

THE EXPENDITURE AND REVENUE OF THE BUDGET OF THE EUROPEAN UNION. BUDGETARY CONSEQUENCES FOR CHALLENGES WITH SECTORAL POLICIES

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Abstract:

The expenditure of the Community budget is composed of many chapters and headings. All of these are classified in six titles/heading budget sites that make up the financial perspective for the period 2007-2013. Titles that make up the financial perspective are as follows: sustainable growth; preservation and management of natural resources; citizenship, freedom, security and Justice ; EU global partner administrative expenditure compensation. The basic rules for the system of own resources are legislated by the Council decision of 7 June 2007 adopted unanimously by the Council of the EU and ratified by all Member States. Total amount collected from its own resources needed to finance the Community budget is determined by the total level of expenditure. The maximum amount of own resources shall amount to 1.23% of EU GNI. Recent consultations on the reform of the budget showed that the stakeholders in the process are critical to the current arrangement of EU revenue.

Key words: *budget, resource, GDP, VAT, expenditure policy*

JEL Classification: *E60, E61, H60, H61*

1.Introduction

The EU budget is an important tool contributing to the attainment of the objectives of the European Union declared through multiannual priorities laid down, which is reflected in the structure of the budget in the costs. Funding sources of the European budget was formed in 1970 by the contributions of Member States, and since 21 April 1970 the system was replaced with the traditional system of own resources.

This article is dedicated to the EU budget and its general characteristics are presented, and the structure of income and expenses with specific reference to a number of challenges for the budgetary consequences of sectoral policies, as well as others, to the Community budget resources. However, this article contains a diagnostic analysis on the Community budget balances on two components: income and expenses, and an assessment of the reform proposals, taking into account the impact of future EU enlargements on the EU budget.

2.Community budget expenditure structure

The expenditure of the Community budget is composed of many chapters and headings. All of these are classified in six titles/heading budget sites that make up the financial perspective for the period 2007-2013. Titles that make up the financial perspective are as follows:

- **Sustainable Growth** – this part of the budget shall be subdivided into growth and Competitiveness) for employment and Cohesion for growth) and employment. Funds

under this heading covers research, trans-European energy networks and transport support for the development of a knowledge-based society, for countries and regions with a high level of GDP, below the EU average for the continuation of the peace process in Northern Ireland and the border regions of the Union;

- **Preservation and management of natural resources** – includes CAP, fisheries policy and other specific areas. In addition to subsidies to farmers, it includes funding for sustainability, biodiversity and rural development measures;

- **Citizenship, freedom, security and Justice**-this heading consists of a variety of charges. Remember the resources programmed for matters relating to asylum and migration, Schengen system, measures to counteract terrorism, the enforcement of Community legislation, cultural exchange programs, European Media, etc.;

- **EU global partner**-here are all the external tools, including development assistance (other than those financed by the European Development Fund which is not part of the EU budget), the prevention of conflicts, external expenditure on EU enlargement and European neighborhood policy, humanitarian aid and support for underdeveloped countries for respect for human rights and democracy – including Administration;

- **Administrative expenditure** - includes administrative expenditure (budgets of the institutions of the Union);

- **Compensation**-minor is an element which has been set up for the period 2007-2009 and for Romania and Bulgaria in the form of cash-flow from the lack of experience of the two Member States in the management of Community funds post accession.

In table and figure 1 can be seen the breakdown of budget expenditure in the financial perspective and the relative size of their budget in the amount of:

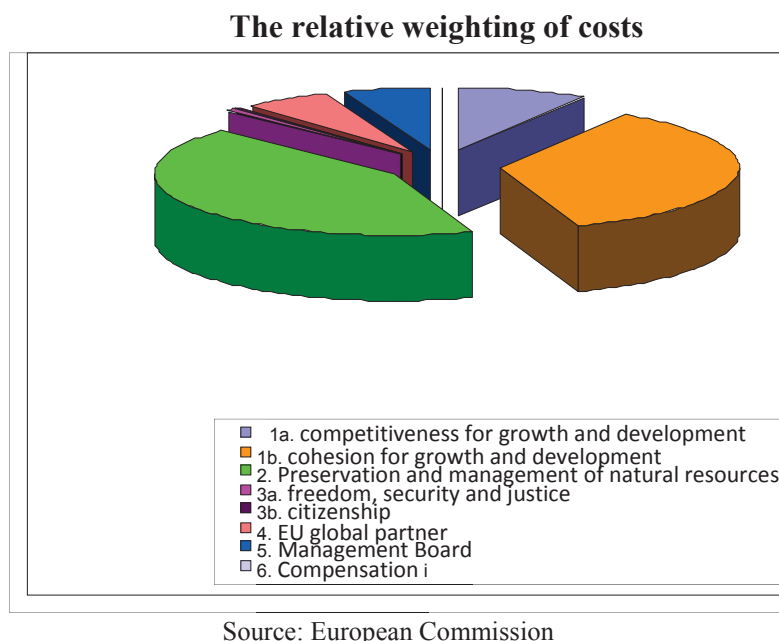
Table 1

Financial perspective (current prices)

	2007	2008	2009	2010	2011	2012	2013	Total 2007-2013
1. Sustainable Growth	53.979	57.653	61.696	63.555	63.638	66.628	69.621	436.770
1a. competitiveness for growth and development	8.918	10.386	13.269	14.167	12.987	14.203	15.433	89.363
1b. cohesion for growth and development	45.061	47.267	48.427	49.388	50.651	52.425	54.188	347.407
2. Preservation and management of natural resources	55.143	59.193	56.333	59.955	60.338	60.810	61.289	413.061
2a.interventions on the market and direct payments	45.759	46.217	46.679	47.146	47.617	48.093	48.093	330.085
3. Citizenship, freedom, security and justice	1.273	1.362	1.518	1.693	1.889	2.105	2.376	12.216
3a. freedom, security and justice	637	747	867	1.025	1.206	1.406	1.661	7.549
3b. citizenship	636	615	651	668	683	699	715	4.667
4. EU global partner	6.578	7.002	7.440	7.893	8.430	8.997	9.595	55.935
5. Management Board	7.039	7.380	7.525	7.882	8.334	8.670	9.095	55.925
6. Compensation	445	207	210					862
Total	124.457	132.797	134.722	140.978	142.629	147.210	151.976	974.769
Share of EU GDP	1,02%	1,08%	1,13%	1,16%	1,13%	1,12%	1,11%	1,11 %

Source: European Commission

Figure 1



Analyzing the figures agreed in the financial perspective, we can very easily figure out what are the budgetary priorities of the Union. "Preservation and management of natural resources (mainly the CAP, but also from funds for rural development) began in 2007 as a major priority, but has decreased gradually until 2010 in favour of "growth and employment", which he had left at the beginning of the programming on the second place. "Global partner of the EU" remains at a constant level of about 6%. "Administration" also receives around 6%. "Citizenship, freedom, security and justice" is employed in the marginal amount of Community expenditure. "Offsets" chapter took a temporary image i assigned budget resources only between 2007-2009. It is clear that Community policies with the greatest budgetary allocations are CAP, cohesion policy, competitiveness (research, trans-European networks) and external actions. In the following decade the European policies will have to face a complex and difficult panel managed and will suffer a series of challenges that will have an impact on the Community budget. It is quite possible that the funds allocated are currently undergoing changes with regard to the distribution of their policies. Traditional policies (Cap, cohesion) will lose ground in the face of the policy of competitiveness, research, environment, external relations.

3. EU budget revenue

The basic rules for the system of own resources are legislated by the Council decision of 7 June 2007 adopted unanimously by the Council of the EU and ratified by all Member States. Total amount collected from its own resources needed to finance the Community budget is determined by the total level of expenditure. The maximum amount of own resources shall amount to 1.23% of EU GNI. The Treaty does not allow the creation of budget deficits, which means that the budget is balanced, the income must cover the expenditure.

Own resources are divided into the following categories (see the EU budget for the year 2012):

- traditional own resources – are made up of customs duties and levies on sugar. These fees apply to operators and are collected by Member States on behalf of the EU. Member States may retain 25% of these resources as a compensation of the costs for the

collection. The traditional own resources amount to about 15% of the total revenues of the Union;

- VAT- resource originating from a maximum elevation of about 0.5% for each country, which should be harmonized VAT bases of the Member States, which may not exceed 50% of GNI. Resource from VAT accounted for around 11% of the total EU revenue;

- the GNI- based resource – was introduced in 1988 and is used to offset the amount of income with expenditure by financing the remaining part of the budget which is not covered by any other sources of income. The GNI resource is at 73% of the total revenue of the Union;

- other revenue – budget and sources of financing in the form of other income, such as salary taxes paid to the staff of the EU institutions, contributions from non-EU States in the different Community programs, which are subject to fines for companies that violate competition rules or other regulations. Reach the rate of 1.4 billion euros and represents around 1% of total revenue.

Total revenues for 2012 totaled EUR 127.5 billion. Revenue flows into the budget in a manner proportional to the wealth of the Member States. United Kingdom, Germany, Netherlands, Austria and Sweden, however, benefit from some adjustments when calculating their contributions. As seen in the following graph, the GNI own resource has grown considerably over the years, while the traditional own resources, together with the VAT own resource decreased. Given these developments, the income variables are more and more voices both within the Commission and the European Parliament¹, but also a series of studies and evaluations of scientific academia², who argue that the current system of own resources is opaque and transparent. They also argue that the European budget is small (1% of EU GNI) compared with the average in the Union public expenditure of 45-50% the debate on own resources is an important element in the process of budgetary reform at Union level which collect own resources deriving from common policies such as the common customs tariff duties.

Income structure has evolved considerably over the years, becoming the GNI resource, as I have said, the most important and current budget represents three-quarters of. It was introduced during the course of time a large number of corrections and special arrangements, both on the revenue and expenditure (some of these mechanisms shall end automatically when the current financial perspective is complete (2013)). Recent budget negotiations were focusing critical Member States influenced by the notion of net positions with consequences to encourage geographical financial instruments with preallocate tires to the detriment of European added value.

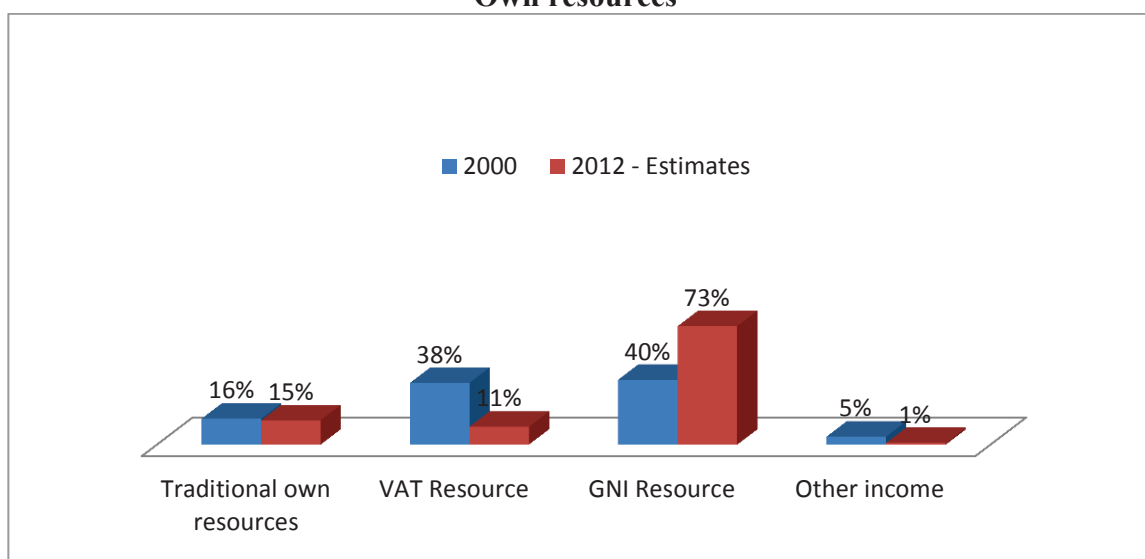
Recent consultations on the reform of the budget showed that the stakeholders in the process are critical to the current arrangement of EU revenue. Considering the desirability of placing more and more of a community as well as reducing or eliminating others.

¹ Report on the future of own resources (2006/2205 (INI)), the Commission budget, 13.3.2007, Rapporteur: Alain Lamassoure, accessible at: http://www.europarl.europa.eu/oeil/jsp?file_id=5378292; born December 20, 2007

² “Three budget reforms inevitable reconsideration”, Gabriele Cipriani, Center for European policy studies

Figure 2

Where the money come from? (Per cent of total revenue)
Own resources



Source: European Commission

Lamassoure report adopted in 2007 examines the current system of own resources and suggests several options for a possible European tax. The introduction of a new stage in the evolution of the system of financing the European dimension might include three closely related to the simplification of Member States contributions, the introduction of one or more new own resources and gradual elimination of all corrective mechanisms. With the introduction of these new stages, three essential elements of the system of financing the European funding should be retained: sufficient and stable Community budget, budgetary discipline and a mechanism to ensure a balanced budget.

4. Conclusions

It is also becoming more of a general consensus on the fact that the EU budget does not currently meet the needs and challenges. Specialists consider that is being wasted many resources, allocating budgetary policies that do not provide a sufficiently clearly recognizable European added value. In addition, the Community budget has often been criticized for lack of transparency. General rules on the distribution of resources and financial contributions from Member States are often altered by ad hoc derogations which causes a high degree of complexity. On the one hand, as a result of these exceptions and on the other hand, due to allocations for Community programmes that do not produce goods in Europe, Member States with similar income levels end up often with very different financial positions.

To overcome these deficiencies, in 2005 at the European Council meeting in Brussels in December, a decision was made to launch the process of the reform of public finances at the community level, exercise is also known as the budgetary review process. At the same time, the revision of the budget was part of the compromise achieved on the new financial perspective 2007-2013.

In the text above, but also in more recent statements of some European officials, we can draw the following conclusions:

The main purpose of the review is one of the futures. It concerns the modernization of the Union finances at least from a dual perspective:

a) Foundations for the new financial perspective (after 2014);

b) Preparation of a possible new wave of enlargement (that would include Turkey and the Western Balkan countries, all the earlier after 2014);

Given the subject of the review described in official documents, recent statements by officials in Europe, but also the complexity of the current agreement on the financial perspective 2007-2013, it is unlikely that the mid-term review to generate significant effects for the period 2010-2013.

In the view of the European Commission, the EU budget has proved effective in accomplishing the key directions in European aspirations, such as economic growth, solidarity, security, but stiff when it was put in the face of unforeseen situations (food crises, natural disasters). Moreover, the present budgetary system focuses too much on contributions rather than on results. The Commission notes that the annual negotiations are guided to a great extent in terms of net balance – how you get, how to contribute. There are already several analyses identifying the weaknesses of the construction budget at European level and advancing proposals for reform, which will make an assessment of their relevance.

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