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PRESS RELEASE

Notable trends in the European Union budget
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The European Union (EU) budget has a number of specific characteristics which make it different from the budgets of the Member States: in principle, it must never be in deficit, and there is a special decision-making procedure. The structure and maximum expenditure are specified for a 7-year period in the Financial Perspective.

In relation to the EU gross national income (GNI) and to the national budgets of the Member States, the EU budget is small, but it has grown over the years and recently stabilised at around 1 p.c. of GNI. Import levies and VAT-based transfers from the Member States are becoming less important as the source of finance for the expenditure, which is increasingly funded on the basis of the size of each Member State's GNI. The United Kingdom receives a special rebate. The poorer Member States are all net beneficiaries of the EU budget, while the richer countries are net contributors.

The importance of the Common Agricultural Policy, historically the largest EU expenditure item, is steadily diminishing in favour of expenditure on cohesion policy. Since the beginning of the 1990s, the Common Agricultural Policy has undergone a radical reform, with income support for farmers being progressively separated from their production, and prices moving more into line with world market prices. Financial resources earmarked for the structural funds and the cohesion fund have increased considerably through the years. The growth of the gross domestic product per capita in the 4 former 'cohesion fund countries' (Ireland, Greece, Portugal and Spain) compared to the EU average suggests some tendency towards economic convergence in the Union but opinions differ on the contribution made by the cohesion policy towards income convergence between regions.

The European Commission's proposals regarding the Financial Perspective for 2007-2013 embodied a significant increase in expenditure and placed the emphasis on the attainment of the Lisbon objectives. These proposals went too far for the Member States; protracted negotiations at European Council level led to a compromise in December 2005, setting an expenditure ceiling of 1 p.c. of GNI in 2013 and realigning the allocation of funds more closely with the current spending structure. Following difficult negotiations with the European Parliament, a new Interinstitutional Agreement was signed on 17 May 2006.

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