The maximum rate of increase of European Union non-compulsory expenditure

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By dividing budgetary power between the Council and the European Parliament, the Treaty of Luxembourg of 22 April 1970 created the distinction between compulsory expenditure (CE) and non-compulsory expenditure (NCE). At the same time, the European Parliament was given the final say on the amount of NCE. Therefore, in order to manage the growth of expenditure and to ensure that the European Parliament did not increase the expenditure under its control without restriction, the authors of the Treaty decided to establish a **maximum rate of increase (MRI)** for NCE. The rate is adopted by the Commission every year, before the start of the budgetary procedure, and is based on three objective economic parameters: the trend, in terms of volume, of the gross national product within the Community, the average variation in the budgets of the Member States and the trend in the cost of living during the preceding financial year (Article 272(9) of the Treaty establishing the European Community (EC)). The MRI is not, however, an absolute limit. It may be exceeded in two specific instances: the Council and the European Parliament may increase it by joint agreement (fifth subparagraph of Article 272(9) of the EC Treaty) and, when the Council has already increased the NCE by more than half the maximum rate, the European Parliament may further increase it by half the rate (fourth subparagraph of Article 272(9) of the EC Treaty).

However, the European Parliament has not always conformed to the MRI since the 1975 budget was established. Parliament regularly exceeds the rate, considering it an impediment to the exercise of its right of amendment. Consequently, this situation has given rise to numerous conflicts between the two arms of the budgetary authority. As a response to their recurring disagreements, the Council, the European Parliament and the Commission adopted a Joint Declaration on 30 June 1982, setting out some of the arrangements for the application of the MRI. Although the Declaration was initially effective, issues relating to the classification of expenditure and the MRI mechanism resurfaced after a few years. In 1988, the three institutions also decided to introduce ‘agreed management’ of the budget through an interinstitutional agreement. By introducing cooperation between the two arms of the budgetary authority and multiannual planning of expenditure, the agreement significantly reduced the importance of the rate increase issue. The financial perspectives table attached to the agreement sets the annual ceilings for expenditure. By recognising these, the two institutions implicitly accept the principle that the MRI has to be exceeded in order to reach those ceilings where appropriate. That joint commitment eliminates the problems involved in reaching agreement on exceeding the MRI in the annual budgetary procedure. The controversies surrounding the setting of the rate have therefore been resolved with the aid of this interinstitutional agreement and other subsequent agreements (in 1993, 1999 and 2006).