Review article
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Budgetary cash flows in the EU and their impact on national budget liquidity: the case of Slovenia*

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Abstract

On May 1, 2004 ten new states joined the EU. At the same time, budgetary cash flow mechanisms between the EU budget (as the central subject) and national budgets were established. Despite the fact that all the rules are clear and known in advance - stipulated by the EU directives and regulations - there are some uncertainties, which may have an important effect on the liquidity as well as on the budgetary cash flows in new member states. The greatest problem for the liquidity of new member states' budgets is posed by the time lags between inflows and outflows of EU funds. These lags are mainly because of delayed payments from the EU budget and problems with some member state's absorption capacity. This article deals with the dynamics and the scale of budgetary cash flows between the Slovenian budget and the EU budget until 2006. A couple of likely scenarios are presented, which could happen in case of delayed payments of European funds. Consequently, both an unexpected state budget liquidity deficit and an additional burden arising from interest on delayed payments to the Brussels are possible for Slovenia.

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Key words*: EU budget, Slovenian budget, budget liquidity, budgetary cash flows, European funds*

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1. Introduction

Budgetary cash flows in the European Union (EU) are created through a system of payments between the EU budget as the central subject and national budgets. After May 1, 2004 the existing cash flows spread to the new connections between the EU budget and the budgets of the states which entered the system (Voje and Kirbiš, 2003).

The policy of the system of payments in the EU also has a substantial impact on the liquidity of the Slovenian budget. As a full member, Slovenia contributes to the EU budget 1.2% of its gross national income (GNI), which in 2004 amounted, on average, to EUR 21 million monthly. At the same time, Slovenia also receives money from the EU budget for agriculture, structural policy, Schengen border, etc. The main problem for the liquidity of the national budget is the time inconsistency between inflows and outflows of the European funds. Payments from the EU budget usually lag behind contributions to the EU budget because of weak country's absorption capacity.

2. Structure and features of budgetary cash flows in the EU

This paper starts with a presentation of the general characteristics of budgetary cash flows (revenues and expenditures) in the EU, which is shown in Table 1[2].

Table 1: Budgetary cash flows between national budgets of member countries and the EU budget between 2004 and 2006

EU Budget Revenue	EU Budget Expenditure
OWN RESOURCES: 1. The VAT-based resources 2. The GNI-based resources 3. Traditional own resources • custom duties • antidumping and other product import duties from third countries • levies on agricultural products import from third countries • levies on sugar, isoglucose and inuline (sugar levies) 4. United Kingdom correction (also UK rebate) OTHER REVENUE: proceeds form taxation on the salaries, wages and allowances of EU staff, interests and repayments, income from fines and security LOANS	1. Agricultural policy (market related expenditure, direct aids, rural development) 2. Structural and cohesion policy (four *structural funds*: the European Regional Development Fund, the European Social Fund, the European Agricultural Guidance and Guarantee Fund, the Financial Instrument for Fisheries Guidance; *cohesion fund*) 3. Internal policies (e.g. Schengen border in Slovenia) 4. External actions 5. Administration 6. Reserves 7. Pre-accession aid (for new member states) • SAPARD • ISPA • PHARE 8. Compensations (cash flow lump-sums, budgetary compensations)

Source: General Budget of the European Union for the Financial Year 2004 - The Figures (2004).

[2] See also Jerkič and Rovan (2002).

2.1. EU budget revenue

EU budget revenue includes the VAT-based resources, the GNI-based resources, traditional own resources and the UK correction. These are the so-called "own resources", which represent approximately 99% of the EU's budget revenue and which will be described below. In addition, other revenue includes proceeds from taxation on the salaries, wages and allowances of EU staff, interests and repayments, income from fines and security and loans. As a rule, loans may not be taken to finance the EU budget deficit. Unforeseen expenditure during the budget year must be financed by a supplementary or amending budget. Nevertheless, borrowing requirements in order to bring the balance of payments of member countries in line are frequent as well as borrowing in order to provide loans for fostering investments or for granting loans to third countries, etc. (Griese, 1998).

2.1.1. The VAT-based resources

The VAT-based resource is derived from the application of a uniform rate to the VAT tax assesment base of each EU member state, harmonised in accordance with community rules. The VAT base is the value of taxable consumption of goods and services produced in the country as well as imported goods. When calculating the VAT base, all member states can exclude goods and services of taxable persons with the annual turnover below EUR 10,000[3]. A notional VAT base is calculated by dividing total national VAT receipts by the so-called weighted average rate of VAT. Changes are made either by positive or negative adjustments in order to arrive at a harmonised VAT base. This calculation ensures proportionally equal burdens for all member states, regardless of the differences in national VAT regimes (different VAT rates, different taxable thresholds of annual consumption of goods and services, etc.).

The notional VAT base cannot exceed 50% of each member state's GNI (the capping of the VAT base). Tax liability is calculated according to the following formula:

$$\text{VAT base} \cdot \text{VAT rate} = (0{,}5 \cdot \text{HNI}) \cdot 0{,}5\%$$

Usually, the VAT base represents a higher percentage of GNI in less developed countries (in Slovenia, it amounts to 57% of GNI). In the past, these countries often contributed more in the EU budget than other more developed countries. This was the reason for the introduction of "capping", which reduces or eliminates irregularities in estimating the VAT base. The European Commission (hereafter the Commission) monitors the setting of the VAT's own resources base in member states.

According to the Council decision on the system of the European Communities' own resources (2000), the uniform rate should not exceed the maximum rate (the so-called "rate of call"). The uniform rate represents a difference between the maximum rate

[3] In Slovenia, small enterprises with an annual turnover between EUR 10,000 and EUR 21,000 are exempted from taxation, as the turnover bellow EUR 21,000 is exempted from taxation.

and the rate for the gross UK correction ("the frozen rate"). A reduction of the maximum rate (rate of call) of the VAT base, which amounted to 1% until 2001, was reduced in 2002 and 2003 to 0.75% and amounts to 0.5% from 2004.

The role of the VAT-based resources has become less important lately. In 1986, it amounted to 69% of all EU budget revenue, whereas until 2003 it was reduced to only 25%. In 2006, the share of VAT-based resources in the EU budget revenue is likely to amount to only 15%. These changes are mainly due to reforms in 1988 and 1994, which introduced the "capping" of the VAT base and reducing the rate of call from 1.4% in 1995 to 1% in 1999 and to 0.5% from 2004 on.

2.1.2. The GNI-based resources

GNI is the best indicator of a member state's ability to contribute to the EU budget. The share of GNI-based resources has been increasing from 1988, mainly due to the reduced role of other resources. In 2004, this resource represented around 70% of all revenue from own resources.

The GNI-based resources are calculated as the product of the uniform VAT rate and the GNI of all member states, which is why the uniform tax rate changes annually in accordance with the needs. Eurostat verifies GNI calculations provided by the member states.

2.1.3. Traditional own resources

Contributions from traditional own resources are paid on the basis of entered duties and not on the basis of forecasts like VAT and GNI-based resources.

Member states are responsible for determining the scope of traditional own resources, their calculation, collection, reimbursement and transfers to the Commission. In addition, they have to establish a suitable auditing system, which will ensure appropriate administration work. The Commission oversees administration in member states in order to ensure the collection conformity of traditional own resources with the EU legislation.

Revenue from traditional own resources of the EU budget is continuously on the decrease, mainly due to the liberalisation of trade within the World Trade Organisation mamber states and the conclusion of free trade agreements by the EU with third countries. Because of the EU enlargement and due to the increase in traditional own resources, retained by member states as cost of collecting custom duties[4], the downward trend is likely to continue in the future.

[4] In 2004, the EU budget receives only 75% of traditional own resources, whereas 25% of these resources belong to the member state to cover the expenses of collection. Before 2004, collection costs to be retained by member states amounted to 10% of collected traditional own resources.

2.1.4. United Kingdom correction

The UK correction was introduced on the basis of Fontainebleau agreement in 1984, mainly because the United Kingdom was one of the biggest net contributors after the accession of the country to the EU, whereas it received little in return from the EU budget. This is mainly because the United Kingdom has relatively little value added in agriculture and has a structurally different agricultural sector from those of other member states. The UK correction has a favourable effect on Britain's budgetary balance as it decreases its VAT and GNI-based contributions. The mechanism and rules regarding the correction have been determined in the Council Decision on the system of the European Communities' own resources (2000). The expenses of the correction are covered by other member states, with regard to their share of GNI. From January 1, 2002, Austria, Germany, the Netherlands and Sweden (as net contributors to the EU budget) only have to pay 25% of their ex-ante share of the UK rebate; the remaining share of the cost of the UK rebate is financed by other member states, mainly by France, Italy and Spain (Begg, 1999).

2.2. EU budget expenditure

Budget expenditure is divided into pre-accession aid, the common agricultural policy (CAP), structural and cohesion funds, internal policies, external actions, reserves, administrative expenses and compensations. Below are detailed presentations of the most important EU budget expenditure.

2.2.1. Pre-accession aid

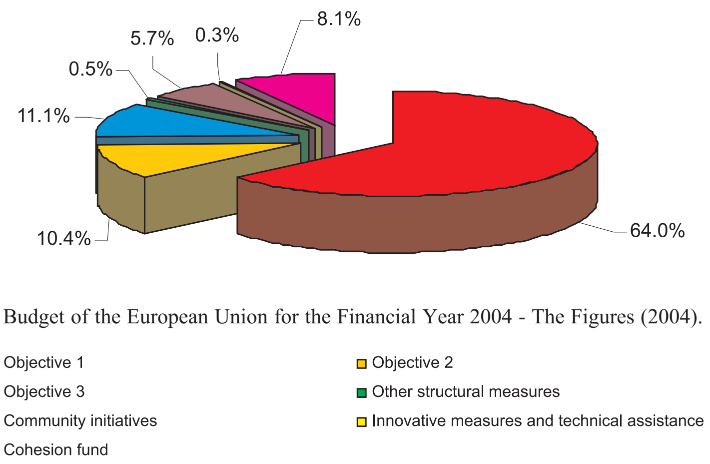
Pre-accession aid is an instrument of the EU aimed at a more efficient and easier implementation for preparing candidate countries from Central and Eastern Europe for joining the EU. The aid is delivered through three programmes: Phare, Ispa and Sapard. The Phare Programme principally involves institution building measures as well as measures designed to promote economic and social cohesion, Ispa deals with large-scale environment and transport investment support and Sapard supports agricultural and rural development. All ten Central and East European candidate countries were eligible for aid from these programmes[5].

2.2.2. Structural and cohesion policy

Structural and cohesion policy funds represent more than 35% of expenditure of the EU budget and are aimed at least developed European regions.

[5] Countries that became members of the EU on May 1, 2004, signed their last agreements, which represent the basis for receiving pre-accession aid for the implementation of agreed programmes or projects, in 2003, whereas payments pursuant to these agreements will be made in the next couple of years.

Figure 1: Funds for structural and cohesion policy in 2004



Source: General Budget of the European Union for the Financial Year 2004 - The Figures (2004).

- *EU structural funds*

The structural policy of the EU is implemented mainly through the policy of four structural funds (the European Regional Development Fund - ERDF, the European Social Fund - ESF, the European Agricultural Guidance and Guarantee Fund - EAGGF, the Financial Instrument for Fisheries Guidance - FIFG) and four horizontal development initiatives (INTERREG, URBAN, LEADER, EQUAL).

Structural funds are shared among the member states according to criteria for each of the set objectives. They are managed through three programmes entitled Objectives 1, 2 and 3. A brief overview of these Objectives is provided below (European Union - Slovenia, 2004):

Objective 1 (territory principle). Eligible areas are those that have less than 75% of EU average per capita GDP. Such areas are eligible for financial aid for improving infrastructure, employment and the development of the industrial sector. In the EU, 22 % of the population in 50 regions received 64% of the funding from the EU budget allocated for the structural policy or EUR 22 billion in 2004 (see Figure 1).

*Objective 2 (territory principle)***.** Eligible areas are those with economic and social difficulties, such as restructuring, negative economic growth and high unemployment. Approximately 18% of all European regions are eligible for funds from the Objective 2. In 2004, 10.4% of the structural funding or EUR 3.6 billion was spent for this objective.

*Objective 3 (thematic principle)***.** Aimed at the modernisation of education systems and the creation of employment, this Objective covers those areas not included in Objective 1. Within Objective 3, 11.1% of all structural funds was spent in 2004, or EUR 3.8 billion.

- *EU cohesion fund*

The EU cohesion fund contributes to interventions in the field of the environment and trans-European networks. It apllies to member states whose per capita GDP is below 90% of the Community average. The member states qualifying for the money are Spain, Portugal, Ireland and Greece[6] as well as all the new EU members. Funds are allocated according to the number of inhabitants, GDP per capita and the size of a country, by taking into account other socio-economic characteristics, for instance deficiencies in transport infrastructure. In 2004, 8.1% of all funds for structural and cohesion policy were allocated to the cohesion fund or EUR 2.8 billion (Figure 1).

2.2.3. Common agricultural policy

The CAP is one of the oldest European policies. For many decades agriculture was the most uniformly regulated area which connected the member states. Today, on the other hand, it is often considered as a policy of different interests, from which only a part of rural population can profit and which is the major burden for net contributors to the EU budget (Erjavec, 2004).

The CAP aims to provide farmers with a reasonable standard of living and consumers with quality food at fair prices. Therefore, the implementation of the CAP is based on three principles, namely:

1. common market (free trade of agricultural products among member states);
2. encouraging domestic production (market-price protection);
3. financial solidarity of member states (common budget).

The importance of the CAP is also reflected in the fact that in the past the CAP represented a significant proportion of budget expenditure. Even today, despite the development of other common policies and regulations, slightly more than 50% of the total EU budget is spent for the CAP.

Within the CAP direct aids (i.e. payments per hectare of agricultural land or per livestock) are still most important. Together with market related expenditure they amounted to 89% of all agricultural funds in 2004. However, environmental protection and the development of rural areas have become increasingly more important during the last decade. In 2004, 11% of all agricultural funds were spent for the rural development, or EUR 4.8 billion.

[6] Towards the end of 2003, the EU reviewed the eligibility of these countries by checking their economic and social progress and decided that these countries are still eligible for developmental funds.

3. Expenditure and revenue from European funds for the period 2004-2006 and the liquidity of the national budget

The structure of cash flows among the budget of the Republic of Slovenia (RS) and the EU budget during the period 2004-2006 has already been shown (Table 1). Data on the expected monthly expenditure from the RS budget to the EU budget and its dynamism are already known. The main difficulty for forecasting cash flows for this period is that we still do not know the dynamism of the contributions from the EU budget into the Slovenian budget. The scope of funds is an additional uncertainty.

In this part of the paper, we will present the dynamism and the expected amounts of cash flows between both budgets until 2006, then later we will present some scenarios, which are likely to happen due to delayed payments of European funds. Finally, we will investigate risks related to Slovenia's accession to the EU (paying interest on delays for payments into the EU budget).

3.1. Payments from the RS budget into the EU budget

VAT-based and GNI-based resources and UK correction are entered to the Commission's account on a monthly basis, in twelfths, on the first working day of each month. Slovenia made this entry for the first time on May 3, 2004.

For the specific needs of paying EAGGF Guarantee Section expenditure, pursuant to Regulation (EEC) No 1765/92 and depending on the Community's cash position, member states may be invited by the Commission to bring forward by one or two months in the first quarter of the financial year the entry of one-twelfth or a fraction of one-twelfth of the amounts in the budget for VAT and GNI resources (Council Regulation No 2028/2004). Individual quarterly amounts should not exceed the planned budget. It is necessary to point out that earlier entries may have a negative effect on the liquidity of RS budget (more about this can be found below).

Entry of the *traditional own resources* to the Commission's account shall be made at the latest on the first working day following the 19th day of the second month following the month during which the entitlement was established. Slovenia's entry was made for the first time on July 20, 2004.

If the member state fails to collect the planned traditional own resources, they have to be entered nevertheless in the EU budget. In the event of delays in entering their own resources the member state is under obligation to pay interest. Both can have a negative effect on the liquidity of the national budget.

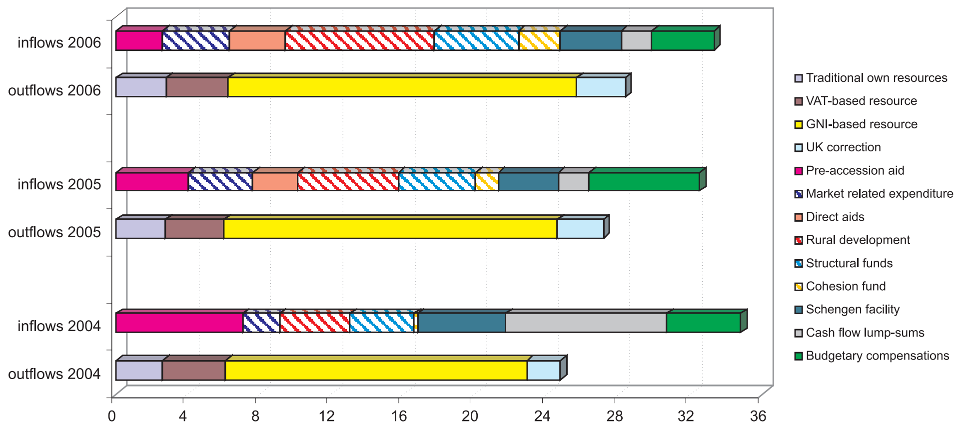
3.2. Payments from the EU budget into the RS budget

Among the payments from the EU budget, only *cash flow lump-sums* and *budgetary compensations* have a known dynamism and aim to ease the accession to the EU and decrease the financial burden for the new member states. Compensations are paid in twelfths, usually on the first working day of a month.

The first such inflow to the state budget was realised on April 29, 2004, despite the fact that it was planned for May 3, 2004, at the same time as the entry of the twelfths to the EU budget. It should be pointed out that in order to manage the liquidity of the budget, it is necessary to make and receive payments on the planned day. By taking into account the planned budgetary cash flows the state treasury manages the liquidity of the national budget (borrows money or places surplus money in money markets)[7]. This means that, in terms of liquidity, it would be better if payments of compensations to the state budget were made on the agreed day, that is, on the first working day of a month[8].

For the disbursement of *structural funds*, agreed upon during the negotiations for the period 2004-2006, Slovenia was obliged to prepare the Single Programming Document. Delays in adopting this document would further decrease the chances for the disbursement of this fund (absorption capacity would decrease below the amount forecasted), which would lead to a worsened net budgetary position against the EU and may result in a worse position for the 2007-2013 negotiations[9]. This would certainly lead to problems related to the liquidity of the national budget.

Figure 2: Expected monthly budgetary cash flows between Slovenian and the EU budget for the period between 2004-2006 (in million euros)



Source: Pre-accession Economic Programme (2003).

Note: Slovenia and other countries that have not yet introduced the euro as their national currency pay contributions to the EU budget in their national currencies, while they receive payments from the EU budget in euros.

7 Measures for managing budget liquidity are thoroughly described by Černjač (2002) and Dolenc (2002).

8 The Commission usually makes payments for compensations in advance, because some countries may otherwise experience liquidity problems and may not be able to fulfil their obligations towards the EU budget in due time.

9 In accordance with the Council Regulation laying down general provisions on the Structural Funds (1999), Slovenia received an advance payment amounting to 10% (EUR 6.3 million) of the allocated funds (not payments) from structural funds and will receive an advance payment amounting to 6% (EUR 3.7 million) in 2005.

It is seen from Figure 2 that the expected monthly inflows for the whole period between 2004 and 2006 exceed the outflows to the EU, but the situation could become less favourable, if inflows shown in italics (market related expenditure, rural development, structural funds, cohesion fund) are not paid in full or in due time. By taking into account the assessment made by the Commission, which includes inflows from all existing sources (with the exception of funds for existing policies and institutions within internal policies, which is not considered as inflow of the RS budget, because it is paid directly to beneficiaries), monthly inflows in 2004 are likely to exceed the outflows by EUR 10 million, whereas in 2005 and 2006 monthly inflows are likely to exceed outflows by approximately EUR 5 million.

It was planned that Slovenia's monthly contribution to the EU budget would amount to EUR 24.7 million in 2004 (of which EUR 3.5 million from the VAT resource, EUR 16.8 million from GNI resource, EUR 1.8 million for the UK correction and EUR 2.6 million from traditional own resources), whereas it would receive monthly EUR 34.8 million from the EU budget. Had these assumptions became true, Slovenia's net budgetary position would be nearly EUR 86 million.

However, in 2004, Slovenia received only EUR 14.2 million more than it had contributed to the EU budget. It is necessary to point out that the situation would have been different had there had been no compensations. In such a case Slovenia would have become a net contributor to the EU budget in its first year after the accession.

In 2005 and 2006, net contributions to the EU budget will gradually increase. In 2005, monthly outflows are likely to amount to EUR 27.1 million and in 2006 to EUR 28.3 million. The structure of outflows will probably remain unchanged during the whole period, with GNI as the most important source.

Payments from the EU budget will be, during the period 2005-2006, slightly lower than in 2004. In 2005, the average monthly inflow will probably amount to EUR 32.5 million and in 2006 to EUR 33.3 million. Taking into account the payments for 2004, it is questionable, if these forecasts are still reasonable. It is necessary to point out that both compensations and pre-accession aid are to decrease over the next couple of years, whereas all other inflows are likely to increase.

3.3. The effect of dynamism of inflows and outflows between the two budgets on the liquidity of the national budget

The influence of European cash flows on the liquidity of the national budget will appear gradually over the next few years. To a large extent it will depend on how the expected payments are made. The following possible effects on the liquidity of the RS budget can thus be forecasted:

1. the effects stemming from the budgetary position of Slovenia after its accession to the EU (initial position);
2. the effects stemming from changes in foreign trade after the accession to the EU (it was difficult to predict what would happen);

3. the effect stemming from structural changes (tax evasions, unrecovered duties);
4. the effect stemming from delays (time inconsistency between inflows and outflows).

With regard to the last item, a number of scenarios can be created, based on the length of the eventual delay in receiving payments from the EU budget. These delays can be daily, monthly or annually.

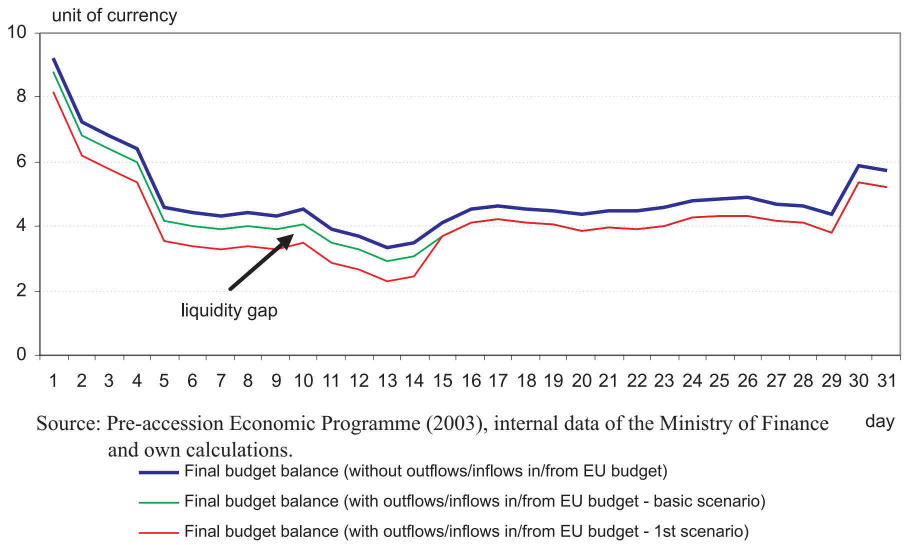
a) Daily delays or delays up to one month (Figure 3, 1st scenario)

Figure 3 shows two possible scenarios. The basic scenario is based on the following assumptions:

- on the first working day of each month one-twelfth of the liabilities are paid in the EU budget and compensations are paid from the EU budget;
- on the twentieth of a month traditional own resources are paid in the EU budget.

The 1st scenario differs from the basic scenario only in that the Commission pays compensations on the 15th of a month. It is clear from Figure 3 that the budgetary situation could become worse in the middle of the month due to a substantial liquidity deficit, if payments (say compensations) to the national budget of a certain month are executed later than on the first working day (taking into consideration the existing monthly cash flows).

Figure 3: Simulation of the effects of the dynamism of inflows and outflows of European funds on the liquidity of national budget - daily delays

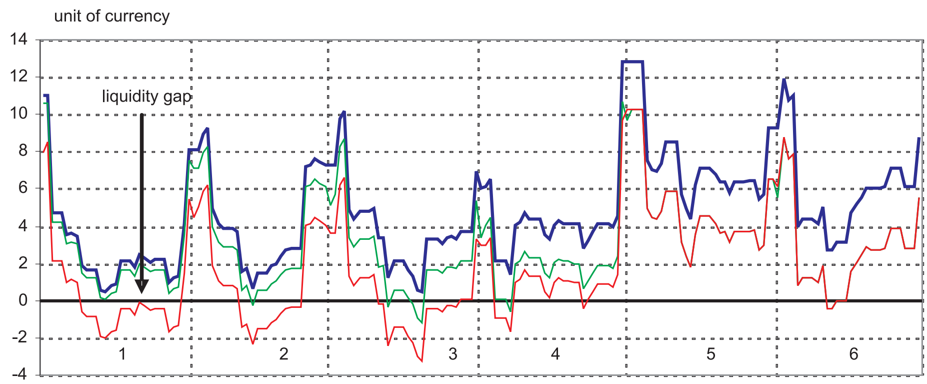


Source: Pre-accession Economic Programme (2003), internal data of the Ministry of Finance and own calculations.

<u>*b) Monthly delays*</u> (Figure 4, 2nd scenario)

The assumptions of the basic scenario are the same as above. The 2nd scenario is based on an extremely unfavourable possibility for the liquidity of the national budget and differs from the basic scenario in that the Commission during the first month of a year requires a payment from the member state's own resources of two additional twelfths, whereas in the fourth and fifth month the member state is exempted from paying these commitments. This means that in the first triad, according to this scenario, the member state has to pay five twelfths of its annual obligations. The effects on the liquidity are seen during the first four months of the studied period.

Figure 4: Simulation of the effects of the dynamism of inflows and outflows of European funds on the liquidity of national budget - monthly delays and early payments



Source: Pre-accession Economic Programme (2003), internal data of the Ministry of Finance and own calculations.(2003), internal data of the Ministry of Finance and own calculations.

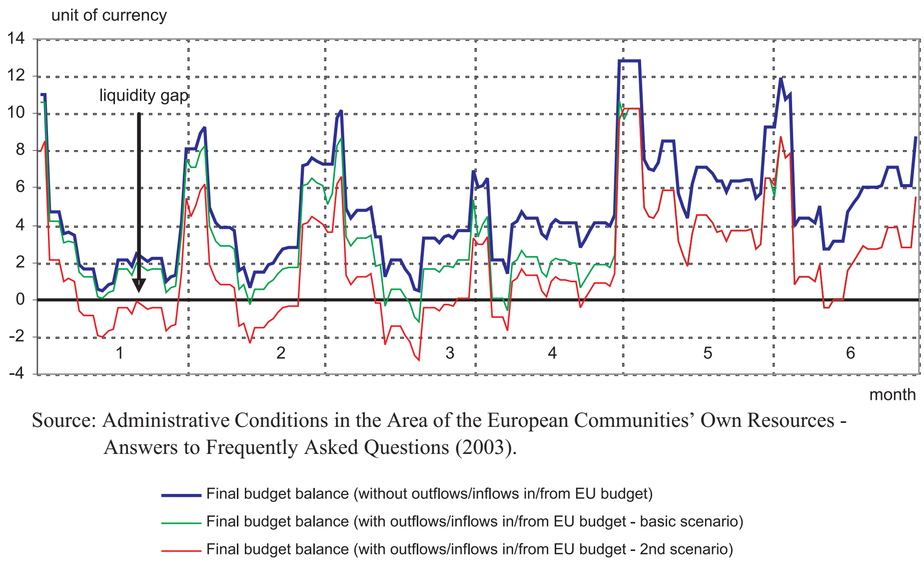
Final budget balance (without outflows/inflows in/from EU budget)
Final budget balance (with outflows/inflows in/from EU budget - basic scenario)
Final budget balance (with outflows/inflows in/from EU budget - 2nd scenario)

Within the wisdom of hindsight, the assumption about early pre-payments from own resources is sound, because in order to finance the CAP the Commission is likely to need more resources than the available amount on its account at the beginning of a fiscal year. The Commission frequently invites the member states to enter additional money from VAT or GNI source in January or February (not more than five twelfths in the first three months), taking into consideration payment appropriations and the Community's cash position. This means that the difference between common funds and cash requirements is shared among the member states according to their shares in planned budgetary revenues. In addition, due to earlier entries, commitments in the following months are adequately reduced. This view is supported by Figure 5, which shows monthly cash flows of the EU budget for the period 2000-2002. Payments are always the highest at the beginning of a year, particularly in January, whereas in the middle of a year (in July, August and/or September) they are usually extremely low.

If, during a certain period (in our case during the first half of the year), a member state receives only compensations from the EU budget and, at the same time, has to make additional entries to the Commission's account, the liquidity of the state budget may be threatened and the liquidity deficit steadily increases.

Such a pessimistic scenario is possible in practice[10] despite the fact that it is rather unlikely that a member state would only receive compensations from the EU budget. On the other hand, the dynamism and the scale of other inflows from the EU budget are not known in advance.

Figure 5: Monthly EU-15 budget cashflow - revenue (in million euros)



Source: Administrative Conditions in the Area of the European Communities' Own Resources - Answers to Frequently Asked Questions (2003).

c) Annual delays

If the delays of payments from the EU budget are longer (several months long), they can be carried over to the next budget year, which would effect the budgetary position of the RS.

[10] During the first months of full membership, Slovenia regularly received only compensations and pre-accession aid.

3.4. Interest on delays

It was shown in previous chapters that after the accession of Slovenia to the EU, liquidity risks slightly increased. Because of the increased risks in managing budget liquidity, disturbances in cash flows are likely to happen, i.e. unexpected liquidity deficits. Because of the unfavourable liquidity position of the national budget, a member state may become unable to make entries to the Commission's account in due time. In this case the member state has to pay interest according to the Council Regulation No 2028/2004.

Example 1: Hypothetical calculation of interest on delays for Slovenia

The following data is used for the calculation of interest on delays:
- monthly contribution to the EU budget in the amount of EUR 24.7 million, which represents the total of all own resources (VAT -based resource, GNI-based resource, traditional own resources, UK correction);
- main refinancing rate of the Bank of Slovenia (3.0% - in November 2004);
- refinancing rate of the European Central Bank (2.03% - in November 2004).

DAILY DELAYS :

$$\text{interest} = \frac{\text{contribution to the EU budget} \cdot (\text{interest rate} + 2 \text{ p.p.}) \cdot \text{number of days}}{360 \cdot 100}$$

members not belonging to the EMU:

$$\text{interest} = \frac{\text{EUR } 24{,}700{,}000 \cdot (3.0 + 2) \cdot 1}{360 \cdot 100} = \text{EUR } 3{,}431$$

members belonging to the EMU:

$$\text{interest} = \frac{\text{EUR } 24{,}700{,}000 \cdot (2.03+2) \cdot 1}{360 \cdot 100} = \text{EUR } 2{,}765$$

MONTHLY DELAYS:

$$\text{interest} = \frac{\text{contribution to the EU budget} \cdot (\text{interest rate} + 2\text{p.p.} + 0.25\text{p.p.}) \cdot \text{number of days}}{360 \cdot 100}$$

members not belonging to the EMU:

$$\text{interest} = \frac{\text{EUR } 24{,}700{,}000 \cdot (3.0+2+0.25) \cdot 31}{360 \cdot 100} = \text{EUR } 111{,}665$$

members belonging to the EMU:

$$\text{interest} = \frac{\text{EUR } 24{,}700{,}000 \cdot (2.03+2+0.25) \cdot 31}{360 \cdot 100} = \text{EUR } 91{,}033$$

Source: Pre-accession Economic Programme (2003), Euro Exchange Rates (Official Journal of the European Communities, 2004/C 271/01), Financial data of the Bank of Slovenia (2004) and own calculations.

Note: p.p. = percentage point

In the case of member states not belonging to the EMU, the interest rate shall be equal to the rate applied on the first day of the month in question by the Central Banks for their main refinancing operations, increased by two percentage points, or, for the member states for which the European Central Bank rate is not available, the most equivalent rate applied on the first day of the month in question on the member state's money market, increased by two percentage points. This rate shall be increased by 0.25 of a percentage point for each month of delay. The increased rate shall be applied to the entire period of the delay.

In the case of member states belonging to the EMU, the interest rate shall be equal to the rate as published in the Official Journal of the European Union, C series which the European Central Bank applies to its refinancing operations, on the first day of the month in which the due date falls, increased by two percentage points. This rate shall be increased by 0.25 of a percentage point for each month of delay. The increased rate shall be applied to the entire period of delay.

Example 1 represents a hypothetical calculation of interest which Slovenia would have to pay in case of daily or monthly delays in making the entry to the account of the Commission. Two calculations of interest are shown, one for the case of Slovenia as not belonging to the EMU (if entries to the EU budget are only partly settled) and one for the case of Slovenia as belonging to the EMU. If Slovenia had belonged to the EMU in 2004, the interest would have been approximately 20% lower than presently.

The differences in interest rates on delays among member states belonging to the EMU and those not belonging to the EMU can be, at first sight, seen as discrimination, yet they are reasonable because of the differences in inflation rates among the member states.

Table 3 shows the interest rates used in calculating interest rates on delays for states not belonging to the EMU. With the interest rate of 3%, Slovenia ranked in the middle at the end of 2004; the lowest interest rate, which is practically the same as the refinancing interest rate of the European Central Bank, can be found in Sweden (2%), and the highest in Hungary (10%).

Table 3: Interest rates on delays for states not belonging to the EMU

- in percent (%)

Sweden	Repo rate	2
Denmark	Lending rate	2.15
Estonia	3-months interbank rate (TALIBOR)	2.41
Czech Republic	2-weeks repo rate	2.5
Lithuania	3-months interbank rate (VILIBOR)	2.7
Malta	Central intervention rate	3
Slovenia	Main refinancing rate	3
Latvia	Refinancing rate	4
Slovakia	Repo tender limit rate	4.5
United Kingdom	Repo rate	4.75
Cyprus	Marginal lending facility	5.5
Poland	Minimum money market intervention rate	6.5

Source: Central Banks of the EU Member States (2004).

However, inability in making entries in the accounts of the EU does not result only in paying relatively high interest on delays, but also in a loss of confidence and reputation.

4. Conclusions

For the new member states membership in the EU may pose an additional burden on the budget. The greatest problem both for the liquidity and general government budget position are caused by the time lag between outflows to and inflows from the EU budget. Member states contribute monthly to the EU budget, part-finance the majority of European projects and make advance payments from their domestic budgets to finance certain activities. This is particularly difficult during the first years of their membership in the EU, as it is difficult to forecast, with any certainty, the scale of funds absorbed by an economy in a certain year in advance. At the same time, the Commission requires development in areas like environmental protection, transport infrastructure, science and education, EU border surveillance, public administration, etc. In the short term, this poses a financial burden for the member states. On the other hand, within a couple of years, the accession to the EU is expected to have positive effects, especially if a sound national economic policy is implemented.

In negotiations with the EU an agreement was reached that, for the period 2004-2006 and in accordance with the methodology of the Commission, Slovenia will receive more from the EU budget than it will have to contribute to the EU budget, meaning that its net budgetary position will be positive. This is certainly a satisfactory starting point for the liquidity of the national budget, but the uncertainty about the scale of inflows from the EU budget and the temporal frame of inflows and outflows between the budgets remain.

The greatest unknown regarding the inflows from the EU budget are structural and cohesion funds. In the Amendment to the Budget of the RS for the Year 2004, EUR 60 million of inflows from this source were forecasted, which were, unfortunately, not fully disbursed. The condition for the disbursement of structural funds are projects approved by the Commission and the absorption capacity will have long-term implications, as it affects the inflows from the EU budget in the financial perspective for 2007-2013. According to the estimates, Slovenia is likely to have difficulties in its efforts to ensure the favourable position granted during the first negotiations.

Problems in managing the liquidity of the state budget are also because from May 1, 2004 the budget did not receive some tax receipts, mainly custom duties and a part of VAT. The loss of income from VAT caused liquidity constraints during the first month after Slovenia entered the EU, when the customs service ceased to control imports and stopped issuing receipts for the input VAT.

Another problem that Slovenia will have to face in the next couple of years is that a part of funds allocated from the national budget into the EU budget will be returned as expenditure for industries with a low value added, e.g. agriculture. This also means that the national budget will have to provide additional money for other important areas, e.g. for science and education.

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Javnofinancijski novčani tokovi proračuna EU i njihov utjecaj na likvidnost nacionalnog proračuna: primjer Slovenije

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Sažetak

Europskoj uniji 1. svibnja 2004. godine priključilo se deset novih država. U isto vrijeme uspostavljeni su i javnofinancijski novčani tokovi između proračuna EU kao središnjeg subjekta i nacionalnih proračuna. Iako su sva pravila jasna i unaprijed poznata - definirana direktivama i uredbama EU, ostaje nekoliko nejasnoća, koje mogu značajno utjecati na likvidnost kao i javnofinancijski položaj proračuna novih članica. Najveći problem za likvidnost proračuna novih članica EU pretstavlja vremenska neusklađenost između priliva i odliva europskih sredstava, do koje dolazi posebno zbog vremenskog kašnjenja naplata iz europskog proračuna i slabe apsorbcijske sposobnosti, odnosno sposobnosti preuzimanja tih sredstava iz europskih fondova. Članak analizira dinamiku i predviđeni opseg javnofinancijskih novčanih tokova između proračuna Slovenije i proračuna EU do 2006. godine. Predstavljeno je nekoliko scenarija, do kojih bi moglo doći zbog zakašnjenja kod isplata europskih sredstava. Posljedica toga mogli bi biti nepredvidivi deficiti državnog proračuna i dodatni teret naplata zakasnjelih kamata u briselsku blagajnu.

JEL klasifikacija: *H, H6, H61*

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