

## Analysis of EU Budget Revenues through Fiscal and Budgetary Policy over the Period 2013-2018

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### Abstract

*The European Union's budget is the document authorizing yearly financing all activities and community interventions and translates political guidelines and priorities in terms of resource constraints.*

*Fiscal policy acts on economic growth and acceleration measures for recession economies. Negative effects can only be eliminated by harmonizing fiscal policies. Even if a current budget is lower than a previous budget, it should be more flexible.*

*The main purpose of this paper is to analyze the evolution of the European Union budget. This analysis is important for the European economy, so for the Europeans because the more flexible the budget and the priority needs, but also the wishes of the people, the more they are satisfied and the migration rate will start to decrease.*

**Key words:** budget, fiscal policy, budget policy, revenues, expenditures

**J.E.L. classification:** H31, H60, H61

### 1. Introduction

From a historical point of view, the notion of budget was first introduced in the UK in the 17th century, and then expanded to the other European countries since the nineteenth century. The word is of Anglo-Saxon nature. In Europe, the term became official in the nineteenth century under different names: Haushalsetat or Haushaltsplan in Germany, Preventivo or di bilancio in Italy. The state budget is an essential category of finance in defining a legal and economic approach. By budget, the revenues and expenditures of the state are expressed in terms of value in a manner similar to the documentation carried out at the level of the companies that follow the financial equilibrium.

The state budget is not only a document approved by law, it is also a benchmark indicating the extent to which the state is involved in the economy, as well as a degree of capacity of the national economy to contribute to the consistency of state-owned financial resources and how they are managed. At the state level, the budget is an account showing how much the state spends and how public spending is financed.

This work is based on a linear analysis of the evolution of the European Union budget, its trends and changes during the analyzed period, which implies the use of appropriate econometric methods. This methodology allowed analysis of the evolution of the European economy. This can be considered favorable, a prerequisite based on the public financial system which through budgetary policy and the mechanism of redistribution of public financial resources directly influences the economic growth, ensures the achievement of the objectives of stimulating the economy, raising the standard of living and poverty alleviation, social protection.

## **2. Literature Review**

In order to draw up the budget, some financial issues need to be taken into account by imposing and observing binding budgetary rules or principles. These principles were developed in the nineteenth century by the classics, considering Adam Smith's theoretical formulations, as well as a Scottish philosopher and philosopher who was considered to be the father of the modern political economy because of his treaty: Research on the nature and causes of the nation's wealth (Communication from the European Commission EUROPA 2020, 03.03.2010).

The evolution of the European economy can be considered favorable, a premise formed on the basis of the public financial system which through budgetary policy and the mechanism of redistribution of public financial resources directly influences the economic growth, ensures the achievement of the objectives of stimulating the economy, increasing the level of living and reducing poverty, social protection.

In the first part of the paper there are theoretical notions and definitions about the state budget, fiscal policy and fiscal policy, some ideas to outline the role and significance of each of them in the analysis.

In this work we performed an analysis of the evolution revenues EU budget analysis conducted during 2013-first quarter of 2018 describing the revenues each year in terms of value and their evolution over the period Menton .

We also analyzed the evolution of European Union spending in the 2013-13 first quarter of 2018, an analysis of the expenditure per year of that period and a comparison in the order of the years and the evolution of total EU spending over the period.

### **2.1 Fiscal policy - some ideas to shape its role and significance**

The fiscal policy is the State's view, measures and actions on taxes and their role in revenue generation and financing of budget expenditures, types of taxes, perceiving and using as a tool to stimulate economic growth (Manolescu G., Picu A., Rotaru A., 2011).

The state through fiscal policy is considering a series of economic coordinates, especially demand for goods, income. Activities are mediated by the level of public spending and investment, which can relaunch economic growth. The most important objectives of fiscal policy are in the economic development and development of the middle class. The application of tax laws in practice ensures the correct functioning of the fiscal mechanism and the achievement of tax receivables is achieved with specialized state bodies and with the work of some tax specialists, initiated in accordance with the rigor of taxation on the national and international level.

### **2.2. Budget policy and its flexibility**

The budget policy is the state's actions in relation to budget revenues and expenditures, ways and means of mobilizing revenue, types and sizes of spending where interference and instability intervene, economic recovery. It is based on legal provisions establishing sources of income, the purpose of their use on expenditure targets, regulations of the financial year.

In the genuine economy, the states used the fiscal policy to combat the crisis and to stabilize the economy.

The anti-crisis orientations of the state's fiscal policy are noted in the 1930s and take into account the Keynesian conception of state intervention in the economy.

## **3. Analysis of the budget revenues of the European Union through fiscal and budgetary policy**

At the level of the net net sugar levies and net customs duties, which make up the net total of traditional own resources, there was a significant decrease in the first three years, then a favorable evolution was recorded, the value of these resources increasing over the past 3 years by approximately 35.76 %.

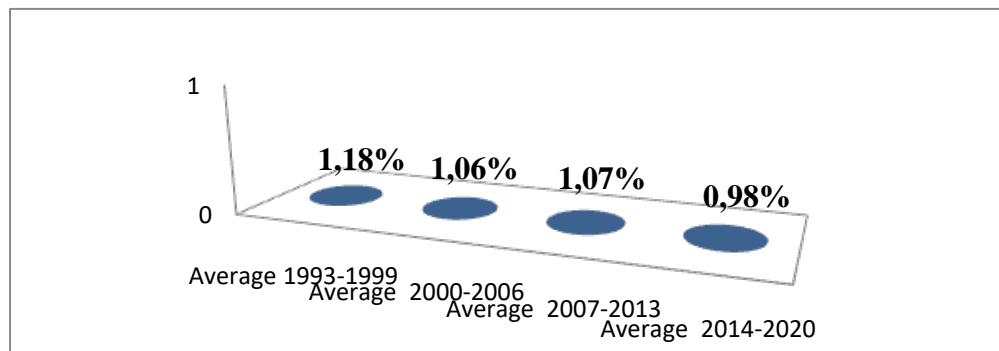
The costs of collecting traditional own resources have not evolved in one sense over a certain period of time, with values having different trends each year, but with a slight propensity for growth (The conclusions of the Brussels European Council, 25-26 March 2010).

VAT-based resources grew by about 25.16% over the period 2013-2016, then fell sharply in 2017 by about 11.76% in 2017 with a slight increase in 2018.

GNI-based resources are showing a significant increase in 2015, maintaining their position in 2016, but with a strong downturn in 2017 by about 10.6% reaching 2018 in 2013.

The EU budget still accounts for a small share of total EU public spending, ie less than 1% of EU revenue and about 2% of public spending. The percentage has fallen over time putting a lot of pressure on the budget to make it more efficient, focusing on the areas where it has a very strong impact, and leaving the procedures and rules cumbersome to prevent results.

Figure no. 1 The size of the EU budget as a percentage of the gross national budget



Source: file:///C:/Users/computer/Desktop/reflection-paper-eu-finances\_ro.pdf

The composition of the EU budget has evolved over time, with the proportion of agricultural and cohesion spending falling and still accounting for more than 70% of the total, with expenditure focusing more on research, external action, trans-European networks and programs managed at European level.

The EU budget also supports the European response to the refugee crisis, threats to organized crime and terrorism. The amount of funds allocated to migration and security has been doubled to support border police, coastguard services at European level and to help Member States with a large influx of refugees. The response to these crises was a test to test the limits of budget flexibility.

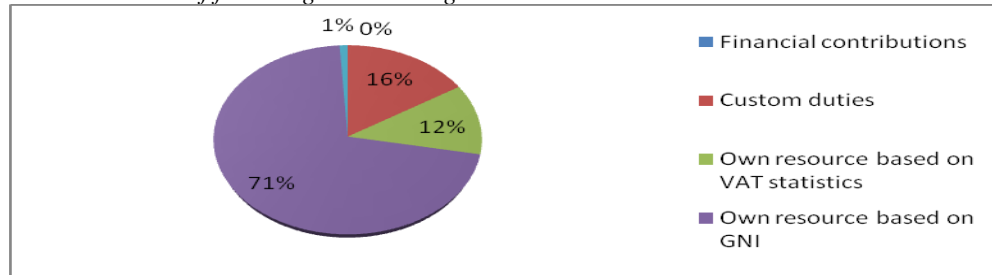
The number of challenges faced by the European Union is increasing and the pressure on the EU budget and national budgets is greater. It is necessary for the EU budget to play an important role in long-term challenges such as climate change, migration, cyber security, defense, terrorism, increasing productivity and investment at a slow pace and demographic change.

There have been developments in how to finance the EU budget. The European Union can not borrow as opposed to national budgets but relies on 'own resources' funding, which is divided into three categories: Member State contributions based on the level of each country's income measured by gross national income (GNI), tax contributions on value added tax (VAT), the customs duties levied at the external borders of the European Union.

About 80% of the EU budget is financed by national contributions based on gross national income and value added tax. GNI-based contributions are considered fair because they reflect adequately each Member State's relative payment capacity and customs revenue is regarded as an authentic own resource because it is a revenue generated by the common commercial policy that supplies the EU budget.

Over time, a number of corrections and adjustments have been introduced since some Member States have considered excessive contributions compared to the benefits they receive from the EU budget, so the current funding system for the EU budget is from increasingly opaque and more complex.

Figure no. 2 Sources of financing the EU budget 2018



Source: file:///C:/Users/computer/Desktop/reflection-paper-eu-finances\_ro.pdf

This system, largely reinforced by Member States' contributions, has reinforced the misperception that the value of the EU budget share for a Member State can be measured by the net balance of paid-in contributions and funds received, thus ignoring the essence of an upgraded EU budget, results from the pooling of resources but also from achieving results that could not have been achieved through uncoordinated spending at European level. In the broader sense, these economic gains are often ignored, just like the added value of belonging to the largest economic space, to the most important commercial power in the world.

In order to be successful in improving the effectiveness of the EU budget, it should also look at how revenue contributes to EU priorities, withdrawing the UK and removing the budgetary corrections to that country would remove some barriers to reform on the revenue side of the EU budget.

The EU budget has been complemented by new mechanisms, instruments and institutions to respond to different needs, some of which are out of the budget and are not subject to the same rules. Thus, additional funding is provided by the European Investment Bank and other bodies based on intergovernmental agreements such as the European Development Fund which is linked to the special partnership with Africa, the Caribbean and the Pacific. EU Trust Funds have been created as well as other facilities aimed at pooling the funds provided by the EU budget, Member States and other donors to smooth out external crises. Extensive financial architecture has allowed the European Union to mobilize additional funds while enhancing the complexity of EU finances.

#### 4. Analysis of the expenditure of the European Union budget in terms of fiscal and budgetary policy

In 2013 there was an increase in the total EU expenditure of 2.1% compared to the total expenditure in 2012.

Also in 2013, the European Union has placed the emphasis on sustainable growth, ie economic growth and employment, thus attempting to influence in a favorable way the development spending the most money in this direction, namely 70600 million euros accounting for 46.7% of total spending on EU policies in commitment appropriations.

The next major expenditure in terms of value is the conservation and management of natural resources with EUR 60,100 million, money allocated by the EU for this area and where most money has been allocated to the agricultural market, namely EUR 43700 million, other significant expenditure this branch being linked to rural development with 14800 million euro and environmental and fisheries development. This represents 39.82% of the total expenditure of the European Union (The conclusions of the Brussels European Council, 25-26 March 2010).

Significant expenditure in terms of value has also been seen in spending on citizenship, freedom, justice and security, with € 2100 million, or 1.39% of the total, spending on pre-accession, development cooperation, democracy and human rights, with the foreign policy and the common security with 9600 million euro, ie 6.36% of the total, and the administrative expenses also have a fairly high value, ie 8400 million euro, ie 5.56% of the total EU spending.

The amount of spending may vary from year to year according to the needs of the population and the deficient industries at that time. The European Union institutions are always focusing on the deficit and the most rapidly developing and sustainable growth categories.

In 2014, the European Union's total expenditure declined by 10.03% compared to the total expenditure in 2013, and in 2015 its value increased by 1.84% compared to 2014.

In 2014 and 2015 the European Union focused on smart and inclusive growth, economic growth and employment, economic, social and territorial cohesion, with very high values of 52756 and 77986 million euros, representing 38.85% respectively 47.85% of the total EU budget expenditure.

The second major expenditure category in terms of value is the sustainable increase of natural resources by 49857 and 64692 million euro respectively, money earmarked by the EU for this branch with the aim of expanding markets, rural areas and especially for encouraging and developing agriculture. They represent 36.72% and 39.69% of total EU spending in 2014 and 2015, respectively.

Significant expenditure in terms of value was also seen in expenditure on Citizenship, Freedom, Justice and Security, with 1737 and 2456 million, or 1,27% in 2014, and 1,50% in 2015, with pre-accession spending, Development Cooperation, Democracy and Human Rights, Foreign Policy and Common Security with 8335 and 8749 million respectively, respectively, 6.86% and 5.36% of the total, with administrative expenses also having a fairly high value, namely 8721 respectively € 9076 million, ie 7.18% and 5.56% in 2014 respectively 2015 of the total EU expenditure.

The expenditure amounts have increased considerably in 2015 to 2014 in areas of particular interest for the EU and for the general population.

Competitiveness for growth and jobs, economic, social and territorial cohesion still occupies the first place among the total expenditure of the European Union, with an annual increase of 20.5% in 2016 and 2017 by 17, 53%, blurring that the European Union is acting to achieve its economic goals and performance.

In 2016, a substantial increase is also seen in spending on natural resources of about 6.25%, which is very close to the cost of economic growth, but decreases by 6.24% in 2017 creating a difference between these chestnuts major but not very accentuated. There is an increasing emphasis on the development of agriculture, rural areas, the environment accounting for large percentages of total EU spending of 41.52% in 2016 and 38.67% in 2017.

Expenditure on security, citizenship, freedom and justice in the years 2016 and 2017 showed very high increases compared to the values in 2014 and 2015, which shows that the European Union has developed this branch for the safety of the population. The growth rate is 88.75%.

In 2017, the most significant decrease of the administrative expenditures was recorded by 80.71% compared to their value in 2016 and the previous years.

A further decline in value was also seen in spending on pre-accession, development cooperation, democracy and human rights, with foreign policy in the year 2017 of about 83.64%.

Expenditure figures have increased considerably in 2016 and 2017 in the first areas of particular interest to the European Union and have fallen to the other so highlighting the areas on which development is most emphasized.

Compared to 2017, the EU-approved budget for 2018 shows a 54% increase in payments for the Cohesion Policy.

In this way the budget allocated enough money to pay invoices received from Member States on cohesion funds spending.

The European Union is devoting more and more money to tackling youth unemployment, innovation, research, and security.

Support for European farmers for agricultural development is also rising this year to € 60 million, or 37.78% of total EU spending in 2018.

The only cut this year is the pre-accession funds that were earmarked for Turkey by 105 million euros, and 70 million euros are put in reserve.

The allocation of €3.7 million has been increased in terms of security and the fight against the migration crisis.

The EU Budget of 2018 also provides for the launch of a program that grants a free European train ticket for one month in European countries for every 18-year-old who wishes to visit Europe. Initially, the program receives 12 million euros for the next year.

They allocated 4.9 million euros from the EU budget to combat disinformation, propaganda coming from the Russian Federation and is scheduled to start funding of 1.1 million euros this action, and allocate 3 million euros the European Commission communication in relationships and

especially for the Eastern Neighborhood and the Western Balkans. At the same time, EUR 800 000 is allocated to the European External Action Service for strategic communication tools.

Through these measures, the European Union shows that from 2018 strategic importance will be given to combating disinformation and propaganda at European level.

## 5. Conclusions

The state budget is not only a document approved by law, it is also a benchmark showing the extent to which the state is involved in the economy, as well as a degree of national economy's ability to contribute to the consistency of state-owned financial resources and how they are managed.

Fiscal policy is an essential component of economic policy that, through its tax and taxation system, seeks to stimulate economic activity.

Budget policy is the state's actions in relation to budget revenues and expenditures, ways and means of mobilizing revenue, types and sizes of spending where interference and instability intervene, economic recovery.

Approximately 95% of the EU budget that most contributes to the financing of policy areas the union activities precise the game the expenditures paid by the Commission.

Member States' contributions to the EU budget are in line with their economic prosperity.

The European Union's budget focuses on overcoming crises by investing in economic growth and job creation by helping entrepreneurs through a series of business start-up projects, the fund being designed to reduce unemployment especially among young people in the most affected regions of the Union .

The EU budget still accounts for a small share of total EU public spending, ie less than 1% of EU revenue and about 2% of public spending. The percentage has fallen over time putting a lot of pressure on the budget to make it more efficient, focusing on the areas where it has a very strong impact, and leaving the procedures and rules cumbersome to prevent results.

There have been developments in how to finance the EU budget. The European Union can not borrow as opposed to national budgets but relies on 'own resources' funding, which is divided into three categories: Member State contributions based on the level of each country's income measured by gross national income (GNI), tax contributions on value added tax (VAT), the customs duties levied at the external borders of the European Union.

EU spending has increased over time from 1.7% to 2.5% of total Member States' public expenditure.

The amount of spending may vary from year to year according to the needs of the population and the deficient industries at that time. The European Union institutions are always focusing on the deficit and the most rapidly developing and sustainable growth categories.

Expenditure figures have increased considerably in 2015 as compared to 2014 in areas of particular interest to the European Union and the general population.

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