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THE EFFECTS GENERATED BY COVID-19 PANDEMIC AND BREXIT PROCESS ON FISCAL POLICY: AN APPROACH FOR THE EUROPEAN UNION

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Abstract

The main aim of this research paper is to investigate the impact of COVID-19 pandemic and BREXIT process on fiscal policy based on a case study for the European Union. Moreover, economic activity has contracted and risk aversion has increased in recent years due to severe government measures to combat the spread of the novel Coronavirus infections. In order to combat the consequences of the COVID-19 pandemic, the European Union has provided a series of solid and applied measures for economic recovery. The COVID-19 pandemic also caused significant challenges for the European Union considering a complex approach which includes: health systems, economic-financial and social perspective.

Keywords: COVID-19 pandemic, fiscal policy, BREXIT, gross domestic product (GDP), economic growth, tax system

I. INTRODUCTION

The COVID-19 pandemic has affected all EU member states in recent few years, with severe economic and social consequences. European Union Member States have worked closely together to combat the Covid 19 pandemic and to help the European Union and Europe as a whole to recover from the economic downturn. The novel Coronavirus also known as SARS-CoV-2 which generated the COVID - 19 pandemic is an extremely infectious disease that is spreading very fast. In addition, Addison et al. (2020) considered that COVID-19 pandemic can be perceived as an "unprecedented global crisis" which will have more severe and dramatic consequences compared to the global financial crisis of 2007-2008. Zheng and Zhang (2021) also discussed the importance of social distancing policy and traffic control measures in the context of COVID-19 pandemic. Qaiser Gillani et al. (2021) identify a significant linkage between economic development and health improvement aspect that has a high implication in the context of sustainable economic growth. Moreover, Nayak et al. (2021) argued that government expenditure exhibits an influence on the economic growth.

In June 2016, a referendum also known as BREXIT was held in the United Kingdom of Great Britain and Northern Ireland, in which British citizens were invited to vote for or against their country's exit from the European Union. However, it is important to be highlighted the fact that on January 1, 1973, the United Kingdom became a member of the European Community. The withdrawal agreement between the European Union and the United Kingdom lays down the conditions for the orderly withdrawal of the United Kingdom from the EU, in accordance with Article 50 of the Treaty on European Union. The withdrawal agreement, which has been agreed on October 17, 2019, entered into force on 1 February 2020, but allowed for a transitional period until 31 December 2020.

Throughout 2020, the European Union and the United Kingdom have also been negotiating on how to develop future cooperation. Moreover, despite the negative effects of the COVID-19 pandemic, the BREXIT process has continued and consequently affecting the economy. The end of the transition period generated inevitable changes that resonated in the business area. In fact, the recent pandemic crisis has had a significant effect on counteracting the economic and social consequences of the UK's withdrawal from the EU. On the other hand, given the impact of the COVID-19 pandemic, EU countries have temporarily restricted and, given the degree of infection, travel both in the country and abroad (inbound and outbound) to help limit the transmission of the virus to Europe and non-European countries.

II. LITERATURE REVIEW

Igwe (2022) investigated the impact of BREXIT referendum and the adjacent implications of this process, but also was discussing other extremely important events in recent history such as: the global financial crisis of 2007 - 2008, winning the presidential election race in the US by the Donald Trump, Coronavirus pandemic, the current war between Russia and Ukraine or the advance of populist policies and Euroscepticism. Caliendo (2022) also examined key aspects on the controversies triggered after the BREXIT process between the European Union and the UK especially in terms of vaccination campaign against the infection with COVID – 19 caused by the novel coronavirus or SARS – CoV – 2. On the other hand, Škrinjarić (2019) examined the effect of Brexit on certain Central and Eastern European also known as CEE and South and Eastern European also known as SEE stock markets and identified the presence of higher volatility in the short term after the referendum on the United Kingdom's withdrawal from European Union.

He and Wang (2022) argued that government authorities apply fiscal policy measures in order "to regulate the key macroeconomic variables under the government budget

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constraint", but it is also useful considering that it is necessary to "cope with external shocks", (such is for instance, government investment expenditure. Furthermore, Fernández - Villaverde and Jones (2020) investigated the linkage between macroeconomic variables and COVID - 19 pandemic including the contribution of fiscal stimulus and the measures to combat the devastating effects of the recent health crisis triggered by the infections spread with the novel coronavirus.

Addison et al. (2020) argued that COVID-19 pandemic must be analyzed from a macroeconomic perspective considering that it has a significant influence on macroeconomic stability, but also on economic growth. Moreover macroeconomic policies include the dimensions of monetary and fiscal policies policy decision-making factors are forced to deal with the economic shocks generated by COVID-19 pandemic.

Della Posta et al. (2022) investigated the linkage between COVID-19 pandemic, economic policies and public debt sustainability based on a case study for Italy, while concluding that COVID-19 pandemic determined a sharp decrease in GDP and an accelerated rise in budgetary (public) deficits and debts. Pourmansouri et al. (2022) have conducted an empirical research study in order to examine the relationship between shareholders and corporate governance for the sample period which includes the COVID-19 pandemic, both before and after periods.

III. A QUANTITATIVE APPROACH TO THE PHENOMENON

According to European Commission (2021) which provided the recent report on "Taxation Trends in the European Union", it seems that a sudden and severe collapse is anticipated on short time horizons such as 2020-2022 regarding tax revenue evolution, which can even reach levels higher than 3 percentage points (pp) of gross domestic product (GDP).

In the following tables we will highlight some very relevant descriptive statistics at the level of the European Union in the context of recent events such as COVID-19 pandemic and BREXIT process, i.e.:

Table no.1 The evolution of tax revenue on the member states of the European Union - 27, both at individual and aggregate level (as % of GDP)

	Actual (effective) data			**Forecasting data**			**Trend**
	2017	**2018**	**2019**	**2020**	**2021**	**2022**	**Difference period 2019-2022**
EU-27	39,9	40,1	40,1	40,4	39,5	39,2	-0,9
EA-19	40,3	40,5	40,5	40,8	39,9	39,6	-0,8
Belgium	44,7	44,8	43,6	44,0	43,4	43,4	-0,2
Bulgaria	29,4	29,9	30,4	31,0	30,1	29,8	-0,6
Czechia	35,4	35,9	36,1	35,7	33,6	33,2	-3,0
Denmark	45,7	44,3	46,1	46,5	44,6	42,8	-3,3

Germany	39,4	40,0	40,4	40,5	39,7	39,8	-0,6
Estonia	32,5	32,9	33,1	34,2	35,2	33,5	0,4
Ireland	22,6	22,5	22,1	20,8	20,1	19,8	-2,3
Greece	39,3	40,0	39,5	38,2	37,8	37,7	-1,8
Spain	34,0	34,7	34,8	36,7	35,9	35,0	0,2
France	46,4	46,3	45,5	45,8	44,6	44,5	-1,0
Croatia	37,6	38,1	38,5	37,9	37,7	36,8	-1,6
Italy	41,8	41,6	42,3	42,9	41,8	41,4	-0,9
Cyprus	33,2	33,5	35,5	35,7	36,7	36,2	0,7
Latvia	31,1	31,0	30,9	31,7	31,6	31,3	0,5
Lithuania	29,4	30,0	30,2	31,2	30,6	30,9	0,7
Luxembourg	37,5	39,5	39,0	38,3	38,3	37,9	-1,1
Hungary	38,0	36,9	36,5	36,4	34,7	33,4	-3,0
Malta	30,8	31,2	30,8	30,0	29,5	29,8	-1,0
Netherlands	38,7	38,8	39,3	39,7	39,4	38,0	-1,3
Austria	41,9	42,3	42,6	42,5	41,9	42,1	-0,6
Poland	34,1	35,1	35,1	35,9	35,9	35,3	0,2
Portugal	34,1	34,7	34,5	34,7	33,8	33,3	-1,2
Romania	24,9	26,0	26,1	25,9	25,8	25,7	-0,4
Slovenia	37,3	37,5	37,4	37,5	36,8	36,6	-0,8
Slovakia	33,9	34,0	34,4	34,6	34,2	33,7	-0,7
Finland	42,9	42,3	42,2	41,8	42,0	41,7	-0,5
Sweden	44,0	43,8	43,1	42,9	42,7	43,2	0,1

Source: European Commission (2021), DG Taxation and Customs Union, based on Eurostat and DG Economic and Financial Affairs annual macroeconomic, database (AMECO)

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Table no.2 The impact of treatment of payable tax credits on total tax revenue indicators, 2019

Member State of the European Union	Total tax revenue (million euros)		Total tax revenue (% of GDP)	
	Gross method	Split method	Gross method	Split method
Belgium	207.499	206.682	43,6	43,4
Czechia	80.805	79.619	36,1	35,6
Denmark	144.192	143.797	46,1	46,0
Ireland	78.854	-	22,1	-
Spain	432.684	431.575	34,8	34,7
France	1.104.782	1.093.404	45,5	45,1
Italy	756.837	746.962	42,3	41,7
Cyprus	7.924	7.639	35,6	34,3
Austria	169.440	169.210	42,6	42,6
Slovakia	32.292	-	34,4	-
Iceland	7.745	7.741	35,8	35,8
Norway	144.448	144.360	40,1	40,1
United Kingdom	851.482	843.976	33,8	33,5

Source: European Commission (2021), DG Taxation and Customs Union based on data from Eurostat and the OECD

According to the official statistics included on the website of the Council of the European Union and the European Council, the following financial support has been provided to certain European Union member states , such as: Belgium (€8.2 billion), Bulgaria (€511 million), Croatia (€1 billion), Cyprus (€603 million), Czechia (€2 billion), Estonia (€230 million), Greece (€5.3 billion), Hungary (€504 million), Italy (€27.4 billion), Ireland (€2.5 billion), Latvia (€305 million), Lithuania (€957 million), Malta (€420 million), Poland (€11.2 billion), Portugal (€5.9 billion), Romania (€4.1 billion), Slovakia (€630 million), Slovenia (€1.1 billion) and Spain (€21.3 billion).

IV. CONCLUSIONS

The role of fiscal policy measures is to combat the negative impact of COVID-19 pandemic which affected all member states of the European Union including the UK in the midst of a BREXIT process at the onset of this global sanitary crisis. COVID-19 pandemic significantly affected economic growth due to restrictive measures such as social distancing, strict lockdown, traffic and travel restrictions. Spulbar et al. (2022) argued that COVID-19 pandemic has significantly affected the economies of most countries in the world while and crtain economic sectors have suffered strong contractions since 2020. According to the official statistics included on the website of the Council of the European Union and the European Council, the following are the effective strategies implemented by the European Union for economic recovery, such as: “the EU's recovery plan, Next Generation EU, SURE: temporary support for workers, amendments to the EU budget to address urgent issues, re-direction of EU funds to help member states most in need and support to most affected sectors”.

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