EUROPEAN UNION POLITICS

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Global Governance

a.y. 2020-21

Lesson April 21st

EU FINANCIAL RESOURCES.
A CRUCIAL ISSUE

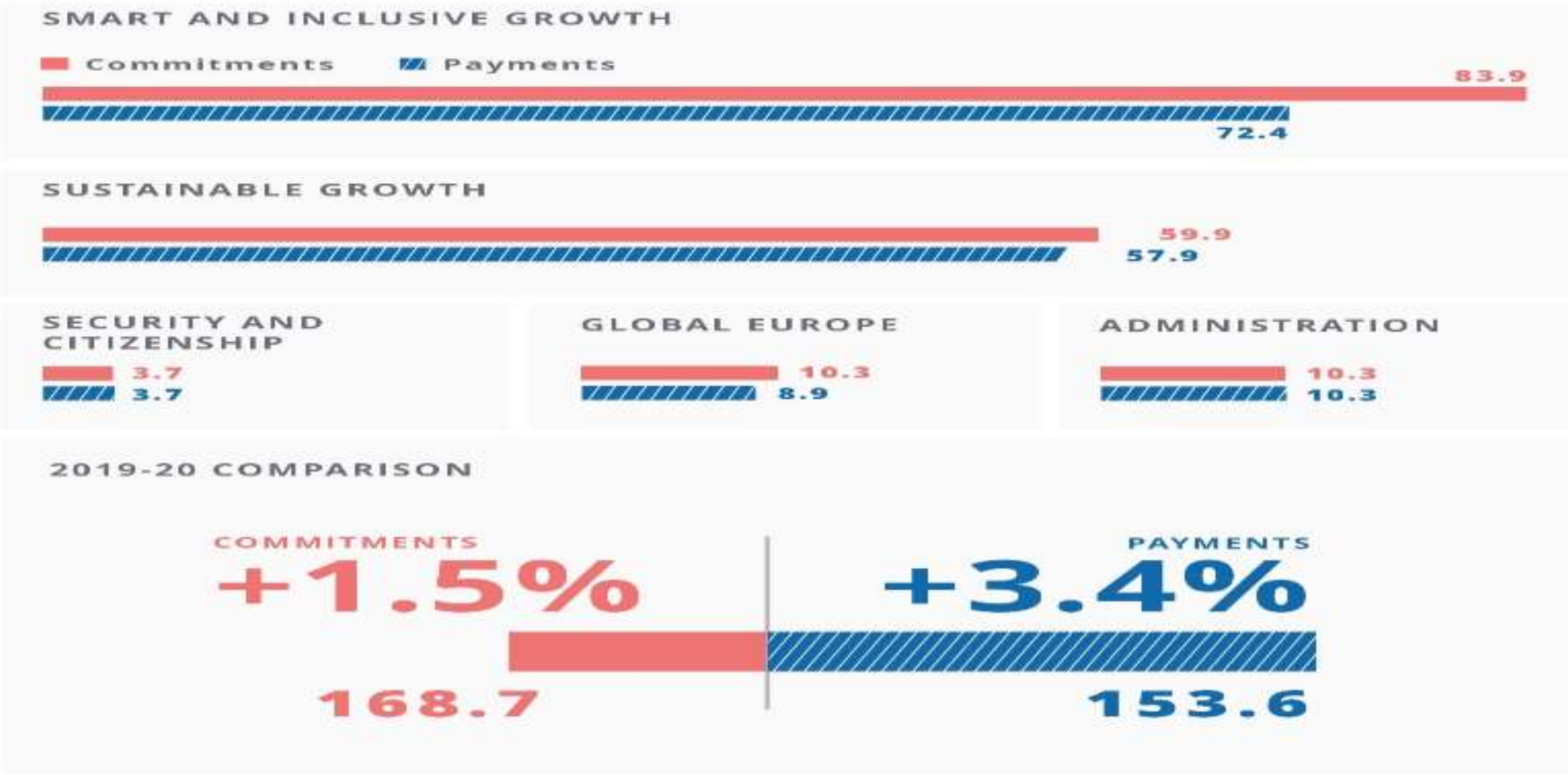
- EU BUDGET
- ESM - European Stability Mechanism
- EIB – European Investment Bank
- ECB – European Central Bank

EU BUDGET: AN OFFICIAL DEFINITION

- The European Union has a budget to finance policies carried out at European level (such as agriculture, regional development, space, trans-European networks, research and innovation, health, education and culture, migration, border protection and humanitarian aid).
- For 2019 the EU agreed on an annual budget of €165.8 billion, representing **around 1%** of the EU-28's gross national income (GNI).
- There is a long-term budget (Multiannual Financial Framework), a long-term spending plan, allowing the EU to plan and invest in long-term projects.
- The European Union budget is primarily an investment budget. Representing around 2 % of all EU public spending, it aims to complement national budgets.
- Its purpose is to implement the priorities that all EU members have agreed upon.

2020 EU Budget

(IN € BILLION)



Council of the European Union
General Secretariat

EU BUDGET.
ECONOMIC FUNCTION AND POLITICAL RELEVANCE

April 16th President von der Leyen outlines EU budget as Marshall Plan for Europe's recovery.

"We will need massive investment to jumpstart our economies. We need a Marshall Plan for Europe's recovery and it needs to be put in place immediately. There is only one instrument we have that is trusted by all Member States, which is already in place and can deliver quickly. It is transparent and it is time tested as an instrument for cohesion, convergence and investment. And that instrument is the European budget. The European budget will be the mothership of our recovery."

The European Commission is planning to present an updated multi-annual financial framework proposal ? OR adopting a provisional budget ?

What then ?

EU BUDGET.
ECONOMIC FUNCTION AND POLITICAL RELEVANCE

Budget is fixed and committed according to the economic priorities of the time and the balance of powers among institutions/Countries.

Since the beginning there has been a tension over budgeting among the European institutions and the Member States.

Representatives of the Institutions and of the Member States had to negotiate arrangements relating to the financing of the Community and its supranational policies, and so to fix: amount, distribution, proportion among contributors and beneficiaries (e.g. UK Premier M. Thatcher rebate on CAP).

Despite its political significance the size of the European Union's budget is rather modest

EU Budget History …

- **1951**: ECSC had a tax-raising power on the coal and steel sectors, that was beyond the direct control of the Member States >>> Supranational character.

- **1957**: the budgets of the EEC and Euratom were financed from contributions made by the Member States >>> Intergovernmental character (confirmed in 1965).
 In the first 3 decades the EU budget used to fund mainly Common Agriculture Policy.

- **1970** Treaty of Luxembourg: introduced the principle of "own resources" (derived from customs duties, agricultural levies and the 1% of the national Value Added Tax (VAT) revenues), all levied from the Member States as a permanent financing base for the budget >>> Supranational character.

- **1975** Treaty of Brussels: innovations towards democratic control and transparency.

  a) the establishment of a Court of Auditors;
  b) a starting empowerment of the Parliament: authority to propose amendments, to reject the budget and to give discharge (that is the final approval). (Case of 1999: Commission Santer)

…EU Budget History

- **1980s**: SEA and enlargement >>> expansion of the budget:

Structural Funds and the Cohesion **Fund** : new financial tools set up to implement the regional policies; very high expenses for CAP, due to the fact that CAP it's the only policy funded almost entirely from the common budget; EU spending replaces national expenditure to a large extent.

- **1988**: more resources needed for the realization of the Internal Market >> > Commission realized the growing disparity between resources and Community goals >>> **Own Resources Decision**:

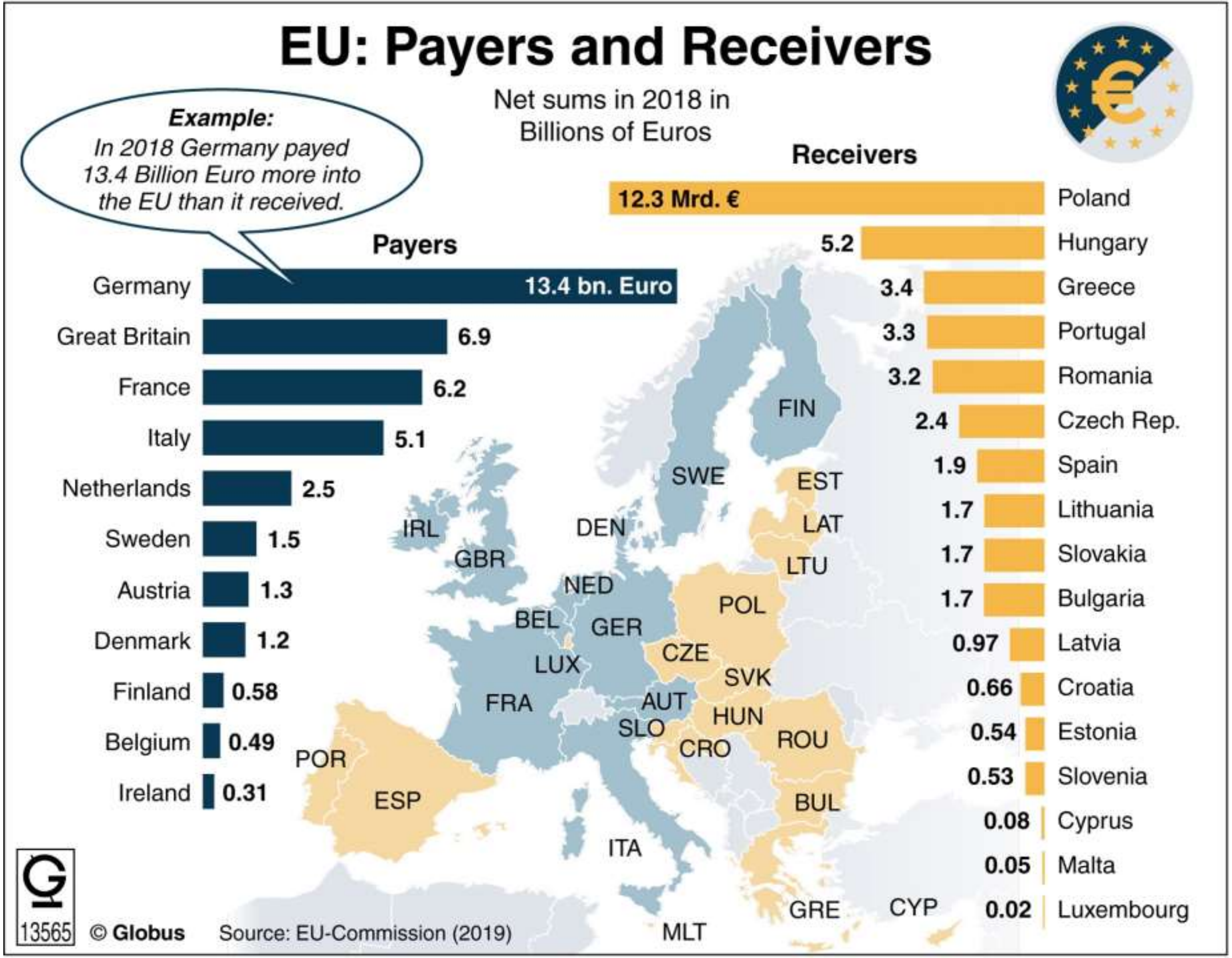
a) it reduces the reliance on VAT and introduces **higher contributions based on Member States GDP**.
b) a **ceiling** to expenditures
c) Multiannual financial planning: broader economic perspective, smoothing political conflicts

- **1990s**: EU enhanced its role in areas such as transport, space, health, education and culture, consumer protection, environment, research, justice cooperation and foreign policy.

- <u>Constant tension and debate between payers and receivers</u> (France/UK, Germany), and between EU institutions, especially after the enlargement to CEEuropean Countries

- **2009**: Lisbon Treaty: major changes on budget:

a) incorporates the budget in primary legislation
b) (apparently) simplifies the budgetary procedure
c) re-balances powers between the institutions
d) no changes in sources


EU: Payers and Receivers
Net sums in 2018 in
Billions of Euros
Example:
In 2018 Germany payed
13.4 Billion Euro more into
the EU than it received.
Payers
Germany 13.4 bn. Euro
Great Britain 6.9
France 6.2
Italy 5.1
Netherlands 2.5
Sweden 1.5
Austria 1.3
Denmark 1.2
Finland 0.58
Belgium 0.49
Ireland 0.31
Receivers
12.3 Mrd. € Poland
5.2 Hungary
3.4 Greece
3.3 Portugal
3.2 Romania
2.4 Czech Rep.
1.9 Spain
1.7 Lithuania
1.7 Slovakia
1.7 Bulgaria
0.97 Latvia
0.66 Croatia
0.54 Estonia
0.53 Slovenia
0.08 Cyprus
0.05 Malta
0.02 Luxembourg
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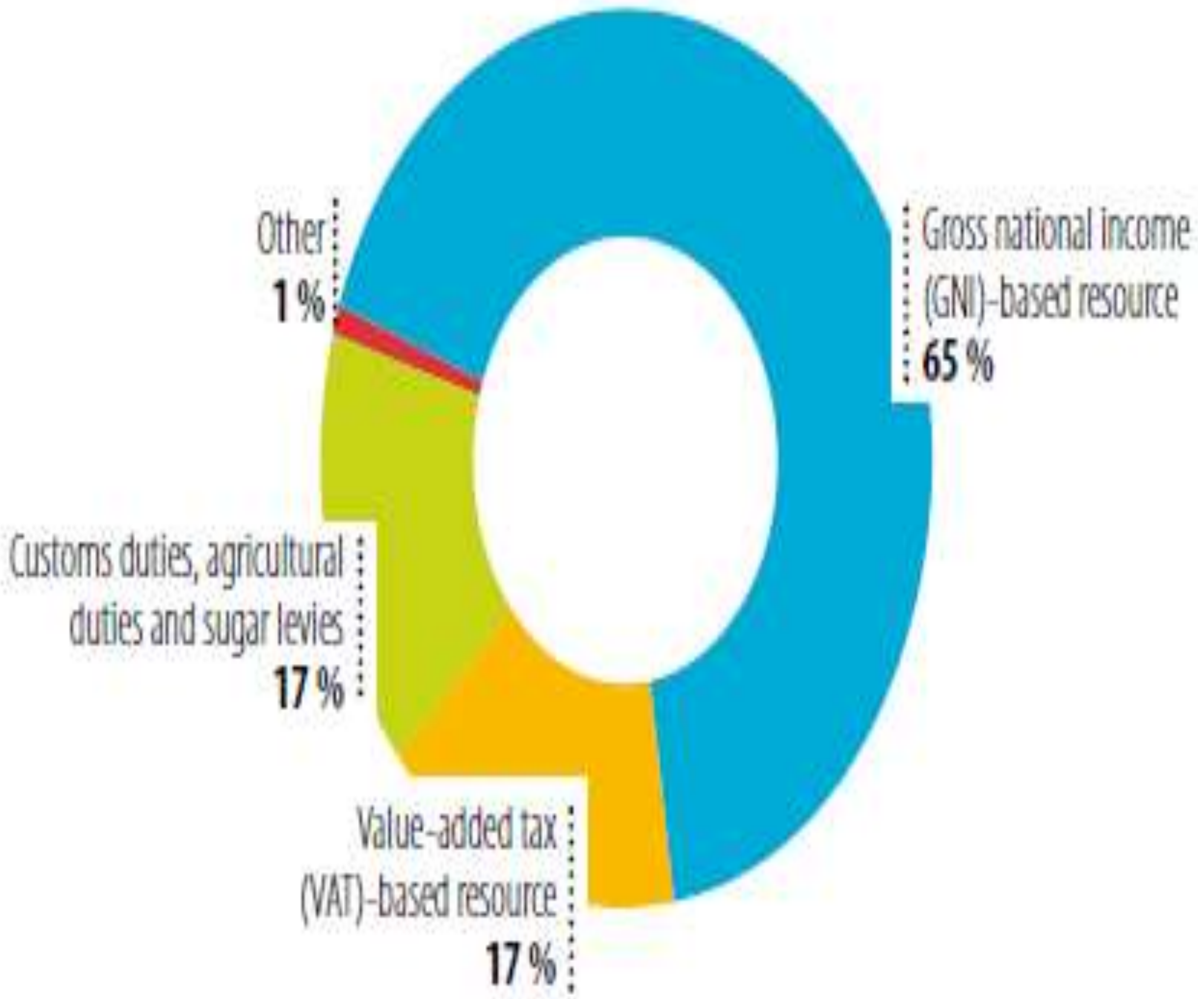
Source: EU-Commission (2019)

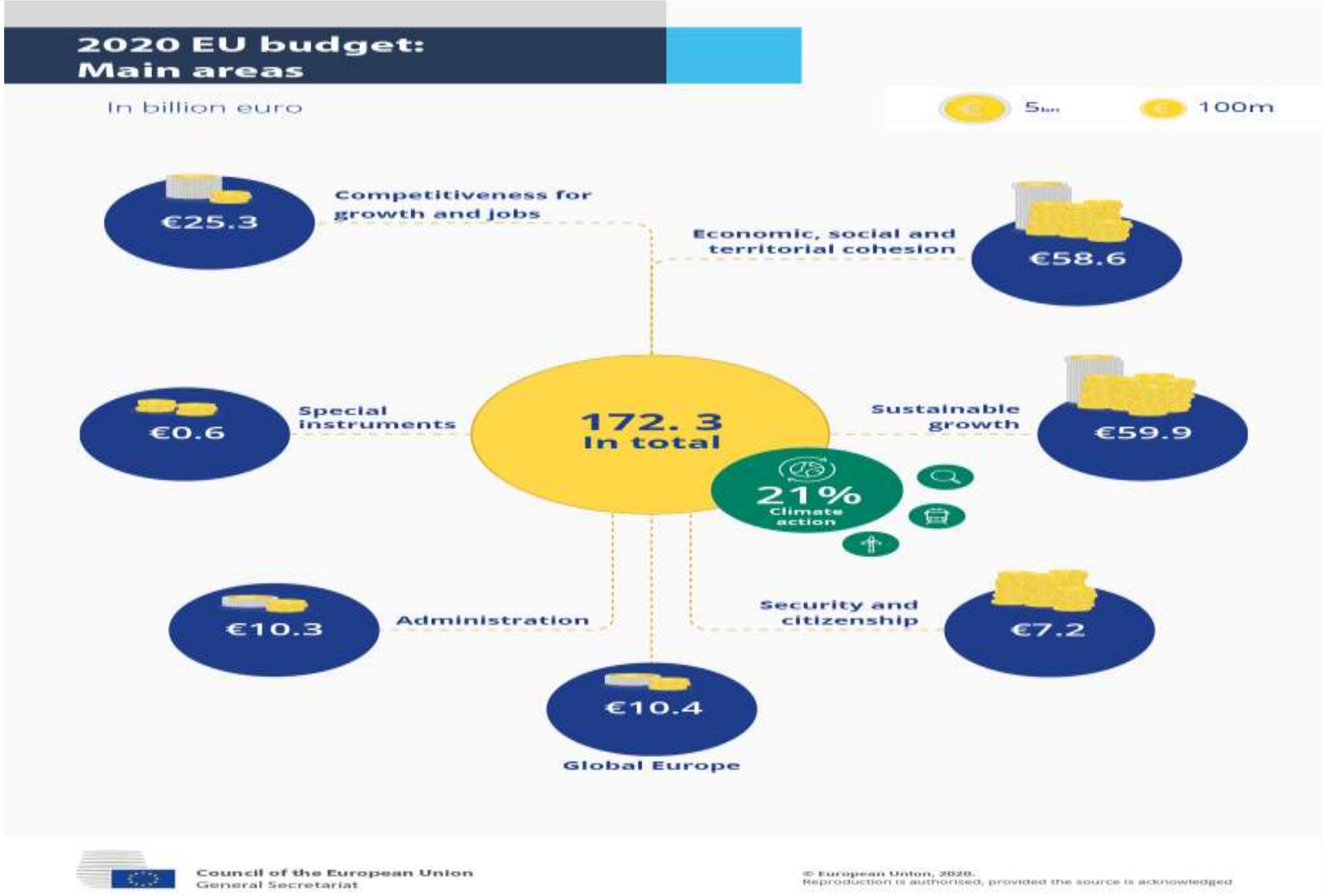
WHERE DOES THE MONEY COME FROM ?

The EU obtains its revenue from 4 main sources, fixed according to complicated mechanisms of calculation:

1. GNI-based resources: contributions from the Member States are the largest source of the EU budget and are calculated on gross national income
2. Customs duties on goods from outside the EU and sugar levies; these are collected by the Member States and passed on to the EU
3. VAT-based resources, on the proportion of VAT levied in each member country (generally 0.3% but different amount, i.e. Germany and the Netherlands 0,15%)
4. Other revenue, including taxes from EU staff salaries, bank interest, fines and contributions from third countries.



WHERE DOES THE MONEY GO ?



Which budget setting procedures ?

- The EU budget is proposed annually by the European Commission.
- The draft of the annual budget is then reviewed and negotiated by the Council of the European Union (which represents Member States' governments) and the European Parliament (which represents EU citizens)>>> co-decision procedure. If the Council doesn’t agree, the EP has the final word.
- The annual budget is adopted by majority of Member States, with the final endorsement by the European Parliament
- The multi-annual financial framework is adopted by unanimity of Member States after the consent of the European Parliament.
- The annual budget must remain within ceilings determined in advance by the Multiannual Financial Framework

Which budget control ?

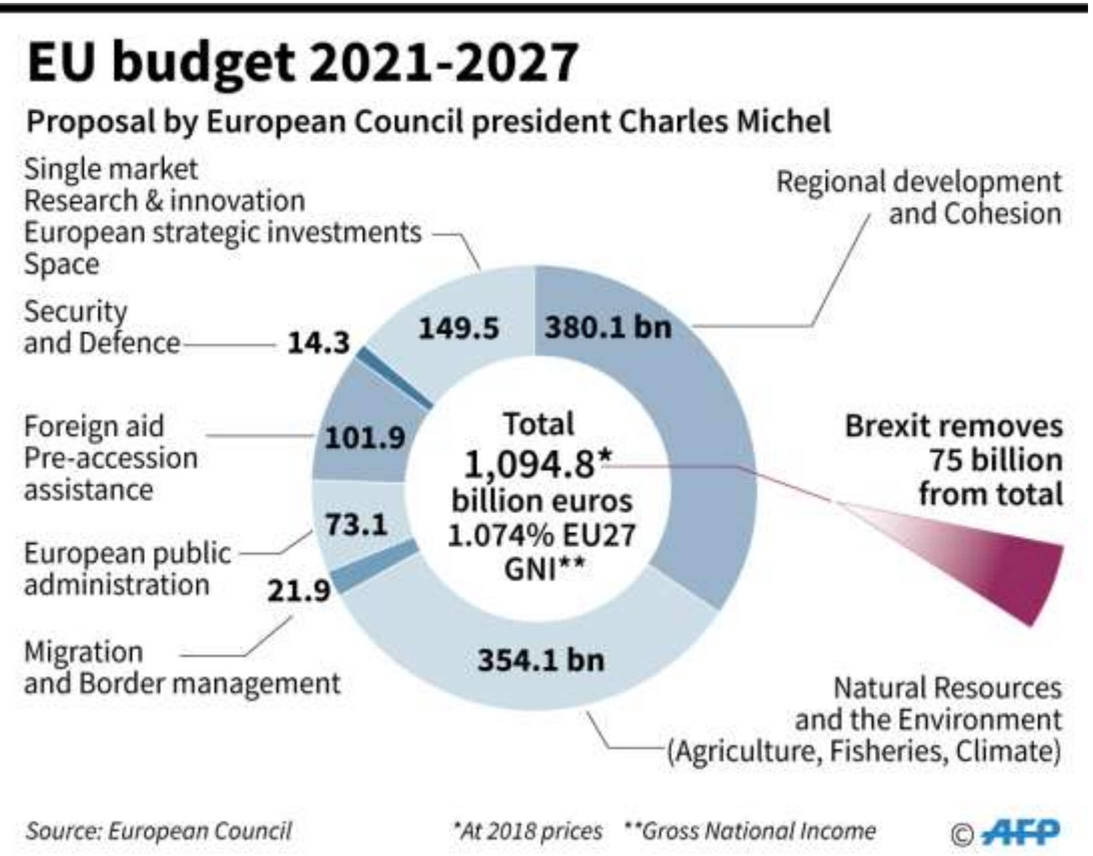
- The Commission is responsible for implementing the EU budget in cooperation with Member States in line with the principles of sound financial management.
- If Member States or final beneficiaries are found to spend EU money incorrectly, the Commission takes corrective measures.

- The annual discharge procedure allows the European Parliament and the Council to hold the Commission politically accountable for the implementation of the EU budget.

- The European Parliament decides, after a recommendation by the Council, on whether or not to provide its final approval, known as 'granting discharge', to the way the Commission implemented the EU budget in a given year

- The European Court of Auditors delivers annual accountability reports; since 2007 it signed off the European Union accounts every year.

Hot debates and different visions

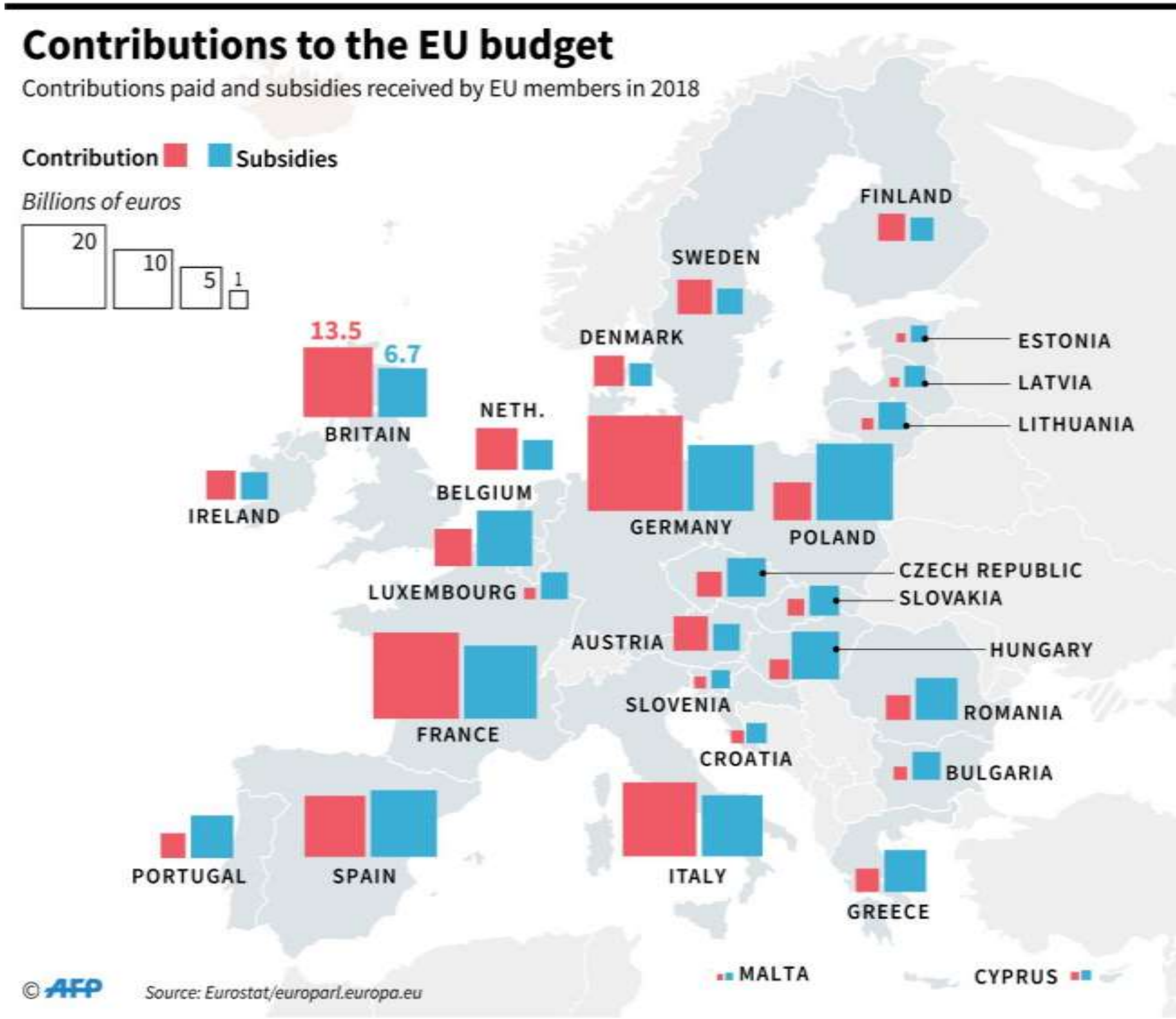


Source: EPRS, 2021-2027 multiannual financial framework and new own resources, July 2018, based on Secretariat of the Committee on Budgets, European Parliament.

A big fight over relatively small changes ?

- The gap between the European Commission's proposal and Charles Michel's proposal is just under €6 billion a year across 27 countries.
- EP Parliament advocates the reform of own resources, with new revenues from levies on financial transactions, CO_2 emissions or plastic
- Political arm wrestling on the political role of the budget
- Different positions between givers and takers
- Different position on the typologies of expenditures

https://www.europarl.europa.eu/thinktank/infographics/mff2021-2027/index.html



Different «tribes» fighting on the budget

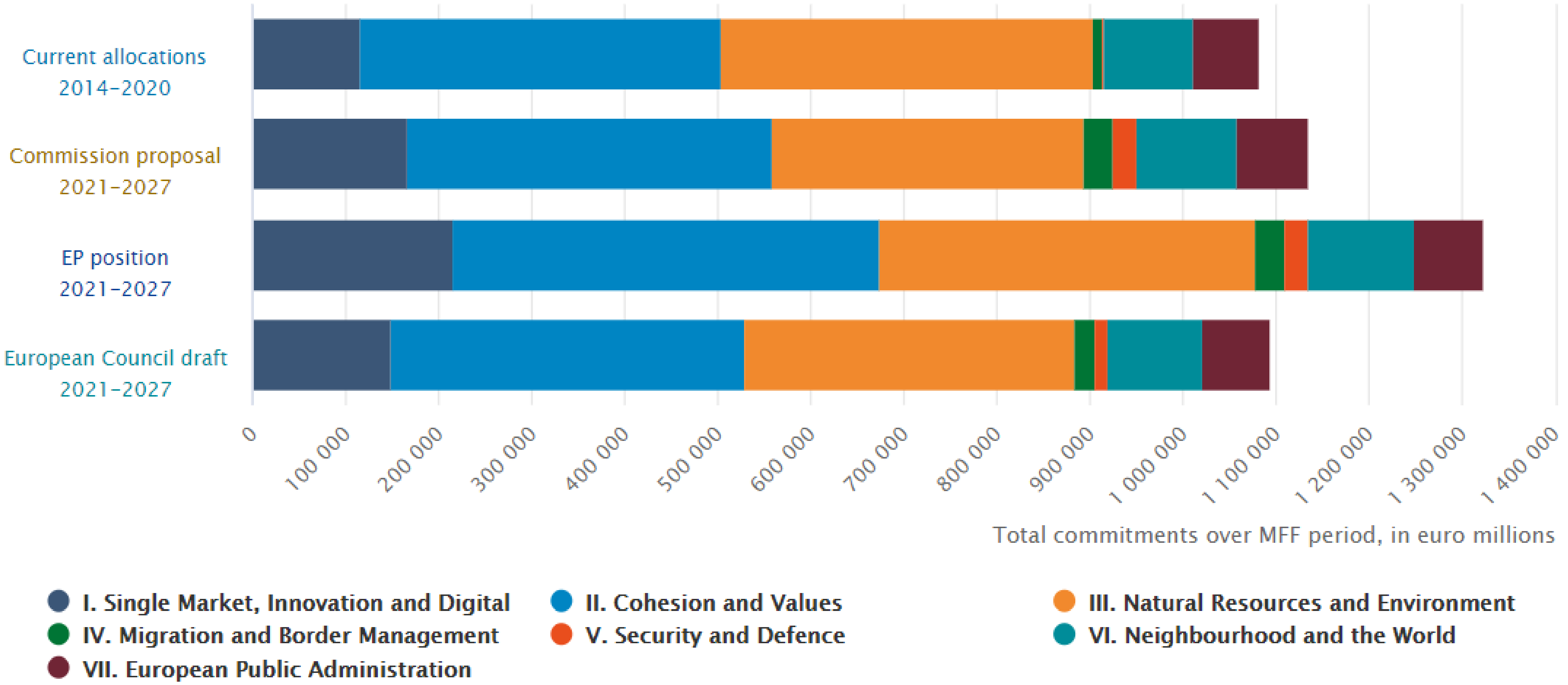
- **The 1 percenters (***Austria Denmark, Germany, the Netherlands, Sweden).*

- **The Friends of Cohesion (***Bulgaria, Croatia, Czech Republic, Cyprus, Estonia, Greece, Hungary, Italy, Latvia, Lithuania, Poland, Portugal, Malta, Romania, Slovakia, Slovenia, Spain;* e.g in Portugal, Croatia and Lithuania, EU cohesion funding made up more than two-thirds of total public investments).

- **The 1.11 percent club (***Croatia, Italy, Lithuania, Malta, Romania, Slovakia, Slovenia, Spain)*

- **The Friends of the farmers (***Austria, Bulgaria, Cyprus, Czech Republic, Croatia, Estonia, France, Greece, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Poland, Portugal, Romania, Slovakia, Spain, Malta).*
- **The «visionaries»**: talks of 2% since some years…. NOW IS IT GOING TO BE A REALITY ?

Real different proposals



The EUROPEAN STABILITY MECHANISM…

- It was established in **2012** by means of a special intergovernmental treaty to safeguard and provide access to financial assistance programmes for member States of the Eurozone experiencing temporary financial difficulties. It aims to ensure financial stability within the Eurozone.

- It is funded by each Member State's on the basis of its economic weight (expressed in GDP). Germany accounts for 27.1%, followed by France (20.3%) and Italy (17.9%).

- The ESM's subscribed capital is €700 billion, of which €80 billion has been effectively paid in; the remaining 620 billion can be raised on the financial markets through the issue of bonds.

…The EUROPEAN STABILITY MECHANISM…

The ESM **issues debt instruments** in order to finance loans and other forms of financial assistance to Euro area countries. It can:

- make loans in the context of a macroeconomic adjustment programme (Ireland, Portugal, Greece, Cyprus);
- purchase debt in the primary and secondary debt markets (never used);
- provide precautionary financial assistance in the form of credit lines (never used);
- finance recapitalisations of financial institutions through loans to the governments (Spain)

The ESM is managed by a Board of Governors, composed of the 19 Euro-area finance ministers (Eurogroup, President Mário Centeno, Minister for Finance of Portugal). All major decisions are taken unanimously by the Board (including those on granting financial assistance to specific countries). The voting rights of Board members are proportional to the capital subscribed by their respective countries: Germany, France and Italy have voting rights that exceed 15 per cent each and they may therefore veto urgent decisions.

...The EUROPEAN STABILITY MECHANISM...

- The ESM has entered the public debate because in the public opinion it is linked to the serious economic measures taken by Greece after the 2009 crisis.
- Since 2018 HOT debate on the reform plan, even if the draft do not contain any provision for sovereign debt restructuring mechanism and for macroeconomic surveillance tasks; the ESM will flank the European Commission, not replace it >>> the proposed reform does not increase the ESM's powers

- Nowadays HOTTEST debate on the conditions to access to financial support: the **conditionality** varies according to the type of instrument used, but it is **stringent** and ask to the assisted Country to sign a specific memorandum of understanding (MoU).
- The European Council is currently discussing whether to use the funds available to ESM to support the Member countries to deal with the Covid-19 emergency. One of the advanced proposals would be to allow access to the ESM <u>without any conditionality for health investments related to Covid-19</u>. On April 23, 2020 the European Council will meet and probably make a decision on how to use the ESM.

The EUROPEAN INVESTMENT BANK

- Established by the Treaty of Rome (1957)
- On 2020 current capital-base rose to €243bn.
- The shareholders of the EIB are the 27 Member States of the European Union. Each Member State's share in the Bank's capital is based on its economic weight (expressed in GDP) at the time of its accession.
- It coordinates its operations with those of the other EU institutions to implement EU policy, while preserving its independence and its own decision-making procedures as provided for in the EU Treaties.
- EIB offers loans to the public and private sectors in support of substantial capital investments. It raises money from the global capital market at advantageous conditions, so the loan pricing is usually good. In 1994 the Bank launched the European Investment Fund specialises in SME.

➢ **In 1958-2020 EIB invested € 1.243bn to fund 12.716 projects**

➢ **Now EIB IS launching a special credit line for firms of € 200bn**

The EUROPEAN CENTRAL BANK

It works independently from governments. A President (8 years); an Executive Board (6 members); a General Council (members are central bankers of the member States). Main tasks:

- Control of inflation (< 2% yearly)
- Ensures prices and power purchase stability
- Controls money supply and fixes interest rates
- Supervises (partially) on banks

Quantitative easing (**QE**) is an unconventional form of monetary policy whereby ECB buys predetermined amounts of government bonds in order to inject money into the economy to expand economic activity.

- First time 2012 Mario Draghi speech “Whatever it takes”: 2015-18 €20-80 billion per month of Euro-area bonds from central governments, agencies and European institutions have been bought.

AND NOW ? After an early slip-up, **ECB announces €750 billion Pandemic Emergency Purchase Programme (PEPP),** a new temporary asset purchase programme of private and public sector securities. ECB is fully prepared to increase the size of its asset purchase programmes and adjust their composition, by as much as necessary and for as long as needed. It will explore all options and all contingencies to support the economy through this shock.