

## EU MEMBERS STATES SHOULD AGREE TO KEEP REFUGEE COST OUT OF THE EXCESSIVE DEFICIT PROCEDURE

Position paper

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**ABSTRACT:** The European Union has been discussing the possibility of deducting refugee costs from national deficits in the wake of an unprecedented humanitarian crisis with multiple implications, among which a soaring amount resources to rescue and accommodate refugees that may reduce the fiscal space of EU Member States facing tight budgetary regulations. Neutralising refugee costs may have positive implications on different levels and Member States must soon agree to such a sensible and concrete course of action without further ado.

The fact that European treaties allow for flexibility to the standard budget rules is not a novelty to EU CSOs. Relevant **resolutions were endorsed by ECOFIN as far as 2005**: when addressing *improving the implementation of the excessive deficit procedure*, Ministers agreed that **special consideration will be given to budgetary efforts towards increasing or maintaining at a high level financial contribution to fostering international solidarity and to achieving European policy goals**.

Recent developments were reported from **the informal meeting of the Ministry of Economy and Financial Affairs (ECOFIN), Luxembourg September 11<sup>th</sup> 2015**. The matter was discussed<sup>1</sup> when addressing the financial implication of the refugee crisis: "All these aspects will have an impact on the EU budget, on the one hand, but also on national budgets, on the other", added the Minister (Pierre Gramegna), announcing that "EU Ministers of Economy and Financial Affairs had asked the Commission to make an **economic and financial assessment on the impact of the refugee crisis, while the Presidency and several Member States had suggested neutralizing expenses relating to refugees in light of EU rules on budget deficits** in this context. In this respect, the Presidency also invited the Commission to analyse to what extent the refugee crisis could be considered to be an **"exceptional circumstance" under the Stability and Growth Pact**, he added. Some EU Member States<sup>2</sup> strongly opposed to that point, however.

At the ECOFIN meeting on Oct 6<sup>th</sup>, no real progress was reported in the final press conference: Commissioner Moscovici<sup>3</sup> implied that the financial impacts of the refugee crisis were still to be fully

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<sup>1</sup> <http://www.eu2015lu.eu/en/actualites/articles-actualite/2015/09/11-info-ecofin/>

<sup>2</sup> Such as Germany for instance

<sup>3</sup> <http://video.consilium.europa.eu/webcast.aspx?ticket=775-979-16383> , from minute 14

appraised, given the complexity of the issues at hand. A **decision to neutralize refugee costs** in the EU excessive deficit procedures would allow Member States to report the costs incurred from rescuing refugees **without facing budgetary sanctions** for doing so. Refugee costs will not compete with **domestic financial requirements**. Thus, it seems a **very reasonable course of action to mobilize needed resources and defuse tensions between domestic and international solidarity needs**.

Also, it must be noted that **refugee costs are reported as Official Development Assistance under the OECD DAC regulations**; such norms include stringent time limitations: only the costs for the first year can be factored in as aid<sup>4</sup>. Thus, **by implementing a refugee costs exception, a growing component of the ODA from the EU will be neutralised as well**.

CONCORD has recommended that refugee costs, along with other in-donor expenditures, should be reported separately from ODA as they are not real outflows reaching Partner countries and may misleadingly inflate aid volumes. While reasserting the need for globally agreed ODA targets to be realised with the timely mobilization of effective resources, we notice the refugee costs scenario presents two implications from this perspective:

- it is most likely that the inflated aid element<sup>5</sup> will grow along with the refugee costs;
- **European countries may take advantage of the extra fiscal space to allocate genuine resources to development assistance**, which speaks to sound political choices in the hands of the EU political leadership.

The argument in favour of the neutralization of the refugee costs is gaining traction across the EU; so is it helpful to strengthen solidarity between the EU Member States; some countries are already planning to submit this kind of budgetary exception to the European Commission in the process of endorsing the budgets for 2016. It is important that the Economic and Financial Ministers endorse a decision on the neutralization of refugee costs at the earliest opportunity<sup>6</sup>.

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[Paper prepared for Concord Europe on behalf of the Aid Watch Advocacy Group]

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<sup>4</sup> See DAC - <http://www.oecd.org/dac/stats/documentupload/IsitODA.pdf> : *Assistance to refugees - Assistance to refugees in developing countries is reportable as ODA. Temporary assistance to refugees from developing countries arriving in donor countries is reportable as ODA during the first 12 months of stay, and all costs associated with eventual repatriation to the developing country of origin are also reportable.*

<sup>5</sup> For a review of the notion of genuine aid / inflated aid, see also CONCORD Aid Watch - <http://www.concordeurope.org/publications/item/275-2013-aidwatch-report>

<sup>6</sup> The next ECOFIN meeting takes place on Nov 11<sup>th</sup>.