

## THE PUBLIC FINANCES OF THE FRUGAL FOUR COUNTRIES IN THE CONDITIONS OF EUROPEAN ECONOMIC RECONSTRUCTION

**Angelov Petko**

PhD, associate professor

The "D.A.Tsenov" Academy of Economics, Svishtov, Bulgaria

e-mail: [p.angelov@uni-svishtov.bg](mailto:p.angelov@uni-svishtov.bg)

### **Abstract**

*The paper focuses on the main measures of public finances (government revenue, government expenditure, net lending/net borrowing position) of the countries of the so-called "frugal four" for a period of twenty years (2000 – 2020), in the conditions of European economic reconstruction. The aim of the paper is to present arguments for the reported trends in the dynamics of the above mentioned measures and to justify the conservative policy of public finances management pursued by Austria, the Netherlands, Sweden and Denmark. As a result of the study of budgetary measures, an assessment of the state of public finances of the four countries was performed and the macro factors for this were derived. The state of the latter, as it is known, is dynamic and their future research and control is necessary to preserve the budgetary stability of the "frugal four" and the European Union in the current European economic reality.*

**Keywords:** public finance, government budget, European Union, economic reconstruction, "frugal four"

**JEL Classification:** H59, H61, H69

### **INTRODUCTION**

Over the last 20 years, the world economy has undergone significant changes, which has had an impact on the slowdown in global and sector development. The foundations of modern European finance, laid decades ago, have been shaken by international conflicts, such as the US – EU trade war [3], Brexit, the COVID-19 pandemic, etc. The global pandemic has its impact both in the individual financial spheres – banking [5], insurance [6], investment, and in public policy and public finance. In geopolitical aspect, there is competition among countries based on a number of economic means. As a result of globalisation and the established interstate relations, many of them today are in situation where they are trying to defend their sovereignty or that of the alliances in which they are members. The demonstration of power, as well as the strengthening of the economic positions of the individual countries, inevitably have their influence on the budget processes in the countries. In this line of thought, the main aim of this paper is to follow the trends in the main budgetary measures – government revenue, government expenditure, net lending/net borrowing position of the "frugal four" countries – Austria, Sweden, Denmark and the Netherlands.

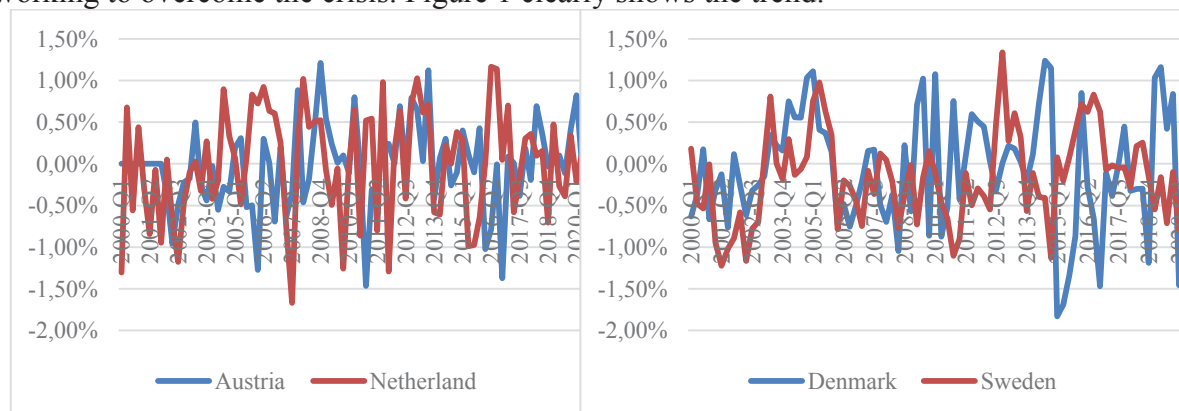
### **THE STATUS OF BUDGET REVENUES AND EXPENDITURES**

Among the main goals [4] of the formation of the European Union as a community is the sustainable development based on balanced economic growth and price stability, as well as strengthening of economic, social and territorial cohesion and solidarity among EU countries. The European Union's plan for support and development of weaker countries in 2020 find the opposing position of the four "frugal" countries [2] – Austria, Sweden, Denmark and the Netherlands. What the four countries have in common is that they are members of the European Union. The difference among them is that Austria and the Netherlands are among the "founding states" [8] of the Eurozone, while Sweden is among the Non-Eurozone countries and Denmark adheres to its own currency by agreeing not to

apply part of the legislation or some EU treaties. The focus of the latest EU budget positions is on the Multiannual Financial Framework for the period 2021-2027. It is based on a reasonable compromise between the EU's sustainable development and competitiveness and reduction of inequalities within the EU. For many EU countries, European funds are seen as a major driving force that helps economic movement. In unison with that, such policies are Cohesion and Common Agricultural Policy which are significant together with the policies for innovation, competitiveness and modern technologies. "Frugal four" countries adhere to the common position of greater guarantees that countries that receive EU aid, will pass reforms and that any aid should be in the form of loans and not grants. This, in turn, is a position to avoid an overall increase in the Multiannual Financial Framework of the European Union. According to Austrian Chancellor Sebastian Kurz [9] "The common market, as an essential driver of European competitiveness, is not an expensive endeavour. Above all, our contribution to the budget must remain stable, taking into account inflation and economic growth." It is essential for the stability of the EU to focus a significant share of the budget on meeting economic challenges, such as promoting the competitiveness of the economy and establishing stability in budget indicators [1].

The paper focuses on the situation and the percentage change in the main budget measures (government revenue, government expenditure and deficit/surplus) of the considered frugal and fiscally stable countries - Austria, Sweden, Denmark and the Netherlands. The data shown in the following figures are calculated or taken (deficit/surplus) on the basis of monthly data for the relevant indicators available in the European Central Bank database.

The level of government revenue varies considerably in these countries. For the studied period a dynamic percentage change is noted. There is a strong intensity in the revenues, as only in Sweden there is a partial retention of the trend in the period 2006-2009, showing a steady change in the indicator. Within the studied countries, the largest margins are seen in the Netherlands and Denmark. It is interesting to note that at the end of the analysed period Q2 – 2020 in Austria and the Netherlands government revenues decreased sharply, and in Denmark and Sweden – decreased significantly. In all four countries, in view of the outbreak of the COVID-19 pandemic, fiscal restrictions are applied, including the provision of opportunities for deferral of payments to the state budget, suspension of sanctions for non-payment of budget debts, tax exemption for people working to overcome the crisis. Figure 1 clearly shows the trend:

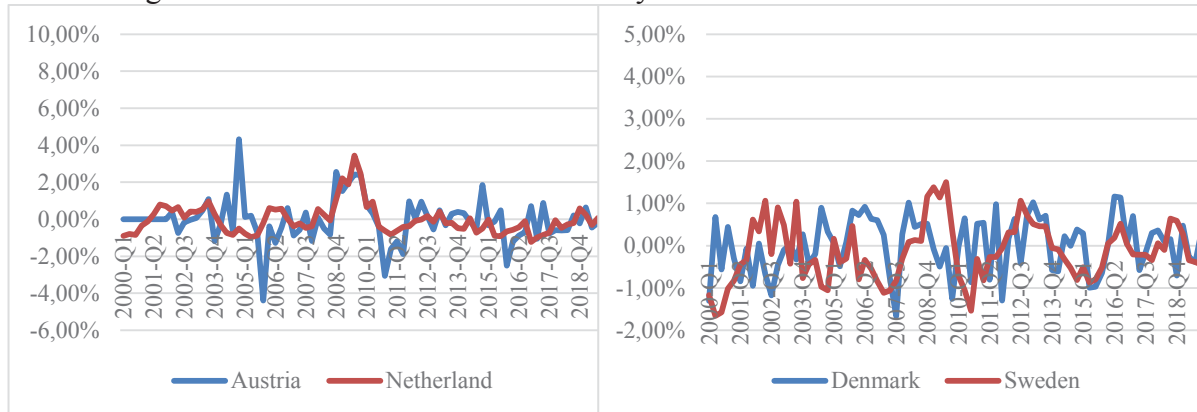


**Figure 1. Total government revenue - % change compared to the previous year**

Source: Author's database calculations by: <https://sdw.ecb.europa.eu>

With regard to government expenditure, as shown in Figure 2, the percentage change follows the opposite of the revenue trend. Relatively stable change is observed in

all four countries considered. What they have in common is that in the period 2007-2009, there was a relative increase in government expenditure caused by rising government costs to overcome the economic crisis. The Netherlands is the country with the least change in the analysed indicator and shows stability in government expenditures, which is indicative of maintaining a stable budgetary policy. It is interesting to note that the considered “frugal countries” – Austria, the Netherlands and Sweden have a significant increase in their government expenditure in early 2020. This is due to the increasing expenditure of overcoming the social and health issues caused by COVID-19.

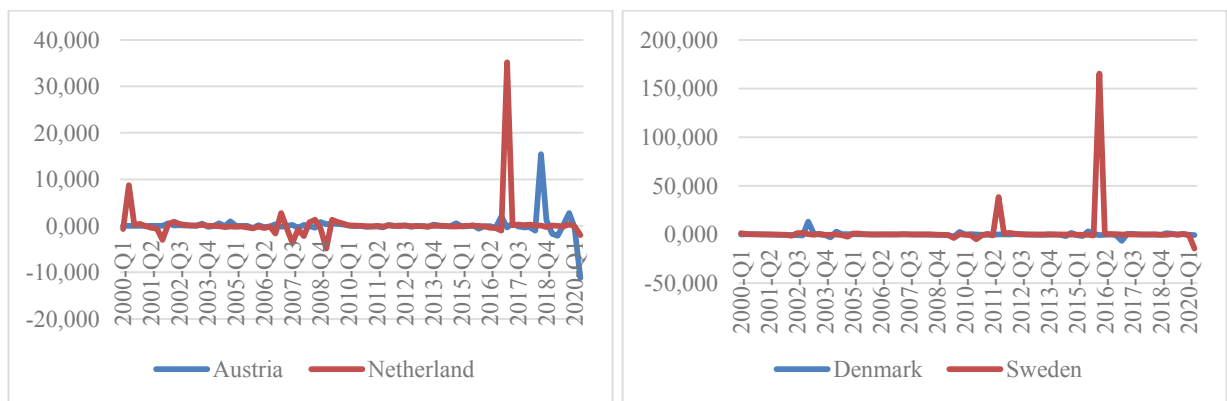


**Figure 2. Total government expenditure - % change compared to the previous year**

Source: Author 's database calculations by: <https://sdw.ecb.europa.eu>

### POSITION OF INDEBTEDNESS (NET LENDING/NET BORROWING POSITION)

Referring to the data analysed above, it could be said that Austria, the Netherlands and Sweden have efficient tax administrations, and only Denmark could be ignored due to its relatively complex tax system and the lack of indirect taxes. This, in turn, has a direct impact on the economic development of the countries, which in Denmark is compensated by additional budget relief. In this line of thought, Figure 3 depicts the level of difference between the government revenue and government expenditure in absolute value.



**Figure 3. Net lending/net borrowing**

Source: <https://sdw.ecb.europa.eu>

According to the data in Figure 3, the weak dynamics in the indebtedness indicator is seen. A significant excess of revenues over expenditures was observed in 2016 in Netherlands and Sweden, in 2018 in Austria, and at the end of the period (Q2 2020) again in Austria there was an excess of expenditures over revenues, resp. budget deficit. It is important to note that it is not of significant importance whether and to what extent the budget indicator deficit/surplus deviates from the set budget values, but whether there are

conditions for it to deviate to such an extent that it will negatively affect state budgets or affect the budget of the EU.

## CONCLUSION

It should be noted that the four countries contribute significantly more to the EU budget than they actually get from it. The exit of the United Kingdom, which leaves a significant gap in the EU budget, has a negative impact on the budgetary measures of the countries, as well as on the work to reduce the level of economic impact of the current COVID-19 crisis. It is too early to make a definite assessment of the impact of the above factors on public finances, but it is certain that their situation is dynamic and their future study is necessary to maintain the budget stability of the “Frugal Four” and the European Union in the context of the current European economic reconstruction.

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