

# THE BUDGET OF THE EUROPEAN UNION

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*The growing deficit after the adhesion to the EU and its volatility represents a serious problem. Our country must have more ambitious budgetary objectives, in order to avoid the breaching of the rules of the Pact for stability and growth and to limit the growth of the external deficit and the inflationist pressures, that constitute a risk for the macroeconomic and financial stability.*

*According to the law of the budget for 2008, the budgetary deficit will represent 2.7% from the Gross Domestic Product. The level of the deficit is an economic condition foreseen in the Pact for stability and cannot exceed 3% from the Gross Domestic Product in the countries member of the European Union. At the same time the increase of the deficit is essential for the adhesion of Romania to the unique European currency*

*Key Words: budget, deficit, states member*

The money of the contributors is used by the Union for the financing of the activities that all the states member and parliaments agreed in the treaties. The sum of money that can be put at the disposition of the Union is limited by an agreement of the states member and the parliaments. At present, the maximum is fixed at 1.24% from the gross national income of the Union for the payments realized from the budget of the EU. In comparative terms, approximately 45% from the gross national income of the Union is allocated to the national public costs, regional and local within the states member.

A large number of activities are financed in the states member, for example in the agriculture, fishing, infrastructure (construction of roads, bridges and railways), education and formation, occupation of the working force and social politic, health and protection of the consumer, research, to mention just a few fields. Also, there are in process initiatives to offer the citizens of the EU a space of freedom, security and justice without internal frontiers. A part of the budget of the EU is spent for the financing of economic development in the world and for the humanitarian aid offered to the countries from outside the EU, which are affected by natural disasters and other crisis situations.

The budget covers the expenses of all the institutions of the Union. It fixes the income and costs fro that year, enumerates all the activities that are to be financed and establishes the total sums of money, as well as the available personnel for each of the. Also, cites the documents of authorization for every action. Before being able to be put into practice, almost all activities require also a legislative communitarian document – a document of authorization or a juridical basis – proposed by the Commission and approved by the legislative authority – the European Parliament together with the Council of Ministers, in many cases.

The costs of the EU are limited also by a multi-annual agreement finalized between the members of the European Parliament, the Council of Ministers and the European Commission. This agreement contains a ‘multi-annual financial framework’. The most recent cover plans of the costs for periods of seven years, from 2000 until 2006 and from 2007 to 2013.

The general budget of the European Union is structured on sections, titles, chapters, articles and positions. The most important component is the chapter, this being the one that indicates the competence of the budgetary authorities able to authorize certain transfers from one chapter to another.

In realizing budgetary incomes there were realized two stages: until the year 1970, the budget was conceived entirely on the basis of direct contributions of the states member, so that afterwards the budget be financed through the ‘own resources’ of the Community, which actually represents the incomes agreed by the states member to represent legal communitarian resources.

The budgetary resources had the following structure:

- custom taxes for imported goods from outside the community, by applying the common tax;
- the custom drawings on the import of agrarian products (from 1995 there were replaced with the custom taxes);

- the VAT resource collected in each of the states member according an applied tax to the VAT cashed by each state member (1% in 1979,1,4% in 1986,0,75% in 2002 and 0,5% in 2004).

This modality of determination of the proper resources proved to be inadequate because:

1. As consequence of the multilateral negotiations GATT it was realized a reduction of the custom taxes over the imports realized by the community and this led to the diminishing of the contribution of this resource to the communitarian budget;
2. It were reduced gradually the imports of agrarian products as a result of growth of the communitarian agrarian production what it determined the diminishing of the budgetary incomes at the expense of these custom drawings;
3. There stagnated also the incomes coming from the VAT due to the decline of costs for consume realized by the people from the European Community.

The effect of these factors concretized in the apparition of a true budgetary crisis at the middle of the ninth decade of the 20<sup>th</sup> century.

It was conceived a new system of the budgetary incomes based on:

1. the principle of growth of the VAT brink to 1.4% in 1986;
2. the maintenance of own resources coming from custom taxes and drawings to the import of agrarian products;
3. the adding of a new resource named 'the fourth resource' created on the basis of the reform program, known as 'Delors package', in 1988. this fourth resource results from the application of a rate on the PNB from all the states member, fixed each year and has the role of covering the total level of costs registered within a budgetary exercise. It must offer the necessary incomes for the covering of supplementary costs, so that the total volume of resources would represent maximum 1.2% from the GDP of the European Union. This fourth resource gained a great importance and position within the communitarian budget that in 2000, for example, was representing 48.3% from the budgetary incomes.

In what regards the costs from the general budget, they are structured and ordered on six sections: European Parliament – I, Council – II, Commission – III, Court of Justice – IV, Court of Accounts – V, Economic and Social Committee and Regions' Committee – VI.

The payments realized at sections I, II, IV, V and VI are called payments (credits, costs) of functioning, that is administrative, while those from the section III, European Commission, are grouped into two categories: credits (payments, costs) of functioning and are meant to cover the costs of the Commission with the personnel, buildings, materials, publications, informational system, specific missions, pensions for officials etc, and operational credits.

The operational credits administered by the European Commission have the following destinations:

1. financing of agriculture within FEOGA, section guarantee;
2. financing of structural actions: European Fund for Regional Development (FEDR), European Social Fund (FSE), FEOGA - Section Orientation; Fund for Cohesion, The Financial Instrument of Orientation of Fishing (IFOP);
3. the covering of the costs from the educational field (Socrates program), professional formation (Leonardo program), audio-visual (media program), culture, social relations, public health;
4. the covering of the costs allocated for energy;
5. the covering of the costs allocated for the improvement of functioning of the internal market;
6. financing of the programs for research and technological development;
7. financing of costs connected to different actions of economic and financial cooperation with third parties;
8. the covering of the costs generated by the actions within the external politic and common security;
9. guarantees and reserves (non-usable credits at the moment of voting the budget) that will be used during the budgetary exercise.

Starting with the 80s the rule according to which the general budget of the Communities is equilibrated and entirely financed from own resources it started not to work, because in many years the cost exceeded the estimated incomes. As first remedy was the passing to the national budgetary contributions.

The causes that triggered the financial crisis were: the growth of communitarian agrarian costs; the expansion of structural funds; the tendency of reducing the charges from custom taxes; the reduction of charges due to the custom tax applied to the import of agrarian products; the growth of the restrictions volume for the export of agrarian products, the reduction of the cashing from the VAT within the communitarian countries.

The reduction of the budgetary incomes generated tensions between the resources and the communitarian needs, the Communitarian Institutions signed and Inter-institutional Agreement between the Parliament, Council and Commission in which it is agreed about the budgetary priorities defined in the financial perspectives of the Union. These indicate the maximum size and the structure of costs.

The elaboration of the budget is realized by the Ministry of Public Finances according the budget projects of the main commanders of credits in order to improve the budgetary procedures, there were realized the following progresses:

- the improvement of management of public costs, through the extension of the budget based on programs to a number of 13 main commanders of credits, from a total number of 53;
- towards a number of 11 special funds that functioned in 2000, in the state budget were included 7 special funds, this leading to the simplification and growth of transparency of the budgetary procedures;
- the growth of the local economy, by decentralization of some public services and the financing of these from local budgets.

The elaboration of the budget project is based on new rules and principles, which circumscribe to the following goals:

- the realization of the multi-annual provisions of incomes and budgetary costs;
- the extension of the financing according programs;
- the restructuring of the budgetary costs, in report to the resources and strategic priorities of each domain of activity.

We consider that the report between the funds received by our country from the budget of the European Union and its contribution to the general budget must be similar to the proportions applied to the States Members with the lowest level of the GDP/citizen from the European Union.

The transitory arrangement required is justified through the considerable financial efforts that must be realized during the period after the adhesion, as well as the fact that the entire payment, from the moment of adhesion, in the conditions of a reduced level of the GDP/citizen, would diminish the rhythm of real convergence – economic and social – of Romania to the European Union.

The budgetary effort of Romania (engagements) is determined according the principles of co-financing established through the methodologies of access to the structural funds and of cohesion of the European Union, as well as from the calculation of Romania's contribution to the budget of the European Union. Romania's contribution to the budget of the EU is calculated applying a percentage of 1.14% to the Gross Domestic Product of Romania forecasted at the level of the years 2007-2009. It result a budgetary effort of Romania (engagements) of almost 7.4 billions euro, for the period 2007-2009.

The budgetary effort of Romania (payments) is determined according the principles of co-financing established through the methodologies of access to the structural funds and of cohesion of the European Union, as well as from the calculation of Romania's contribution to the budget of the European Union. Plus, in this case intervene also the necessities of co-financing induced by the deduction of the funds of pre-adhesion engaged in the previous years (until 2006).

The net balance of financial transfers between Romania and the European Union is calculated as the difference between the proposed payments of the European Union through the financial package and the contribution of Romania to the budget of the EU.

The macro-economic impact of the financial package cannot be reduced only to the absolute value of the sums granted to Romania. This because the programs and structural actions developed from that sums can

generate and support a process of durable economic growth, at least in the field of agriculture, infrastructure and environment, of human resources, a growth of social cohesion through the rural development and equilibrated regional development.

The budget of the European Union is the document that authorizes every year the financing of the ensemble of activities and communitarian interventions. According to this there can be observed every year the priorities and political communitarian orientations. Its evolution in time reflects the successive transformations of the European construction. In 1970, the budget of the community was of 3.6 billions ecu (at January 1<sup>st</sup> 1999, 1 ecu = 1 euro) and was constituted almost entirely from funds for costs connected to the common agricultural politic. Today the budget of the EU is endowed with approximately 93 billions euro. Here there can be found the politics of the EU: the costs of the agricultural common politic, the politic of regional development, research costs, education, formation, actions of international cooperation etc.

But after the first year after adhesion, our country contributed to the European budget with approximately one billion euro.

Our country is one of the countries that plead for the maintenance of the actual quota of contribution to the European budget and for the maintenance of the funds for agriculture and the funds of cohesion. The tensions within the European Union about the budgetary projection for 2013-2020, when France and Great Britain, beneficiaries of some important finances from the EU, dueled in arguments, because none wants to renounce to its own facilities.

France is the biggest beneficiary of the Common Agricultural Politic – that was up to approximately 44 billions euro annually, that is 40% from the entire European percentage. France is the unique big producer of cereals from Europe and a big exporter of meat. Great Britain, on the other hand, benefits of the so called ‘rebate’ return of two thirds from the difference between the sums coming from the VAT that pays to the communitarian budget and the European funds used in the United Kingdom. The rebate has come to worth approximately 5 billions euro annually, leaving unsatisfied many of the European leaders who appreciate that the situation of Great Britain has improved during the last 20 years and no longer needs these funds.

Beyond the interests of each state member, the reform of the budget cannot be postponed beyond the actual budgetary exercise – it needs more flexibility and transparency without touching the ‘fiscal sovereignty’ of the states.

The budgetary strategy proposed by our country for the following years is not compatible with the careful fiscal prudence needed to keep under control the growth of the external deficit and the inflation pressures that threaten the process of convergence.

The proposed program shows a continuation of the politic of high budgetary deficits, existing also the risk of an excessive deficit (over 3% from the GDP, n. red.). Our country has not made enough progresses in order to reduce its budgetary deficit below 1% from the GDP in 2011. Taking into consideration the risks presupposed by the budgetary targets and the necessary adjustments after 2010, it is less probable that the objective of reducing the budgetary deficit below 1% from the GDP in 2011 be reached.

Our country had so far a period of strong economic growth. But the growth of the external deficit and its volatility, represent reasons of worry. Romania must have healthier budgetary targets in order not to breach the Pact for Stability and Growth (that is in order not to exceed a budgetary deficit of 3% from the GDP) and in order to keep under control the growth of the external deficit and the inflation pressures that endanger the macroeconomic and financial stability.

There are strong risks – on the basis of the actual internal politics and the external shocks – that the disinflation process be harder to sustain. If these risks will be fed with relaxed fiscal politics and with big deficits, then these may lead to an inflation spiral, but also to a deepening of the public debt.

Romania renounced, in 2005, to the direct assistance of the FMI, after which, on January 1<sup>st</sup> 2007, it adhered to the European Union. The integration in the EU proves that the economy is sufficiently mature to no longer need the ‘guidance’ of the international financial organisms?

The renunciation to an agreement with the FMI in 2005 was a wrong decision. The agreement promoted at the end of 2004 had in view exactly the continuation of the reforms from the period 2000-2004, the strengthening of the public administration and the growth of the capacity to attract resources from the EU. The last three years proved that, in the absence of internal determination for the continuation of the

structural reforms and the strengthening of the fiscal and commercial politic, the side-slips accentuated, the course of exchange and the inflation had unpredictable trajectories, and the external perception on the national economy started to degrade.

We consider that it is needed a new model of relationships that our country must have with the international financial organisms, for the rebuilding of the external credibility. In lack of a strategy, our country is perceived as a country that does not know where is heading to.

As long as the incomes, as poise in the GDP, are modest and are not realized entirely the economy starts to lose the competitiveness. The budgetary resources must be kept, consolidated and efficiently spent. They cannot be wasted in the context in which the financial affluxes from the European Union are bigger and bigger, and the need for resources internally will be more pronounced.

We consider the budgetary strategy fixed in the program is not in conformity with a prudent fiscal politic, necessary to limit the growing external deficit and the inflations pressures that threaten the macroeconomic and financial stability as well as the process of convergence.

Romania became member of the European Union at the end of 2007 and should, according to the treaty of adhesion, adopt euro. Two of the three essential conditions for entering in the euro area are the tempering of the inflation and the maintenance of the budgetary deficit below 3% from the gross domestic product (GDP). The progresses for reaching the budgetary equilibrium for mid term are insufficient, despite the perspectives of solid economic growth. Taking into consideration the risks at the address of the budgetary targets and the significant adjustments that will be necessary after the period of the program, is unlikely that the objectives for mid term be reached until 2011.

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