

# **A Union under Siege: Are National Budgets and the EU Budget Up To Challenges?**

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# 2016: a year of *game changers*

- **Brexit: a profound syndrome** and impact on the EU
- **US elections...** unrestrained globalization halted, protectionism on the rise (global trade slows down)
- **Fragmentation of societies and impact on politics**
- **EU budget: will “rebates” go away?**
- **More or better Europe? *Integration fatigue***
- **Political (Elites) *autism* in dealing with change?**  
Blaming citizens for their fears and votes is not smart...  
policies have to be questioned too

# 1. The global context

- **Mounting uncertainties**
- **Economic and social strain; technological change and labor markets...digitazation and robotization**
- **Rising protectionism**
- **Policies sailing in uncharted territories...**
- **Geopolitical crises (what world order?)**
- **Shift of economic power (geopolitical too?);**
- **EU frantic search for better governance**

## 2. A Union beset by crises (1)

- **The most critical period in EU history**
- **Euro-area strain, over-debt, social strife (youth unemployment)**
- **Security threats:** fighting terrorism, growing turmoil in the Union's close vicinities, geopolitical risks;
- **Brexit, the migrants crisis:** key policy issues
- **A *trust* issue** ("Regaining citizens" hinges on redeeming what the EU means for Europe -- Legitimacy
- ***All these show up in challenges for both national and the EU budget***

## 2. The Union (2)

- **More inward-looking EU member states...why?**
- - during hard times citizens ask for protection
- - *the social contract is with national states*
- - *trust crisis* between EU institutions, governments, citizens --the latter entrust public affairs mandate to national authorities
- - **the EU budget is very small (cca.1% of EU GDP) and fraught with disputes over allocation**

## 2. The Union (3)

- **The EU is a *public good* in itself**
- **Disputes over what are European public goods:** border protection, joint intelligence and security,...
- **EU budget spending:** some MSs question structural and cohesion funds
- **The solidarity/responsibility principle is under question even in stark cases (The Turkey Fund)**
- **Trust in the Union and investing in its future is essential in order to save it**
- **Leaders (in EU institutions too) should not take citizens for dupes...(ethics related scandals, double talk);**

### 3. What is wrong with the way MSs view the EU budget?

- History of EU budget revenues: from mostly own resources to **GNI based contributions**
- **GNI based contributions meant steady revenues, but have enhanced the “just return” logic (rebates)**
- “the way each MS defines its negotiating position (its budgetary balance), the European added value is missing entirely. Balances are calculated by the simple netting of what a MS is allocated on the expenditure side with its national contributions. Under this method, every euro spent in one country is considered a “cost” to everybody else. It ignores any European valued added which stems from EU policies....

# 3. What is wrong with the way MSs view the EU budget

- “Calculating one’s own “benefit” from the EU budget is not what is to be blamed here, it is rather a natural or at least inevitable endeavor. What is misleading and causes damages for the EU and MSs themselves is that a narrow and lopsided indicator becomes the only measurement of a cost-benefit relation”
- It reflects a lack of trust in the EU – its institutions
- It belittles what EU enlargement has meant for “donor” MS –new markets and a pool of highly educated human capital
- It is myopic by underestimating fractures in societies
- Replicated in debates over national budgets



# 3. What would be EU public goods?

- SM that enhances economic growth and convergence
- Regional policy that mitigates cleavages
- Energy policy + security
- Common security and foreign policy
- Climate change policy
- Protection of borders
- Combat terrorism
- Combat tax evasion and avoidance
- **EU budget: ironically, it is increasingly transactional**
- **A contradiction: EU public goods are badly needed while appetite to fund them is quite limited – an issue of *Trust***

# 3. Euroarea public goods

- **Financial stability:** the devil is in technical details, especially in “single currency area”
- **Macroeconomic policy stance** (managing aggregate demand and imbalances): a highly controversial issue in the euroarea
- **Capacity to deal with asymmetric shocks:** not yet solved at the euroarea level
- **Lender of last resort function (ECB):** a controversial issue until a few years ago (2012)

### **3. The Union: how to relate national budgets to the EU budget?**

- **All budgets under strain:** mounting challenges and limited resources
- **Synergies among budgets**
- **EU budget funding** (more own resources: transparency, efficiency fairness) and **spending (cost-effectiveness)**; focus on **EU value added**
- **How to meet major threats and enhance robustness/resilience** (economic challenges)
- **Short-term vs. long-term challenges (they mix)**

### 3. How national budgets and EU budget need to be?

- **Solid and versatile:** able to respond to emergencies
- **Buffers/reserves needed** (fiscal space is an embedded buffer)
- **Level of fiscal revenues** is critical (some MSs have very low capacity in this regard)
- **Prioritize and use resources cost-effectively**
- ***Security, migration, youth unemployment*** (education and jobs) – as high priorities
- **International aid (Africa)**

# 4. EU economic picture in a nutshell

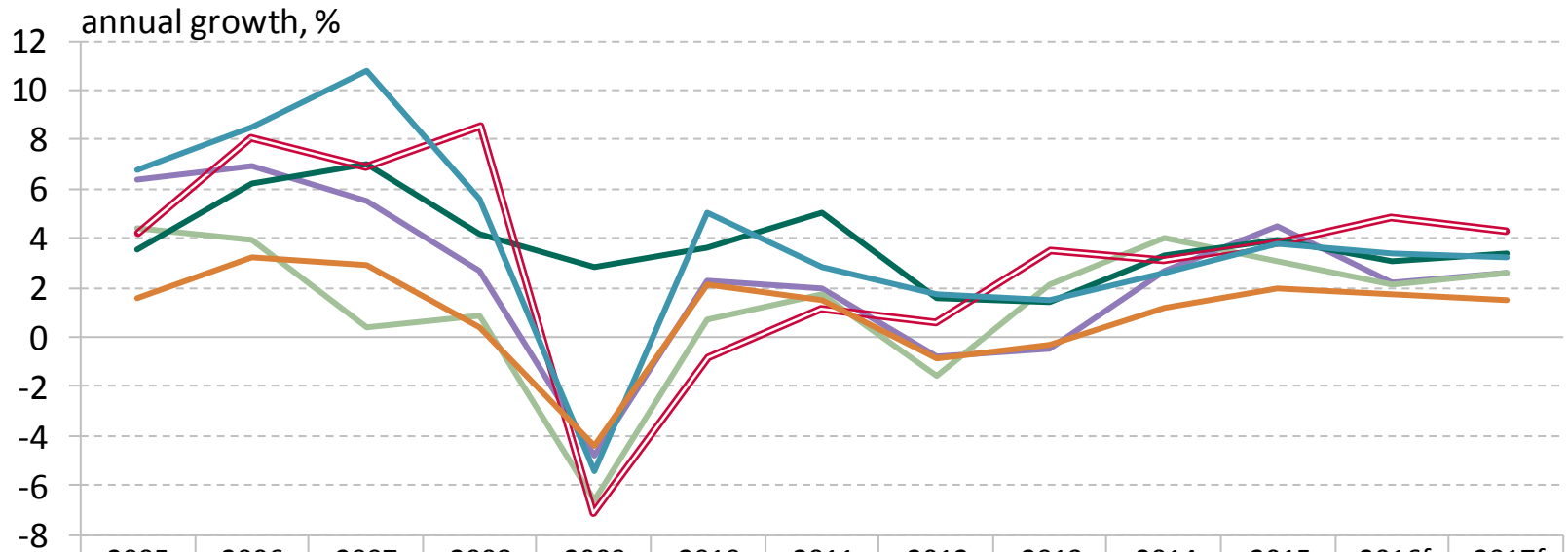
- **Recovery sustained by ECB' non standard measures**
- **Growth rates of pre-crisis years are gone**
- Demographics, productivity gains, debt overhang (on average, cca. 250% of GDP, both private ad public, in the EZ), functioning of the EZ, little investment handicap Europe
- **a/ need to invest more (The Juncker plan is insufficient, a big fall of I in all economies); b/ focus on education; c/ R&D, an Union attuned to the digital world; d/ alter the deflationary bias of the euro-area (Buti, 28 November)**

## 4. Where do CEEs stand economically?

- **Better macroeconomic shape:** imbalances, exposure to financial markets; less debt than in rich economies
- **Economic recovery underway, but...**
- Funding costs are related to ECB's policies
- Threat of *middle income trap*
- **Protectionism threat**
- **Fragmentation of EU markets:** labor, trade...
- The euroarea functioning is of concern

# 4. From boost and bust dynamics to which path?

## Real GDP

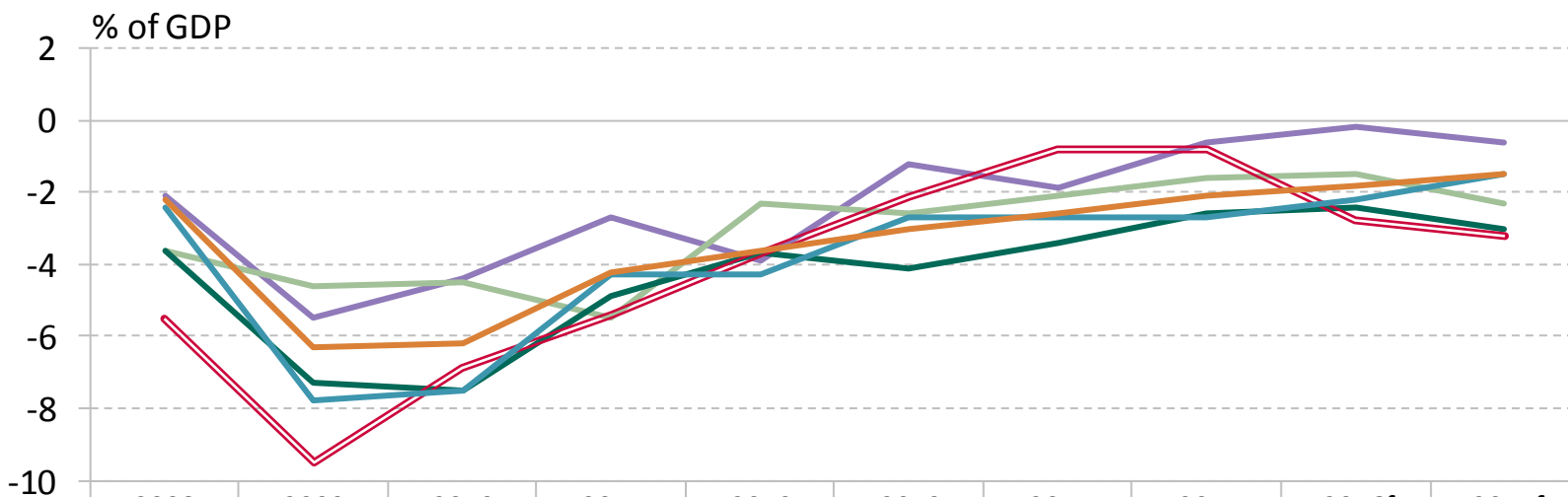


	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016f	2017f
— Czech Republic	6.4	6.9	5.5	2.7	-4.8	2.3	2.0	-0.8	-0.5	2.7	4.5	2.2	2.6
— Hungary	4.4	3.9	0.4	0.9	-6.6	0.7	1.7	-1.6	2.1	4.0	3.1	2.1	2.6
— Poland	3.5	6.2	7.0	4.2	2.8	3.6	5.0	1.6	1.4	3.3	3.9	3.1	3.4
— Romania	4.2	8.1	6.9	8.5	-7.1	-0.8	1.1	0.6	3.5	3.1	3.8	4.8	4.3
— Slovakia	6.8	8.5	10.8	5.6	-5.4	5.0	2.8	1.7	1.5	2.6	3.8	3.4	3.2
— Euro area	1.6	3.2	2.9	0.4	-4.4	2.1	1.5	-0.9	-0.3	1.2	2.0	1.7	1.5

f) forecast

# 4. Budget/fiscal consolidation is an ongoing challenge

## General Government Balance\*



	2008	2009	2010	2011	2012	2013	2014	2015	2016f	2017f
Czech Republic	-2.1	-5.5	-4.4	-2.7	-3.9	-1.2	-1.9	-0.6	-0.2	-0.6
Hungary	-3.6	-4.6	-4.5	-5.5	-2.3	-2.6	-2.1	-1.6	-1.5	-2.3
Poland	-3.6	-7.3	-7.5	-4.9	-3.7	-4.1	-3.4	-2.6	-2.4	-3.0
Romania	-5.5	-9.5	-6.9	-5.4	-3.7	-2.1	-0.8	-0.8	-2.8	-3.2
Slovakia	-2.4	-7.8	-7.5	-4.3	-4.3	-2.7	-2.7	-2.7	-2.2	-1.5
Euro area	-2.2	-6.3	-6.2	-4.2	-3.6	-3.0	-2.6	-2.1	-1.8	-1.5

\*) ESA 2010 Methodology

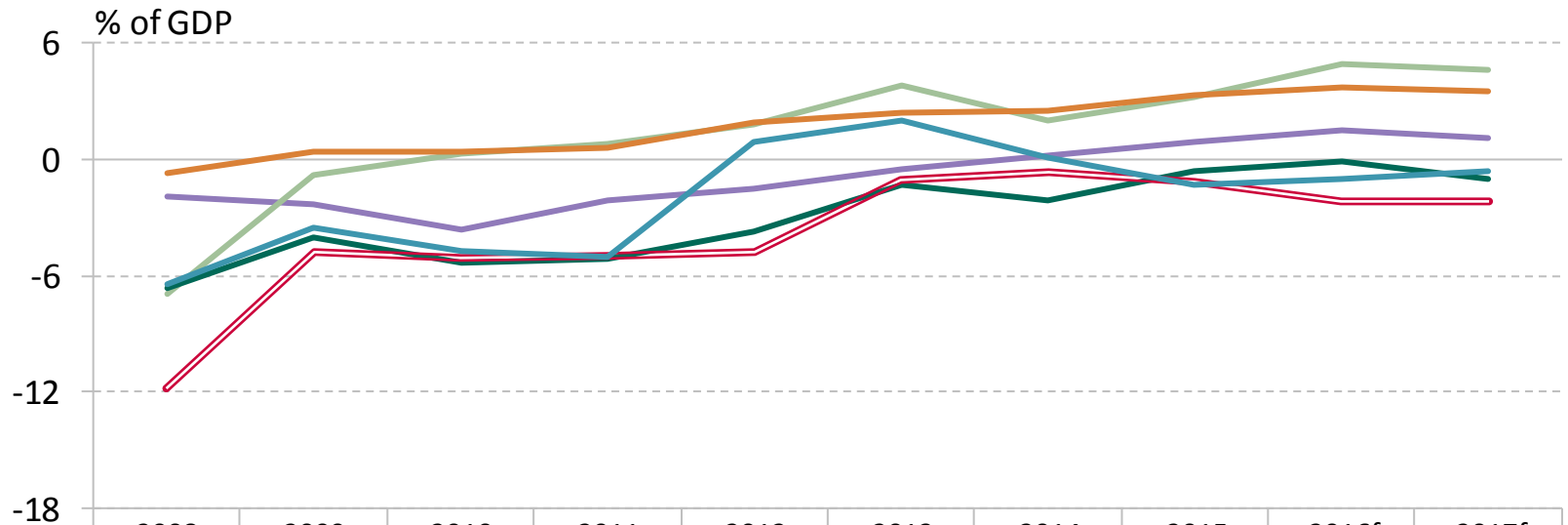
f) forecast

Source: Eurostat, MPF, NIS, European Commission (European Economic Forecast – Autumn 2016), EDP notification – October 2016



# 4. Much lower current account imbalances

## Current Account Balance

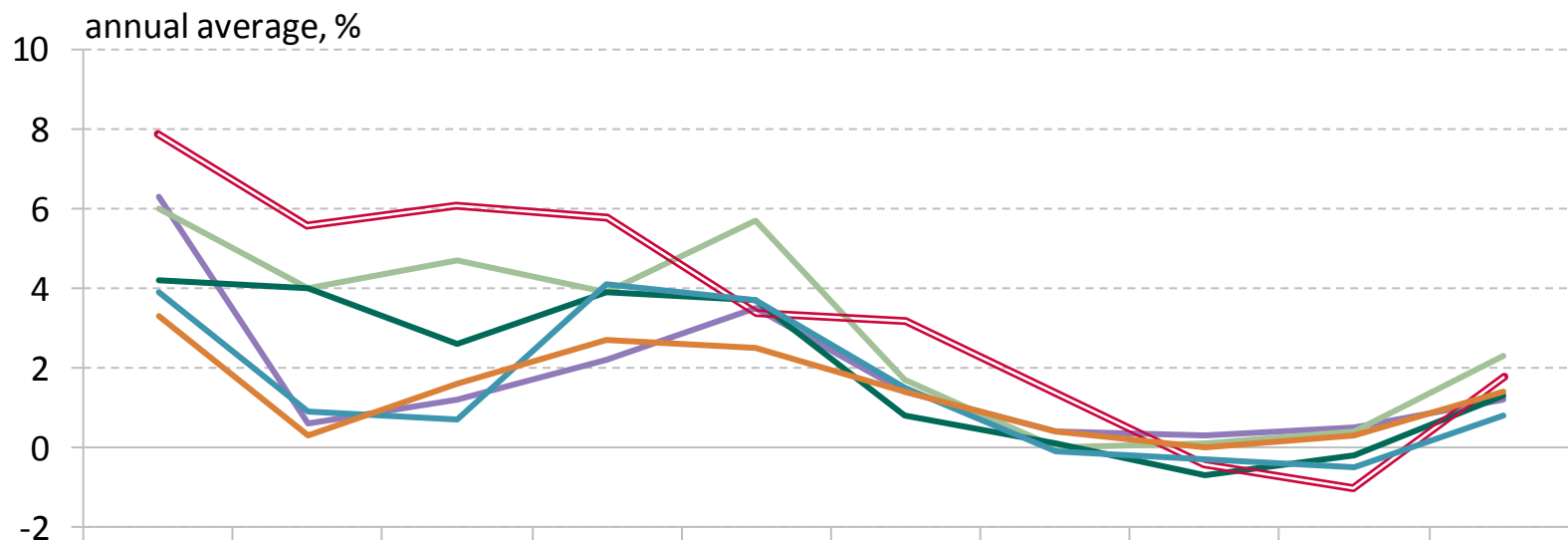


	2008	2009	2010	2011	2012	2013	2014	2015	2016f	2017f
Czech Republic	-1,9	-2,3	-3,7	-2,1	-1,6	-0,5	0,2	0,9	1,5	1,1
Hungary	-7,0	-0,8	0,3	0,8	1,8	3,8	2,0	3,2	4,9	4,6
Poland	-6,7	-4,0	-5,4	-5,2	-3,7	-1,3	-2,1	-0,6	-0,1	-1,0
Romania	-11,8	-4,8	-5,1	-4,9	-4,8	-1,1	-0,7	-1,2	-2,2	-2,2
Slovakia	-6,4	-3,5	-4,7	-5,0	0,9	2,0	0,1	-1,3	-1,0	-0,6
Euro area	-0,7	0,4	0,4	0,6	1,9	2,4	2,5	3,3	3,7	3,5

f) forecast

# 4. Overall disinflationary pressures

## HICP



	2008	2009	2010	2011	2012	2013	2014	2015	2016f	2017f
Czech Republic	6.3	0.6	1.2	2.2	3.5	1.4	0.4	0.3	0.5	1.2
Hungary	6.0	4.0	4.7	3.9	5.7	1.7	0.0	0.1	0.4	2.3
Poland	4.2	4.0	2.6	3.9	3.7	0.8	0.1	-0.7	-0.2	1.3
Romania	7.9	5.6	6.1	5.8	3.4	3.2	1.4	-0.4	-1.0	1.8
Slovakia	3.9	0.9	0.7	4.1	3.7	1.5	-0.1	-0.3	-0.5	0.8
Euro area	3.3	0.3	1.6	2.7	2.5	1.4	0.4	0.0	0.3	1.4

f) forecast

# 5. What next for CEE?

- **Structural reforms** to enhance efficiency gains;
- **Inclusive institutions;**
- **Fiscal space, buffers**
- **More investment (domestic savings);**
- **Be in core industrial networks (supply chains)**
- **Upgrade output constantly: R&D, education spending; overcoming *middle income trap***
- **Macro-prudential policies for mitigating boom and bust**
- **The international policy regime**

# 6. Challenges for national budgets

- **Maintain macroeconomic stability**
- **Fiscal and policy space (adverse shocks)**
- **Assign resources to meet major challenges:**  
defense, security concerns, stem human exodus, education, R&D, infrastructure
- **Fight tax evasion and avoidance** (size of fiscal revenues is a major vulnerability in Romania)
- **EU funds remain critical (2-3% of GDP)**

# 6. Budget and fiscal revenues

Year	Euroarea		Czech Republic		Germany		Hungary		Poland		România,	
	fiscal	budget	fiscal	budget	fiscal	budget	fiscal	budget	fiscal	budget	fiscal	budget
2000	40.8	45.4	32.5	36.9	41.5	45.6	39.2	44.1	33.8	39	30.4	33.8
2001	39.9	44.7	32.4	37.2	39.6	43.8	38.1	43.2	33.8	40.2	28.8	32.6
2002	39.6	44.2	33.4	38	39.1	43.3	37.5	42.1	34.0	40.4	28.4	32.9
2003	39.6	44.1	34.1	42.1	39.4	43.6	37.5	42	33.4	39.6	27.9	31.7
2004	39.2	43.8	34.6	39.4	38.5	42.6	37.2	42.3	33.0	38.4	27.7	32.2
2005	39.4	44.1	34.2	38.7	38.5	42.8	36.8	41.7	34.0	40.3	28.3	32.3
2006	39.9	44.6	33.9	38.5	38.8	43	36.7	42.3	34.6	41	29.0	33.1
2007	40.0	44.7	34.4	39.3	38.8	43	39.7	45	35.5	41.3	29.6	35.4
2008	39.6	44.4	33.1	38.1	39.2	43.4	39.7	45.1	35.2	40.6	28.3	33.2
2009	39.3	44.4	32.1	38.1	39.6	44.3	39.2	46	32.3	37.7	27.0	31.5
2010	39.2	44.3	32.6	38.6	38.2	43	37.5	45	32.0	38.4	26.9	32.7
2011	39.7	44.9	33.7	40.3	38.7	43.8	36.9	44.2	32.5	39	28.1	33.7
2012	40.7	46.1	34.2	40.5	39.3	44.3	38.6	46.2	32.8	39	27.9	33.6
2013	41.2	46.7	34.8	41.4	39.4	44.5	38.2	46.8	32.8	38.4	27.4	33.3
2014	41.5	46.8	34.1	40.3	39.5	44.7	38.4	46.9	33.0	38.7	27.7	33.6

Source: Eurostat, 2016

# 7. EU budget in the future

- **Funding and spending are equally important**
- **Focus on what adds value to the Union**
- **Make it more transparent, fair, versatile**
- **Structural and cohesion funds are needed to a/ reduce economic discrepancies, b/ avoid winners' take all games, c/ *mitigate human capital exodus***
- **The Mid-term review: EU public goods**
- **The logic of rebates should go away...**
- **A velvet Brexit would help, the EU budget too**

# 7. EU budget(s)

- **Variable geometry** has an impact on joint EU resources
- **EU budget and other facilities (Funds)**
- **EU budget and EA fiscal facilities**; would EA needs crowd out EU budget resources?
- **An EU own defense capacity? NATO is vital**
- **“Coalitions of the willing”** and pooled resources: dealing with complexity in a highly uncertain environment - would this fragment EU mobilization of resources?

# The future

- **Highly uncertain global environment**
- **Disruptions; social strain**
- **Multipolar world**
- **New technologies and impact on labor**
- **Rising protectionism; economic blocks?**
- **Systemic risks and financial fragility**
- **Robustness and resilience a big challenge**
- **Europe needs the EU**