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The Position of Romania within the European Union Budget in the Context of the Crisis caused by the COVID-19 Pandemic

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Abstract

The study analyses the main predominant factors affecting the revenues and expenditures of the EU budget for 2020-2027 and the position of Romania as an EU Member State on flows to EU challenges: flow of problems, flow of challenges and flows of Member States' interests.

Keywords: *European Union, budget, EU, Multi-Annual Financial Framework, stream analyses, perspective 2021–2027.*

JEL Classification: H61

Introduction

The budget of the European Union is the act which provides and authorizes annually the support and financing of all Community activities and interventions, as well as their necessary resources, priority activities and the objectives set for the proper functioning of the European Union. The EU budget is the most important instrument that affects the amount of revenue and expenditure that comes from all policy areas of the community. It cannot be compared to any national budget due to its significant features. One of these would be that during the decision-making and functioning process, the European Union must follow and respect certain general principles and rules, which also apply in the Member States of the Union, rules aimed at ensuring a transparency of revenue and expenditure for the decision-making process and clarity in the control of budget execution. Unlike national budgets, the EU budget is an investment budget that finances key areas that add value to Europe by stimulating growth and competitiveness. It only intervenes when spending money at European level is more efficient than at local, regional or national level.

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1. Financing of the European Union budget

The Union's annual budget complies with the multiannual financial framework (MFF), which aims to ensure the orderly development of Union expenditure within its own resources. The multiannual financial framework is the instrument that sets the values of the annual ceilings on commitment appropriations by category of expenditure and the annual ceiling on payment appropriations. The categories of expenditure, the number of which is limited, correspond to the major sectors of activity of the Union.

The Treaty on the Functioning of the European Union (TFEU) stipulates that the MFF „sets the values of the annual ceilings on commitment appropriations by category of expenditure and the annual ceiling on appropriations for payments" and also „provides for any other provisions necessary for the proper conduct of the annual budgetary procedure".

The European Union has its own revenue system, compared to various international organizations whose resources are largely Member States' contributions.

The budget of the European Union symbolizes about 1% of the national product of the European Union, which represents almost 244 EUR / EU citizen, money that is used to improve the daily life of the inhabitants. Thus, the main purpose of the budget is to fund initiatives and projects in areas where all EU Member States have agreed to act at Union level, which can lead to better results and lower costs.

The Member States of the European Union have decided to devote much of their joint and budgetary efforts to higher growth and job creation. One of the Union's top priorities has been sustainable development, for the EU to become more competitive and for less prosperous regions to catch up. The European Union has certain funds, also called "own resources", to finance its expenses.

Own resources to cover annual payment appropriations, for the period 2014-2020, were limited to a maximum of 1.23% of total Member States' GNI at market price for payment appropriations, and for commitment appropriations it was established ceiling of 1.29% of total Member States' GNI.

At present, own resources are limited to a maximum of 1.40% of the total GNI of all Member States, while the total annual amount of commitment appropriations in the Union budget should not exceed 1.46% of total GNIof all Member States.

The EU budget consists of traditional own resources, VAT-based own resources, Member States' GNI-based own resources and other revenue received, including payroll taxes paid by EU staff, amounts from contributions from non-EU countries. For certain Union programs, but also for fines paid by undertakings which infringe certain competition rules or other laws.

Thus, the Member States of the Union contribute to the annual budget with amounts relatively proportional to their level of economic prosperity.

In order to ensure adequate resources for the harmonious development of Union policies and to align the Union's financing instruments with its policy priorities, in the context of the Covid-19 pandemic, the Union intends to act in the coming years to reform its own resources system by introducing new own resources during the multiannual financial framework for the period 2021-2027 ("MFF 2021-2027", Decision 2020/2053/UE, Euratom), based on plastic packaging waste, depending on the decarbonisation process, a digital tax and a financial transaction tax.

On the other hand, by analysing the financing of the budget, it is known that EU funds are distributed to the beneficiaries in the Member States in accordance with the priorities set by the Union. On the one hand, Member States benefit from these funds allocated from the Union budget, and Member States, but which are less prosperous from an economic point of view, receive more funds than rich states, which is the result of solidarity, underlying EU programs, including those found in the context of cohesion policy.

In order to cover certain well-specified thematic areas, four types of Structural Funds can be found and used, including the European Regional Development Fund, ERDF, which aims to support infrastructure works, investments that support employment, development projects and the assistance of small businesses and enterprises. Another current Structural Fund is the ESF, or European Social Fund, which aims to promote the reintegration into the labour market of the unemployed and those belonging to disadvantaged groups by funding their training systems. There is also the FIFG, in other words it is in fact the Financial Instrument for Fisheries Guidance that participates in the modernization and adjustment of this sector. The Guidance Section of the European Agricultural Guidance and Guarantee Fund deals with financing for rural development and also provides support to those interested in agriculture, mainly in the lagging regions.

An important part of the European Union's own resources is the Member States' contributions to the total amount. So, for a more detailed analysis we chose the total value of own resources per Member State in 2020, a rather important year for the European Union, because on January 31, 2020, the United Kingdom withdrew, so the European Union is made up of 27 of Member States.

Table 1.

Total value of own resources by main Member States in 2020

STATE	**BUDGET 2020 - RESOURCES**
Belgium	6,314
Germany	31,032
Spain	12,650
France	23,284
Italy	17,240
Netherlands	8,025
Austria	3,537
Poland	5,450
Portugal	2,012
Romania	2,057
Finland	2,246
Sweden	3,904
Malta	129
Total	**151,638**

Source: Annex 1, Breakdown of the total value of own resources by Member States

As can be seen by analysing the value of resources, the largest contribution to the European Union budget was Germany, a value of EUR 31,032 million, out of a total of EUR 151,638 million, representing a percentage of approximately 21%, followed by France with a value of EUR 23,284 million, a percentage of 15% of the total.
The smallest contribution, and thus ranks last, is Malta, which made a contribution to the European Union budget of EUR 129 million, a percentage of only 0.08%.

Budgetary expenditure is approved jointly by both the Council and the Parliament, so the European Union budget must comply with all the budgetary limits set by the multiannual financial framework for certain programs in certain areas, such as agriculture, external relations and cohesion. Therefore, according to the flexibility instruments that guarantee this, the EU can react if certain unforeseen funding needs arise.

Depending on the characteristics of the appropriations, the budget structure is divided into several categories, such as:

- Administrative expenditure, or individual budgets for certain activities - the budget of the European Community consists of 10 parts, one for each institution. In 2020 it is observed that the total value of administrative expenditure has reached a percentage of 6.1% of the total budget of the Union of 166,688.1 million Euros.
- The multiannual financial framework, in short MFF - the budget is divided into headings corresponding to the main policy areas and sectors, thus establishing expenditure ceilings that present the most important budgetary priorities for a certain period of time.

Table 2

EU budget for 2020, commitment appropriations recouped by MFF categories

	Millions of Euros	**%**
Competitiveness for growth and jobs	25.284,8	14,6 %
Economic, social, territorial cohesion	58.645,8	34,1 %
Sustainable growth (natural resources)	59.907,0	34,8 %
Security and citizenship	7.152,4	4,2 %
Europe in the world	10.406,6	6,0 %
Administration	10.271,2	6,0 %
Other	587,8	0,3 %
TOTAL	172.255,5	100 %

Source: European Union Annual Budget for 2020

In 2020, most of the EU budget's commitment appropriations went to Sustainable Economic Growth, i.e. natural resources, amounting to EUR 59,907 million, a percentage of about 35% of the total.

A rather small number of appropriations went to the Security and Citizenship section, which reached a value of 7,152 million Euros, a percentage of only 4.2% of their total.

In addition to the expenditure already planned for the financing and implementation of European Union policies, the budget includes certain financial resources which are reserved for emergencies when the Union has to deal with possible crises and unforeseen situations.

2. The position of Romania at European Union level

As a member of the European Union, Romania has full rights and therefore enjoys all the advantages that this statute offers. In 2020 as well as in the other years, Romania was in a not very good position, at the bottom of the European Union rankings. But we also have many strong points, including the fact that it has the position of a net exporter of labour for the more developed Member States of the European Union.

Romania ranks in the European rankings, on the first place in indicators such as corn production, sunflower, as well as the speed of the fixed internet. We are a country with a fairly high potential in the area of agriculture and food industry, tourism, IT, and it is also noticeable that at the level of medical education we have very good specialists. We focus on the tail of the Union rankings for several indicators, including the minimum wage, GDP / capital, life expectancy at birth, access to European funds, but also the financing and support of education and health systems. In 2019, Romania ranks 19th in the European Union ranking on the level of the minimum wage in the economy, with a value of 466 euros gross / month, the last place being occupied by Bulgaria with an amount of 312 euros / month.

From the point of view of the unemployment rate, Romania ranked in 2019 on the 9th place among the Member States with the lowest level of unemployment, with a percentage of 3.9%, taking into account that the average rate in the European Union was 6.2 %. Regarding the indicator referring to life expectancy at birth, in 2018 Romania ranked 26th out of a total of 28 member states, with a life expectancy of 75.3 years. The countries at the bottom of the ranking are Bulgaria and Latvia, where the standard of living expectancy is 75 years, compared to the countries that are in the first place, namely Spain, 83.5 years, Italy with 83.4 years, and France by 82.9 years.

From a macroeconomic point of view, analysing the indicator of Gross Domestic Product / capita, Romania in 2019 ranked 27th in the Union, with a level of GDP / capita of 11,400 euros, compared to the countries in the first positions, namely Luxembourg with a value of GDP / place of 114,000 euros, and Sweden with 82,000 euros per capital (Data according to the International Monetary Fund.).

The GDP growth rate in Romania registered an increase of 4.1% in 2019, compared to 2018, thus placing Romania on the sixth place in the European Union, located after Ireland which registered an economic growth of 5.5% and Hungary by 4.9%.

In 2017, analysing the average of the Member States, their savings increased by 1.5% compared to the previous year.

Regarding the level of the average annual inflation rate, it is found that Romania ranked second in the European Union in 2019 in the ranking of countries with the highest levels of inflation. In the European Union, the average inflation for 2019 was about 1.6%, the lowest percentage being recorded in Portugal, where it was recorded 0.4%.

In 2019, Romania ranked sixth in the Union in terms of public debt, a percentage of 35.9% of GDP, the average of the 28 member states showed a value of public debt of 84.2% of GDP, the highest percentage of this indicator was recorded in Greece, 178% of GDP, and the lowest value of public debt was in Estonia, 20.2% of GDP.

At the level of the budget deficit, in 2019, as a percentage of GDP, Romania ranked 28th among the Member States, with a deficit of -4.6% of GDP, followed by Spain with a value of -3% of GDP, and the largest surplus was recorded in Malta, with + 3.7% of GDP.

Table 3

Amounts received under the Multiannual Financial Framework (MFF) for the period 2017-2020

Name	Accomplished 2017	Accomplished 2018	Accomplished 2019	Accomplished 2020	Execution on 28.02.2021
A. Structural and Cohesion Funds (FSC)	1.280	1.469	2.568	3.566	43
B. Funds for rural development and fisheries (EAFRD + EFF)	1.520	1.026	8.74	1.392	0
C. European Agricultural Guarantee Fund (EAGF)	1.772	1.768	1.844	1.896	1.503
D.Other (post-accession)	231	173	265	264	41
Amounts received from the EU Budget (A + B + C + D)	4.805	4.438	5.553	7.119	1.588

Source: Evolution of financial flows between Romania and the European Union, Net financial balance

The amounts received from the European Union Budget increased during the analysed period, the value in 2017 being 4,805 million euros and reaching the value of 7,119 million euros in 2020. Analysing from the point of view of agriculture, it is known that Romania was at Union level 1st place in 2019 in total sunflower production as well as cultivated area. Thus, in the same year, Romania was the country that provided a percentage of 28% of the entire corn production in the EU, and was on the fourth place at the level of wheat production. As for animal husbandry, in 2019 Romania ranks third in the European Union in sheep production, about 10.2 million heads, after the United Kingdom with 22.8 million sheep**.**

Table 4.

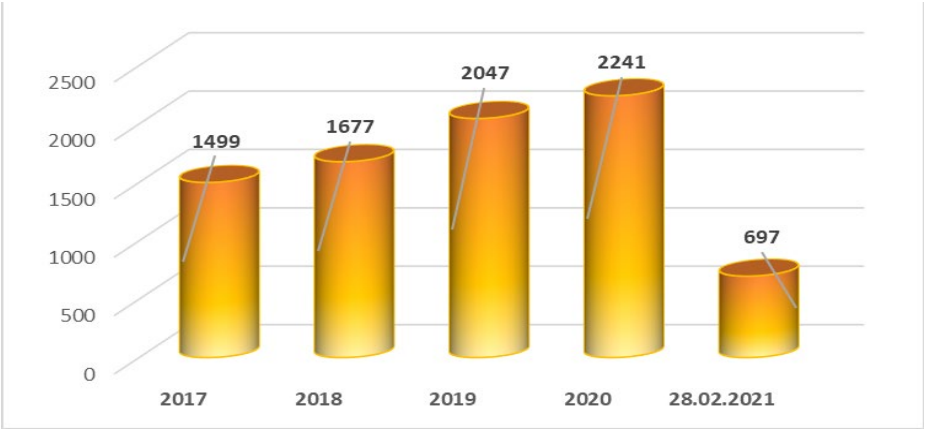
Amounts paid during 2017-2020

Name	Execution 2017	Execution 2018	Execution 2019	Execution 2020	Execution 28.02.2021
Romania' contribution to the EU budget	1.468	1.640	2.004	2.198	684
Other contributions	31	37	43	42	13
Amounts paid to the EU budget	1.499	1.677	2.047	2.241	697

Source: Evolution of financial flows between Romania and the European Union, Net financial balance

Figure 1.

Amounts paid to the budget of the European Union



Source: Data processing table no. 4

The amounts paid by Romania and its contributions to the European Union Budget increased considerably from 2017 to 2020. At the beginning of the analysed period, their value was 1,499 million Euros and reached the amount of 2,241 million Euros in 2020. According to the European Commission, in year 2018 Romania allocates a percentage of 5.2% of GDP for health, thus ranking last in the European Union analysing this point of view.

Regarding the financing of education expenditures, in the same year Romania allocates a percentage of 3.2% of GDP for this purpose, which brought us in the position of being on the last place in the Union that year. In first place in terms of the share of spending on education in GDP was Sweden with 6.9% of GDP, followed by Denmark with about 6.4% and Belgium.

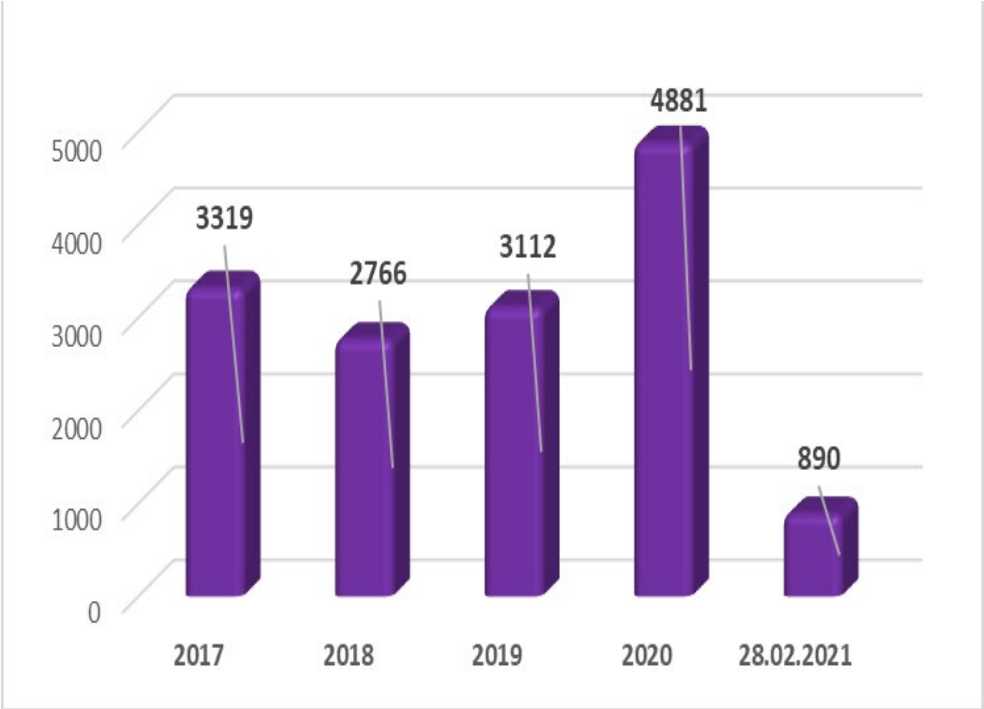
Tabel 5.

Balance of financial flows in the period 2017-2020

Name	Execution 2017	Execution 2018	Execution2019	Execution2020	Execution 28.02.2021
Amounts received from the EU Budget	4.81	4.44	5.160	7.122	1.588
Amounts paid to the EU Budget	1.499	1.677	2.047	2.241	697
Flow balances	3.319	2.766	3.112	4.881	890

Source: Evolution of financial flows between Romania and the European Union, Net financial balance

Figure 2



Analysis of financial flows balances in Romania in the period 2017-2021

Source: Data processing table no. 5

Regarding the analysis of financial flows balances in Romania during the analysed period, it is observed that in 2017 their value was 3,319 million euros followed by a decrease in 2018, where the value of 2,766 million euros was reached, a decrease due to the fact that the amounts received by to the Union Budget decreased from 2017 to 2018, and payments to the Budget increased by 178 million Euros.

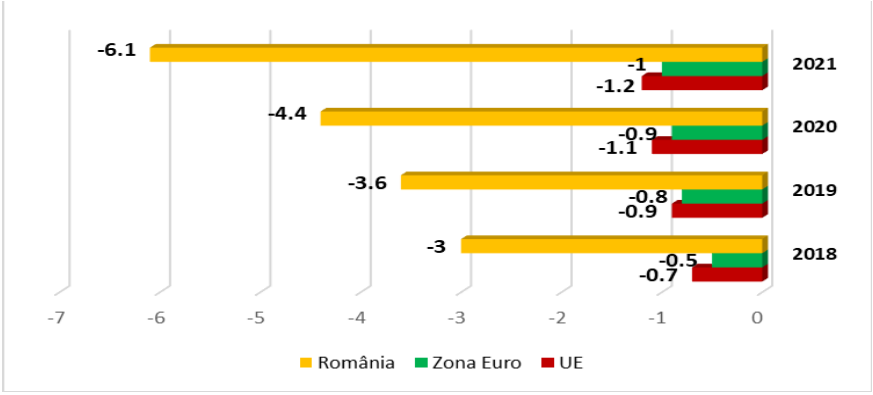
The value of balances has increased considerably since 2018, reaching 4,881 million euros in 2020. This amount was reached due to the fact that the amounts received from the budget as well as those paid to it increased considerably at the same time. The highest value was recorded in 2020, when the amounts received were 7,122 million euros, and those paid to the budget were 2,241 million euros.

The European economy is growing steadily and looking at the forecast shows that this growth will continue in 2021. Thus, the labour market remains solid and stable, but the unemployment rate is still declining.

In this case, in Romania it is observed that the investments aim at maintaining a relatively robust position, being supported by the increase of the rhythm of projects whose financing comes from the Union.

Figure 3.

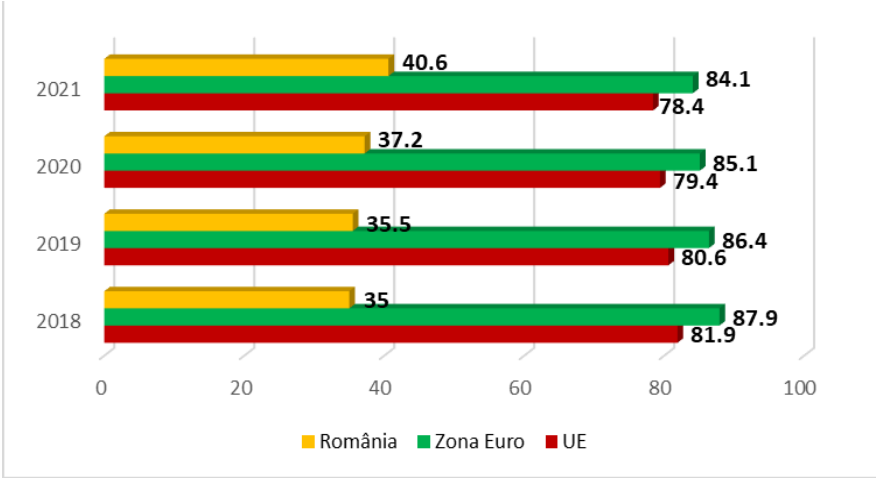
Public debt (% of GDP)



Source: Eurostat

Figure 4.

Budget deficit (% of GDP)



Source: Eurostat

Following the analysis of the information in Figures 4 and 5, it can be seen that Romania has a budget deficit of 3.6% of GDP in 2019 and will increase to 4.4% of GDP in 2020. The fluctuation of the deficit is in principle due to pension expenditures in Romania, but also fiscal measures to reduce certain taxes and duties. For 2021, a budget deficit of up to 6.1% of GDP is expected. Analysing the public debt, we found that it is below the 60% limit, the limit allowed by European regulations.

On the other hand, it is observed that it is still registering a significant increase, registering in 2018 a percentage of 35% of GDP, and in 2021 reaching the value of 40.6%.

Table 6.

Evolution of medium-term macroeconomic indicators in Romania in the period 2019-2021 (percentage change compared to the previous year)

	2019	2020	2021
The gross domestic product - current prices (billion lei)	1.040,8	1.129,2	1.217,4
Real growth (%)	4,0	4,1	4,2
Current account - mil. Euro	-10.855	-10.639	-10.363
% ofGDP	-4,9	-4,5	-4,0
Rising consumer prices (%) - End of the year	3,8	3,0	2,8
Annual average	3,8	3,1	2,9
Average gross monthly earnings (lei)	4.945	5.429	5.836
Average net monthly earnings (lei)	3.025	3.324	3.570
Real earnings (%)	10,3	6,6	4,4
Average number of employees (thousand people)	5.170	5.268	5.379
Number of registered unemployed people at the end of the year - Thousands of people	287	275	265
- Registered unemployment rate (%)	3,2	3,0	2,8

Source: Eurostat

Analysing the information in the table above, it can be seen that the gross domestic product registered a real increase, from 4% in 2019 to 4.2% in 2021. The current account deficit as a share in GDP enters a trajectory of recovery from 4.9% in 2019 to 4% in 2021. The labour market continues to improve, so that the increase in the number of employees by 209 thousand people in the period 2019-2021 helps to increase labour productivity. The fact that the unemployment rate drops from 3.2% in 2019 to 2.8% in 2021 contributes to improving employment.

Conclusion

Through the proposed budget, the European Commission, in the framework of the multiannual financial framework for the period 2021-2027 ("MFF 2021-2027"), wants to balance spending areas, redesign programs to maximize their effectiveness and support political priorities.

In Romania, the Multiannual Financial Framework will be the fundamental test for the European Union of the 27 states.

For Romania, the responsibility with which it is invested means:

• an effort to know and deepen all the files subject to debate

• fulfilling the role of honest broker in relation to the other 26 partners

• harmonization of positions and smoothing of contradictions by applying compromise

• preparation of plans B for the eventuality in which their own priorities will not be found in the final document.

Therefore, in order to encourage the national economic recovery, it is important for Romania to relaunch public infrastructure works in areas such as sustainable transport, modernization of railway infrastructure, energy efficiency, environmental infrastructure, especially in the field of water, and digital services. Also, on the recommendation of the European Commission and in accordance with the objectives of the European Environmental Pact, Romania will have to take measures for waste management, as the recycling of municipal waste is done at a very low level. It will also require investment projects in the production and use of clean energy, as well as for the conversion of high-carbon mono-industrial regions.

Succinctly, it is recommended that the Romanian authorities submit to the European Commission a country plan that includes infrastructure investment projects (environmental, highways and railways), for the modernization of public transport (purchase of electric buses, development of a network of electric car charging stations), renewable energy and energy efficiency projects, projects for the digitization of public services, as well as funds to support SMEs to overcome economic difficulties.

The budget of the European Union can be considered an appropriate instrument for assuming the responsibilities of the European Union because it finances all Community activities and interventions, highlighting each year the priorities and policy guidelines of the Community at EU level.

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