# 2016 discharge: EU general budget, European Commission and executive agencies

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PURPOSE: presentation by the Commission of the consolidated annual accounts of the European Union for the financial year 2016, as part of the 2016 discharge procedure.

Analysis of the accounts of the EU Institutions: **European Commission**.

**Legal reminder**: the consolidated annual accounts of the European Union for the year 2016 have been prepared on the basis of the information presented by the institutions and bodies under Article 148(2) of the Financial Regulation applicable to the general budget of the European Union.

**Consolidated annual accounts of the EU**: this Commission document concerns the EU's consolidated accounts for the year 2016 and details how spending by the EU institutions and bodies was carried out. The consolidated annual accounts of the EU provide financial information on the activities of the institutions, agencies and other bodies of the EU from an accrual accounting and budgetary perspective.

It also presents the accounting principles applicable to the European budget (in particular, consolidation).

The document also presents the different financial actors involved in the budget process (accounting officers, internal officers and authorising officers) and recalls their respective roles in the context of the tasks of sound financial management.

**Audit and discharge**: the EU’s annual accounts and resource management are audited by the European Court of Auditors, its external auditor, which as part of its activities draws up for the European Parliament and the Council:

- an annual report on the activities financed from the general budget, detailing its observations on the annual accounts and underlying transactions;
- an opinion, based on its audits and given in the annual report in the form of a statement of assurance, on (i) the reliability of the accounts and (ii) the legality and regularity of the underlying transactions involving both revenue collected from taxable persons and payments to final beneficiaries.

The European Parliament is the discharge authority within the EU. The **discharge** represents the **final step** of a budget lifecycle. It is the political aspect of the external control of budget implementation and is **the decision by which the European Parliament, acting on a Council recommendation, "releases" the Commission (and other EU bodies) from its responsibility for management of a given budget** by marking the end of that budget's existence.

This discharge procedure may produce three outcomes: (i) the granting; (ii) postponement; (iii) or the refusal of the discharge.

**(2) Implementation of the European Commission’s budget for the financial year 2016**: the document also comprises a series of annexes containing figures, the most important of which relates to budgetary implementation.

As regards the **budgetary implementation of the Commission**, according to the document, expenses were, being EUR 144.5 billion, at a much lower level than last year (2015: EUR 155.9 billion). A decrease of EUR 3.7 billion was noted for the European Regional Development Fund (ERDF) and Cohesion Fund (CF), which was due to less expenses incurred relating to the previous programming period (20072013) combined with the slow start of the implementation of the programming period 2014-2020. For the same reason expenses under European Agricultural Fund for Rural Development (EAFRD) and other rural development instruments also decreased by EUR 3.7 billion.

The main expense items (EUR 102.8 billion) are transfer payments under the shared management mode. The main funds are: the European Agricultural Guarantee Fund (EAGF), the EAFRD and other rural development instruments, ERDF and CF and the European Social Fund (ESF). In the financial year 2016 these made up almost 71.1 % of total expenses.

**Pre-financing**: the total pre-financing (excluding other advances to Member States and contributions to the trust funds Bekou and Africa) on the EU balance sheet amounts to EUR 41.6 billion (2015: EUR 40 billion), almost all of which relates to Commission activities. Some 64 % of the Commission's pre-financing concerns shared management, which means that the implementation of the budget is delegated to Member States (the Commission retains a supervisory role).

**Leverage effect**: the significance and volume of financial instruments financed by the EU budget under direct and indirect management increases from year to year. The basic concept behind this approach, in contrast to the traditional method of budget implementation by giving grants and subsidies, is that for each euro spent from the budget via financial instruments, the final beneficiary receives more than EUR 1 as financial support due to the **leverage effect**. This intelligent use of the EU budget aims at maximising the impact of the funds available.

**Financial corrections and recoveries**: in 2016, the total financial corrections and recoveries confirmed amounted to EUR 3 777 million.

**Macro-economic environment**: the macro-economic environment of the EU has an impact on the ability of EU Member states to meet their funding obligations towards the EU institutions and bodies and thus on the ability of the EU to continue implementing EU policies. There is a high degree of uncertainty surrounding the global economic outlook at present. This comes after an already difficult 2016, in which the European economy had to cope with numerous international and domestic challenges including the **lowest pace of global and trade growth since 2009**, **geopolitical tensions, terrorist attacks in several Member States, stressed banking sectors, UK's vote to leave the EU**, and a mounting backlash against globalisation. So far though, the European economy has proved to be resilient and has stayed the course of economic growth and job creation. EU GDP growth rose towards the end of 2016 and looks to have maintained its momentum into 2017.

Overall, after 1.7 % in 2016, euro area GDP growth is set to ease somewhat this year to 1.6 % and then pick up slightly to 1.8 % in 2018.

**Budget implementation in 2016 in figures**:

- **the outstanding commitments** (RAL) by the end of the year increased significantly to reach EUR 238.8 billion. The increase of over EUR 21 billion compared to 2015 was twice as high from what was initially expected due to the widened gap between implemented commitments and payments (stemming from amending budget 4/2016 as well as the end-of-year under-implementation);

- **the budget surplus amounts** to EUR 6.4 billion and arises primarily from the expenditure side, due to the under-implementation mainly in heading 1b (EUR 4.9 billion). The origin of surplus on the revenue side is mainly due to important revenues on fines and slightly lower own resources (+EUR 1.7 billion). An exchange rate loss of EUR 173 million lowers the final result.