Kati Keel. 2021 "The Impact of the EU's Economic and Fiscal Policy Measures on the Budgeting Process of Estonia."
Halduskultuur: The Estonian Journal of Administrative Culture and Digital Governance 21(2), 22-42

The Impact of the EU's Economic and Fiscal Policy Measures on the Budgeting Process of Estonia

KATI KEEL, TALLINN UNIVERSITY OF TECHNOLOGY, RAGNAR NURKSE DEPARTMENT OF INNOVATION AND GOVERNANCE, ESTONIA

Abstract

After the global financial crisis in 2008-2010, the governance framework of the European Union's economic and fiscal policy has undergone several changes. The Stability and Growth Pact – the core of the EU's fiscal governance framework – has been reinforced by the "six-pack", the "two-pack", the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, and the rules are grounded in the European Semester process. After 10 years since the initial major changes were introduced into the EU's legislative framework and given the current times of fiscal uncertainty as well as ongoing discussions on revising and improving the Stability and Growth Pact rules once again, it is of utmost importance to understand the impacts these past reforms have had on member states in the first place. The paper serves two purposes. First and foremost, the main goal of the paper is to build on the existing knowledge on Europeanization in order to bring into one single framework a whole set of different policy measures and their potential impact on the member state's budgeting processes. Secondly, the theoretical discussion is followed by an empirical case study of Estonia. The case study not only illustrated and mapped out potential impacts that the EU's economic and fiscal governance measures can have on a national budgetary process and demonstrated the potential degree of domestic change in response to these various policy measures, but also provided preliminary insights in the possible mediating factors that could additionally influence domestic adaption.

Keywords: europeanization, fiscal policy, economic policy coordination, budgeting, EU, European semester, fiscal council

1. Introduction

After the global financial crisis in 2008-2010, the governance framework of the European Union's (hereinafter: EU) economic and fiscal policy has undergone several changes. The Stability and Growth Pact – the core of the EU's fiscal governance framework – has been reinforced by the "six-pack"[1], the "two-pack"[2], the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, and the rules are grounded in the European Semester process.

Although it has been already 10 years since the initial major changes were made in the EU's legislative framework, the research into the institutional consequences of these reforms is still emerging (e.g. see Catania 2011; Quaglia 2013; Popescu 2015; Ioannou et al. 2015; Calmfors 2015; Barnes et al. 2016; Bauer and Becker 2014; Claeys et al. 2016; Eyraud et al. 2017; Raudla et

1 Six-pack stands for the package of five regulations and one directive aiming at strengthening the economic and fiscal governance in the EU and the euro area: Regulation 1175/2011 amending Regulation 1466/97; Regulation 1177/2011 amending Regulation 1467/97; Regulation 1173/2011; Directive 2011/85/EU; Regulation 1176/2011 and Regulation 1174/2011.

2 Two-pack stands for two regulations: Regulation 473/2013 and Regulation 472/2013.

al. 2018a; Raudla and Douglas 2020, Haas et al. 2020; Verdun and Zeitlin 2018; Karremans 2021; Horvath 2018; Crespy 2020). Given the current times of fiscal uncertainty as well as ongoing discussions on revising and improving the Stability and Growth Pact rules once again, it is of utmost importance to understand the impacts these past reforms have had on member states in the first place. Furthermore, as budgeting is one of the core processes in the public sector and widely considered a core state competence, the Europeanization literature lacks studies that would address if, how and to what extent all these various changes interact and can affect the budgeting processes. Due to the increasing role played by the EU in the economic and fiscal policy-making of the member states, understanding these impacts is extremely important.

This paper serves two purposes – first and foremost, the main goal of the paper is to build on the existing knowledge on Europeanization in order to bring into one single framework a whole set of different policy measures and their potential impact as well as the degree of potential domestic change (as a dependent variable). Moreover, the paper also discusses possible domestic independent variables that can influence, trigger and explain the impact on the budgeting processes. Finally, the developed framework is tested on a single case study for an in-depth analysis. The case study is needed to test the theoretical framework and analyze in depth domestic independent variables, but it can also provide valuable information on actual policy outcomes. This paper follows Estonia, focusing on the time period when the reforms were implemented in the first place. Hence, the research questions addressed in the paper are the following: 1) What are the different theoretical possibilities of the EU’s economic and fiscal governance framework to influence national budgeting processes? 2) Have the reforms had any impact on the budgeting process of Estonia? 3) How can we explain these influences (or lack thereof)?

The paper proceeds as follows. To begin with, based on the existing literature on Europeanization, a theoretical framework for analyzing the potential domestic impacts of the EU’s economic and fiscal governance measures is developed. The framework will cover both coercive policy measures (e.g. coming from Fiscal Compact or from the secondary EU law) as well as policy coordination measures (e.g. the European Semester). Although currently there is no distinct framework that brings these various (legislative as well as “softer”) policy measures all together – especially in terms of their potential impact on domestic budgeting process – several Europeanization studies address the influence of different EU governance patterns (e.g. Wallace 2010; Bache et al. 2011; Knill and Lenschow 2005; Knill and Lehmkuhl 2002; Kahn-Nisser 2015; Radaelli 2003; Knill et al. 2009), the mechanisms of Europeanization (e.g. Börzel and Risse 2003, 2007; Featherstone and Radaelli 2003; Graziano and Vink 2007, 2013; Risse et al. 2001; Börzel 2002; Börzel 2005 Knill 2005; Haverland 2000; Knill and Lehmkuhl 2002) and different categories of how to operationalize the term “domestic change” (e.g. Radaelli 2004; Börzel and Risse 2003).

Secondly, the theoretical discussion is followed by an empirical study of Estonia. Estonia provides an interesting case in terms of budgeting process and fiscal policies since Estonia has been praised as the role model for fiscal conservatism (Raudla and Kattel 2011). This has mostly been driven by the fundamental belief that balanced budgets (and low debt) help to ensure macroeconomic stability (ibid.). Therefore, the potential misfit between domestic processes and the new EU level requirements can be presumed to be moderate. Nevertheless, until 2014 and before the implementation of the Fiscal Compact, Estonia did not have a fiscal rule stipulating budget balance or a deficit target in their domestic legislation (Raudla et al. 2018b). Moreover, as the Estonian budgeting process can be characterized as containing a small number of veto points and being highly centralized, with the minister of finance having historically extensive agenda setting and negotiating powers (Raudla 2010) we could assume these three aspects would interplay and trigger additional reforms in the area of budgeting processes. Furthermore, research on the implementation of the European Semester suggests that Estonia might have a better implementation record of the country-specific recommendations than other member states (Haas et al. 2020). Therefore, in light of the research questions, Estonia could be seen as having favorable conditions for Europeanization to occur and providing a good case for helping to illustrate the potential impacts EU's economic and fiscal governance framework could have on the national budgeting process. The sources of data were semi-structured interviews that were conducted a few years after the implementation of the various measures as well as the analysis of policy documents, including the relevant country-specific recommendations addressing fiscal policies and the budgeting process. The findings of the empirical analysis, discussion and conclusions are presented in the final section of the paper.

2. Theoretical discussion

Since the mid-1990s, a growing number of studies have analyzed whether, how and under what conditions EU influences its member states and beyond – starting from affecting domestic policies and institutions to reshaping beliefs, identities, norms and collective understandings (Börzel and Risse 2007; Pollack 2010; Graziano and Vink 2013). In light of these questions, Europeanization has quickly become a central concept in the EU studies (Börzel and Panke 2013, Wach 2015). Although in the broadest sense Europeanization refers to some kind of interaction between the EU and its member states, the precise definition and the scope of the concept remains debatable (Radaelli 2003; Wach 2015; Börzel and Panke 2013).

Börzel and Risse (2009) conceptualize such interaction as a two-way process consisting of so-called "top-down" (downloading) and "bottom-up" (uploading) Europeanization. In later years some scholars have incorporated top-down and bottom-up processes into one single concept (Wach 2015), emphasizing the need to apply a circular approach in research (ibid.). However, bearing in mind the addressed research questions, this paper takes the top-down process on Europeanization. Europeanization as a top-down process targets the question of *how* the EU influences domestic policies, institutions and processes (Sanders and Bellucci 2012, in Börzel and Panke 2013; Wach 2015), both in the member states and the EU candidate or neighboring countries (Balkir et al. 2013. It also allows having an in-depth view on the mechanisms of Europeanization (e.g. what triggers and influences domestic change). Hence, Europeanization is defined as follows:

> *Europeanization refers to multiple ways European-level processes, policies, or institutions influence domestic policies, politics and polity* (Börzel and Risse 2000).

2.1 The potential impact of different EU governance patterns

Although the EU's influence on various national policies is probably one of the most studied fields in the Europeanization literature (Featherstone 2003; Graziano and Vink 2013) the EU's impact on domestic institutions and policy-making processes has so far received less attention (Börzel and Risse 2007, Knill et al. 2009). On the one hand, there are signs that domestic institutions have managed to stay resistant to the pressures of Europeanization (Anderson 2002, 818; Schmidt 2006). On the other hand, it has been argued that – at large – member states still react to the demands by the EU (Kassim 2003).

To begin with, it is important to understand that institutional adjustment in response to Europeanization can differ considerably from one country to another (Featherstone and Radaelli 2003; Graziano and Vink 2007, 2013). Moreover, interaction between the EU and the domestic institutions may vary (Wallace 2010), depending on the policy field and policy instrument used (Bache et al. 2011). Hence, examining how different modes of EU policy-making can influence domestic processes and policies is necessary to serve the purpose of this paper. The paper relies greatly on the work by Knill (2005) and his co-authors on distinguishing between different types of EU governance patterns – mainly because the governance framework of the EU's economic and fiscal policy consists of different types of policy instruments.

Knill and Lenschow (2005) argue that the EU's potential to evoke change varies with the particular governance pattern applied. To be more precise, they distinguish between coercion, competition and communication (Knill and Lenschow 2005). Moreover, all these patterns entail different incentives and behavioral rationalities that guide domestic responses and actors' behavior (ibid.). National policy-makers play a central role in this model, as they tend to follow certain general rationalities to respond to EU requirements (ibid.)

Coercive governance in general refers to legally binding legislation at the EU level (often having clear and pre-defined procedural obligations or organizational structures with a sanctioning potential), leaving little or no discretion to the member states (Knill and Lenschow 2005). This can be, for example, a requirement to create a new organization or a body (ibid.). It can therefore be expected that when coercive governance is used, member states are under a rather high compliance pressure, which in turn can influence domestic institutional arrangements, organizations and national administrative styles (ibid.). In response to these pressures member states often try to minimize domestic adaptation costs. Hence, the response to the requirements coming from the EU level is persistence-driven, which in turn can lead to incremental and gradual adjustments, as domestic change could be reduced only to the unavoidable changes necessary to comply with the EU rules (ibid.).

In the case of *governance by competition*, the influence of the EU's regulative policies on domestic institutions, processes and policies is considered to be more indirect since the measures can entail only few legally binding rules, leaving member states with broad institutional freedom to choose how to comply with the rules (ibid., 585). The domestic change is encouraged by creating a common general framework and "rules of the game" at the EU level. Therefore, pressure for domestic change is considered to arise from the need to re-arrange or improve domestic practices, institutions or processes in order to achieve common EU-level objectives (ibid.). It has been argued that this triggers a higher potential for fundamental and profound national reforms, since the persistence-driven incentives of policy-makers are constrained (ibid.).

The third and final type of governance targets domestic institutions by *communication*. Here, instead of legally binding legislation, the emphasis is on developing best practices and a common exchange of information (Knill and Lehmkuhl 2002; Knill and Lenschow 2005, 587). The approach originates from the concept of mutual learning (Rose 1991) and includes, e.g., the open method of coordination. Former studies have indicated that by using a communicative type of policy instruments, member states can react strategically – they try to balance between justifying domestic processes vs. publicly opposing *any* domestic change (Kahn-Nisser 2015, 4; Voegtle et al. 2011). This, in turn, can lead to institutional change (Knill and Lenschow 2005; Trubek and Trubek 2005; Borras and Jacobsson 2004, 201) because states realize excessive resistance to change could eventually lead to even stronger compliance pressure. Therefore, it has been argued that most likely some incremental change in domestic arrangements (triggered by peer pressure) could take place (Knill and Lenschow 2005). Other studies on the so-called “soft” EU policy measures support the argument (e.g. Franzese and Hays 2006; Trubek and Trubek 2005; Borras and Jacobsson 2004). Additionally, more recent studies addressing the EU’s macroeconomic policy coordination as well as focusing on the European Semester have indicated that the introduction of the European Semester has opened the door to new ways of investigating EU policy coordination (Haas et al. 2020). For example, the actual implementation record of various country-specific recommendations diverge greatly among the member states (see, e.g., Haas et al. 2020; Verdun and Zeitlin 2018; Crespy 2020). Moreover, through the new enhanced policy coordination, ministers of finance increasingly have to negotiate and explain the direction of their policies at the EU level (Karremans 2021). On the one hand, this can reduce the room for national political alternatives (ibid.) but on the other hand, policy measures that are based on communicative governance can also give member states opportunities to present already existing processes and policies as new (Radaelli 2003, Scharpf 2003). Furthermore, European policy pressures and domestic politics can often work simultaneously and in parallel in national budgetary policy-making (Verdun and Zeitlin 2018; Karremans 2021).

Table 1: Governance patterns, actors’ incentives and potential domestic change:

Governance pattern	EU-level measures	Actors’ incentive for domestic change	Domestic institutional change
Coercion	Clearly defined procedural obligations or institutional structures	Persistence-driven (minimalize change)	Incremental adjustments of existing processes and practices
Competition	Common general framework and rules of the game	Performance-driven (improve domestic practices, institutions, processes)	Higher potential for fundamental and profound reforms
Communication	Mutual learning, peer-pressure and common exchange of information	Legitimacy-driven (justification of domestic arrangements)	Moderate or incremental changes, depending on the presence of a leading model and pressure to conform

(Source: based on Knill and Lenschow 2005)

In terms of domestic change, Knill (2005) has also argued that Europeanization can trigger an *institutional, strategic* or *cognitive* impact. The *institutional impact* of Europeanization entails primarily the adoption of legally binding rules or concrete institutions in order to regulate specific policies or processes (Knill 2005). This can be seen as the clearest form of how the decision-making process on the EU level can prompt domestic change (Knill and Lehmkuhl 2002). Secondly, Europeanization does not only induce immediate institutional change (Knill 2005), but EU rules can also influence domestic processes indirectly, altering the “rules of the game” (Knill and Lehmkuhl 2002). In those cases, the *strategic impact* of Europeanization takes place. These influences are more limited and change domestic opportunity structures – i.e. shifting the distribution of power and resources between domestic actors (ibid. 2002; Börzel and Risse 2000, 2003). Finally, Europeanization can also have *cognitive impacts*. In this case, the EU does not define concrete institutional demands but rather induces domestic adaption even more indirectly (Quaglia 2006, 161) – changing ideas, beliefs and expectations (Knill 2005).

2.2 Factors influencing domestic change

Knill and Lenschow’s distinction of the EU’s different governance approaches and corresponding actors’ incentives to change is indeed useful since it helps to classify different EU fiscal and economic policy measures into broad categories and analyze the motives behind policy-actors’ behavior. However, as they put it themselves, it requires a careful in-depth analysis to fully understand the domestic impacts of a certain policy. Hence, the triggers for domestic change need further elaboration in order to understand why the impact of Europeanization can differ from one member state to another and why some countries experience stronger pressures to comply with the EU rules (irrespective of their coerciveness). Those factors most probably go beyond than just actors’ own incentives for domestic change.

A considerable amount of literature on Europeanization shares a common suggestion that Europeanization must be inconvenient, meaning the level of domestic change depends on the “misfit” between EU and domestic institutions, policies or processes (Börzel and Risse 2000; Radaelli 2003; Risse et al. 2001. Cowles et al. (2001), Heritier (2001) but also Börzel and Risse (2003, 2007) argue that the “fit” between the EU and the domestic level provides an explanation why the impact of Europeanization differs from one state to another and why some states experience stronger adaptational pressure. Hence, the lower the compatibility between European and domestic processes, policies, and institutions, the larger the potential changes (Börzel and Risse 2003, 2007). At the same time, if the misfit between the EU requirement and existing policies is too large, the policy actors are likely to resist actual changes, or changes may be difficult to materialize in the actual practices (Börzel and Risse 2003, 2007). Therefore, they argue that transformation most probably takes place when the misfit between domestic arrangements and EU requirements is *moderate* (Börzel and Risse 2003, 2007).

However, adaptational pressures do not trigger domestic change automatically (Graziano and Vink 2013). The adaptional pressures and range of influence, coming from external rules or commitments strongly *depends on domestic institutional factors* (Börzel and Risse 2003; Bache et al. 2011; Graziano and Vink 2013). Thus, even if EU rules prescribe specific instruments and institutions, they may not necessarily lead to considerable changes to the policies. Instead, and as already explained above, the actors could be motivated in the persistence of existing routines and attempt to minimize the impacts of EU rules on actual practices (Knill and Lenschow 2005). These arguments stem from the perspective of rational-choice institutionalism, which emphasizes opportunities and constraints domestic actors might face. Whether EU pressures lead to, e.g., a domestic redistribution of power, depends on the capacity of actors to use the opportunities and dodge the constraints (Börzel and Risse 2000, 2007). Whether the actors are capable of utilizing the presented opportunities is argued to be dependent on the amount of veto points and the facilitating institutional structure (Börzel and Risse 2007). Firstly, veto points in the state’s institutional structure can restrain or complicate domestic adoption (Haverland 2000; Heritier 2001): the more widely the power in the national decision-making process is distributed and the more various actors have their say in deciding the policy direction, the harder it is to find consensus to undertake changes (Börzel and Risse 2003). This is mainly because strong and multiple veto points in the domestic decision-making process provide actors with entry points to block unwanted changes. On the other hand, a smaller number of veto points can ease the adaption (Bentzen 2009). Furthermore, it has been argued that changes in the domestic decision-making processes may favor actors directly connected with the international negotiations or institutions (see also Moravcsik 1998, 2001). Therefore, it can be expected that Europeanization can strengthen the executive power instead of parliamentary power (Kassim et al. 2000; Börzel and Risse 2007).

The second dominant stream of literature in the Europeanization research follows the *constructivist perspective* that emphasizes the importance of reshaping existing domestic norms and collective understandings (Kelley 2004, 428; Börzel and Risse 2007; Checkel 2007) that, although they are deeply rooted, are nevertheless not fixed (Bentzen 2009). Hence, policy designers are likely to analyze similar policies in other countries, either with the goal of emulating a "normative ideal" or with the goal of (positive or negative) lesson-drawing (Rose 1991). Therefore, Europeanization can lead to domestic change through the process of socialization and collective learning, resulting in the development of new identities and/or ideas (Börzel and Risse 2003). Learning from other states and a diffusion of ideas and norms can broaden the choice of alternatives considered by the actors in the domestic policy-making process in order to solve various policy problems (Knill 2005). Börzel and Risse (2000) have argued that the existence of "change agents" influences the likelihood of change in norms or beliefs.

2.3 Conceptualizing the degree "domestic change"

Finally, after establishing that Europeanization can trigger different kind of domestic impact and discussing what domestic institutional factor can influence the process, it is also useful to map out the possible degree of domestic change, in order to draw a holistic view on the possible influences the EU's economic and fiscal measures can have. For the purposes of operationalization and measurement the categories of domestic change introduced by Radaelli (2003) and Börzel and Risse (2003) are highly valuable. Based on the different degrees of domestic change, Börzel and Risse (2003) have distinguished between absorption, accommodation, transformation and inertia. *Absorption* refers to the situation where a member state conforms to the European requirements, without substantially changing existing processes, policies or institutions. In case of *accommodation,* Member States indeed adjust existing processes, policies and institutions, but their essential features remain unchanged, leaving the degree of domestic change modest (Börzel and Risse 2003). The level of domestic change is most apparent in case of *transformation*. In that case member states replace existing institutions, policies or processes with new, noticeably different ones or adjust them to the degree that their essential structures change considerably (ibid., 14). *Inertia* does not always refer to having no domestic impact at all but can also indicate that the impacts of Europeanization materialize over the long term (Featherstone and Radaelli 2003). Inertia can also indicate that existing domestic processes and institutions already comply with the EU demands. Continuing from the work of Börzel (1999), Cowles et al. (2001), Heritier (2001) and Knill (2001), Radaelli has also considered *retrenchment* as a fifth situation. In the event of retrenchment, policy divergence might take place (Radaelli 2003).

Table 2: Degree of domestic change

transformation	accommodation	absorption	inertia	retrenchment
Replacing existing institutions, policies or processes with new, noticeably different ones or noticeably adjusting them	Adjusting the existing processes, policies and institutions, without changing their essential features	Conforming with European requirements, without substantially changing existing processes, policies or institutions	No domestic impact at all (in the long run still can lead to domestic change)	Actively resisting domestic change

(Source: based on Radaelli (2003); Börzel and Risse (2003))

As the EU's economic and fiscal rules entail different governance patterns (coercive, competitions as well as communication), they can therefore trigger different kinds of domestic impact (institutional, strategic, cognitive) as well as various degrees of domestic change. Therefore, when it comes to a single case study the paper proposes to analyze the EU's economic and fiscal governance measure in the following framework (see Table 3) in order to understand whether important causal links between the different measures and their domestic influence can emerge.

Table 3. Possible framework guiding the analysis

	EU governance pattern	**Potential domestic impact**	**Degree of domestic change** (depends on domestic institutional setting)				
Europeanization	coercion	Institutional Strategic OR Cognitive	retrenchment	inertia	absorption	accommodation	transformation
	competition		retrenchment	inertia	absorption	accommodation	transformation
	communication		retrenchment	inertia	absorption	accommodation	transformation
Factors influencing domestic change		1) actors' incentives for domestic change; 2) domestic institutional factors					

(Source: based on author's synthesis of previous discussion)

Moreover, based on existing literature, we would also have several expectations in the context of the EU's economic fiscal policy reforms.

- Firstly, from the perspective of rational choice we would expect that the actors responsible for transposing the EU's economic and fiscal policy's coercive measures would opt for minimizing the potential domestic changes, leading to incremental adjustments in the national budgeting process.
- Secondly, we would expect the EU's economic and fiscal policy measures to have a strategic influence on national budgetary processes, altering the "rules of the game". Moreover, we would also assume that the changes introduced by the EU's fiscal governance framework might benefit executive powers instead of parliamentary powers.
- Finally, we would expect these particular impacts to be dependent on the adaptational pressure, the number of veto-points in the domestic budgetary processes, facilitating formal institutional structures and the prevailing ideological preferences.

3. The governance framework of the EU's economic and fiscal policy

After the global financial crisis in 2008-2010 the European Union's economic and fiscal policy framework went through several changes. The Stability and Growth Pact – the core of the EU's fiscal governance framework – was reinforced by the Six-Pack[3], the Two-Pack[4], the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. The six-pack came into force in December 2011, and it consisted of six new legislative acts. The package was introduced to strengthen the Stability and Growth Pact, with stronger financial sanctions and more focus on debt. It also included a directive on requirements for national budgetary frameworks. The six-pack was soon after followed up by the Fiscal Compact (as a part of the Treaty on Stability, Coordination and Governance), which was signed in 2012 and entered into force on 1 January 2013. The Fiscal Compact required from the contracting parties (out of the 27 Contracting Parties to the TSCG, 22 are formally bound by the Fiscal Compact[5]) to lay down balanced budget rule in their domestic legislation. In 2013, the EU's fiscal governance framework was strengthened even further. The adoption of the two-pack reinforced budgetary surveillance and coordination for Eurozone countries. The main elements introduced with the two-pack included additional measures to strengthen the budgetary surveillance in the Eurozone – e.g. giving the European Commission monitoring and assessing powers of the Euro area members' draft budgetary plans, introducing a common budgetary timeline, additional rules on structural deficit and, finally, strengthening the national fiscal councils (European Commission 2013a). Furthermore, the European Semester introduced in 2010 plays a vital part in the EU's renewed fiscal and economic governance framework, as it brings together under a single annual policy coordination cycle a wide range of EU governance instruments (Zeitlin and Vanhercke 2018), including those that are set by the Stability and Growth Pact. The aim of the semester is to ensure that member states coordinate ex-ante their budget and economic policies, even before the national budget plans are prepared (European Commission 2010).

All in all, it can be concluded that the governance framework of the EU's economic and fiscal policy consists of different types of policy measures, giving member states both concrete institutional models and measures where such a direct enforcement mechanisms are not in place, leaving the member states more flexibility and room for maneuver.

4. Estonia

The case selection for this paper was based on numerous considerations. Estonia has been praised as the role model for fiscal conservatism (Raudla and Kattel 2011). This has been driven by the fundamental belief that balanced budgets (and low debt) help to ensure macroeconomic stability (ibid.). Moreover, the budgeting process in Estonia has been characterized as containing a very small number of veto points and being highly centralized, with the minister of finance having historically extensive agenda-setting and negotiating powers (Raudla 2010).

Budget procedures in Estonia are put into practice in accordance with the State Budget Act. The Act lays out the requirements for the form and structure of the annual budget as well as the roles and responsibilities of the legislature and executive in the budget process. The State Budget Act was thoroughly reformed in 2014 and the changes introduced were mainly triggered by the changes in the EU's fiscal governance framework (Explanatory Memorandum

3 Six-pack stands for the package of five regulations and one directive aiming at strengthening the economic and fiscal governance in the EU and the euro area: Regulation 1175/2011 amending Regulation 1466/97; Regulation 1177/2011 amending Regulation 1467/97; Regulation 1173/2011; Directive 2011/85/EU; Regulation 1176/2011 and Regulation 1174/2011.

4 Two-pack stands for two regulations: Regulation 473/2013 and Regulation 472/2013

5 The 19 Euro area Member States plus Bulgaria, Denmark and Romania, who chose to opt in; Communication from the European Commission C(2017)1200 – The Fiscal Compact: Taking Stock.

of Draft Budget Law 2013).

One of the main elements in the renewed economic and fiscal governance measures was the requirement to establish an *independent institution to monitor national fiscal policies*. In terms of governance patterns, this was clearly a legally binding coercive measure. Prior to the EU requirements, Estonia did not have such a national Fiscal Council. Hence, the requirements brought in considerable adaptional pressures to create such an institution. With the new State Budget Act, enacted in early 2014, a national Fiscal Council was established and attached to the Central Bank (Explanatory Memorandum of Draft Budget Law 2013). Already during the negotiations at the EU level Estonia did not support a requirement to establish such an institution. One of the problems seen by the Estonian Ministry of Finance was that the evaluation of fiscal policies could become difficult and more complex due to the additional opinions presented by the new Council (Interview A). The interviews also indicated that without the external pressure and EU level legislation, Estonia would not have created the Fiscal Council (Interviews A, B and C). However, Estonian government nevertheless decided not to adopt the minimizing alternative when designing the Fiscal Council (Raudla et al. 2018a), even though the Ministry of Finance had extensive veto and negotiating powers in deciding on the creation and design of the new institution. The most minimizing alternative would have been to attach the body to the Ministry of Finance (an option that would have been acceptable and was actually considered) (Interview A). Instead, the Fiscal Council was created as an independent body, supported in its activities by the Bank of Estonia (ibid.). According to the interviews with the officials from the Ministry of Finance, the Fiscal Council was attached to the Central Bank in order to avoid the creation of a completely new institution, which would also have required additional resources for organizing its work (Interview A). In practice, however, the Fiscal Council sees itself as an independent institution to whom the Central Bank only provides additional background information and office space for organizing their work (Interview C). Moreover, the creation of the Fiscal Council has clearly added a new actor to the budgeting process. The Fiscal Council evaluates the prognoses of the Ministry of Finance; they also have, on their own initiative, evaluated and commented on the draft annual state budgets (Interviews A and C).

Therefore, the creation of the national Fiscal Council shows both *institutional and strategic impacts* of Europeanization on the budgeting process. Hence, even though a strictly coercive measure was imposed, with a clearly defined institutional structure, the policy makers did not follow persistence-driven motives and did not opt for minimizing alternatives. Moreover, the choice of policy makers cannot exhaustively be explained by the amount of veto players (there were no additional actors involved in the process) nor by the prevailing norms and ideas (there was overall skepticism about the additional value of the institution; Interview A). Furthermore, the Fiscal Council has also slightly shifted the power and resources between the actors in the budgeting process – but interestingly enough, the Fiscal Council has increased its own authority in the process, e.g. through media and by providing the Cabinet and the Parliament additional background materials (Interviews A and C). We would have expected from the policy designers not to create an institution that would undermine their own powers. The degree of domestic change can be categorized as accommodation, as a new institution was created and visible changes in the domestic budgeting process have taken place, nevertheless the fundamental features of the existing budgeting process have still (at large) remained unchanged.

The second observable change in the Estonian budgeting process is connected with the *European Semester*, which can be viewed as a governance pattern targeting domestic institutions by communication rather than coercion. However, the timeframe provided by the European Semester has had its impact on the Estonian budgeting process. More specifically, it has shifted the drafting and adoption of the national Budget Strategy.[6] As the European Semester requires member states to present their national reform programs and stability programs jointly by April, starting from 2011, Estonia had to bring forward the domestic deadline for adopting its state Budget Strategy (Interview A). Before the introduction of the European Semester, the state budget strategy was adopted by the Cabinet in May (Kraan et al. 2008). Thus, the EU-imposed rule provided moderate pressure to change the domestic timelines in the budgeting process. However, the process itself has mostly remained the same because the stability program in practice is actually considered to be the reflection of the national Budget Strategy – the main difference lies only in the format of how the EU collects its data (Interviews A and B). Moreover, the role of the Parliament has remained unchanged throughout the process, (Interview D). Drafting and approving the national Budget Strategy only includes negotiations between the Ministry of Finance and spending ministries about their plans (Kraan et al. 2008). The negotiations primarily take place first between officials from the Ministry of Finance and the relevant spending ministry (exchange between the relevant minister and the Minister of Finance to discuss the more controversial issues), and any unresolved issues are resolved at the Cabinet level (ibid.). Therefore, the Cabinet is involved in the preparation of the State Budget Strategy on several occasions before it is approved in the Government in April. Parliament, however, never has (from 2003) and still does not approve or formally even discuss the document (Interview D). The EU-level requirements have therefore not changed the internal power relations. Thus, it could be argued that a slight *institutional impact* of Europeanization can be observed with incremental adjustments to the existing practises and process in order to conform with the EU’s timeline. Concerning the degree of domestic change, absorption seems most adequate: although Estonia conformed to the requirements presented by the European Semester, substantial changes to existing processes, policies or institutions did not take place.

The third essential measure introduced in the new EU economic and fiscal governance framework was the requirement to *legislate structural deficit rule* in domestic legislation, prescribed by the Fiscal Compact. Again, this was clearly a coercive measure. Before the Fiscal Compact, Estonia did not have such a requirement in their legislation. Estonia adopted the structural budget *balance* rule with the new State Budget Act (Explanatory Memorandum of Draft Budget Law 2013). Remarkably, the new State Budget Act established a stricter rule than prescribed by the Fiscal Compact. It stated that the structural budget position has to be in *balance* or in *surplus,* going clearly beyond the minimum EU requirements.[7]

Whilst already the report from the Organisation for Economic Co-operation and Development (OECD) on the Estonian budgeting process highlighted the highly conservative fiscal policy (e.g. balanced budget as a norm; Kraan et al. 2008), the structural budget balance rule was clearly introduced to the national legislation due to the Fiscal Compact. As expressed by one official in the Ministry of Finance:

6 The Budget Strategy determines the main directions of the state fiscal policy and records the general objectives of the Government, which are intended to be implemented during the budget strategy period, as well as the funds planned for the implementation. The budget strategy is prepared each year with regard to at least the next year and the following three years (State Budget Act).

7 According to the Fiscal Compact the annual structural balance should not exceed -0.5% of GDP.

> *If there had not been the Fiscal Compact then probably yes, Estonia would have preferred to continue with the nominal balance* (Interview B).

Concerning the impact on the national budgeting process, these influences are also quite interesting. Following the theoretical framework outlined in section 2, one could argue that *strategic and cognitive impacts* have taken place. On the one hand, after the adoption of the structural budget balance rule, the authority and influence of the officials in the Ministry of Finance has indeed increased, as could be expected following the theoretical framework. Based on the interviews, this is mainly due to the complexities in calculating, explaining and evaluating the structural budget position (Interviews A and D). On the other hand, the focus on structural budget balance has also brought in additional actors to the domestic budgeting process: namely the Fiscal Council and the European Commission. This is also caused by the complexity of calculating the exact cyclical position of the budget. During the past few years, the Ministry of Finance and the European Commission have evaluated the cyclical position of the Estonian annual budget somewhat differently. Consequently, it has allowed the Fiscal Council to enter the debate and gain additional visibility in the process (Interviews A, B, C and D). Still, it cannot be argued that the introduction of the structural balance rule profoundly transformed the domestic budgeting process in Estonia as the discussions and evaluations of nominal balance are still on the table when the annual state budget is prepared (Interview A). However, the focus has strongly shifted towards the structural balance. Furthermore, according to the officials in the Ministry of Finance, thorough discussions on the structural balance clearly emerged only after the EU started to observe the structural positions of the member states' budgets (Interviews A and D). Concerning the degree of Europeanization, we can categorize it as accommodation.

In order to analyze the domestic impact of the measures on the EU's economic and fiscal policy governance framework that are aimed at facilitating communication (e.g. assessing and comparing member states in the European Semester process and annually evaluating the draft national budget plans), we have to look at the recommendations given by the European Commission to Estonia in the Annual Growth Surveys (AGS) and the Alert Mechanism Reports (AMR) and the corresponding country-specific recommendations. Based on the documents from 2011 to 2015 (European Commission 2012; European Commission 2013a; European Commission 2013b; European Commission 2014) it can be concluded that, in light of the domestic budgeting process, no substantial institutional, strategic or cognitive impact has emerged so far. Although the officials from the Ministry of Finance track the developments in the AMR, the national domestic data is still considered to be more relevant and more up to date than that coming from the EU level (Interview B).

Regarding the annual evaluation of the draft national state budget, the EU-level processes are slightly stricter than in the case of AMR and AGS. Estonia has presented its draft state budget to the European Commission since 2013. According to the evaluations by the European Commission until 2015, Estonia generally complies with the Stability and Growth Pact (European Commission 2013b, European Commission 2014). Nevertheless, some impact on the domestic budgeting process can be observed, since these evaluations have had a disciplinary purpose for the actors involved (Interview A). Hence, the annual evaluation of the draft national state budgets have had *strategic and cognitive impacts* on the budgeting process. The strategic impact derives again from the fact that the Ministry of Finance and the European Commission calculate the cyclical position of the Estonian annual budget somewhat differently, allowing the Fiscal Council to mediate the debate. The cognitive impact refers to a more consensus-oriented domestic budgeting process, as the evaluation by the European Commission has given the officials from the Ministry of Finance additional means to put pressure on politicians to follow fiscal discipline (Interviews A and D).

Finally, regarding multilateral surveillance in the committees, due to Estonia's reputation as a country with excellent fiscal discipline, Estonia has gotten far less attention in the committee procedures than other member states (Interview A). Nevertheless, between 2012 and 2015 Estonia has received country-specific recommendations (CSRs) addressing the budgeting processes. For example, in 2012 Estonia was recommended to preserve a sound fiscal position by implementing budgetary plans as envisaged, ensuring the achievement of the MTO by 2013 at the latest, and compliance with the expenditure benchmark. Moreover, Estonia was also recommended to complement the planned budget rule with more binding multiannual expenditure rules within the medium-term budgetary framework, continue enhancing the efficiency of public spending and implement measures to improve tax compliance (similar recommendations were also given in 2013 and 2014) (D'Erman et al. 2021). In 2015, Estonia was once again recommended to avoid deviating from the medium-term budgetary objective in 2015 and 2016 (ibid.). According to the officials from the Ministry of Finance, there have indeed been some discussions concerning the Estonian structural budget position in the committee. However, since the officials have not publicly opposed to the committee opinions or the recommendations, only few other member states have taken the floor (Interviews A and B) and actually engaged in the peer-pressure exercise. Thus, multilateral surveillance in the committees has not had any considerable impact in the context of the national budgeting process, thus Estonia has not really needed to thoroughly justify its national arrangements in the Committees so far. Interestingly, however, the official assessment of the implementation of the CSRs does not fully reflect the lack of strong peer pressure. During 2012-2015, it has been assessed that Estonia has made either some progress, substantial progress, considerable improvement or no progress at all when it comes to the implementation of the relevant CSRs (D'Erman et al. 2021). For example, in 2012 it has been evaluated that:

> Estonia has made substantial progress in implementing the budgetary plans mentioned in the CSR. However, no progress has been registered so far on the fiscal framework issue. The medium term objective was achieved in 2012, one year before the deadline. The temporary deviation from the MTO in 2013 is not significant and a structural surplus is forecast to be reached from 2014 onwards. The government is expected to fulfil its commitment under the Treaty on Stability Coordination and Governance and to adopt the structural budget balance rule in time. However, the authorities are not planning to introduce an expenditure rule (ibid.).

Regarding the 2013 CSR implementation the assessment was the following

> Some Progress: The draft 2014 Budget was adopted as planned, however, the deterioration of the growth outlook and the lowered fiscal targets compared with the previous programme could pose a risk of a significant deviation from the Medium Term Objective in 2014 and 2015. The State Budget Act entered into force on 23 April 2014, hence the commitments made under the Treaty on Stability, Coordination and Governance have broadly been met. The new law includes a 4-year expenditure ceiling

but this is not binding within the medium-term budgetary framework. No progress on introducing a multiannual expenditure rule (ibid.).

In 2014 in was concluded that Estonia had made a considerable improvement in the fiscal framework in general: "Estonia's strengthened fiscal framework has become fully operational in 2014. No progress on addressing the recommendation related to the fiscal framework: no measures were taken to complement the budget rule with more binding multiannual expenditure rule" (ibid.).

To conclude, the domestic impacts of the main measures in the EU's renewed economic and fiscal policy governance framework can be illustrated as follows:

Table 4: Domestic impacts on the Estonian budgetary process

<table>
<tr><td rowspan="10">Europeanization</td><td>EU level measure</td><td>Impact</td><td>Degree of domestic change in the case of Estonian budgeting process</td></tr>
<tr><td>European Semester</td><td>Institutional</td><td>absorption</td></tr>
<tr><td rowspan="2">Creation of national Fiscal Council</td><td>Institutional</td><td rowspan="2">accommodation</td></tr>
<tr><td>Strategic</td></tr>
<tr><td rowspan="2">Structural deficit rule</td><td>Strategic</td><td rowspan="2">accommodation</td></tr>
<tr><td>Cognitive</td></tr>
<tr><td>Assessing and comparing Member States in the European Semester process</td><td>no influence</td><td>inertia</td></tr>
<tr><td rowspan="2">Annual evaluation of the draft national state budgets</td><td>Strategic</td><td rowspan="2">absorption</td></tr>
<tr><td>Cognitive</td></tr>
<tr><td>Multilateral surveillance in the committees</td><td>no influence</td><td>inertia</td></tr>
</table>

(Source: based on author's synthesis of empirical findings)

5. Discussion and conclusion

All policy actors who were interviewed for the case study considered the overall impact of EU-level measures on the budgeting process of Estonia to be rather significant (Interviews A, B, C and D). Based on the case study, it can be concluded that across different EU-level measures, the impact of Europeanization and the degree of domestic change varies. The empirical study indicates a *slight domination of the strategic impact of Europeanization*. However, the degree of domestic change ranges from inertia to accommodation, and any real transformation of the budgeting process cannot be observed.

Moreover, the creation of the Fiscal Council, the adoption of structural budget balance rule and the impacts of the European Semester in general follow the expectations proposed by the theoretical framework. However, based on the existing Europeanization literature, we would expect that domestic changes would have been reduced only to the unavoidable changes necessary to comply with the EU rules. Yet, our case study did not completely confirm the latter – as the creation of the Fiscal Council and the adoption of structural budget balance rule clearly illustrated.

On the one hand, the strategic impact of creating the national Fiscal Council indeed supports the logic deriving from the rational-choice institutionalism that Europeanization can influence domestic opportunity structures. Empirical evidence shows that the misfit between the EU-level requirements and the domestic budgeting process indeed gave the Fiscal Council new opportunities to pursue its interest and, to some extent, constrained the powers of the officials in the Ministry of Finance. On the other hand, despite the strong adaptational pressure, the Ministry of Finance was holding a solo veto power to design and limit the creation of the Fiscal Council as a completely separate institution. Nevertheless, when creating the Fiscal Council, policy makers clearly went beyond the minimum required by the EU legislation and decided not to locate the Fiscal Council within the Ministry of Finance (the EU legislation would have allowed such a solution). Thus, the arguments stemming from the rational choice institutionalism (e.g. actors' persistence-driven motives to minimize change) are not sufficient to explain these choices.

The Estonian case also demonstrates that there is a distinct connection between two measures coming from the EU's overall framework – the structural deficit rule and the annual evaluation of draft national state budget plans. The strategic impact of both measures seems to be mainly influenced by the fact that the Ministry of Finance and the European Commission calculate the cyclical position of the Estonian annual budget differently, hence allowing additional players, e.g. the Fiscal Council, to mediate the debate. Therefore, the complexity of the rule itself clearly is an important element in explaining these influences; however, it has not been identified in the Europeanization literature as an additional variable that could potentially explain domestic impacts. The cognitive impact of these measures can be explained by the fact that the annual evaluation of draft state budget plans has led to certain social and political pressures, which, in collaboration with the dominant ideology, has provided the Ministry of Finance additional arguments to push politicians to follow strict fiscal discipline. The latter follows well "the logic of appropriateness" approach.

Moreover, the domestic impacts of the structural budget balance rule (e.g. why Estonia chose to apply a more ambitious structural balance target than allowed by the EU legislation) can also not be explained by the arguments arising from the rational choice institutionalism. Based on the conducted interviews and the theoretical framework, it could be argued that applying a more ambitious structural balance target could be a strategic reaction to the annual evaluation of the draft national state budgets plans by the European Commission. As Estonia wants to hold its positive public image, it was hoped that the structural balance (rather than deficit) would provide additional safeguards in case the calculations by the Ministry of Finance and the European Commission would differ (Interview A).

All in all, Estonia has not only proven to be an empirically interesting case for studying the impacts of the EU's economic and fiscal policy measures but has also raised many additional questions about Europeanization as a theoretical framework. The case study not only illustrated and mapped out potential impacts that the EU’s economic and fiscal governance measures can have on a national budgetary process and demonstrated the potential degree of domestic change in response to these various policy measures but also provided preliminary insights in the possible mediating factors that could additionally influence domestic adaption. Thus, the future research should go more in depth and look closely into additional explanations and arguments provided by the sociological, historical and discursive institutionalism when trying to explain these specific impacts and the factors influencing domestic responses. Additionally, the complexity of the rules imposed by EU and their possible domestic impacts could be an avenue that deserves more attention in terms of Europeanization literature.

Acknowledgments

This work was supported by the Estonian Research Council grant PUT-1142.

References

Anderson, J. 2002. “Europeanization and the Transformation of the Democratic Polity.” *Journal of Common Market Studies* 40(5), 793-822.

Bache, I., S. George and S. Bulmer. 2011. *Politics in the European Union*. 3rd edn. Oxford: Oxford University Press.

Balkir, C., H.T. Bolukbasi and E. Ertugal. 2013. “Europeanisation in the ‘Southern Periphery’: Comparative Research Findings on the EU’s Impact on Domestic Political Economies.” *South European Society and Politics* 18(2), 259-280.

Barnes, S., Botev, J., Rawdanowicz, Ł. and Stráský, J. 2016. “Europe’s new fiscal rules.” *Review of Economics and Institutions* 7(1), 1-29.

Bauer, M.W. and S. Becker. 2014. “The Unexpected Winner of the Crisis: The European Commission’s Strengthened Role in Economic Governance.” *Journal of European Integration* 36(3), 213-229.

Bentzen, S. 2009. “Theorising top-down Europeanisation: Examining the implementation of the 1992 maternity directive in Denmark (MSc)”. Trekroner: Roskilde University.

Borras, S. and K. Jacobsson. 2004. “The Open Method of Coordination and the New Governance Patterns in the EU.” *Journal of European Public Policy* 11(2), 185-208.

Börzel, T. 1999. “Towards Convergence in Europe? Institutional Adaptation to Europeanization in Germany and Spain”. *Journal of Common Market Studies* 37 (4), 573-596.

Börzel, T. 2002. “Pace-Setting, Foot-Dragging, and Fence-Sitting: Member State Responses to Europeanization.” *Journal of Common Market Studies* 40, 193-214.

Börzel, T. 2005. “Europeanization: How the European Union Interacts with its Member States.” In S. Bulmer and C. Lequesne (ed.). *The Member States and the European Union*. Oxford: Oxford University Press, 45-76.

Börzel, T. and D. Panke. 2013. “Europeanization.” In M. Cini and N.P.S.Borragan (ed.). *European Union Politics*. 4th edn. Oxford: Oxford University Press, 115-128.

Börzel, T. and T. Risse. 2000. “When Europe Hits Home: Europeanization and Domestic Changes.” *European Integration online Papers* 4(15), 1-20.

Börzel, T. and T. Risse. 2003 “Conceptualizing the Domestic Impact of Europe.” In K. Featherstone and C. M. Radaelli (ed.). *The Politics of Europeanization*. Oxford: Oxford University Press, 57-82.

Börzel, T. and T. Risse. 2007. “Europeanization: The Domestic Impact of European Union Politics.” InK. Eriksen, M. Pollack and B. Rosamond (ed.). *Handbook of European Union Politics*. London: Sage Publications, 483-504.

Catania, M. 2011. “Preventing another Euro Area Crisis: EU Economic Governance ‘Six Pack’ – a Case of too Little, too Late?” *Paper from the Colloquium*: *The Politics and Economics of the*

Euro Crisis. Institute for European Studies, University of Malta.

Calmfors, L. 2015. “The Roles of Fiscal Rules, Fiscal Councils and Fiscal Union in EU Integration.” Working Paper Series 1076, Research Institute of Industrial Economics.

Checkel, J.T. 2007. “Constructivism and EU Politics.” In K. E. Jorgensen, M. A. Pollack and B. Rosamond (ed.). *Handbook of European Union Politics*. London: SAGE, 57-76.

Claeys, D., Darvas, Z. and Leandro, A. 2016. “A proposal to revive the European Fiscal Framework.” Policy Contributions, Bruegel.

Cowles, M. G., Caporaso, J. and Risse, T. 2001. *Transforming Europe*: *Europeanization and Domestic Change*. Ithaca N.Y: Cornell University Press.

Crespy, A. 2020. “The EU’s Socioeconomic Governance 10 Years after the Crisis: Muddling through and the Revolt against Austerity”, *Journal of Common Market Studies* 58, 133-146.

D’Erman, Valerie J., J. Haas, D.F. Schulz and A. Verdun. 2021. “EUROSEM CSR Dataset.” https://doi.org/10.5683/SP2/CYRZHE, Scholars Portal Dataverse, V1.

European Commission. 2010. “Enhancing Economic Policy Coordination for Stability, Growth and Jobs – Tools for Stronger EU Economic Governance.” COM 367/2, Brussels.

European Commission. 2012. “Alert Mechanism Report 2013.” COM(2012) 751 final, Brussels.

European Commission. 2013a. “Alert Mechanism Report 2014.” COM(2013) 790 final, Brussels.

European Commission. 2013b. “COMMISSION OPINION of 15.11.2013 on the Draft Budgetary Plan of ESTONIA.” C(2013) 8002 final, Brussels.

European Commission. 2014. “COMMISSION OPINION of 28.11.2014, on the Draft Budgetary Plan of ESTONIA.” C(2014) 8802 final, Brussels.

Eyraud, L., Gaspar, V. and Poghosyan, T. 2017. “Fiscal Politics in the Euro Area.” IMF Working Paper No. 17/18, available at SSRN: https://ssrn.com/abstract=2938319

Featherstone, K. 2003. “Introduction.” In K. Featherstone and C.M. Radaelli (eds). *The Politics of Europeanization*. Oxford: Oxford University Press, 3-26.

Featherstone, K. and C.M. Radaelli. 2003. *The Politics of Europeanization*. Oxford: Oxford University Press.

Franzese, R.J. and Hays, J.C. 2006. “Strategic Interaction among EU Governments in Active Labour Market Policy-Making.” *European Union Politics* 7(2), 167-189.

Graziano, P. and M.P. Vink. 2007. *Europeanization*: *New Research Agendas*. New York: Palgrave Macmillan.

Graziano, P. and M.P. Vink. 2013. “Europeanization: Concept, Theory, and Methods.” In S. Bulmer and C. Lequesne (eds). *The Member States of the European Union*. Oxford: Oxford University Press, 31–56.

Haas, J.S., D’Erman, V.J., Schulz, D.F. and Verdun, A. (2020) “Economic and Fiscal Policy Coordination after the Crisis: Is the European Semester Promoting More or Less State Intervention?” *Journal of European Integration* 42(3), 327-344.

Haverland, M. 2000. “National Adaption to European Integration: The Importance of Institutional Veto Points.” *Journal of European Public Policy* 20(1), 83-103.

Heritier, A. 2001. “Differential Europe: the European Union Impact on National Policymaking.” In Héritier, A., Lehmkuhl, D., Kerwer, D., Knill, C., Teutsch, M. and Douillet, A. (ed.). *Differential Europe*: *The European Union Impact on National Policymaking*: *New Oppurtunites and Restrictions for Policymaking in the Member States*. Lanham, Md: Rowman & Littlefield, 1-22.

Horvath, M. 2018. “EU Independent Fiscal Institutions: An Assessment of Potential Effectiveness.” *Journal of Common Market Studies* 56, 504-519.

Ioannou, D., P. Leblond and A. Niemann. 2015. “European Integration and the Crisis: Practice and Theory.” *Journal of European Public Policy* 22(2), 155-176.

Kahn-Nisser, S. 2015. “The Hard Impact of Soft Co-ordination: Emulation, Learning, and the Convergence of Collective Labour Standards in the EU.” *Journal of European Public Policy* 22(10), 1512-1530.

Karremans, J. 2021. “Political Alternatives under European Economic Governance: Evidence from German Budget Speeches (2009-2019).” *Journal of European Public Policy* 28(4), 510-531.

Kassim, H., Peters, G. and Wright, V. 2000. *The National Co-ordination of EU Policy*. Oxford:

Oxford University Press.

Kassim, H. 2003. "Meeting the Demands of EU Membership: The Europeanization of National Administrative Systems." In Featherstone, K. and Radaelli, C.M. (ed.). *The Politics of Europeanisation*. Oxford: Oxford University Press, 83-111.

Kelley, J. 2004. "International Actors on the Domestic Scene: Membership Conditionality and Socialization by International Institutions." *International Organization* 58(3), 425-458.

Knill, C. 2001. *The Europeanization of National Administrations: Patterns of Institutional Change and Persistence*. Cambridge: Cambridge University Press.

Knill, C. 2005. "The Europeanization of National Policy Capacities." In Painter, M. and Pierre, J. (ed.). *Challenges to State Policy Capacity. Global Trends and comparative Perspectives*. New York: Palgrave Macmillan, 52-71.

Knill, C. and D. Lehmkuhl. 2002. "The National Impact of European Union Regulatory Policy: Three Europeanization Mechanisms." *European Journal of Political Research* 41, 255-280.

Knill, C. and A. Lenschow. 2005. "Coercion, Competition and Communication: Different Approaches of European Governance and their Impact on National Institutions." *Journal of Common Market Studies* 43(3), 583-606.

Knill, C., J. Tosun and M. Bauer. 2009. "Neglected Faces of Europeanization: The Differential Impact of the EU on the Dismantling and Expansion of Domestic Policies." *Public Administration* 87(3), 519-537.

Kraan, D., J. Wehner and K. Richter. 2008. "Budgeting in Estonia." *OECD Journal on Budgeting* 8(2), 1-40.

Moravcsik, A. 1998. *Does International Cooperation Strengthen National Executives? The Case of Monetary Policy in the European Union, Europeanization and Domestic Change*. Florence, Italy: European University Institute.

Moravcsik, A. 2001. *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht*. Ithaca N.Y: Cornell University Press.

Pollack, M. 2010. "Theorizing EU Policy-Making." In H. Wallace, M.A. Pollack and A.R. Young (eds). *Policy-Making in the European Union*. 6th edn. Oxford: Oxford University Press, 15-44.

Popescu, G.H. 2015. "The Reform of EU Economic Governance." In G. Popescu and A. Jean-Vasile (ed.). *Agricultural Management Strategies in a Changing Economy*. Hershey, PA: IGI Global, 100-118.

Quaglia, L. 2006. *Italy and the Economic and Monetary Union: The Politics of Ideas*. New York: Edwin Mellen Press.

Quaglia, L. 2013. "The Europeanisation of Macroeconomic Policies and Financial Regulation in Italy." *South European Society and Politics* 18(2), 159-176.

Radaelli, C.M. 2003. "The Europeanisation of Public Policy." In K. Featherstone and C. M. Radaelli (ed.). *The Politics of Europeanisation*. Oxford: Oxford University Press, 27-56.

Radaelli, C.M. 2004. "Europeanisation: Solution or problem?" European Integration online Papers 8(16).

Radaelli, C.M. 2009. "Measuring Policy Learning: Regulatory Impact Assessment in Europe." *Journal of European Public Policy* 16(8), 1145-1164.

Raudla, R. 2010. "The Evolution of Budgetary Institutions in Estonia: A Path Full of Puzzles?" *Governance*, 23 (3), 463-484.

Raudla, R.; Douglas, J. W. 2020. "Fiscal councils as watchdogs—how loud do they bark?" *Public Money & Management*, online first, 1–10.

Raudla, R. and R. Kattel. 2011. "Why Did Estonia Choose Fiscal Retrenchment after the 2008 Crisis?" *Journal of Public Policy* 31(2), 163-186.

Raudla, R., K. Keel and M. Pajussaar. 2018a. "The Creation of the Fiscal Council in Estonia: Exploring the Explanations for its Institutional Design." *Public Budgeting & Finance* 38(2), 61-80.

Raudla, R., T. Randma-Liiv and R. Savi. 2018b. "Budgeting and Financial Management Reforms in Estonia during the Crisis of 2008-10 and Beyond." In E.M. Ghin, H.F. Hansen, M.B. Kristiansen (ed.). *Public Management in Times of Austerity*. New York: Routledge, 129-147.

Risse, T., Cowels, M. and Caporaso, J. 2001. "Europeanization and Domestic Change: Introduction." In M. Cowles, J. Caporaso, and T. Risse (ed.). *Transforming Europe: Europeanization and*

Domestic Change. Ithaca: Cornell University Press, 1–20.

Rose, R. 1991. “What is Lesson-Drawing?” *Journal of Public Policy* 11, 3-30.

Sanders, D. and P. Bellucci. 2012. *The Europeanization of National Polities? Citizenship and Support in a Post-Enlargement Union*. Oxford: Oxford University Press.

Scharpf, F.W. 2003. *Governing in Europe*: *Effective and Democratic?* Oxford: Oxford University Press.

Schmidt, V.A. 2006. “The European Union and National Policymaking.” In Schmidt, V.A. (ed.). *Democracy in Europe*: *The EU and National Polities*. Oxford: Oxford University Press, 102-154.

Trubek, D.M. and L.G. Trubek. 2005. “Hard and Soft Law in the Construction of Social Europe: The Role of the Open Method of Co-Ordination.” *European Law Journal* 11, 343-364.

Verdun, A. and J. Zeitlin. 2018. “Introduction: The 4 European Semester as a New Architecture of EU Socioeconomic Governance in Theory and Practice.” *Journal of European Public Policy* 25(2), 137-148.

Voegtle, E., C. Knill and M. Dobbins. 2011. “To What Extent Does Transnational Communication Drive Cross-National Policy Convergence?” *Higher Education* 61(1), 77-94.

Wach, K. 2015. “Conceptualizing Europeanization: Theoretical Approaches and Research Designs.” In P. Stanek and K. Wach (ed.). *Europeanization Processes from the Mesoeconomic Perspective*: *Industries and Policie*s. Kraków: Cracow University of Economics, 11-23.

Wallace, H. 2010. “An Institutional Anatomy and Five Policy Modes.” In H. Wallace, M.A. Pollack, and A.R. Young (ed.). *Policy Making in the European Union*. Oxford: Oxford University Press, 69-104.

Zeitlin, J. and B. Vanhercke. 2018. “Socializing the European Semester: EU Social and Economic Policy Co-Ordination in Crisis and beyond.” *Journal of European Public Policy* 25(2), 149-174.

Interviews:

A: 4 May 2015, official in the Ministry of Finance

B: 4 May 2015, official in the Ministry of Finance

C: 8 May 2015, member of the Fiscal Council

D: 11 May 2015, former member of the Parliamentary Fiscal Committee, member of the Parliamentary EU Affairs Committee

Kati Keel is a PhD student at the Ragnar Nurkse Department of Innovation and Governance, TalTech School of Business and Governance. Her main research interests is related to Europeanization and the EU’s fiscal and economic governance. Currently she works as a counsellor in the Permanent Representation of Estonia to the EU. Correspondence: kati.keel@gmail.com