

The net operating balances or the “Juste retour” approach

A highly politicised concept with strong shortcomings

Operating budgetary balances (OBBs) are calculated and published annually by the European Commission as an attempt to document the differences between a Member State’s financial contribution to and its allocated expenditure from the EU budget. OBBs have become a highly politicised concept, with substantial shortcomings.

Calculating Operating budgetary balances (OBB) is **purely an accounting exercise**. This is most convincingly demonstrated by the **zero-sum assumption** inherent in the Operating budgetary balances concept, as a positive OBB of one country must necessarily be offset by a negative OBB of equal size by another Member State. Evidently, such a perspective stands in sharp contrast with the idea of an EU budget that is not primarily meant as a system of fiscal redistribution, but rather as a means to generate European added value.

In addition to the criticisms on the interpretation of Operating budgetary balance, the approach also has serious inherent limitations:

- **Several expenditure positions** (e.g. development aid to third countries) are **excluded**, despite its impact on the extent to which Member States benefit from EU membership.
- Member States’ Operating budgetary balances figures **vary significantly over time** and convey a different picture when reported in **relative or absolute terms**. This makes Operating budgetary balances figures an attractive tool for populist statements.
- As some EU budgetary items (e.g. administrative expenditure) cannot be assigned to single countries objectively, rules are necessary for their (non-)consideration in Operating budgetary balances calculations. This arbitrariness highlights that there is no one true methodology for calculating OBBs.
- Calculating Operating budgetary balances separately for each EU policy instrument demonstrates how national (net) payment profiles vary across said instruments. As such, the Member States do not profit equally from the advantages of EU membership. However, Operating budgetary balances numbers are dependent on which of these instruments are taken into account.

It is therefore **crucial** to only take Operating budgetary balances figures for what they truly are – mere **accounting indicators**, and not a measurement of costs and benefits derived from the EU budget (and even less so from EU membership).

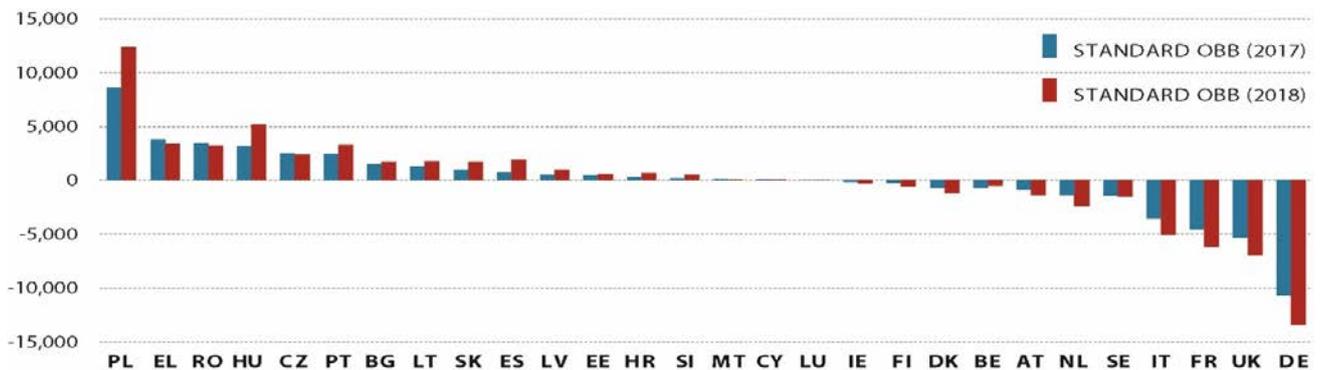
Operating budgetary balances by definition signal that the European added value from EU spending is zero since Operating budgetary balances of all the Member States must always add up to zero. Hence, **under no circumstance should Operating budgetary balances serve as a compass that guides the EU budget towards higher value for all European citizens.**

Operating budgetary balance results vary with assumptions: examples

Variations over time

Figure 1 depicts each Member State’s Operating budgetary balances (OBB) in 2017 and 2018 respectively, ranked according to the countries’ absolute OBB in 2017 from highest to lowest. Most importantly, **the figure shows how time-variable OBBs are**, even in the span of two years. This variability leads inter alia to a **different ranking of Member States**, especially for net recipients: whereas Hungary was only the fourth-largest net recipient of EU funds in 2017, it exhibited the second highest OBB figure among all Member States a mere year later. Such yearly changes can be due to EU-funded projects being executed in one year and not another, and illustrate the difficulty of estimating future OBB figures.

Figure 1. Operating budgetary balances (€mill., 2017 and 2018)



Source: Authors’ calculations.

Absolute versus relative perspective

Figure 2 ranks all Member States according to their absolute Operating budgetary balances (OBB) figure in 2017 as before, but presents the OBBs relative to GNI. **Not only does the ranking change in comparison to Figure 1 when looking at relative OBB, but the size of net budgetary balances is also affected:** whereas EU funds, which net recipient countries receive in net terms, make up a substantial part of their GNI, these figures are much smaller for net contributors in the OBB context. Therefore, the perspective adopted impacts the overall image greatly. For example, from the accounting perspective, Spain receives more EU funding than Latvia in absolute terms, but ‘ranks’ higher when considering the relative size of net contributions.

Figure 2. Operating budgetary balances (%GNI, 2018)



Source: Authors’ calculations.

Source: Extracts from Briefing *The net operating balances: Variants, emerging numbers and history*, February 2020

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Administrator responsible: Alexandre MATHIS

Contact: Poldep-Budg@ep.europa.eu

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