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**REPORT ON THE IMPLEMENTATION OF THE INTERINSTITUTIONAL
AGREEMENT OF 29 OCTOBER 1993 ON BUDGETARY DISCIPLINE AND
IMPROVEMENT OF THE BUDGETARY PROCEDURE**

PROPOSALS FOR RENEWAL

(presented by the Commission)

SUMMARY

In accordance with paragraph 25 of the Interinstitutional Agreement of 29 October 1993 the Commission is presenting this report to the budgetary authority on the application of the Interinstitutional Agreement and on the amendments which need to be made to it in the light of experience.

Implementation of the Interinstitutional Agreement of 29 October 1993

The Commission has reviewed both the application of the financial framework over the period 1993-99 and the implementation of the provisions of the Agreement designed to improve the budgetary procedure.

- The period divides into two as regards application of the financial framework. From 1993 to 1996 economic growth was not as high as expected, demonstrating that a margin for unforeseen expenditure of 0.01% GNP was inadequate; annual budgets were at levels very close to the financial perspective ceilings and there was significant underspending in 1994 and 1995. By contrast, from 1997 onwards economic growth picked up, a stricter budgetary policy was introduced leaving substantial margins beneath the financial perspective ceilings and outturn figures improved distinctly.
- From the point of view of the improvement of the budgetary procedure, the 1993 Interinstitutional Agreement has failed to produce lasting solutions to the problems of classification of expenditure and legal bases. On the other hand, in accordance with their pledge to improve implementation of the 1982 Joint Declaration, the institutions came to an agreement on the question of entering financial provisions in legislative instruments (Joint Declaration of 6 March 1995). Moreover, even though the first application resulted in a dispute, the interinstitutional collaboration procedure set up by the 1993 Interinstitutional Agreement worked satisfactorily, going beyond what had been agreed by the institutions. This must, however, still be confirmed in the budgetary procedure for 1999.

Guidelines for a new agreement

Since the verdict on the 1993 Interinstitutional Agreement is broadly positive, it is proposed that the fundamental rules be retained.

However, certain provisions could be amended in the light of experience and also because of the tighter financial constraints proposed by Agenda 2000. The proposals concern the management of the financial framework and the budgetary procedure proper.

For reasons of simplification and rationalisation, the Commission is also taking the opportunity offered by the renewal of the Interinstitutional Agreement to propose updating and consolidating all the interinstitutional agreements and joint declarations on budgetary matters.

- The amendments or additions which the Commission is proposing to provisions relating to the management of the financial framework are essentially on three points:
 - In a context where the financial framework will offer less latitude over the period 2000-2006, the Commission is proposing that the management of the financial perspective be given an extra margin of flexibility. The aim would be to allow transfers, during and in accordance with the budgetary procedure, of allocations between headings 3 and 4 up to a limited amount, without escaping the need to leave a margin unused. Part of any balance remaining at the end of a year could give rise to a limited amount of additional expenditure in the course of the following year on requirements of significant political importance to be agreed in advance.
 - In line with the new financial management arrangements proposed for the Structural Funds, the Commission takes the view that it is no longer necessary to provide in principle for the transfer to subsequent years of allocations for the Funds which have not been used. Decommitments would be governed by the relevant provisions of the Financial Regulation.
 - The financial perspective will have to be adjusted if new Member States join the Community by incorporating, beneath the expenditure ceilings, the margins left available with an eye to enlargement. The Interinstitutional Agreement should leave open the possibility of revising the financial framework on this occasion should the allocations planned for enlargement prove inadequate.
- As regards improvement of the budgetary procedure and interinstitutional collaboration, the Commission is proposing, in addition to the consolidation of existing agreements and joint declarations,
 - to determine in the Interinstitutional Agreement the classification of existing budget headings and to have the classification of new headings agreed by the two arms of the budgetary authority under the conciliation procedure; should they fail to agree, the Commission's proposal would be deemed approved;
 - to relax the provisions of the Joint Declaration of 6 March 1995 on the entry of financial provisions in legislative instruments in order to restore a certain margin of manoeuvre to the budgetary authority in a context where the scope of legislative codecision has been extended by the Treaty of Amsterdam;
 - to clarify, if it has not already been done, the issue of legal bases;
 - to formalise the recently observed conciliation practice which has been extended to cover all expenditure.

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INTRODUCTION

Paragraph 25 of the Interinstitutional Agreement of 29 October 1993 requires the Commission to present, before 1 July 1998, a report on the application of the Agreement and on the amendments which need to be made to it in the light of experience.

The current agreement followed on from the one concluded in 1988. It took over most of the principles and objectives of the earlier one, subject to certain clarifications and additional provisions. Its aims are twofold: to impose budgetary discipline in a framework ensuring that adequate resources are available and offering scope for an orderly growth in expenditure to match the priorities set in the medium term, and to improve the annual budgetary procedure by means of closer collaboration between the institutions.

This report sets out what can be learned from the application of the 1993 Agreement and proposes a number of guidelines for renewal beyond 1999. These proposals are consistent with others presented by the Commission concerning the new financial framework, the reform of the CAP, the new Structural Funds regulations, the introduction of pre-accession aid and the operation of the Guarantee Fund.

Immediately after presenting this report, the Commission will propose a new interinstitutional agreement, with a financial perspective framework, to be agreed by the institutions for 2000-2006, as an integral part. The new agreement should be concluded in time to be applied for the preparation of the 2000 budget, the first one to be concerned.

The Commission will also present proposals for appropriate amendments to the Council Decision of 31 October 1994 on budgetary discipline.

I. IMPLEMENTATION OF THE INTERINSTITUTIONAL AGREEMENT OF 29 OCTOBER 1993

A. Application of the financial framework¹

The financial framework for 1993-99 was set by the Edinburgh European Council in December 1992. It was endorsed by the European Parliament in October 1993 when the Interinstitutional Agreement was concluded. At that point some of the 1994 expenditure ceilings were raised by small amounts to allow non-compulsory expenditure to grow that year in line with the maximum rate of increase.

Apart from the unavoidable adjustment which had to be made in 1995 to accommodate the new resources and requirements of a Union with three new Member States, the financial framework has not been amended,² whereas the previous financial perspective

¹ The principal figures on the application of the financial framework are shown in the tables and charts annexed.

² The financial framework applying from 1993 to 1999, with the technical adjustments in line with movements in prices and GNP and adjustments required by conditions of implementation, is set out in Table 1. Table 2 compares this framework with the appropriations entered in the budget and the outturn figures.

table for 1988-92 was revised seven times. What is more, the present framework looks set to expire leaving substantial margins available beneath the ceilings.

Apart from the specific features of the original financial framework, the main explanations of these results lie in the development of the macroeconomic situation throughout the period and the budgetary policy guidelines governing the Union's finances. It is against this backdrop that the actual application of the Agreement's provisions on budgetary discipline must be viewed.

1. The macroeconomic context and budgetary guidelines

The application of the financial framework can be divided into two periods.

(a) 1993 to 1996

- Growth appreciably lower than expected

The growth assumption underlying the financial perspective table was an annual average rate in real terms of 2.5% over the entire period. Actual growth from 1993 to 1996 in relation to 1992, on the basis of the most recent figures currently available (November 1997), was only an annual average of 1.5%. This average did, indeed, cover some fairly substantial fluctuations which were not accurately reflected in the forecasts used for the successive annual technical adjustments (see Chart 1).

This unexpectedly low real growth rate had two consequences:

- the narrow safety margin of 0.01% of GNP which had been left available between the own resources ceiling and the limit on total appropriations for payments was used up completely at the very outset (see Table 2 and Chart 2);
- actual own resources fell well short of the forecasts used for drawing up the budget, generating negative balances which had to be accommodated beneath the ceiling.

The adjustment of the financial perspective following enlargement of the Union in 1995 eased these tight constraints which otherwise would probably have meant lowering the ceilings in the financial framework itself, as is allowed by the second subparagraph of paragraph 8 of the Agreement, in order to ensure compliance with the own resources ceiling. In addition to raising the ceilings to cover the requirements connected with enlargement, this adjustment restored the margin available beneath the own resources ceiling and then raised it to 0.02% of GNP for the end of the period.

- Annual budgets very close to the expenditure ceilings

During the first four years of application of the financial framework, the budgets adopted each year (including supplementary and amending budgets) left only very small margins in appropriations for commitments beneath the ceilings set in the financial perspective (see Table 3 and Chart 3). For the most part these margins were beneath the agricultural guideline. The margins for headings 3, 4 and 5 were negligible. Although the margins in total appropriations for payment were bigger, they were still on the small side.

- Marked underspending in 1994 and 1995

For both these years appropriations totalling around ECU 5 billion for commitments and ECU 8.5 billion for payments were not used and not carried over to the following year. In terms of amounts, two areas of expenditure were mainly concerned by this under-utilisation (see Table 3 and Charts 3 to 5):

- expenditure on the common agricultural policy, mainly because of the relatively favourable conditions on a number of markets and an increase in costs connected with the 1992 reform that was not as high as expected. The volume of appropriations not used dropped sharply, however, in 1996;
- expenditure on the Structural Funds, the reason being the time taken to adopt and introduce the arrangements for the new programming period which started in 1994. This mainly concerned objectives 2, 5a and 5b and the Community initiatives. Utilisation for objective 1 operations was satisfactory. In accordance with paragraph 10 of the Agreement the allocations not used in 1994 and 1995 gave rise to transfers of ECU 3.1 billion in appropriations for commitments to subsequent years. Utilisation rates for appropriations for payments were even lower. However, there was a marked upturn in 1996: during that year the outturn in commitments was slightly (ECU 300 million) higher than the initial allocation for the Structural Funds, thus clearing a little of the accumulated backlog. The improvement in utilisation rates was even more marked for payments.

In relative terms there was also an appreciable slowdown, from 1995 onwards, in the clearance of commitments for external action and, to a lesser extent, internal policies.

(b) From 1997 onwards

In a number of respects 1997 marked a major turning point in the application of the financial framework.

- A more favourable economic situation

According to the most recent economic forecasts available, the real growth rate for the Union's GNP in the last three years of the period covered by the financial perspective should average just over 2.5% a year (see Chart 1). The margin between the own resources ceiling and the limit on total appropriations for payments should therefore be 0.03% of GNP as forecast at the time of enlargement.

- A new approach to budget policy

A new budget policy approach became evident in 1997, was accentuated when the 1998 budget was established and should continue in 1999, at least in the preliminary draft budget that the Commission will be presenting.

Prior to this the budget was drafted mainly by reference to the ceiling set by the financial perspective. The margins which could be left available beneath these ceilings were therefore at the heart of the debate between the institutions and tended inevitably to contract as the budgetary procedure advanced and compromises had to be found on the priorities to be set. From 1997 onwards the limit on the increase in total spending, linked

to the budgetary restrictions applied by Member States at national level became the main reference marker for spending both on operations and on the institutions' staff.

The budgets adopted for 1997 and 1998 are based on a very small increase in total appropriations for payments of 0.5% and 1.4% respectively in nominal terms, thereby leaving very substantial margins (0.07% then 0.13% of GNP) beneath an own resources ceiling which itself was rising (see Table 2 and Chart 2).

Total appropriations for commitments increased by more (3% in 1997 and 2.1% in 1998), meaning that the underlying ratio between commitments and payments in the financial framework was increased. Account was thus taken of the pattern in earlier years of a slower rate of clearance of commitments. Moreover, as the allocations in commitments for structural operations had privileged status, they had to be entered in the budget in full.

As a result, the margins available in the 1997 budget beneath the expenditure ceilings in commitments are still very small and mainly concern agricultural spending. In the 1998 budget, on the other hand, large margins are left for all the headings with the sole exception of structural operations, where the allocations have privileged status (see Table 3).

- The improvement in outturn was confirmed in 1997

The improvement in budget outturn which began to show through in 1996 was by and large confirmed in 1997. All headings were concerned for commitments with the exception of heading 2. The improvement was even more marked in payments for all headings.

There was a deterioration in the level of utilisation in appropriations for commitments for structural operations in relation to 1996, with an underspend of around ECU 1.5 billion. Two points do, however, need to be made.

- First, the appropriations entered in the budget for 1997 included, in addition to the initial allocation, the amounts not used in 1994 and 1995. While it was not possible to eliminate the backlog accumulated in these two years, the basic allocation for 1997 was used almost in full.
- Second, under-utilisation in commitments essentially concerned Community initiatives, whereas outturn was satisfactory or at any rate better than the previous year for all the other structural operations.

2. *The main conclusions*

Since it was renewed in 1992 the financial perspective framework has confirmed its value as an instrument of budgetary discipline which can be applied in whatever economic and budgetary context. The rules of operation now seem well established and accepted. Some more specific conclusions can nevertheless be drawn from this experience.

- Margin beneath own resources ceiling too narrow to begin with

The margin of 0.01% of GNP left available for contingencies in the financial framework agreed at Edinburgh proved inadequate for coping with the uncertainties of macroeconomic developments. In the very first year that the new financial framework

was applied, the margin was used up as a result of the slowdown in economic activity, and the expenditure estimates in the budget could only be covered in full because "other revenue" was available in addition to own resources. Had it not been for the adjustment of the financial perspective in connection with enlargement, the amount of own resources available would have been below the ceiling originally set for total appropriations for payments throughout the entire period.

- A degree of constraint not evenly applied between the different categories of expenditure

The priorities and the forecasts of budget requirements by major category of expenditure on which the financial framework was originally based can change over time. The revision procedure provided for in paragraphs 11-13 of the Agreement would allow any necessary adjustments to be made, provided the own resources ceiling is not exceeded and due account is taken of the possibilities of reallocating expenditure. No use was made of this procedure during the reference period. It would not have been feasible at the start of the period because no margins were available either beneath the ceilings for the individual headings or beneath the own resources ceiling. The proposal which the Commission presented in 1996 for redeploying and reclassifying expenditure in individual headings in order to strengthen certain internal policies which could promote growth and employment was not endorsed by the Council.

All in all, the degree of constraint imposed by the initial ceilings was uneven as between the categories of expenditure.

- By the end of 1992 it was already clear that a margin would probably be available at the end of the period beneath the agricultural guideline. This has proved to be true, despite the difficulties on the beef market, and each year the actual expenditure outturn has been well below the allocations entered in the budget. Although the guideline may have imposed some constraint in decisions on agricultural legislation, this was not really the case in terms of budget execution. Attention has focused more on ways of improving expenditure forecasts in this area and of monitoring developments when the budget is being implemented.
- The allocations for heading 2 (Structural operations) were set in terms of expenditure targets. They increased significantly over the period (see Table 4). Implementation of the Structural Funds fell behind schedule at the start of the programming period mainly for objectives 2, 5a and 5b and the Community initiatives. This shows that a rapid rise in planned allocations can, initially at least, encounter problems of management and of installation of joint financing arrangements which do not particularly concern the main beneficiaries.
- The allocations for heading 4 (External action) have the highest rate of increase over the period (see Table 4). In this connection it should be borne in mind that there were no upheavals with financial consequences on the international scene on the scale of the events during the earlier period, and the heading 4 allocations were afforded a large measure of protection from various uncertainties by the introduction of reserves for emergency aid and loan guarantees (see below).
- The growth allowed for headings 3 (Internal policies) and 5 (Administrative expenditure) was much smaller over the period, and the ceilings imposed much more

of a constraint. Evidence of this can be seen in the fact that heading 3 was regularly at the heart of the budgetary debate between the institutions even though it represents only about 6% of total expenditure. As regards administrative expenditure, given the major building programmes undertaken by certain institutions and the growth in expenditure on pensions, the ceiling set meant that other than for enlargement staff numbers have remained virtually unchanged and sustained efforts have been made in terms of redeployment and rationalisation.

- Relationship between appropriations for commitments and appropriations for payments

In the financial perspective the ceiling on appropriations for payments required is set on the assumption that the full amounts available under the ceilings of the various headings in appropriations for commitments will be entered in the budget and actually used. It is also based on payment schedules by category of expenditure which are considered normal for systems which are fully operational with existing regulations and experience acquired. On the basis of actual outturn and development of outstanding commitments, it is in fact possible, under the first subparagraph of paragraph 10 of the Agreement, to adjust the level of the ceiling on appropriations for payments if this is considered necessary.

At the start of the period the increase in the volume of outstanding commitments was much stronger than implicitly allowed for in the financial perspective, mainly because of the sluggish progress of implementation of the Structural Funds, which would eventually produce, by a catching-up phenomenon, an increase in payment requirements. It was not, however, felt necessary to alter the growth path for the ceiling on appropriations for payments, since this appeared high enough to cover foreseeable needs. In addition the budgetary authority, when adopting the 1997 and 1998 budgets, opted to place much tighter limits on the growth of appropriations for payments than on that of appropriations for commitments.

But this policy could only go so far, firstly because the utilisation rate in payments picked up significantly from 1996 onwards, and secondly, unless there is to be a constant slackening in the rate of clearance of commitments or systematic underutilisation of commitment appropriations, the growth in appropriations for payments must inevitably catch up with that of appropriations for commitments.

- Re-entry in the budget of allocations not used for structural operations

When the Delors I and II packages were adopted, the institutions wanted to underscore the priority attached to strengthening economic and social cohesion by giving the heading 2 allocations in the financial perspective a privileged status. In particular they decided that unused allocations should be transferred automatically to subsequent years as amounts in excess of the ceiling.

Experience has shown that there are limits and risks involved with the near automatic nature of these transfers:

- re-entry of unused appropriations in budgets for subsequent years is possible only if a margin is available beneath the own resources ceiling. However, the size of this

margin cannot always be calculated accurately when the transfer decision has to be taken;

- there is a good case for using this mechanism if the reason for the underspend is temporary difficulties in implementing programmes. In the event of permanent implementation and absorption problems, successive transfers produce a snowball effect and provide no incentive to get to the root of the problems;
 - the effect of such transfers is that the same expenditure is repeatedly entered in the financial perspective and successive budgets until it is implemented. This could give a distorted image of actual budget developments. When the budget policy line is to set an overall limit on the increase in total expenditure from one year to the next, as has been the case since 1997, the need to allow for amounts to be re-entered in the budget imposes further restrictions on the possible growth of other categories of expenditure.
- Implementation of the reserves in heading 6 of the financial perspective-

In 1993 the institutions decided to set up two new reserves alongside the monetary reserve - the emergency aid reserve and the loan guarantee reserve - with two objectives in mind: first of all to avoid too frequent application of the revision procedure and second to make it possible to mobilise quickly the resources required to deal with unforeseen events.

- Monetary reserve

For a temporary period up to the end of 1997 this reserve was given the broader assignment of covering the permanent cost of the monetary realignments within the EMS between 1 September 1992 and 31 October 1994. But the reserve was not mobilised during the period. In 1995 and 1996 expenditure resulting from fluctuations in the ecu/dollar parity was financed from the appropriations available in heading 1. What is more, in 1997 ECU 44 million in savings resulting from the favourable shift in the ecu/dollar parity was transferred to the reserve.

- Reserve for loan guarantees³

The purpose of this reserve is to endow the Guarantee Fund and, should that Fund not have sufficient resources, to make additional direct payments in the event of a debtor defaulting on a loan guaranteed by the general budget. This Guarantee Reserve-Guarantee Fund mechanism performed its assigned role perfectly.

It served as a framework for the development of lending operations guaranteed by the general budget, prompting the Council and the EIB to improve the programming of their lending to non-member countries.

The resources available to the mechanism were adequate. From 1994 to 1997 just over 80% of the reserve's allocation was used, guaranteeing a total volume of new lending

³ The operation of the Guarantee Reserve-Guarantee Fund mechanism is analysed in detail in the specific report presented by the Commission.

operations of ECU 7.5 billion. The Fund's resources have now reached the target figure set in the regulation of 10% of guaranteed loans outstanding. The defaults that the Fund has had to cover have never resulted in aggregate disbursements in excess of 5% of the amount outstanding.

The result has been that the allocations under heading 4 of the financial perspective for expenditure on external action have been shielded from the unforeseeable impact which activation of the guarantee would have had if this mechanism had not existed.

– Reserve for emergency aid

This reserve was used, as intended, to cover specific aid requirements in non-member countries, primarily for humanitarian operations, in circumstances which could not be foreseen when the budget was drawn up, either as a result of new events or of a major and unexpected development in existing situations. Calls were made on the reserve each year except in 1997, when additional humanitarian aid needs of ECU 120 million in appropriations for commitments and ECU 150 million in appropriations for payments were covered by transfers from other items in heading 4. From 1993 to 1996 the average rate of use of the reserve was just over 75%; without it there would have had to be some very tricky juggling of appropriations in heading 4 during the year or even revisions of the ceiling. However, some of the practical arrangements for drawing on the reserve weakened the specific character of the instrument and hence the reason for its existence.

It is not because the reserve exists that there is no need to make adequate allocation under heading 4 for humanitarian aid to cope with average foreseeable requirements each year. But it was found that these allocations were constantly underestimated during the period and extra resources had to be found during the year by calling on the reserve even though it was not always clearly demonstrated that the events in question were entirely unforeseen.

On the other hand the reserve should be mobilised as soon as unforeseen situations arise, involving large and urgent requirements, in order not to compromise humanitarian aid operations already programmed.

B. Improvement of the budgetary procedure

The new procedures introduced in the 1993 Agreement have gradually given life to a very encouraging practice of collaboration between the institutions. Some difficulties, connected with the classification of expenditure, were still encountered at the start of the period, as was demonstrated by the dispute between the two arms of the budgetary authority over the 1995 budget. The objective set by the institutions in 1993 of improving implementation of the 1982 Joint Declaration was not fully achieved.

1. Collaboration between the institutions has gradually gained substance

The 1993 Agreement introduced an interinstitutional collaboration procedure involving an exchange of views on budget priorities and conciliation on compulsory expenditure. Although initially this procedure did not live up to the high expectations placed in it, it did gradually generate a conciliation mentality which tended to gather momentum and continue throughout the budgetary procedure.

The triologue meeting on budget priorities is held before the Commission takes its decision on the preliminary draft budget. The discussion at this stage between the two arms of the budgetary authority remained fairly formal to begin with, as the Council was not always in a position to express its own priorities. The discussion on the 1998 budget, however, demonstrated that this procedure could produce satisfactory results if it was launched, upstream, by an informal triologue meeting coming just after the Commission's internal discussion on budget priorities and provided the institutions were prepared to continue discussion in the subsequent stages of the budgetary procedure, dealing impartially with the entire budget. In this way it was possible to come to an agreement for 1998 on the principle and detailed arrangements of a strict budgetary policy covering all items of expenditure.

After the first application of the procedure ended in a dispute in 1994, conciliation on compulsory expenditure has also gradually produced satisfactory results. The two arms of the budgetary authority were able to agree on the amounts to be entered in the EAGGF Guarantee items of the budget in which Parliament had special interest, which made it possible to overcome, without necessarily settling, the differences of opinion about classification of expenditure. Further advances were made with the conciliation procedure as a result of the compromise reached by the institutions at the triologue meeting on 8 April 1997 on the possibility of presenting a letter of amendment in October, after the normal deadline, to adjust the forecasts of agricultural expenditure. The institutions held a triologue meeting at the end of November 1997 to discuss the ad-hoc letter of amendment on the EAGGF Guarantee Section.

A further spin-off from conciliation in the budgetary procedure for 1997 was the adoption of the Joint Declaration of 12 December 1996 on improving information for the budgetary authority on fisheries agreements.

Even though the 1993 Interinstitutional Agreement restricts conciliation to compulsory expenditure alone, it has by and large been extended in practice to the entire budget and has continued to be applied by the institutions beyond the Council's first reading. Even though these good results were confirmed with the establishment of the 1998 budget, they are still fragile and will have to be consolidated in the budgetary procedure for 1999.

2. Continuing problem of the classification of expenditure

This issue is still unresolved for the headings on which no compromise was reached in the Agreement (headings 2 and 3), i.e. essentially heading 1.

The new conciliation procedure on compulsory expenditure was initially used by Parliament as an opportunity not only to discuss the amounts involved (which is what the Council and the Commission considered was the purpose) but also to argue about classification. After Parliament had unilaterally classified certain EAGGF Guarantee items as non-compulsory expenditure in the 1995 budget, the Council brought an action before the Court of Justice which annulled the budget. Since then the institutions have not really got down to discussing classification of all items of expenditure, despite the undertaking given when agreement was reached on the 1995 budget.

3. *Improvement of the application of the 1982 Joint Declaration: results still incomplete*

The Joint Declaration of 30 June 1982, which is one of the fundamental instruments for Community public finances, sets the stage for balanced interinstitutional relations between the two arms of the budgetary authority and also between the legislative authority and the budgetary authority. This includes the undertaking by the Council not to enter maximum amounts in basic instruments and in return Parliament's acceptance of the need for a proper legal basis before appropriations entered in the budget can be used.

The need for a legal basis was restated in the 1998 Interinstitutional Agreement and then again in the 1993 Interinstitutional Agreement. What is more a statement annexed to the 1993 Agreement confirmed the validity of the principles set out in the 1982 Joint Declaration concerning legal bases and maximum amounts and pledged action by the institutions to improve application of these principles.

On 6 July 1994 the Commission accordingly sent to the budgetary authority a communication covering the two issues of "amounts deemed necessary" and legal bases.

(a) Entry of financial provisions in legislative instruments

On 6 March 1995 Parliament, the Council and the Commission signed a joint declaration in which they rejected the practice of "amounts deemed necessary" and made allowance for the new legal situation resulting from the introduction, in certain areas, of the legislative codecision procedure. This joint declaration provides that:

- multiannual programmes adopted under the codecision procedure will include reference amounts which are binding on the institutions during the annual budgetary procedure;
- multiannual programmes based on instruments not covered by the codecision procedure will not include such amounts. Should the Council still wish to enter a financial reference in such an instrument, it will be taken as illustrative of the will of the legislative authority. The financial reference is not, therefore, binding on the institutions during the budgetary procedure.

In practice, however, the Council has systematically entered financial references in the instruments it has adopted.

(b) The issue of legal bases

Article 22 of the Financial Regulation, taking up the wording of Title IV, paragraph 3 (c) of the 1982 Joint Declaration, lays down the principle that appropriations entered in the budget for any significant Community action may not be used until a basic instrument has first been adopted. The interpretation of this hard-won compromise between the institutions involved in the budgetary debate has given rise to disputes and the budget even today still has many items without a legal basis which cannot always be clearly justified.

This has prompted the institutions to try to negotiate, on the basis of a Commission proposal, new rules and procedures in a bid to improve interinstitutional collaboration

and sound financial management. These negotiations are currently on hold because of the cases brought before the Court of Justice. Agreement needs to be found as a matter of urgency, otherwise it will not be possible to implement the budget properly.

4. *Use of budget reserves*

Article 19 of the Financial Regulation provides that the budget may include "provisional appropriations" and "contingency reserves". The Commission's view is that the purpose of such reserves should be to facilitate budget management by making it possible to allocate appropriations to a budget heading during the year for an operation which had not been fully finalised when the budget was voted, in particular where the legal basis had still not been adopted. In recent years Parliament has tended to make more and more use of this instrument, making the release of the appropriations subject to all kinds of conditions, often very remote from the purpose of the budgetary heading concerned. Its interpretation of the use which could be made of the budgetary reserve has been very broad and debatable on certain points.

While the appropriations for a given year are authorised by what ought to be a single budgetary act, this widespread use of reserves results in authorisation being given on various occasions during the year. The mobilisation of the appropriations entered in reserve also allows the budgetary authority to interfere in budget execution even though this is a matter exclusively for the Commission. Finally, although budget implementation is subject to *ex post* control, Parliament's practice means that it is *de facto* subject to *ex ante* control, in that the Commission may have to state how it intends to use appropriations before they can be transferred to the operational headings.

There is therefore a good case for clarifying in the Financial Regulation the rules governing the use of budget reserves

II. GUIDELINES FOR A NEW AGREEMENT

As the Interinstitutional Agreement has on the whole worked satisfactorily, there is therefore no need for far-reaching changes to the existing rules.

On the other hand there have in recent years been many declarations and interinstitutional agreements on budget matters, and this has rather blurred the legal situation in this area. Because of this complexity and of the existence in certain instruments of provisions which no longer have any *raison d'être* given past experience or new rules, the Commission believes that the renewal of the Interinstitutional Agreement should be taken as an opportunity to update and coordinate all the interinstitutional agreements and joint declarations on budgetary matters.

The Commission's proposal is that various points should be added or clarified to make a clear distinction between the two purposes of the Interinstitutional Agreement, namely implementation of the financial perspective and improvement of the budgetary procedure.

A. Management of the financial framework

The proposals concerning the structure, content and amount of the various headings in the financial framework are contained in the communication on the renewal of the financial perspective. This communication deals only with the provisions governing application of the financial framework.

These provisions remain valid for the same length of time as the financial perspective, and this could be stipulated in the Agreement.

On the question of changes to be made, the Commission believes that maintaining the own resources ceiling at 1.27% of GNP, as proposed in the communication on the renewal of the financial perspective, must be offset by more flexible management of the financial framework, in particular to make it possible to contend with unforeseen requirements.

1. Retention of existing provisions

Subject to certain clarifications or possible redrafting, the Commission is proposing that the principle and procedures for the following provisions be kept unchanged:

- the concept of ceiling applicable to the various headings and, for heading 1, the principle of the agricultural guideline for which the method of calculation and scope are set out in the Decision on budgetary discipline;
- the establishment of these ceilings in constant prices and the annual technical adjustment in line with inflation and GNP growth;
- acceptance of the maximum rate of increase deriving from budgets established within the limit of the financial perspective;
- the undertaking by the two arms of the budgetary authority to leave, as a rule, margins available beneath the ceilings of the financial perspective;
- the possibility of an adjustment in line with the conditions of implementation in order to ensure an orderly progression between commitments and payments;
- the possibility of revising the financial perspective by the majority required for budget decisions;
- the procedures in force for the mobilisation of the reserves.

2. Provisions concerning certain categories of expenditure

(a) Heading 2

The relatively privileged status of the allocations for heading 2 is maintained in the rules governing the Structural Funds and the Cohesion Fund, the new Interinstitutional Agreement should again contain an undertaking by the two arms of the budgetary authority to comply with the allocations provided for in the financial perspective for the Structural Funds and the Cohesion Fund (paragraph 21 of the 1993 Agreement).

Two of the amendments proposed in the new Structural Funds regulations should, however, be reflected in the new Agreement.

The first concerns the conditions of implementation of the Structural Funds. Each year the budget commitments would correspond to the annual programming instalments. Amounts committed but not paid in the two years following their entry in the budget would be automatically cancelled and a decision on whether to make the appropriations available again would be governed by the existing provisions of the Financial Regulation. This new approach to the management of the Structural Funds would mean that it should no longer be necessary to arrange for the transfer to subsequent years of amounts not used in a given year, which would involve raising the ceiling of the corresponding heading of the financial perspective. However, should there be delays at the start of the period in preparing the programming, such a transfer would be authorised for allocations not used during the first year covered by the financial perspective.

The second amendment concerns the index-linking of the allocations for the Structural Funds. To facilitate the programming of Structural Fund operations, the deflators to be used for adjusting, prior to entry in the budget, the annual allocations originally set in constant prices should be set in advance in the new rules. The Interinstitutional Agreement should therefore provide that for the "Structural Funds" subheading the annual technical adjustment would be based on the same deflators. There could be a mid-term review of the index base in the light of actual inflation but without any *ex post* adjustment of allocations for earlier years.

(b) Heading 6

– Monetary reserve

The usefulness of this reserve was not confirmed during the period 1993-99. What is more, fluctuations in the dollar rate should have less influence on agricultural expenditure in future as a result of the proposed reform of the CAP and assuming that it will be agreed to adjust the euro/dollar parity in the letter of amendment presented in the autumn. For this reason it is planned to gradually eliminate the allocations for this reserve as proposed in the communication on the renewal of the financial perspective. During this period the provisions of the Interinstitutional Agreement governing the operation of this reserve would continue to apply.

– Reserve for loan guarantees

As the Guarantee Reserve - Guarantee Fund mechanism has served its assigned purpose, it is proposed that the operating rules currently contained in the Interinstitutional Agreement for this reserve be kept unchanged.

The new parameters proposed in the report on the operation of this mechanism would nevertheless result in a reduction in the allocation for the loan guarantee reserve provided that this did not add any further constraint on lending capacity.

– Reserve for emergency aid

In order to restore the emergency aid reserve to its genuine function, which is to provide a rapid response to specific and unforeseeable needs, three amendments are proposed.

Provided that the corresponding operational headings are allocated sufficient resources to cover average requirements each year, the first step could be to clarify the criterion for mobilising the reserve. In future the reserve should not be called on to cover needs which exceed what was expected in existing situations. Only needs arising out of genuinely new and unforeseeable events would be covered by the reserve.

Secondly, it is proposed that it be stipulated that the reserve must be drawn on when such a requirement is identified, even if amounts are still available in the relevant operational items under heading 4 of the financial perspective, provided that the programmed spending indicates that the amounts will be used in full.

Finally the reserve should be mobilised only for significant amounts. The Commission is therefore proposing that the text of the Interinstitutional Agreement should leave a neutral margin of at least EUR 15 million to be covered by redeployment.

In this way it would be possible to reduce the allocation for the reserve as proposed in the communication on the renewal of the financial perspective.

3. Increased flexibility in management of the financial framework

The procedure for revising the financial perspective, the arrangements for which are to remain unchanged, must be reserved for relatively large and lasting alterations to the financial framework and must be applied ahead of the preparation of the budgets concerned. For more specific requirements arising while the budget is being drawn up or implemented in a financial framework which in future will offer less latitude, it is proposed that the new Agreement offer additional but limited margins of flexibility.

(a) Between certain headings of the financial perspective

The possibility would be provided of transferring, for a given year, allocations between certain headings of the financial perspective by means of a more flexible procedure than that of revision.

In the light of experience and following the same reasoning that was used for setting the various expenditure ceilings, this possibility would be restricted to headings 3 (Internal policies) and 4 (External action). Heading 1 continues to be governed by the agricultural guideline, the principle of which is laid down in the Decision on budgetary discipline. The allocations for heading 2 have privileged status. Administrative expenditure under heading 5 cannot really be considered interchangeable with operational expenditure. Finally, heading 6 covers reserves specifically intended to enable the Union to contend with unforeseen expenditure without jeopardising the financing of current policies.

To ensure that the financial perspective continues to act as an expenditure framework, the possibility of transferring allocations between the two headings would be restricted as follows:

- the transferable amount would be subject to a ceiling, set as an absolute amount of, say, EUR 100 million;

- a margin would at all events have to remain available beneath the ceiling of the original heading. This means that the margin beneath the original heading would have to be say EUR 100 million more than the transfer made;
- the facility could not be used for the same reasons, i.e. to provide additional resources for the same budget items, the following year.

The transfer would be possible during the annual budgetary procedure (or the procedure concerning a supplementary and amending budget), without formal adjustment of the ceilings concerned. The Commission, however, would not be allowed to make use of the possibility when presenting its preliminary draft. There would be conciliation between the two arms of the budgetary authority, in accordance with the arrangements laid down, before this transfer mechanism could be applied.

(b) From one year to the next

Underutilisation of appropriations for payments in the outturn for a given year gives rise to positive balances which are entered in the budget for the following year by means of a supplementary and amending budget and are deducted from the amount of own resources called in for that year. An estimate of the balance can also be entered in the draft budget, during the budgetary procedure, by means of a letter of amendment.

The Commission is proposing that the new Agreement should provide for part of any positive budget balance from the previous year to be used to cover significant political requirements agreed in advance. It could be agreed that the budgetary authority would be allowed to vote expenditure - in appropriations for commitments and outside the financial perspective ceilings - for a maximum of say EUR 500 million, provided that these appropriations were covered by corresponding underutilisation in the previous budget and that the positive balance from the previous year was at least equal to this amount.

The two arms of the budgetary authority would have to reach explicit agreement on the use of this possibility and on the corresponding amount within the limit set.

4. *Duration of the financial perspective*

(a) An adjustment clause for the financial perspective

The new financial framework for 2000-2006 comes at a point in time when it will have to finance both the development of Community policies and the requirements of enlargement to include new Member States.

The financial framework which will be adopted for a fifteen-member Union with amounts being left available for an initial enlargement will have to be adjusted, by agreement between the two arms of the budgetary authority, when the new members actually arrive. This will mean restoring to the various headings of the financial perspective all or part of the amounts left available and if these are not sufficient to meet the needs of enlargement, to revise the financial perspective without exceeding the own resources ceiling. A clause providing for this should be included in the new Agreement.

(b) Extension of the financial perspective

The rule governing the extension of the financial perspective, as contained in paragraph 25 of the current Agreement, could be clarified and simplified.

It should first be confirmed that unless one of the parties expressly refuses any extension, the agreement will continue to be extended year by year until the entry into force of a new financial perspective.

As the current Agreement provides that the ceilings will be adjusted on the basis of the average increase observed over the preceding period, it does not guarantee compatibility between expenditure and the own resources ceiling.

In order to be consistent with the general philosophy of the financial perspective, there should be a link in the extension clause with the past growth of expenditure and also with the own resources available. The Commission is therefore proposing that in the event of the financial perspective being extended, the ceilings in force will be raised by the average annual rate of increase over the period 2000-2006 with the rate of increase of each of the headings being restricted to the increase in GNP.

B. Budgetary procedure and interinstitutional collaboration

The Commission is proposing that all the provisions in this area be consolidated, subject to appropriate adjustments or additions in particular in the procedures for interinstitutional collaboration.

As the provisions concerned are not directly linked to the existence of a financial framework, they must be of a permanent nature. This means that the legal instrument constituted by the Interinstitutional Agreement should be concluded for an indefinite period even if:

- allowance should be made for the possibility of adding further provisions if new agreements were to be reached between the institutions on specific points;
- the provisions relating to the management of the financial framework would cease to apply if no such financial framework existed.

1. The new provisions and the changes to be made to the existing agreement

(a) Classification of expenditure

The 1982 Joint Declaration, which addresses the compulsory - non-compulsory issue from the angle of classification criteria and classification procedure, has not produced a satisfactory solution.

It would appear that any attempt to define new objective criteria, compatible with the Treaty, for distinguishing between the two types of expenditure and providing an unassailable classification is doomed to failure.

The Commission therefore believes that the institutions should agree on the classification of expenditure in the Interinstitutional Agreement. The Commission proposes that rural development measures and all other expenditure financed by the EAGGF Guarantee

Section which is not linked to common market organisations (veterinary measures, promotion schemes) should be included in the category of non-compulsory expenditure. The same would also apply to headings 2 and 3 expenditure, as agreed in the 1993 Agreement. Under heading 4 the Commission proposes that the Community's contribution to the EBRD capital and to fisheries agreements (other than those to international organisations) should be considered compulsory expenditure. For heading 5 the classification would be that of the present budget.

The Commission is proposing that the classification of new budget items be agreed under a conciliation procedure extended to the entire budget. In the absence of agreement between the two arms of the budgetary authority on the classification of expenditure, the Commission's proposed classification in its preliminary draft budget would be deemed approved (cf. negative codecision procedure which already applies for mobilisation of reserves).

(b) Interplay between legislative powers and budgetary powers

• Entry of financial provisions in legislative instruments

The Treaty of Amsterdam extends the scope of legislative codecision, to include areas where financial aspects are substantial. This procedure now concerns the following areas:⁴

- non-discrimination on the grounds of nationality (Article 6)
- free movement of Union citizens (Article 8a)
- free movement of workers, including social security for migrant workers (Articles 49 and 51)
- right of establishment, including coordination of special provisions on grounds of public policy, public security or public health (Articles 54 and 56)
- access to activities as self-employed persons and in particular mutual recognition of diplomas, certificates and other evidence of formal qualifications (Article 57)
- services (Article 66)
- transport (Articles 75 and 84)
- harmonisation of national legislation for the establishment and functioning of the single market (Article 100a)
- incentive measures in the field of employment (Article 109r)
- customs cooperation (Article 116)
- social policy (Article 118)

⁴ The Treaty articles mentioned correspond to the old numbering which is still in force.

- equal opportunities and pay for men and women (Article 119)
- implementing decisions relating to the European Social Fund (Article 125)
- education, vocational training and youth (Articles 126 and 127)
- culture (Article 128)
- public health (Article 129)
- consumer protection (Article 129a)
- trans-European networks (Article 129d)
- implementing decisions relating to the European Regional Development Fund (Article 130e)
- research and technological development (Articles 130i and 130o)
- environment (Article 130s)
- development cooperation (Article 130w)
- fight against fraud (Article 209a)
- statistics (Article 213a)
- establishment of an independent supervisory body for the protection of personal data (Article 213b).

This extension of the use of the codecision procedure, combined with the provisions of the Joint Declaration of 6 March 1995, may severely hamstring the budgetary authority, even though it should be allowed a certain amount of discretion for reasons of institutional balance and budgetary policy. The Commission accordingly takes the view that the content of the Joint Declaration should be reviewed in the light of the new situation created by the Treaty of Amsterdam.

The principle set out in the Joint Declaration of 6 March 1995, whereby the institutions undertake to comply during the budgetary procedure with the reference amounts set in the legislative codecision procedure, can be retained. However, the two arms of the budgetary authority should be given the possibility of agreeing during the conciliation procedure to depart from these amounts.⁵ If the Council and Parliament fail to agree on an amount other than that set by the legislative authority, the arm of the budgetary authority which has the last say would be allowed to depart by up to 10% from the reference amount.

⁵ This margin of manoeuvre would not, however, apply to Social Fund and ERDF expenditure, given their privileged status, nor to research expenditure, since the Treaty states that the allocations set in the framework programme constitute a maximum amount.

- Legal bases

The new Agreement could state what is offered in return for recognition of the principle that appropriations earmarked for a Community operation cannot be used until a legal basis exists:

- items with an allocation of less than a certain amount, subject to the principle of budget specification,
- preparatory action and pilot projects, with an indication of how long they may continue without a legal basis,
- autonomous operations, i.e. generic action for which the Treaty alone constitutes an adequate legal basis.

2. *Consolidation of the existing provisions*

(a) Application of the maximum rate of increase

The issues relating to the application of the weighted average rate are addressed in the Joint Declaration of 30 June 1982. The agreement states in particular to what the maximum rate of increase applies, the circumstances in which the two arms of the budgetary authority can agree to set a new maximum rate and Parliament's margin of manoeuvre.

The Commission proposes that these provisions be kept unchanged in the new Interinstitutional Agreement, since they are only really relevant if the financial perspective is not applied.

(b) Late presentation of a letter of amendment for agriculture

The Commission is proposing that the new Interinstitutional Agreement should formalise the consensus reached that such a letter of amendment should be given only one reading.

The scope of the letter of amendment could be extended to cover expenditure on fisheries agreements. It should be the opportunity to adjust the distribution between amounts entered against the heading and those contained in reserve in the preliminary draft budget on the basis of the agreements which will be in force on 1 January of the budget year in question.

(c) Coordination of the most recent agreements

- Joint Declaration of 12 December 1996 on improving information to the budgetary authority on fisheries agreements

The purpose of this declaration was to guarantee Parliament better information about the budgetary implications of agreements being negotiated. It also states that Parliament and the Council will endeavour to agree on the amount of appropriations involved during the ad hoc conciliation procedure on compulsory expenditure provided for in Annex II of the 1993 Interinstitutional Agreement.

The institutions have not seen eye-to-eye on the distribution of appropriations to be entered under the operational heading and those to be held in reserve, and also on whether authorisation should be given to implement an agreement provisionally without waiting until Parliament has delivered its opinion. These points should be clarified when the new Interinstitutional Agreement is negotiated.

- On the first point it should be stated that the operational heading will carry all appropriations corresponding to fisheries agreements which are certain to enter into force during the year.
- On the second point, a sufficient lapse of time - 6 months say - should be allowed between Parliament being informed about the terms and financial implications of the agreement and the corresponding appropriations actually being used, so that Parliament can deliver its opinion in advance. After the 6 months the appropriations could be used.
- The Interinstitutional Agreement of 17 July 1997 on the financing of the common foreign and security policy

This Interinstitutional Agreement, which was negotiated in parallel with the Treaty of Amsterdam, is designed to prevent potential conflicts between the political decision to initiate a joint action and the financing of such action which is a matter for Parliament to decide since the expenditure is non-compulsory. The institutions agreed to step up budgetary conciliation, by trying to secure agreement on the amounts to be entered in the budget, and the exchange of information on the content of the joint action.

3. Enlarged scope for the conciliation procedure

The Commission believes that the broader scope now given to the conciliation procedure, which has developed into a key instrument in the budgetary procedure, should be written into the Interinstitutional Agreement.

This conciliation should be extended to the entire budget, i.e. including non-compulsory expenditure. In view of the other proposals made in this report, a number of additional questions should be addressed by the conciliation procedure.

- The first concerns the classification of expenditure.
- The second concerns application of the proposed flexibility between headings 3 and 4 of the financial perspective. At the conciliation stage the two arms of the budgetary authority should consider whether any "transfers" envisaged by one or other arm of the budgetary authority should in fact be made and what the amount should be.
- Thirdly, the institutions should use the conciliation procedure to secure agreement on the amounts to be entered in the budget for fisheries agreements and the CFSP, as provided in the Joint Declaration of 12 December 1996 and the interinstitutional agreement of 17 July 1997.
- If necessary the institutions could also agree, under this procedure, to depart from the reference amounts set by the legislative authority, in accordance with the Joint Declaration of 6 March 1995, for multiannual programmes adopted by codecision.

This conciliation stage would, as at present, come before the Council's first reading. It would resume after the two arms of the budgetary authority had each given the budget its first reading. This second stage would be held at the same time as the Council's second reading, which would allow the institutions to discuss the letter of amendment for agriculture to be presented in October.

Application of the financial framework 1993-99

List of tables and charts

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- Table 3: Margins beneath the financial perspective ceilings. Budget and outturn. ECU million at current prices.
- Chart 3: Margins beneath the financial perspective ceilings. Total expenditure in commitments and payments. Budget and outturn. ECU million at current prices.
- Chart 4: Appropriations for commitments not implemented. ECU million at current prices.
- Chart 5: Appropriations for payments not implemented. Headings 2, 3 and 4. ECU million at current prices.
- Table 4: Average annual rate of increase, 1993-1999 in real terms, of expenditure ceilings in initial financial perspective.

TABLE 1
Financial framework actually applied from 1993 to 1999
APPROPRIATIONS FOR COMMITMENTS
ECU MILLION

	Current prices						
	1993	1994	1995	1996	1997	1998	1999(*)
1. COMMON AGRICULTURAL POLICY	36657	36465	37944	40828	41805	43263	45205
2. STRUCTURAL OPERATIONS	22192	23176	26329	29131	31477	33461	39025
Structural Funds	20627	21323	24069	26579	28620	30482	35902
Cohesion Fund	1565	1853	2152	2444	2749	2871	3118
EEA financial mechanism	0	0	108	108	108	108	5
3. INTERNAL POLICIES	4109	4370	5060	5337	5603	6003	6386
4. EXTERNAL ACTION	4120	4311	4895	5264	5622	6201	6870
5. ADMINISTRATIVE EXPENDITURE	3421	3634	4022	4191	4352	4541	4723
6. RESERVES	1522	1530	1146	1152	1158	1176	1192
Monetary reserve	1000	1000	500	500	500	500	500
Guarantee reserve	313	318	323	326	329	338	346
Emergency aid reserve	209	212	323	326	329	338	346
7. COMPENSATION	0	0	1547	701	212	99	0
8. TOTAL APPROPRIATIONS FOR COMMITMENTS	72021	73486	80943	86604	90229	94744	103401
9. TOTAL APPROPRIATIONS FOR PAYMENTS	68611	70352	77229	82223	85807	90581	96380
Appropriations for payments as % of GNP	1,20	1,20	1,20	1,20	1,22	1,23	1,23
MARGIN (% of GNP)	0,00	0,00	0,01	0,02	0,02	0,03	0,04
OWN RESOURCES CEILING (% of GNP)	1,20	1,20	1,21	1,22	1,24	1,26	1,27

(*) Provisional amounts for heading 2 (proposal by the Commission for the adjustment to take account of the conditions of implementation)

IMPACT OF REVISIONS AND ADJUSTMENTS IN LINE WITH THE CONDITIONS OF IMPLEMENTATION

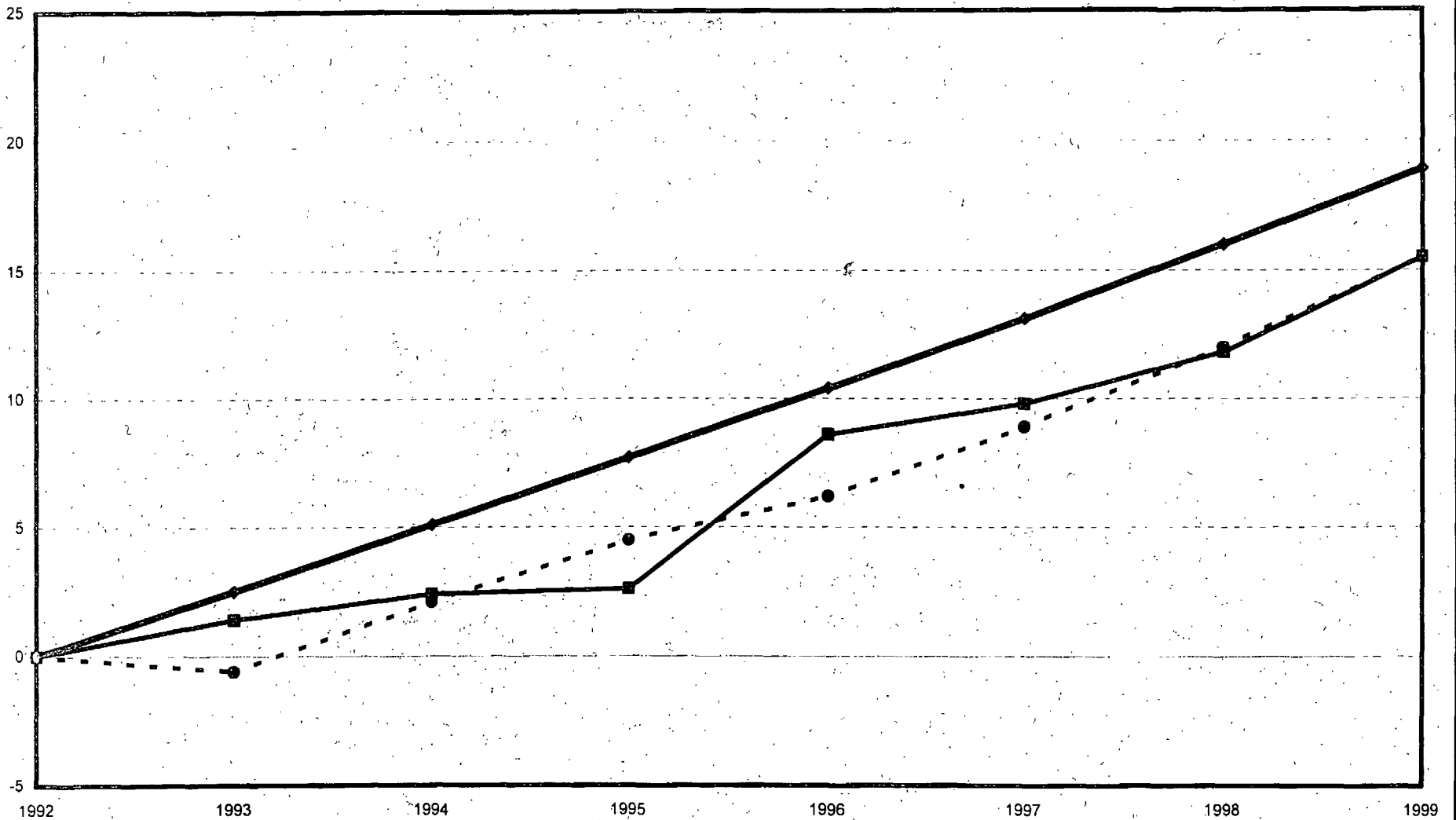
	1993	1994	1995	1996	1997	1998	1999
Revision (October 1993)							
Heading 3: stimulation of economic activity (commitments)		45					
Heading 4: Middle-East peace process (commitments)		75					
Heading 5: depreciation of ecu against BEF (commitments)		55					
Overall ceiling - appropriations for commitments		175					
Ceiling - appropriations for payments		120					
Adjustment in line with conditions of implementation (April 1995)							
Heading 2: Transfer for Structural Funds (commitments)				869	869		
Overall ceiling - appropriations for commitments				869	869		
Ceiling - appropriations for payments				935	696	434	173
Adjustment in line with conditions of implementation (April 1996)							
Heading 2: Transfer for Structural Funds (commitments)					380	1000	693
Heading 2: Transfer for Cohesion Fund (commitments)					11		
Overall ceiling - appropriations for commitments					391	1000	693
Ceiling - appropriations for payments					186	633	632
Adjustment in line with conditions of implementation (April 1997)							
Heading 2: Transfer for Structural Funds (commitments)						- 500	1045
Heading 2: Transfer for Cohesion Fund (commitments)							17
Overall ceiling - appropriations for commitments							1062
Ceiling - Appropriations for payments						- 300	300

Table 2
Comparison between financial perspective, budget and outturn, from 1993 to 1998
ECU million

	1993			1994			1995			1996			1997			1998		
	FP	Budget	Outturn	FP	Budget	Outturn	FP	Budget	Outturn	FP	Budget	Outturn	FP	Budget	Provisional I outturn	FP	Budget	Outturn
Appropriations for commitments																		
1. Common agricultural policy	36.657	35.352	35.032	36.465	34.787	32.970	37.944	36.894	34.503	40.828	40.828	39.360	41.805	40.805	40.423	43.263	40.437	
2. Structural operations	22.192	22.192	22.178	23.176	23.176	21.430	26.329	26.329	24.243	29.131	29.131	28.614	31.477	31.477	30.078	33.461	33.461	
Structural Funds	20.627	20.627	20.614	21.323	21.323	19.577	24.069	24.069	22.001	26.579	26.579	26.083	28.620	28.620	27.226	30.482	30.482	
Cohesion Fund	1.565	1.565	1.565	1.853	1.853	1.853	2.152	2.152	2.152	2.444	2.444	2.444	2.749	2.749	2.749	2.871	2.871	
EEA financial mechanism							108	108	90	108	108	87	108	108	103	108	108	
3. Internal policies	4.109	4.108	4.066	4.370	4.365	4.339	5.060	5.055	5.018	5.337	5.321	5.219	5.603	5.601	5.519	6.003	5.756	
4. External action (1)	4.120	4.115	4.294	4.311	4.297	4.483	4.895	4.873	5.061	5.264	5.264	5.524	5.622	5.601	5.476	6.201	5.731	
5. Administrative expenditure	3.421	3.417	3.365	3.634	3.634	3.581	4.022	3.999	3.924	4.191	4.184	4.121	4.352	4.284	4.209	4.541	4.353	
6. Reserves	1.522	1.224	14	1.530	1.530	294	1.146	1.146	251	1.152	1.152	235	1.158	1.158	286	1.176	1.176	
Monetary reserve	1.000	1.000	0	1.000	1.000	0	500	500	0	500	500	0	500	500	0	500	500	
Loan guarantee reserve	313	15	14	318	318	294	323	323	251	326	326	235	329	329	286	338	338	
Emergency aid reserve	209	209	0	212	212	0	323	323	0	326	326	0	329	329	0	338	338	
7. Compensation							1.547	1.547	1.547	701	701	701	212	212	212	99	99	
Total approps. for commitments	72.021	70.408	68.949	73.486	71.789	67.098	80.943	79.843	74.546	86.604	86.580	83.773	90.229	89.137	86.203	94.744	91.013	
Total appropriations for payments	68.611	66.858	64.783	70.352	68.355	59.273	77.229	75.438	66.547	82.223	81.943	77.089	85.807	82.366	79.342	90.581	83.529	

(1) The outturn figures include the transfer of ECU 209 million from the emergency aid reserve in 1993. ECU 212 million in 1994. ECU 235.5 million in 1995 and ECU 326 million in 1996.

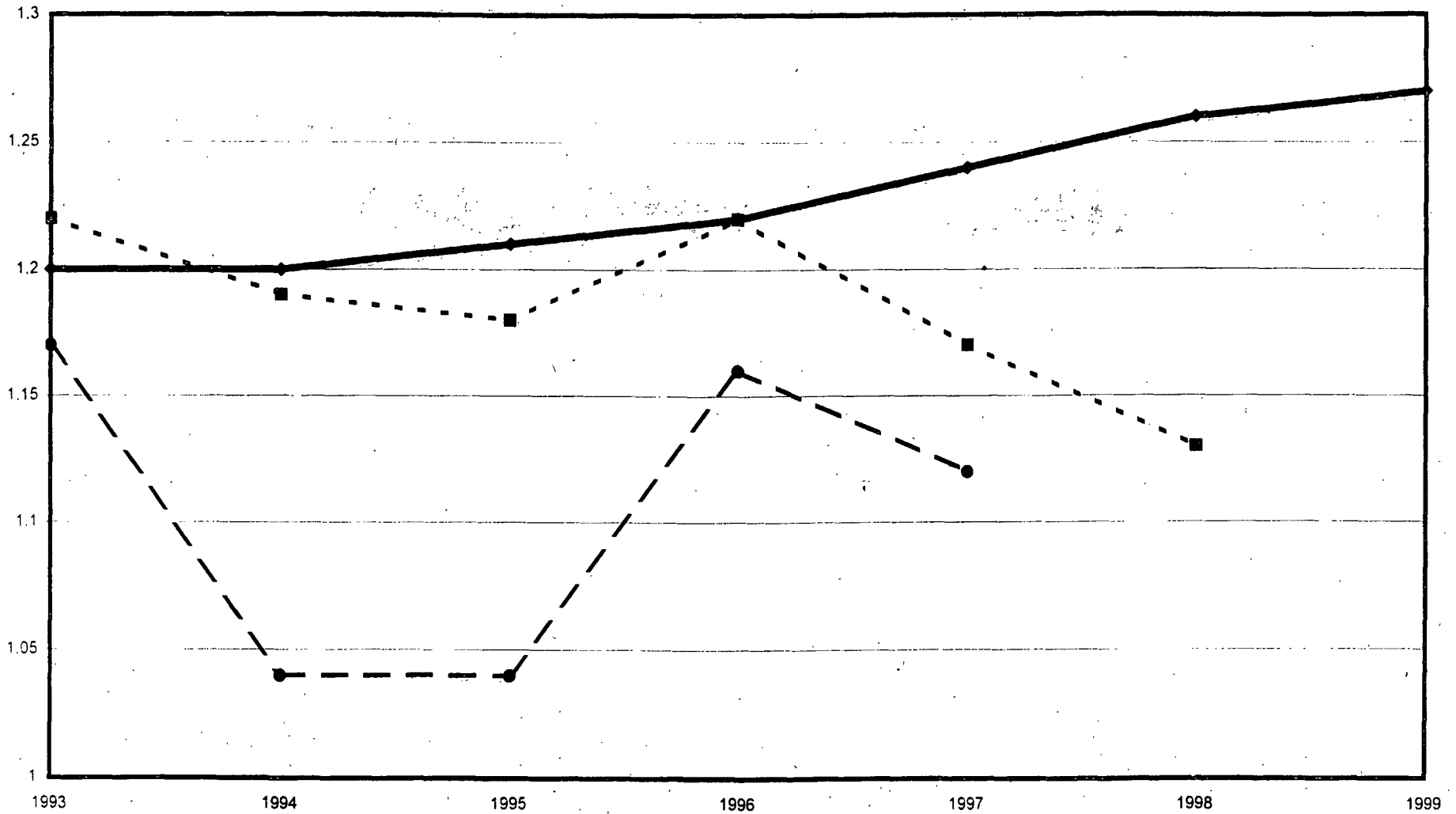
Chart 1
Cumulative GNP growth rates for the Union.
Percentage in real terms. Base 1992.



- ◆— 1: Initial assumption of 2.5% per year
- 2: Growth rate envisaged at time of annual technical adjustments
- 3: Actual growth rate (or end-1997 forecast)

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Chart 2
 Total appropriations for payments. Budget and outturn
 Percentage of GNP
 (November 1997 figures and forecasts)



◆— Own resources ceiling
 ■- - Payments-budget
 ●- - Payments-outturn (provisional figures for 1997)

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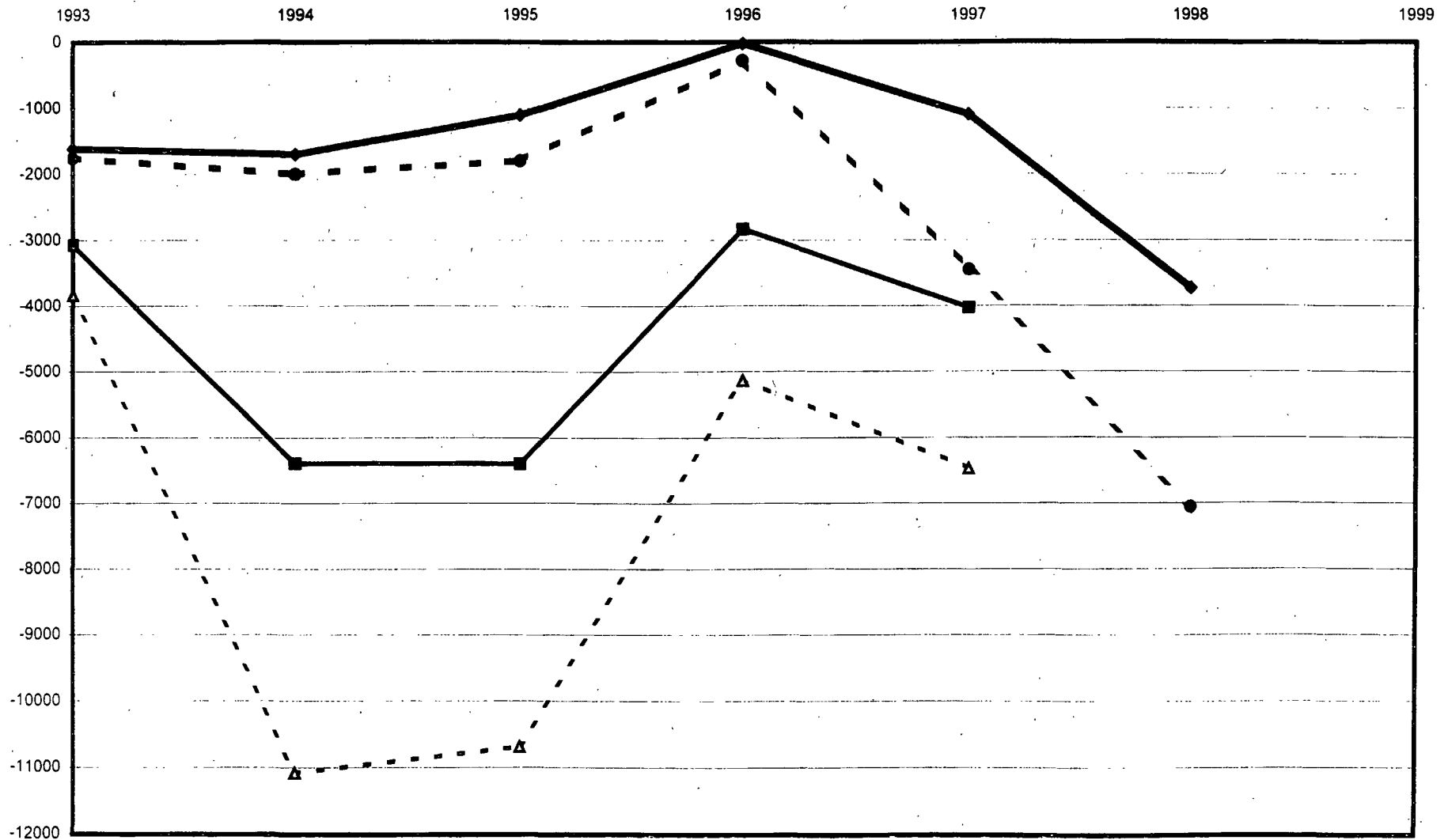
Table 3

**Margins beneath the financial perspective ceilings. Budget (B) and outturn (O).
ECU million at current prices**

	1993		1994		1995		1996		1997		1998		1999	
	B	O	B	O	B	O	B	O	B	Provis. O	B	O	B	O
1. Common agri. policy	1.305	1.625	1.678	3.495	1.050	3.441	0	1.468	1.000	1.382	2.826			
Monetary reserve	0	1.000	0	1.000	0	500	0	500	0	500	0			
2. Structural operations	0	14	0	1.746	0	2.086	0	517	0	1.399	0			
Structural Funds	0	14	0	1.746	0	2.068	0	496	0	1.394	0			
Cohesion Fund	0	0	0	0	0	0	0	0	0	0	0			
EEA financial mechanism	-	-	-	-	0	18	0	21	0	5	0			
3. Internal policies	1	43	5	31	5	42	16	118	2	84	247			
4. External action	5	35	14	40	22	157	0	66	21	146	470			
Emergency aid reserve	0		0		0		0		0		0			
5. Administration	4	56	0	53	23	98	7	70	68	143	188			
Loan guarantee reserve	298	299	0	24	0	72	0	91	0	43	0			
7. Compensation	-	-	-	-	0	0	0	0	0	0	0			
Total commitments	1.613	3.072	1.697	6.389	1.100	6.397	24	2.831	1.092	4.026	3.731			
Total payments	1.753	3.828	1.997	11.079	1.791	10.682	280	4.910	3.441	6.465	7.052			

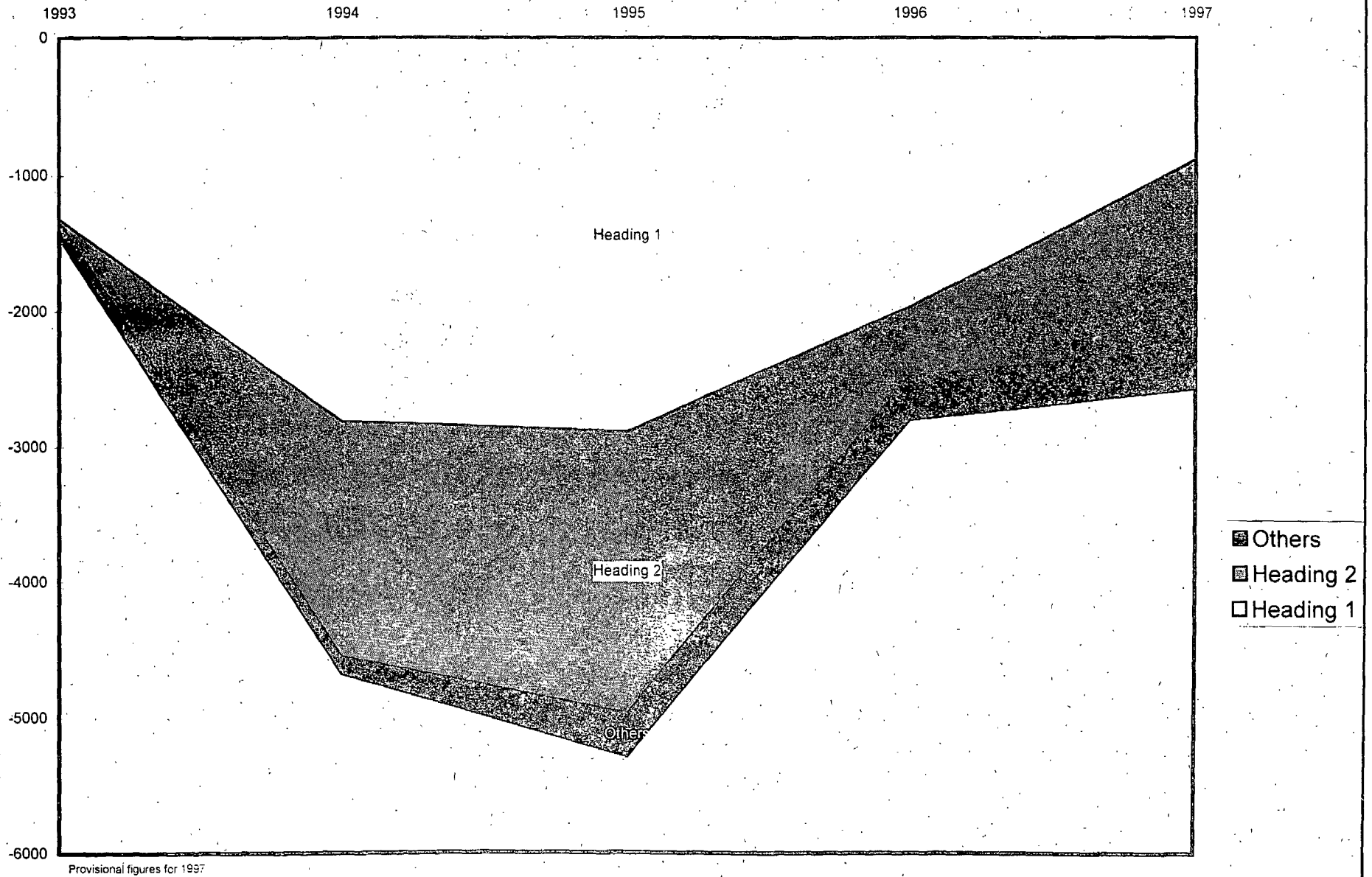
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Chart 3
Margins beneath the financial perspective ceilings. Total expenditure in commitments and payments.
Budget and outturn. ECU million at current prices.



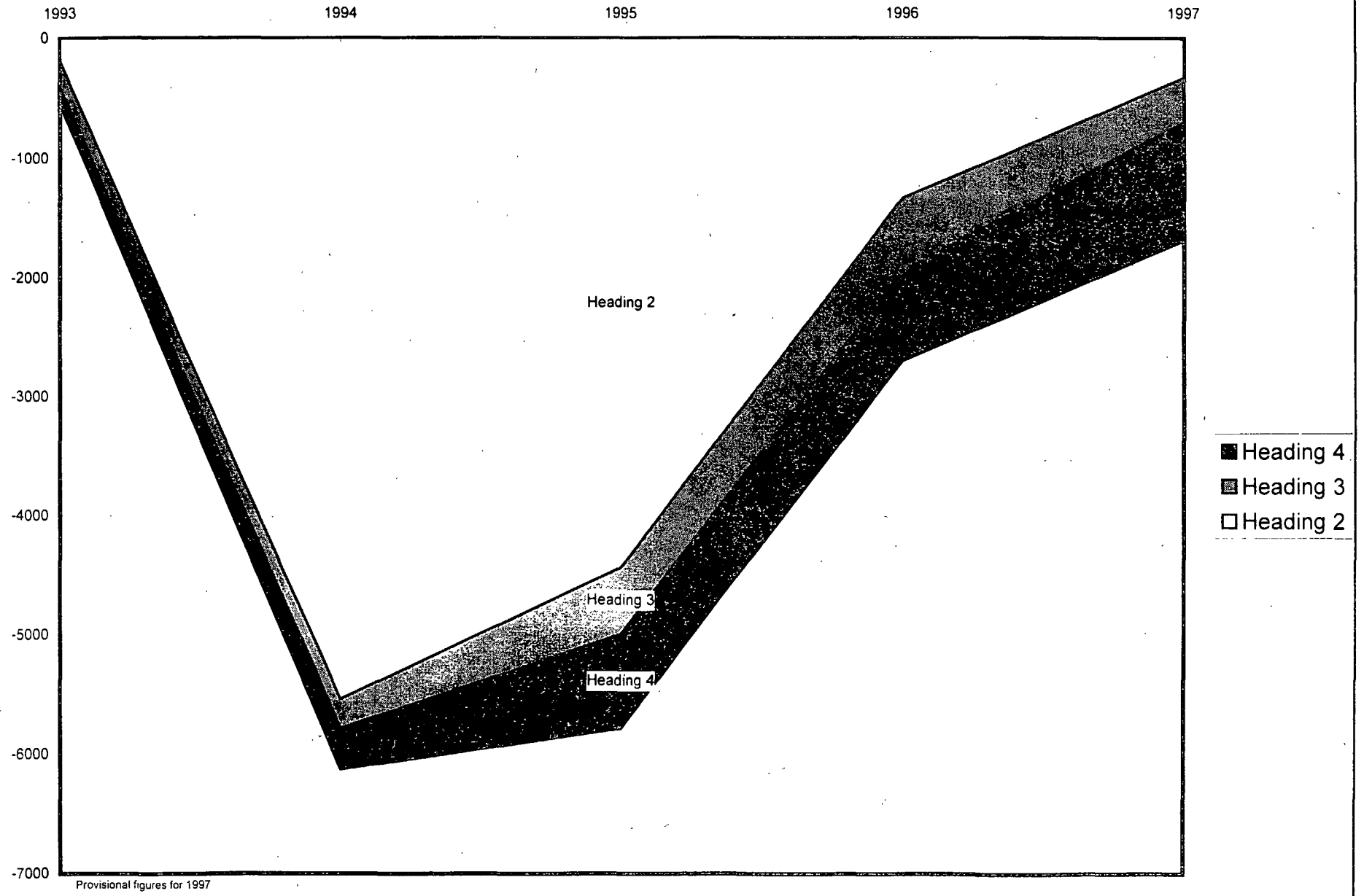
- ◆— Commitments-Budget
- Payments-Budget
- Commits.-Outturn (provis. figs. for 1997)
- ▲- Payments-Outturn (provis. figs. for 1997)

Chart 4
Appropriations for commitments not implemented.
ECU million (at current prices)



68

Chart 5
Appropriations for payments not implemented.
Headings 2, 3 and 4
ECU million (at current prices)



30

Table 4:
Average annual rate of increase, 1993 to 1999 in real terms, of expenditure ceilings in initial financial perspective

Ceilings	Average annual growth rate (%). At current prices	
	Initial financial perspective for EUR 12	Financial perspective after adjustment for enlargement
1. Common agricultural policy	Guideline	
2. Structural operations	5,5	6,4
3. Internal policies	4,4	5,8
4. External action	6,0	7,1
5. Administrative expenditure	2,9	3,8
Total appropriations for commitment	3,3	3,9
Total appropriations for payments	3,3	3,9

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