THE UNION'S EXPENDITURE

Budget expenditure is approved jointly by the Council and Parliament. The annual EU budget must respect the budgetary ceilings agreed under the multiannual financial framework (MFF) for different programmes and policies, such as those on cohesion, agriculture and external relations. Flexibility instruments ensure that the EU can react in the event of unexpected needs. Use of financial instruments creates a leverage effect as regards EU spending.

LEGAL BASIS

— Articles 310-325 and 352 of the Treaty on the Functioning of the European Union and Articles 106a, 171-182 and 203 of the Treaty establishing the European Atomic Energy Community;

— Regulation (EU, Euratom) No 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EC, Euratom) No 966/2012[1];

— Council Regulation (EU, Euratom) No 1311/2013 of 2 December 2013 laying down the multiannual financial framework for the years 2014-2020[2];

— Interinstitutional Agreement of 2 December 2013 between the European Parliament, the Council and the Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management[3].

OBJECTIVE

To finance the European Union's policies within the bounds of budgetary discipline, in line with the rules and procedures in place.

BASIC PRINCIPLES

The EU budget obeys the nine general rules of unity, budgetary accuracy, annuality, equilibrium, unit of account (the euro), universality, specification (each appropriation is allocated to a particular kind of expenditure), sound financial management and

[1]OJ L 193, 30.7.2018, p. 1.
[2]OJ L 347, 20.12.2013, p. 884.
[3]OJ C 373, 20.12.2013, p. 1.

transparency, pursuant to Articles 6 to 38 of the regulation on the financial rules applicable to the general budget of the Union.

The annuality rule has to be reconciled with the need to manage multiannual actions, which have grown in importance within the budget. The budget therefore includes differentiated appropriations consisting of:

— Commitment appropriations, covering the total cost during the current financial year of legal obligations contracted for activities lasting a number of years;

— Payment appropriations, covering expenditure in connection with implementing commitments contracted during the current financial year or previous ones.

The unity rule is not fully adhered to either, given that, for example, European Development Fund (EDF) (5.3.1) appropriations are not included in the budget. At Parliament's insistence, however, the Interinstitutional Agreement on budgetary discipline, on cooperation in budgetary matters and on sound financial management of December 2013 stipulates that the Commission prepares an annual report providing an overview of the financial and budgetary consequences of various Union activities, whether financed by or outside the EU budget. This report contains information on the EDF, various lending and borrowing operations - including the European Stabilisation Mechanism (ESM) and the European Financial Stability Facility (2.6.8) - and EU trust funds for external actions, which have grown in importance as a result of the migration situation.

BUDGET STRUCTURE BASED ON THE CHARACTERISTICS OF THE APPROPRIATIONS

1. Operating expenditure/administrative expenditure/individual activity budgets

The general budget is divided into 10 sections, one for each institution. While the other institutions' sections consist essentially of administrative expenditure, the Commission section (Section III) consists of operational expenditure to finance actions and programmes and the administrative costs of implementing them (technical assistance, agencies, human resources). In 2020, the overall administrative expenditure corresponds to 6.1% of the total budget of EUR 168 688.1 million.

The Commission uses a budget nomenclature that presents resources by policy area and activities, thus making it easier to assess the cost and effectiveness of each EU policy ('Activity Based Budgeting').

2. Multiannual financial framework (MFF) (1.4.3)

Since 1988, Community/EU expenditure has been placed in a multiannual framework, which breaks the budget down into headings corresponding to broad policy fields, with expenditure ceilings reflecting the main budgetary priorities for the period covered. The first programming period lasted five years, with the length of the subsequent and current periods being seven years. The annual budgets must respect the limits set out in the multiannual framework.

Agricultural and rural policy remains the largest one in terms of budgetary allocation, closely followed by regional policy. The table below provides the breakdown of the 2020 budget by policy field as defined under the current multiannual financial framework for 2014-2020.

2020 EU budget: breakdown of commitment appropriations into MFF categories

MFF heading	EUR million	%
Competitiveness for growth and jobs	25 284.8	14.6%
Economic, social and territorial cohesion	58 645.8	34.1%
Sustainable growth: natural resources	59 907.0	34.8%
Security and citizenship	7152.4	4.2%
Global Europe	10406.6	6.0%
Administration	10271.2	6.0%
Other	587.8	0.3%
Total	172255.5	100.0%

3. Flexibility and emergency instruments

On the top of expenditure programmed in order to finance the EU's policies under multiannual programmes, some financial means have been reserved in the EU budget for the purpose of responding to unexpected crises and situations. These special flexibility instruments may be used in the event of economic crises (e.g. the European Globalisation Adjustment Fund), natural disasters (e.g. the Solidarity Fund), humanitarian emergencies (e.g. the Emergency Aid Reserve) or other unexpected needs (e.g. the Flexibility Instrument) in EU Member States, candidate countries or outside the EU. Such funding allows limited exceptional financial needs to be covered.

LENDING OPERATIONS AND FINANCIAL INSTRUMENTS

Financial instruments in the form of equity or risk capital, guarantees or other risk-sharing arrangements have been incorporated into a range of EU programmes to increase the leverage capacity of EU financial assistance.

As part of a package of measures agreed by the Council on 9 May 2010 for Member States in difficulties or threatened with severe difficulties, the European Financial Stabilisation Mechanism was established to provide financial assistance in the form of a loan or a credit line guaranteed by the EU budget. The 'Balance of Payments' facility enables financial assistance to be given to Member States whose currency is not the euro (2.6.8). Moreover, macrofinancial assistance, in the form of loans or grants, may be given to assist non-member countries.

The range of operations and instruments has grown a great deal since 1978, and in the last few years has been increased further, in particular through the European Fund for Strategic Investments.

ROLE OF THE EUROPEAN PARLIAMENT

Before the adoption of the Treaty of Lisbon, budgetary expenditure was classified as either compulsory (if it related to a contractual obligation) or non-compulsory. While Parliament had the final say over non-compulsory expenditure, the Council had the final say over compulsory expenditure. Parliament opposed this distinction as a restriction of its powers. The Treaty of Lisbon abolishes the distinction between compulsory and non-compulsory expenditure and gives Parliament joint budgetary powers with the Council over the whole budget (1.2.5).

Parliament has insisted on budgetary transparency and proper scrutiny of all operations and instruments, and asked that all expenditure and revenue resulting from decisions taken by or in the name of the EU institutions, including borrowing, lending and loan guarantee operations, be summarised in a document annexed every year to the draft budget, providing an overall view of the financial and budgetary consequences of EU activities.

Parliament's Committee on Budgetary Control holds an annual meeting with the European Investment Bank (EIB) (1.3.15) to scrutinise its financial activities, and prepares an annual report assessing the EIB's past performance and results. Parliament's Committee on Budgets and Committee on Economic and Monetary Affairs agreed to produce an annual report assessing the EIB's current and future actions; they alternate as the lead committee. While considering that financial instruments can be a valuable tool in multiplying the impact of EU funds, Parliament has stressed that they should be implemented under strict conditions, avoiding budgetary risks. To that end, detailed rules for the use of financial instruments have been included in the Financial Regulation.

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