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The Budget of the European Union - Opportunity or Burden for Romania?

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Abstract: This paper aims to structure a synoptic image of the expenditure at European Union level from the EU Budget by correlating with the financial flows between EU and Romania, in order to prove a false widespread public idea that Romania contributes to EU accounts with more money than it receives back. Hence, it concludes that Romania is a net beneficiary in relation to EU budget with a positive balance of approx. 15 billion euro by mid-2014.

Keywords: multiannual financial framework, financial perspective, net financial flows, net beneficiary.

JEL classification: E60, E61, H60, H61

1. The structure of the European budgetary expenditure 2007-2013

The structure of the Community budget's expenditure includes many chapters and budgetary lines. All of them are classified in six budgetary headings composing the financial perspective (Multiannual Financial Framework – MFF) for 2007-2013 . The main headings of the MFF are the following:

- **Sustainable growth** - this part of the budget is subdivided into a) Competitiveness for growth and employment and b) Cohesion for growth and employment. Funds under this heading cover research, trans-European energy and transport networks, support for the development of a knowledge-based society for the countries and regions with a GDP below the EU average, for the continuation of the peace process in Northern Ireland and the regions at the EU's borders.
- **Preservation and management of natural resources** - this includes PAC, fisheries policy and other specific areas. In addition to the subsidies allocated to farmers, this chapter includes funds for sustainability, biodiversity and rural development measures.

- **Citizenship, freedom, security and justice** - this heading consists of a variety of expenses. We underline here the resources assigned for expenses related to asylum and migration, the Schengen system, counter-terrorism measures, enforcement of Community legislation, cultural exchange programs, the European Media program, etc.;
- **EU global partner** - here are found all external instruments, including development assistance (other than the one financed by the European Development Fund, which is not part of the EU budget), prevention of external conflicts, expenses for EU enlargement and neighborhood policy, humanitarian aid and support to developing countries for human rights and democracy;
- **Administration** - includes administrative costs (budgets of Union institutions);
- **Compensation** - is a minor element that was created for the period 2007-2009 and destined to Romania and Bulgaria in the form of cash-flows from the lack of experience of the two Member States in managing EU funds after accession.

Table 1: Multiannual Financial Framework 2014-2020, commitment appropriations (mil euro)

Commitment appropriations	2007	2008	2009	2010	2011	2012	2013	Total 2007- 2013
1. Sustainable Growth	53,979	57,653	61,696	63,555	63,974	67,614	70,644	439,115
1a. Competitiveness for Growth and Employment	8,918	10,386	13,269	14,167	12,987	14,853	15,67	90,250
1b. Cohesion for Growth and Employment	45,061	47,267	48,427	49,388	50,987	52,761	54,974	348,865
2. Preservation and Management of Natural Resources	55,143	59,193	56,333	59,955	59,888	60,810	61,310	412,632
of which: market related expenditure and direct payments	45,759	46,217	46,679	47,146	47,617	48,093	48,583	330,094
3. Citizenship, freedom, security and justice	1,273	1,362	1,518	1,693	1,889	2,105	2,449	12,289
3a. Freedom, Security and Justice	637	747	867	1,025	1,206	1,406	1,703	7,591
3b. Citizenship	636	615	651	668	683	699	746	4,698
4. EU as a global player	6,578	7,002	7,44	7,893	8,43	8,997	9,595	55,935
5. Administration ¹	7,039	7,38	7,525	7,882	8,091	8,523	9,095	55,535
6. Compensations	445	207	210	0	0	0	75	937
Total commitment appropriations	124,457	132,797	134,722	140,978	142,272	148,049	153,168	976,443
as a percentage of GNI	1,02 %	1,08 %	1,16 %	1,18 %	1,15 %	1,13 %	1,15 %	1,12 %

Source: European Commission



Figure 1: Multiannual Financial Framework 2007-2013 (%)

Source: European Commission

Analyzing the figures agreed in terms of the financial perspective, we can easily notice the budgetary priorities of the Union.

"Preservation and management of natural resources" (mainly CAP and rural development funds) started in 2007 as major priority, but gradually decreased by 2010 in favor of "Growth and Employment", which, at the beginning of programming, had started the second. In gross numbers, from 2007 to 2013, the Heading Preservation and management of natural resources (agriculture) received approx. Euro 417 billion and the sub-heading Cohesion for growth and employment (cohesion policy) received approx. Euro 348 billion. "EU global partner" remains at a constant level of about 6%. "Administration" also receives around 6%. "Citizenship, freedom, security and justice" has marginal position in the amount of EU spending. The Heading "Compensation" was temporary and received budgetary resources only in 2007-2009. It is obvious that the EU policies with the highest budget allocations are PAC, the cohesion policy, competitiveness (research, trans-European networks) and external actions.

2. Multiannual financial framework 2014-2020

On November 19, 2013, after two and half years after intense negotiations since the Commission presented its proposals on June 29, 2011, the European Parliament voted positively as regards the **multiannual financial framework (MFF)** of EU for 2014-2020.

The EU will invest nearly one trillion Euros for economic growth and employment between 2014 and 2020. The EU budget is modest in terms of its size, compared to national wealth. However, the budget for one year means more money - at current prices - than the entire Marshall Plan at the time! The European budget oriented towards the future can make a real difference in people's lives. It will help strengthen and support the economic recovery ongoing in the entire European Union. Funds are allocated to exit the crisis, to financially support those living in poverty or who are looking for a job, to provide investment opportunities for small businesses and support for local communities, farmers, researchers and students.

The EU multiannual financial framework for 2014-2020 allows EU to invest up to **960 billion Euros in commitment appropriations (1.00% of the EU's GNI) and 908.4 billion Euros in payment appropriations (0.95% of the EU's GNI)**. The tools for contingencies (such as the Emergency Aid Reserve, the European Globalization Adjustment Fund, the Solidarity Fund and the Flexibility Tool) and the European Development Fund are outside the MFF ceilings. If fully activated, they are still 36.8 billion Euros (or 0.04% of the EU's GNI). The EU budget for 2014-2020 defines spending priorities, which **are oriented towards sustainable economic growth, employment and competitiveness** in line with the EU's growth strategy "Europe 2020". For example, compared to the previous multiannual financial framework (2007-2013), the amount of the sub-heading 1a (Competitiveness for growth and employment) is increased from 91.5 billion Euros (9.2% of the budget) to 125.6 billion Euros (13.1% of the budget).

Table 2: Multiannual Financial Framework 2014-2020, commitment appropriations (mil euro)

	2014	2015	2016	2017	2018	2019	2020	Total
1a. Competitiveness for growth and jobs ▼								
Subtotal	15 605,00	16 321,00	16 726,00	17 693,00	18 490,00	19 700,00	21 079,00	125 614,00
1b. Economic, social and territorial cohesion ▼								
Subtotal	44 678,00	45 404,00	46 045,00	46 545,00	47 038,00	47 514,00	47 925,00	325 149,00
2. Sustainable Growth: Natural Resources ▼								
Subtotal	55 883,00	55 060,00	54 261,00	53 448,00	52 466,00	51 503,00	50 558,00	373 179,00
3. Security and citizenship ▼								
Subtotal	2 053,00	2 075,00	2 154,00	2 232,00	2 312,00	2 391,00	2 469,00	15 686,00
4. Global Europe ▼								
Subtotal	7 854,00	8 083,00	8 281,00	8 375,00	8 553,00	8 764,00	8 794,00	58 704,00
5. Administration								
Subtotal	8 218,00	8 385,00	8 589,00	8 807,00	9 007,00	9 206,00	9 417,00	61 629,00
6. Compensation								
Subtotal	27,00	0,00	0,00	0,00	0,00	0,00	0,00	27,00
Grand total	134 318,00	135 328,00	136 056,00	137 100,00	137 866,00	139 078,00	140 242,00	959 988,00

Source: European Commission

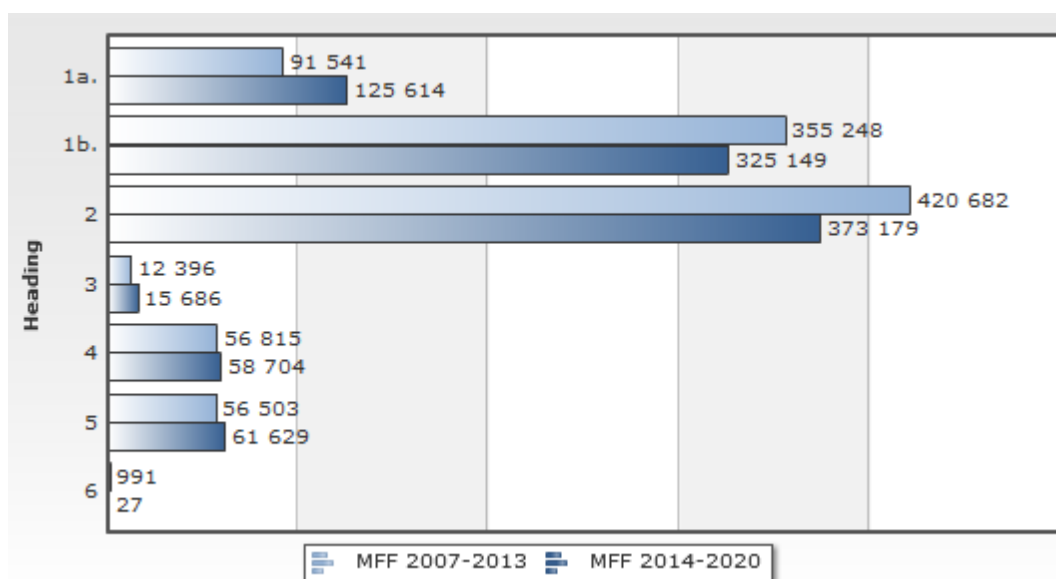


Figure 2: Commitment appropriations mil euro (prices, 2011)

MFF 2007-2013 vs. MFF 2014-2020

Source: European Commission

Following the comparative analysis, we notice that there are no major changes in terms of chapters/budgetary headings. There are still six in number, but as regards the distribution of allocations of the two policies with major impact on the Union budget, as total share and the European funds allocated to Romania, PAC (chapter 2 - sustainable growth: natural resources), the budget is reduced to 373 billion Euros from 420.6 billion Euros and the cohesion policy (subchapter 1b - economic, social and territorial cohesion) also recorded a reduction to 325 billion Euros from 355 billion. There is a considerable increase of sub-heading 1a, Competitiveness for growth and employment, from 91.5 billion Euros to 125.6 billion.

3. Evolution of cash-flows between Romania and the EU in 2007-2014

Once Romania joined the European Union on January 1, 2007, our country has significantly increased the potential for accessing non-reimbursable EU funds by significantly increasing the financial allocations of the EU for Romania. Along with these huge financial opportunities to inject money into the local economy, Romania has a number of obligations to contribute to the EU budget and other Community programs. The document that summarizes the relation between capital inflows and outflows is called net financial flows (NFF). NFF is the tool to determine the national net financial position in relation to the EU budget - comparing financial flows to and from the Community budget.

To obtain the net financial position, there are compared to actual amounts received from the European Union to the amounts actually paid to the EU during the period under analysis.

The amounts received from the EU are divided into the following chapters: pre-accession funds (PHARE, ISPA, SAPARD) and post-accession funds (Structural Funds and Cohesion Funds, Funds for Rural Development and Fisheries, the European Agricultural Guarantee Fund, the European Neighborhood and Partnership Instrument, the Instrument for pre-Accession Assistance - Romania-Serbia Program, the Transition Facility, the Schengen Facility and for cash flows, the General Program "Solidarity and Management of Migration Flows", funds for moving national experts in the works of Community institutions, funds received from FRONTEX for operational cooperation at the external borders, funds received from EASO agency, other funds received by Romania in the form of non-repayable financial assistance – the Solidarity Fund, the European Globalization Adjustment Fund, the EEA Financial Mechanism, the Norwegian Cooperation Program.

We also point out a number of Community programs according to which Romania benefits from non-reimbursable EU funds of smaller scale, such as: the agricultural census program in Romania, the program for data collection and management necessary to conduct the common fisheries policy, the program of control, inspection and surveillance in fisheries area, the RICA program (Farm Accountancy Data Network), the "Civil Justice" program, the Community Statistical Program 2008-2012, the Hercules Program, the "Prevention and fight against Crime" program, the Seventh framework program for research and technological development program, the "Clean Sky", the "Lifelong learning" program and "Youth in Action".

The allocations for Romania from the EU during the multiannual financial framework for 2007-2013 were about 35 billion Euros for post-accession funds and 2.85 billion Euros for pre-accession funds. Romanian authorities estimate that for 2014, it amounts to approx. 7.87 billion Euros, which is largely allocations of the same financial programming 2007-2013, community programs being carried out according to the $n + 1$, $n + 2$, $n + 3$.

Conclusions

Out of a total of 38.20 billion Euros allocated to Romania (including pre-accession funds totalling 2.85 billion) for the previous financial framework 2007-2013, Romania achieved a gross absorption of 25.1 billion Euros from 2007 to August 2014, which represents only about 65% of the total allocated. The end of 2013 did not mean the interruption of payments to Romania, however, it was very important the commitment by Romania of more funds by the end of 2013 from the initial allocation to improve the absorption rate.

It must be said that, of the total pre-accession funds allocated to Romania, there were made 93.5% and only 62.75% of the post-accession funds allocated to Romania.

Achieving a high level of absorption of EU funds should be one of the strategic objectives of Romania and at the same time, a major benefit of joining the European Union. This goal requires substantial efforts to ensure a flexible system of accessing and implementing the funds and eliminating/limiting any barriers that may affect the absorption process.

Regarding the contributions paid to the EU, they consist of the contribution to the Union budget - own resources and other contributions - contributions to extra-budgetary funds and other European institutions, additional and unexpected contributions, refunds of unimplemented programs, etc.

All these additional contributions, others than the contribution to the EU budget amount to a value of 301.95 million Euros for the 2007 - August 2014, insignificant compared to the contribution to the EU budget, which is 10.07 billion Euros. Therefore, the total amount of payments that Romania made to the European Union amounted to 10.37 billion Euros.

Analyzing the amounts received from the EU budget between 2007 and August 2014, totaling 25.1 billion Euros and those transferred to the accounts of the Union in the same period amounting to 10.37 billion Euros, we find a positive balance for Romania between 2007 to August 2014 of 14.72 billion Euros. It can be said with certainty that Romania was, at this time subject to review, a net beneficiary related to the EU budget, dismantling the so widespread public opinion that Romania transfers more money to the EU than it receives.

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