THE EU’S EXPENDITURE

Budget expenditure is approved jointly by the Council and Parliament. The annual EU budget must respect the expenditure ceilings agreed under the multiannual financial framework (MFF) for different headings, i.e. categories of expenditure, such as those on the single market, cohesion and natural resources. Flexibility instruments ensure that the EU can react in the event of unexpected needs. The use of budgetary guarantees and financial instruments creates a leverage effect as regards EU spending. In addition to the MFF, the total EU expenditure for 2021-2027 includes the temporary recovery instrument NextGenerationEU, which will help the EU economy to recover from the COVID-19 crisis.

LEGAL BASIS

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


— Council Regulation (EU, Euratom) 2020/2093 of 17 December 2020 laying down the multiannual financial framework for the years 2021 to 2027 (the MFF Regulation);


— Interinstitutional Agreement (IIA) of 16 December 2020 between the European Parliament, the Council of the European Union and the European Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management, as well as on new own resources, including a roadmap towards the introduction of new own resources.
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\(^1\), equilibrium, unit of account (the euro), universality, specification (each appropriation is allocated to a particular kind of expenditure), sound financial management and transparency, pursuant to Articles 6 to 38 of the Regulation on the financial rules applicable to the general budget of the EU.

The annuity 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 IIA of 16 December 2020 stipulates that the Commission must prepare an annual report providing an overview of the financial and budgetary consequences of various EU activities, whether financed by or outside the EU budget. This report must contain information on the assets and liabilities of the EU, various lending and borrowing operations - including the European Stability Mechanism and the European Financial Stability Facility (2.6.8) - and other possible future mechanisms. In addition, the report must include information on climate expenditure, expenditure contributing to halting and reversing the decline of biodiversity, the promotion of equality between women and men, and the implementation of the United Nations Sustainable Development Goals in all relevant EU programmes.

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 on finance actions and programmes, and the administrative costs of implementing them (technical assistance, agencies and human resources). In 2022, the overall administrative expenditure corresponds to 6.26% of the total budget of EUR 169.52 billion.

\(^1\)The principle that appropriations entered in the budget are authorised for a financial year running from 1 January to 31 December.
The Commission uses a budget nomenclature that presents resources by policy area and programme, aligning the programme areas with 'programme clusters', thus making it easier to assess the cost and effectiveness of each EU policy.

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.

EU expenditure for 2021-2027 totals EUR 1 824.3 billion, consisting of EUR 1 074.3 billion for the MFF and EUR 750 billion for the NGEU. The MFF budget will be increased by a further EUR 11 billion thanks to the programme-specific adjustment set out in Article 5 of the MFF regulation.

The new EU budget supports modernisation through some flagship programmes such as Horizon Europe, InvestEU and the Integrated Border Management Fund, and the green and digital transitions through the Just Transition Fund and the Digital Europe programme.

Modernised agricultural policy remains the largest policy in terms of budgetary allocation, closely followed by cohesion policy, both of which have the aim of supporting the digital and green transitions. The table below provides the breakdown of the 2022 budget by policy field, as defined under the MFF for 2021-2027.

2022 EU budget: breakdown of commitment appropriations into MFF categories

<table>
<thead>
<tr>
<th>MFF heading</th>
<th>EUR billion</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Market, Innovation and Digital</td>
<td>21.78</td>
<td>12.9%</td>
</tr>
<tr>
<td>Cohesion, Resilience and Values</td>
<td>56.04</td>
<td>33.1%</td>
</tr>
<tr>
<td>Natural Resources and Environment</td>
<td>56.24</td>
<td>33.2%</td>
</tr>
<tr>
<td>Migration and Border Management</td>
<td>3.09</td>
<td>1.8%</td>
</tr>
<tr>
<td>Security and Defence</td>
<td>1.79</td>
<td>1.1%</td>
</tr>
<tr>
<td>Neighbourhood and the World</td>
<td>17.17</td>
<td>10.1%</td>
</tr>
<tr>
<td>European Public Administration</td>
<td>10.62</td>
<td>6.3%</td>
</tr>
<tr>
<td>Thematic Special Instruments</td>
<td>2.8</td>
<td>1.7%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>169.52</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

3. Flexibility and thematic special instruments

On top of expenditure programmed in order to finance the EU's policies under multiannual programmes, some financial resources have been reserved in the EU budget for the purpose of responding to unexpected crises and situations. These special flexibility and thematic instruments may be used in the event of economic crises (e.g. EGF - the European Globalisation Adjustment Fund), natural disasters, public health crises and humanitarian emergencies (e.g. SEAR - the Solidarity and 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.

EUROPEAN UNION RECOVERY INSTRUMENT - NEXTGENERATIONEU (NGEU)

Under this instrument, the Commission will mobilise EUR 750 billion at 2018 prices, of which up to EUR 390 billion may be used for grants and up to EUR 360 billion may be used for providing loans, on top of the long-term 2021-2027 budget, in order to help rebuild a post-COVID-19 EU. The Commission has been empowered, under Article 5(1) of the Own Resources Decision[2], to borrow funds on capital markets on behalf of the EU. The repayment of the principal of such funds to be used for expenditure (EUR 390 billion in 2018 prices) and the related interest due will have to be financed by the general budget of the EU, including by sufficient proceeds from new own resources introduced gradually from 2021. (1.4.1)

The NGEU should in particular focus on (a) restoring employment and job creation; (b) reforms and investments to reinvigorate the potential for sustainable growth and employment in order to strengthen cohesion among Member States and increase their resilience; (c) measures for businesses, especially small and medium-sized enterprises, affected by the economic impact of the COVID-19 crisis, and strengthening sustainable growth in the EU, including direct financial investment in enterprises; (d) measures for research and innovation in response to the COVID-19 crisis; (e) increasing the level of crisis preparedness and enabling a quick and effective EU response to major emergencies, including the stockpiling of essential supplies and medical equipment, and acquiring the necessary infrastructure for rapid crisis response; (f) measures to ensure that a just transition to a climate-neutral economy will not be undermined by the COVID-19 crisis; (g) measures to address the impact of the COVID-19 crisis on agriculture and rural development.

To support the Member States with investments and reforms, the new Recovery and Resilience Facility (RRF) was agreed on 12 February 2021. The facility will make EUR 672.5 billion (in 2018 prices) in loans and grants available to the Member States to be implemented through the national recovery and resilience plans (NRRPs). The plans need to contain reforms and investments covering key policy areas (six pillars[3]), advance the green and digital transitions, and address European Semester country-specific recommendations.

In the context of the Russian invasion of Ukraine, the Commission adopted the ‘REPowerEU’ communication on 18 May 2022, which lays down a strategy for reducing the EU’s dependency on Russian energy imports. According to the Commission’s assessment, such a strategy would require EUR 210 billion of additional investments for achieving its goal. With that aim, the Commission proposed, among other measures[4],

[3]Green transition; digital transformation; economic cohesion, productivity and competitiveness; social and territorial cohesion; health, economic, social and institutional resilience; policies for the next generation.
[4]REPowerEU also foresees new funding through the allocation of EUR 20 billion of emissions trading system (ETS) allowances held in the Market Stability Reserve, as well as transfers from cohesion funds (up to 12.5% of Member States’ allocations) and rural development (EAFRD) transfers (also 12.5% of their allocation).
to amend the RRF Regulation to reshuffle up to EUR 225 billion of the leftover loans from the RRF. These resources would be used for funding a new chapter of NRRPs identifying specific measures to diversify energy supplies and reduce dependence on fossil fuels.

ROLE OF THE EUROPEAN PARLIAMENT

Parliament shares budgetary authority with the Council, and powers in this area were among the first to be acquired by MEPs in the 1970s (1.2.5). The budgetary powers relate to the establishment of the overall amount and distribution of annual EU expenditure, as well as the exercise of control over the implementation of the budget.

Parliament’s Committee on Budgets is responsible for negotiations for the MFF and the adoption of the annual budget on behalf of Parliament and represents Parliament’s views in the negotiations with the Council. It has usually been successful at reversing most of the Council’s cuts and taking on board priority increases resulting from its amendments (although not always of their initial magnitude).

In the negotiations for the 2021-2027 MFF, Parliament notably defended and largely secured (a) an increase of the MFF ceiling and a reinforcement of a number of flagship programmes; (b) a commitment to introduce new EU own resources with the aim of covering at least the costs related to the NGEU (principal and interest); (c) its role in the implementation of the Recovery Instrument, in line with the Community method; (d) the importance of the EU budget contribution to the achievement of the climate and biodiversity objectives and gender equality; (e) the introduction of the new mechanism to protect the EU budget from breaches of the principles of the rule of law (1.4.3).

Parliament has also been systematically insisting on budgetary transparency and proper scrutiny of all operations and instruments financed from the EU budget.

Parliament is the discharge authority (Article 319 of the TFEU) for which the Committee on Budgetary Control prepares all the work on political scrutiny of budgetary implementation (1.4.5). Each year, the discharge procedure reflects its conclusions at the end of a process on the way in which the Commission and other institutions and bodies have used the EU budget. It aims to verify whether implementation was carried out in accordance with relevant rules (compliance), including the principles of sound financial management (performance).

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.
Parliament’s Committee on Budgets and Committee on Economic and Monetary Affairs are jointly responsible for the scrutiny of the RRF, by means of a Working Group and bi-monthly Recovery and Resilience Dialogues with the Commission.

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