SIGNIFICANT ASPECTS REGARDING THE ECONOMIC STRATEGY OF THE EUROPEAN UNION STATES

Prof. Constantin ANGHELACHE PhD *(actincon@yahoo.com)*
Bucharest University of Economic Studies / Artifex University of Bucharest
Assoc. prof. Mădălina-Gabriela ANGHEL PhD *(madalinagabriela_anghel@yahoo.com)*
Artifex University of Bucharest
Assoc. prof. Ștefan Virgil IACOB PhD *(stefaniacob79@yahoo.com)*
Petroleum – Gas University of Ploiesti / Artifex University of Bucharest

Abstract

The European Union intends, through the programs it undertakes, to implement measures that lead to the development of all member states. The perspective of the evolution of minimum wage incomes or the development of sources of financing the economy are essential elements considered by the European Union. An important aspect is to establish in clear foundations the strategy that will attract a harmonious economic development of the member states of the European Union.

The major objective of the European Union is to establish strategies, through the application of which ensure economic growth in all EU member states. The level of growth of the member states of the European Union is differentiated. In order to equalize the standards of evolution, some of them have to have a sustained growth rate, in order to catch up. In this context, the Eastern and Central European countries, which were later admitted to the European Union, must intensify their measures regarding the application of economic and social reforms, in order to reduce the gap with developed countries and to get as close as possible to the standard they have. At the same time, these member states must adopt the necessary measures to comply with the directives of the European Union regarding the development of the member countries. European funds are distributed to the member states within the multiannual budgets, thus ensuring the possibility that, in this way, a rapprochement of the member states and those that are slightly behind can be achieved. Another objective of the European Union is that the supply of labor is consistent with the skills and needs of the economy of each country, so that it is absorbed in the best possible conditions.

Keywords: wage income, sources of financing, strategies, programs, measures, economy.

JEL Classification: E24, O52.

Introduction

In this article, starting from the consideration that the Gross Domestic Product is the most used indicator to measure the results recorded at the level of a national economy, the authors analyzed the main developments of GDP recorded in the European Union, in the period 2005-2023, both as an average at the EU level, as well as in each member state.

The authors considered that the data series considered to be long enough to capture the effects of both the global economic and financial crisis, which started in 2008 and caused a severe recession in the EU in 2009, as well as those of the coronavirus pandemic, followed by the energy crisis, caused by the war between Russia and Ukraine, with a direct impact on some of the EU states. So, as a result of the combined action of these crises, the consequences were felt, first of all, on the cost of living. At the same time, it should be specified that the influence of the crises was different on the activity sectors, as well as on the expenditure categories, such as consumption and investments.

The authors started from the study of the documents published by Eurostat, which consider such an analysis. However, the aspects related to how to ensure the participation of the member states in major common objectives, which ensure the increase of the income of each state, the possibility of making additional investments in the national economy are also interesting.

Literature review

Akçomaka and ter Weel (2009) studied the correlation between social capital, innovation and per capita income growth in the European Union, highlighting the fact that innovation generates the transformation of social capital into higher income levels. Anghel, Anghelache and Avram (2017) conducted a study in which they analyzed the European strategy for ensuring increasingly better living conditions. Anghelache and Anghel (2017) carried out an extensive analysis of the economic-financial and social progress of Romania in the 10 years since its accession to the European Union. Anghelache, Anghel and Iacob (2022) analyzed how the European Union established and applied a concrete strategy with the objective of limiting the effects and recovering the negative aspects that the COVID 19 pandemic had. Anghelache and Anghel (2017) researched the strategy of the European Union in the field of improving living conditions as a whole, as well as in each member country of the community. Begg (2017) conducted a study on European politics from the perspective of the EU budget. Aspects related to the EU budget are also covered by Sapala (2020). Cincera and Veugelers (2013) addressed a series of issues related to the existing gap between the member states of the European Union in terms of research-development and innovation activity. Corti et al.

(2022) referred to a number of ways to revive public investment in Europe. Darvas (2020) focused on countries' ability to absorb funds and spend them effectively. Farole et al (2011) focused on the study of cohesion policy in the EU. Kvist (2015) proposed a number of indicators that can be considered in the EU social investment strategy. Onetti (2012) presented issues related to business models for new technology-based firms. Rose and Spiegel (2009) researched elements of international environmental treaties.

Data, Results and Discussion

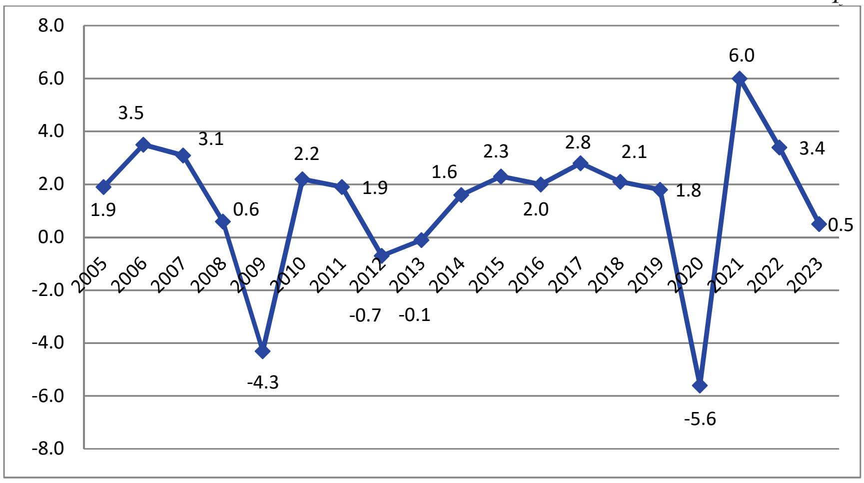
The analysis of the components of the Gross Domestic Product constitutes an important source of information for the design and evaluation of European Union policies. This category includes: production, private consumption, public consumption, export, import or investment. At the same time, a series of indicators, such as GDP per inhabitant in euros or those expressed in purchasing power standards (PPS), are used to assess economic convergence or divergence within the EU.

In 2008, the impact of the global financial crisis was felt in the EU, the GDP growth rate being much lower compared to the level recorded in 2007, namely from +3.1% in 2007 to +0.6% in 2008. After the recession that affected the European Union in 2009 (the rate of change of the real Gross Domestic Product decreased by -4.3% compared to 2008), in 2010 a recovery was observed (the rate of change having the value of +2.2 % compared to 2009)

In the entire analyzed time interval, the strongest real decrease in Gross Domestic Product was recorded in 2020, in the midst of the coronavirus pandemic, i.e. -5.6% compared to 2019. As can be seen from the data in graph 1, the real decline in GDP this year was much higher than that recorded during the global economic and financial crisis. At the same time, the recovery of activity in 2021 (+6.0% in 2021 compared to 2020) was much more intense than that recorded in 2010 and mentioned above, respectively +2.2%. Increases were still registered, but at a slower pace, +3.4% in 2022 compared to 2021 and +0.5% in 2023 compared to 2022. However, although increases were found for most categories of expenditure of GDP, gross capital formation was marked by a decrease.

The evolution of the rate of change of the real Gross Domestic Product in the European Union, during the period 2005–2023

Graph 1



Source: *authors' representation, based on Eurostat data; percentage change compared to the previous year.*

From the data contained in table no. 1, it is observed that, at the level of the EU member states, the real increase in GDP varied significantly. Thus, in 2009, with the exception of Poland, all member states suffered a contraction. Romania recorded a decrease in GDP of -5.5% compared to 2008, a rate below the European average of -4.3%. Lower values were recorded in Estonia (-14.6%), Lithuania (-14.8%), Latvia (-14.3%), Finland (-8.1%). As of the following year, 23 countries saw increases. The first year, after 2007, in which all 27 EU states registered a positive rate of change in GDP was 2017, a situation that was maintained in the following two years. The outbreak of the COVID-19 crisis caused further declines.

The rate of change of the real Gross Domestic Product in the European Union, during the period 2005–2023 (%)

Table 1

Year	2005	2007	2009	2011	2013	2015	2017	2019	2020	2021	2022	2023
Austria	2.2	3.7	-3.8	2.9	0.0	1.0	2.3	1.5	-6.6	4.2	4.8	-0.8
Belgium	2.3	3.7	-2.0	1.7	0.5	2.0	1.6	2.2	-5.3	6.9	3.0	1.4
Bulgaria	7.1	6.7	-3.3	2.1	-0.5	3.4	2.7	4.0	-4.0	7.7	3.9	1.8
Czechia	6.6	5.6	-4.7	1.8	0.0	5.4	5.2	3.0	-5.5	3.6	2.4	-0.3
Denmark	2.3	0.9	-4.9	1.3	0.9	2.3	2.8	1.5	-2.4	6.8	2.7	1.9
Germany	0.7	3.0	-5.7	3.9	0.4	1.5	2.7	1.1	*-3.8*	3.2	1.8	-0.2
Estonia	9.5	7.6	-14.6	7.3	1.5	1.9	5.8	4.0	-1.0	7.2	-0.5	-3.0
Ireland	5.7	5.3	-5.1	1.3	1.2	24.5	9.3	5.3	6.6	15.1	9.4	-3.2
Greece	0.6	3.3	-4.3	-10.1	-2.5	-0.2	1.1	1.9	-9.3	8.4	5.6	2.0
Spain	3.7	3.6	-3.8	-0.8	-1.4	3.8	3.0	2.0	-11.2	6.4	5.8	2.5
France	1.7	2.4	-2.9	2.2	0.6	1.1	2.3	1.8	-7.5	6.4	2.5	0.7
Croatia	4.3	5.1	-7.2	-0.1	-0.3	2.5	3.4	3.4	-8.5	13.0	7.0	3.1
Italy	0.8	1.5	-5.3	0.7	-1.8	0.8	1.7	0.5	-9.0	8.3	4.0	0.9
Cyprus	4.9	5.1	-2.0	0.4	-6.6	3.4	5.7	5.5	-3.4	9.9	5.1	2.5
Latvia	10.7	9.9	-14.3	2.6	2.0	3.9	3.3	0.6	-3.5	6.7	3.0	-0.3
Lithuania	7.7	11.1	-14.8	6.0	3.6	2.0	4.3	4.7	0.0	6.3	2.4	-0.3
Luxembourg	2.5	8.1	-3.2	1.0	3.2	2.3	1.3	2.9	-0.9	7.2	1.4	-1.1
Hungary	4.3	0.3	-6.6	1.9	1.8	3.7	4.3	4.9	-4.5	7.1	4.6	-0.9
Malta	3.4	4.8	-1.1	0.5	5.5	9.6	10.9	7.1	-8.2	12.5	8.1	5.7
Netherlands	2.1	3.8	-3.7	1.6	-0.1	2.0	2.9	2.0	-3.9	6.2	4.3	0.1
Poland	3.5	7.1	2.8	5.0	0.9	4.4	5.1	4.4	-2.0	6.9	5.6	0.2
Portugal	0.8	2.5	-3.1	-1.7	-0.9	1.8	3.5	2.7	-8.3	5.7	6.8	2.3
Romania	***4.7***	***7.2***	***-5.5***	***4.5***	***0.3***	***3.2***	***8.2***	***3.9***	**-3.7**	***5.7***	4.1	***2.1***
Slovenia	3.8	7.0	-7.5	0.9	-1.0	2.2	4.8	3.5	-4.2	8.2	2.5	1.6
Slovakia	6.6	10.8	-5.5	2.7	0.6	5.2	2.9	2.5	-3.3	4.8	1.9	1.6
Finland	2.8	5.3	-8.1	2.5	-0.9	0.5	3.2	1.2	-2.4	2.8	1.3	-1.0
Sweden	2.8	3.2	-4.3	3.2	1.1	4.4	1.8	2.5	-2.0	5.9	1.5	-0.2

Source: *Eurostat, authors' systematization.*

From the analysis of the data above, it is noted that in 2020, the only country in the EU that registered an increase in GDP was Ireland (+6..6%), in Lithuania there were no changes (0.0%), and in the other villages the negative rates varied, being -11.2% in Spain, -9.3% in Greece, -9.0% in Italy or -8.3% in Portugal. Romania recorded a decrease of -3.7%, a significantly better value than the European average of -5.6%.

The year 2021 marked recovery in all EU countries, with growth rates ranging from 15.1% in Ireland, 13.0% in Croatia or 12.5% in Malta to +2.8% in Finland.

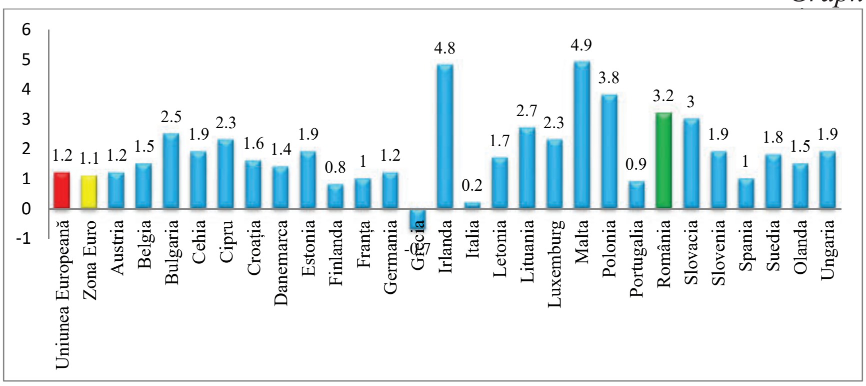
In the year 2022, the only EU country that registered a decrease in GDP was Estonia (-0.5%), all other EU countries recording increases. The strongest growth belongs to Ireland, respectively +9.4%.

The year 2023 is defined by a great variety of developments in the Member States. 16 EU countries registered an increase in GDP, and of the other 11 states characterized by a decrease in GDP, the biggest decreases were in Ireland (- 3.2%, moreover, this is the first annual decrease in GDP in 2023, after 10 consecutive annual increases) and Estonia (- 3.0%). We note that all states had a lower rate of change in 2023 than in 2022.

Taking into account the above, it can be seen that the effects of the global economic and financial crisis and the crisis caused by the COVID-19 virus have affected and slowed down the overall performance of the economies of the EU member states. Thus, in the period 2005-2023, the average annual GDP growth rate in the European Union was 1.2%, respectively 1.1% in the euro area. The figure below shows data on the average annual rates of change in GDP recorded by the member states. Among EU countries, the highest average annual GDP growth rates in the period under review were recorded in Malta (+4.9%), Ireland (+4.8%) and Poland (+3.8%). The next two places are occupied by Romania (+3.2%) and Slovakia (+3.0%). The negative rate was recorded only in Greece, decreasing on average by 0.7% per year.

Average annual change rate of real GDP in EU member states, during the period 2005-2023 (%)

Graph 2



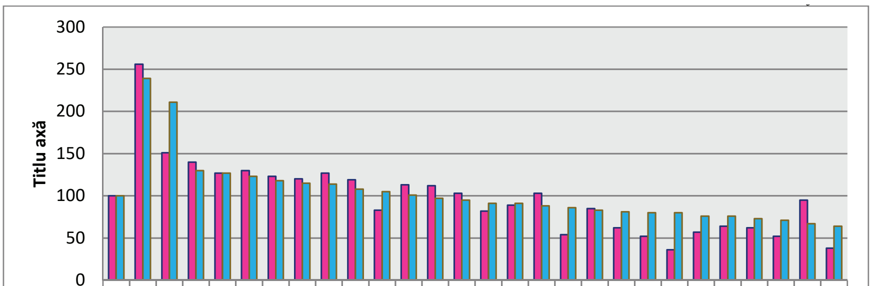
Source: *authors' representation, based on the Eurostat data.*

The assessment of living standards is carried out using the GDP per inhabitant indicator, respectively by adjusting it to the population. Thus, in the year 2023, the population of the EU was 451 million, and the average GDP per inhabitant for the EU, expressed in current prices, was EUR 37,610. In general, comparative analyzes between states are done on the basis of purchasing power standards (PPS). These are adjusted values to take into account differences in price levels between countries. The position of each country can be expressed by comparison with the EU average, which is taken as 100. In the year 2023, the GDP in the EU was 17.0 trillion PPS, that is 17 000 billion PPS. In PPP terms, Germany accounted for more than a fifth of EU GDP and the euro area accounted for 80.9% of EU GDP in 2023, down from 85.4% in 2005.

In graph no. 3 contains data on the values of the Gross Domestic Product per inhabitant, expressed at current market prices, in the years 2005 and 2023. In the analysis, 1 PPS is equal to 1 euro (€) for the EU.

Gross Domestic Product per inhabitant, expressed in current market prices, in 2005 and 2023

Graph 3



	EU	LU	XI	NL	DK	AT	BE	DE	SE	FI	MT	FR	IT	CY	CZ	SI	ES	LT	PT	EE	PL	RO	HR	HU	SK	LV	GR	BG
2005	100	256	151	140	127	130	123	120	127	119	83	113	112	103	82	89	103	54	85	62	52	36	57	64	62	52	95	38
2023	100	239	211	130	127	123	118	115	114	108	105	101	97	95	91	91	88	86	83	81	80	80	76	76	73	71	67	64

Source: *authors' representation, based on the Eurostat data; EU = 100; based on PPS per capita.*

The highest value among EU countries was recorded by Luxembourg, where GDP per capita in PPS was 2.39 times higher than (or 239% of) the EU average in 2023, which can be explained by the relatively large number of workers cross-border from Belgium, France and Germany. At the opposite pole, Bulgaria is situated with GDP per inhabitant in PPS slightly below two-thirds of the EU average (64%).

The comparison of PPS figures relative to the EU for the years 2005 and 2023 reflects that there has been some convergence of living standards, with most states that joined the European Union in 2004, 2007 or 2013 moving from a position well below the European average, in 2005 to a position closer to the EU average, in 2023. At the same time, the northern and western countries of the EU, respectively Sweden, Finland, Belgium, the Netherlands, Germany, Austria, France, from a position above the average EU in 2005, have moved down to a position closer to (but still above) the EU average. For example, France went from 113% of the EU average in 2005 to 101% of the average in 2023.

Italy and Spain moved from positions above the EU average in 2005 (112% and 103%) to positions below it (97% and 88%) in 2023.

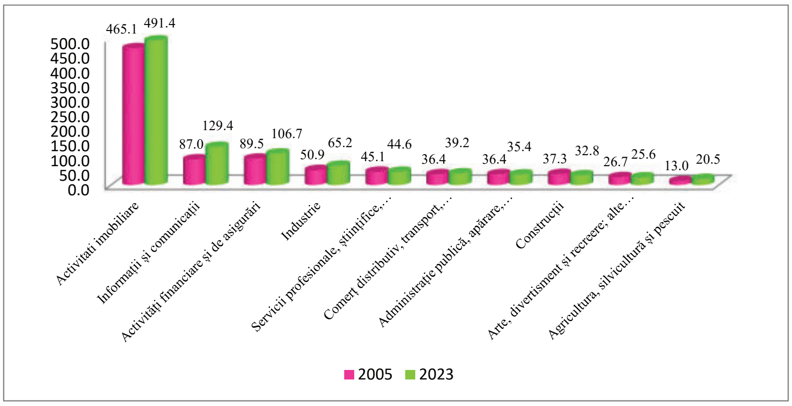
Greece (from 95% to 67%) and Portugal (from 85% to 83%) have undergone large changes, falling further below the European Union average.

There are two exceptions to these developments, namely Denmark, its ratio compared to the EU average remaining unchanged, namely 127% of the EU average in 2005 and 2023, as well as Ireland which far exceeded the EU average, from 151% to 211 %.

Another analyzed indicator is labor productivity. Thus, the evolution of labor productivity per employed person in real terms, during the period 2005-2023, reflects increases in the European Union for 6 of the 10 economic activities covered, as can be seen from Graph no. 4.

Real labor productivity in the European Union, in the years 2005 and 2023 (€1000 per employed person)

Graph 4



Source: *authors' representation, based on the Eurostat data.*

Significant productivity gains, expressed in relative sizes, were observed for agriculture, forestry and fishing activities (+57.1%) and for information and communication activities (+48.6%). Moderate increases were seen in industry, real estate, distribution trade, transport, accommodation and food services, as well as financial and insurance activities.

In most EU countries, in real terms, both labor productivity per employed person and labor productivity per hour worked increased between 2005 and 2023. The countries that are exceptions to these developments are Greece and Luxembourg, which experienced decreases of both indicators.

In relative terms, the largest increases for the two indicators measuring real labor productivity were recorded in Romania, followed by Bulgaria, Lithuania, Slovakia and Latvia.

In table 2, the data related to the evolution of the components of the Gross Domestic Product of the European Union, from the point of view of expenses, are centralized.

The components of the Gross Domestic Product of the European Union, during the period 2005-2023

Table 2

Year	Final consumption	Final consumption of the public administration	Gross capital formation	Export	Import
2005	100.0	100.0	100.0	100.0	100.0
2007	104.4	104.2	114.9	116.9	117.7
2009	105.4	109.4	94.6	104.3	105.0
2011	106.6	110.2	102.4	123.5	120.7
2013	105.6	110.4	94.2	128.9	121.4
2015	108.8	113.1	102.7	143.8	137.2
2017	113.2	116.6	111.5	157.4	151.4
2019	117.0	120.2	121.7	168.9	165.4
2020	111.3	121.5	113.7	154.6	152.3
2021	116.3	126.4	121.9	172.1	167.3
2022	120.1	128.1	127.2	184.8	180.6
2023	120.8	129.5	123.8	185.0	178.4

Source: *Eurostat, authors' systematization.*

Between 2005 and 2023, final consumption expenditure increased by 20.8%, although slight decreases were observed in 2009, 2012 and 2013 and a significant decrease in 2020. Final consumption of public administrations increased consistently, respectively by 29.5% between 2005 and 2023, and in

2020 they increased by more than 1%, the year in which the COVID-19 crisis began. In the period 2005–2023, gross capital formation showed a fluctuating evolution, marked by considerable increases, but also by sharp decreases, between 2007 and 2009, during the global financial and economic crisis, followed by a period of regular growth in the following years. A significant decrease is observed in 2020. The next two years meant the return of gross capital formation in 2021 and 2022. In 2023, this indicator decreased again. Regarding foreign trade activity, we note that in 2020, the value of exports decreased by 8.47% compared to 2019, while imports decreased by 7.92%. The next two years saw a massive rebound in the value of exports and imports, while in 2023 the rates of change were more moderate. Compared to 2005, exports were higher by 85.0% in 2023, imports increased by 78.4%.

Conclusion

Following the study, a series of theoretical and practical conclusions result. Thus, the consequences of the health crisis, combined with the economic-financial crisis and the energy crisis, force the European Union to take into account, when establishing future strategies, the implementation of programs to support the member states. Thus, the priorities of the European Union are being rethought and adapted to the financing needs of many sectors of activity in the member states and against the background of the decrease in revenues to the community budget. The member states are forced to harmonize and adapt their development strategies according to the effects of the mentioned crises.

Establishing a coherent strategy of the European Union aims at development on multiple levels, according to the objectives it has proposed. The main objective of the European Union is to ensure an economic growth model for all member states that takes into account the specific conditions in each country. Each country has a certain standard and economic development. At the level of the European Union, there are two groups of countries, one that includes countries with a high economic advance, advanced technology and possibilities for expanding the business environment, and the other that includes the countries admitted later to the European Union, which started from a standard far behind.

Other objectives refer to improving labor productivity, better employment, increasing public and private investment in infrastructure, stability of the financial sector, reducing the deficit. Also, objectives related to social inclusion are provided. In some states, the inequality rate is maintained, poverty and the existence of regional disparities are still problems. Health and education are priorities for each member state, but also for the European Union.

References

1. Akçomaka, I. S., ter Weel, B. (2009). Social capital, innovation and growth: Evidence from Europe, *European Economic Review*, 53 (5), 544-567
2. Anghel, M.G., Anghelache, C., Avram, D. (2017). European Union Strategy in the Field of Health, *Romanian Statistical Review, Supplement*, 12, 43-51
3. Anghelache, C., Anghel, M.G. (2017). *România – membră a Uniunii Europene. Zece ani de la aderare*, Editura Economică, București
4. Anghelache, C., Anghel, M.G., Iacob, Ș.V. (2022). European Union strategy regarding the elimination of the effects of the Covid-19 pandemic. *Romanian Statistical Review, Supplement*, 9, 15-26
5. Anghelache, C., Anghel, M.G. (2017). The strategy for reducing unemployment. Employment in the European Union*.* *Theoretical and Applied Economics*, XXIV, 4 (613), Winter, 25-32
6. Begg, I. (2017). The EU budget after 2020, European Policy Analysis, Sieps, 9, September 2017
7. Cincera, M., Veugelers, R. (2013). Young leading innovators and the EU's R&D intensity gap, *Economics of Innovation and New Technology*, 22 (2), 177-198
8. Corti F. et al. (2022). The Recovery and Resilience Facility: A springboard for a renaissance of public investments in Europe?, CEPS, January 2022
9. Darvas, Z. (2020). Will European Union countries be able to absorb and spend well the bloc's recovery funding?, Bruegel Blog, 24 September 2020
10. Farole. T., Rodríguez-Pose, A., Storper, M. (2011). Cohesion Policy in the European Union: Growth, Geography, Institutions. *Journal of Common Market Studies*, 49 (5), 1089-1111
11. Kvist, J. (2015). A framework for social investment strategies: Integrating generational, life course and gender perspectives in the EU social investment strategy. *Comparative European Politics, 13* (1), 131-149
12. Onetti, A. et al (2012). Internationalization, innovation and entrepreneurship: business models for new technology-based firms, *Journal of Management & Governance*, *16* (3), 337-368
13. Rose, A.K., Spiegel, M.M. (2009). Noneconomic Engagement and International Exchange: The Case of Environmental Treaties, *Journal of Money, Credit, and Banking*, *41* (2-3), 337-363
14. Sapala, M. (2020). How flexible is the EU budget? Flexibility instruments and mechanisms in the multiannual financial framework, *EPRS, European Parliament*, January 2020.