ADEQUATE INDEBTEDNESS AND TAXATION FOR SUSTAINABLE DEVELOPMENT - WAYS TO ENSURE A BETTER FUTURE IN THE EUROPEAN UNION

ALINA GEORGETA AILINCĂ,
3RD DEGREE RESEARCHER, CENTRE FOR FINANCIAL AND MONETARY RESEARCH "VICTOR SLĂVESCU"
e-mail: alinageorgetaailinca@gmail.com

Abstract
The COVID-19 crisis has exposed many facets of contemporary economic problems. Budget deficits and high public indebtedness have experienced a new moment of stress through the COVID-19 crisis, emphasizing once again the failure to comply with fiscal rules and achieve the targets set by governments and by the Stability and Growth Pact. In other words, the need for the transition to the green economy and SDGs has been put on hold by the COVID-19 crisis and its effects. However, the problems but especially the solutions are interrelated. Therefore, the article summarizes the evolution of public debt and budget deficit in relation to the targets of the Maastricht Treaty, but especially whether or not it is evolving towards achieving the goals of sustainable development in the EU and the euro area, as a whole. The results highlight the recent deterioration of the situation, especially in fiscal-budgetary matters, but also the opportunity to circumscribe the budgetary fiscal parameters to achieve the goals of sustainable development.

Keywords: *debt sustainability, sustainable development, public debt sustainability, European Union 27*
Classification JEL: *E62, H62, H63*

1. INTRODUCTION

Although there has been more and more talk in recent decades about environmental protection, climate change and the need for the transition to a green economy, although the European Union, through the European Green Deal, is taking important steps towards a greener, cleaner economy, however the war in Ukraine reveals the reality of an increased energy dependence of the EU on Russia and especially of a brown energy, more and more polluting and more and more dangerous for humans and the planet. In this sense, reviewing what is sustainable development, but also the sustainability of public debt and budget deficit, we can draw a synthetic, centralized analysis at EU27 and EA19 in which, in parallel, we overlapped information on the status of development goals sustainable in terms of meeting the sustainability of public debt, and the budget deficit in the range of 60% of GDP proposed by the TEU and 3% of GDP respectively.

Therefore, this article correlates the degree of compliance with or achievement of the objectives of sustainable development in relation to the fiscal and budgetary objectives proposed by the Treaty on European Union and the fiscal rules established at EU level. Thus, we can note that further efforts are needed for re-entering the naturalness of fiscal-budgetary sustainability, but also by circumscribing budgetary fiscal parameters for the benefit of achieving the goals of sustainable development.

2. LITERATURE REVIEW

The exceptional crisis and the political responses triggered by the pandemic represent the challenge of discerning the best path for fiscal policy. Countries with fiscal vulnerabilities and risks face a difficult trade-off between supporting the population and businesses and maintaining a fiscal space for possible future emergencies. This compromise is made even more difficult by resistance to revenue mobilization efforts in many countries (Selassie and Tiffin, 2021). However, a credible commitment to fiscal sustainability can gain flexibility and time, as creditors believe that fiscal responsibility will ensure the financing of public deficits and debt in better and better market conditions over time. Tax rules are important in ensuring the sustainability of public debt, for example, countries that comply with debt rules are able to reverse debt increases of 15% of GDP in about 10 years, in the absence of new shocks, i.e. much faster than other countries. At the same time, credible pandemic budget announcements were rewarded with a temporary reduction in 10-year sovereign yields by about 40 basis points, noting that budget announcements were more credible in tax-compliant countries and where independent bodies monitor those rules (IMF, 2021). Governments should therefore strive to build credibility and predictability - the value of doing so in times of heightened uncertainty, as is now the case, may be even greater than in quiet times (Baker, Bloom and Davis, 2016).

In this regard, it is important to understand the role of long-term fiscal targets or "anchors" —fiscal rules, which impose long-term constraints by numerical limits on fiscal aggregates, such as expenditures, deficits, or public debt (Grosse-Steffen et al., 2021; Romer and Romer, 2019; Alesina and Passalacqua, 2016; Grembi et al., 2016; Heinemann et al., 2018 etc). Access to finance is directly linked to the ability to maintain a balance between explosive pandemic financing needs and fiscal rules. For this reason, developed / advanced countries with strong and clear tax rules have achieved better access to finance than low-income or developing countries. The ability of governments to finance larger deficits and take risks in their balance sheets has been perhaps the most important factor in explaining why some countries did fared better than others.

However, indebtedness is not always a problem, sometimes it can be the only solution, and for this reason it can be seen from the perspective of a real opportunity for change, for the transformation of the society oriented towards sustainable development. For this reason, the financing system (international, regional and national) and implicitly the institutions that serve it, public institutions, non-governmental organizations, the banking system must be reoriented towards sustainable development as the main objective, leaving aside the accounting financial gain and focusing on sustainable development goals and indicators (Najam, 2002, pp.7).

The current literature, while highlighting the danger of over-indebtedness, highlights that adopted policies can turn debt waves into crises (amid accumulating short-term external debt and declining international reserves) or substantially alleviate them by: debt management policies, strong macroeconomic and financial policy frameworks and targets, sound financial and medium-sized policies and sound business institutions (Kose et al., 2021). Simultaneous resolution of several issues - sustainable development or the sharp transition to the green economy, but also the sustainability of public debt and budget deficits and other macroeconomic variables can be a key to solving the problems of the EU and the euro area, but also of humanity as a whole. Thus, the transition to a new type of economy, as green as possible an economy can be, involves substantial expenditures, and national budgets will play an important role in this regard. However, the possibility of budgetary financing is inevitably limited by considerations regarding the levels of sustainable public debt (Bhattacharya et al., 2012, pp.6), as well as the accessibility of various alternative financing instruments.

3. METHODOLOGY

The article highlights the link between sustainable development targets and the fiscal indicators pursued under the Maastricht Treaty, summarizing whether or not they are moving in the same direction, whether or not budgetary sustainability targets are in line with those of sustainable development. The data source is Eurostat, both as an online database (for budgetary fiscal indicators) and in publications (Eurostat, 2021, "Sustainable development in the European Union. Monitoring report on progress towards the SDGs in an EU context"). Due to the fact that the period followed is limited to 2014/2015-2020, and the data are annual for both SDGs and fiscal indicators, an econometric analysis is not performed, but rather a logical, graphical, synthetic one through which we can observe the degree proximity between targets. This article represents a partial capitalization of the project "From sustainable public debt to public debt for sustainable development - theoretical and empirical approaches in the context of COVID-19" (coord. Ailincă, 2021), with a series of additions.

4. RESULTS

Taking into account, on the one hand, the need to comply with fiscal rules and, on the other, the need to make these rules more flexible, especially in the context of frequent regional and international crises, in this article, there is an centralized analysis at EU27 and Eurozone (EA19) level, in which it is also overlapped information on the status of meeting sustainable development targets in relation to meeting the sustainability of public debt (at 60% of GDP) and the state of fulfillment of the sustainable development targets (SDGs) in relation to the sustainability of the budget deficit (by respecting the 3% of GDP target) according to the requirements of the TEU. Thus, in the Eurostat report (2021), “Sustainable development in the European Union. Monitoring report on progress towards the SDGs in an EU context ”, Chapter 18, which is an overview of the status and progress of EU Member States towards the SDGs, gives us a 4-quadrant method of centralizing the progress of the 17 targets of the SDGs. The data refer mainly to the periods 2014–2019 or 2015–2020, due to data availability issues, not all 17 SDGs are displayed for each country, so for these we will consider proxies regarding their situation. According to the report, the country status score for each region is a relative measure, which shows its position in relation to other Member States and the EU average. A high level, therefore, does not mean that a country is close to reaching a certain SDG, but that it has reached a higher status than many other Member States. On the other hand, a country's progress score is an absolute measure, based on trends in the indicator over the last five years, and its calculation is not influenced by the progress made by other Member States. Therefore the four dials show:

I. The country is making progress towards the SDGs and, on average, the values of the indicator, which describes the achievement of each target, are above the EU average.

II. The country is making progress towards achieving the SDGs, but on average the values of the indicator for each target are below the EU average.

III. The country is moving away from reaching the SDGs, but on average the target indicator values are above the EU average.

IV. The country is moving away from reaching the SDGs, and on average the values of the indicator are below the EU average.

So, the first quadrant describes the best situation, and the fourth quadrant the most unfavorable. By centralizing and systematizing the information on dials and targets as reported in the report, and renaming the dials as possible states, we obtain at EU27 and euro 19 level the following situation shown in Figure 1.

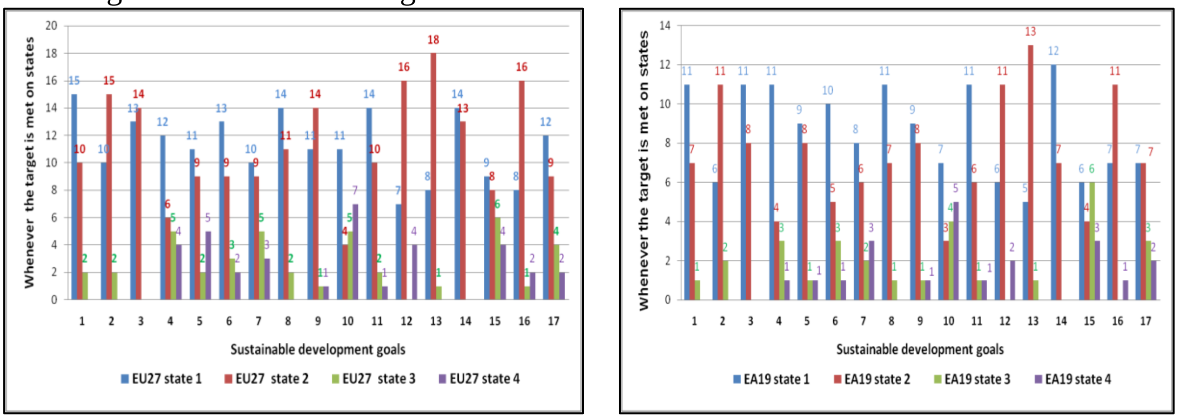

Figure no. 1– Centralization of the situation for EU27 and EA19 on the targets of sustainable development for the period 2014/2015 - 2020

Source: own calculations, Eurostat source (2021) and the project From sustainable public debt to public debt for sustainable development - theoretical and empirical approaches in the context of COVID-19, coord. Ailincă, (2021)

Thus, we observe at the level of the EU27 and ZE19 average that the first two states, or rather, the information included in the first two quadrants, position most of the targets in the progress part in reaching the SDG targets, above or below the EU average. Specifically, out of the 459 possible situations (i.e. 17 targets or 27 countries) at EU27 level, the two favorable states centralize 192 targets (state 1) and 191 targets (state 2), respectively, and at the level of the euro area in the 323 possible situations, the first two states centralize 147 targets (state 1) 126 targets (state 2). So dominance is progress towards the targets and a position above the EU average for all targets, both for the EU27 and the EA19.

Similar to the information in the Eurostat report (2021), we build on the basis of Eurostat information and for public debt sustainability four debt situations or statements for the period 2014-2020 (approximately the same period to comply with the SDG analysis):

I. The condition of sustainability is ensured, namely the government government debt is less than 60% of GDP, or decreases from one year to another and is lower than the EU27 average (the most favorable situation for debt sustainability).

II. The condition of sustainability is ensured, i.e. the public government debt is less than 60% of GDP, or decreases from one year to another and is higher than the EU27 average.

III. The condition of sustainability is not ensured, i.e. the public government debt is higher than 60% of GDP, or increases from one year to another and is lower than the EU27 average.

IV. The condition of sustainability is not ensured, ie public government debt is higher than 60% of GDP, or increases from one year to another and is higher than the EU27 average (the least favorable situation for the sustainability of public debt).

These situations could also be framed in quadrants, but given that the positions of the four quadrants on achieving the SDGs are exactly the opposite, upside down, with the sustainability of public debt, we prefer to consider them situations and keep in mind that for both SDGs and and for the sustainability of public debt, situation 1 is the most favorable and four the least favorable. Centralized for the period 2014-2020, in figure 2, we summarize for the EU27, as well as for the euro area19, the fulfillment of the condition of sustainability for the public debt as we formulated it above. We note that the year 2020 brings to the surface the increased danger of unsustainability of public debt.

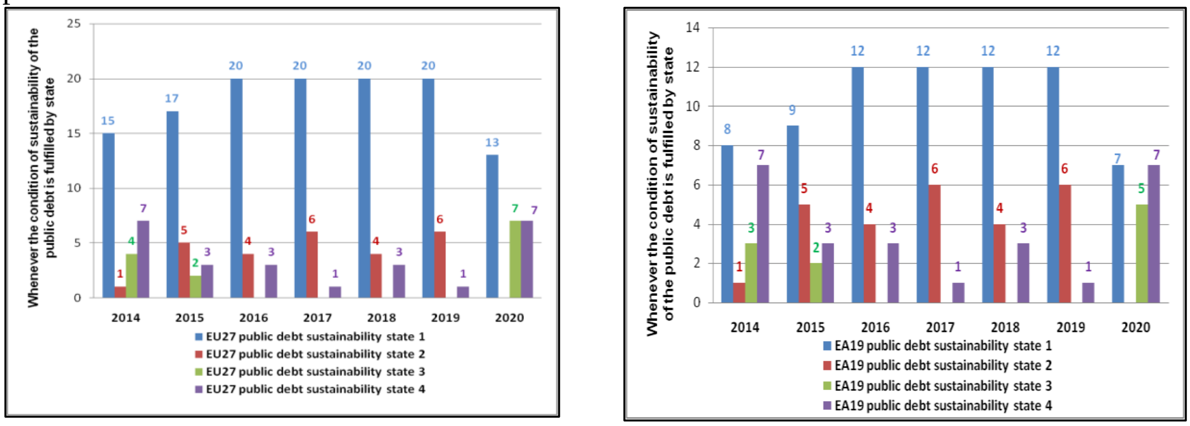

Figure 2 - Centralization of the sustainability situation for EU27 and EA19 for public debt for the period 2014-2020

Source: own calculations, Eurostat source (2021) and project under coord. Ailincă, (2021)

Taking into account the two types of data, we show in Figure 3, the centralized relationship for the EU27 and EA19 for the sustainability of public debt in relation to the fulfillment of the SDGs.

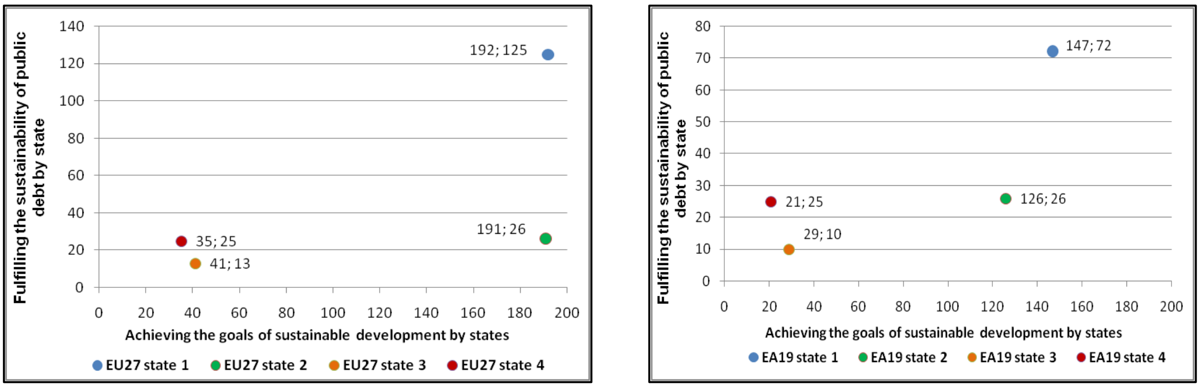

Figure no. 3 - Centralizing the situation of public debt sustainability in relation to achieving the sustainable development targets for EU27 and EA19 for the period 2014/2015-2020

Source: own calculations, Eurostat source (2021) and project under coord. Ailincă, (2021)

We note during the analysis period that if the two aspects analyzed are the sustainability of public debt and the achievement of the SDGs are still in the sphere of sustainability, the near future can put considerable pressure especially on debt sustainability and less on achieving sustainable development goals. In conclusion, we can consider that the efforts to achieve the objectives of sustainable development are the natural way to follow, and the indebtedness should also naturally follow the achievement of the objectives, but also to allow the adequate fulfillment of the fiscal rules.

Similar to the above logical construct for public debt sustainability, it has been constructed a systematization model for the budget deficit, highlighting four situations or states of the budget deficit for the period 2014-2020 (approximately the same period to comply with the SDG analysis):

I. The condition of sustainability is ensured, i.e. the budget balance is higher than the deficit of 3% of GDP and is higher than the EU27 average (the most favorable situation for the sustainability of the budget deficit).

II. The condition of sustainability is ensured, i.e. the budget balance is higher than the deficit of 3% of GDP and is lower than the EU27 average.

III. The condition of sustainability is not ensured, ie the budget balance is lower than the deficit of 3% of GDP and is higher than the EU27 average.

IV. The condition of sustainability is not ensured, i.e. the budget balance is lower than the deficit of 3% of GDP and is lower than the EU27 average (the least favorable situation for the sustainability of the public deficit).

We can put these situations as above in correlation with the states or quadrants of achieving the SDGs targets, keeping in mind that for both the SDGs and the sustainability of the public deficit, situation 1 is the most favorable and 4 the least favorable. Centralized for the period 2014-2020, in figure 4, we summarize for the EU27 as well as for the euro area (EA19), the fulfillment of the condition of sustainability for the budget deficit as we formulated it above. The year 2020 brings to the fore the growing danger of unsustainable budget deficits, especially at EU level as a whole, but the danger is also highlighted at the level of the euro area.

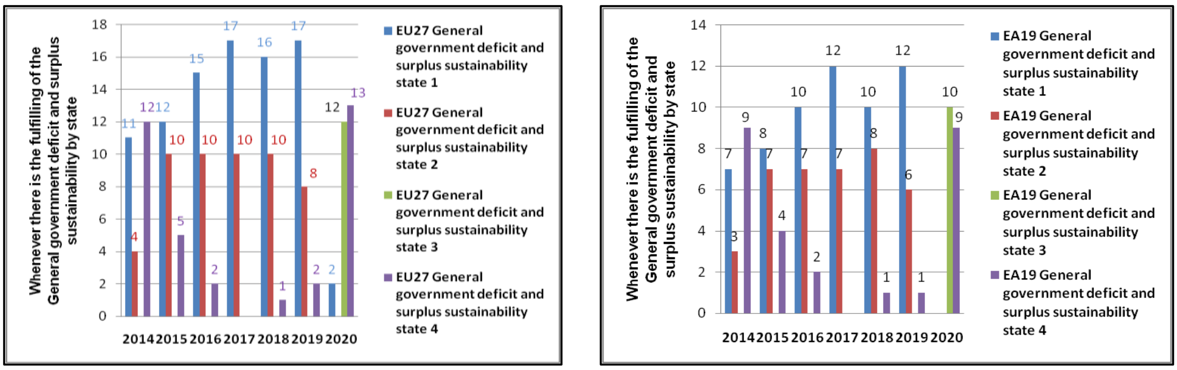

Figure no.4 - Centralization of the sustainability situation for EU27 and EA19 for the budget deficit for the period 2014-2020

Source: own calculations, Eurostat source (2021) and project under coord. Ailincă, (2021)

Overall, we note that the centralization, by summing up the targets of the SDGs and the number of compliance with fiscal rules on the budget deficit, reflects a worrying trend of increasing state 4, i.e. that of unsustainability, almost identical to that of debt. It must be noted that meeting the SDGs and general government deficit and surplus is still satisfactory both the EU27 and euro area countries.

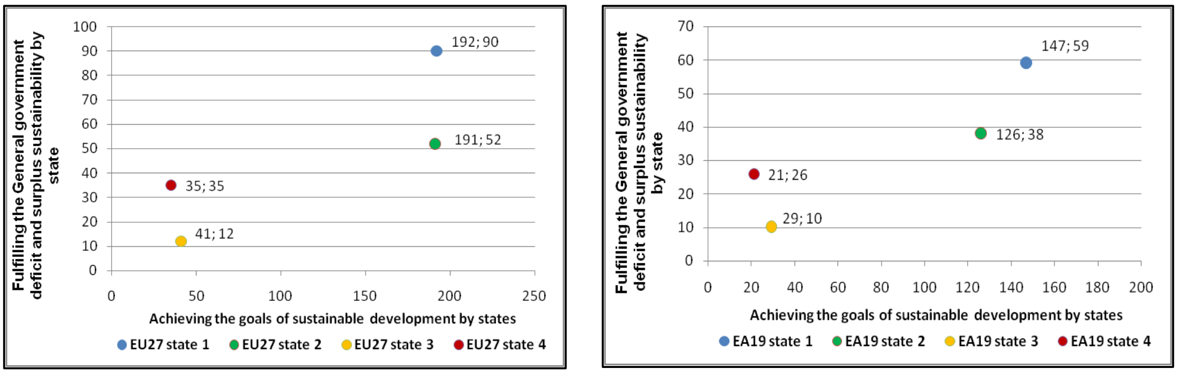

Figure no. 5 - Centralizing the sustainability situation of the public deficit in relation to achieving the sustainable development targets for EU27 and EA19 for the period 2014 or 2015-2020

Source: own calculations, Eurostat source (2021) and project under coord. Ailincă, (2021)

Like the pandemic, tackling climate change and strengthening climate resilience bring challenges that extend beyond national and EU borders, and carbon taxes, supported by an international carbon price level, can stimulate decarbonisation (IMF, 2021). However, the steps taken are moderate and sometimes contrary to the regional and global policies promoted. As a result, governments are increasingly using carbon prices in ex ante policy assessments to quantify the direct and indirect costs of climate change policies and measures. By making polluting energy sources more expensive than clean sources, the price of carbon provides incentives to improve energy efficiency and redirect innovation efforts to green technologies. In order to strengthen the Paris Agreement, the IMF has provided its members with policy guidance for introducing an International Carbon Price Floor (ICPF), as this price level is differentiated according to national levels. which initially targeted the largest polluting countries in the world. This price level could accelerate the reduction of emissions (Gonguet et al., 2021).

Not only placing legislation and international agreements on a sustainable basis, but funding also plays an important role in achieving the pandemic's contingency targets and achieving climate goals and sustainable development goals. The negative impact of the pandemic on economic development underscores the importance of international aid, but also of domestic reforms, requiring debt reduction (implicitly interest rates) and concessional financing, to stimulate sustainable and inclusive growth (Benedek et al. 2021). In terms of international assistance from the IMF, at the end of May 2021, the Debt Service Suspension Initiative (DSSI) helped countries increase COVID-19 spending, but it was not enough to prevent a reduction in other priority spending, thus it was trying for some countries also a debt reduction under the G20 Common Framework (eg Chad, Ethiopia, Zambia). The IMF has also expanded access to finance ($ 117 billion) and helped reduce debt service in 85 countries through financial assistance and grants, especially for the poorest IMF member countries (IMF, 2021). Along with concessional assistance, the financing of sustainable development must also have this component of public indebtedness, especially since many targets are directly related to the institutional capacities of states to correlate these realities in public policies with effects on the medium and long term, with relative little or medium implication, due to lower impact capacity, from companies to improve social and environmental situations.

5. CONCLUSIONS

The international funding architecture for sustainable development projects is still deficient, especially in low-income countries, and financial instruments need to be better tailored to funding needs, especially in those countries. Although international government financial assistance remains important in achieving the SDGs, the role of the private sector and financial institutions can make a difference in whether or not these goals are adequately met.

The global post-pandemic recovery will certainly require a reset of global and regional funding institutions, especially in the EU, especially in the EU, which will have to find concrete solutions to recalibrate the world's poorest economies with adequate funding, but also a better traceability of money, by investing in parallel in the development of the IT and cyber security structure of the countries receiving financial assistance. Equally, public institutions will need a reorientation, a restructuring towards an increasing green budget, in which revenues and expenditures, external and internal debt, the issuance of debt securities, issuance maturities, including international and national partners funding will have to go through the "sieve" of ecological sustainability criteria.

The combination of ecological criteria and the achievement of the SDGs and fiscal-budgetary sustainability targets will have to be an increasingly present reality in the current public policy framework. In this regard, this article seeks to correlate, as far as possible, in a concise manner the link between the SDGs and fiscal-budgetary sustainability, emphasizing that recently, amid the COVID-19 crisis, the state of public taxation at EU and EA19 level has deteriorated. In this regard, national fiscal-budgetary targets should be circumscribed to EU ecological targets but also to sustainable development targets, so that there is no divergence in public targets and a waste of public funds.

REFERENCES

1. Ailincă, A.G. (coord.) și Leonida, I (2021), De la datorie publică sustenabilă la datorie publică pentru dezvoltare sustenabilă – abordări teoretice şi empirice în contextul COVID-19, proiect al Centrul de Cercetări Financiare și Monetare "Victor Slăvescu".

2. Alesina, A. and A. Passalacqua (2016). The political economy of government debt. In Handbook of Macroeconomics, Volume 2, pp. 2599–2651. Elsevier.

3. Benedek, D. and al. 2021. A Post-Pandemic Assessment of the Sustainable Development Goals, IMF staff discussion note. Online: file:///C:/Users/David/Downloads/SDNEA2021003%20(1).pdf.

1. Baker, S. R., N. Bloom, and S. J. Davis (2016). "Measuring Economic Policy Uncertainty." Quarterly Journal of Economics 131 (4): 1593–636.

2. Bhattacharya, A., Romani, M. and Stern, N. (2012). „Infrastructure for Development: Meeting the challenge". Policy Paper, Centre for Climate Change Economics and Policy, Grantham Research Institute on Climate Change and the Environment, June.

3. Brundtland, G. (1987). „Report of the World Commission on Environment and Development: Our Common Future". United Nations General Assembly document A/42/427.

4. Eurostat (2021). „Sustainable development in the European Union Monitoring report on progress

towards the SDGs in an EU context 2021 edition". Luxembourg: Publications Office of the European Union.

5. FMI, (2021). „WORLD ECONOMIC OUTLOOK UPDATE, JULY". Online la: https://www.imf.org/en/Publications/WEO/Issues/2021/07/27/world-economic-outlook-update-july-2021.

Grembi, V., T. Nannicini, and U. Troiano (2016). Do fiscal rules matter? American Economic Journal: Applied Economics, 1–30.

6. Gonguet, F., C. Wendling, O. Aydin, and B. Battersby (2021), Climate-Sensitive Management of Public Finances—"Green PFM", IMF Staff Climate Notes 2021/002. https://www.imf.org/en/Publications/staff-climate-notes/Issues/2021/08/10/Climate-Sensitive-

Management-of-Public-Finances-Green-PFM-460635.

Grosse-Steffen, C., Pagenhardt, L. and Rieth, M., 2021. Committed to Flexible Fiscal Rules, Banque de France working paper, online: https://www.banque-france.fr/sites/default/files/medias/documents/wp854.pdf

Heinemann, F., M.-D. Moessinger, and M. Yeter (2018). Do fiscal rules constrain fiscal policy? A meta-regression-analysis. European Journal of Political Economy 51, 69–92.

7. Kose, M. Ayhan, Peter Nagle, Franziska Ohnsorge, and Naotaka Sugawara (2021). Global Waves of Debt: Causes and Consequences. Washington, DC: World Bank. doi:10.1596/978-1-4648-1544-7.

8. Najam, A. (2002). "Financing Sustainable Development: Crises of Legitimacy", Department of International Relations, Boston University, Boston, USA, Progress in Development Studies 2,2 (2002) pp. 153–160, online at: https://www.oecd.org/sweden/2083553.pdf.

9. Romer, C. D. and D. H. Romer (2019). Fiscal space and the aftermath of financial crises: how it matters and why. Brookings Papers on Economic Activity (BPEA Conference Drafts, March 7-8, 2019)

10. Selassie, A. A., and A. Tiffin (2021). "The Policymaker's Trilemma."IMF Blog, May 12.