

EU Funds in the New
Member States:
*Opportunities and
Challenges*

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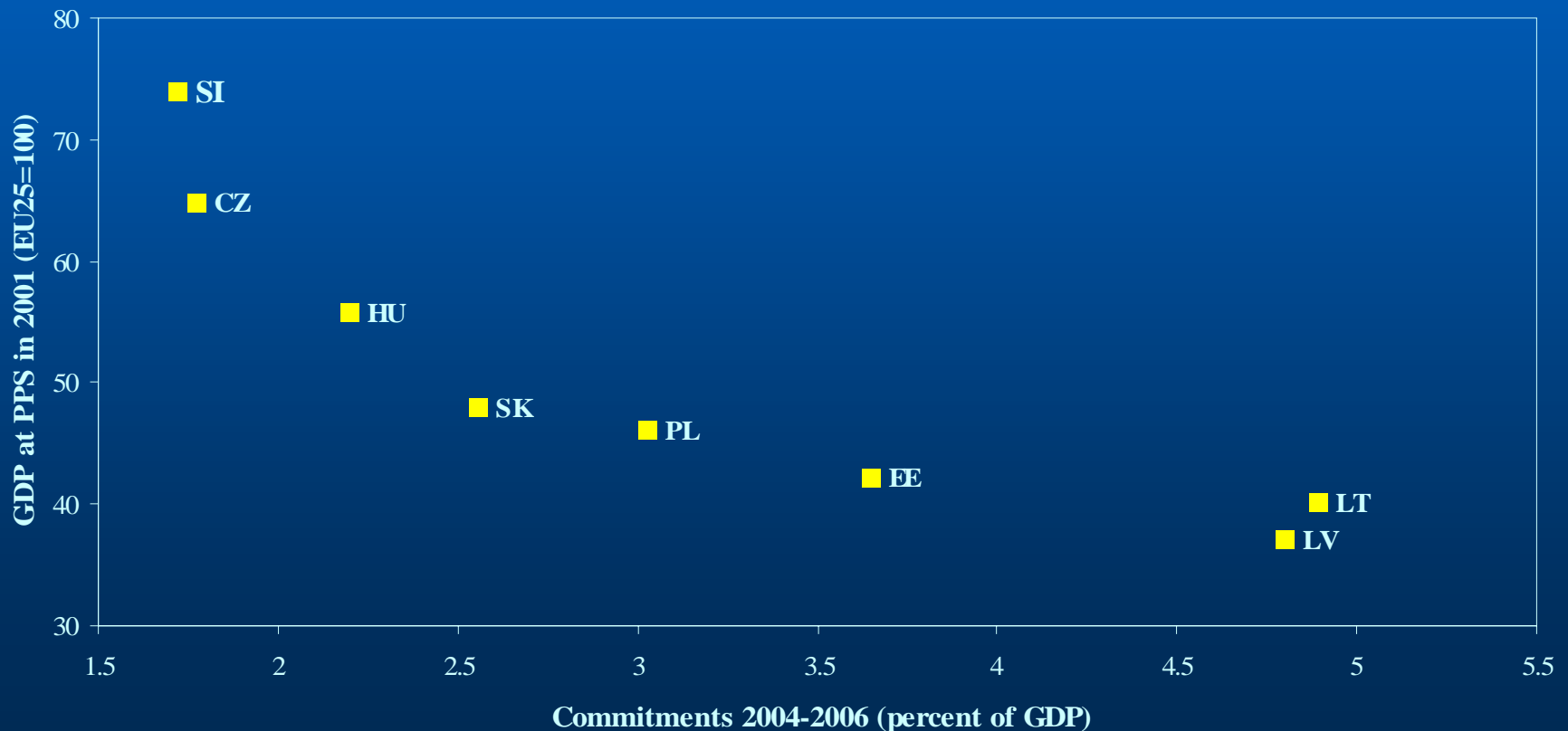
September 2006

Cross-country overview of:

- EU funds available to the NMS
- Absorption of structural funds
- Demand impact of EU transfers

EU accession opened the largest window of opportunity for the Baltic states

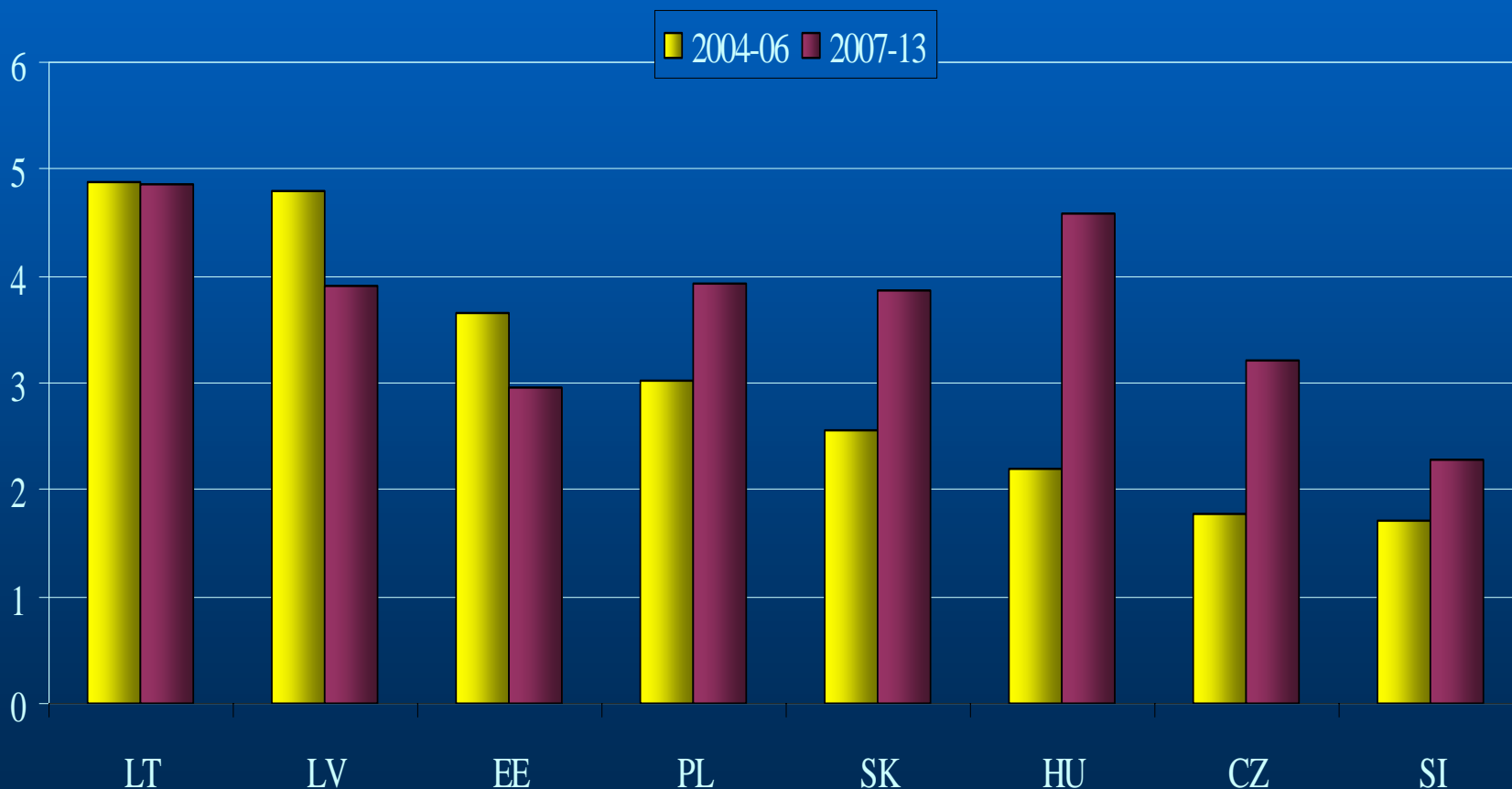
NMS: Average annual EU Commitments and Real Convergence



Source: EC, Eurostat.

...but in 2007-13 the relative importance of EU funds may decline in Baltic states

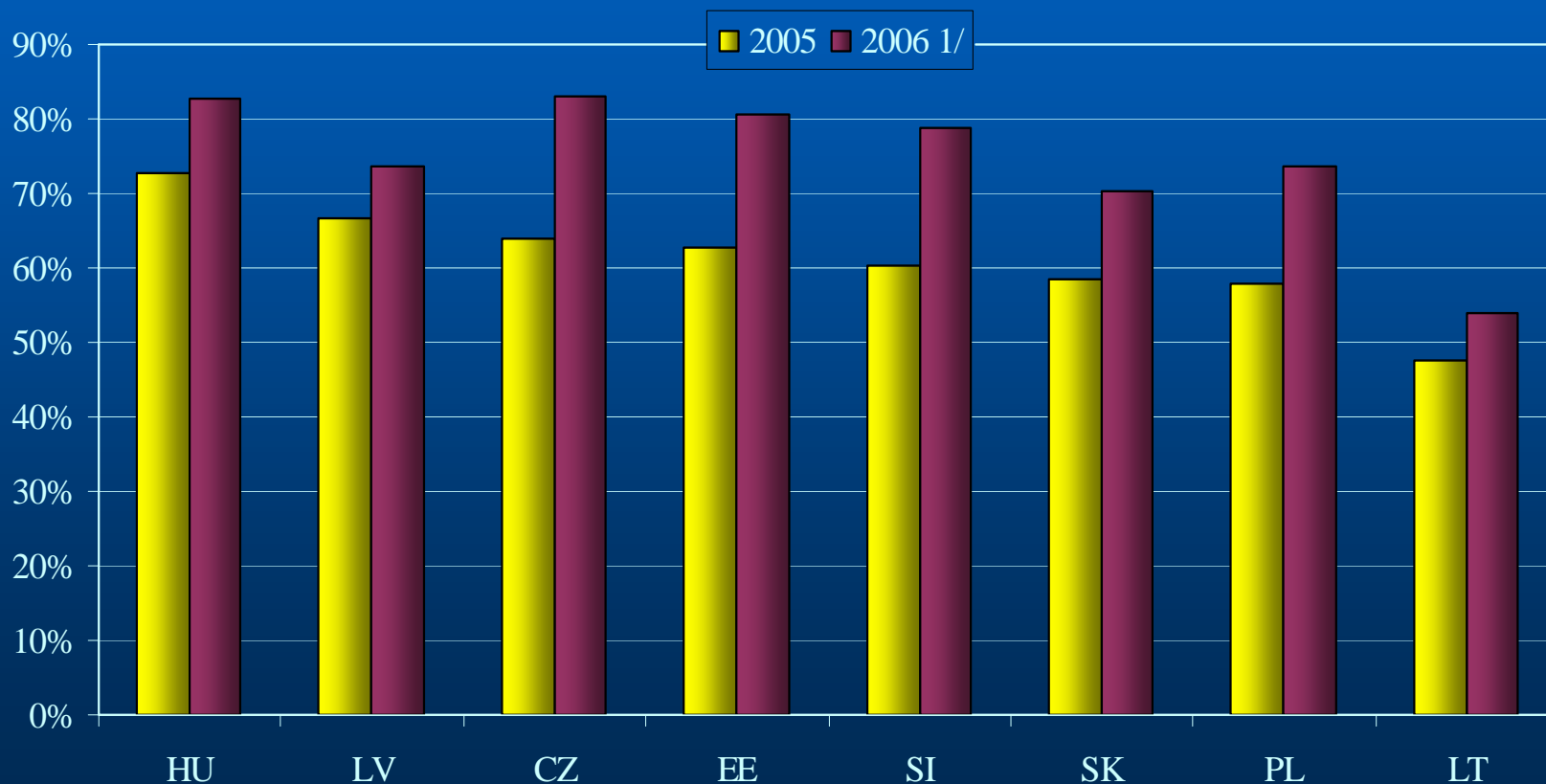
Average annual commitments as a percent of GDP



Source: European Commission, national authorities, satff estimates.

Demand for structural funds is high across NMS, most funds are already contracted...

Contracting of structural funds (percent of 2004-06 commitments)

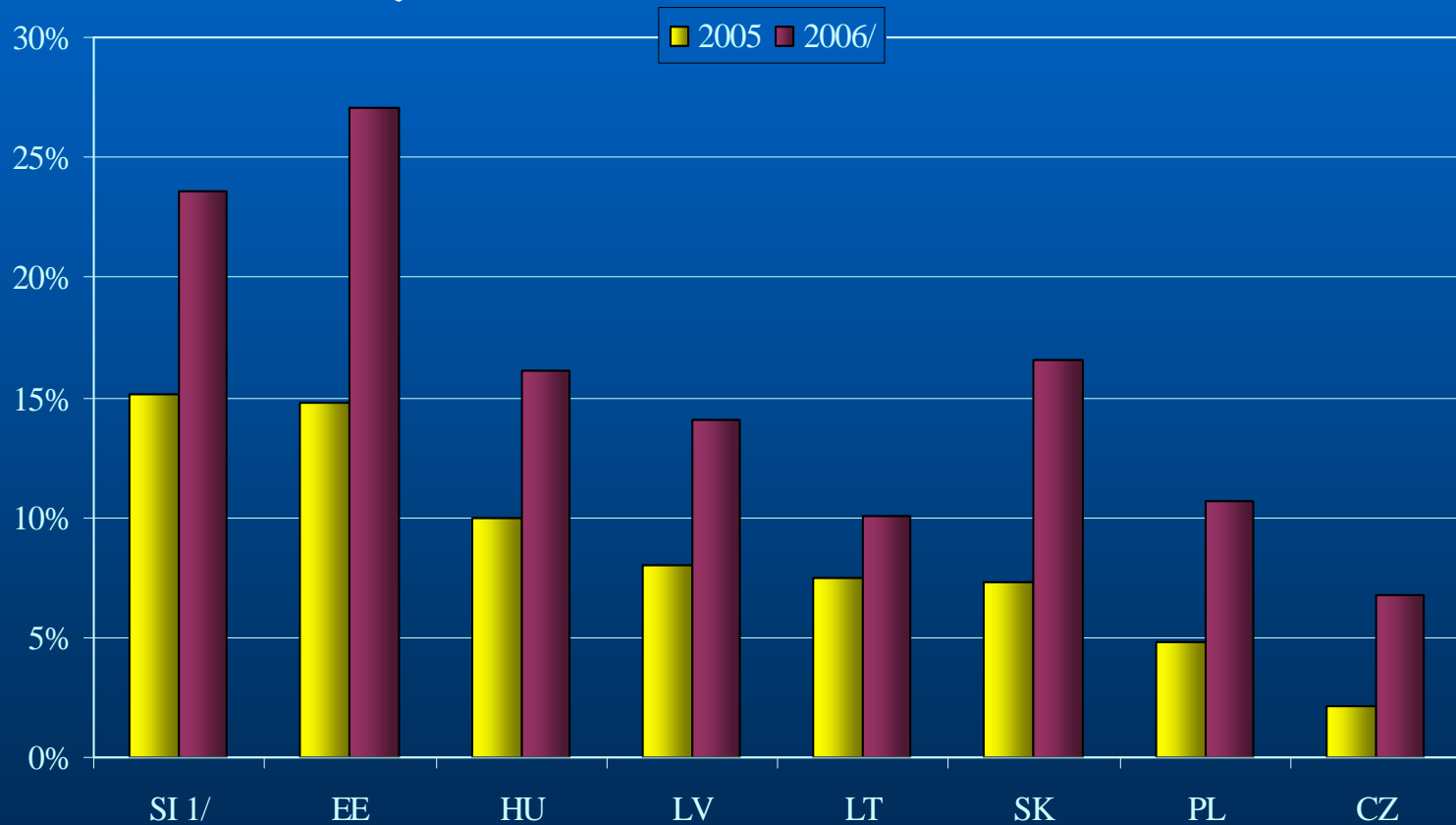


1/ Latest available.

Source: Data from national authorities.

...but absorption rates differ significantly among the NMS

Requests for interim payments (percent of 2004-06 commitments)



1/ Actual refunds from EU.

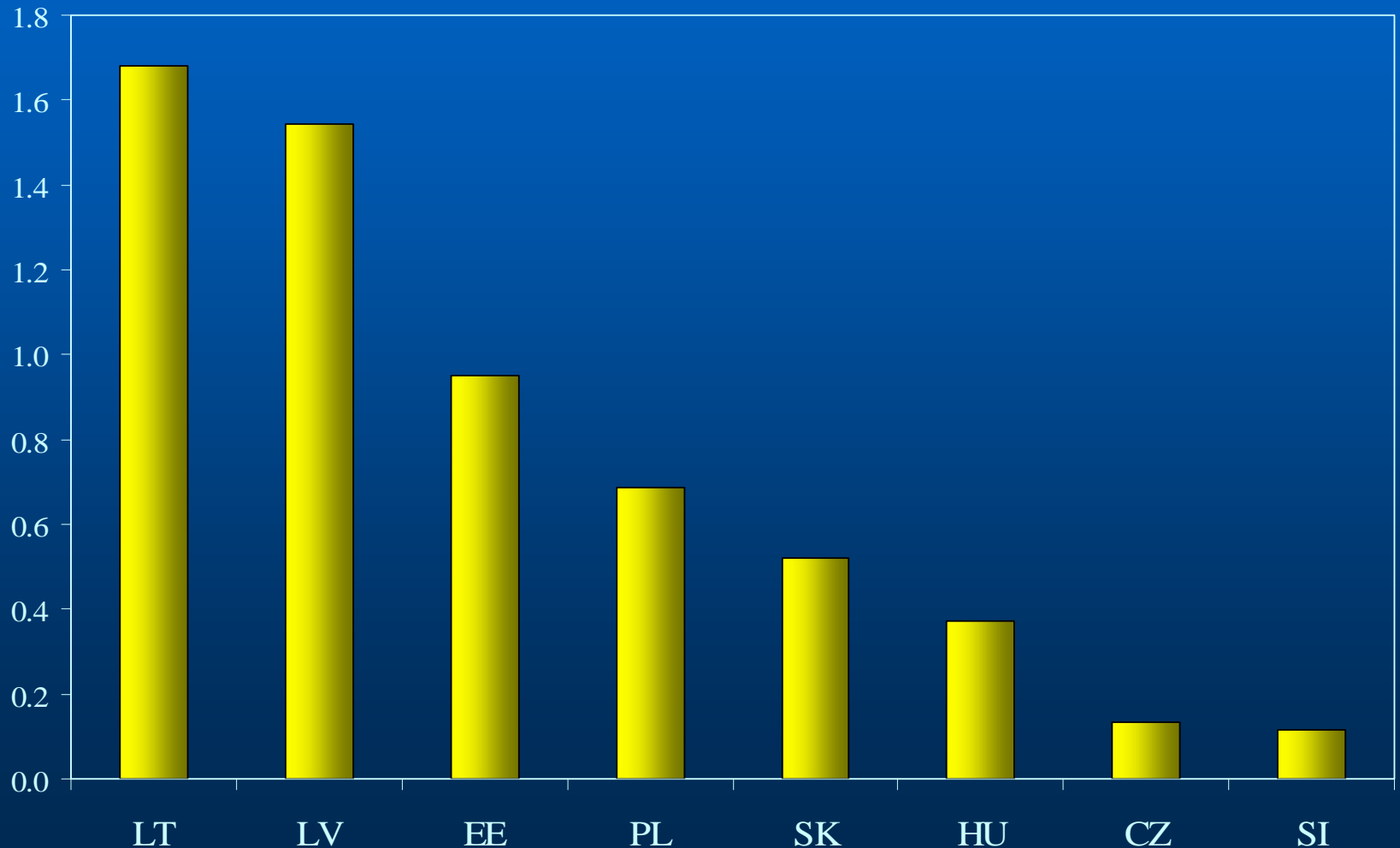
Source: Data from national authorities.

Could institutional frameworks explain absorption in the NMS?

- NMS developed two models:
 - BALTIC MODEL: Single institution acting as both managing and paying authority; this role is played by the Ministry of Finance
 - CE5 MODEL: MoF acting as payment institution, but not as a central managing authority
- Observations:
 - Leaders in absorption represent both models
 - In both cases there seem to be quite strong central coordination in management of EU funds
 - Initial frameworks were over-regulated and NMS are streamlining their regulations
 - Well-functioning payment systems and proper incentives for beneficiaries are needed to translate high contracting into high disbursements

NMS were net beneficiaries of EU transfers...

Net EU transfers in 2004-05 (annual average, percent of GDP)

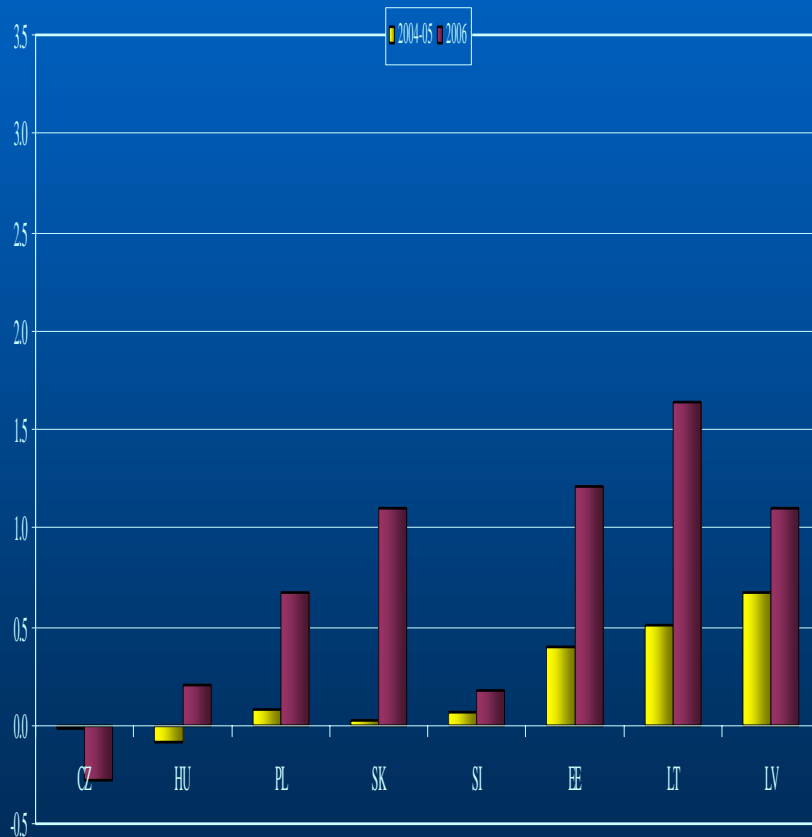


...but net EU transfers may not be an accurate measure of the demand impact

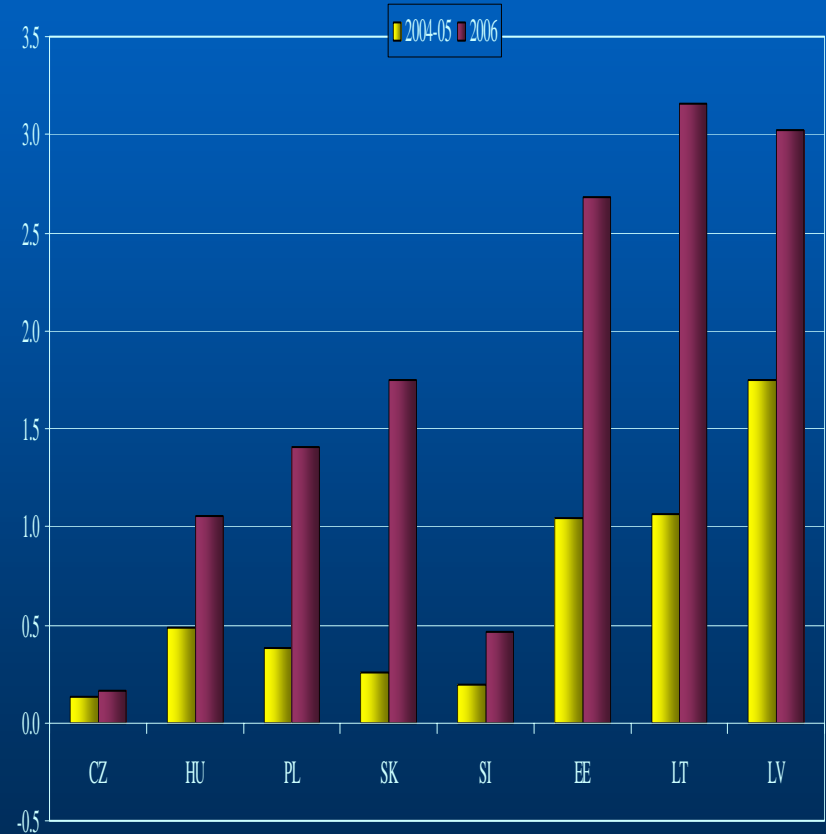
- “Tricky” issues:
 - Advance payments: no demand effects
 - Crowding-out: EU funds replacing domestic programs have no direct demand effects
 - Timing: demand impact arising at the time of spending rather than upon receiving EU refunds (lagged)
 - Second-round: indirect effects of EU funds work through Keynesian-type multipliers and supply-side effects

Depending on additionality assumptions demand impact may differ a lot...

"Official" additionality



Full additionality



Possible fiscal impact of EU transfers

- Inconclusive literature
- More “tricky issues than with demand effects
- Preliminary conclusions suggest a negative budgetary effect
- Fiscal challenges:
 - Budget restructuring towards capital spending
 - Finding co-financing