



COMMISSION OF THE EUROPEAN COMMUNITIES

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**COMMUNICATION FROM THE COMMISSION
TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

**Technical adjustment of the financial perspective for 2006
in line with movements in GNI and prices**

**(Point 15 of the Interinstitutional Agreement of 6 May 1999 on budgetary discipline and
improvement of the budgetary procedure)**

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1. INTRODUCTION

The Interinstitutional Agreement (IIA) of 6 May 1999 on budgetary discipline and improvement of the budgetary procedure¹, as adjusted for enlargement and revised in 2003², contains the financial perspective table for EU-25 (Table 1a).

Point 15 of the Interinstitutional Agreement states that each year the Commission will, ahead of the budgetary procedure for year n+1, make a technical adjustment to the financial perspective in line with movements in the EU's gross national income (GNI) and prices.

The purpose of this communication is to present to the budgetary authority the result of this technical adjustment (EU-25) for 2006.

2. TERMS OF THE ADJUSTMENT OF THE FINANCIAL PERSPECTIVE TABLE (TABLES 1-3)

Table 1 shows the financial perspective for EU-25 adjusted for 2006 at current prices.

Table 2 shows the financial perspective for EU-25 adjusted for 2006 at current prices, including the budgetary implications of a political settlement in Cyprus.

Table 3 presents the economic parameters used for this adjustment exercise. They are based on data drawn up by Eurostat and on the most recent forecasts made by the Commission in conjunction with national experts (economic forecasts, autumn 2004). The figures and forecasts are based on the European System of Accounts revised in 1995 (ESA 95).

2.1. Adjustment of expenditure ceilings by heading

The adjustment is calculated by applying the following deflators to the commitment appropriations in the financial perspective (at 1999 prices):

¹ OJ C 172, 18.6.1999, p. 1.

² OJ L 147, 14.6.2003, p. 31.

- a cumulative deflator of 14,87% for the period 2000-2006 to the ceiling for heading 1 and to the figure for the Structural Funds in heading 2, in accordance with point 15 of the Interinstitutional Agreement (fixed annual rate of 2%).
- the GNI deflator in euros for 2000-2006 (14,29%) to the ceilings of the other expenditure headings (actual deflator).

In accordance with point 23 (a) of the Interinstitutional Agreement of 6 May 1999, the monetary reserve has been eliminated as from 2003.

To ensure consistency with the Cohesion Fund, allocations for the ten new Member States enshrined in the Accession treaties, the overall figure for the Cohesion Fund in 2006 prices has been rounded up to the superior unit.

As regards payments, the adjustment is based on the appropriations for payments estimated for each expenditure heading when the financial perspective was drawn up (1999 prices). The method of calculation is set out in the following table:

		EU-25 Appropriations for payments 2006 at 1999 prices (€ million)	Cumulative deflator 2000-2006 (%)	EU-25 Appropriations for payments 2006 at 2006 prices (€ million)
Heading 1		45.755	14.87	52.558
Heading 2-'Structural Funds'		29.240	14.87	33.588
Heading 5		5.712	14.29	6.528
Heading 6	Monetary reserve	400	14.29	458
	Other reserves			
Heading 2-'Cohesion Fund', Heading 3, Heading 4, Heading 7 and Heading 8)		22.733	14.29	25.980
TOTAL APPROPRIATIONS FOR PAYMENTS		103.840		119.112

Appropriations for payments concerning the ten new Member States that joined the European Union on May 1st, 2004 have been added to appropriations for payments concerning the fifteen Members, in 1999 prices and for each sub-category of the table above. Sub-totals for 2006 in 1999 prices are then adjusted in 2006 prices according to the relevant deflator: heading 1 and the Structural Funds share of heading 2 have been adjusted by means of a 14,87 % cumulative deflator; other headings or expenditure have been adjusted by means of a 14,29 % cumulative deflator.

2.2. Main results of the technical adjustment of the Financial Perspective for 2006 (EU-25)

The overall ceiling on appropriations for commitments for 2006 comes to € 123.515 million, equivalent to 1,12% of GNI.

The corresponding overall ceiling on the appropriations for payments comes to € 119.112 million, i.e. 1,08% of GNI. On the basis of current economic forecasts, this leaves a margin beneath the own resources ceiling of € 18.059 million (0,16% of GNI for EU-25).

For 2001, 2002, 2003, 2004 and 2005, the size of the margin has been updated from the previous technical adjustment using the most recent GNI estimates so that comparisons can be made over a number of years. However, the ceilings in commitments and payments resulting from the adjustments do not change.

2.3. The financial perspective adjusted in 2006 prices including budgetary implications of a political settlement in Cyprus

Table 2 presents the financial framework EU-25 for 2006 at current prices including the budgetary implications of a political settlement in Cyprus.

This table has been adjusted in the same way as Table 1 and will apply in the event that Cyprus is unified before December 31, 2006.

3. OTHER ELEMENTS LINKED TO THE EXERCISE OF TECHNICAL ADJUSTMENT

3.1. The agricultural guideline

The agricultural guideline has been calculated in accordance with Article 3 of the Council Regulation on budgetary discipline³ (see Table 4).

The figures for sugar and isoglucose levies, food aid refunds and ACP sugar refunds are based at this stage on the forecasts for the 2006 budget. In accordance with the regulation on budgetary discipline, the final level of these specific items in the guideline will be fixed when the preliminary draft budget for 2006 is presented.

In 2006 the agricultural guideline is provisionally estimated at € 58.634 million⁴.

3.2. Heading 5 (Administration)

In the case of heading 5, a footnote to the financial perspective 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 € 1.100 million (1999 prices) for the period 2000-2006. As stated in the Commission communication on the technical adjustment for 2000⁵, "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 2000-2006 may not exceed € 1.100 million at 1999 prices, equivalent to an average of € 157 million (€ 180 million at 2006 prices).

³ OJ L 244, 29.9.2000, p.27. Council Regulation No 2040/2000 of 26 September 2000.

⁴ This leaves a margin of € 6.016 million in relation to all the expenditure which, in accordance with the regulation on budgetary discipline, is included under the guideline (heading 1 and the 'agriculture' expenditure of the pre-accession aid under heading 7).

⁵ SEC (1999) 847 final, paragraph 6.

For the previous years of the financial perspective 2000-2006, the recurrent nature of administrative expenditure imposed that the lowest limit was adopted annually to avoid using a margin at the start of the period which would no longer be fully available afterwards. For 2006 –the last year of the period– the remaining available amount which can be deducted is also the lowest amount, i. e. a maximum of € 180 million at current prices for 2006.

3.3. Operations outside the budget

The fifth subparagraph of point 10 of the Interinstitutional Agreement states that information relating to operations not included in the general budget and the foreseeable development of the various categories of own resources is to be set out in tables, as an indication, and updated annually when the technical adjustment is made to the financial perspective.

This information, updated in line with the latest estimates available, is set out in Tables 5.1 to 5.2. It covers the European Development Fund (EDF) and the structure of own resources.

ANNEX

TABLE 1: FINANCIAL PERSPECTIVE (EU-25) ADJUSTED FOR 2006

	Current prices						
COMMITMENT APPROPRIATIONS	2000	2001	2002	2003	2004	2005	2006
1. AGRICULTURE	41.738	44.530	46.587	47.378	49.305	51.439	52.618
1a Common Agricultural Policy	37.352	40.035	41.992	42.680	42.769	44.598	45.502
1b Rural development	4.386	4.495	4.595	4.698	6.536	6.841	7.116
2. STRUCTURAL ACTIONS	32.678	32.720	33.638	33.968	41.035	42.441	44.617
Structural funds	30.019	30.005	30.849	31.129	35.353	37.247	38.523
Cohesion fund	2.659	2.715	2.789	2.839	5.682	5.194	6.094
3. INTERNAL POLICIES	6.031	6.272	6.558	6.796	8.722	9.012	9.385
4. EXTERNAL ACTIONS	4.627	4.735	4.873	4.972	5.082	5.119	5.269
5. ADMINISTRATION (1)	4.638	4.776	5.012	5.211	5.983	6.185	6.528
6. RESERVES	906	916	676	434	442	446	458
Monetary reserve	500	500	250	0	0	0	0
Emergency aid reserve	203	208	213	217	221	223	229
Guarantee reserve	203	208	213	217	221	223	229
7. PRE-ACCESSION AID	3.174	3.240	3.328	3.386	3.455	3.472	3.566
Agriculture	529	540	555	564	0	0	0
Pre-accession structural instrument	1.058	1.080	1.109	1.129	0	0	0
PHARE (applicant countries)	1.587	1.620	1.664	1.693	0	0	0
8. COMPENSATION					1.410	1.305	1.074
TOTAL APPROPRIATIONS FOR COMMITMENTS	93.792	97.189	100.672	102.145	115.434	119.419	123.515
TOTAL APPROPRIATIONS FOR PAYMENTS	91.322	94.730	100.078	102.767	111.380	114.060	119.112
Ceiling, approps for payments as % of GNI (ESA 95)	1,07%	1,07%	1,09%	1,11%	1,09%	1,08%	1,08%
Margin for unforeseen expenditure	0,17%	0,17%	0,15%	0,13%	0,15%	0,16%	0,16%
Own resources ceiling	1,24%	1,24%	1,24%	1,24%	1,24%	1,24%	1,24%

(1) The expenditure on pensions included under the ceiling for this heading is calculated net of staff contributions to the pension scheme, up to a maximum of 1 100 million euros at 1999 prices for the period 2000-2006.

TABLE 2: FINANCIAL PERSPECTIVE (EU-25) ADJUSTED FOR 2006
(including budgetary implications of a political settlement in Cyprus)

	Current prices						
COMMITMENT APPROPRIATIONS	2000	2001	2002	2003	2004	2005	2006
1. AGRICULTURE	41.738	44.530	46.587	47.378	49.297	51.437	52.615
1a Common Agricultural Policy	37.352	40.035	41.992	42.680	42.772	44.608	45.513
1b Rural development	4.386	4.495	4.595	4.698	6.525	6.829	7.102
2. STRUCTURAL ACTIONS	32.678	32.720	33.638	33.968	41.094	42.528	44.746
Structural funds	30.019	30.005	30.849	31.129	35.395	37.319	38.632
Cohesion fund	2.659	2.715	2.789	2.839	5.699	5.209	6.114
3. INTERNAL POLICIES	6.031	6.272	6.558	6.796	8.737	9.027	9.401
4. EXTERNAL ACTIONS	4.627	4.735	4.873	4.972	5.082	5.119	5.269
5. ADMINISTRATION (1)	4.638	4.776	5.012	5.211	5.983	6.185	6.528
6. RESERVES	906	916	676	434	442	446	458
Monetary reserve	500	500	250	0	0	0	0
Emergency aid reserve	203	208	213	217	221	223	229
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7. PRE-ACCESSION AID	3.174	3.240	3.328	3.386	3.455	3.472	3.566
Agriculture	529	540	555	564	0	0	0
Pre-accession structural instrument	1.058	1.080	1.109	1.129	0	0	0
PHARE (applicant countries)	1.587	1.620	1.664	1.693	0	0	0
8. COMPENSATION					1.410	1.305	1.074
TOTAL APPROPRIATIONS FOR COMMITMENTS	93.792	97.189	100.672	102.145	115.500	119.519	123.657
TOTAL APPROPRIATIONS FOR PAYMENTS	91.322	94.730	100.078	102.767	111.380	114.060	119.112
Ceiling, approps for payments as % of GNI (ESA 95)	1,07%	1,07%	1,09%	1,11%	1,09%	1,08%	1,08%
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Own resources ceiling	1,24%	1,24%	1,24%	1,24%	1,24%	1,24%	1,24%

(1) The expenditure on pensions included under the ceiling for this heading is calculated net of staff contributions to the pension scheme, up to a maximum of 1 100 million euros at 1999 prices for the period 2000-2006.

TABLE 3: GNP-GNI - FIGURES AND FORECASTS

	2000	2001	2002	2003	2004	2005	2006
Real growth rate EU-15 (%)							
-Adjustment for 2000	2,7						
-Adjustment for 2001	3,1	3					
-Adjustment for 2002	3,3	3,1	3,1				
-Adjustment for 2003	3,4	1,7	1,2	2,9			
-Adjustment for 2004	3,5	1,2	0,9	1,9	2,6		
-Adjustment for 2005	3,6	1,7	1	0,7	1,9	2,5	
-Adjustment for 2006 EU-15	3,6	1,7	1,1	0,7	2,4		
-Adjustment for 2006 EU-25					2,5	2,2	2,4
GNP deflator in euros EU-15 (%)							
-Adjustment for 2000	1,7						
-Adjustment for 2001	2,0	1,8					
-Adjustment for 2002	2,7	1,8	2				
-Adjustment for 2003	2,9	1,7	2	1,7			
-Adjustment for 2004	3	1,6	2,2	1,8	1,7		
-Adjustment for 2005	2,9	1,7	2,3	0,5	1,7	1,7	
-Adjustment for 2006 EU-15	2,9	1,7	2,4	0,5	2,4		
-Adjustment for 2006 EU-25					2,4	1,8	1,8

Comparison between deflator in national currency and deflator in euros EU-15 & EU-25	2000	2001	2002	2003	2004	2005	2006
Deflators in national currency (weighted average)	1,4%	2,4%	2,6%	2,2%	2,0%	2,0%	1,9%
Deflators in euros	2,9%	1,7%	2,4%	0,5%	2,4%	1,8%	1,8%

GNP-15 at current prices (EUR billion) ESA 79	2000	2001	2002	2003	2004	2005	2006
-Adjustment for 2000	8.058,5						
-Adjustment for 2001	8.138,6	8.533,3					
-Adjustment for 2002	8.275,0	8.682,5	9.127,3				
-Adjustment for 2003	8.333,2	8.621,1	8.908,7	9.320,2			
GNI-15 at current prices (EUR billion) ESA 95							
-Adjustment for 2003	8.501,2	8.794,3	9.087,4	9.506,6			
-Adjustment for 2004	8.527,0	8.775,0	9.056,0	9.400,0	9.815,0		
-Adjustment for 2005	8.544,0	8.841,0	9.144,0	9.256,0	9.603,0	10.014,0	
-Adjustment for 2006	8.539,0	8.834,0	9.148,0	9.270,0	9.726,0	10.099,0	10.520,0

GNI-10 at current prices (EUR billion) ESA 95					2004	2005	2006
-Adjustment for 2004					512,4		
-Adjustment for 2005					443,0	474,3	
-Adjustment for 2006					461,0	508,0	542,0

GNI-25 at current prices (EUR billion) ESA 95					2004	2005	2006
-Adjustment for 2004					10.327,4		
-Adjustment for 2005					10.046,0	10.488,3	
-Adjustment for 2006					10.187,0	10.607,0	11.062,0

Source : Autumn Economic Forecasts, October 2004, European Commission, (DG ECFIN)

TABLE 4 : CALCULATION OF THE AGRICULTURAL GUIDELINE FOR 2006

<i>EUR million</i>	
2006	
BASE EXPENDITURE (1995 budget)	36.394
ANNUAL GNP GROWTH RATE	
1996	1,8%
1997	2,6%
1998	2,9%
1999	2,8%
2000	3,6%
2001	1,7%
2002	1,1%
2003	0,7%
2004	2,4%
2005	2,2%
2006	2,4%
Cumulative growth rate	27,00%
74 % of cumulative growth rate	19,98%
CORRECTED EXPENDITURE (1995 prices)	43.666
GNP DEFLATOR	
1996	3,4%
1997	2,7%
1998	1,7%
1999	2,3%
2000	2,9%
2001	1,7%
2002	2,4%
2003	0,5%
2004	2,4%
2005	1,8%
2006	1,8%
Cumulative growth rate	26,27%
CORRECTED EXPENDITURE (2005 prices)	55.136
IMPACT OF ENLARGEMENT	
GNI increase in 2004	4,74%
74 % of GNI increase	3,50%
CORRECTED EXPENDITURE	57.068
Plus	
Estimated needs (*) for	
- sugar and isoglucose levy	793,6
- food aid refunds	7
- ACP sugar refunds	765,6
- subtotal	1566,2
AGRICULTURAL GUIDELINE	58.634

(*) Previsions for the 2004 budget

**TABLE 5 : INDICATIVE PROGRAMME OF EXPENDITURE NOT ENTERED IN THE GENERAL BUDGET AND
PROSPECTIVE TREND IN THE VARIOUS OWN RESOURCES**

TABLE 5.1. EUROPEAN DEVELOPMENT FUND

Commitments (C) and Payments (P)

EUR million - current prices

	2000		2001		2002		2003		2004		2005		2006	
	C	P	C	P	C	P	C	P	C	P	C	P	C	P
TOTAL	4007	1640	1921	2124	2115	1902	4127	2431	3185	2565	4055	2995	3500	3400

The series relate to the measures managed by the Commission and the European Investment Bank. They do not take account of an amount of 750m€ not yet released by the Council as part of the so-called "conditional" billion EUR.

TABLE 5.2. OWN RESOURCES BY CATEGORY

% of total	2000	2001	2002	2003	2004	2005	2006
Traditional own resources	17	16	14	13	12	11	11
VAT	40	40	28	25	15	14	14
GNI	43	44	58	62	73	75	76

2000-2003 : budget implementation, included the retroactive adjustment of 15% TOR in 2002

2004 : amending budget 8/2004

2005 : PDB 2005, EU-25

2006 : previsions