

SOME RECENT DEVELOPMENTS REGARDING THE EUROPEAN UNION FISCAL POSITION

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Abstract

During the last decade, fiscal policies in the euro area and structural reforms in the European Union's countries that experienced different fiscal problems were a priority for the EU decision-makers. The existence of sound and sustainable public finances in the EU and, in particular, in the euro area is based, on the one hand, on macroeconomic stability, and on the other hand, on balanced and sustainable economic growth. This paper focuses on capturing the recent developments in public finances, more precisely some indicators essential for assessing the health of the EU economy and of its Member States. The results of our research show an improvement of them, as a whole, as an effect of structural reforms, investments and also of responsible fiscal-budgetary policies.

Keywords

European Union; Euro area; public finance; general government deficit/surplus, general government gross debt; gross domestic product (GDP)

JEL Classification

E62; F36; H6

Introduction

In the context of excessive macroeconomic imbalances and financial tensions in the EU, its Member States experience various situations regarding general government gross debt and general government deficit/surplus, as a percentage of gross domestic product (GDP). In order to analyze their trends, we used Eurostat data, from 2015 to 2018. The obtained results allow us to appreciate that during the analyzed period, the European Union has made progress in correcting macroeconomic imbalances, while some aspects of vulnerability still exist.

Some regulatory aspects

The European Union public finance, overall, face major challenges arising from the need to reduce the level of indebtedness, of the pressure on long-term expenditures and of fiscal burden which is quite high (Bucur, Dragomirescu, 2013).

According to the *Treaty on the Functioning of the European Union*, the basic rule of budgetary policy is that “Member States shall avoid excessive government deficits” and prove sound public finances by complying with the reference values of 3% and, respectively, of 60% of the GDP for budget deficit and public debt.

In the light of the *Treaty*, “at least once every two years, or at the request of a Member State with a derogation, the Commission and the European Central Bank shall report to the Council on the progress made by the Member States with a derogation in fulfilling their obligations regarding the achievement of economic and monetary union” (Article 140(1)). These reports examine, among others, fiscal developments, more precisely the extent to which each Member State met the criteria of “the sustainability of the government financial position” as an achievement of “a government budgetary position without a deficit that is excessive as determined in accordance with Article 126(6)” (Treaty on the Functioning of the European Union).

Governed by Article 126 of the Treaty, the excessive deficits procedure (EDP) mentions that if a Member State does not fulfil the requirements regarding fiscal discipline, the European Commission shall prepare a report when the ratio between the public deficit and the GDP exceeds the reference value, unless the ratio has decreased significantly and steadily and reaches a level close to the reference value, or if its exceedance is exceptional and temporary and the ratio remains close to the reference value, or when the ratio between public debt and GDP exceeds the reference value, unless this ratio is sufficiently diminished and approaches the reference value at a satisfactory rate.

Data and findings

In this context, we analyzed the evolution of the two indicators: general government deficit and gross public debt of the EU Member States, from 2015 to 2018. Thus, during the considered period, the EU-28’s government deficit-to-GDP decreased from -2.3% in 2015 to -0.6% in 2018, and of EA-19’s decreased from -2% in 2015 to -0.5% in 2018 (Table 1).

Table 1 General government deficit/surplus in the EU, 2015-2018 (% of GDP)

	2015	2016	2017	2018
Luxembourg	1,4	1,9	1,4	2,4
Bulgaria	-1,7	0,1	1,2	2
Malta	-1	0,9	3,4	2
Germany	0,8	0,9	1	1,7
Netherlands	-2	0	1,2	1,5
Greece	-5,6	0,5	0,7	1,1
Czech Republic	-0,6	0,7	1,6	0,9
Sweden	0	1	1,4	0,9
Lithuania	-0,3	0,2	0,5	0,7
Slovenia	-2,8	-1,9	0	0,7
Denmark	-1,3	-0,1	1,4	0,5
Croatia	-3,2	-1	0,8	0,2
Austria	-1	-1,6	-0,8	0,1
Ireland	-1,9	-0,7	-0,3	0
Poland	-2,7	-2,2	-1,5	-0,4
Portugal	-4,4	-2	-3	-0,5
EA-19	-2	-1,6	-1	-0,5
Estonia	0,1	-0,3	-0,4	-0,6
EU-28	-2,3	-1,7	-1	-0,6
Belgium	-2,4	-2,4	-0,8	-0,7
Slovakia	-2,6	-2,2	-0,8	-0,7
Finland	-2,8	-1,7	-0,8	-0,7
Latvia	-1,4	0,1	-0,6	-1
United Kingdom	-4,2	-2,9	-1,9	-1,5
Italy	-2,6	-2,5	-2,4	-2,1
Hungary	-1,9	-1,6	-2,2	-2,2
Spain	-5,3	-4,5	-3,1	-2,5
France	-3,6	-3,5	-2,8	-2,5
Romania	-0,7	-2,7	-2,7	-3
Cyprus	-1,3	0,3	1,8	-4,8

Source: Eurostat (online data codes: tec00127)

As for EU-28's public debt, its level (as a percentage of GDP) decreased from 84.6% in 2015 to 80.0% in 2018 and of EA-19's decreased from 90.1% to 85.1% during the same years (Table 2).

Table 2 Public debt in the European Union, 2015-2018 (% of GDP)

	2015	2016	2017	2018
Estonia	9,9	9,2	9,2	8,4
Luxembourg	22,2	20,7	23,0	21,4
Bulgaria	26,2	29,6	25,6	22,6
Czech Republic	40,0	36,8	34,7	32,7
Denmark	39,8	37,2	35,5	34,1
Lithuania	42,6	40,0	39,4	34,2
Romania	37,8	37,3	35,2	35,0
Latvia	36,8	40,3	40,0	35,9
Sweden	44,2	42,4	40,8	38,8
Malta	57,9	55,5	50,2	46,0
Poland	51,3	54,2	50,6	48,9
Slovakia	52,2	51,8	50,9	48,9
Netherlands	64,6	61,9	57,0	52,4
Finland	63,4	63,0	61,3	58,9
Germany	71,6	68,5	64,5	60,9
Ireland	76,8	73,5	68,5	64,8
Slovenia	82,6	78,7	74,1	70,1
Hungary	76,7	76,0	73,4	70,8
Austria	84,7	83,0	78,2	73,8
Croatia	83,7	80,5	77,8	74,6
EU-28	84,6	83,4	81,7	80,0
EA-19	90,1	89,2	87,1	85,1
United Kingdom	87,9	87,9	87,1	86,8
Spain	99,3	99,0	98,1	97,1
France	95,6	98,0	98,4	98,4
Belgium	106,4	106,1	103,4	102,0
Cyprus	108,0	105,5	95,8	102,5
Portugal	128,8	129,2	124,8	121,5
Italy	131,6	131,4	131,4	132,2
Greece	175,9	178,5	176,2	181,1

Source: Eurostat (online data codes: tsdde410)

The situation can also be observed and appreciated through the graphical representations of the two indicators developments (Figure 1 and Figure 2).

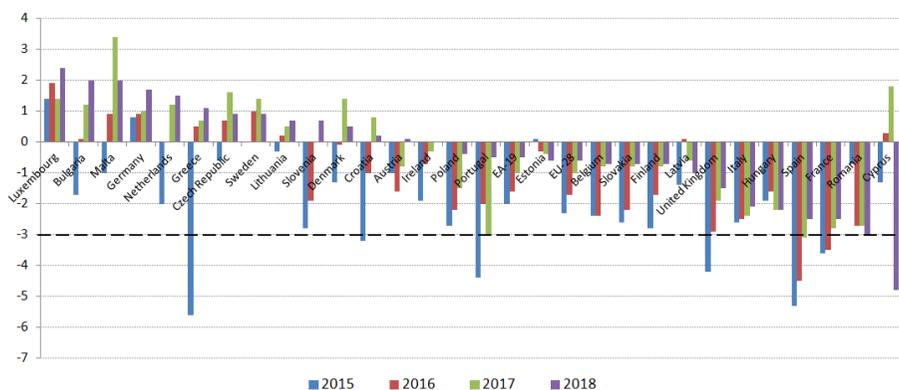


Figure 1 General government deficit/surplus developments in the European Union, 2015-2018 (% of GDP)

Source: Own computation, based on the data available on Eurostat

In 2015, the highest level of the government deficit as a percentage of GDP has reached -5.6% in the United Kingdom, in 2016 and 2017 Spain recorded a government balance of -4.6% and, respectively, -3.1% of GDP, while in 2018 Cyprus registered the highest government deficit, of -4.8% of GDP. In Spain, the government deficit related to GDP exceeded the reference value of 3.0% for three consecutive years: 2015, 2016, 2017, however, showing a downward trend.

Also, in 2015 only three EU Member States reported government public surpluses – Estonia (0.1%), Germany (0.8%) and Luxembourg (1.4%) – and during the following years the situation has improved. In 2016, 10 states reported government public surpluses and in 2017, 12 countries recorded a positive budget balance.

The trends of the last two years, 2017 and 2018, indicate an improvement of the general government balance for more than half of the EU Member States, the best results being recorded by Portugal (+2.5% of GDP), Poland (+1, 2% of GDP) and Luxembourg (+1.0% of GDP). Bulgaria, Germany, Greece, Lithuania, Luxembourg and the Netherlands registered a higher surplus in 2018 than in 2017. On the other hand, in countries such as: Estonia, Latvia and Romania the general government deficit has increased during the last two years.

We can also note that for most Member States, the share of public debt in GDP is declining, but the evolution is slow. The decreases are favored, on the one hand, by the improved budgetary positions and, on the other hand, by the resumed GDP growth (European Commission, 2019).

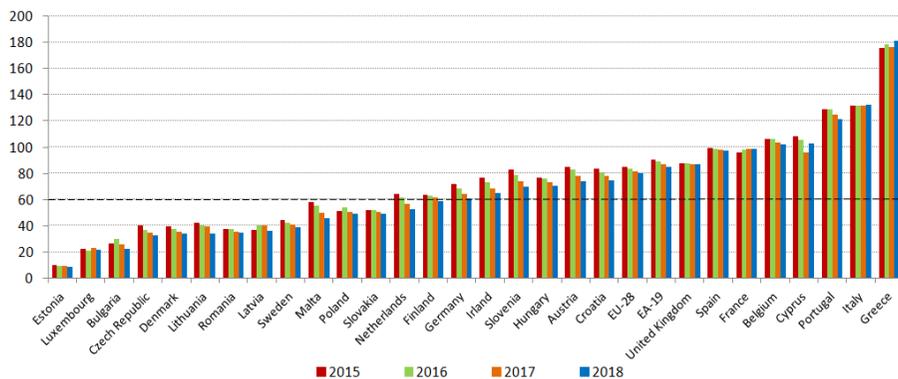


Figure 2 General government gross debt developments in the European Union, 2015-2018 (% of GDP)

Source: *Own computation*, based on the data available on *Eurostat*

Thus, in 2015, a total of 18 Member States reported a debt rate of over 60% of GDP, the highest values being recorded by Greece (175.9%), followed by Italy (131.6%), Portugal (128%), Cyprus (108.0%), Belgium (106.4%) and Spain (99.3%). The lowest general government gross debts as a percentage of GDP were registered in Estonia (9.9%), Luxembourg (22.0%), Bulgaria (26.2%), Czech Republic (40.0%), Romania (37.8%) and Denmark (39.8%).

Compared to 2016, in 2017, the general government gross debt (in relation to GDP) improved for only two of EU Member States – Luxembourg (of 2.3 percentage points of GDP) and France (of 0.4 percentage points of GDP) –, while for the other 26 countries decreased, especially for: Cyprus (-9.7 percentage points of GDP), Malta (-5.3 percentage points of GDP), Austria (-4.8% percentage points of GDP) and Netherlands (-4.9 percentage points of GDP).

In 2018, the situation of the general government balance and that of the government debt in the European Union are presented in Figure 3 and Figure 4.

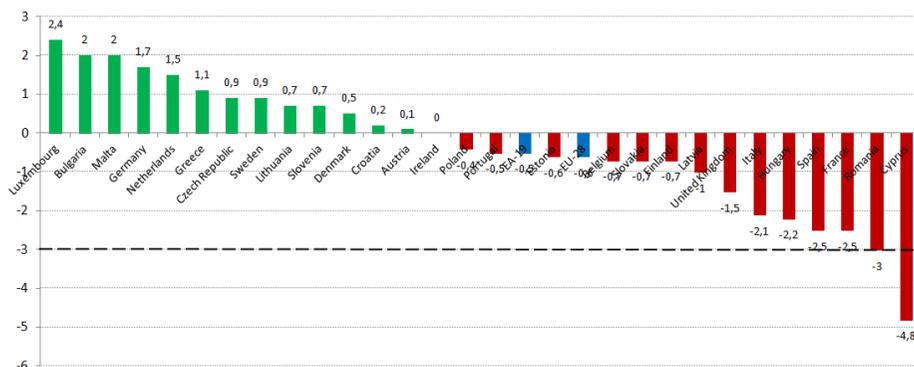


Figure 3 General government balance in the European Union, 2018 (% of GDP)

Source: *Own computation*, based on the data available on *Eurostat*

Thus, in 2018, 13 EU-28 Member States achieved positive levels of the government balance: Austria (+0.1%), Croatia (+0.2%), Denmark (+0.5%), Slovenia and Lithuania (+0.7%), Sweden and the Czech Republic (+0.9%), Greece (+1.1%), the Netherlands (+1.5%), Germany (+1.7%), Malta and Bulgaria (+2%), Luxembourg (+2.4%).

Ireland reported a government balance and 12 EU Member States, namely: Poland, Portugal, Estonia, Belgium, Slovakia, Finland, Latvia, United Kingdom, Italy, Hungary, Spain, France, recorded deficits smaller than 3.0% of GDP. The lowest values were recorded in Poland (-0.4%), Portugal (-0.5%) and Estonia (-0.6%). Romania (-3.0%) and Cyprus (-4.8%) had deficits higher than or equal to 3% of GDP. In case of Cyprus the high deficit in 2018 is due, mainly, to the restructuring of Cyprus Cooperative Bank (Eurostat). Moreover, the support given by the Cypriot government in this regard has also affected the state's general government gross debt, which registered an exceptional increase from 95.8% of GDP in 2017 to 102.5% of GDP in 2018.

It is also worth noting that in 2018, both EU-28 and EA-19 registered a general government balance below the reference of -3% of GDP, reaching the level of -0.6% of GDP and respectively -0.5% of GDP.

During the period of our analysis, due to favorable cyclical conditions and lower interest rates, the overall government deficit in the EU showed a downward trend, but this "is expected to end in 2019, when the overall deficit is projected to slightly increase for the first time since 2009" (European Commission, 2019).

At the end of 2018, half of the EU Member States reported a government debt above the level of 60% of GDP, the highest of them being recorded in Greece (181.1%), followed by Italy (132, 2%), Portugal (121.5%), Belgium (102.0%), France (98.4%) and Spain (97.1%). The lowest government debt-to-GDP ratio were registered in Estonia (8.4%), followed by Luxembourg (21.4%) and Bulgaria (22.6%).

Also, in 2018, the government debt-to-GDP ratio in EU-28 and in EA-19 reached the level of 80.0% and 85.1% respectively.

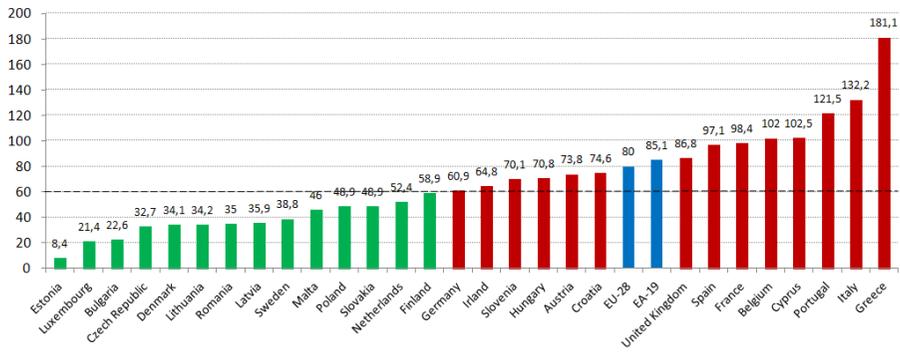


Figure 4 General government gross debt in the European Union, 2018 (% of GDP)

Source: *Own computation*, based on the data available on Eurostat

The Commission estimates that in some EU Member States, general government gross debt will remain close to historical peak values, the expected budgetary adjustment being relatively limited or even negative.

Conclusions

In the context of macroeconomic imbalances, financial tensions and long-term challenges on the sustainability of the European Union's public finances, this paper aims to analyze the developments of the main indicators, the general government deficit/surplus and the general government gross debt (in relation to GDP), using the statistical data available on Eurostat, from 2015 to 2018.

The results allow us to appreciate that during the analyzed period, the European Union has made progress in correcting the macroeconomic imbalances, while some aspects of vulnerability still exist, and the evolution of the general government balance and the general government gross debt, as a whole, were favorable both for EU-28 as well as for EA-19.

In conclusion, the EU's public finances have improved, the public debt, although over the reference threshold of 60%, has traveled a downward trend from 2015 until 2018, while the government deficit was below 1% of GDP in 2018.

As a result and as recommended by the Commission, the implementation of structural reforms in the EU countries, the investment and also the responsible fiscal-budgetary policies, combined with decisive actions at European level, including the Investment Plan for Europe, can further contribute to renewing stability and increasing the prosperity of the European economy.

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