

# ***The Management of the EU Budget***

---

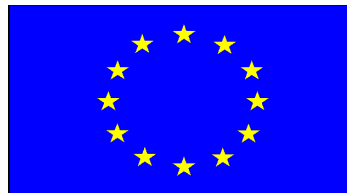
**Fritz Breuss**

*Meeting of the Bureau and Standing Committee on  
Institutional Affairs*

*Assembly of European Regions (AER)*

**Porec (Croatia)**

14<sup>th</sup> and 15<sup>th</sup> October 2010

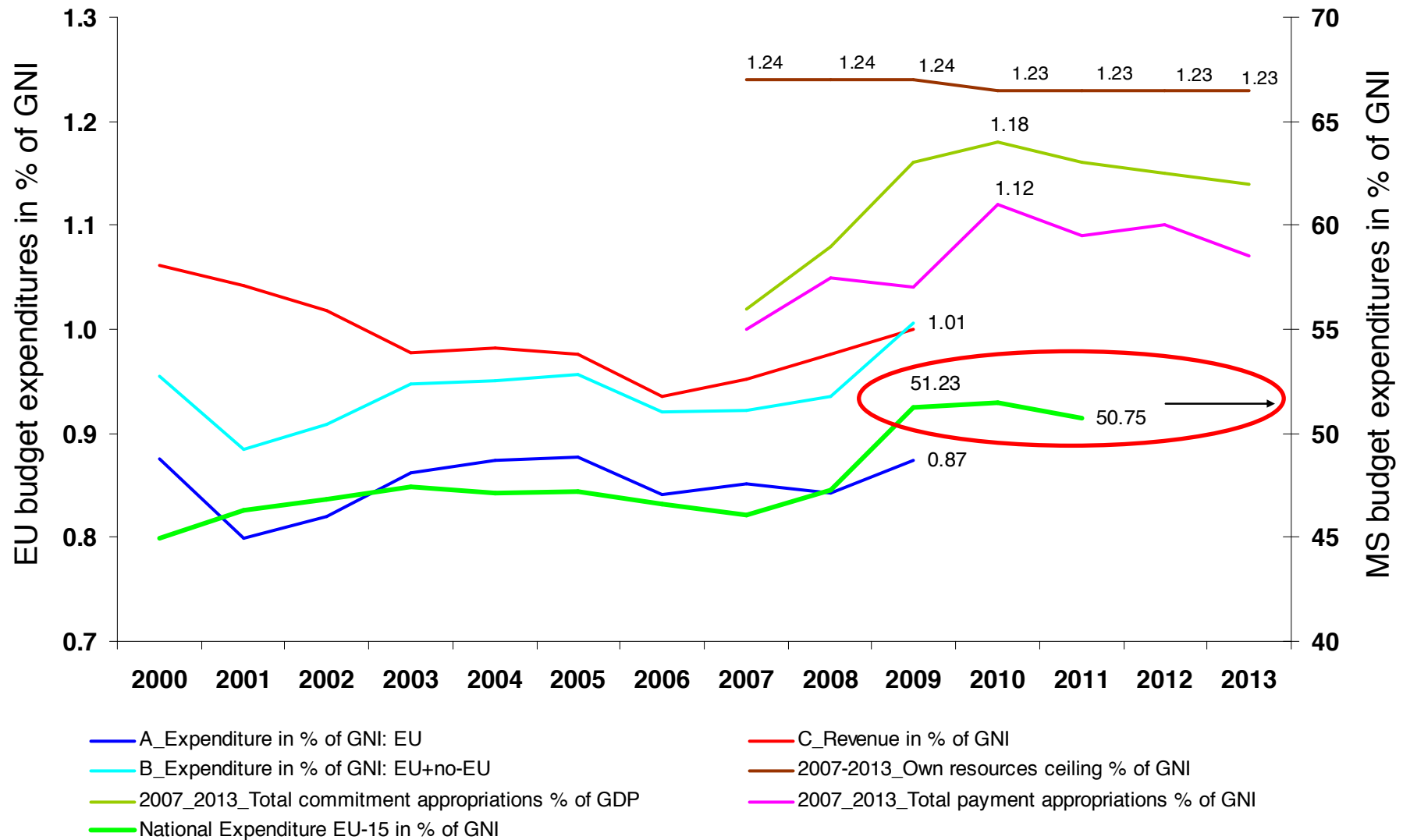


# Topics

---

- **EU budget vs. member states budget – different dimensions:**
  - 1,27% of BNE vs. 50% of GNI
- **The Management of the EU budget**
  - the decision making process
  - *budgetary principles*
  - where does the money come from? (revenues)
  - for which purpose is the money spent? (expenditures)
  - Financial framework 2007-2013
- **Net contribution – who benefits from the EU budget?**
  - the political struggle about the net payer's position
  - the EU budget as instrument of income **redistribution**
- **Impact of EU budget in 3 major areas:**
  - **Lisbon strategy** (forerunner of “Europe 2020”) ---> strategy for “growth & jobs”
  - **Regional/structural/cohesion policy** – ex post evaluation (macro model studies)
  - Common agricultural policy (**CAP**)
- **The Reform of the EU budget**
  - Sapir report (2003)
  - *“Reforming the Budget, Changing Europe”*

# The dimension of the **EU budget** vs the budget of **EU-MS** (Expenditures in % of GNI)



Sources: EU budget 2009: Financial Report, European Commission, 2010; AMECO data base of the European Commission

# How is the EU budget decided?

THE BUDGETARY PROCEDURE

TIMELINE

**COMMISSION** Draft Budget (DB)

1 September

**COUNCIL** Reading of Draft Budget - Amendments

1 October

**PARLIAMENT** Reading of amendments

13 November (42 days)



**PARLIAMENT & COUNCIL** Joint draft

13 November to 4 December (21 days)



18 December (14 days)

(\*)  
i.e. Parliament approves the joint text and then, within 14 days of Council rejection, decides (by a majority of its components members & 3/5 of the votes cast) to confirm all or some of its amendments from the first reading

Source: The European Union budget at a glance, European Commission, 2010, p. 10

# Budgetary principles

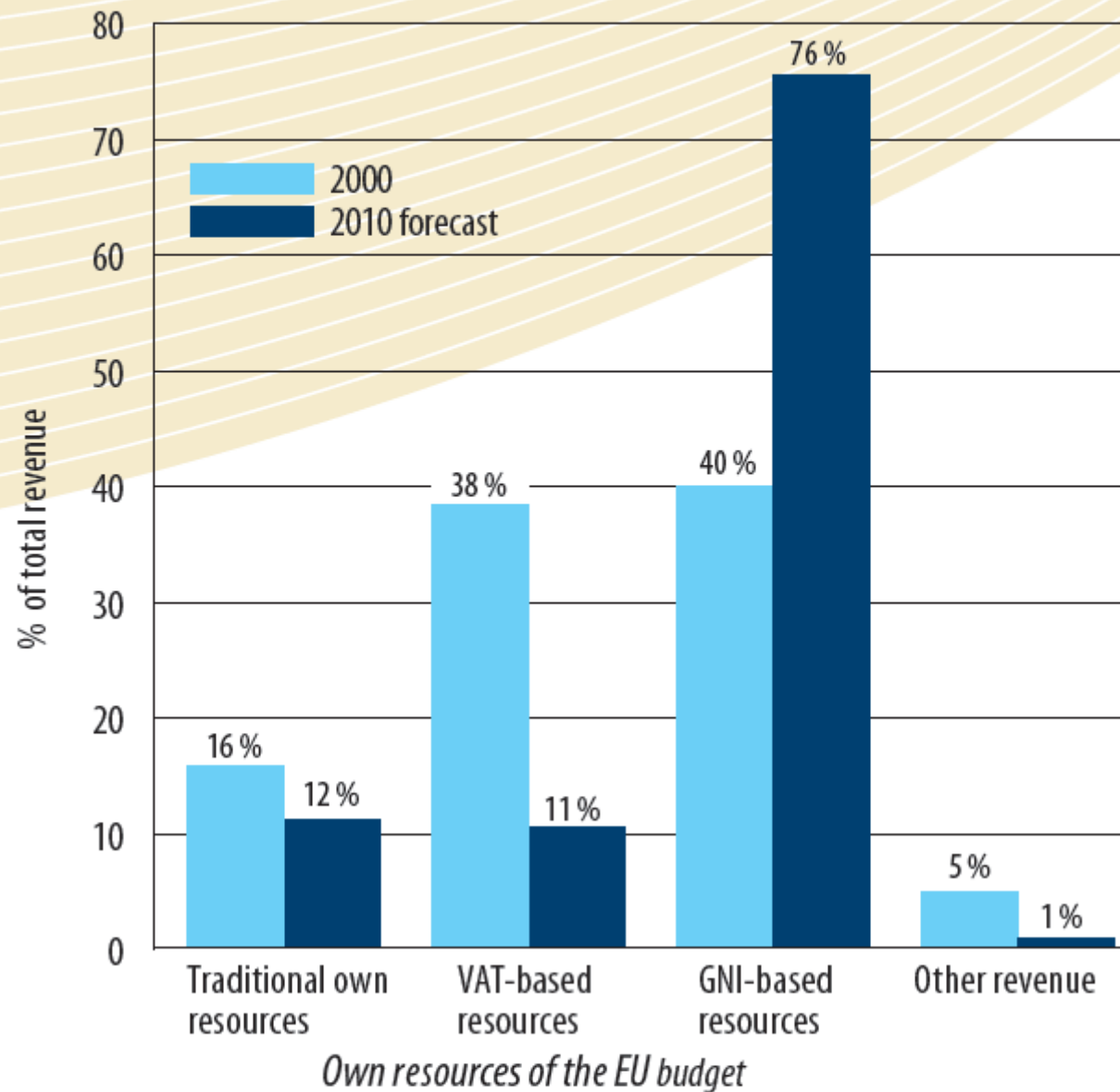
## (EU budget)

---

- **Accuracy:** basically means that the EU will not spend more than is necessary. According to this principle, an appropriation may not be entered in the budget if it not for an item of expenditure considered necessary.
  - **ORD 2007:** There is a **ceiling** on total EU income (**own resources**): below **1.24 % of the total GNP**.
- **Annuality** is the budgetary principle according to which expenditure and revenue is programmed and authorised for one year, starting on Jan 1 and ending on Dec 31.
- **Equilibrium** is the budgetary principle according to which budget revenue and payment appropriations must be in balance. A consequence thereof is the impossibility for the European Community to borrow money (no debt accumulation!)
- **Sound financial management** is the budgetary principle according to which budget appropriations must be used according to economy, **efficiency** and effectiveness.
  - **European Court of Auditors** controls the EU budget (Annual reports on the EU budget).
- **Specification** (budgetary principle) means that appropriations are earmarked for specific purposes, by title and chapter, as defined each year by the budgetary authority.
- **Transparency:** the budgetary principle of transparency was established in the Financial Regulation adopted in 2002 to stress several **publication obligations** on the part of the Commission. The adopted budget must be published without delay on its website, in the Official Journal, consolidated financial statements & financial management reports of the institutions to be published in the Official Journal.
  - **Financial Transparency System:** As of the year 2009, this database contains the names of the beneficiaries
    - of billions worth of grants and other forms of support, awarded (in budgetary terms: "committed") by the Commission every year, either directly or through executive agencies set up to help it run EU funded programmes.
- **Unit of account** is the budgetary principle according to which the budget is drawn up and implemented in euro and the accounts are presented in euro.
- **Unity** is the budgetary principle according to which all EU revenue and expenditure are forecast and authorised each year through the EU budget.
- **Universality** (budgetary principle) means that total revenue must cover total payment appropriations and that all revenue and expenditure must be entered in full without any adjustment against each other.

## Where does the money come from?

in % of total revenue



## EU budget – the composition of revenues: 2006 - 2009

EU-25			EU-27		
Revenues	2006		Revenues	2009	
	EUR million	% share		EUR million	% share
<b>A. EU direct revenues: trad. TOR</b>	<b>15028.3</b>	<b>13.86</b>	<b>A. EU direct revenues: trad. TOR</b>	<b>14528.2</b>	<b>12.35</b>
<i>Traditional own resources (TOR)</i>			<i>Traditional own resources (TOR)</i>		
Agricultural duties (100%)	1722.4	1.59	Agricultural duties (100%)	0.0	0.00
Sugar levies (100%)	202.1	0.19	Sugar levies (100%)	175.5	0.15
Customs duties (100%)	18113.1	16.71	Customs duties (100%)	19195.5	16.32
- Amounts (25%) retained as as TOR collection costs	-5009.4	-4.62	- Amounts (25%) retained as as TOR collection costs	-4842.7	-4.12
<b>B. EU-MS national contribution</b>	<b>87322.9</b>	<b>80.54</b>	<b>B. EU-MS national contribution</b>	<b>94378.7</b>	<b>80.24</b>
VAT-based own resource	17206.2	15.87	VAT-based own resource	12796.2	10.88
GNI-based own resource	70132.1	64.68	GNI-based own resource	81982.5	69.70
UK correction	-15.3	-0.01	UK correction	-321.1	-0.27
<i>(UK correction 2006: 5385.2)</i>			<i>(UK correction 2008: 5657.7)</i>		
JHA adjustment for Denmark, Ireland and the United Kingdom	0.0	0.00	JHA adjustment for Denmark, Ireland and the United Kingdom	5.7	0.00
			Restitution to Lump Sum for NL & SE	4.1	0.00
			Adjustment re-Implementation of the 2007 Won Resource Decision	-88.7	-0.08
<b>Total own resources: A+B</b>	<b>102351.2</b>	<b>94.40</b>	<b>Total own resources: A+B</b>	<b>108906.9</b>	<b>92.59</b>
<b>C. Other revenues:</b>	<b>6071.8</b>	<b>5.60</b>	<b>C. Other revenues:</b>	<b>8718.7</b>	<b>7.41</b>
Surplus from previous year	2410.1	2.22	Surplus from previous year	1796.2	1.53
Surplus from EAGGF-Guarantee	0.0	0.00	Surplus from EAGGF-Guarantee	0.0	0.00
Surplus external aid guarantee func	92.7	0.09	Surplus external aid guarantee fund	0.0	0.00
Other revenue	3569.0	3.29	Other revenue	6922.5	5.89
<b>Total revenue</b>	<b>108423.0</b>	<b>100.00</b>	<b>Total revenue</b>	<b>117625.6</b>	<b>108.49</b>
<i>in % of GNI (EU-25)</i>	<i>0.94</i>		<i>in % of GNI (EU-27)</i>	<i>1.00</i>	

Source: The European Union budget at a glance, European Commission, 2010 (appendix)

# UK correction (UK rebate)

---

- At Fontainebleau European Council in France on 25 and 26 June **1984**, the then 10 Member States (Germany, Belgium, Denmark, France, Greece, Ireland, Italy, Luxembourg, the Netherlands and the UK) agreed on the rebate to be granted to the UK to reduce its contribution to the EU budget (Prime Minister Margaret **Thatcher**)
- The current UK correction mechanism was **introduced in 1985** to correct the **imbalance** between the United Kingdom's share in payments to the EU budget and its share in EU expenditure. This mechanism has been modified on several occasions to compensate for changes in the system of EU budget financing, but the basic principles remain the same.
- The imbalance is **calculated** as the difference between the UK share in EU expenditure allocated to the Member States and in total VAT and GNI own resources payments. The difference in percentage points is multiplied by the total amount of EU expenditure allocated to the Member States. The **UK is reimbursed by 66 % of this budgetary imbalance**. The cost of the correction is borne by the other 26 Member States.
- ORD 2007 introduced **several changes** to the calculation of the amount of the UK correction:
  - The fixation of the rate of call of the VAT own resource at 0.30 % (as of 1 Jan 2007) and the **reduced rates temporarily granted to Germany, the Netherlands, Austria and Sweden** increase the amount of the UK correction.
  - It suppresses the adjustment related to pre accession expenditure from the 2013 UK correction (to be first budgeted in 2014) onwards.
  - An **adjustment related to expenditure in the new Member States** is introduced. From the 2008 UK correction (first budgeted in 2009) onwards, total allocated expenditure will be reduced by allocated expenditure in Member States which joined the EU after 30 April 2004, except for agricultural direct payments and market-related expenditure as well as that part of rural development expenditure originating from the EAGGF Guarantee Section. This reduction will be phased in progressively according to the following schedule: 20 % for the 2008 UK correction, 70 % for the 2009 UK correction and 100 % onwards. The additional contribution of the UK resulting from the above reduction may not exceed a **ceiling of EUR 10.5 billion**, in 2004 prices, during the period 2007–13. In the event of further enlargement between 2009 and 2013, this ceiling will be adjusted upwards accordingly.
- The total amount of the **UK correction paid in 2009**, pursuant to ORD 2007, amounted to **EUR 5 657.7 million**.

---

Source: EU budget 2009: Financial Report, European Commission, 2010, p. 61

National contribution by Member State and traditional own resources collected on behalf of the EU in 2009 (million EUR)

	VAT own resource	GNI own resource	UK correction	Reduction in GNI OR granted to NL and SE	Adjustment reimplementation of ORD 2007	Total national contribution			Traditional own resources (TOR), net (75 %)	Total own resources			
	(1)	(2) (*)	(3) (**)	(4) (**)	(5) (**)	(6)=(1)+(2)+ (3)+(4)+(5)	%	% GNI	(7)	(8)= (6)+(7)	%	% GNI	
R	BE	349.4	2 409.2	251.1	24.1	204.6	3 238.5	3.4	0.95	1 423.0	4 661.4	4.3	1.37
	BG	51.0	240.9	25.1	2.4	17.4	336.7	0.4	1.02	52.9	389.6	0.4	1.18
	CZ	170.0	860.8	95.4	9.2	71.9	1 207.3	1.3	0.94	166.8	1 374.1	1.3	1.06
	DK	274.9	1 599.7	172.8	16.9	143.8	2 208.1	2.3	0.96	282.8	2 490.9	2.3	1.09
R	DE	1 705.0	17 112.6	311.7	171.1	-1 736.4	17 564.0	18.6	0.72	2 945.9	20 509.9	18.8	0.84
	EE	19.9	94.0	10.9	1.0	8.7	134.5	0.1	1.00	24.0	158.5	0.1	1.18
	IE	201.4	947.4	106.6	10.0	91.6	1 357.0	1.4	1.02	176.6	1 533.6	1.4	1.16
	EL	328.3	1 578.5	184.1	16.9	126.2	2 234.0	2.4	0.97	190.8	2 424.8	2.2	1.05
	ES	1 527.9	7 211.7	762.2	73.7	592.5	10 168.1	10.8	0.99	1 001.8	11 169.9	10.3	1.08
	FR	2 545.6	13 629.3	1 451.2	137.7	1 096.2	18 830.0	20.0	0.97	1 263.0	20 093.0	18.4	1.04
	IT	1 378.6	10 395.4	1 082.8	106.5	949.4	13 912.7	14.7	0.93	1 505.4	15 418.1	14.2	1.03
	CY	24.8	117.6	12.5	1.2	8.8	165.0	0.2	0.99	34.5	199.4	0.2	1.20
	LV	22.5	147.5	14.0	1.4	11.7	197.2	0.2	0.98	18.5	215.6	0.2	1.07
	LT	41.8	202.6	18.8	2.0	16.7	282.0	0.3	1.06	40.3	322.3	0.3	1.21
	LU	41.1	194.5	21.5	2.0	16.9	276.0	0.3	1.06	10.8	286.7	0.3	1.11
	HU	113.2	589.1	56.5	6.1	51.1	816.0	0.9	0.93	92.9	908.9	0.8	1.04
R	MT	8.2	38.8	4.2	0.4	3.0	54.6	0.1	1.02	9.6	64.3	0.1	1.20
R	NL	264.2	3 992.0	92.9	-624.4	-2 108.7	1 615.9	1.7	0.29	1 721.1	3 337.0	3.1	0.60
R	AT	270.7	1 872.2	27.7	19.4	-31.0	2 159.0	2.3	0.79	156.9	2 315.8	2.1	0.85
	PL	427.6	2 031.9	208.7	21.1	146.1	2 834.5	3.0	0.94	299.5	3 133.9	2.9	1.04
	PT	227.7	1 078.0	113.1	11.1	89.1	1 519.1	1.6	0.97	117.6	1 636.7	1.5	1.04
	RO	156.6	902.1	89.7	8.7	61.0	1 218.0	1.3	1.07	124.3	1 342.3	1.2	1.18
	SI	53.9	256.1	27.2	2.5	19.0	358.8	0.4	1.04	68.8	427.7	0.4	1.24
	SK	77.0	463.1	46.3	4.7	36.9	628.0	0.7	1.00	83.6	711.6	0.7	1.14
R	FI	237.2	1 204.1	134.6	12.8	110.4	1 699.0	1.8	0.99	114.9	1 813.9	1.7	1.06
	SE	152.9	2 045.4	45.1	-148.7	-609.4	1 485.3	1.6	0.91	370.1	1 855.4	1.7	0.64
	UK	2 124.7	10 773.5	-5 657.7	115.3	523.7	7 879.6	8.3	0.49	2 232.0	10 111.6	9.3	0.63
	EU-27	12 796.2	81 988.2	-321.1	4.1	-88.7	94 378.7	100	0.80	14 528.2	108 906.9	100	0.93

R = reduced rates

Source: EU budget 2009: Financial Report, European Commission, 2010, p. 62

(\*) For simplicity of the presentation, the GNI-based own resource includes the JHA adjustment.  
 (\*\*) Totals for UK correction payments, GNI reduction granted to NL and SE and adjustment reimplementation of ORD 2007 are not equal to zero on account of exchange rate difference.

Surplus from previous year 1 796.2

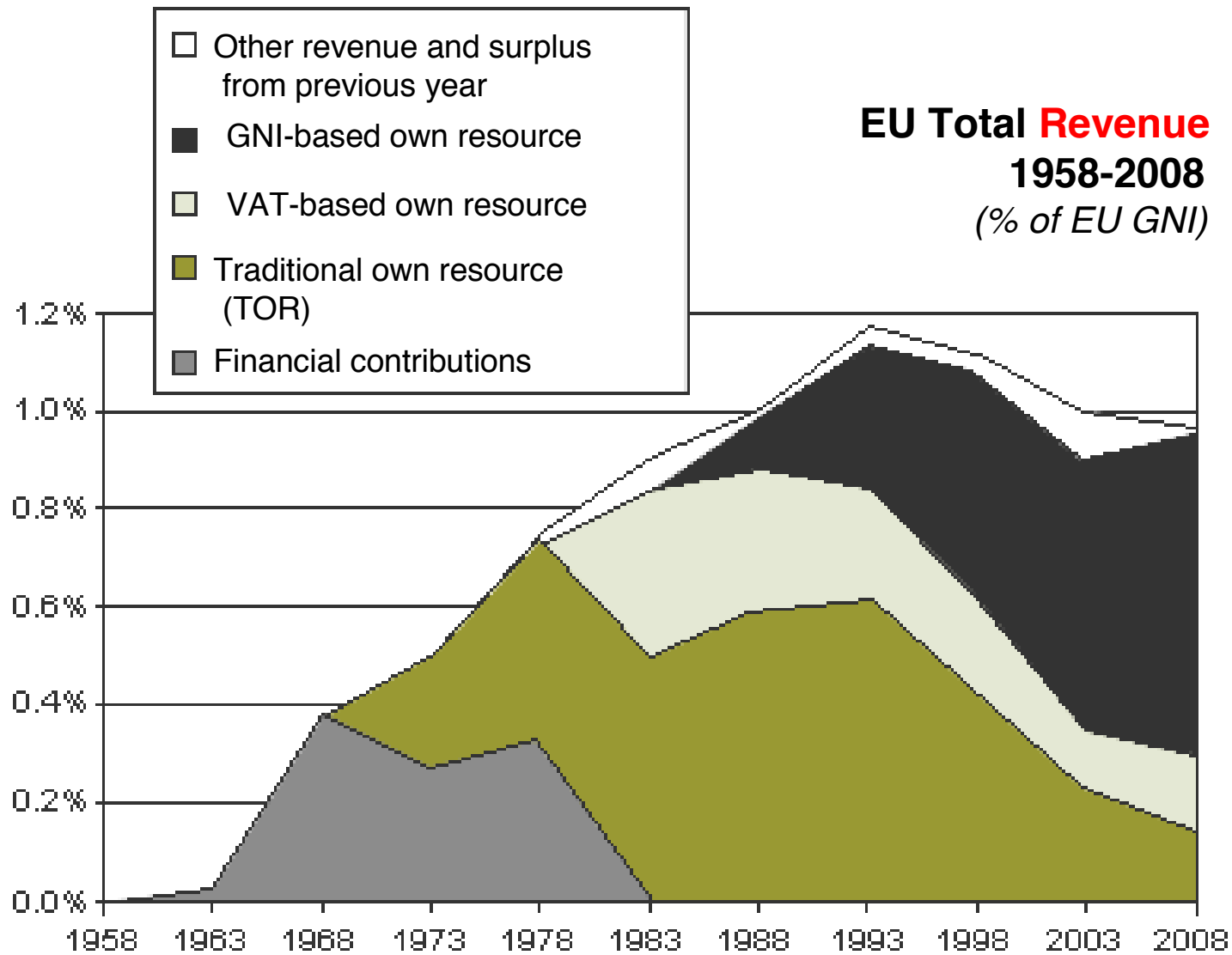
Surplus external aid guarantee fund 0.0

Other revenue 6 922.5

Total revenue 117 625.6

JHA = Justice and Home Affairs

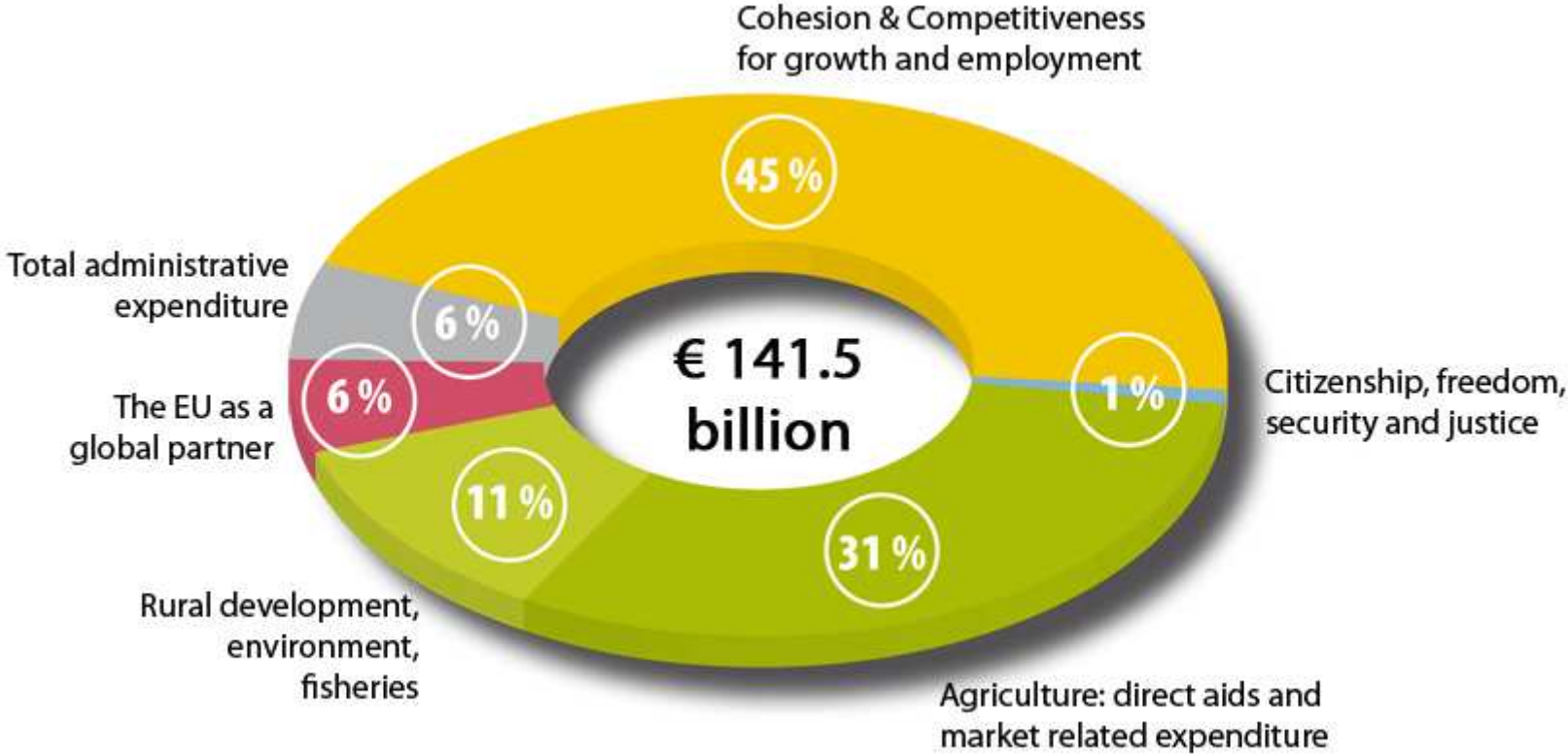
## Changes in financing the EU budget over time



Source: European Commission

# EU budget 2010

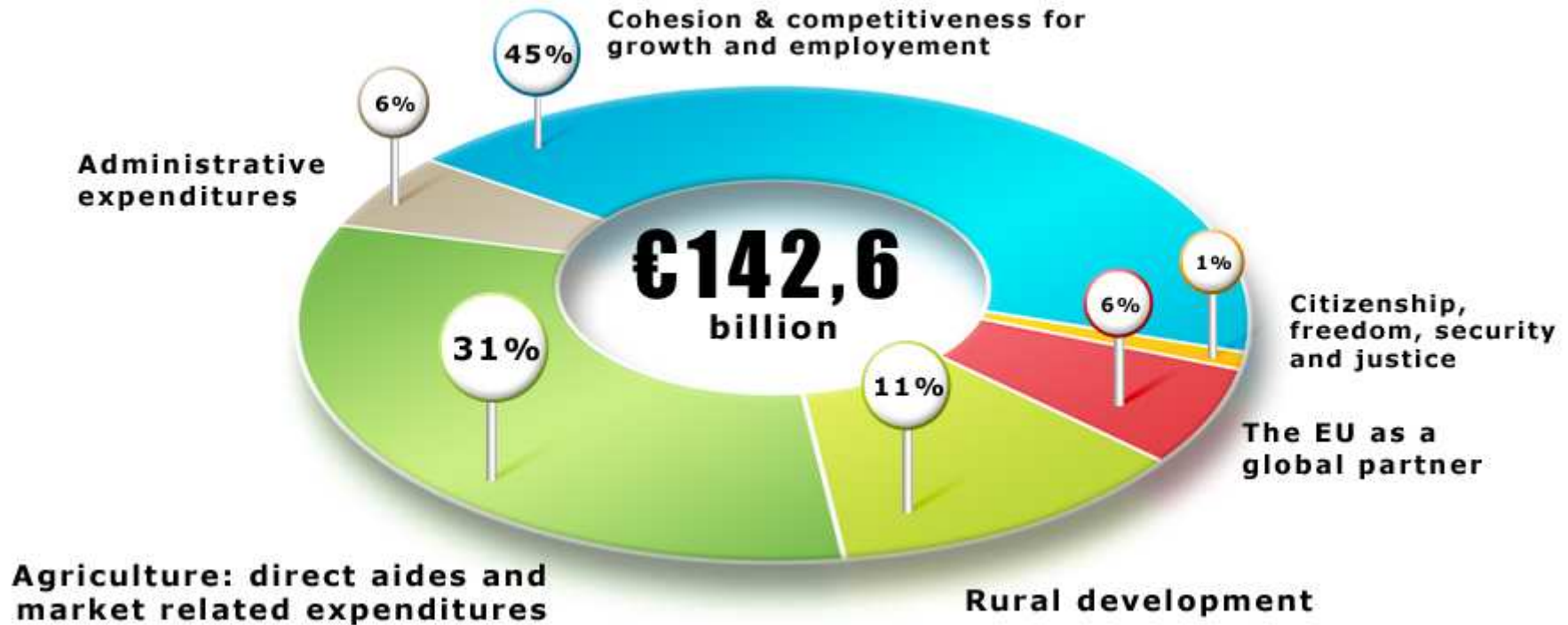
**Expenditure**



Source: [http://ec.europa.eu/budget/index\\_en.htm](http://ec.europa.eu/budget/index_en.htm)

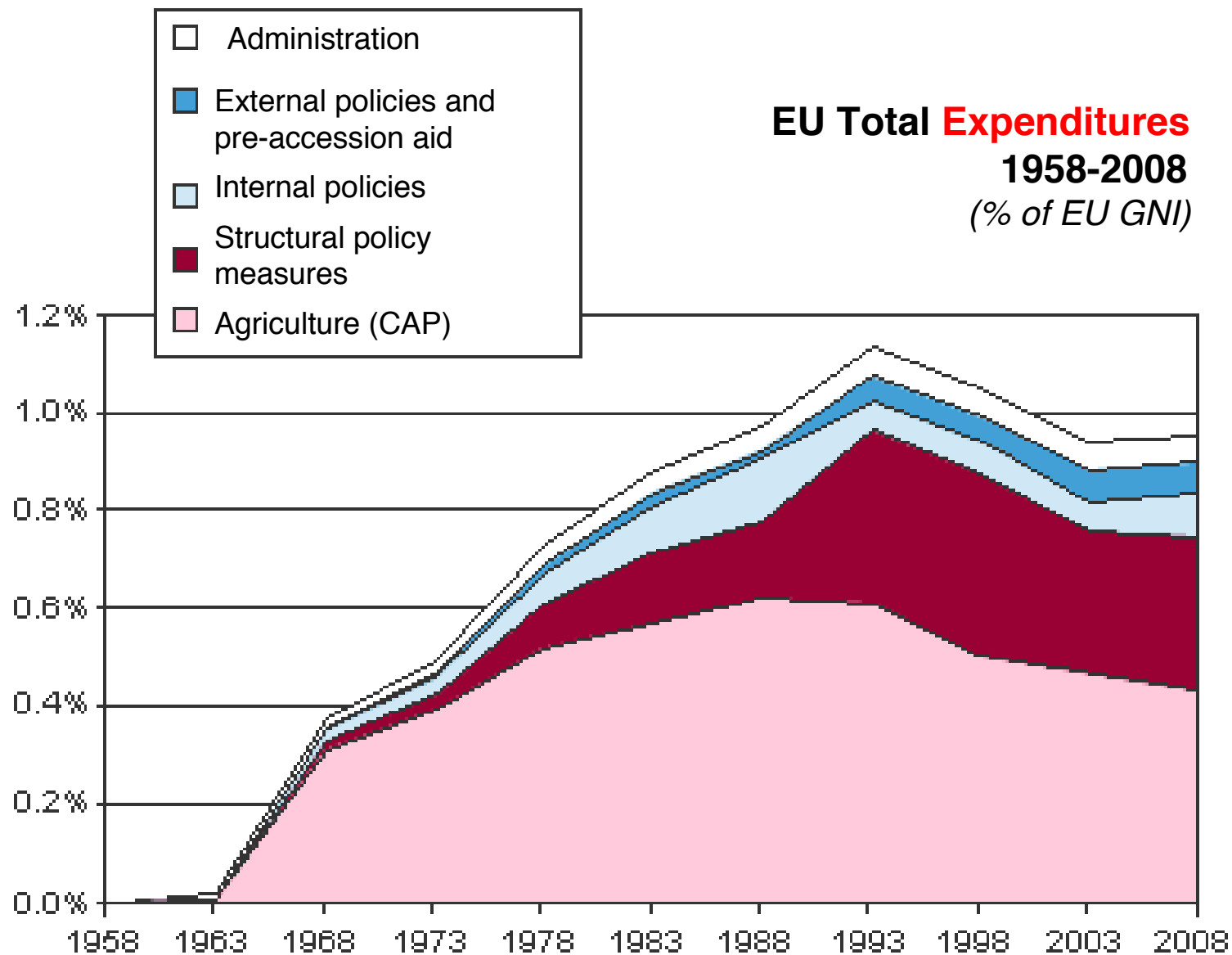
# EU draft budget 2011

## Expenditure



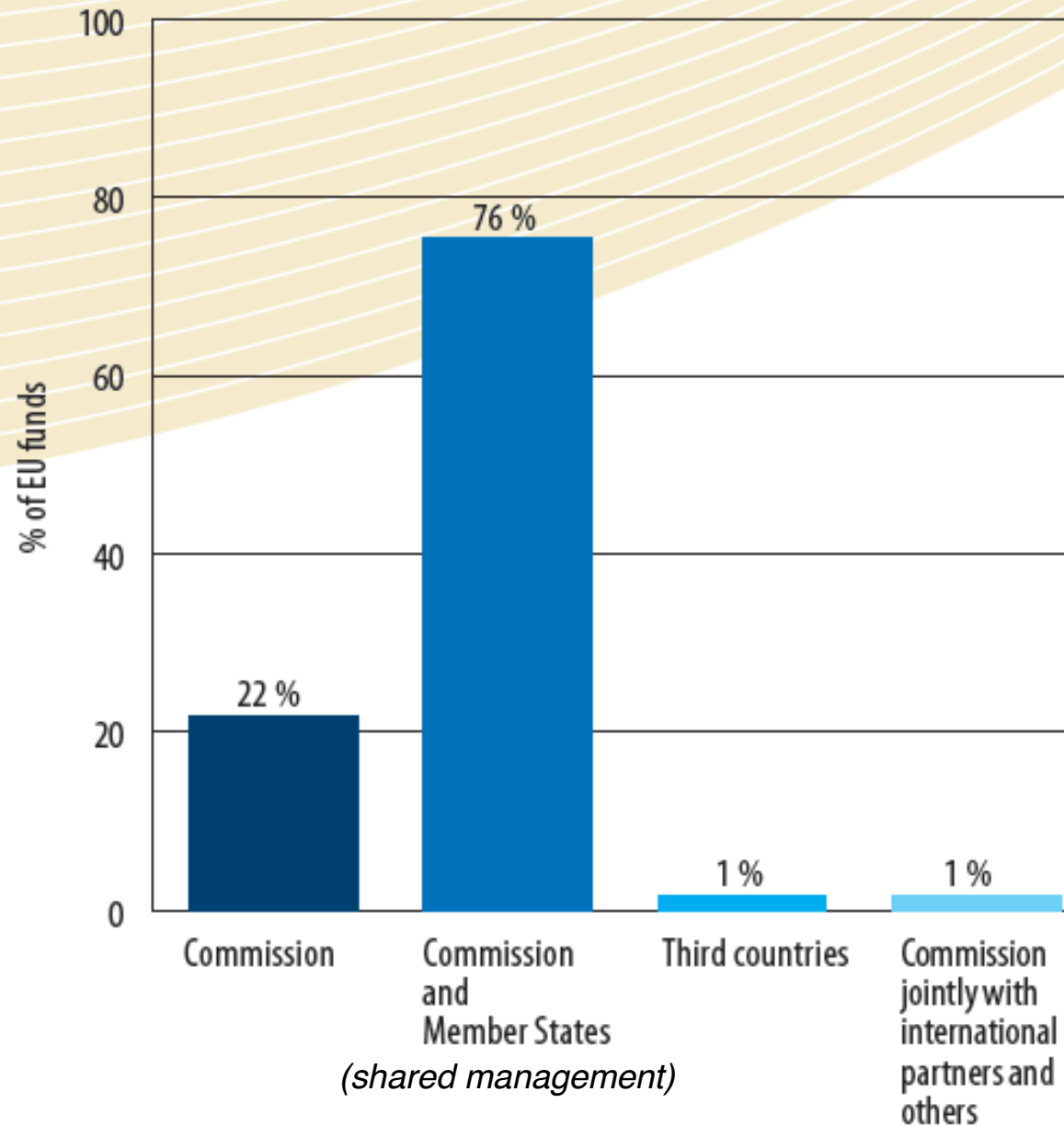
Source: [http://ec.europa.eu/budget/index\\_en.htm](http://ec.europa.eu/budget/index_en.htm)

## Changes in the structure of EU budget expenditures over time



Source: European Commission

## Who manages EU funds?

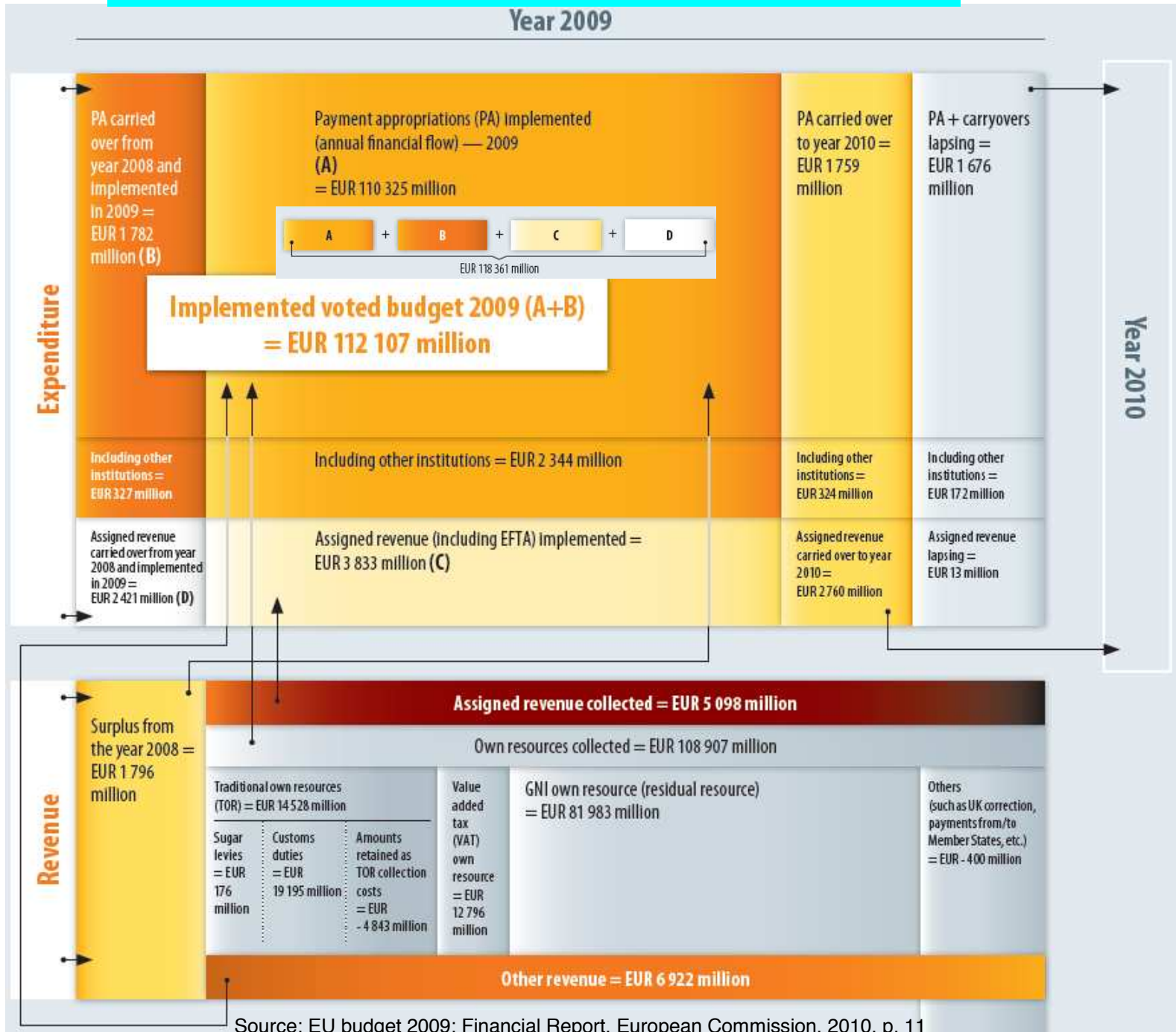


## **EU budget – change in structure of expenditures: 2006 - 2009** (Improvement via new labels?)

<b>Chapters</b>	<b>EU-25</b>		<b>Headings</b>	<b>EU-27</b>	
	<b>2006</b>			<b>2009</b>	
	EUR million	% share		EUR million	% share
<b>2. Structural Actions</b>	<b>32399.3</b>	<b>30.40</b>	<b>1. Sustainable Growth</b>	<b>44683.5</b>	<b>37.75</b>
Objectives 1 to 3			1.1 Competitiveness for growth+employment	10750.6	9.08
			1.2 Cohesion for growth and employment	33932.9	28.67
<b>1. Agriculture</b>	<b>49798.8</b>	<b>46.73</b>	<b>2. Preservation and Management of Natural Resources</b>	<b>55877.3</b>	<b>47.21</b>
<b>3. Internal Policies</b>	<b>9013.7</b>	<b>8.46</b>	<b>3. Citizenship, Freedom, Security and Justice</b>	<b>1993.0</b>	<b>1.68</b>
			3.1 Freedom, security and justice	684.5	0.58
			3.2 Citizenship	1308.5	1.11
<b>4. External Actions</b>	<b>5186.2</b>	<b>4.87</b>	<b>4. The EU as a global partner</b>	<b>7982.9</b>	<b>6.74</b>
<b>5. Administration</b>	<b>6699.7</b>	<b>6.29</b>	<b>5. Administration</b>	<b>7615.3</b>	<b>6.43</b>
<b>8. Compensations *)</b>	<b>1073.5</b>	<b>1.01</b>	<b>6. Compensations *)</b>	<b>209.1</b>	<b>0.18</b>
<b>6. Reserves</b>	<b>127.6</b>	<b>0.12</b>			
<b>7. Pre-accession Strategies</b>	<b>2276.7</b>	<b>2.14</b>			
<b>Total expenditure</b>	<b>106575.5</b>	<b>100.00</b>	<b>Total expenditure</b>	<b>118361.0</b>	<b>100.00</b>
<i>in % of GNI (EU-25)</i>	<i>0.92</i>		<i>in % of GNI (EU-27)</i>	<i>1.01</i>	
<b>Total expenditure (EU-25)</b>	<b>97413.4</b>	<b>91.40</b>	<b>Total expenditure (EU-27)</b>	<b>102821.2</b>	<b>96.48</b>
<i>in % of GNI (EU-25)</i>	<i>0.84</i>		<i>in % of GNI (EU-27)</i>	<i>0.87</i>	

\*) **Compensation** is a temporary measure ensuring that new Member States retain a positive budgetary balance during the first years after accession. New EU Member States start paying into the EU budget from the beginning but might not receive substantial amounts from it until some time later due to the fact that the programmes are implemented over a longer timeframe. Compensation is designed to bridge this temporary gap.

# Financial data structure of the European Union budget



**Financial framework 2007-2013 (adjusted according to the different revisions) - current prices. EUR million**

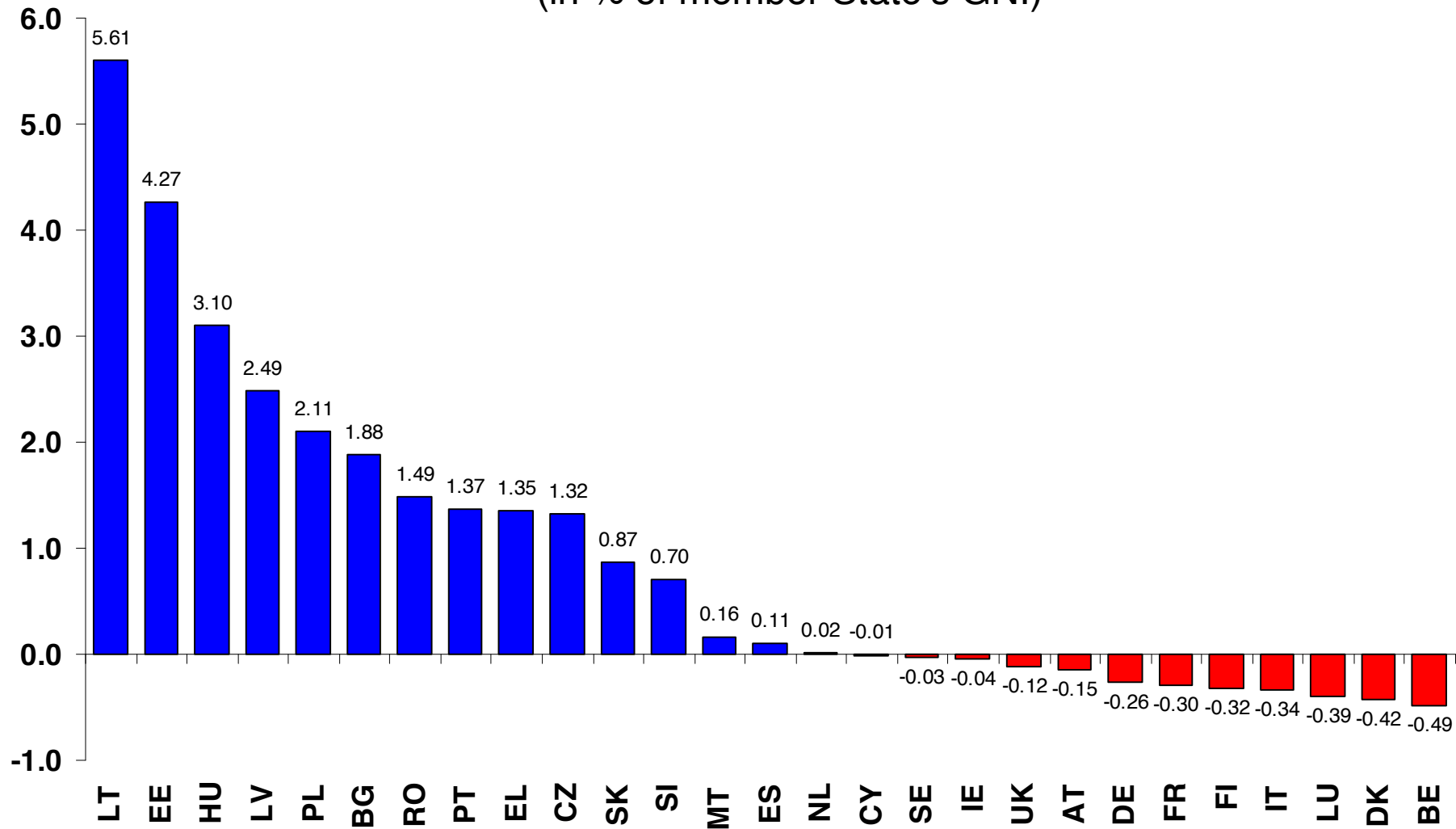
	2007	2008	2009	2010	2011	2012	2013	Total 2007-2013	% of total	
<b>Commitment appropriations</b>										
<b>1. Sustainable Growth</b>	<b>43,3</b>	<b>53.979</b>	<b>57.653</b>	<b>61.696</b>	<b>63.555</b>	<b>63.974</b>	<b>66.964</b>	<b>45,9 69.957</b>	<b>437.778</b>	<b>44,9</b>
<b>1a Competitiveness for Growth and Employment</b>	8,918	10,386	13,269	14,167	12,987	14,203	15,433	89,363	9,2	
<b>1b Cohesion for Growth and Employment</b>	45,061	47,267	48,427	49,388	50,987	52,761	54,524	348,415	35,7	
<b>2. Preservation and Management of Natural Resources</b>	<b>44,3</b>	<b>55.143</b>	<b>59.193</b>	<b>56.333</b>	<b>59.955</b>	<b>60.338</b>	<b>60.810</b>	<b>40,2 61.289</b>	<b>413.061</b>	<b>42,3</b>
of which: market related expenditure and direct payments	45,759	46,217	46,679	47,146	47,617	48,093	48,574	330,085	33,8	
<b>3. Citizenship, freedom, security and justice</b>	<b>1,0</b>	<b>1.273</b>	<b>1.362</b>	<b>1.518</b>	<b>1.693</b>	<b>1.889</b>	<b>2.105</b>	<b>1,6 2.376</b>	<b>12.216</b>	<b>1,3</b>
<b>3a Freedom, Security and Justice</b>	637	747	867	1,025	1,206	1,406	1,661	7,549	0,8	
<b>3b Citizenship</b>	636	615	651	668	683	699	715	4,667	0,5	
<b>4. EU as a global player</b>	<b>5,3</b>	<b>6.578</b>	<b>7.002</b>	<b>7.440</b>	<b>7.893</b>	<b>8.430</b>	<b>8.997</b>	<b>6,3 9.595</b>	<b>55.935</b>	<b>5,7</b>
<b>5. Administration<sup>1</sup></b>	<b>5,7</b>	<b>7.039</b>	<b>7.380</b>	<b>7.525</b>	<b>7.882</b>	<b>8.334</b>	<b>8.670</b>	<b>6,0 9.095</b>	<b>55.925</b>	<b>5,7</b>
<b>6. Compensations</b>	<b>0,4</b>	<b>445</b>	<b>207</b>	<b>210</b>			<b>0,0</b>	<b>862</b>	<b>0,1</b>	
<b>Total commitment appropriations</b>	<b>100,0</b>	<b>124.457</b>	<b>132.797</b>	<b>134.722</b>	<b>140.978</b>	<b>142.965</b>	<b>147.546</b>	<b>100,0 152.312</b>	<b>975.777</b>	<b>100,0</b>
as a percentage of GNI	1,02%	1,08%	1,16%	1,18%	1,16%	1,15%	1,14%	1,13%		
<b>Total payment appropriations</b>	<b>122.190</b>	<b>129.681</b>	<b>120.445</b>	<b>134.289</b>	<b>134.263</b>	<b>141.273</b>	<b>143.153</b>	<b>925.294</b>		
as a percentage of GNI	1,00%	1,05%	1,04%	1,12%	1,09%	1,10%	1,07%	1,07%		
Margin available	0,24%	0,19%	0,20%	0,11%	0,14%	0,13%	0,16%	0,16%		
<b>Own Resources Ceiling as a percentage of GNI</b>	<b>1,24%</b>	<b>1,24%</b>	<b>1,24%</b>	<b>1,23%</b>	<b>1,23%</b>	<b>1,23%</b>	<b>1,23%</b>	<b>1,23%</b>		

<sup>1</sup>The expenditure on pensions included under the ceiling for this heading is calculated net of the staff contributions to the relevant scheme, within the limit of € 500 million at 2004 prices for the period 2007-2013.  
Inter-institutional agreement (IIA): EP, Council and Commission, as of 14/06/2006

The own resources ceiling has been changed from 1.24% to 1.23% of EU GNI following the [Council Decision \(2010/196/EU, Euratom\)](#) of 16 March 2010 to allocate financial intermediation services indirectly measured (FISIM) for the purposes of the EU budget and its own resources. The [Communication on the adaptation of the ceilings](#) was adopted on 16 April 2010.

Source: [http://ec.europa.eu/budget/prior\\_future/fin\\_framework\\_en.htm](http://ec.europa.eu/budget/prior_future/fin_framework_en.htm)

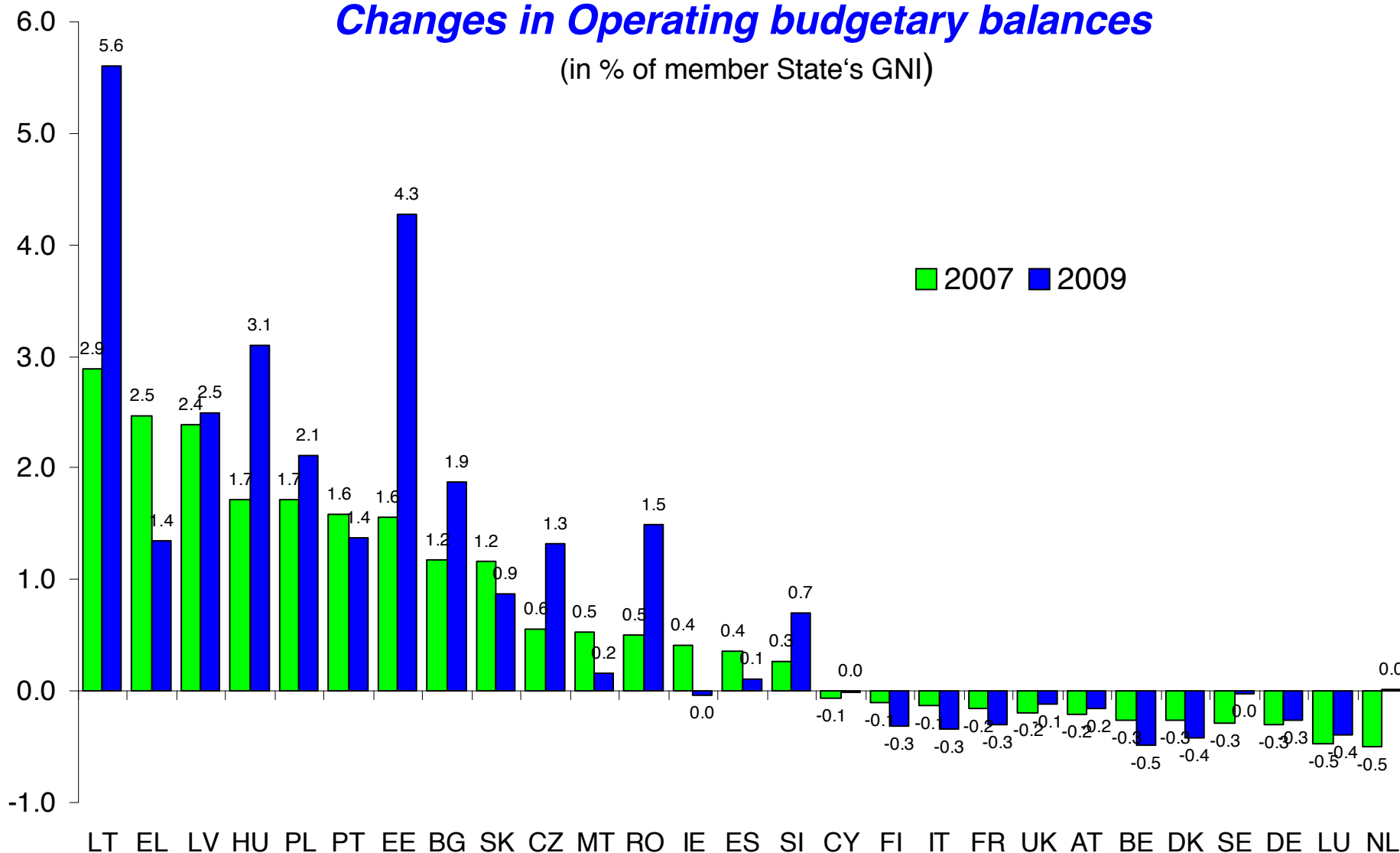
## 2009: EU budget: Operating budgetary balances (in % of member State's GNI)



Excluding EU administrative expenditure and Traditional Own Resources; i.e. Belgium and Luxembourg have a negative operating budgetary balance

Source: EU budget 2009: Financial Report, European Commission, 2010

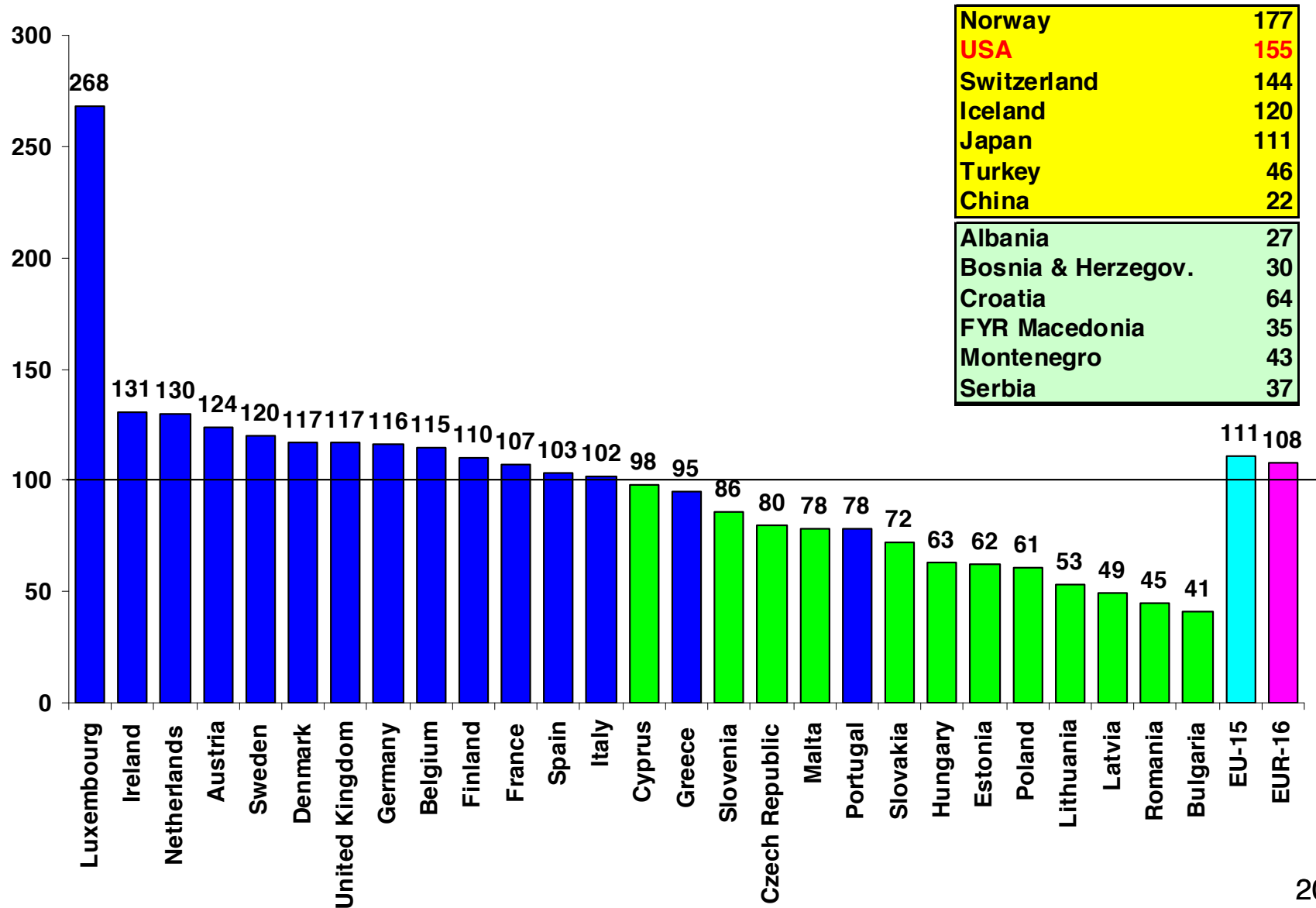
**2007/09: EU budget:**  
**Changes in Operating budgetary balances**  
 (in % of member State's GNI)



Excluding EU administrative expenditure and Traditional Own Resources; i.e. Belgium and Luxembourg have a negative operating budgetary balance

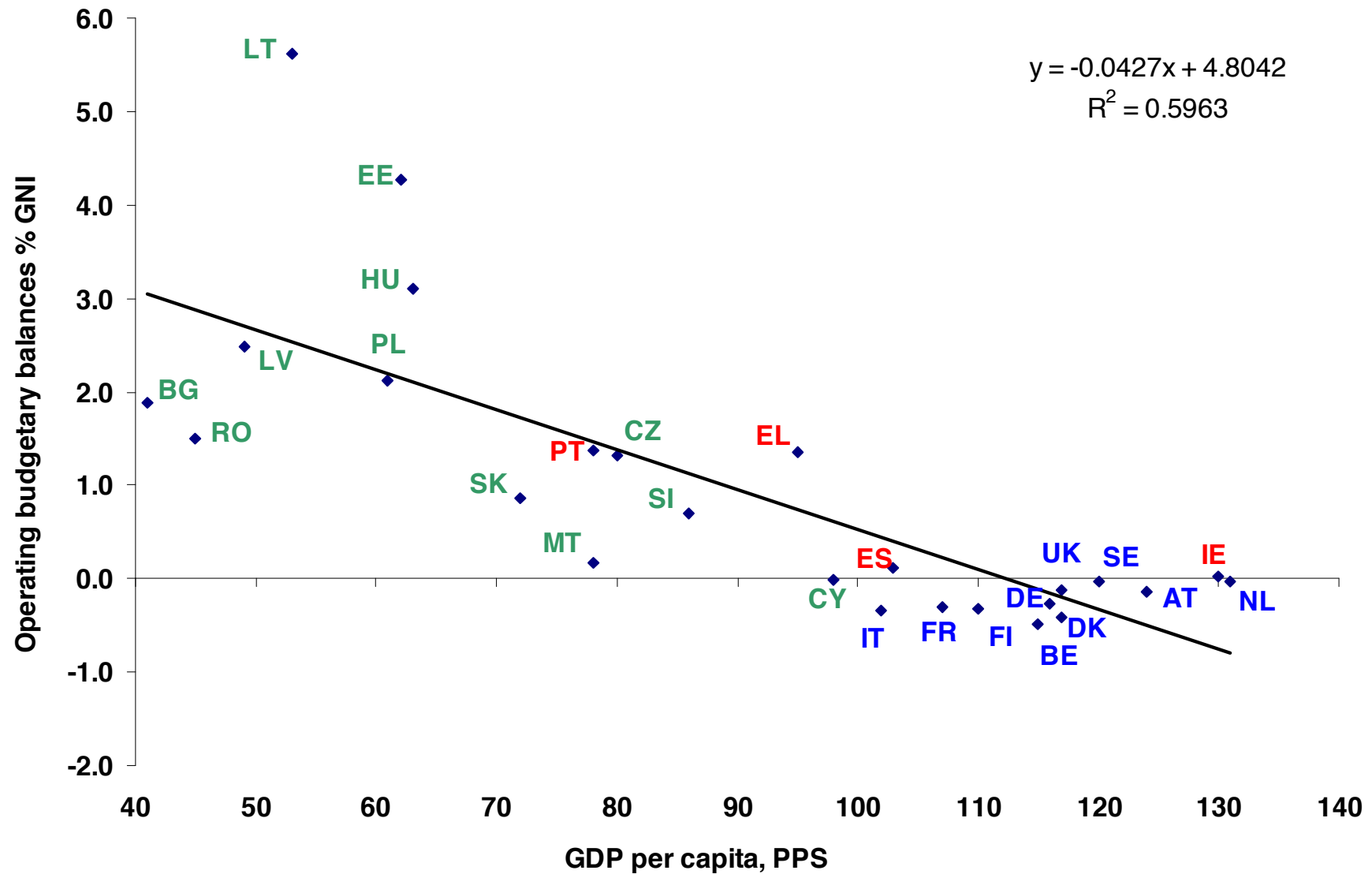
# GDP per capita - enlarged Union

(GDP pc, PPS, EU-27=100, 2009)



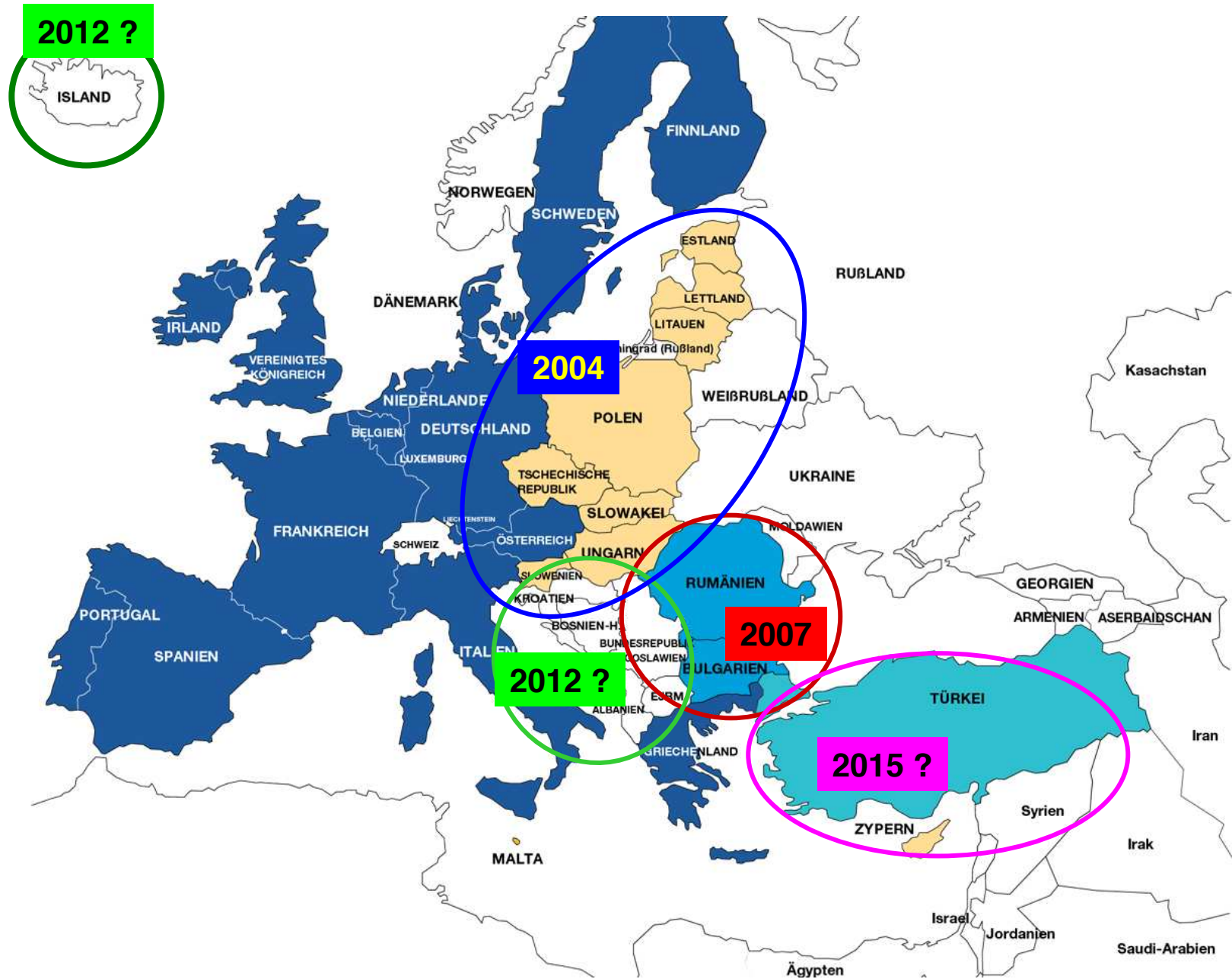
Norway	177
USA	155
Switzerland	144
Iceland	120
Japan	111
Turkey	46
China	22
Albania	27
Bosnia & Herzegov.	30
Croatia	64
FYR Macedonia	35
Montenegro	43
Serbia	37

# Redistribution of income by means of the EU budget (2009)



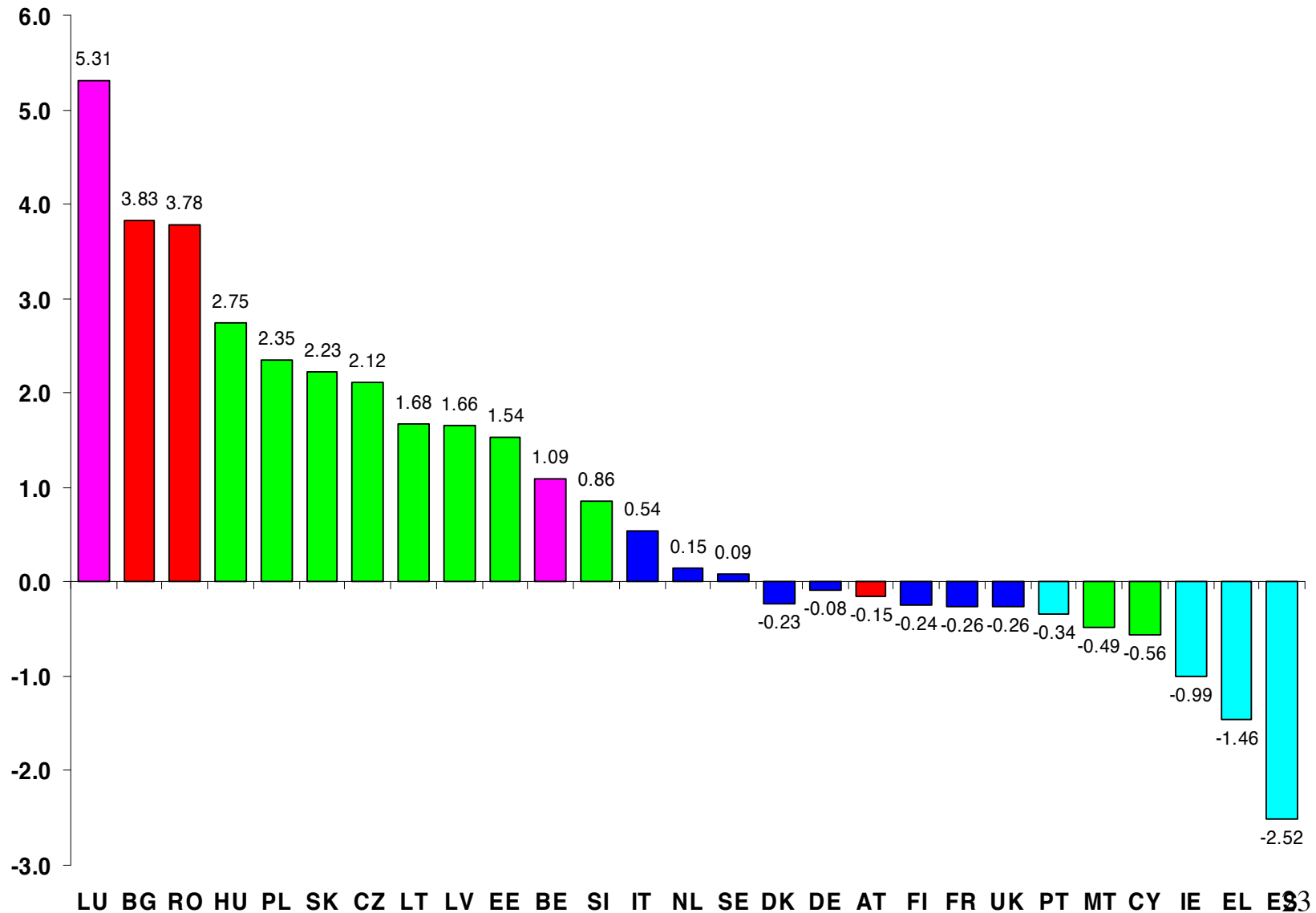
The Treaty on European Union (Lisbon Treaty) Article 3: **“The Union’s aim”**:  
*„It (,the Union‘) shall promote **economic, social and territorial cohesion**, and **solidarity** among Member States“.*

# Ongoing EU enlargement?



# Beneficiaries and losers (payers) of EU enlargement

(Changes of net payers/receivers position 2007-2013 compared to 1995-2005 in %-pts of GNI)



Source.: Own calculations based on data by the European Commission

# Though tiny, the **EU budget** is important in **3 areas**

---

- **„Lisbon strategy”** – *EU’s strategy for growth and jobs*
  - \* see EU budget, **heading 1a**: *„Competitiveness for growth & employment“*
  - **LS** = replaced by **„Europe 2020”**: A European strategy for smart, sustainable and inclusive growth (2010-2020) – *not yet budgetary provisions!!*
- **Regional policy**

Shared competence – EU/member states):

  - TEU, Article 3, TFEU Article 4 and Article 174 ff.
  - “economic, social and territorial cohesion”**
  - important impulses for the development of regions
  - \* see EU budget, **heading 1b**: *„Cohesion for growth & employment“*
- **Common agricultural policy (CAP – since 1962)**

Shared competence – EU/member states):

  - TFEU Article 4 and Article 38 ff.:
  - \* see EU budget, **heading 2**:  
*„Preservation and Management of Natural Resources“*

---

**Lisbon Treaty**, in power since 1 December 2009:

**TFEU** = Treaty on the Functioning of the European Union; **TEU** = Treaty on European Union;

**Lisbon Strategy** ----->  
**Europe 2020**

**What's new?**

<b>Long-run strategies</b>	<b>Objectives</b>	<b>Additional priorities</b>
<b>LS-2000</b> 2000-2010	Growth, jobs, international competitiveness, knowledge, social	Environment
<b>LS-2005</b>	Growth and jobs	Environment, good governance <u>3 dimensions:</u> <i>Economy, social welfare and environment</i>
<b>LS-2006</b> (new program cycle 2008-2010)	Growth and jobs	<b>“Global Europe”</b>
<b>Europe 2020</b> 2010-2020	Sustainable <b>“social market economy”</b> *) -----> <b>smart, sustainable and inclusive growth</b>	“European Knowledge Area” Successful exit from the crisis

\*) Art. 3(3) TEU (Treaty on European Union, *Lisbon Treaty*)

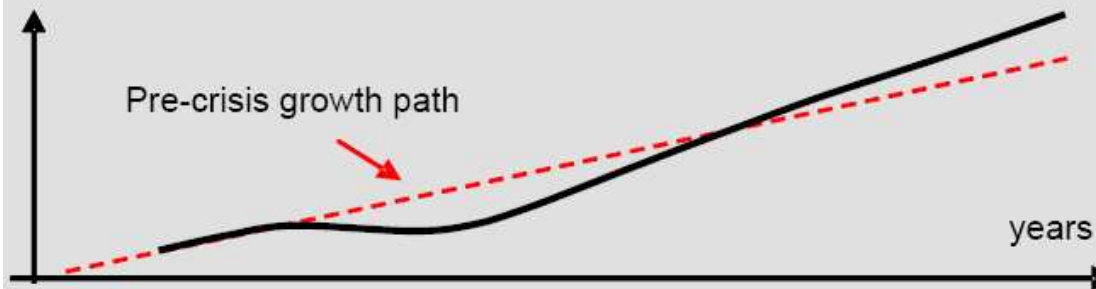
# Europe 2020

HEADLINE TARGETS		
<ul style="list-style-type: none"> <li>– Raise the employment rate of the population aged 20-64 from the current 69% to at least 75%.</li> <li>– Achieve the target of investing 3% of GDP in R&amp;D in particular by improving the conditions for R&amp;D investment by the private sector, and develop a new indicator to track innovation.</li> <li>– Reduce greenhouse gas emissions by at least 20% compared to 1990 levels or by 30% if the conditions are right, increase the share of renewable energy in our final energy consumption to 20%, and achieve a 20% increase in energy efficiency.</li> <li>– Reduce the share of early school leavers to 10% from the current 15% and increase the share of the population aged 30-34 having completed tertiary education from 31% to at least 40%.</li> <li>– Reduce the number of Europeans living below national poverty lines by 25%, lifting 20 million people out of poverty.</li> </ul>		
SMART GROWTH	SUSTAINABLE GROWTH	INCLUSIVE GROWTH
<p><i><b>INNOVATION</b></i></p> <p>EU flagship initiative "<b>Innovation Union</b>" to improve framework conditions and access to finance for research and innovation so as to strengthen the innovation chain and boost levels of investment throughout the Union.</p>	<p><i><b>CLIMATE, ENERGY AND MOBILITY</b></i></p> <p>EU flagship initiative "<b>Resource efficient Europe</b>" to help decouple economic growth from the use of resources, by decarbonising our economy, increasing the use of renewable sources, modernising our transport sector and promoting energy efficiency.</p>	<p><i><b>EMPLOYMENT AND SKILLS</b></i></p> <p>EU flagship initiative "<b>An agenda for new skills and jobs</b>" to modernise labour markets by facilitating labour mobility and the development of skills throughout the lifecycle with a view to increase labour participation and better match labour supply and demand.</p>
<p><i><b>EDUCATION</b></i></p> <p>EU flagship initiative "<b>Youth on the move</b>" to enhance the performance of education systems and to reinforce the international attractiveness of Europe's higher education.</p>	<p><i><b>COMPETITIVENESS</b></i></p> <p>EU flagship initiative "<b>An industrial policy for the globalisation era</b>" to improve the business environment, especially for SMEs, and to support the development of a strong and sustainable industrial base able to compete globally.</p>	<p><i><b>FIGHTING POVERTY</b></i></p> <p>EU flagship initiative "<b>European platform against poverty</b>" to ensure social and territorial cohesion such that the benefits of growth and jobs are widely shared and people experiencing poverty and social exclusion are enabled to live in dignity and take an active part in society.</p>
<p><i><b>DIGITAL SOCIETY</b></i></p> <p>EU flagship initiative "<b>A digital agenda for Europe</b>" to speed up the roll-out of high-speed internet and reap the benefits of a digital single market for households and firms.</p>		

## Three scenarios for Europe by 2020

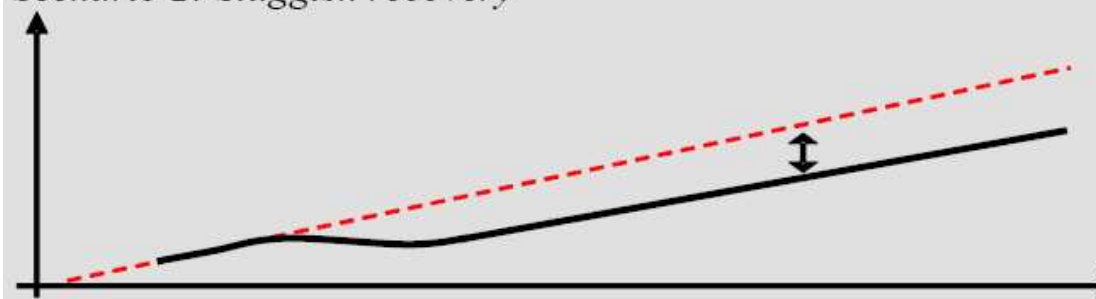
### *Scenario 1: Sustainable recovery*

Output level



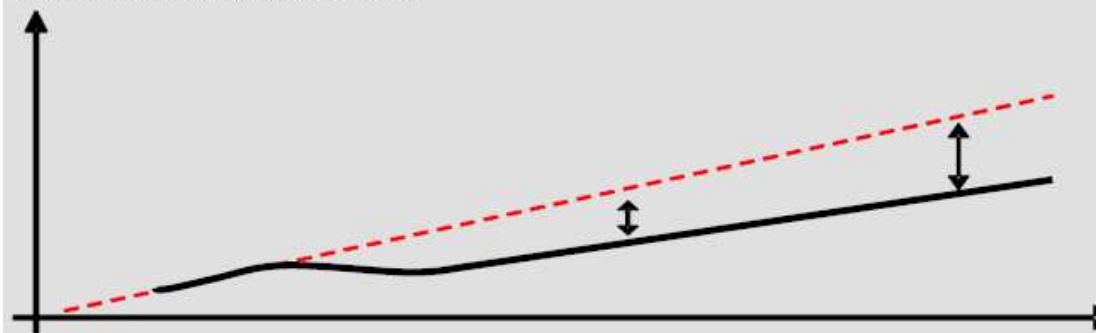
*Europe is able to make a full return to earlier growth path and raise its potential to go beyond*

### *Scenario 2: Sluggish recovery*



*Europe will have suffered a permanent loss in wealth and start growing again from this eroded basis*

### *Scenario 3: Lost decade*



*Europe will have suffered a permanent loss in wealth and potential for future growth*

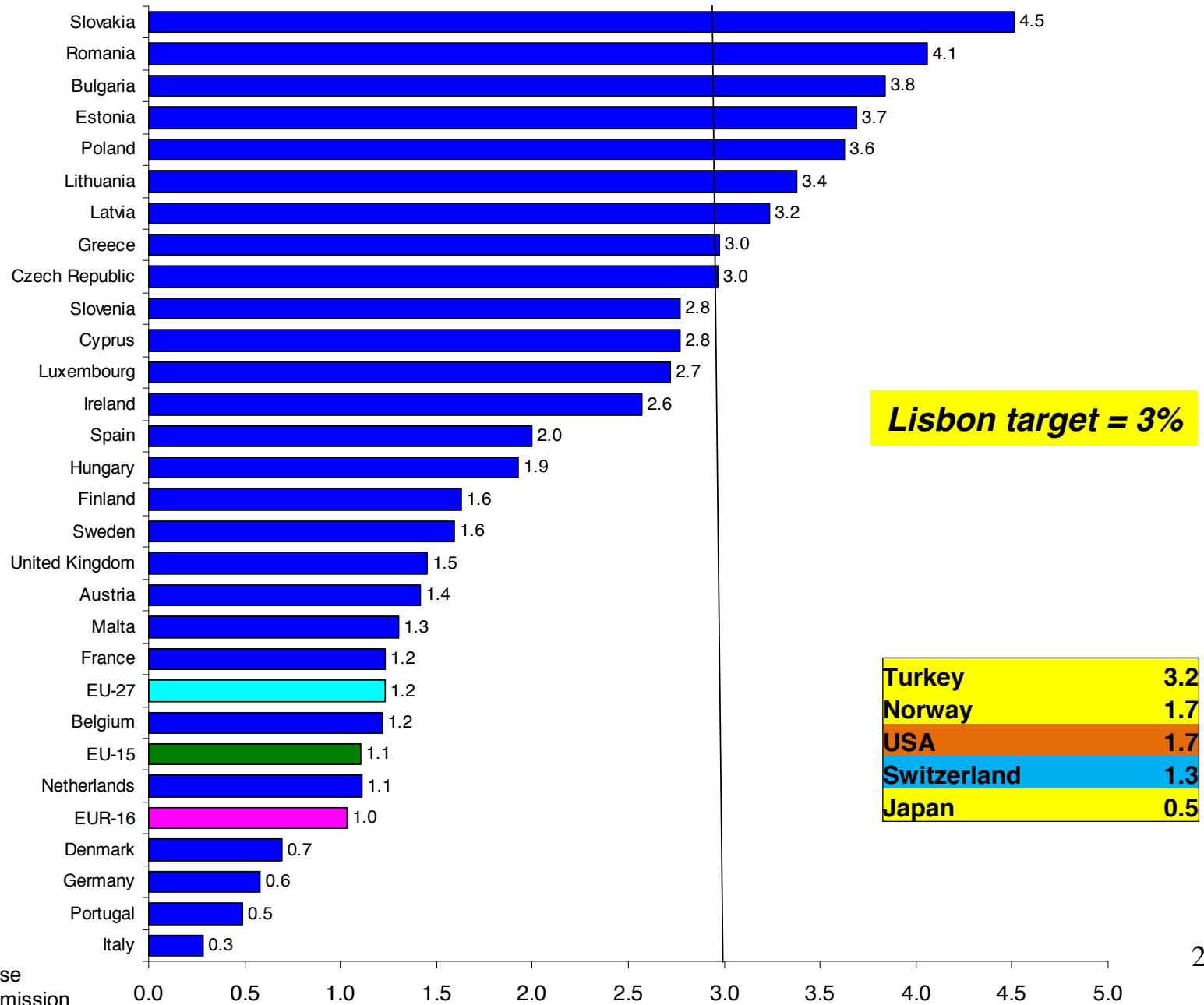
## Macroeconomic effects of structural reform scenarios

		Phasing in over 5 years				
		S1	S2	S3	S4	S5
GDP	Knowledge and innovation	0.0	0.1	0.4	-0.1	0.6
	Product markets	0.9	0.9	1.7	3.3	3.3
	Labour markets	0.4	0.5	1.3	2.9	2.9
	<b>SUM</b>	<b>1.3</b>	<b>1.6</b>	<b>3.5</b>	<b>6.2</b>	<b>6.8</b>
Employment	Knowledge and innovation	0.0	0.0	0.1	0.1	0.1
	Product markets	-0.1	-0.1	0.1	0.1	0.1
	Labour markets	0.6	0.9	2.1	4.3	4.3
	<b>SUM</b>	<b>0.6</b>	<b>0.9</b>	<b>2.3</b>	<b>4.5</b>	<b>4.6</b>
Unemployment rate	Knowledge and innovation	0.0	0.0	-0.1	-0.1	-0.1
	Product markets	0.0	0.0	-0.1	-0.1	-0.1
	Labour markets	-0.7	-1.1	-2.3	-4.6	-4.6
	<b>SUM</b>	<b>-0.6</b>	<b>-1.0</b>	<b>-2.4</b>	<b>-4.7</b>	<b>-4.8</b>
Current account (% of GDP)	Knowledge and innovation	-0.1	-0.2	-0.4	-0.3	-0.9
	Product markets	0.2	0.2	0.6	0.8	0.8
	Labour markets	0.0	0.0	0.1	0.2	0.2
	<b>SUM</b>	<b>0.1</b>	<b>0.0</b>	<b>0.3</b>	<b>0.7</b>	<b>0.1</b>
R&D intensity (% of GDP)	Knowledge and innovation	0.1	0.3	0.5	0.4	1.2
	Product markets	0.0	0.0	0.1	0.1	0.1
	Labour markets	0.0	0.0	0.0	0.0	0.0
	<b>SUM</b>	<b>0.1</b>	<b>0.3</b>	<b>0.6</b>	<b>0.5</b>	<b>1.3</b>
Gov. balance (% of GDP)	Knowledge and innovation	0.0	-0.5	-1.2	-0.1	-2.2
	Product markets	0.5	0.5	1.8	2.5	2.5
	Labour markets	0.4	0.5	1.3	2.8	2.8
	<b>SUM</b>	<b>0.9</b>	<b>0.6</b>	<b>1.9</b>	<b>5.3</b>	<b>3.2</b>
Gov. debt (% of GDP)	Knowledge and innovation	0.0	2.5	6.3	0.0	11.2
	Product markets	-3.2	-3.2	-10.1	-15.6	-15.6
	Labour markets	-1.2	-1.4	-4.6	-10.1	-10.1
	<b>SUM</b>	<b>-4.4</b>	<b>-2.1</b>	<b>-8.5</b>	<b>-25.7</b>	<b>-14.5</b>

S1: Limited „costless“ reform; S2: Limited reform; S3: Medium reform; S4: Advanced „costless“ reform; S5: Advanced reform

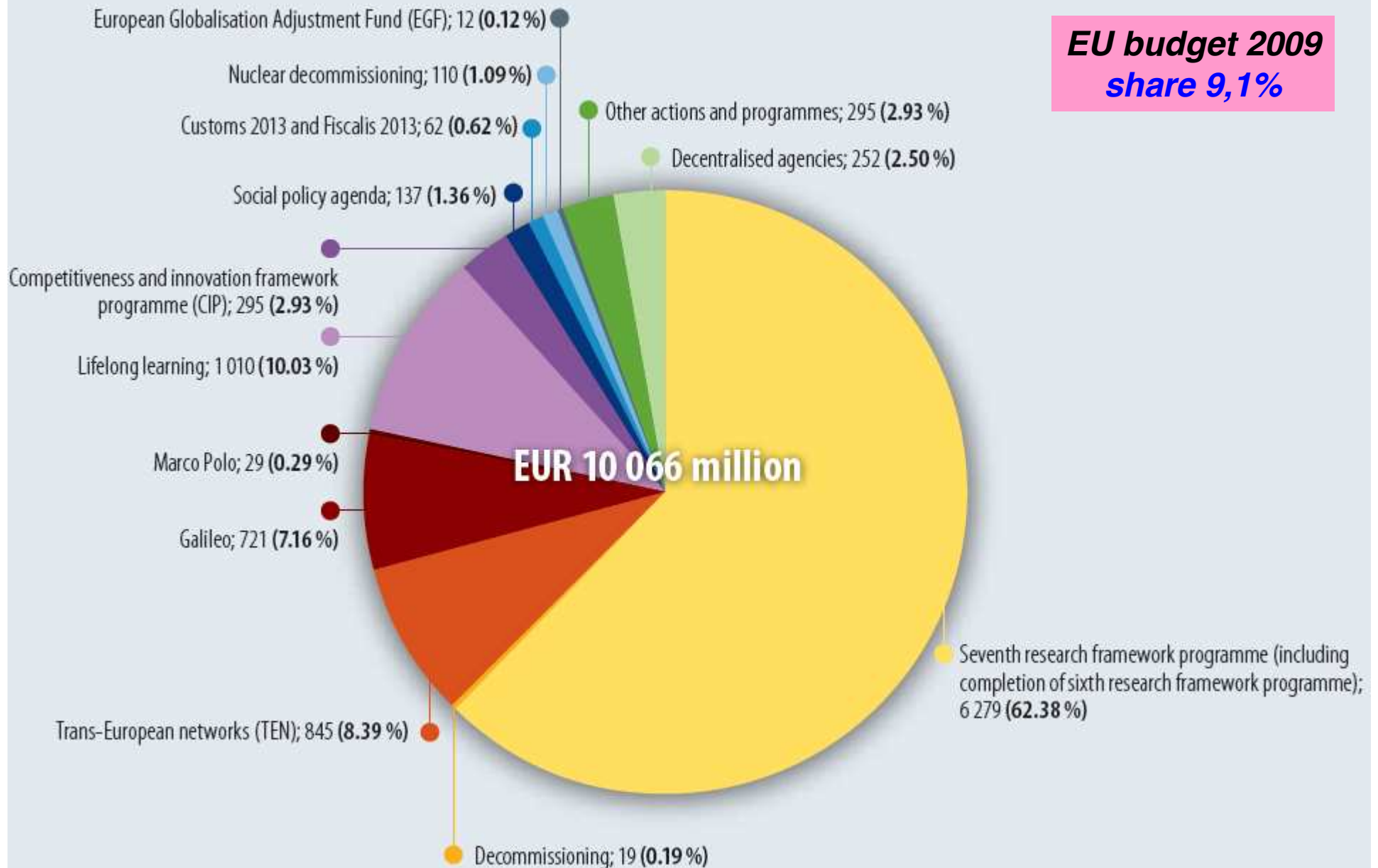
# Lisbon growth targets not realized, 2000-2010

(GDP, real, average annual rates of growth in %)



Source:  
Ameco data base  
European Commission

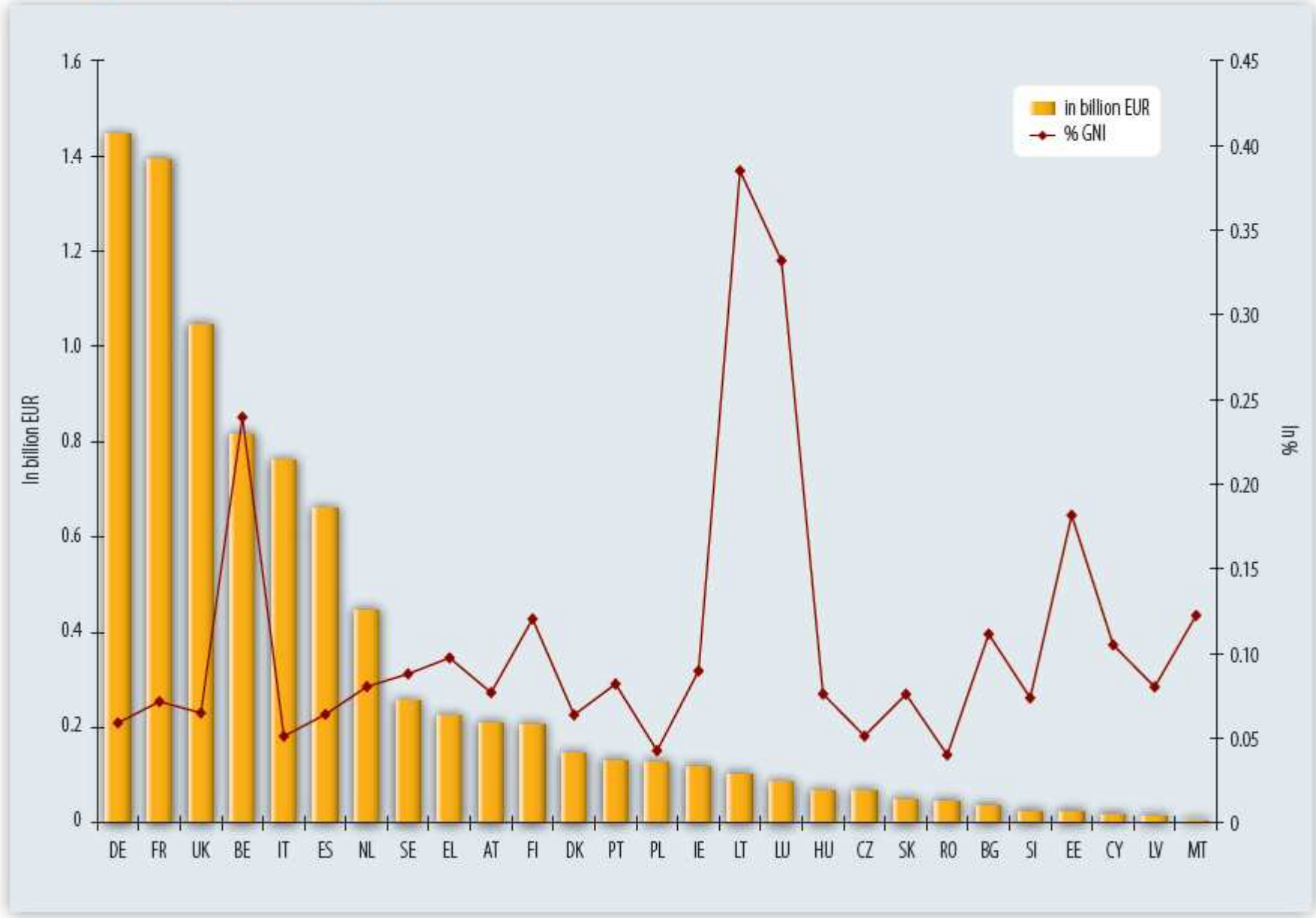
## Lisbon targets: Heading 1a: Competitiveness for Growth & Employment



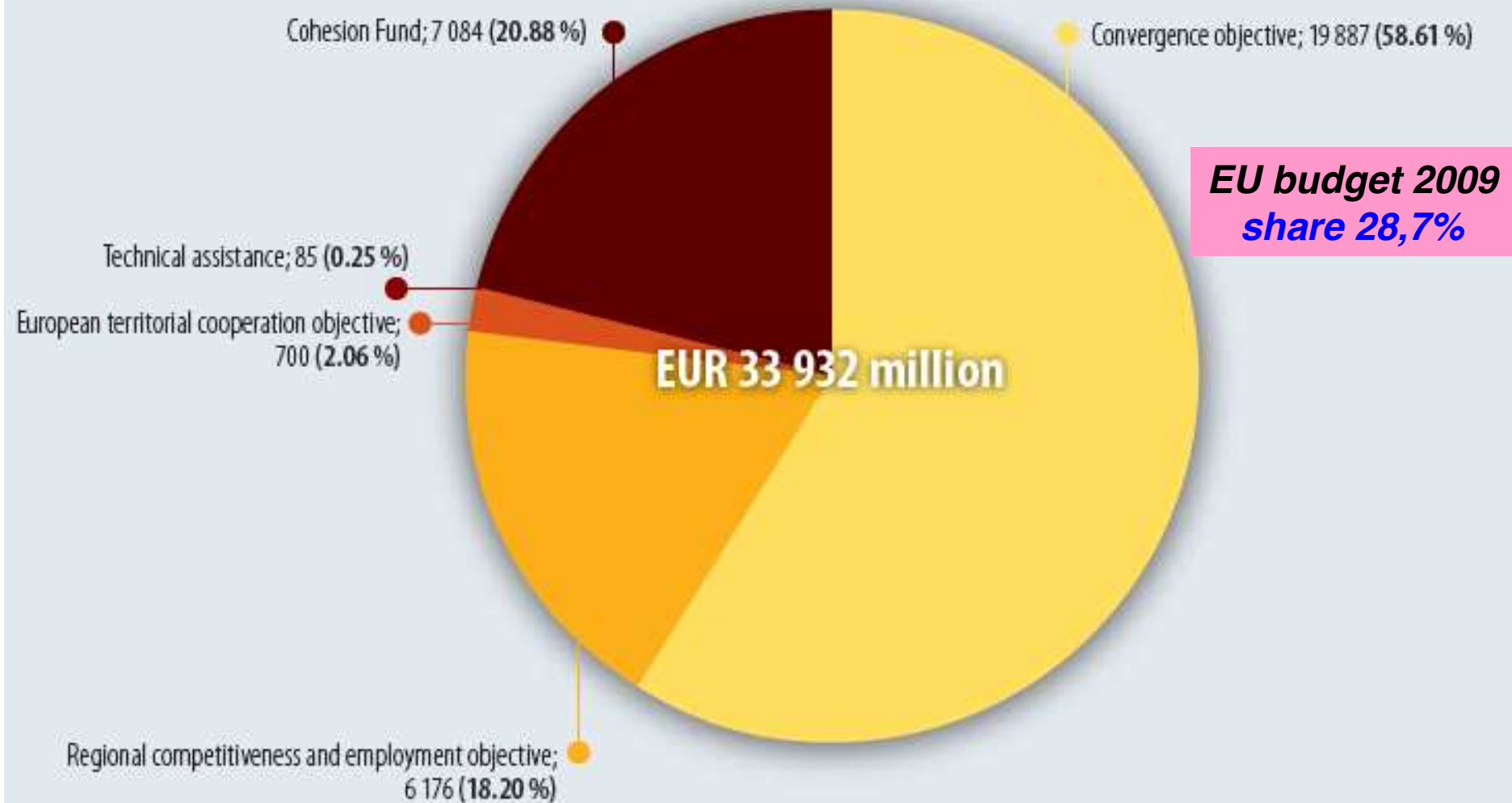
# Heading 1a — Expenditure by Member State

*Lisbon targets*

*EU budget 2009*



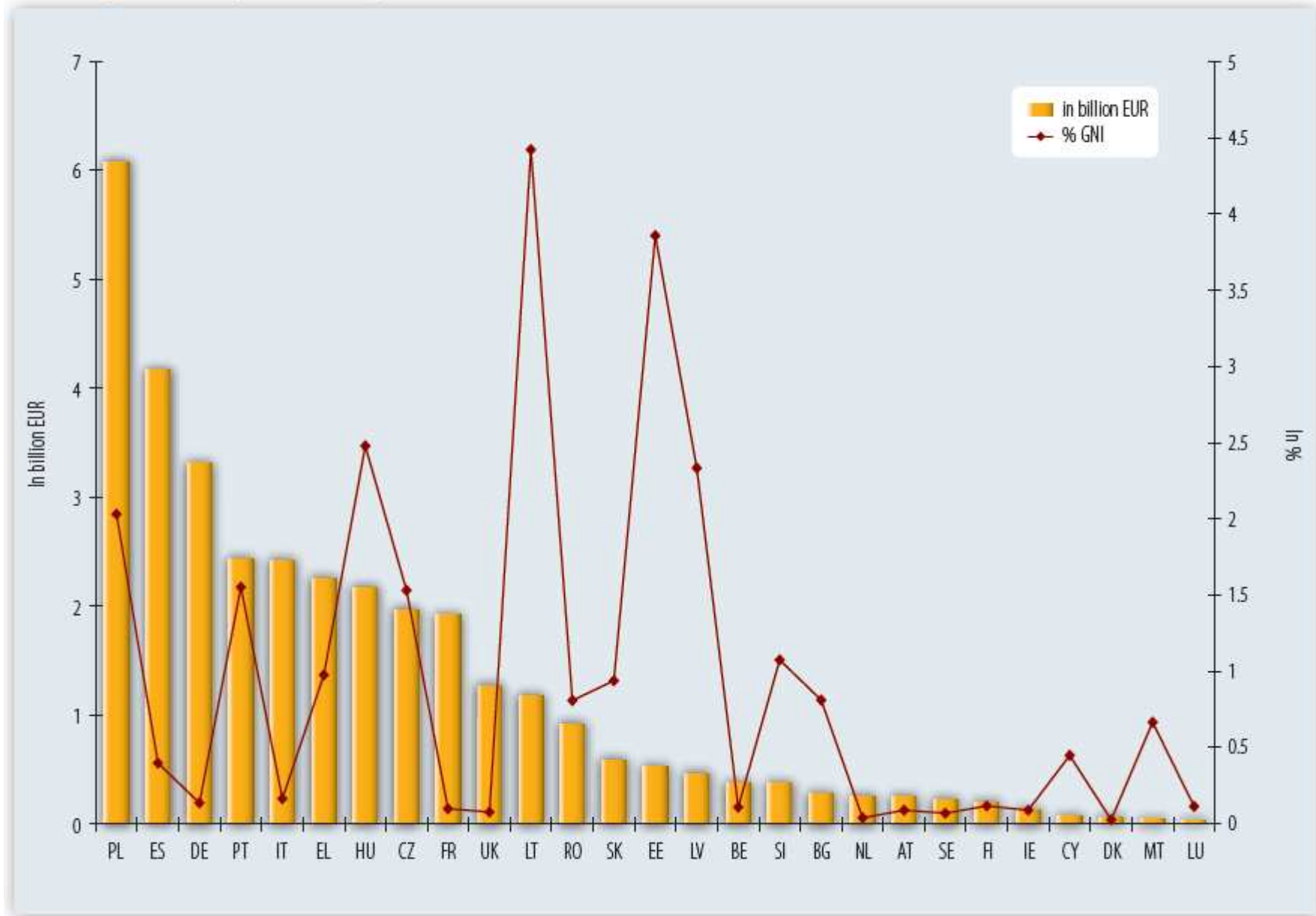
**Regional policy: Heading 1b: Cohesion for Growth & Employment**



# Heading 1b — Expenditure by Member State

## Regional policy

## EU budget 2009



# ***Changes in EU's regional policy due to Enlargement***

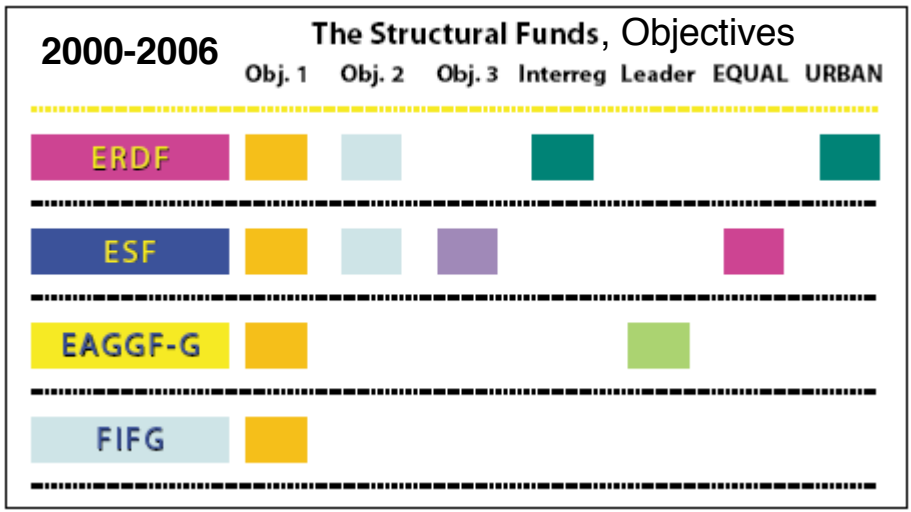
---

- ***Agenda 2000*** (since 3/1999) – Financial framework 2000-2006
- ***Change in architecture*** of regional policy (3 main objectives) – Financial framework 2007-2013
- ***Consequences of ceiling*** on EU income (own resources): less than ***1.24% of GNI***:
  - > ***redistribution of budgetary flows***: from the old „cohesion countries“ (EL, ES, IR, PT) to the new „poor“ new MS in Eastern Europe.
  - > ***redirection of FDI flows*** within Europe  
(see Breuss, Egger, Pfaffermayr, 2010)
- ***Macroeconomic implications*** of EU regional/cohesion policy in model simulations (QUEST + HERMIN)

# Change in the architecture of EU Cohesion Policy: 2000-2006 and 2007-2013

Financial framework 2000-2006  
(EU25 total: EUR, bio: 235,1 (Prices 1999))

Financial framework 2007-2013  
(EU27 total: EUR, bio: 348,4 (current prices))



**Objectives, Structural Funds and instruments  
2007-2013**

Objectives	Structural Funds and instruments		
Convergence	ERDF	ESF	Cohesion Fund
Regional Competitiveness and Employment	ERDF	ESF	
European Territorial Cooperation	ERDF		

- ERDF = European Regional Development Fund
- ESF = European Social Fund
- EAGGF-G = European Agricultural Guidance and Guarantee Fund - Guidance Section
- FIFG = Financial Instrument for Fisheries Guidance

# The economic impact of structural policies in model simulations

(QUEST and HERMIN)

---

- The **four EU15 Cohesion countries** together with the Italian Mezzogiorno and the Eastern German Länder received a total of EUR 147.2 billion (**0.8% of GDP**) from the Structural Funds (the ESF, EAGGF, FIFG and ISPA as well as the ERDF) together with the Cohesion Fund for the 2000-2006 programming period;  
Portugal received the largest sum relative to its GDP (1.5%), followed by Greece (1.3%) and the Mezzogiorno (1.1%), Germany (0.7%), Spain (0.6%), while Ireland received the smallest sum (0.3%).
  - **EU10** countries (since 2004 new EU-MS) received EUR 22.1 billion (0.4% of GDP)
-

**Cumulative effect of Structural Funds on GDP  
in major recipient economies, 2000-15**

*GDP in end year as a % of GDP in absence of cohesion policy*

	HERMIN				QUEST			
	2000-09	2000-11	2000-13	2000-15	2000-09	2000-11	2000-13	2000-15
Ireland	7.47	8.29	9.01	9.67	1.95	2.97	4.04	5.17
Greece	15.89	17.07	17.96	18.74	12.99	17.83	23.10	28.60
Spain	16.67	17.77	18.53	19.18	9.50	12.74	16.26	19.98
Portugal	16.75	18.23	19.54	20.75	15.69	21.33	27.41	33.70
Mezzogiorno	10.37	10.71	11.41	12.13				
E. Germany	5.16	5.51	5.86	6.20				
EU4	15.63	16.75	17.58	18.31	9.80	13.30	17.09	21.07
Czech Republic	3.74	4.54	5.20	5.79	1.40	2.20	3.03	3.87
Estonia	6.63	7.95	9.07	10.07	3.52	5.10	6.73	8.32
Cyprus	0.68	0.77	0.83	0.88	0.13	0.30	0.49	0.69
Latvia	6.71	7.86	8.79	9.58	11.65	16.98	22.42	27.85
Lithuania	7.58	8.89	9.95	10.88	7.67	11.12	14.83	18.70
Hungary	6.91	7.70	8.28	8.78	3.08	4.62	6.28	8.02
Malta	2.52	3.00	3.44	3.84	0.68	1.31	1.97	2.65
Poland	4.46	5.48	6.37	7.17	4.98	8.06	11.31	14.67
Slovenia	1.17	1.35	1.50	1.64	0.84	1.32	1.80	2.27
Slovakia	4.29	5.11	5.83	6.49	2.32	3.49	4.72	5.99
EU10	4.57	5.45	6.19	6.85	3.71	5.79	7.97	10.22

Source: Ex-Post Evaluation of Cohesion Policy programmes 2000-06 co-financed by the ERDF (Objective 1 & 2), Synthesis (Evaluation) Report, European Union, Cohesion Policy, Brussels, Commission, April 2010, p. 117

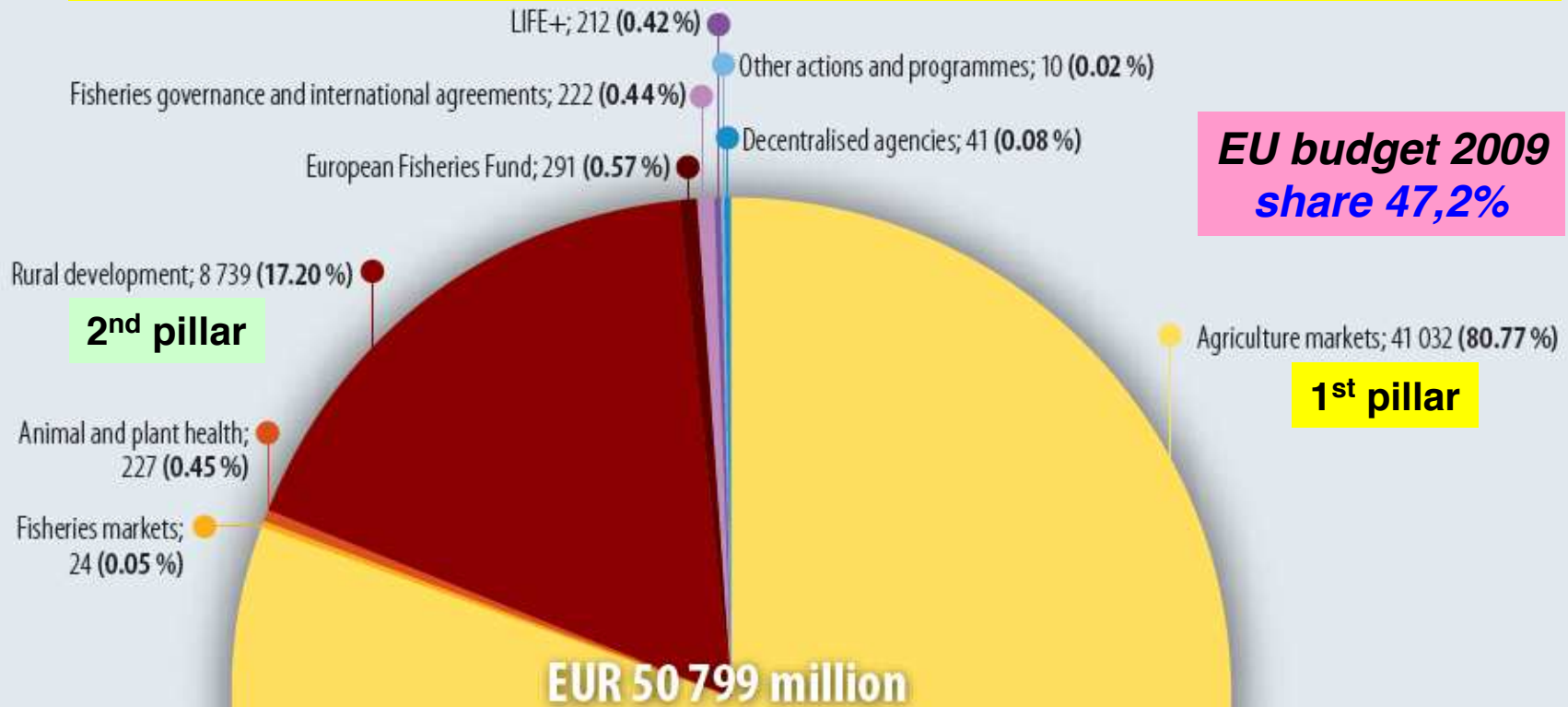
**Cumulative net effect of cohesion policy on GDP  
according to QUEST, 2000-2006**

*GDP in end year as a % of GDP in absence of cohesion policy*

	2000-09	2000-15	2000-20
Germany	0.6	2.1	3.6
Ireland	2.0	5.2	8.1
Greece	13.0	28.6	42.9
Spain	9.5	20.0	29.8
Italy	1.1	2.8	3.9
Portugal	15.7	33.7	49.7
Czech Republic	1.4	3.9	6.0
Estonia	3.5	8.3	12.0
Cyprus	0.1	0.7	1.2
Latvia	11.7	27.9	41.1
Lithuania	7.7	18.7	28.8
Hungary	3.1	8.0	12.5
Malta	0.7	2.7	4.4
Poland	5.0	14.7	23.1
Slovenia	0.8	2.3	3.4
Slovakia	2.3	6.0	9.3
EU4 (Cohesion EU15 MS)	9.8	21.1	31.5
EU15 Net donor countries	-2.2	-4.0	-5.3
EU15	0.5	1.9	3.3
EU10	3.7	10.2	15.9
EU25	0.7	2.4	4.0

Source: Ex-Post Evaluation of Cohesion Policy programmes 2000-06 co-financed by the ERDF (Objective 1 & 2), Synthesis (Evaluation) Report, European Union, Cohesion Policy, Brussels, Commission, April 2010, p. 119

## CAP: Heading 2: Preservation and Management of Natural Resources



EUR 50 799 million

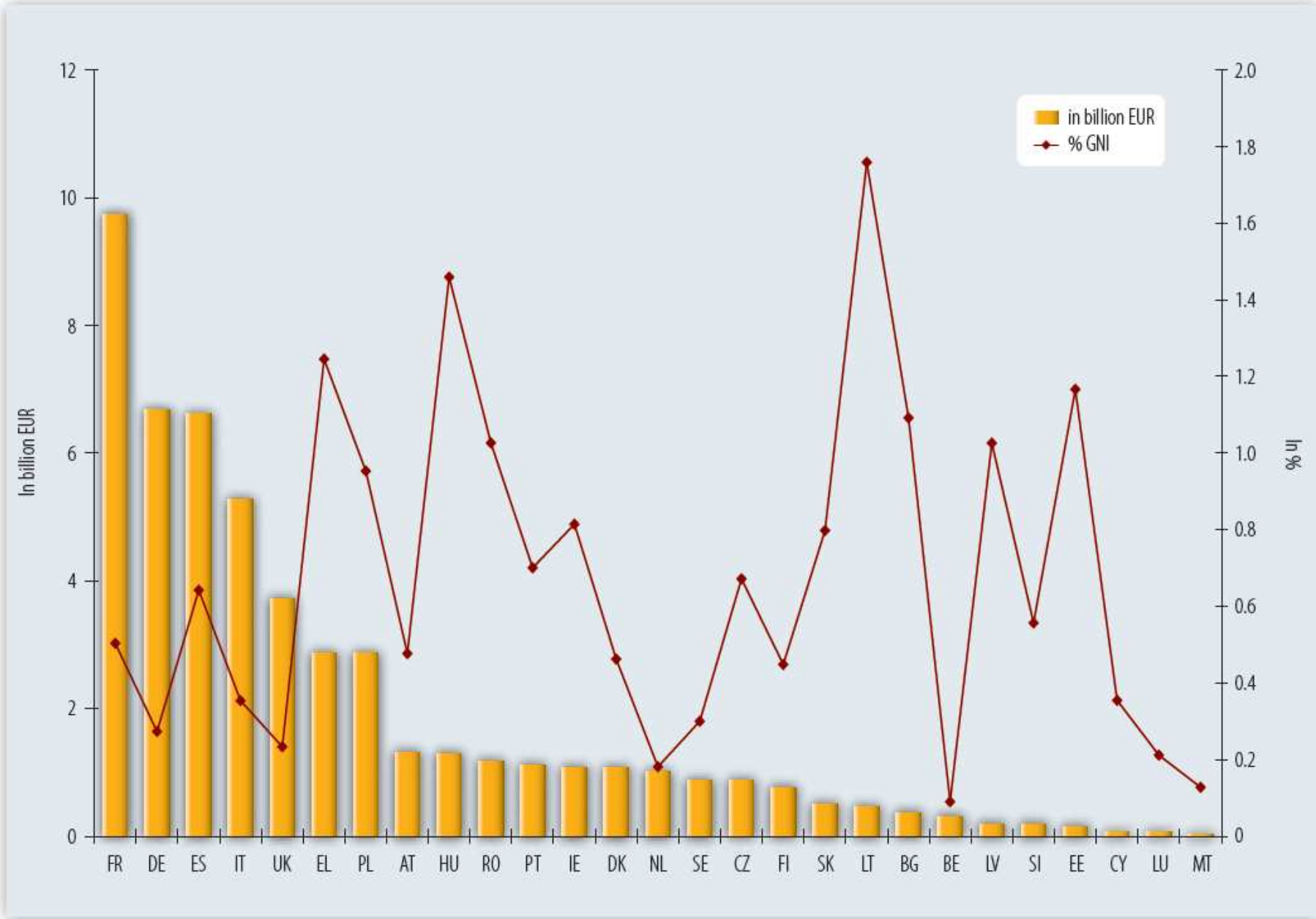
### Common agricultural policy

The common agricultural policy (CAP) encompasses two distinct policy areas: (1) supporting products and producers, by intervening in agricultural markets and through direct aid; and (2) fostering rural development.

Heading 2 — Expenditure by Member State

CAP

EU budget 2009



Source: EU budget 2009: Financial Report, European Commission, 2010, p. 27

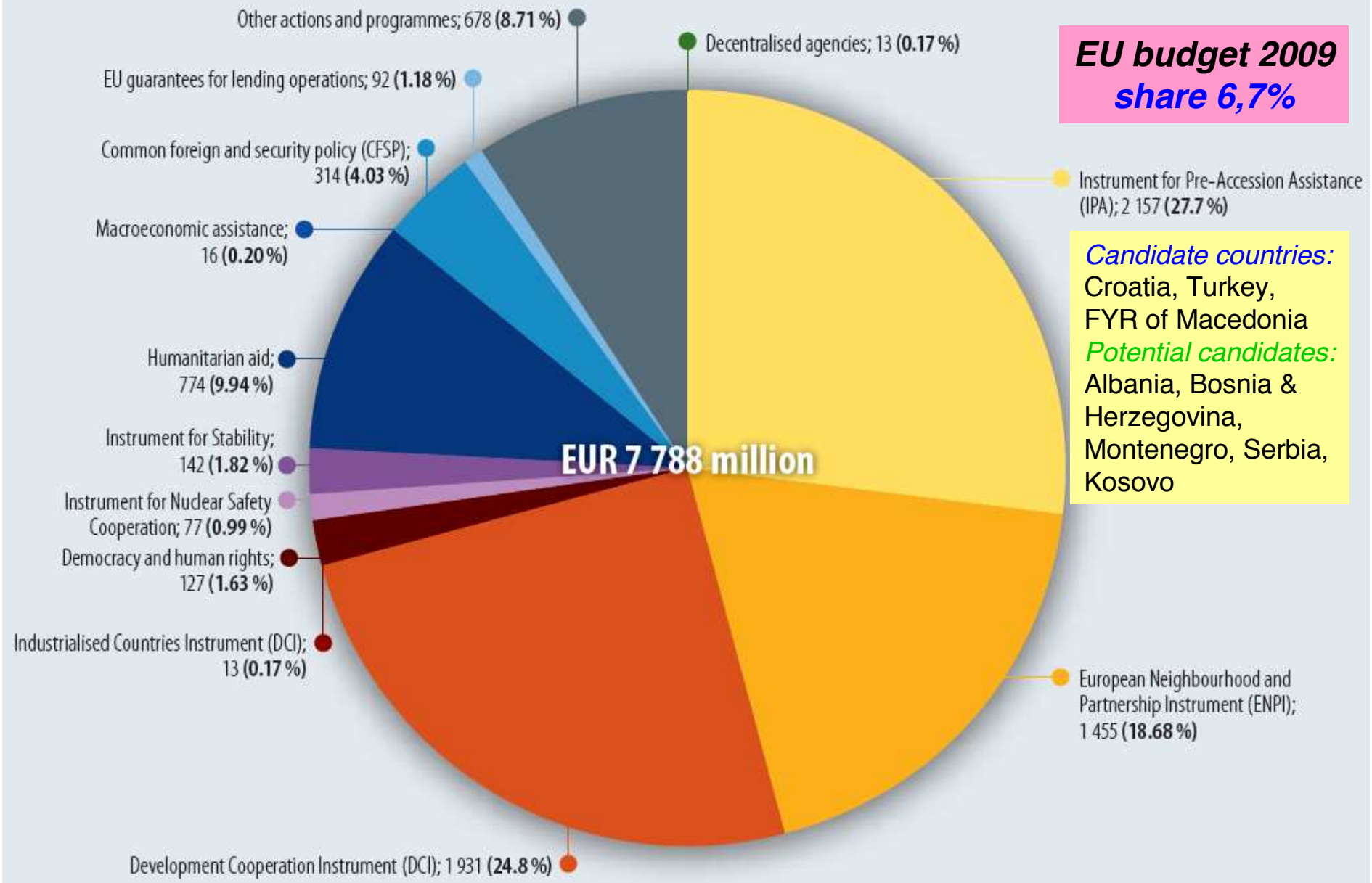
## Heading 4: The EU as a Global Player

**EU budget 2009  
share 6,7%**

Instrument for Pre-Accession Assistance (IPA); 2 157 (27.7%)

**Candidate countries:**  
Croatia, Turkey,  
FYR of Macedonia  
**Potential candidates:**  
Albania, Bosnia &  
Herzegovina,  
Montenegro, Serbia,  
Kosovo

European Neighbourhood and Partnership Instrument (ENPI); 1 455 (18.68%)

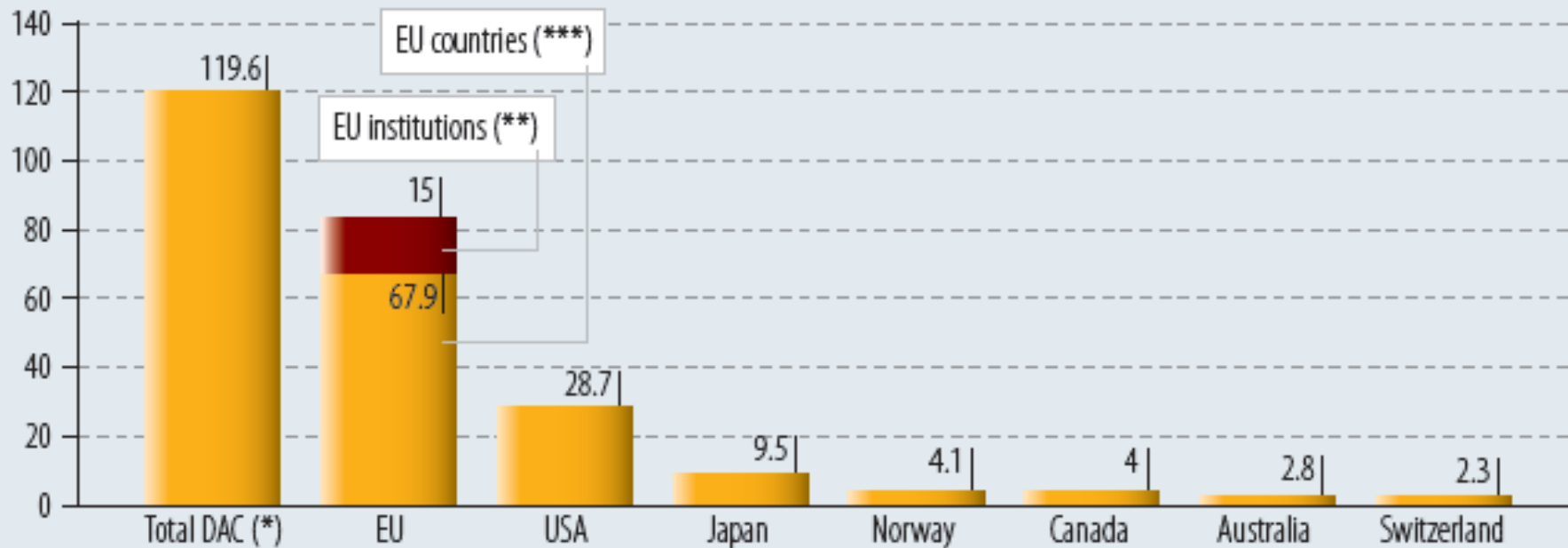


## The EU as a Global Player, contd.

EU assistance brings us closer to the millennium development goals.

The EU is the world's largest source of official development assistance.

*Net official development assistance (ODA) in 2009 (billion USD)*



# The Reform of the EU budget (I)

- **Sapir report** (2003):
  - A radical restructuring of the EU budget to support the growth agenda proposed by the Lisbon objectives
  - A shift away from agricultural expenditure

<u>Expenditure</u>	<u>% of EU GDP</u>	<u>Headings</u>	<u>% of total</u>
<b>Growth</b>	<b>0.45</b>	<b>1. Sustainable growth</b>	<b>44.9%</b>
(R&D)	(0.25)		
(Education & Training)	(0.075)	<b>1a. Competitiveness for growth % empl.</b>	<b>9.2%</b>
(Infrastructure)	(0.125)		
<b>Convergence</b>	<b>0.35</b>	<b>1b. Cohesion for growth % empl</b>	<b>35.7%</b>
(For new Member States)	(0.20)		
(For old Member States)	(0.10)	<b>2. Preservation &amp; management of natural resources</b>	<b>42.3%</b>
(Phasing out for macro-regions)	(0.05)		
<b>Restructuring</b>	<b>0.20</b>		
(For displaced workers)	(0.05)		
(For agriculture)	(0.05)	<b>CAP: market related expenditures &amp; direct payments</b>	<b>33.8%</b>
(Phasing out of agricultural expenditure)	(0.10)		
<b>Total economic and social activities</b>	<b>1.00</b>		

# The Reform of the EU budget (II)

---

- **Reforming the Budget, Changing Europe**
  - **Public consultation** until June 2008  
(read the „results of the public consultation“:  
[http://ec.europa.eu/budget/reform/issues/read\\_en.htm](http://ec.europa.eu/budget/reform/issues/read_en.htm))
  - **12 November, 2008: conference** organised by the Commission:  
(speeches and presentations:  
[http://ec.europa.eu/budget/reform/conference/documents\\_en.htm](http://ec.europa.eu/budget/reform/conference/documents_en.htm))
  - **External expertise:**  
*In parallel to the public consultation, the Commission requested **3 studies** on both the expenditure and revenue sides of the EU budget, as well as a study on lessons from existing evaluations.  
(These 3 studies are available on the webpage:  
[http://ec.europa.eu/budget/reform/conference/documents\\_en.htm](http://ec.europa.eu/budget/reform/conference/documents_en.htm))*
- **Major topics of the conference:**
  - **Solidarity – sustainability**
  - **Added value of EU expenditure**
  - **Delivery modes**
  - **A EU financing to support EU Policies?**

# The Reform of the EU budget (III)

## (expenditure side)

---

- **Challenges for the Financial framework 2014-2020?**
  - Financing the objectives of “**Europe 2020**” strategy
  - **Provisions for the next Global Financial Crisis (GFC)?**
    - + EU and member states managed the GFC 2008/09 via:
      - \* Expansionary monetary policy of ECB
      - \* Fiscal stimulus packages by EU MS to stabilise the economic crisis in 2009-2010
    - + **Euro area crisis 2010**: ad hoc measures (10 May 2010) for 3 years:
      - 1) Rescue package for **Greece** (2010-2012): EUR bn 110  
(EUR bn 80 Euro area MS + EUR bn 30 IMF Stand-by Arrangement):  
pooled bilateral credits by EU MS, organised by the European Commission
      - 2) Big rescue umbrella for the PIIGS: **European Financial Stability Facility (EFSF): 750 Mrd. €**  
(EUR bn 440 MS + EUR bn 60 EU balance of payment assistance (TFEU Art. 143)  
EUR bn 250 IMF), foundation of a special purpose vehicle in Paris, 4 July 2010:  
issues bonds if necessary to support indebted Euro area MS.
  - **Own suggestion to install 2 funds** (made at the conference on 12 Nov. 2008\*):
    - 1) A permanent **Stabilisation fund** to counteract an economic crises (comparable to the existing European Globalisation Adjustment Fund (EGF)
      - or the allowance of a system of “**fiscal federalism**” as in the USA and in Canada
    - 2) A permanent **Crisis fund**: instead of ad hoc measure creation of a permanent fund (financed by a Financial Transaction Tax (FTA à la Tobin) or Banking Tax)

---

\*) See: [http://ec.europa.eu/budget/reform/conference/documents\\_en.htm](http://ec.europa.eu/budget/reform/conference/documents_en.htm)

# The Reform of the EU budget (IV)

## (expenditure side)

---

- **Challenges for the Financial framework 2014-2020?**

- **Continuation of the redistribution of financial flows from the old to the new EU member states:**

- + **Cohesion policy** (heading 1b) continuation of the redirection of financial support from the old to the new EU MS
  - ceiling of 4% of GNI?

- + **CAP** (heading 2) **Dacian CIOLOS** (Commissioner for Agriculture and Rural Development announced already big changes; official disclosure 27 Nov. 2010):

The possible **changes** go in the following direction:

- generally, an **improvement of the subsidies for the new MS** in Eastern Europe (big loser will be the winners in the past: France, Germany, Spain, Italy and Greece)
  - more “equilibrium” in the distribution of direct payments** (1st pillar)  
presently, the farmers in the old MS receive five times more acreage payment (in France and Germany, farmers get 300 EUR per hectare, in Greece up to 500, in the new MS in Eastern Europe only 100 EUR)
-

# The Reform of the EU budget (V)

## (revenue side)

---

- **Challenges for the Financial framework 2014-2020?**

- **counteracting the diminishing share of traditional own resources (TOR) and relief of the burden of the EU MS:**

- + Sept. 2010 - **Janusz LEWANDOWSKI** (Commissioner for Financial Programming and Budget) in interviews uttered the following suggestions:

- \* *Financial Transactions Tax (FTT)* on all financial transactions, or

- \* *Tax on air transport*, or

- \* *CO2 tax*, or

- \* a new „*natural resources tax*“

- + October 2010 – **Algirdas SEMETA** (Commissioner for Taxation and Customs Union, Audit and Anti-Fraud ) announced his ideas in interviews:

- \* Taxation of the financial sector via a „**Financial Activity Tax**“ (**FAT**):

- A 5% EU tax on bank profits and remuneration could raise as much as 25 billion euros.

- (**Semeta** refuses the introduction of a FTT on the EU level alone. Only a world-wide „Tobin tax“ would make sense (a topic for the next the G20 Seoul Summit 2010)



# Conclusions

---

- The *EU budget* is **small** (~ 1% of EU GNI) compared to EU MS budgets (~ 50% of MS GNI)
- The *EU budget* must always be **adjusted to new challenges**:
  - **Agenda 2000** -----> EU enlargements (2004/07)
  - **GFC 2008-2010** – ad hoc measures!!
  - **Growth & Jobs strategies**:
    - i) **Lisbon strategy** (2000-2010) – not very successful
    - ii) **Europe 2020** (2010-2020) – success?
  - **Medium-term financial frameworks**: 2007-2013  
---> 2014-2020
    - *Inter-Institutional Agreements (IIA) (EP, Council, Commission)*  
*is always preceded by big struggles in the EU members states*

# References

---

- **Breuss, F., Egger, P., Pfaffermayr, M.**, “Structural funds, EU enlargement, and the redistribution of FDI in Europe”, *Review of World Economy*, Vol. 146, No. 3, September 2010, pp. 469-495.
- **Europe 2020**: “A European strategy for smart, sustainable and inclusive growth”, European Commission, Brussels, March 2010.
- **EU budget 2009**: “Financial Report”, European Commission, Brussels, 2010.
- **European Union**: “Ex-Post Evaluation of Cohesion Policy programmes 2000-06 co-financed by the ERDF (Objective 1 & 2)”, Synthesis (Evaluation) Report, Brussels, April 2010.
- **Sapir (André) Report**: “An Agenda for a Growing Europe: Making the EU Economic System Deliver”, Brussels, July 2003.
- **Reforming the Budget, Changing Europe (2008)**  
([http://ec.europa.eu/budget/reform/index\\_en.htm](http://ec.europa.eu/budget/reform/index_en.htm))
- **The European Union budget at a glance**, European Commission, Brussels, 2010.