COMMISSION OF THE EUROPEAN COMMUNITIES

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APPLICATION OF THE INTERINSTITUTIONAL AGREEMENT OF 29 JUNE 1988

ON BUDGETARY DISCIPLINE

AND IMPROVEMENT OF THE BUDGETARY PROCEDURE

PROPOSALS FOR RENEWAL

Report presented by the Commission
under point 19 of the Agreement

CONTENTS

INTRODUCTION

Point 19 of the Interinstitutional Agreement concluded in 1988 requires the Commission to present a report before the end of 1991 on the application of the Agreement and on the amendments which need to be made in the light of experience.

The Agreement can be said so far to have produced generally positive results in attaining the declared objectives of budgetary discipline and improving the budgetary procedure. The Commission proposes that the Agreement be renewed, with various amendments being made to take account of past experience and to clarify certain implementing rules.

This report deals with the details of the Agreement itself and the design of the financial perspective framework, which is an integral part of it. The Commission presents also a communication entitled "The Community's Finances Between Now and 1997" concerning, in particular, the headings of the financial perspective and the corresponding financial allocations. In the light of the outcome of the discussions the Commission will produce a proposal for the draft of a new interinstitutional agreement comprising the framework for the financial perspective 1993-1997.

The solutions to the various problems arising must accommodate financial and budgetary implications which emerge from the conclusions of the Intergovernmental Conferences on Political Union and Economic and Monetary Union. There must also be continued coherence between the various components of the package of decisions taken in 1988 with the Interinstitutional Agreement as the centrepiece: the system of own resources, which will be reviewed at the same time as the Agreement, and the rules governing certain major categories of expenditure, in particular the Decision on budgetary discipline and the basic Regulation on the structural Funds.

I. APPLICATION OF THE INTERINSTITUTIONAL AGREEMENT: EXPERIENCE TO DATE

1. Changes in the financial perspective framework[1]

1.1 Revisions or amendments of the initial financial framework

(a) Apart from the technical adjustments and the adjustments to take account of implementing conditions, the financial framework laid down in 1988 has so far been revised or amended four times:

- The first two-stage revision in December 1989 and June 1990 was to permit implementation of the policy of cooperation with Central and Eastern Europe, step up policies towards developing countries in the Mediterranean area, Asia and Latin America and strengthen internal policies in connection with the application of the Single Act. Heading 5 was adjusted to accommodate a smoother growth path for the margin available for administrative expenditure in 1991 and 1992.

- In December 1990 the three institutions agreed to amend the financial perspective to take account of the financial impact of German unification and to allow financial assistance to be entered in the budget for the countries most affected by the Gulf crisis. A readjustment was also made between headings 3 and 4 to accommodate within heading 4 a new instrument for the environment (LIFE) and operations in 1991 for remote regions with fragile economies. The additional requirements resulting from reassessment of repayments to Spain and Portugal were included in the decision.

- The financial framework was again adjusted in May 1991 to accommodate the Community's measures to implement a number of external operations (technical assistance to the USSR, financial assistance to Israel and the occupied territories, aid to refugees of Kurdish origin, additional food aid for Africa).

- In February 1992, a revision was arranged for the year 1992 in order to enable: the follow-up of technical assistance to the C.I.S; a supplementary grant for the structural funds to compensate for the application in earlier years of inflation rates which were lower than those actually suffered; a net reinforcement of actions in favour of tropical forests and an adjustment of the total available for administrative expenditure; and reimbursements to certain Member States. Following a reduction in the ceiling of the heading "Policies with multiannual allocations" and of the line "Stock disposal", the total of commitment and payment appropriations remained unchanged.

1 The changes in the financial perspective are shown in the Annex, together with the development of the budget within this framework.

(b) The revisions and amendments have raised the overall ceiling of the financial perspective in terms of commitment appropriations by a total of 0.9% in 1990, by 5.7% for 1991 and by 4.3% for 1992 compared with the amount originally laid down. The adjustments mainly affected heading 4 (Other policies), for which the ceiling was raised by 18% for 1990, 83% for 1991 and 65% for 1992. They focused on external policies, which account for 65% of heading 4 in 1991 and 1992. However, expenditure on other internal policies covered by this heading grew by an average of 18% a year in real terms from 1988 to 1991.

1.2 Margin available within the own resources ceiling

By reference to the figures and forecasts used for the technical adjustment of the financial perspective for 1992, the real GNP growth rate over the period 1988-92 averaged 2.7% whereas the financial perspective had initially assumed an average growth rate of 2.3%. In addition the GNP level was reviewed upwards at the start of the period and then rose further following German unification[2] .

Payment appropriations remained for the whole period significantly below the original forecast, expressed as a percentage of GNP. Despite the revisions and adjustments made to date the margin available between the own resources ceiling and the total payment appropriations required is still 0.06% of GNP in 1991 and 0.05% in 1992.

1.3 Development of the budget within the financial perspective framework

As only certain headings had to have their ceilings raised as a result of the revisions and adjustments, and as a margin remained available under the ceiling of heading 1 (EAGGF Guarantee) or heading 5 (Stock disposal), the total volume of payment appropriations entered in the budget, expressed as a percentage of GNP, was below the ceiling set in the financial perspective. The gap was 0.12% of GNP in 1990, but as of 1991 it narrowed and the budget executed at a level which approached the ceiling of the financial perspective. Moreover, the budget adopted for 1992, following amendment by the draft preliminary, supplementary and rectifying budget, is set at the ceiling of the financial perspective.

2. Objectives pursued

2.1 General objectives

The general objectives pursued when the Interinstitutional Agreement was concluded fall into three main categories.

(a) The Community had to be given the financial resources needed to carry out the tasks assigned to it up to 1992, in particular implementation of the Single European Act.

2 Taking account of German unification, the average rate of annual increase is 3.1% for the period, 1987-92.

(b) At the same time, the Agreement was to serve as the instrument for giving effect to the conclusions of the Brussels European Council on budgetary discipline. An overall limit was set on the increase in total Community expenditure over this period in line with the ceiling of own resources granted to the Community. The establishment of ceilings for broad categories of expenditure was intended to ensure orderly growth in the structure of expenditure in accordance with the priorities agreed by the institutions.

In particular, a fresh balance was to be struck between agricultural expenditure, the growth of which was to be contained by the agricultural guideline, the funds allocated to research and technological development policy, the financial outlay on the structural operations designed to achieve greater coherence and the development of other internal policies in connection with the completion of the internal market.

The setting of ceilings by heading ensured that agricultural spending was contained; spending commitments on certain community policies such as structural funds, research, IMPs, and PEDIP were thereby guaranteed to be carried out; and a margin for manoeuvre was also maintained for other policies within the limits of own resources.

(c) The establishment of this financial framework was intended to limit the risk of future conflict between the two arms of the budgetary authority during the period of application and to ensure that the annual budgetary procedures ran smoothly.

The development of new policies not provided for at the outset could not be covered by the budget unless there was a prior decision on the political objectives to be aimed at and an assessment of the financial implications.

2.2 The more specific concerns of the institutions party to the Agreement

(a) It was certainly important for the Council to be able to rely on controlled development of Community expenditure under which new operations introduced could be identified and their financial implications evaluated within the limit of certain ceilings.

(b) Parliament was given a guarantee that the limits imposed on the increase in compulsory expenditure – notably on agriculture – would leave sufficient funds available for non-compulsory expenditure on structural operations, research and the development of new policies in connection with the completion of the internal market.

In addition, pursuant to the Agreement and in particular when the financial perspective was being revised, decisions with a major political impact had to be taken outside the budgetary procedure. This substantially widened the scope of joint decision-making between Parliament and the Council.

(c) The Commission received a guarantee that, for the establishment and implementation of the various Community policies, the financial aspects would be more predictable and the budgetary procedure would be less prone to dispute. Although it was a party to the Agreement, the Commission, apart from making the annual technical adjustments, has had no more to do in implementing the Agreement than proposing, subject to certain limits and in the event of unforeseen occurrences, a revision of the original financial framework.

3. Actual implementation of the Agreement

By and large, the 1988 Agreement has achieved its objectives. This generally favourable judgment must, however, be tempered by two considerations: the favourable circumstances surrounding application of the Agreement, and the difficulties which arose when the initial financial framework was revised. Furthermore, the privileged status of certain categories of expenditure has made the financial framework more rigid and raised various problems of interpretation.

3.1 Compliance with the basic principles of the Agreement

In relation to the objectives of improving the budgetary procedure and imposing budgetary discipline, the operation of the Agreement may be considered generally satisfactory.

(a) For each of the financial years covered by the Agreement, the budget has been adopted on schedule.

(b) The budgetary discipline arrangements introduced in 1988 have been accepted by the various parties to the Agreement.

- Every budget adopted since the Agreement entered into force has respected the ceilings set by the financial perspective. On a number of occasions, however, the completion of the procedure for revising the financial perspective has coincided with the end of the budgetary procedure, thereby detracting from the medium-term framework role which the instrument was intended to perform.

- The classification of individual budget items by heading of the financial perspective as originally determined on the basis of the 1988 budget has not changed, except for the transfer of certain appropriations from Part A of the budget (heading 5 of the financial perspective) to Part B (heading 4) during the 1991 budgetary procedure.

- The financial framework has also been respected in the utilization of appropriations, with the sole exception of food aid, for which the budgetary authority agreed, in a revision of the financial perspective, to allow transfers between headings 1 and 4. This "pipeline" arrangement could be enshrined in the new Agreement.

- Although the financial perspective has been revised frequently - mainly because of the accumulation of exceptional events over a short period - revision has always taken the form prescribed in the Agreement (point 12 or point 4).

(c) The framework imposed by the financial perspective has had the effect of better positioning budgetary choices in the broader context of the Community's finances in the medium term. This has certainly been the effect on the Commission in its preparation of the preliminary draft budget. The constraints of fixed ceilings have probably resulted in a more rational approach to the preparation of the budget.

3.2 *Favourable circumstances*

(a) During the first three years in which the Agreement was applied, the volume of agricultural expenditure remained more or less constant and well below the limit fixed by the guideline. This situation is due less to a deep-seated reform of the structural conditions of the Community agricultural markets than to favourable conditions on the world market (world prices and ecu/dollar parity). The additional costs in agriculture resulting from German unification were covered without the existing ceiling having to be raised.

However, the tide began to turn in 1990 and the budgetary impact has become apparent in 1991. Moreover, the budget adopted for 1992 fixed spending on agriculture at the ceiling set by the agricultural guideline.

(b) Real GNP was higher than initially assumed. The margin actually available between the own resources ceiling and the total payment appropriations required according to the financial perspective was therefore far bigger than at first expected. If this had not been the case, the increases in the ceilings for the various categories of expenditure would have pushed the total up against the own resources ceiling from 1991. If the rate of economic growth had been lower than the rate originally assumed, the technical adjustments to the financial perspective in line with inflation and the adjustments to take account of implementing conditions would have eaten into the margin for unforeseen expenditure. If the margin had been used up, it would have been necessary to agree on criteria for reducing the ceilings of the various headings in order to respect the limit on own resources.

(c) Even though the probability was extremely slight, the Community did not have to cover any major default by its debtors under its borrowing and lending operations or loan guarantees.

The lending operations guaranteed by the Community totalled ECU 11.5 billion and annual repayments of capital and interest for the years ahead come to around ECU 2.5 billion. However, since these guarantees are only given a token entry in the budget, they are not taken into consideration in the ceilings set by the financial perspective. The risk of default by a debtor is increasing with the extension of this type of operation to non-member countries. Unless a suitable mechanism is available, the activation of the guarantees above a certain amount would entail either a revision of the financial perspective - which experience shows to be a lengthy procedure - or a drastic reduction in other items of expenditure.

The favourable circumstances which have accompanied the application of the Agreement certainly restrict the range of experience gained and the lessons which may be drawn for the future. However, the Commission does not feel that this is a reason for doubting whether this instrument could operate effectively in different circumstances. On the contrary, this shows the importance of giving due consideration to various situations which could occur and of taking the necessary measures to respond to them when the Agreement is renewed.

3.3 *Difficulties encountered during the revision of the financial perspective*

The revisions made have revealed several types of problem:

(a) At the time of the first revision exercise in 1990, the question was raised about the kind of reasons which could justify the revision in application of point 12 of the Agreement. One of the interpretations put forward was that a revision (under qualified majority voting of the Council) was only possible to enable the financing of new actions made necessary by unforeseen circumstances. Such an interpretation, if it had prevailed, would have meant that any reinforcement of existing policies and all commitments for new actions not linked to unforeseen circumstances (with the difficulty of defining the notion of the unforeseen) is in fact subordinated, for its financial implementation, to a decision taken under unanimous voting even in the areas where majority voting is the rule. The Commission's position is thus that the possibility of proceeding to a revision should not be limited a priori to particular circumstances and that revision should take place by qualified majority decision of the Council.

(b) The revision (under point 12) and amendment (under point 4) procedures have in each instance proved to be difficult and lengthy (three months on average) quite apart from the time required to implement these changes in the budgetary procedure itself. As a result, there is a risk that the Community's capacity for initiative might lose some credibility.

(c) The inability to respond quickly to unforeseen events without going through the revision procedure, even where the effects on the budget are limited to a single financial year, tends paradoxically to undermine the medium-term framework role originally assigned to the financial perspective. There is a danger that revision might become a normal stage in every budgetary procedure.

(d) This situation, coupled with the length of the procedure for revising or amending the financial perspective, tends to merge revision and budgetary procedures into a single negotiation. Each institution tends to look for bargaining counters in one of the procedures in order to secure an advantage in the negotiations on the other procedure, resulting in a stalemate or, at the very least, a lack of clarity and rationality in the debate.

(e) In heading 4 (Other policies), the budgetary authority - and above all the Council - has generally sought to ensure not only that the additional requirements catered for by the revision are defined in detail in terms of the operations concerned but also that the corresponding allocations continue to be distinguished from other expenditure in the heading when the budget is drawn up for subsequent years. When this identification and prior allocation of expenditure proved difficult to achieve to any degree of detail, although the probability that it would be incurred was high, the budgetary authority has preferred to limit the revision to the current financial year, and then if necessary make successive revisions in subsequent years.

This understandable concern can be explained by the heterogeneous nature of heading 4, which covers both the Community's external actions and a wide range of internal policies. The Commission therefore proposed dividing heading 4 into internal policies and external policies. Having failed to secure the agreement of the other institutions, it therefore considered it logical in the revision exercises that any additional allocations for external policies should be identified and earmarked for this purpose.

However, apart from this consideration, the Commission feels that systematically allocating in advance the amount provided by the revision of an individual ceiling would be inconsistent with the object of the financial perspective. This approach could lead to a growing fragmentation during the period of application of the financial framework and to more rigidity in budgetary management. It lends credit to the idea that any additional amount resulting from revision must be entered in the budget; this is not consistent with the idea of a ceiling. Since new requirements are not considered as being pooled together with the other expenditure covered by the heading, it is more difficult to examine the possibility of redeploying the appropriations.

(f) On a number of occasions, the changes which had to be made to the financial perspective were the result of political decisions taken by the Council in matters of external relations. During the revision procedure, Parliament thus had very little margin of manoeuvre to discuss the principle and the financial implications of these decisions. A more general revision, with use of the additional margin being decided jointly on a case-by-case basis, would have produced a more even distribution of decision-making powers in applying the Agreement.

The last revision of the financial perspective, which was only brought to a close in February 1992 after a particularly long procedure, suffered from an accumulation of most of these problems. This experience serves to underline more than ever the need for the introduction of more flexible arrangements into the new agreement, to confront in an effective way unforeseen circumstances, without calling into question the rigour of budgetary discipline.

3.4. The effects of the privileged status accorded to certain categories of expenditure

Legislative decisions taken in 1988 fixed allocations for certain categories of operations in terms of expenditure objectives.

As a result, the two arms of the budgetary authority undertook - in point 17 of the Interinstitutional Agreement - to respect the allocations of commitment appropriations provided in the financial perspective for the structural Funds, PEDIP, the IMPs and the RTD framework programme. In this context, the Commission proposed that unused budget allocations for these programmes be transferred to subsequent years and the transfers were duly authorized by the budgetary authority under point 11 of the Agreement.

These transfers reduce the margin available under the own resources ceiling, which may be needed to cover new requirements in the year in question. If growth is lower than expected initially, incomplete implementation of programmes with multiannual allocations could, as a result of transfers, jeopardize the agreed development of other policies.

For these categories of expenditure, the financial perspective ceases to be a medium-term framework. Not just the expenditure concerned, but also the ceiling of the heading in the financial perspective which includes these categories, tends to be regarded as being privileged. By extension, the heading 4 ceiling has come to be regarded as an objective, especially as the subceiling for non-compulsory expenditure under this heading was one of the only areas in which Parliament had any real margin of decision.

3.5. Problems of interpretation

The institutions have differing views on the extent of possible revisions of the financial perspective under point 12 of the Agreement. The Council feels that the margin for unforeseen expenditure of 0.03% of GNP referred to in point 12 is gradually used up by successive revisions. In any case, a revision which is limited to a modification of ceilings by heading, without affecting the overall ceiling of the financial perspective, remains possible. On the other hand, Parliament and the Commission take the view that the margin for unforeseen expenditure can be reconstituted within the limit of the ceiling on own resources. This difference in interpretation has only been overcome by using point 4 (requiring a unanimous decision of the Council) as an alternative basis for revisions or by omitting any reference to specific provisions of the Agreement in the revision decision.

As regards the technical adjustments to the financial perspective under point 9 of the Agreement, the Commission has adopted the following method:

- the ceilings for year n are adjusted in February of year n-1 on the basis of the forecast rate of inflation for the two years concerned and the actual rate of inflation in previous years. The calculation is therefore based on the latest figures and forecasts available;

- only the agricultural guideline is adjusted to the growth of GNP - this is done by the method of calculation set out in Article 6 of the Decision on budgetary discipline.

This method of adjustment has not met with any formal opposition by the other institutions but has come in for some criticism.

- It has been argued that the ceilings of all the headings should be adjusted in line with real GNP growth, which would mean in practice that the ceilings were considered to have been set as a percentage of GNP and not as an absolute figure.

- Parliament and some Member States believe that there should be an ex post adjustment to take into account any divergence between the rate of inflation used ahead of the budgetary procedure and the actual rates measured later. This subsequent correction is held to be particularly necessary for allocations to the structural Funds to ensure that their resources show a linear progression in real terms.

The Commission considers that this ex post correction cannot be made as part of the technical adjustment under point 9 of the Agreement. It takes the view that the correction relates only to the allocation for the structural Funds in connection with the doubling of appropriations planned between 1987 and 1993. This question should be dealt with either during the revision or, at all events, at the end of the procedure.

It takes the view that in future no ex post adjustment should be allowed.

On a number of occasions the Commission has pointed out that the breakdown of the overall ceilings for commitment and payment appropriations into compulsory and non-compulsory expenditure is purely indicative and can be adjusted by the budget decisions provided that the ceilings for each heading are respected. Any other interpretation would make the financial perspective too restrictive.

II. GUIDELINES FOR THE RENEWAL OF THE INTERINSTITUTIONAL AGREEMENT

1. Features to be retained

1.1. The objectives assigned to the Interinstitutional Agreement in 1988 are still valid. The Commission believes that the Agreement should be renewed and that its *three guiding principles* should be retained:

(a) A financial framework for the medium term is agreed on by the three institutions, setting annual ceilings for broad categories of Community expenditure.

(b) The content and ceiling of each heading are determined on the basis of priorities adopted by the Community in order to ensure the orderly progression of expenditure.

(c) Each year the overall expenditure ceiling remains within the limits of the Community's own resources.

1.2 Setting the ceilings

(a) The ceiling for the various headings (in commitment appropriations) and the overall ceiling of the financial perspective (in commitment appropriations and in payment appropriations) should continue to be set in constant ecus.

The establishment of a financial framework in absolute figures and not, for example, as a proportion of GNP is in fact more consistent with the logic of budgetary discipline. The maximum level of Community expenditure, its structure and its growth profile depend primarily on requirements, bearing in mind the responsibilities assigned to the Community, and not directly on the growth in Community prosperity.

The establishment of the financial framework in current ecus would have to be based on an inflation forecast for the whole of the period. An explicit forecast of this type over such a long term would inevitably be very uncertain and adjustments during the period of application would be hard to avoid.

(b) As regards EAGGF Guarantee expenditure (heading 1), in view of the amounts involved, the retention of a limit on the increase in agricultural spending is a basic factor in budgetary discipline and an essential precondition for the political balance to be achieved between the Member States and between the institutions in the establishment of a new financial framework.

The Commission therefore proposes that the principle of the agricultural guideline laid down in the Decision on budgetary discipline should be maintained.

(c) As at present, the ceiling on the payment appropriations required should be set for the total of the financial perspective, on the basis of a relationship with total commitment appropriations for each major category of expenditure determined in such a way as to ensure an orderly development of the balance of outstanding commitments.

(d) Unlike the expenditure ceilings, the own resources ceiling has to be set as a percentage of GNP. While the level of expenditure is determined by the nature and volume of budgetary operations considered necessary, the level of revenue corresponds to an "ability to pay", which depends mainly on economic activity.

The level of the ceilings must be set in the financial perspective in such a way that a margin is left between the own resources ceiling and the total payment appropriations required. Changes in the level of own resources available in line with actual GNP growth would be added to or subtracted from this margin, which would determine the extent of possible revisions of expenditure ceilings each year. It would also be worth specifying in the Agreement that, if there was a risk that this safety margin would be exhausted as a result of a downturn in economic activity, the Commission would examine, with the other insitutions concerned, the changes made necessary to the financial framework and would present proposals as appropriate.

(e) The Commission would continue to make an annual technical adjustment before the budgetary procedure begins. However, it should be made quite clear that

- the adjustment in line with real GNP growth is applied only for determining the agricultural guideline, in accordance with the method of calculation prescribed elsewhere, and the actual amount of the ceiling on available own resources;

- the ceilings of the various headings (except for the agricultural monetary reserve) are adjusted in line with price increases for the year of the preliminary draft budget on the basis of the rates of inflation available at the time and cannot be corrected subsequently.

This approach is the only one consistent with the nature of the budget, which is an act of authorization based on forecasts.

2. Creation of a reserve for exceptional or unforeseen expenditure

A specific heading should be reserved for expenditure of a non-permanent nature which may be incurred in particular circumstances and subject to compliance with certain pre-established criteria.

Apart from the existing monetary reserve, two other categories of expenditure of this type may be envisaged:

- a reserve for unforeseen expenditure in the field of external actions by means of crisis situations such as urgent humanitarian aid or financial assistance to a particular third country can be met for a financial year without having to revise the financial perspective;

- a reserve to guarantee borrowing and lending operations with non-member countries so that the appropriations required could be entered in the budget should the Community guarantee need to be activated.

2.1 Creation of a reserve for unforeseen expenditure in the field of external actions

(a) Purpose of the reserve

The aim would be to enable the Community budget to be adjusted quickly, for one year, to cater for exceptional or unforeseen circumstances, without the need for a revision of the financial perspective. The revision procedure should be reserved for cases where changes need to be made in the planned development or structure of Community expenditure during the application of the Agreement and extending beyond the current financial year.

The reserve would be drawn upon, within the limits of the amount fixed, to allow the ceiling of a particular heading to be exceeded for one year. For a given financial year the reserve would be available only in the time between the presentation of the preliminary draft budget and the end of the financial year. It would only be drawn on to cover emergency humanitarian aid or financial assistance to non-member countries in case of crisis.

(b) Dovetailing with the budget

The reserve would be drawn on following a Commission proposal after the possibilities of financing the additional requirements by redeploying expenditure within the heading have been fully examined; it might even be possible to agree on a rule prescribing the minimum amount of redeployment (a kind of "excess").

In order that recourse to the reserve does not upset the balance of the financial framework agreed between the institutions, calls on the reserve would be agreed jointly by the two arms of the budgetary authority.

Budgetary cover would, as a rule, be provided by the normal procedures:

- if the reserve were mobilized between the date when the preliminary draft was presented and the beginning of the financial year, a letter of amendment would have to be drawn up for the proposed additional appropriations in excess of the ceiling for the heading concerned.

- if the reserve were mobilized during the execution of the budget, there would be two possible courses of action:

  * consideration would be given to the possibility of transferring appropriations within the budget as adopted, depending on the stage reached in the financial year and the present and foreseeable conditions of implementation;

  * otherwise budget cover for the operation concerned would have to be provided by a supplementary and amending budget.

In cases where speed is of the essence, provision should be made so that a decision can be taken, for example in a trialogue and on a majority vote, to adopt the necessary supplementary and amending budget by expedited procedure (a single reading and shortened timetable of no more than one month).

2.2 Guarantee for borrowing and lending operations

(a) As lending operations in non-Community countries have increased, Parliament has repeatedly demanded the establishment of a reserve for the guarantees linked to these instruments. The Commission is also aware that loans to non-Community countries now represent very significant amounts and considers that it would be useful to have a mechanism which would, if necessary allow the Community guarantee to be activated in total clarity; it made a statement to this effect when the decision was taken to extend EIB loans to a number of countries in Central and Eastern Europe. It also stated on this occasion that it would be presenting a proposal to this effect when the Interinstitutional Agreement was renewed. The Council shared the Commission's concern and stated that it would examine these proposals when they were presented.

(b) The Commission considers that the mechanism to be introduced under the new financial framework should be designed to provide rapid budgetary cover for any activation of the guarantee, which would be charged initially to cash resources, in accordance with Article 12 of Regulation No 1552/89 on the application of the own resources system.

As the Community continues to back all its guarantees with the entire budget, the size of the reserve would not automatically limit the volume of loans or guarantees that could be granted.

(c) For the mobilisation of this reserve, a mechanism inspired by the Monetary reserve could be envisaged. The reserve would be included each year in the budget: the implementation of the guarantee would operate through a transfer from this reserve to the budget line concerned (with a token entry (p.m.)). In this case, the amount of the reserve for guarantees would have to be distinguished from the contingency reserve proposed above, each having its own sub-heading.

Another formula, more flexible, would be to only budgetise if the reserve is used, for the necessary amount and by way of a supplementary and amending budget. In this case the two types of reserve could stay combined under one heading. However, the Commission, as part of the yearly technical adjustment exercise, would determine what proportion of that reserve should be allocated to the guaranteeing of borrowing and lending operations. The proportion would be set at a predetermined percentage (20% for example) of the payments in interest and capital on such operations falling due in the following financial year.

(d) If, on the other hand, it was decided to set up a Guarantee Fund for external loans outside the budget, the reserve entered in the financial perspective would be drawn on during the year to provide the Fund with amounts corresponding to the newly granted loans.

3. Revision of the financial perspective

3.1. Joint decision by the three institutions

Since the Agreement is between the three institutions, it would be logical for all three (i.e. the Commission included) to decide jointly on revisions of the financial perspective. The majority voting rule would apply to any revision of expenditure ceilings (overall or for individual headings), provided that the limits on own resources are respected.

The revision decision would have to be taken within a given time limit (two months, say). A trialogue meeting would be arranged in the month following the Commission's proposal. If no decision could be agreed within the time limit, the Commission's proposal would be deemed to be rejected.

3.2. Margin available for revision

It should be made clear that the margin available for one or more revisions for each year covered by the financial perspective is the difference between:

- the overall ceiling for payment appropriations as originally set by the financial perspective and after annual adjustments, and
- the own resources ceiling.

3.3 Conditions and frequency of revision

It should be possible to initiate a revision procedure not only to deal with unforeseen circumstances - a situation which, initially and up to a certain amount, could be covered by the reserve set up for this purpose - but also to implement the Community's policy decisions involving new operations or a resetting of priorities.

Any revision of the financial perspective should therefore take place before the beginning of the budgetary procedure for the financial year concerned. It could be stated in the Agreement that, before the budgetary procedure begins, the Commission must indicate whether it proposes to maintain or revise the existing financial perspective.

3.4. Rules on redeployment

So that decisions on new budget expenditure will not, where possible, cause the overall ceilings of the financial perspective to be raised up to the limit of available own resources, the institutions should undertake to abide by certain rules:

- as with the decision to draw on the reserve for exceptional or unforeseen expenditure, a decision to raise the ceiling of a particular heading should be taken only after the possibilities of financing the additional requirements by redeploying expenditure within the heading have been fully examined; it might even be possible to agree on a rule prescribing the minimum amount of redeployment;
- the possibility of lowering the ceiling of one heading to offset the raising of the ceiling of another should be investigated wherever it seems both possible and desirable to establish a new and lasting balance between the headings concerned;
- on a more permanent basis, the institutions should ensure that safety margins are preserved below the ceilings of the various headings when the budget is being established and adopted.

4. The privileged status of certain categories of expenditure and adjustments in line with the conditions of implementation

If the allocations for certain operations and instruments (in particular the Structural Funds and the Cohesion Fund) are to continue to be treated as expenditure objectives in the basic legal instruments, provisions similar to point 17 of the Agreement would have to be retained. The privileged status given to certain categories should, however, remain the exception, since the rule is that the ceilings are upper limits which must not be exceeded and that the actual budget allocations should normally come within these limits.

Even if some categories of expenditure are fixed as objectives, the institutions should not necessarily be obliged to transfer to later years appropriations earmarked for these operations which remain unused during a given financial year. Point 11 of the Agreement might therefore be dropped, since in practice it may compromise the implementation of other expenditure within the ceiling of the financial perspective.

5. Duration and renewal of the Agreement

The Interinstitutional Agreement could be concluded for indefinite duration, the unanimous agreement of the three institutions being required for any changes to the rules.

The financial perspective framework, on the other hand, would be established for five years (1993-97).

The definition of the financial perspective by a more continuous process would guarantee that when it expires there is already a further reference framework for assessing the future implications of newly introduced measures. However, a "rolling-plan" financial perspective would cease to be a framework foı medium-term political choices and commitments. If the financial perspective were extended each year by the addition of an extra final year, this would either give rise to difficult discussions or become a mechanical exercise in projection which would be contrary to the nature of the financial perspective.

A better solution would be to stipulate in the new Agreement that from the third year of its application the Commission can propose a new five-year framework.

ANNEX

DEVELOPMENT OF THE FINANCIAL PERSPECTIVE FRAMEWORK AND OF THE BUDGET[1]

I. FINANCIAL PERSPECTIVE FRAMEWORK: CHANGES MADE

1. Financial perspective 1988

2. Current financial perspective

3. Macroeconomic figures and forecasts used for the technical adjustments of the financial perspective (point 9)

4. Adjustments of the financial perspective in line with the conditions of implementation (points 10 and 11)

5. Revisions and amendments of the financial perspective

6. Comparison between initial and current financial perspective

7. Margin available between ceiling for payment appropriations required in financial perspective and own resources ceiling

8. Breakdown by financial perspective heading

II. DEVELOPMENT OF COMMUNITY BUDGET WITHIN FINANCIAL PERSPECTIVE FRAMEWORK

1. Community budget 1980-92
Commitment and payment appropriations. ECU billion, 1980 prices

2. Community budget 1980-92
Total expenditure (payment appropriations) as % of GNP

3. Total commitment appropriations (current prices) in relation to financial perspective

4. Total payment appropriations (% of GNP) in relation to own resources ceiling

5. Commitment appropriations (current prices) in relation to ceilings for individual headings of financial perspective

1 The actual framework of the financial perspective is the one in force in Feburary 1992 after the revision.

FINANCIAL PERSPECTIVE
(ECU million at 1988 prices)

Appropriations for commitments

	1988	1989	1990	1991	1992
1. EAGGF Guarantee	27500	27700	28400	29000	29600
2. Structural operations	7790	9200	10600	12100	13450
3. Policies with multiannual allocations (1)	1210	1650	1900	2150	2400
4. Other policies	2103	2385	2500	2700	2800
of which : non compulsory	1646	1801	1860	1910	1970
5. Repayments and administration	5700	4950	4500	4000	3550
of which : stock disposal	1240	1400	1400	1400	1400
6. Monetary reserve (2)	1000	1000	1000	1000	1000
TOTAL	45303	46885	48900	50950	52800
of which : (3)					
compulsory	33698	32607	32810	32980	33400
non compulsory	11605	14278	16090	17970	19400
Appropriations for payments required	43779	45300	46900	48600	50100
of which : (3)					
compulsory	33640	32604	32740	32910	33110
non compulsory	10139	12696	14160	15690	16990
Appropriations for payments required as % of GNP	1.12	1.14	1.15	1.16	1.17
Margin for unforeseen expenditure	0.03	0.03	0.03	0.03	0.03
Own resources required as % of GNP	1.15	1.17	1.18	1.19	1.20

(2) Chapter F on budget estimates of the European Council indicates a figure of ECU 2400 million (1988 prices) for policies with multiannual allocations in 1992. The policies in question are research and technological development and integrated Mediterranean programmes. Only expenditure for which a legal basis exists may be financed under this item. The present framework programme provides a legal basis for research expenditure of ECU 863 million (current prices) for 1992. The regulation on integrated Mediterranean programmes provides a legal basis for an estimated amount of ECU 300 million (current prices) in 1992. The two arms of the budgetary authority undertake to respect the principle that further budget appropriations within this ceiling for 1990, 1991 and 1992 will require a revision of the existing framework programme, or, before the end of 1991, a decision on a new framework programme based on a proposal from the Commission in accordance with the legislative provisions in Aticle 130 Q of the European Economic Community Treaty.

(3) At current prices.

(4) Based on the classification in the 1989 preliminary draft budget. Modifications resulting from decisions by the budgetary authority on changes of classification will be implemented as a technical adjustement, according to point 9 of the Interinstitutional Agreement.

FINANCIAL PERSPECTIVE
(ECU million. Current prices)

XIX/A/1 dn Lotus\pf\pf.wk3 tabe

Appropriations for commitments

09-Mar-92	1988	1989	1990	1991	1992
1. EAGGF Guarantee (1)	27500	28613	30700	33000	35039
2. Structural operations	7790	9522	11555	14804	18109
3. Policies with multiannual allocations (2)	1210	1708	2071	2466	2915
4. Other policies (1)	2103	2468	3229	5648	5636
of which : non compulsory	1646	1864	2523	4738	4704
5. Repayments and administration	5700	5153	4930	4559	3893
of which : stock disposal	1240	1449	1523	1375	810
6. Monetary reserve (3)	1000	1000	1000	1000	1000
TOTAL	45303	48464	53485	61477	66592
of which : (4)					
compulsory	33698	33764	35454	37199	38260
non compulsory	11605	14700	18031	24278	28332
Appropriations for payments required	43779	46885	51291	58458	63241
of which : (4)					
compulsory	33640	33745	35372	37195	38200
non compulsory	10139	13140	15919	21263	25041
Appropriations for payments required as % of GNP	1.12	1.07	1.08	1.14	1.15

(1) In accordance with the joint statement made by the three institutions when the revision of the Financial Regulation was adopted and in order to ensure the proper financing of food aid without having to revise the financial perspective, compliance with the ceilings for Items 1 and 4 will not rule out the possibility of a transfer between the headings in Chapter B1-33 (refunds in connection with Community food aid) and Chapter B7-20 (food aid) . This means that the amounts of these transfers will not counts towards the totals of appropriations to be taken into consideration for the purpose of ensuring compliance with the ceilings in the financial perspective. The criteria for the examination of these transfers are those agreed by the Council, Parliament and the Commission in their statement of 12 February 1990.

(2) Chapter F on budget estimates of the European Council indicates a figure of ECU 2400 million (1988 prices) for policies with multiannual allocations in 1992. The policies in question are research and technological development and integrated Mediterranean programmes. Only expenditure for which a legal basis exists may be financed under this item. The present framework programme provides a legal basis for research expenditure of ECU 863 million (current prices) for 1992. The regulation on integrated Mediterranean programmes provides a legal basis for an estimated amount of ECU 300 million (current prices) in 1992. The two arms of the budgetary authority undertake to respect the principle that further budget appropriations within this ceiling for 1990, 1991 and 1992 will require a revision of the existing framework programme, or, before the end of 1991, a decision on a new framework programme based on a proposal from the Commission in accordance with the legislative provisions in Aticle 130 Q of the European Economic Community Treaty.

(3) At current prices.

(4) Based on the classification in the 1991 budget and the 1992 supplementary and amending preliminary draft budget.

MACROECONOMIC FIGURES AND FORECASTS USED FOR THE TECHNICAL ADJUSTEMENTS OF THE FINANCIAL PERSPECTIVE (Point 9 of the Interinstitutional Agreement)

	1989	1990	1991	1992
Real GNP growth rate (% per year)				
Adjustment for 1989	3.0			
" " 1990	3.0	3.0		
" " 1991	3.4	3.1	3.1	
" " 1992 (excluding former GDR)	3.3	2.8	2.2	2.5
(including former GDR)				2.5
GNP deflator (% per year)				
Adjustment for 1989	3.5			
" " 1990	4.6	4.0		
" " 1991	5.3	4.3	3.9	
" " 1992	5.2	4.9	5.4	4.6
GNP (current prices) according to figures and forecasts used for adjustment for 1992 (ECU billion)				
- Excluding former GDR	4372	4711	5074	5440
- Including former GDR			5163	5536
GNP (current prices) according to figures and forecasts available on 18.11.1991 Including former GDR from 1991.	4399	4737	5123	5493

I.4

ADJUSTMENTS OF THE FINANCIAL PERSPECTIVE IN LINE WITH THE CONDITIONS OF IMPLEMENTATION (Points 10 and 11 of the Interinstitutional Agreement)

ECU million	Adjustment ahead of the budgetary procedure for	1990	1991	1992
Heading 2	1990	24		
	1991		157	250
	1992			350
Total		24	157	600
Heading 3	1990	4		
	1991		63	80
	1992			115
Total		4	63	195
Heading 4	1990	9		
Total		9		
Commit. TOTAL	1990	37		
	1991		220	330
	1992			465
Total		37	220	795
Paym. TOTAL	1990	19		
	1991		466	758
	1992			
Total		19	466	758

REVISION AND AMENDMENTS OF THE FINANCIAL PERSPECTIVE
(Commitment appropriations, ECU million, current prices) I.5

		1990	1991	1992
	1. JUNE 1990			
Heading 2	Underestimation inflation		90	
Heading 4		(1)500	1175	1628
(non-comp.)	Central and Eastern Europe	500	820	970
	Other external policies and internal policies		355	658
Heading 5			-40	-150
Stock disposal	Margin available			-450
Administration	Growth adjustment		-40	300
Commit. TOTAL		500	1225	1478
Paym. TOTAL		500	1225	1478
(1) Including ECU 300 million in December 1989 revisions decision at same time as adoption of 1990 budget.				
	2. DECEMBER 1990			
Heading 2	German unification		750	1000
Heading 3	Unused margin		-50	
Heading 4			665	110
Comp.	German unification		10	10
Non-comp.	German unification		90	100
	Internal policies		35	
	Gulf crisis		530	
Heading 5			0	0
Stock disposal	Margin available		-220	-40
Repaym.Sp.Port	Reassessment		180	
Administration	German unification new tasks		40	40
Commit. TOTAL			1365	1110
Paym. TOTAL			1085	910
	3. MAY 1991			
Heading 4			728	
(non-comp.)	URSS. Technical assisance		400	
	Israel and occupied territories		88	
	Kurdish refugees		100	
	Famine in Africa		140	
Heading 5			0	
Stock disposal	Margin available		-3	
Repaym.Sp.Port	Reassessment		3	
Commit. TOTAL			728	
Paym. TOTAL			423	180
	4. FEBRUAR 1992			
Heading 2	Underestimation inflation			100
Heading 3	Research : carrying-over 1991			-200
Heading 4				412
Comp.	Margin available			-88
Non-comp.	CIS : Technical assistance			450
	Tropical forests			50
Heading 5				-312
Stock disposal	Margin available			-381
Repaym.Sp.Port	Reassessment			30
Administration	Commission (external obligations			40
PAY./COM.TOTAL				0

FINANCIAL PERSPECTIVE

(Initial framework after technical adjustment in line with conditions of implementation, revision)

(Commitment appropriations, ECU million, current prices)

	1988	1989				1990			
		INIT.	ADJ.	REV.	NEW	INIT.	ADJ.	REV.	NEW
1-EAGGF GUARANTEE	27500	28613	0	0	28613	30700	0	0	30700
2-STRUCTURAL OPERATIONS	7790	9522	0	0	9522	11531	24	0	11555
3-POLICIES WITH MULTIANNUAL ALLOCATIONS	1210	1708	0	0	1708	2067	4	0	2071
4-OTHER POLICIES	2103	2468	0	0	2468	2720	9	500	3229
of which : non-comp.	1646	1864	0	0	1864	2023	0	500	2523
5-REPAYMENTS AND ADMINISTRATION	5700	5153	0	0	5153	4930	0	0	4930
of which : Stock disposal	1240	1449	0	0	1449	1523	0	0	1523
6-MONETARY RESERVE	1000	1000	0	0	1000	1000	0	0	1000
COMMITMENT APPROPRIATIONS - TOTAL	45303	48464	0	0	48464	52948	37	500	53485
PAYMENT APPROPRIATIONS - TOTAL	43820	46885	0	0	46885	50772	19	500	51291

		1991				1992			
		INIT.	ADJ.	REV.	NEW	INIT.	ADJ.	REV.	NEW
1-EAGGF GUARANTEE		33000	0	0	33000	35039	0	0	35039
2-STRUCTURAL OPERATIONS		13807	157	840	14804	16363	600	1146	18109
3-POLICIES WITH MULTIANNUAL ALLOCATIONS		2453	63	-50	2466	2920	195	-200	2915
4-OTHER POLICIES		3080	0	2568	5648	3406	0	2230	5636
of which : non-comp.		2180	0	2558	4738	2397	0	2307	4704
5-REPAYMENTS AND ADMINISTRATION		4599	0	-40	4559	4362	0	-469	3893
of which : Stock disposal		1598	0	-223	1375	1703	0	-893	810
6-MONETARY RESERVE		1000	0	0	1000	1000	0	0	1000
COMMITMENT APPROPRIATIONS - TOTAL		57939	220	3318	61477	63090	795	2707	66592
PAYMENT APPROPRIATIONS - TOTAL		55259	466	2733	58458	59805	758	2678	63241

MARGIN AVAILABLE BETWEEN CEILING FOR PAYMENT APPROPRIATIONS REQUIRED IN FINANCIAL PERSPECTIVE AND OWN RESOURCES CEILING (1)

% or ECU million (Current prices)

	1988 (2)	1989	1990	1991	1992
1-OWN RESOURCES CEILING					
-ECU Million	44952	51468	55897	60968	65916
-% of GNP	1.15	1.17	1.18	1.19	1.20
2-PAYMENT APPROPRIATIONS REQUIRED ACCORDING TO INITIAL FIN.PERSP.(3)					
-ECU Million	43779	46885	50772	55259	59805
-% of GNP	1.12	1.07	1.08	1.08	1.09
3-PAYMENT APPROPRIATIONS REQUIRED ACCORDING TO FINANCIAL PERSPECTIVE AFTER ADJUSTMENT AND REVISION					
-ECU Million	43779	46885	51291	58458	63241
-% of GNP	1.12	1.07	1.09	1.13	1.15
4-MARGIN (1-2)					
-ECU Million	1173	4583	5125	5709	6111
-% of GNP	0.03	0.10	0.11	0.11	0.11
5-MARGIN (1-3)					
-ECU Million	1173	4583	4606	2510	2675
-% of GNP	0.03	0.10	0.10	0.05	0.05

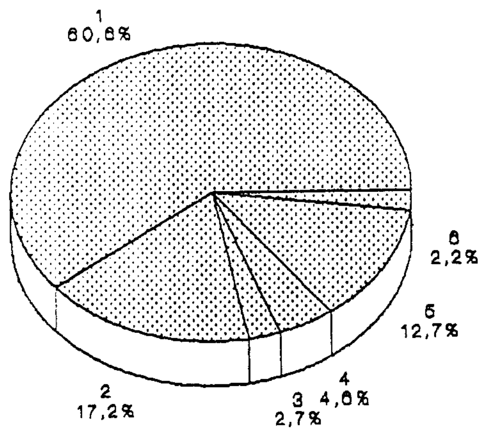
(1) 1989 - 1992 : On the basis of the figures and forecasts for GNP in money terms as used since 18.11.1991. Including the former GDR from 1991 onwards.
(2) Initial financial perspective.
(3) After technical adjustment.

F I N A N C I A L   P E R S P E C T I V E

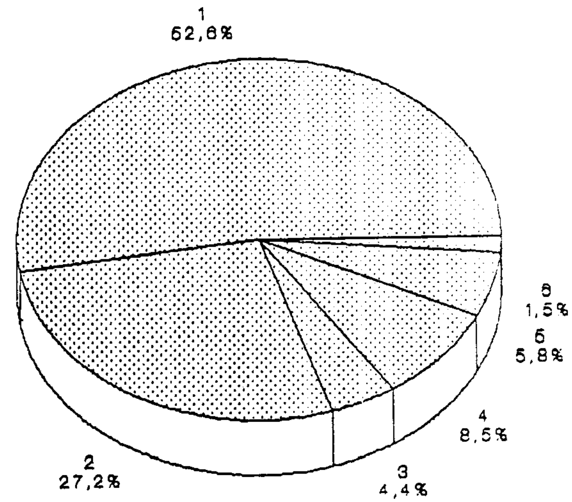
Breakdown by Heading

Commitment appropriations (ECU million, current prices)

1. Agriculture
2. Structural operations
3. Multiannual policies
4. Other policies
5. Repayments, administration
6. Monetary Reserve

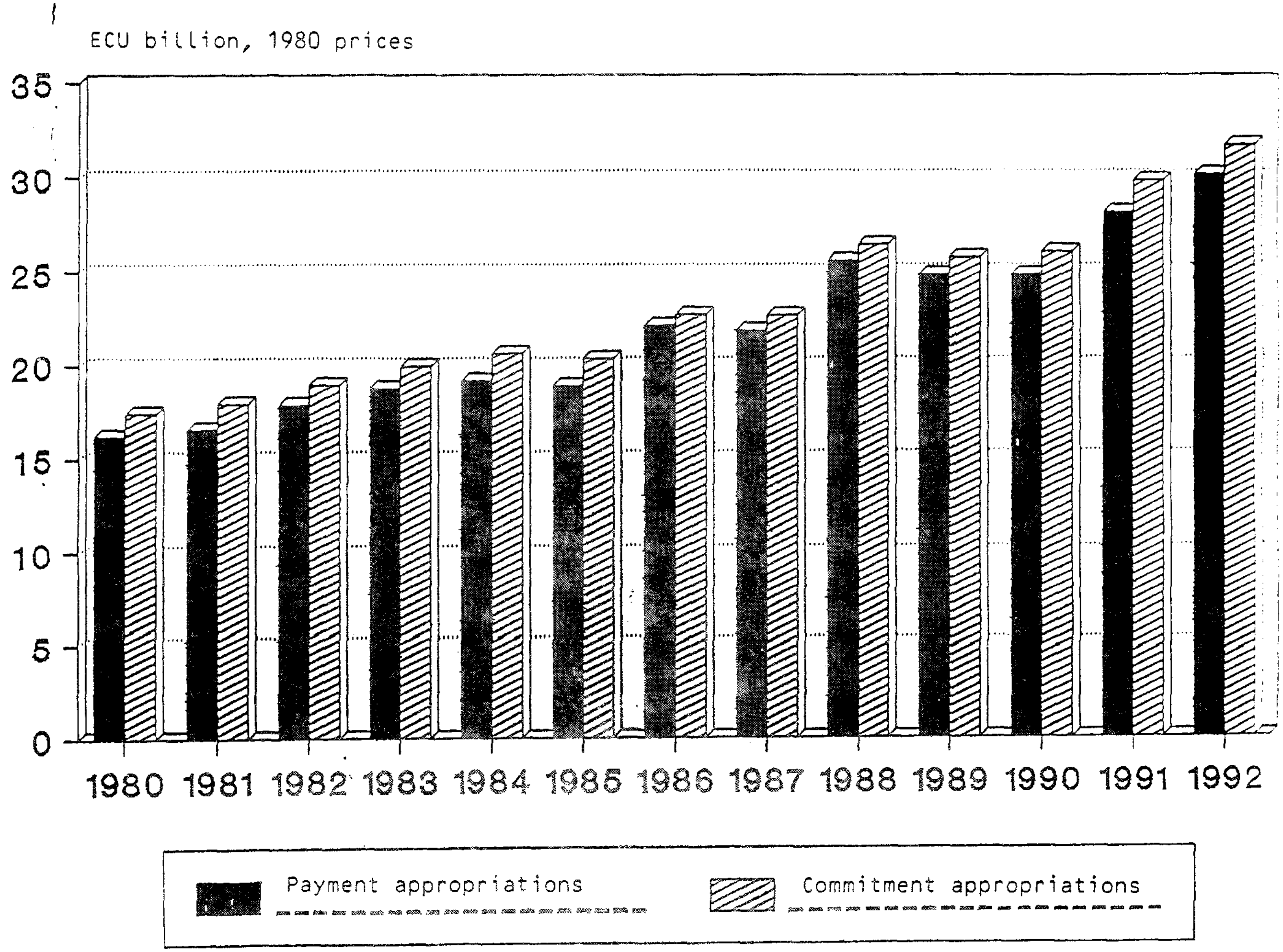


1988



1992

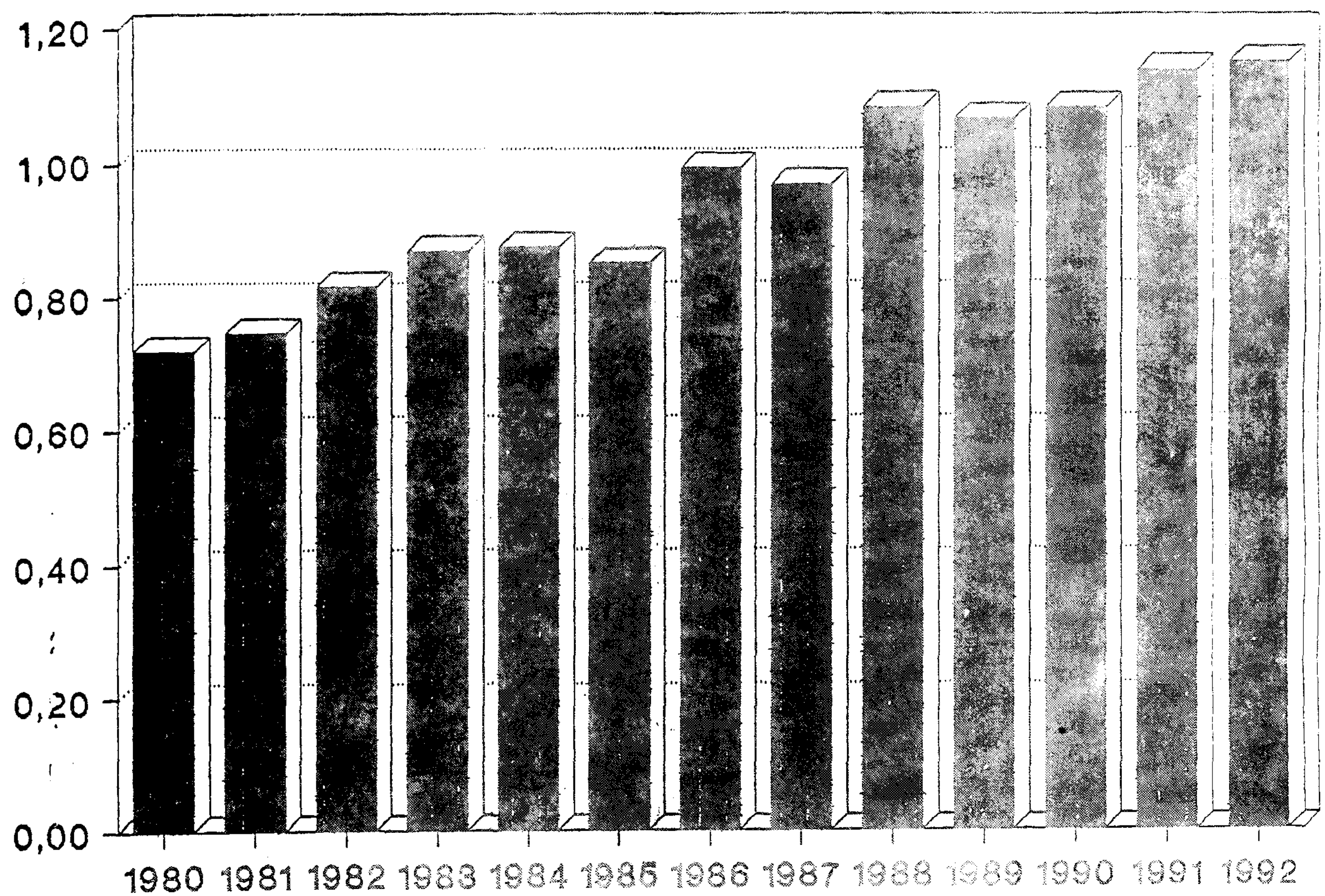
TOTAL COMMUNITY EXPENDITURE



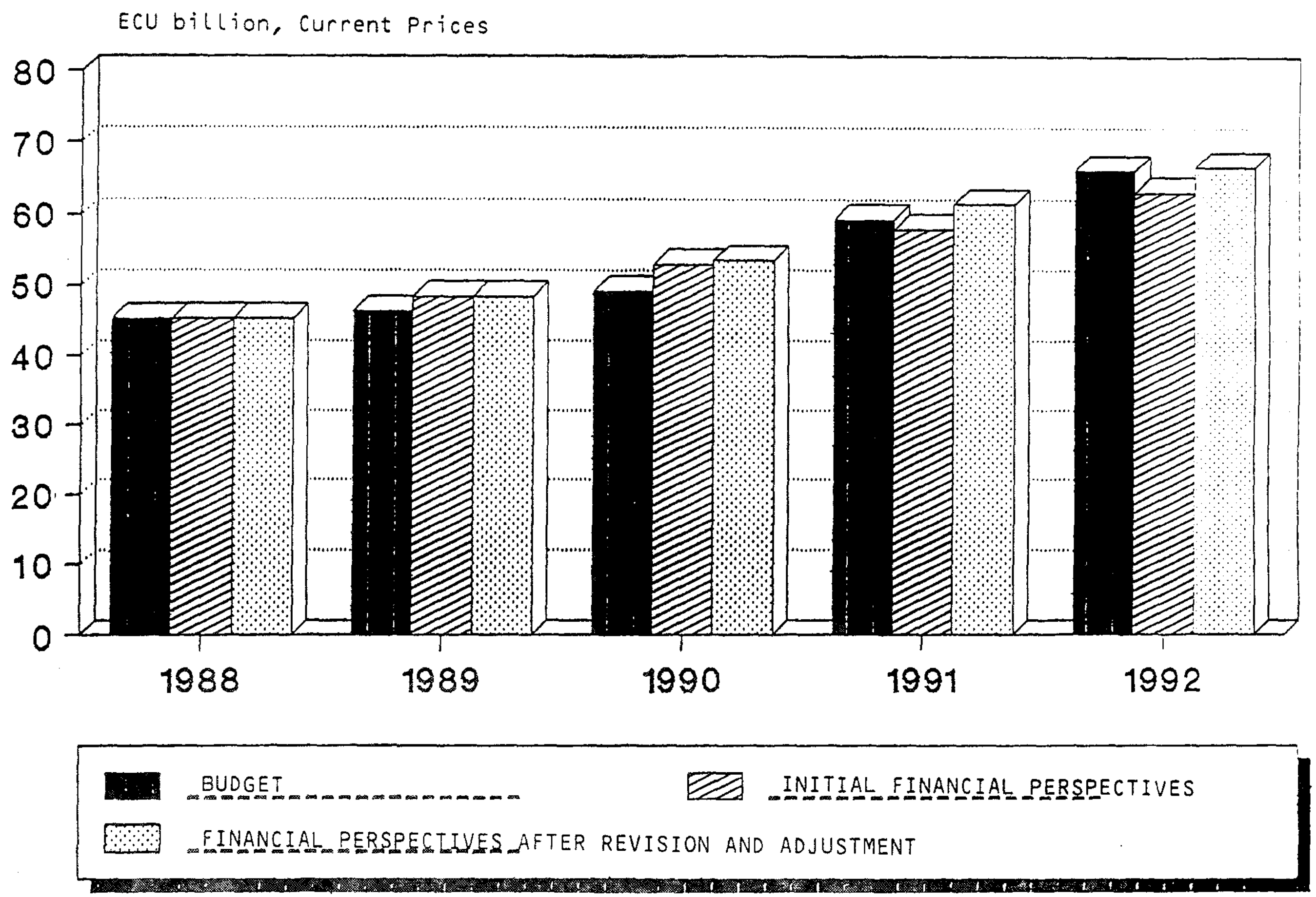
TOTAL EXPENDITURE FROM COMMUNITY BUDGET

in relation to GDP

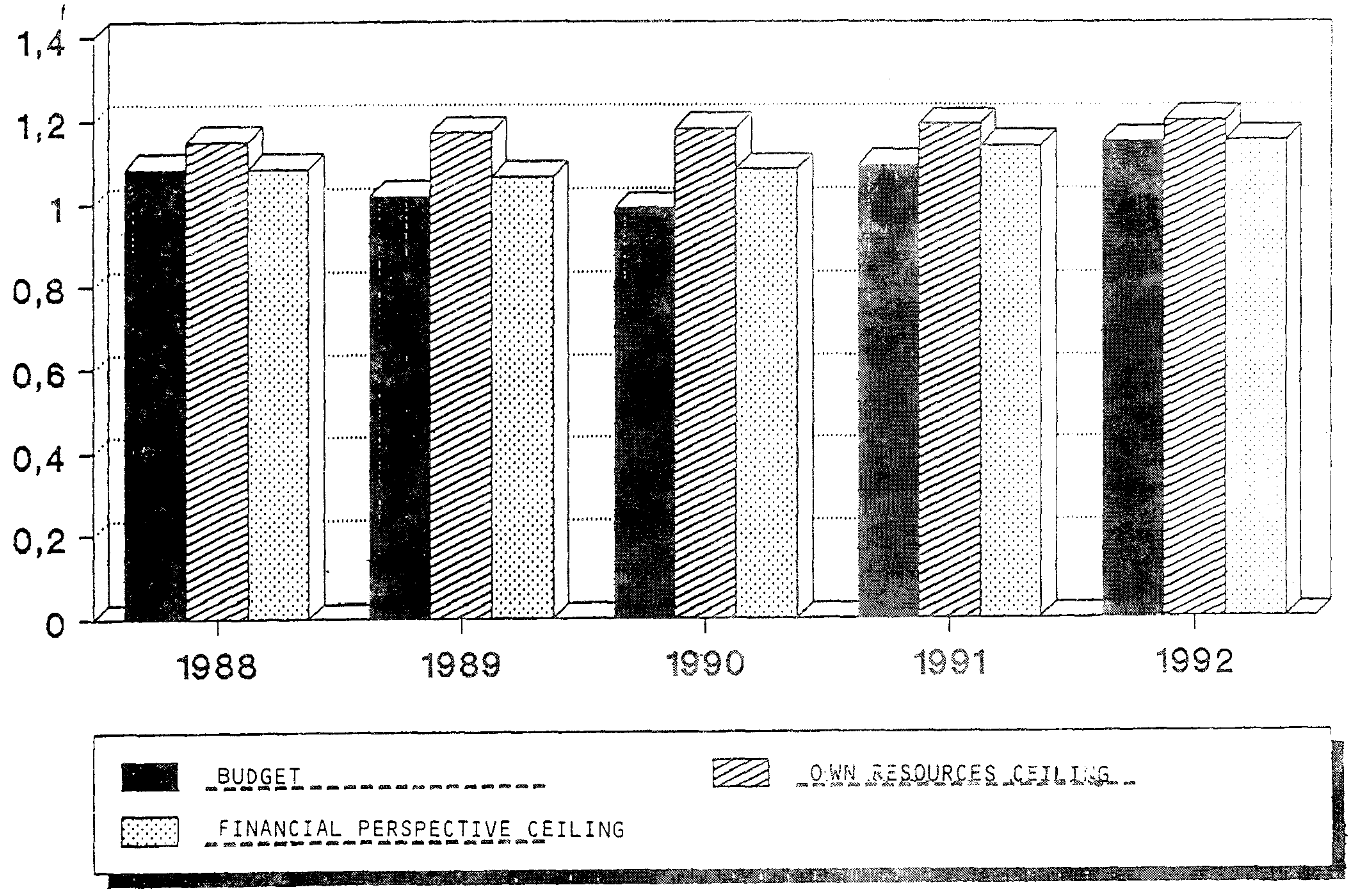
Payment appropriations



TOTAL COMMITMENT APPROPRIATIONS

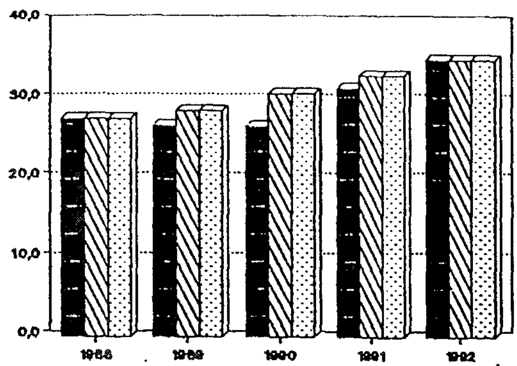


TOTAL PAYMENT APPROPRIATIONS
as % of GNP



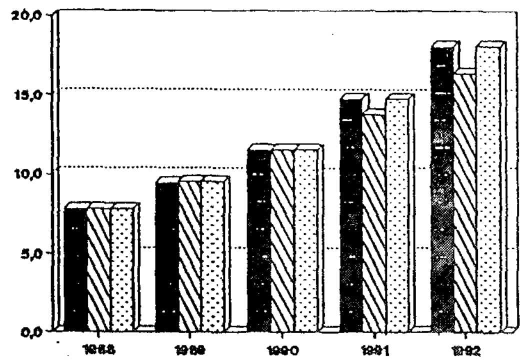
HEADING 1

EAGGF



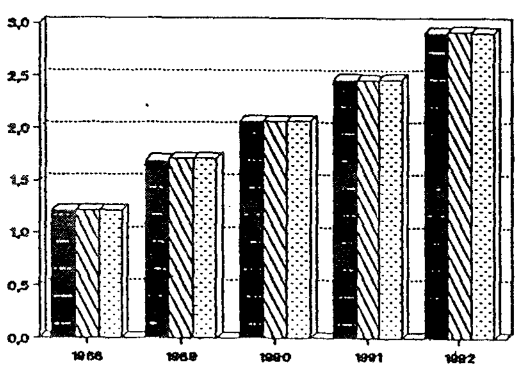
HEADING 2

Structural Operations



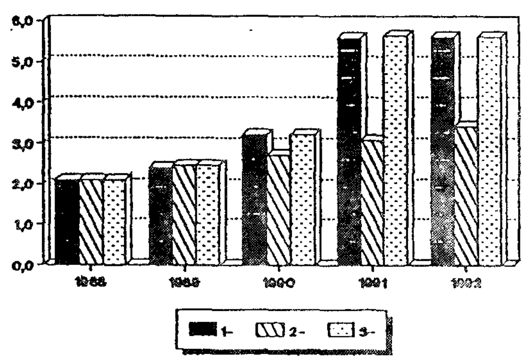
HEADING 3

Multiannual Policies



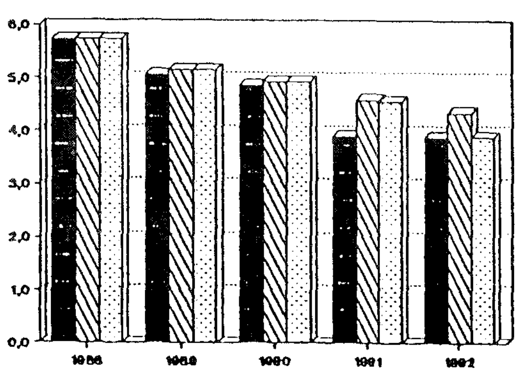
HEADING 4

Other Policies



HEADING 5

Repayments and Administration



1- BUDGET

2- INITIAL FINANCIAL PERSPECTIVES

3- REVISION ADJUSTMENT FINANCIAL PERSPECTIVE