Budgetary discipline and sound financial management as well as financial perspectives 2007-2013

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PURPOSE: to present the technical adjustment of the financial framework for 2007

in line with movements in GNI and prices.

CONTENT: the Interinstitutional Agreement (IIA) of 17 May 2006 on budgetary discipline and sound financial management contains the financial framework table for EU-27 for the period 2007-2013, expressed in 2004 prices.

Point 16 of the Interinstitutional Agreement states that **each year** the Commission will make a technical adjustment to the financial framework in line with movements in the EU's gross national income (GNI) and prices. Movements in GNI have been updated with the latest economic forecasts available.

As far as prices are concerned, the IIA (point 16) now foresees a fixed 2 % deflator for all expenditure, already applied for the 2007 technical adjustment. It is therefore possible at this stage to calculate the expenditure ceilings at current prices for the whole period 2007-2013. The purpose of this communication is to present to the budgetary authority the result of this technical adjustment (EU-27) for **2007**.

Adjustment of expenditure ceilings by heading for the year 2007: the adjustment is calculated by applying a fixed annual deflator of 2 % to the commitment appropriations in the financial framework (at 2004 prices). The resulting cumulative deflator for the period 2004-2007 amounts to 6.1208 %. To ensure consistency with the allocations of expenditure between the beneficiary Member States, the overall figure for Sub-heading 1B 'Cohesion for growth and employment' in 2007 prices has been rounded up to the superior unit.

As regards payments, the global ceiling has been adjusted by applying the same deflator (6.1208 %) used for commitment appropriations.

Total figure for GNI: according to the latest forecasts available, the GNI for 2007 is established at € 11.566 billion in current prices for EU-25 and € 128 billion in current prices for Bulgaria and Romania. For subsequent years (2008-2013) the EU-27 GNI has been calculated on the basis of the long-term projections for the annual average growth rate (2.3 % in real terms for the EU-27) used in the negotiations on the financial framework 2007-2013, and on the same fixed annual inflation rate of 2 % as agreed in Point 16 of the IIA. These projections are indicative and will be updated annually on the basis of the latest economic forecasts available.

Main results of the technical adjustment of the Financial Framework for 2007 (EU-27):

- the overall ceiling on appropriations for commitments for 2007 comes to € 128.091 million, equal to **1.10 %** of GNI;
- The corresponding overall ceiling concerning the appropriations for payments comes to € 123.790 million, i.e. **1.06 %** of GNI.

On the basis of the latest economic forecasts, this leaves a margin beneath the 1.24 % own resources ceiling of **€ 21.219 million** (0.18 % of GNI for EU-27).

Heading 5 (Administration): in the case of heading 5, a footnote to the financial framework states that the figures for pensions included under the ceiling for this heading are to be calculated net of staff contributions to the pension scheme, up to a maximum of € 500 million (2004 prices) for the period 2007-2013. This provision should be interpreted as imposing a dual limit on the amounts deducted from expenditure on pensions when applying the ceiling of the heading:

- this amount may not exceed the contributions actually entered as budget revenue in any one year;
- the accumulated total of deductions for the period 2007-2013 may not exceed € 500 million at 2004 prices, equivalent to an average of € 71.4 million (€ 75.8million at 2007 prices).

The recurrent nature of administrative expenditure imposes that the lowest limit is adopted annually to avoid using a margin at the start of the period which would no longer be fully available afterwards. For 2007 – the first year of the period – the amount to be deducted is the lowest amount, i.e. € 75.8 million at current prices for 2007.

Expenditure items outside the financial framework 2007-2013: a number of instruments are available outside expenditure ceilings agreed in the financial framework 2007-2013. These instruments aim at providing rapid response to exceptional or unforeseen events, and provide some flexibility beyond the agreed expenditure ceilings within certain limits:

- the Emergency Aid reserve, which can be mobilised up to a maximum amount of € 221 million per year in 2004 prices, or € 234.5 million in 2007 at current prices (€ 1744 million for the whole period in current prices);
- the EU Solidarity Fund, whose maximum annual amount in current prices is € 1 billion;
- the Flexibility Instrument, with a maximum annual amount in current prices of € 200 million, plus the portion of the unused annual amounts of the years 2005 and 2006, which may be carried over to year 2007.

In addition, it will be possible to mobilise the European Globalisation Adjustment Fund (EGF) up to a maximum of € 500 million per year in current prices by drawing from any margin existing under the global ceiling for commitment appropriations of the previous year, and/or from cancelled commitments from the previous two years (excluding those related to heading 1b). For the year 2007 the conditions are met to enter the € 500 million provision in the budget.