THE BUDGET OF THE EUROPEAN UNION

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Glossary*
UDC 336.12(4-67 EU)
JEL H72

The budget is the financial framework within which the European Union operates, displaying all kinds of Union revenues and expenditures. It is founded upon several principles:

• unity – all revenues and expenditures are shown in a single document;

• annuality – budgetary amounts refer to the budgetary year, which lasts from January 1 to December 31. Since an ever-increasing share of the expenditures refers to multiyear projects, budgetary items are shown in two ways. Expenditures shown in the accrual manner (commitment appropriations) are costs that derive from activities carried out (calculated, invoiced) during the financial year. Expenditure according to the cash principle (payment appropriations) covers amounts of payments carried out in the same year, but also include payments pursuant to liabilities from previous periods, and do not include amounts that relate to the same year but which are due for payment later;

• equilibrium – expenditure must not exceed revenue. Resources may not be borrowed to cover deficits, and any budget surpluses are carried forward to the next period.

The budget of the EU is financed with the Union's own resources, which are not subject to any inter-government negotiations. There are four kinds of own revenues with which the budget is financed: agricultural levies, customs duties, VAT resources and payments from member states. The first two forms of revenue, i.e., the agricultural levies and the customs duties, were used at the beginning of the working of the Union, and were sufficient for its financing. But over the course of time, their relative importance weakened, and a need for new sources of finance appeared. Thus today the major part of budgetary revenue is collected with new own resources: the share in VAT and the payments from member states. The annual budget for 2005 came to 106 billion euros, equivalent to 1.004% GDP-a of the enlarged Union.

There is a ceiling to the amount of own resources that can be collected, and they may not exceed 1.24% of overall gross national income (GNI) of the member states. The amount and structure of own resources are defined as follows:

1. Agricultural levies make up about 2% of budgetary revenue, and are collect-

* *Received*: May 21, 2007
Accepted: June 12, 2007

ed on customs duties from the import of farm products from states that are not members of the EU;

2. Customs duties – these cover about 13% of budgetary revenue, and just like agricultural levies are collected from customs duties on imports from countries that are not EU members;

3. VAT resources make up about 35% of budgetary revenue of the EU, and represent a transfer of a part of the VAT collected in a member state. It is defined by the application of a uniform rate on the VAT base of each member state. In 2004, the rate was reduced to 0.5%, and is applied to the base that cannot be more than 50% of GNP;

4. Payments from member states make up half of the total resources of the EU budget. It is an additional source, because it is defined so as to make up the deficit that can arise from shortages of resources from the previous three sources. In this way the EU makes sure that the Union's budget is never in deficit.

The administrative costs of the institutions of the Union and the costs of its polices are covered by the expenditure side of the budget. The greatest amount always relates to the agricultural policy (about 45% of total expenditure), but nevertheless this has been greatly reduced as compared with the 75% of the budget of 40 years ago. The second biggest expenditure item consists of the structural and cohesion funds, which make up about 35% of overall expenditure. The objective of these expenditures is to foster economic growth in the poorest regions and to meet certain social needs. The remaining 20% of expenditures are earmarked for other purposes (1. internal policies – research and development, small and medium-sized enterprise, education, culture, the environment; 2. external policies – assistance to countries outside the Union; 3. administrative costs; 4. various reserves; 5. pre-accession aid to candidate states).

The annual budget is based on a medium-term agreement on expenditure priorities that is called the Financial Perspective. This is the result of negotiations among the European Parliament, the Council and the Commission, and it defines the maximum amount and the structure of the predicted expenditures. To date, four such agreements have been reached; the 1998-1992 Financial Perspective (the first Delors package); the 1993-1999 Financial Perspective (the second Delors package); the 2000-2006 Financial Perspective (the foundation of the financial package Agenda 2000), and the 2007-2013 Financial Perspective.

The Commission, Council and Parliament all take part in the adoption of the budget. Their authorities differ with respect to whether it is compulsory or non-compulsory expenditures that are being decided on. Compulsory expenditures derive directly out of the founding treaty, from secondary legislation or are obligations according to international or private law (the Common Agricultural Policy for instance). Examples of non-compulsory expenditures are the costs of the structural funds and development policies, such as expenditures for research and innovations.

The budget is adopted according to the following procedure:

• The Commission draws up a preliminary draft budget on the basis of internal discussion and data collected from individual Union institutions, and then sends it to the Council and Parliament.

• After an ad hoc procedure of adjustment with the Parliament concerning compulsory expenditures has been conducted, the Council adopts the draft budget with a qualified majority.

• Parliament carries out the first reading of the draft budget, in which it can adopt, with an absolute majority of votes, amendments to the non-compulsory items of the budget. However, for the compulsory items, Parliament can only make suggestions for changes, which finally must be adopted by the Council. The Council will then send the modified draft budget to Parliament.

• Parliament carries out the second reading of the budget and finally either adopts or rejects it. If Parliament does not make any decision concerning the budget in a period of 15 days, it is deemed to have been adopted.

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