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THE EUROPEAN UNION GENERAL BUDGET, POLICY OF STABILIZATION AND ECONOMIC CRISIS

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Abstract
Since the Lehman Brothers Bank has declared bankruptcy and launched the world financial crisis, many governments and international institutions have taken different actions in order to counteract negative effects of the crisis. European Union introduced the European Economic Recovery Plan for the years 2009 and 2010 and boosted the borrowing and lending operations outside the general budget. The article tries to assess the role EU general budget in countering the 2008 crisis. Before the crises and presently the EU general budget has been a weak instrument of macroeconomic stabilization policy. The borrowing and lending operations and EFSF mechanism play the crucial role in stabilization.

Keywords: Crisis, EU general budget, Function of stabilization

JEL classification: H87, E52, E62, F34

1. Introduction and literature

Since the Lehman Brothers Bank has declared bankruptcy (15th of September 2008) and launched the world financial crisis, many governments and international institutions have taken different actions in order to counteract negative effects of the crisis and improve financial and economic situation. Some actions have also been taken by the European Union. One of the instruments involved in European economy recovery was EU general budget.

Literature provides some recommendations concerning the use of national and supranational public budget in macroeconomic stabilization. Musgrave and Musgrave (1980) indicated three functions of public finance in economy: 1) the allocation function, 2) the redistribution function and 3) the stabilization function. All of them are connected with each other and have to be coordinated. Fiscal policy is needed for stabilization because market mechanism is not able to reach full employment and price stability, then it requires public policy guidance. Without it, economy tends to be subject to substantial fluctuations and may suffer from sustained periods of unemployment or inflation. However it must be stressed that public finance is mainly responsible for full employment and monetary policy – for price stability, then the stabilization of economic cycle needs so called "Policy Mix".

There are two main ways that public finance can stabilize economic cycle: 1) discretionary policy and 2) policy of automatic stabilizers. First one expresses in changes of public expenditures and revenues in order to affect (increase or decrease) the level of demand. For example in the period of recession the government may reduce taxes and increase public expenditures. The theory says that public means should be allocated mainly in public infrastructure. Then the deficit which appears can be financed with public debt. In the period of fast growth the government policy could be opposite and potential budgetary surplus should be kept to cover deficits in next periods. The main disadvantage of that policy is time laps between the moment of economic problem identification and impact of changes in taxes and public expenditures. In practice those changes usually need long time for political agreement and new law, so at last they can turn out ineffective (Baldwin and Wyplosz, 2009). Instead of discretional activities the government can use automatic stabilizers. Those are particular taxes and public expenditures which tend to be spontaneously countercyclical and they do not need any subsequent politicians' decisions (Baldwin and Wyplosz, 2009). The most effective stabilizers are progressive personal income taxes, VAT, corporate income taxes, unemployment benefits and other social transfers.

With regard to European Union, links between public finance and macroeconomic stabilization must be also considered across the system of multilevel government and the monetary union. In the first case, the question is which level of government should realize the policy of stabilization? The answer is given by theory of fiscal federalism, which rather unambiguously indicates that the central government is responsible for the policy (Oates, 1994; Ahmad et al., 1997). As a consequence the central government should also manage all types of taxes and public expenditures which are used to stabilize the economic cycle.

The role of public finance in monetary union is explained by theory of optimum currency area. The theory predicts two main solutions of fiscal stabilization in monetary union. First one, preferable, stresses the desirability of a significant centralization of the national budgets to accommodate for asymmetric shocks in different countries (Hitiris, 2003). The European budget could work as a shock absorber. If one country faces decline of output and increase unemployment then less taxes are paid to the European budget from that country, but the country expects more expenditures (benefits for unemployed) from the European budget. If another country faces opposite situation then more taxes are paid from its territory and simultaneously the country expects less expenditure from European budget. In result the transfers between countries via the European budget may stabilize situation.

Second option concerns situation in which countries create the optimum currency area without the significant centralized budget. Then if the shocks appear, the countries must face the problems themselves usually using budgetary deficit and public debt. However, uncontrolled deficit and public debt are recognized as very dangerous tools that can also lead to shocks. Then, in order to achieve as effective results as possible, they should be employed carefully in a flexible way, what means – through automatic stabilizers (De Grauwe, 2007).
It must be also stressed that the both systems could probably work properly in the situation of temporal shocks. However if the shocks are permanent, it is important to reach a sufficient degree of wage and price flexibility and/or labour mobility. Otherwise the insurance system may become unsustainable as it implies permanent transfers.

Before the crisis, European Monetary Union has been shaped by 17 of 27 EU Member States. Huge differences in public finance systems across Member States caused that the first option of the monetary union, with significant centralized European budget, was impossible to introduce. Then Member States accepted the second option of the monetary union with decentralized national budgetary policies. They also decided to counteract potential shocks through policy of coordination, starting from convergence and next – introducing in 1997 permanent regime for the policies in the Stability and Growth Pact. The Pact defines "excessive deficit" (higher than 3% of GDP) and introduces special procedures in order to avoid (a preventive arm) and correct (a corrective arm) it (Baldwin and Wyplosz, 2009). A presented conception affected the size and structure of the EU public finance and the general budget.

A main objective of the paper is to introduce and assess the role of EU general budget in countering of the crisis. The general budget is the main instrument of EU public finance. Its range of involvement in European economy recovery will show the real financial power of European Union as a supranational public authority. The role of EU budget in countering of the 2008 crisis has not been a subject of special attention in literature so far. The crisis has been mainly analyzed in the context of monetary and Member States' policies.

The paper is organized as follows. The second part of the paper presents methodology and data. It is divided in five sections. The first one gives view of EU public finance instruments (borrowing and lending operations and the general budget) before the crisis. The second and third sections discuss EU activities against the crisis (European Economic Recovery Plan and the borrowing and lending operations). The fourth section describes the EU borrowing and lending operations after 2008 and the last part – changes have to be made in the budget to cope with EERP and the borrowing and lending operations. The paper is finished with results and conclusions for EU policy.

2. Methodology and data

2.1. Borrowing and lending operations before 2009

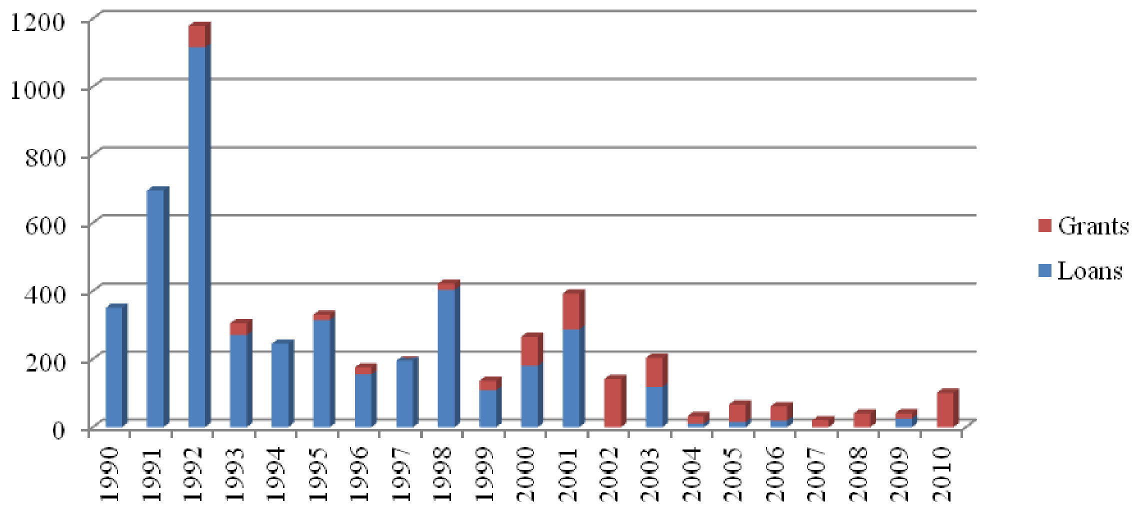
The paper is of empirical and analytical nature. Descriptive analysis with some quantitative elements is dominant research method. The subject of the paper also required employing historical data analysis, which dates back to the early 70. With regard to the objective of the paper is important to present the evolution of borrowing and lending operations, and EU revenues and expenditures. The data mainly comes from the European Commission's sources. The most important are European Economic Recovery Plan from 2008 and financial reports for budgetary years 2007, 2008 and 2010.

EU public finance system consists of three main parts: 1) the general budget, 2) European Development Fund (EDF) and 3) lending and borrowing operations. The general budget is a key EU public finance instrument because reflects almost all EU revenues and expenditures. For example in 2008 it covered 95,6% of EU financial means, whereas EDF – 2,6% and lending and borrowing activity – only 1,8% (Commission, 2009). With regard to macroeconomic stabilization, only the general budget and the borrowing and lending operations played some role. EDF, created in 1957, is aimed to help African, Caribbean and Pacific countries in particular sectors, so it will be skipped in further part of the paper.

Borrowing and lending operations are managed by the European Commission. Under those operations the Commission borrows financial means from world financial markets and allocates them to support common undertakings. Until 2008 the financial means have been allocated to sectoral assistance (mainly for European Coal and Steel Community and Euratom), macroeconomic support and microeconomic support for SME and other economic sectors (Commission, 2008). Macroeconomic assistance consisted of: 1) loans for Member States to secure balance of payments and budgetary liquidity (*balance of payments instrument*) and 2) loans and grants for non-Member States (*macro-financial assistance*).

Balance of payments instrument was launched in 1976, after the oil crisis in 1973. Then the loans helped countries to balance their international payments, which were damaged by the increase of oil price. Next loans took place in the years 1983 (4,3 mld euro), 1986 (0,9 mld euro) and 1987 (0,9 mld euro). New and binding rules of support were set in 2002 (Council, 2002). Since then the loans are medium-term support directed only to non-euro Member States. An amount and period of loans are set by the Council, however those loans are usually parts of bigger financial assistance created together with International Monetary Fund (IMF). For the years 2002 – 2007 a limit of 12 mld euro of support was set up by European Union, however no financial assistance was launched.

Macro-financial assistance for non-Member States started in 1990, together with political and economic reforms in Central and Eastern Europe. The support is is mobilized on a case-by-case basis with a view to helping the beneficiary countries in dealing with serious, but generally short-term, balance-of-payments or budget difficulties. As opposed to balance of payments instrument, it often takes a form not only the loans but also the non-returnable grants paid from EU general budget. Council of European Union decides about the support, however it is usually provided as a part of larger support together with international financial institutions (IMF, World Bank, EBI, EBRD and other). Financial support is transferred to beneficiary's central bank and the government of the beneficiary usually together with IMF decides about detailed distribution of financial means. In the years 1990 – 2007 Council provided macro-financial assistance at the level of 6,3 mld euro (graph 1).



Graph 1 - Macro-financial assistance provided by the Council in the years 1990 – 2010 (mln euro)

Source: (Commission, 2011).

Financial support was provided to countries in four areas: Central Europe, Western Balkans, former republics of Soviet Union and Basin of Mediterranean Sea. The biggest part of the support was distributed to Central Europe countries (53% of total budget in the analyzed period of time). Western Balkans countries received 19% of total amount, former Soviet Union republics – 15%, and Mediterranean countries – 13%. With regard to the fact, that in 2004 10 new countries entered European Union, amount of provided assistance decreased immediately.

2.2. The EU general budget revenues, expenditures and financial discipline

The EU general budget was created in 1965 as a result of long-time integration process of European Communities' budgets: administrative budget of European Coal and Steel Community, budget of European Economic Community (EEC) and budgets of Euratom. In 1971 it was equipped with own resources, such as: traditional resources (agricultural duties, sugar fees, customs duties), VAT (in general 0,3% of Member States VAT revenues in the years 2007 - 2013) and direct payments from Member States' budgets based on their shares in EU GNI. Other revenues mainly come from EU property, taxes levied on salaries, budgetary surpluses, interests, etc. Table 1 presents an amount and structure of EU revenues in the years 1971 – 2008.

Table 1 - Size and structure of EU revenues in the years 1971 – 2008 (current prices)

Revenues	1971		1979		1988		1998		2008	
	mln euro	%	mln euro	%	mln euro	%	mln euro	%	mln euro	%
Total	2 329,3	100,0	14 891,5	100,0	41 843,4	100,0	84 529,7	100,0	121 584,3	100,0
Agricultural duties and sugar fees	713,8	30,6	2 143,5	14,4	2 605,8	6,2	1 955,1	2,3	1 985,5	1,6
Customs duties	582,3	25,0	5 189,1	34,8	9 310,2	22,3	12 155,6	14,4	15 297,5	12,6
VAT	-	-	4 737,7	31,8	23 927,6	57,2	33 118,0	39,2	19 408,9	16,0
GNI	-	-	-	-	4 445,8	0,6	35 020,5	41,4	74 477,3	61,3
Other	1 033,2	44,4	2 821,2	18,9	1 554,0	3,7	2 280,5	2,7	10 415,2	8,6

Source: Own calculations based on: (Commission, 1999; Commission, 2011a).

Binding size and structure of main EU budgetary expenditures are shown in the financial perspective for the years 2007 – 2013 (table 2).

Table 2 - EU financial perspective for the years 2007 - 2013 adjusted for 2009 (mln euro, current prices)

Expenditures	2007	2008	2009	2010	2011	2012	2013	Total 2007 - 2013
Sustainable growth	53 979	57 653	61 700	61 782	63 638	66 628	69 621	435 001
1a. Competitiveness for growth and employment	8 918	10 386	13 272	12 388	12 987	14 203	15 433	87 587
1b. Cohesion for growth and employment	45 061	47 267	48 428	49 394	50 651	52 425	54 188	347 414
Preservation and Management of Natural Resources	55 143	59 193	57 639	60 113	60 338	60 810	61 289	414 525
of which: market-related expenditure and direct payments	45 759	46 217	46 679	47 146	47 617	48 093	48 574	330 085
Citizenship, Freedom, Security and Justice	1273	1362	1 523	1693	1 889	2 105	2 376	12 221
EU as a global player	6 578	7 002	7 440	7 893	8 430	8 997	9 595	55 935
Administration	7 039	7 380	7 699	8 008	8 334	8 670	9 095	56 225
Compensations	445	207	210					862
Total appropriations for commitments	124 457	132 797	136 211	139 489	142 629	147 210	151 976	974 769
as % of GNI	1,02	1,08	1,15	1,15	1,13	1,12	1,11	1,11
Total appropriations for payments	122 190	129 681	121 934	134 155	133 882	140 769	142 683	925 294
as % of GNI	1,00	1,05	1,03	1,10	1,06	1,07	1,04	1,05
Margin as % of GNI	0,24	0,19	0,21	0,14	0,18	0,17	0,20	0,19
Own Resources Ceiling as % of GNI	1,24	1,24	1,24	1,24	1,24	1,24	1,24	1,24

Source: (Commission, 2008a).

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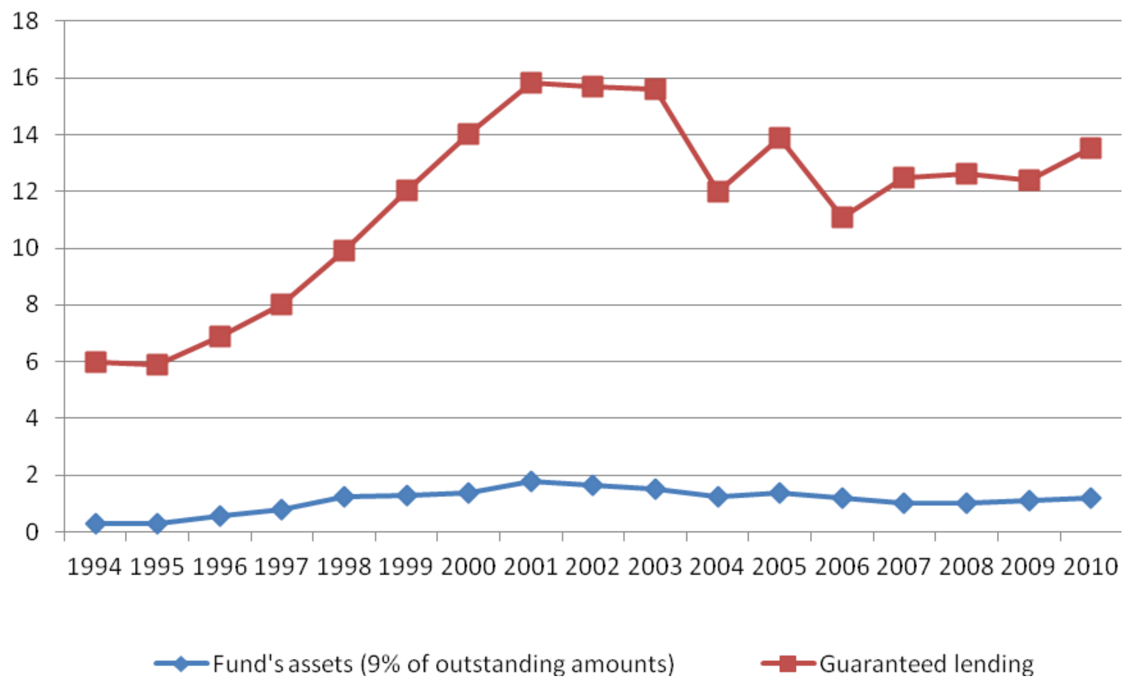
Financial perspective is a frame for the annual budget. European Union supports two key areas: 1) cohesion policy (35,5% of all commitments) and common agricultural policy (33,73% of all commitments). Main beneficiaries of the cohesion policy are Members States and their regions which lag behind in social and economic development. They receive non-returnable aid from structural funds (European Regional Development Fund, European Social Fund) and Cohesion Fund. The aid is mainly aimed at develop new social and technical infrastructure, new technology, protection of environment and improvement of human resources. Before 2007 common agricultural policy and cohesion policy also were the main directions of EU budgetary expenditures.

Common agricultural policy (CAP) consists of direct aid for farmers (subsidies to land, production, prices), export subsidies and interventions on agricultural market to guarantee farmers profitability in production. An additional activity under CAP is also rural areas development. Expenditures are directed to modernize farms and reorganize the agricultural market. Other common policies refer to different social and economic programs aimed at improving common internal market, standards of citizens' life, and rise the EU role in international relations.
Financial perspective shows that EU revenues and expenditures are under special fiscal discipline. Before the crisis, total revenues cannot exceed 1,24% and payments - 1,04 % of EU GNI. The key rule is also that the budget must be balanced what means that it cannot be planned with the deficit or surplus. In result EU cannot get into public debt to cover the deficit.

The general budget plays also an important role in the EU borrowing and lending operations. The budget becomes a kind of guarantee fund for lenders and also is a direct source of grants under micro-financial assistance (see graph 1). Concerning the balance of payments instrument, EU may give lenders guarantees to pay back the loans in the case of Member States' insolvency. The rules and amount of guarantees are regulated by the agreements between EU and the lender. The guarantees affect budget and become real expenditures when countries do not pay off the loans. In the years 2002 – 2007 no guarantees were provided.

Similar guarantees may be given by EU under the macro – financial assistance, however to secure against the risk of borrowers' insolvency, EU created in 1994 the special guarantee fund (Council, 1994). The Fund is provisioned from the EU general budget every year and has to be maintained at a certain percentage (presently 9%) of the outstanding amount of the loans and loan guarantees covered by the Fund. If the fund exceeds its target amount, the difference is transferred to revenue side of the budget. In 1994 a special reserve was created in the budget in order to cover the requirements of the guarantee fund. In the years 2000 – 2007 annual amount of the reserve was set at the level of 221 mln euro. Graph 2 presents EU guarantee activity to non–Member States in the years 1994 – 2010.



Graph 2 - EU guarantee activity under macro-financial assistance to non- Member States in the years 1994 – 2010 (mld euro)

Source: Own calculations based on: (Commission, 2012, online).

2.3. A European Economic Recovery Plan

European Union tries to counter the negative effects of the crisis by European Economic Recovery Plan (EERP) and the borrowing and lending operations. In November 2008 European Commission issued EEPR (2008b), in which set four main objectives:

- Quick increase of demand and strengthen the consumers' trust,
- Reduction of social costs of crisis and stopping reduction of work places,
- Preparing European economy for revival and further reforms indicated in Lisbon Strategy,
- Improve activities towards economy based on low – emission technology.

Those objectives are to be reached by the use of coordinated micro- and macroeconomic anti-cyclical operations, with simultaneous involvement of European Commission, Member States and European banks (EIB, EIF and EBRD). Plan of recovery includes operations both inside European Union and global ones. The plan assumes a quick EU and Member States intervention in the years 2009 and 2010 at the level of 200 mld euro (1,5% of EU GDP). 170 mld euro should come under

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the Member States anti-crisis programmes (1,2% of EU GDP) and 30 mld (0,3% of EU GDP) – from EU budget and privet means under EU – privet partnerships.

National anti-crisis programmes should reflect the Stability and Growth Pact and Lisbon Strategy. In the first case Member States should still respect the convergence criteria and try to reform their public finance systems towards reduction of public costs of pension systems. In the case of Lisbon Strategy, national anti-crisis programmes should be aimed at supporting four main areas of the Strategy: society, economic activity, infrastructure and energy, research and innovations. To do that the Commission recommends to employ both budgetary revenues and expenditures, such as: tax allowances for creation new work places, reduction of VAT rates and reduction of pension contributions, providing the higher unemployment benefits, investment allowances or subsidies for MSE, new technology and research.

The second arm of EERP is EU activities in four areas of Lisbon Strategy. Those activities aim to complete national programmes or create legal frameworks and conditions for future reforms. Some of them are financed directly from UE budget and some - become directives for Member States. Some of them are also supported by European banks (third arm of the EERP). Table 3 presents European Commission, Member States and European banks activities in four areas of Lisbon Strategy in the years 2009 and 2010 .

Table 3 - European Commission, Member States and European banks activities in four areas of Lisbon Strategy in the years 2009 and 2010

Area of intervention	Activity	Amount (euro)
Society	Supporting employment: • Simplification the rules of using financial means from European Social Fund, • Improvement of functioning of European Globalization Adjustment Fund.	1,8 mln
	Creation demand for labour: • reducing employers' social charges on lower incomes to promote the employability of lower skilled workers, • introducing innovative solutions (e.g. service cheques for household and child care, temporary hiring subsidies for vulnerable groups), • proposal of new directive reducing VAT rates for labour-intensive services.	-
Economic activity	Enhance access to financing for business: • Increasing credit packages of EIB i EIF, • State assistance (subsidies, guarantees) in areas of environment, innovations and new technologies, human resources development etc.	30 mld
	Supporting small enterprise (Small Business Act): • Starting up business in three days in one administrative access point, • Remove the requirement on micro-enterprises to prepare annual accounts and limit the capital requirements of the European private company to one euro, • Accelerate the adoption of the European private company statute proposal so that from early 2009 it can facilitate cross border business activities of	-

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	SME, • Quick regulations of payments for SME invoices by public institutions, • Introducing e-invoicing system, • Reducing fees for patent applications.	
Infrastructure and energy	Modernization of European infrastructure: • Development of trans-European energy interconnections and broadband infrastructure projects, • Development of trans-European transport (TEN-T) projects, • Increasing a role of EBRD in financing infrastructure.	16,5 mld
	Improvement of energy efficiency in buildings: • energy certification of public and privet buildings, • changes in operating programs in order to increase financial allocations to improve energy effectiveness, • creating the special energy fund in 2020, • creating innovative models of financing investments (e.g. financing renovations in longer period of time by financial means collected from savings on using electric energy).	-
	Promotion of ecological products: • reducing VAT rates for ecological products and services, • introducing special regulations concerning using energy by electronic equipment, domestic appliances, etc..	-
Research and innovations	Increasing investment in R + D, innovations and education by using grants, fiscal incentives, subsidies.	-
	Development of ecological technologies in the automotive and building industries. Commission proposes to create three types of privet - public partnerships:	
	• in the automotive sector - „European initiative of ecological cars” (electric cars, reducing the registration fees and road taxes levied on ecological cars, etc.),	5 mld
	• in the construction sector – „European initiative of energy-efficient buildings” (promotion of green technologies, reduction of CO_2 emission, reduction of using energy, etc.),	1 mld euro
	• initiative „factories of the future” (increasing a role of new technologies and innovations in EU manufacturing, support SME, etc.).	1,2 mld
	High-speed Internet for all until to 2010.	1 mld

Source: (Commission 2008b).

The EU budget is to contribute directly about 5 mld euro, mainly in: 1) supporting high-priority energy interconnection projects across the EU, 2) broadband Internet access in rural areas and 3) supporting employment by mobilizing funds from European Globalization Adjustment Fund (EGAF). The EGAF is aimed at providing additional support for workers affected by the crisis. The financial means are to be used after the Member State’s motion.

The European Commission also proposes global anti – crisis operations. It recommends maintaining the high level of international trade with North and South America, Australia and Asia, countering the negative effects of climate changes and supporting developing countries.

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2.4. Borrowing and lending operations since 2008

Particular negative effects of financial crisis have been seen both in some Member States and the countries outside the Union. Disregarding budgetary discipline, increase social transfers above financial possibilities, issue of "cheap credits" and instability of currency were the main reasons, which in the moment of slump of world demand, were the source of serious social and economic problems. Since 2008 those countries have been continued to receive macroeconomic support in the form of balance of payments instrument (up to 25 in 2008 and 50 mld euro in 2009) and macro-financial assistance (up to 446 in 2009 and 590 mln euro in 2010). The general rules of support, besides the increase of its limits, have not changed in comparison to the rules before 2008.

In the context financial crisis, in May 2010 the Council established additional financial instruments:
1) The European Financial Stability Facility (EFSF),
2) The European Financial Stabilization Mechanism (EFSM).

The EFSF works outside the EU budget. It was created by the euro area Member States and its mandate is to safeguard financial stability in Europe by providing financial assistance to euro area Member States. EFSF issues bonds or other debt instruments on the capital markets. It is backed by guarantee commitments from the euro area Member States for a total of 780 mld euro billion and has a lending capacity of 440 mld euro. So far only Greece has been received support under EFSF. Two bilateral packages of 73 and 130 mld euro have been set for Greece for the period since May 2010 until 2014. The assistance is financed by euro-area Member States and IMF.

Instead the EFSM was created to provide assistance for all Member States that experience, or are seriously threatened with, a severe financial disturbance and it is due to events beyond the control of the Member States concerned (Council, 2010). The EFSM may take the form of a loan (EU bonds) or credit line granted to Member State. A credit line is an authorization given to a Member State to draw funds up to a specified ceiling for a given period of time. All interest and loan principal is repaid by the beneficiary Member State via the Commission. Under EFSM, the Commission is allowed to borrow up to a total of 60 mld euro in financial markets on behalf of the Union under an implicit EU budget guarantee. Table 4 presents limits of EU assistance for the countries since 2008.

Table 4 - EU and other sources of financial support commitments for the countries since 2008

Beneficiary	Type of assistance (year of agreement)	Amount		Other sources of support (mln euro)	Share in national budget revenues in the year of agreement
		Loans (mln euro)	Grants (mln euro)		
Hungary	BoP (2008)	6 500		12 500 – IMF 1000 – World Bank	64,7%
Latvia	BoP (2009)	3 100		1 700 - IMF 1 900 – Nordic countries 400 – World Bank 400 – EBRD, Czech	200,1%

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				Republic, Poland	
Romania	BoP (2009)	6 400		12 950 – IMF 1000 – World Bank 1000 – EIB and EBRD	80,1%
Serbia	MFA (2009)	200			
Bosnia and Herzegovin a	MFA (2009)	100			
Ukraine	MFA (2010)	610			
Moldova	MFA (2010)		90		
Armenia	MFA (2009)	65	35		
Georgia	MFA (2009)		46		
Lebanon	MFA (2007)	50			
Ireland	EFSM (2010)	22 500			
Portugal	EFSM (2011)	26 000			

Source: Own calculation based on: (Commission 2012, online).

2.5. Adjustment of the EU general budget to new challenges

To introduce the EERP and EU borrowing and lending operations, the Commission had to make three main changes: 1) adjust the financial perspective for 2009, 2) introduce new expenditures in the general budget and 3) create new guarantees and reserves in the budget.

2.5.1. Adjustment of the financial perspective

Table 5 presents financial perspective for the years 2007 – 2013 adopted to EERP.

Table 5 - Adjusted financial perspective for the year 2007 – 2013 to European Economy Recovery Plan (mln euro, current prices)

Expenditures	Years							Total 2007 - 2013
	2007	2008	2009	2010	2011	2012	2013	
Sustainable growth	53 979	57 653	61 700	61 782	63 638	66 628	69 621	435 001
1a. Competitiveness for growth and employment	8 918	10 386	13 272	12 388	12 987	14 203	15 433	87 587
1b. Cohesion for growth and employment	45 061	47 267	48 428	49 394	50 651	52 425	54 188	347 414
Preservation and Management of Natural Resources	55 143	59 193	57 639	60 113	60 338	60 810	61 289	414 525
of which: market-related expenditure and direct payments	45 759	46 217	46 679	47 146	47 617	48 093	48 574	330 085

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Citizenship, Freedom, Security and Justice	1273	1362	1 523	1693	1 889	2 105	2 376	12 221
EU as a global player	6 578	7 002	7 440	7 893	8 430	8 997	9 595	55 935
Administration	7 039	7 380	7 699	8 008	8 334	8 670	9 095	56 225
Compensations	445	207	210					862
Total appropriations for commitments	124 457	132 797	136 211	139 489	142 629	147 210	151 976	974 769
as % of GNI	1,02	1,08	1,15	1,15	1,13	1,12	1,11	1,11
Total appropriations for payments	122 190	129 681	121 934	134 155	133 882	140 769	142 683	925 294
as % of GNI	1,00	1,05	1,03	1,10	1,06	1,07	1,04	1,05
Margin as % of GNI	0,24	0,19	0,21	0,14	0,18	0,17	0,20	0,19
Own Resources Ceiling as % of GNI	1,24	1,24	1,24	1,24	1,24	1,24	1,24	1,24

Source: (Commission, 2009).

In comparison to previous financial perspective (adjusted for 2009), in new one Commission introduced two main changes, which turned out neutral for the whole period of perspective. In order to introduce EERP it was enough to increase commitments for 2009 under *the heading 1a* by 2 mln euro and simultaneously cut commitments under *the heading 2* also by the same amount. In result total commitments did not change. In order to keep the same relation between commitments and payments as before, the annual ceilings for payment appropriations has been adjusted in next years. The total amount of payments in the years 2007 – 2013 did not change.

2.5.2. New budgetary expenditures

In the years 2009 and 2010 the EU budget contributed directly over 5,2 mld euro to the EERP. The main actions followed the plan and concerned: Trans-European and energy projects, broadband Internet access in rural areas and employment increase. Table 6 presents EU budget expenditures for EERP in the years 2009 and 2010.

Table 6 - EU general budget expenditures for EERP in the years 2009 and 2010

Years	Activities	Amount (mln euro)
2009	Energy projects (Factories of the future, Energy efficient buildings, Green cars)	130
	Internet access in rural areas	1 020
	Employment support from European Globalization Adjustment Fund	12
	Total	1 162
2010	Energy projects (Factories of the future, Energy efficient buildings, Green cars)	701
	Trans-European networks' programme (44 electricity and gas projects)	3 356
	Employment support from European Globalization Adjustment Fund	105
	Total	4 162
2009-2010	Total	5 224

Source: Own calculations based on: (Commission 2010a; Commission 2011a).

Apart from the new expenditures strictly under the EERP, in the years 2008 - 2010 EU also increased the grant support under the macro-financial assistance from 40 to over 100 mln euro (graph 1). In result of that activity additional payments have to be done to the guarantee fund to maintain 9% of outstanding loans: 92,3 mln euro in 2009 and 93,8 mln euro in 2010. EU predicts to pay to the fund additional 138,9 mln euro in 2011 (Budget 2011).

2.5.3. EU budget as a guarantee fund

In the years 2008 - 2011 four important changes took place in the general budget with regard to EU guarantee activities. Firstly, there was a significant increase of the guarantee fund's assets in the years 2008 – 2010 from 1,03 to 1,35 mld euro (graph 2). It was caused by the boost of EU macro-financial assistance and lending guarantees (graph 1). Secondly, the same reason made EU to increase in 2008 the amount of reserves for the guarantee fund. Originally for the financial perspective 2007 -2013 the amount of reserves was established at the level of 221 mln euro per year, but for the year 2008 it was exceptionally enlarged to 479,2 mln euro. It must be also stressed that so far, no guarantees have been provided for non-euro Member States under the balance of payments instrument.

Thirdly, in 2009 the reserve for the European Globalization Adjustment Fund was established with the annual amount of 500 mln euro. A last, in 2011 new type of guarantees was introduced in the EU budget – guarantees under EFSM instrument. So far, no guarantees under EFSM were provided (Budget 2011).

3. Concluding remarks and policy implications

Before the crisis the EU general budget has realized the function of stabilization in a very limited way. The main reason was that Member States accepted the second model of Monetary Union, in which economic shocks were to be countered by coordination of national budgetary policies and not with use of huge centralized European budget. In result, both the size and construction of the EU budget were not suitable for the policy of stabilization. Fiscal discipline set in the financial perspective for the years 2007 – 2013 limited EU revenues up to 1,24% of EU GNI and expenditures even less – slightly over 1% of EU GNI. Additionally the budget was constrained by the rule of balance which prevented EU to use the budgetary deficit and public debt to cover the deficit. At last the budget was not equipped with typical instruments for stabilization policy, such as progressive income taxes, unemployment benefits and other social expenditures. As a consequence the EU budget could only stimulate development of particular areas, such as: agriculture, regions, research, SME etc. Instead real policy of stabilization was realized mainly in the case of non-Member States in the form of macro-financial assistance.

However the 2008 crisis showed that the policy of coordination may not be always efficient. Particularly some Member States (Hungary, Latvia, Romania, Greece, Ireland and Portugal) were strongly affected by the shocks and needed immediate assistance. The EU general budget was not prepared for such support, so main assistance was provided from different sources such as the balance of payments instrument, EFSM and EFSF combined with the assistance of international financial institutes. The role of EU budget was strongly limited to the structural support of 5 mld euro under the European Economic Recovery Plan and some guarantee activities.

So far, the crisis has not changed the role of EU budget in policy of stabilization. Particularly EFSF mechanism is the proof that also in the future Member States are going to solve the macro-financial problems outside the general budget. To improve the role of EU budget in macroeconomic assistance, it should be enlarged – as federal countries show – up to at least several percentage points of EU GNI and equipped with typical stabilization policy instruments such as progressive taxes, unemployment benefits and etc. Additionally the rule of budgetary balance should be abolished and European public debt needs consideration. In result Member States should agree to move substantial part of their financial competencies to European Union. However, in near future such changes are rather improbable. Member States do not want to increase the size of the EU budget and equip it with macro-financial instruments. They are still convinced that such instruments are better managed at the national level. Probably the way to reform the system could be a change of the rule of unanimity in the EU Council that decides about EU policy or rather completely deprives Member States of decision competencies. The last one could be introduced by dissolution of the Council or transfer its competencies to European Parliament. In other cases the EU public finance and the general budget will probably remain for a longer period of time as the instrument of local stimulation policy.

The 2008 crisis showed that the changes in EU financial system were necessary. The discussion concerns their range and subject. The proposed changes in the EU general budget, although controversial, can be the start point for further discussion and analysis in the context of future model of European Union and its role in European economy.

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