the reluctance of some member states in enhancing risk-sharing banking features, hinders the EU's ability to tackle the sovereign-bank doom loop and ensure a harmonised and credible bank-resolution framework.

These dissertation findings allow the assessment that, between 2015 and 2025, the Banking Union remains substantially unaltered and thus incomplete, with significant implications for the resilience and stability of the EU financial system.

4.2. Developments in the Capital Markets Union between 2015 and 2025

Set out by the newly elected European Commission in 2014 under Jean-Claude Juncker as one of its key political priorities (Juncker, 2014), the Capital Markets Union (CMU) subsequently gained prominence on the EU agenda, particularly following the Five Presidents' Report, giving voice to a long-standing EU aspiration (Véron, 2024a).

The Juncker Presidency set the tone for the improvement of the EU's funding capacity, namely for SMEs, through the creation of the CMU, in response to what is widely recognised as one of the major limitations caused by a fragmented capital market (Arampatzi et al., 2025; Pekanov, 2024; Sapir et al., 2018; Véron, 2024a).

Additionally, the bank-based nature of the EU's financial system and its implications for crisis management and consolidated growth further strengthened the case for the CMU and justified its prominent position as outlined in the Five Presidents' Report between 2015 and 2025.

The objective of implementing an effective Capital Markets Union in the EU has led to an intense legislative endeavour (Véron, 2024a). Between 2015 and 2025, this dissertation identified five policy papers that have actively contributed to the CMU agenda – the 2015[8] and 2020[9] Action Plans, their mid-term review in 2017[10] and 2021[11], respectively, and the final report of the High-Level Forum on the CMU in 2020. These documents collectively embody a set of legislative and non-legislative objectives aimed at advancing both structural and cyclical priorities for capital market integration. In total, this dissertation counted 110 specific proposals aimed at deepening the CMU (European Commission, 2015a, 2017, 2020a,b, 2021).

However, these initiatives have resulted in minor progress in effectively deepening the CMU. As argued by Arampatzi et al. (2025) and Véron (2024a), whereas some progress has been achieved in transparency and oversight – building on the earlier creation of the European Securities and Markets Authority (ESMA) – the most structurally significant dimensions of integration, including taxation, insolvency, retirement plans, and mortgage finance, have seen little to no development. As argued by Véron (2024a), these areas "are unlikely to undergo significant EU-level reform just for the sake of the CMU agenda" (p.12). These domains lie at the core of national competences, making them structurally reluctant to EU-level harmonisation, thus constraining the integration of the EU's financial system.

Even from a "low-hanging fruit" rationale, which, as discussed in relation to the Country Specific Recommendations and, to some extent, the Banking Union, often characterises the EU policy performance, progress in deepening the CMU remains limited. The mechanism that follows this rationale for the CMU and can be considered the institutional counterpart to the Banking Union's Single Supervision Mechanism – the ESMA – retains significantly less agency and has not undergone significant reform since its creation (Véron, 2024a,c).

These findings suggest that, between 2015 and 2025, there were no significant structural developments regarding the strengthening of the Capital Markets Union. It remains severely underdeveloped, especially when compared to other actors such as the United States. The EU's financial system remains predominantly bank-based and

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[8] COM (2015) 468 final.
[9] COM (2020) 590 final.
[10] COM (2017) 292 final.
[11] COM (2021) 720 final.

fragmented, with implications for economic growth, firm funding, and exposure to asymmetrical macroeconomic shocks.

This dissertation finds noteworthy, however, that the Draghi Report had managed to successfully restore the case for the reinforcement of the Capital Markets Union onto the priorities of the EU's policy agenda. After being overlooked for a few years by more pressing phenomena, such as the COVID-19 pandemic and the war in Ukraine, the CMU is back at the forefront.

This dissertation finds that there are indicators suggesting that the renewed objective is gaining traction within the EU, not least the European Commission. The Von der Leyen Commission II (2024-2029) includes a dedicated Commissioner for Financial Services and the Savings and Investments Union – Maria Luís Albuquerque. The Commissioner's primary mandate is to develop and enhance both the Banking Union and the CMU (Véron, 2024c). The rebranding of the Five Presidents' Report Financial Union to the new Savings and Investments Union represents an effort to re-engage the discussion. Moreover, Commissioner Albuquerque has already highlighted the need to promote complementary pensions within the European legal framework, namely the Pan-European Personal Pension Products (PEPP) (European Commission, 2025).

Whether this renewed political attention will translate into decisive initiatives for the effective deepening of the Capital Markets Union, as well as for the completion of the Banking Union, remains uncertain.

In a broader sense, the EU's incapacity to structurally enhance the Capital Markets Union between 2015 and 2025 reflects a deeper constraint in EU financial integration, where the EU's structural reforms and institutional developments are somewhat shaped by episodic and reactive crisis-driven dynamics rather than by a coherent and future-oriented strategy.

5. The Eurozone Treasury: The Long-Awaited EU's Fiscal Capacity

The decision made in the Maastricht Treaty of 1992 to form a monetary union and a common currency without a corresponding political union has not come without consequences. The limited degree of political and fiscal integration in the EU meant that the EMU lacked several adjustment mechanisms associated with what Mundell (1961) considered an Optimal Currency Area, calling for stabilisation mechanisms based on greater risk-sharing (Kenen, 1994) to compensate for the loss of national counter-cyclical policy instruments (De Grauwe, 2011) during asymmetrical macroeconomic shocks.

The formation of the Economic and Monetary Union featured limited stabilisation instruments, leaving the EU vulnerable to major and systemic shocks, particularly asymmetrical ones. This vulnerability was strongly exposed during the crisis and hindered an unequivocal and automatic EU response in the wake of the financial crisis, prolonging and exacerbating its negative effects until a sovereign debt crisis and the near-default of Greece threatened the common currency and the Eurozone as a whole (Hodson & Puetter, 2022).

Against this backdrop, the Five Presidents' Report proposes the creation of a fiscal capacity for the EU, as well as a Eurozone Treasury. Although the Report proposal comprises a limited fiscal capacity and Treasury, primarily stabilisation-oriented to provide an automatic response to asymmetrical shocks while maintaining taxation and allocation of budgetary expenses at the national level, this proposal features a major leap forward. Hence, the Report explicitly acknowledges the need for a supranational fiscal mechanism with the capacity to enhance risk-sharing across member states, extrapolating a purely crisis-response initiative and actively contributing to deepen the EMU by correcting a fundamental flaw of its architecture (European Commission, 2015b).

Between 2015 and 2025, the EU made a significant step toward this objective in 2021 with the implementation of the NextGenerationEU (NGEU) program. For the first time on a large scale, the European Commission issued common debt – up to EUR 750 billion – to distribute significant financial resources to member states, featuring unprecedented elements of fiscal capacity and acting as a stabilisation mechanism (Fabbrini, 2022).

At the core of the NGEU, the Recovery and Resilience Facility (RRF) comprises a total of up to EUR 577 billion – EUR 360 billion in grants and EUR 217 billion in loans to member states (European Commission, n.d.f.). Legally and financially anchored to the 2021-2027 EU Multiannual Financial Framework (MFF), the NGEU represents an unprecedented level of risk-sharing within the EU governance framework (Fabbrini, 2022).

Moreover, as suggested by Fabbrini (2022), the NGEU complements a needs-based allocation logic, as the one for the structural funds, with a performance-based disbursement mechanism, in which the financial allocation of resources is subject to certain conditions, namely addressing the long-term EU political priorities such as the digital and green transition, effectively acting as EU public goods. This suggests a greater intrusion of the EU-level priorities in the national governments' policymaking, granting the European Commission greater supranational powers.

Although the NGEU was conceived as a temporary response to the COVID-19 pandemic and is due to expire in 2026, its broader political implications extend beyond its immediate economic nature. It has created an important precedent for future emergency and crisis management and has reopened the discussion about a permanent EMU fiscal capacity.

Extending on the analysis of the broader and structural implications of the NGEU, this dissertation finds that even certain features of the Recovery and Resilience Facility, namely the allocation of grants (EUR 360 billion) to member states, suggest a distribution pattern consistent, at least in part, with pre-existing structural economic fragilities within the EU (European Commission, n.d.c.). Approximately 52% (EUR 186.18 billion)[12] of total grant disbursements are concentrated in four member states – Italy, Spain, Greece, and Portugal – indicating a concentration that goes beyond a purely pandemic-response logic and is also broadly aligned with underlying economic fragilities, especially in Southern Europe, in line with Fabbrini (2022).

Although the NGEU represents a major advance in European integration, this dissertation argues that the creation of a permanent fiscal capacity based on enduring risk-sharing remains a distant prospect. The broad consensus among member states that justified a temporary and exceptional response to an unprecedented exogenous shock such as the COVID-19 pandemic does not necessarily extend to permanent stabilisation

[12] EUR 71.780 (IT), EUR 79.854 (ES), EUR 18.220 (EL), and EUR 16.325 billion (PT) (European Commission, n.d.c.).

mechanisms targeting asymmetric macroeconomic crises, nor does it necessarily represent an “Hamilton Moment“[13] for the EU (Mayer, 2024:p.174).

Notwithstanding, the NGEU marks an emergency and crisis-driven precedent that is difficult to overlook. In this regard, the EU is expected to issue further joint-debt instruments, including a EUR 90 billion loan to support Ukraine over 2026-2027, thereby continuing the use of joint borrowing. This dissertation argues that, although *ad hoc* in nature, the fiscal capacity that emerged during the pandemic significantly alters the EU’s crisis and emergency management framework and acts, in effect, as a stabilisation mechanism in times of significant distress, thus contributing to the deepening of the EMU by addressing one of its fundamental structural weaknesses.

Consistent with the broader conclusions of this dissertation concerning the incomplete nature of the Capital Markets Union, the findings of this dissertation regarding the NGEU suggest that EU integration is often shaped more by urgent, emergency-driven reforms than by a coherent, future-oriented strategy.

[13] The Hamilton Moment refers to the moment in 1790 in the United States, when, under the Treasury Secretary Alexander Hamilton, the United States federal government started to issue common debt, decisively shaping federalism in America (Mayer, 2024).

6. CONCLUSION

This dissertation aimed to assess the scope and the results of the structural initiatives that embodied what this study considered to be the intended Economic and Financial Governance Reform of the post-sovereign debt crisis, between 2015 and 2025.

The study covered the structural initiatives outlined by the Five Presidents' Report, which, as argued throughout this dissertation, would better contribute to achieving the ultimate objective of deepening and completing the Economic and Monetary Union.

The strengthening and broader mandate for the European Semester at the heart of the post-crisis economic governance framework, namely a bigger role for the Country-Specific Recommendations, greater financial integration by deepening the Banking Union and the Capital Markets Union, and the creation of a fiscal capacity for the EU, emerges as the prominent proposals to achieve that objective.

By providing an in-depth assessment of the effective implementation and scope of these initiatives, this dissertation aimed to respond to the following research question: *What have been the scope and impact of the post-crisis Economic and Financial Governance Reform in the EU?*

This dissertation analysis indicates that the Economic and Financial Governance Reform of the post-crisis, from the perspective of completing the EMU in accordance with the objectives outlined in the Five Presidents' Report, achieved limited and asymmetrical results. In this regard, this dissertation finds two patterns of asymmetry.

The first follows a sector-based implementation success. The EU's economic governance framework – with the Semester at the heart – has been effectively strengthened with the 2024 "reform" and its mandate extended towards the social and environmental dimension. This has strengthened the Semester's role at the centre of the Union's socio-economic governance framework, positioning it as an evolving institutional "living structure" capable of coordinating policy interactions between member states and the European institutions.

As for the financial system reform, the results are substantially more limited. Its bank-based nature has remained unchanged. The Banking Union has not featured modifications in its institutional architecture, with the prevailing sovereign-state doom loop posing severe financial fragility, as well as the limited risk-sharing mechanisms. Moreover, the Capital Markets Union has not been able to make structural advances, particularly in decisive areas such as greater taxation and pension integration, remaining fragmented and thus constraining the EU's economic growth.

As an intermediate outcome, a permanent fiscal capacity has not yet been created. However, the NGEU represents the closest approximation to that objective, functioning effectively as a temporary common fiscal capacity mechanism and carrying significant implications for the EU's capacity to respond to emergencies and crises.

The second pattern of asymmetry regards a "low/high-hanging fruit" implementation dynamic. The most structural and comprehensive features of these initiatives – "high-hanging fruit" – such as a greater contribution of the Country-Specific Recommendations in promoting structural reforms in the member states within the framework of the Semester, and the adoption of the European Deposit Insurance Scheme within the architecture of the Banking Union, displayed the lowest implementation levels of the Economic and Financial Governance Reform (2015-2025). Hence, where substantial developments occurred, they often reflected a "low-hanging fruit" rationale, in which they were easier to implement and yielded short-term gains.

Although there have been initiatives that, as this dissertation argues, have been successful, including the consistent strengthening and adaptation of the European Semester and the creation of an *ad hoc* common fiscal capacity, this dissertation concludes that, as of 2025, the Economic and Financial Governance Reform of the post-crisis has produced insufficient results in light of the objective set out in the Five Presidents' Report – completing the EMU. The latter remains incomplete, constraining the EU's full potential.

In recent years, the European Union has faced challenges of immense magnitude: the sovereign debt crisis between 2010 and 2015; the pandemic crisis of 2020; the outbreak of war in Ukraine in 2022 and the escalation of the Middle East conflict in 2026;

and the apparent disruption of multilateralism and the emergence of a new international system characterised by the dominance of major international players.

Against this backdrop, the need to revitalise the European economy as a means of preserving its strategic autonomy and asserting its role as a key international player, both economically, financially, and politically, demands urgent and proactive responses.

This dissertation has explored how EU policymaking has been somewhat driven by a logic of crisis and emergency-response rather than a future-oriented coherent strategy. To some extent, this pattern has overshadowed the consolidated development of the EMU as a cohesive unit, in favour of emergency-based response to disrupting phenomena such as the COVID-19 pandemic, the war in Ukraine, the escalation of the conflict in the Middle East, and the energy dependence that came with it.

These phenomena underscore an increasingly volatile and geopolitically unpredictable world, which heightens the urgency to develop and complete the EMU. This development is essential for enhancing the EU's capacity, resilience, and economic competitiveness, ultimately strengthening social cohesion and political assertiveness.

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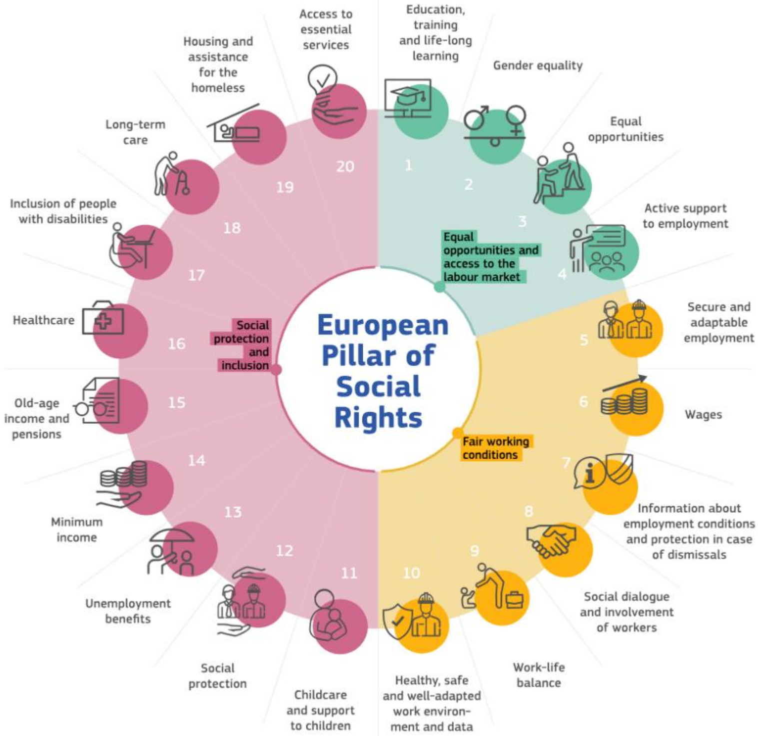
APPENDICES

Appendix I: The 20 Principles of the European Pillar of Social Rights



Source: European Commission (n.d.e.).

Appendix II: CSRs policy areas selected in accordance with the EPSR principles

Active labour market policies, incentives to work & labour market participation	Housing market
Long-term sustainability of public finances, inc. pensions	Incentives to work, job creation & labour market participation
Education	Poverty reduction & social inclusion
Employment protection legislation & framework for labour contracts	Skills & life-long learning
Health & Long-term care	Unemployment benefits
Wages & wage setting	Childcare

Source: European Commission (n.d.a.).