TRENDS OF THE BUDGET DEFICIT IN THE EUROZONE AND THE EUROPEAN UNION IN THE CURRENT CLIMATE

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Abstract

The theme of this paper is dedicated to the concerning situation of budget deficits in Europe. Over the past two years, the severe economic downturn caused by the COVID-19 pandemic has led to a sharp rise in deficits and public debt in all Member States.

Thus, the worrying evolution of the budget deficits registered at the level of the European Union, will have adverse effects on the financial and macroeconomic stability, by increasing the general level of risk of all the activity sectors.

Estimates of global economic growth hope for a significant recovery in economic activity, with developments largely driven by the epidemiological situation and conflicts within Europe.

For all Member States, the deficit exceeded the Treaty benchmark in 2020, as a result of a severe EU-wide economic recession. Real GDP contracted in 2020 in all EU Member States except Ireland. For the EU as a whole, the contraction in economic activity was 6.1% (6.6% for the euro area).

Deficit increases have been driven by the budgetary cost of measures taken by EU Member States to combat the COVID-19 pandemic. In this context, Member States have been encouraged to adopt a favorable budgetary stance to combat the pandemic, while protecting the sustainability of public finances in the medium term.

Key words: *budget deficit, interest, budget revenues, debt sustainability, growth.*

1. Introduction

The structural or permanent budget deficits that are facing most countries in the world, especially the European Union, are exacerbated by the pandemic situation facing Europe. Governments believe that the best option to cover the budget deficit can be achieved mainly by resorting to borrowing from abroad, which is preferable to raising the real interest rate. The generation of deficits will lead to an increase in public debt.

When large budget deficits are the main cause of large external (current account) deficits, fiscal / budgetary adjustment is inevitable to balance the external balance, to avoid a balance of payments crisis. In order to cushion the pandemic shock, which also induced the temporary partial closure of the savings (lockdown), the fiscal rules in the EU were suspended in 2021, with an extension in 2022.

In order to finance the public debt service, indebted developing countries have no choice but to adopt a budgetary policy of austerity, with public spending being kept to a minimum. This means, however, the lowest possible funds allocated to key areas for national economic and social life: health, education, public investment in road infrastructure, railways, aeronautics, communications, etc. generating jobs, neglecting research and development, etc.

Economic forecasts predict that the EU economy will grow by 4.4% in 2022. This represents a significant improvement in the growth outlook compared to the economic forecasts for the winter of 2021. Growth rates will continue to fluctuate across the EU, but the economies of all states Member States should return to pre-crisis levels by the end of 2022.

The economies of the EU and the euro area are expected to recover sharply as restrictions are lifted, but there is a very high degree of uncertainty over these projections.

Member States need to implement fiscal-budgetary policies aimed to achieving prudent medium-term budgetary positions and ensuring debt sustainability, while consolidating investment. The recovery and resilience mechanism will have a substantial and lasting positive impact on GDP growth in the coming years, which should also contribute to strengthening debt sustainability.

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2. Overview of the evolution of the budget deficit in the EURO area and the European Union

The budget deficit of the euro area registered a much higher increase than in 2019, reaching 821 billion euros. Growth is unprecedented and not even the economic crisis of 2008-2009 has had such rapid and far-reaching budgetary effects.

At the level of the European Union, the deficit is even higher, registering values of 922 billion euros.

The effects of the increase in budget deficits are also reflected in public debt: in the euro area, it increased by 1 billion euros compared to the previous year, and in the European Union by 1.2 trillion euros, the percentage of public debt reached 90% of GDP, compared to 77%, as it was in 2019. However, Estonia, Bulgaria and Luxembourg managed to keep public debt below 25% of GDP.

The only area of normality is the level of budget revenues, which have been kept at a constant share in the gross domestic product, in the last four years, of about 46%.

The pandemic has wiped out all budgetary consolidation efforts by Member States, and the analysis indicates that.

At Member State level, the budget deficit remained below 3% of GDP in only two countries, Denmark and Sweden, a level considered optimal in the European Treaties. The biggest deficits were recorded last year by Spain, 11%, Greece, 10%, Malta and Italy, 9.6% of GDP. At the same time, note that 17 of the 27 European states have gone from budget surplus to deficit.

Germany has had the largest deterioration in the budget balance from one year to the next, from the 2019 surplus to the 2020 deficit is a difference of 196 billion euros. It was also said that Germany had a difficult year, 2020, with a budget deficit and an increase in public debt. Thus, after three years, in the period 2017-2019, Germany registered only a budget surplus, in 2020 the deficit was 4.3% of GDP. Public debt also rose by 10 percentage points, from 59% to 68% of GDP. In 2021, the budget deficit widened from 3.1% to 9.1% of GDP, and government debt rose from 97.5% to 115% of GDP.

One criterion taken into account to judge the performance of an economy is that of budget revenues, calculated as a percentage of GDP. The European average has not changed compared to previous years, remaining at 46%. The countries with the most efficient revenues are Denmark, France and Finland, in a slightly different order compared to the period before the pandemic, and those with the lowest performance are Ireland, Romania and Lithuania.

From this point of view, Ireland is the special case of the European Union, and Romania, with 32%, is practically the least performing economy of the European Union in terms of budget revenues in GDP. But this has been happening for years, so the pandemic period only confirms a state of affairs and does not bring any major changes.

Now, the imbalances created in 2020 can be seen very clearly in the statistical figures. Europe is starting again with the consolidation of the budget and the reduction of sovereign debt. More than a decade after the 2008 economic crisis, European countries are facing the same macroeconomic problems. Deficit and debt reductions will be made with great difficulty. Under these conditions, the current crisis will require remarkable efforts to ensure the sustainability of accumulated debt, both in the public and private sectors.

The European Commission proposes a correction of the budget deficit registered by Romania in accordance with the fiscal-budgetary strategy adopted by the Ministry of Public Finance, respectively the classification below the target of 3% at the end of 2022.

Romania ranks 6th in the EU in terms of the share of the budget deficit in GDP, equal to France, according to Eurostat data for 2020. Romania's budget deficit, calculated based on the ESA methodology, rose to 9.2% in 2020, from 4,4% in 2019.

In 2020, in Romania, due to the significant challenges imposed by the context of the COVID-19 pandemic and the urgency of implementing measures that required budgetary efforts to combat the social and economic effects caused by the COVID-19 crisis, amid an economic decline in GDP 3.9%, government funding needs (determined by the level of the consolidated general budget deficit and the volume of government debt refinancing) have increased compared to estimates at the beginning of the year, mainly due to the widening of the budget deficit, from 3.6% of GDP, the initial target, approved by the State Budget Law no.5 / 2020, to 9.64% of GDP, according to the execution on December 31, 2020.

Large budget deficits were recorded in Spain (11%), Malta (10.1%) and Greece (9.7%), as well as Italy (9.5%) and Belgium (9.4%).

All states, except Denmark (with a budget balance of -1.1% of GDP), had a deficit share above the 3% of GDP limit imposed by the Maastricht Treaty. Sweden was just slightly above this limit, with a deficit of 3.1%. In 2020, the budget deficit widened sharply, both at EU level and in the euro area. In the European Union, the deficit rose from 0.5% to 6.9%, and in the euro area, the deficit was 7.2%, compared to 0.6% in 2019.

The EU Council recommends Romania to take measures to get out of the excessive deficit procedure,

the adjustment trajectory imposed for 2020 was 3.6%; 3.4% for 2021 and 2.8% for 2022. Romania has registered with a deficit well above the level of 3%, respectively 9.4% (9.2% ESA).

Thus, our country does not meet one of the two criteria defined in the Protocol of the Treaty on the Functioning of the European Union. Regarding the second criterion, the level of public debt, it was below the limit of 60% of GDP stipulated in the Treaty, but for 2022 the trend is an increasing one.

Member States need to implement fiscal-budgetary policies aimed at achieving prudent medium-term budgetary positions and ensuring debt sustainability, while consolidating investment.

3. Public debt in EU Member States

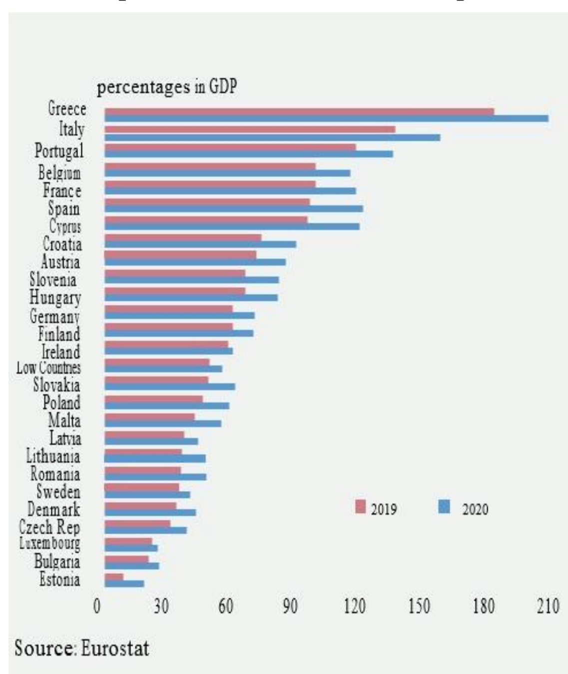
The future will bring special pressures to ensure debt sustainability in most countries around the globe. Low interest rates have consolidated the accumulation of debt, with global debt levels currently standing at historical levels, especially in the case of external debt. The IMF points out that among the determinants of the financial crisis, the one that predominated in early 2020 in the case of emerging countries was the high share of foreign currency debt.

Through the obligations to repay the borrowed capital and to pay the costs of the public debt, it affects the financial balance of the public administration and implicitly the activity of the public sector. However, if the burden of public debt on national public finances is high, the impact may be major, especially if the national economy is not strong and the international economic situation is not a promising one.

There are many developing countries in this situation, whose public debt, mainly external, has become very important in the context of the fragile domestic economy, and the international financial institutions require the repayment of public debt and the payment of its cost as a priority obligation to continue to provide financial assistance.

Debt sustainability must be ensured by the fact that additional indebtedness has its counterpart in assets or structural changes in the economy, which will allow debt to be paid in the future.

Graph 1. Public debt of the European States



14 EU Member States reported debt of over 60% of GDP. Greece (205.6%), followed by Italy (155.8%), Portugal (133.6%), Spain (120.0%), Cyprus (118.2%), France (115.7%) and Belgium (114.1%) even reported percentages of over 100%. Romania ranks seventh in the top countries with the lowest ratio of public debt to GDP.

In Belgium, Germany, Greece, Spain, France, Croatia, Italy, Cyprus, Hungary, Austria, Portugal, Slovenia, Slovakia and Finland, government debt exceeded the 60% of GDP target by the end of 2020. for 2020 indicates that Belgium, Greece, Croatia, Italy, Cyprus, Hungary, Austria, Portugal and Slovenia have not met the debt reduction benchmark - or, in the case of Spain and France, the transitional debt rule. In 2020, Germany, Slovakia and Finland did not meet the 60% of GDP reference value set out in the Treaty, while in 2019 they had a debt ratio of less than 60% of GDP.

Table no. 1. Public Debt

Percentage from GDP

Country	2017	2018	2019	2020	2021	Estimate 2022
Belgium	102,0	99,8	98,1	114,1	115,3	115,5
Bulgaria	25,3	22,3	20,2	25,0	24,5	24,0
Cech Republic	34,2	32,1	30,3	38,1	44,3	47,1
Denmark	35,9	34,0	33,3	42,2	40,2	38,8
Germany	65,1	61,8	59,7	69,8	73,1	72,2
Estonia	9,1	8,2	8,4	18,2	21,3	24,0
Greece	179,2	186,2	180,5	205,6	208,8	201,5
Spain	98,6	97,4	95,5	120,0	119,6	116,9
France	98,3	98,0	97,6	115,7	117,4	116,4
Croatia	77,6	74,3	72,8	88,7	85,6	82,9
Italy	134,1	134,4	134,6	155,8	159,8	156,6
Cyprus	93,5	99,2	94,0	118,2	112,2	106,6
Latvia	39,0	37,1	37,0	43,5	47,3	46,4
Lithuania	39,1	33,7	35,9	47,3	51,9	54,1
Luxemburg	22,3	21,0	22,0	24,9	27,0	26,8
Hungary	72,2	69,1	65,5	80,4	78,6	77,1
Malta	48,5	44,8	42,0	54,3	64,7	65,5
Holland	56,9	52,4	48,7	54,5	58,0	56,8
Austria	78,5	74,0	70,5	83,9	87,2	85,0
Poland	50,6	48,8	45,6	57,5	57,1	55,1
Portugal	126,1	121,5	116,8	133,6	127,2	122,3
Romania	35,1	34,7	35,3	47,4	48,9	50,8
Slovenia	74,1	70,3	65,6	80,8	79,0	76,7
Slovakia	51,5	49,6	48,2	60,6	59,5	59,0
Finland	61,2	59,7	59,5	69,2	71,0	70,1
Sweden	40,7	38,9	35,0	39,9	40,8	39,4

Source: European Commission

The economic disparities between northern and southern Europe could be exacerbated if the European Union does not reform its budget deficit rules.

Southern countries, such as France, Italy and Spain, are calling for reforms that will allow more public investment to boost growth and take into account the high level of debt. On the other hand, Austria, Germany and the Netherlands believe that any reform should ensure strong fiscal discipline.

4. Conclusions

Tax rules at EU level should take into account two aspects: firstly, the different tax situation on public finances and, secondly, the need to support sustainable economic growth.

Budgetary policy must continue to support economic activity in 2022 as well. Member States should avoid premature withdrawal of support and make full use of funding from the Recovery and Resilience Mechanism. Implementing investments and reforms under the Recovery and Resilience Mechanism will help support economic recovery, boost growth and employment potential, reduce imbalances and improve public finances.

A factor with a very significant contribution to the stimulation of activity is a stable rate of increase in consumer prices, and public authorities wishing to implement a policy of economic recovery in the current situation, characterized by a relative slowdown in development, must take into account the control of inflation, including the proper management of the main factors that determine this inflation.

Overcoming the effects of the financial crisis, many economies are now close to full employment, with rising wages being a predictable factor, which could lead to a widening of the deficit and an increase in public debt to finance it. The pressure of increasing public debt can affect the financial stability of the state, thus necessitating the use of restrictive budgetary and monetary regimes.

A very high level of public debt in itself creates a vulnerability, which can threaten the public budget even if the budget deficit is small (for example, a primary surplus that is lower than the public debt service). This vulnerability is all the more clear the more unfavorable the external financial conditions become, when the cost of financing increases greatly.

In 2022, national fiscal-budgetary policies should become more and more differentiated, while all Member States should maintain investments to support recovery. When conditions allow, Member States should implement policies to ensure the sustainability of public finances in the medium term.

The measures taken globally to support the economy are significant. The International Monetary Fund estimated in June 2020 global measures worth US $ 10.7 trillion (about 13 percent of global GDP).

At European Union level, the Recovery Plan for Europe is worth more than € 1.8 trillion. The program covers the period 2021-2027 and provides for measures to both support the economic recovery and to support the European Union's focus on a sustainable growth model, in particular environmental protection and digital integration projects.

Romania aims to continue the gradual fiscal consolidation, which will allow the deficit target set by European regulations to be reached by the end of the forecast horizon, respectively 2024, achieved in a balance between the need for fiscal adjustment and the need to support economic recovery. health care, infrastructure, climate change, digitization which remain a priority in the current difficult circumstances.

Romania is facing an important opportunity, as it benefits from allocations of EUR 30.3 billion under cohesion policy related to the EU's multiannual financial framework for the period 2021-2027, adding EUR 29.2 billion (14 , EUR 3 billion in grants and EUR 14.9 billion in loans) through the Recovery and Resilience Mechanism (MRR) facility for the period 2021-2026.

The European financial package can lead to the attenuation of the contractionary impact of the macroeconomic correction, to the implementation of structural reforms, resulting in increasing the robustness of the Romanian economy, attracting European resources being a *sine-qua-non* condition of

a sustainable fiscal-budgetary and economic policy.
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