

The EU budget

The European Union's policies, programmes and activities are all funded by a budget to which the 25 Member States contribute. The higher a country's national wealth, the more money its government puts towards the EU's running costs every year.

Where the money comes from

The EU budget for 2006 amounts to 112 billion euro, which is just over 1% of the combined national wealth of the 25 countries.

About three-quarters of this sum is collected from the Member States, roughly in proportion to their relative gross national income, but there are two other key money-raising mechanisms: a share of each Member State's income from Value Added Tax revenues and a share of agricultural levies and import (customs) duties.

The limit on how much can be taken from national treasuries to run the EU is set by the Member States themselves. The current agreed maximum budget 'take' from the Member States is 1.27% of their combined Gross National Income.

Who manages the EU's budget

The European Commission is responsible for managing the EU budget. However, most of the money goes back to the Member States in the form of farm subsidies and funding for the EU's poorest regions.

This means that about 80% of all the money is administered by national authorities. It also means that the poorer and more needy Member States receive more back from the EU budget than they put into it.

EU budgets are drawn up on a seven-year basis. The current "multi-annual spending programme" expires at the end of this year, and EU leaders reached agreement on the overall scale of the 2007-2013 budget in December 2005.

However, the size of the budget and the share-out of funding for different policy areas always generates heated debate, and requires joint approval by the Member States, the European Commission and the European Parliament.

Where the money goes

For decades, the Common Agricultural Policy (CAP) has been the biggest area of EU spending. This is because guaranteeing food supply was a top priority in the post-war climate in which the European Economic Community (EEC) was created.

Today, the CAP is still considered crucial to support Europe's agricultural sector, providing subsidies to prop up farmers' incomes. However, agriculture no longer dominates the budget as it once did. The CAP's share of total EU spending has fallen from 70% to less than 45% as other policies have begun to assume greater importance.

The CAP remains the largest single area of spending, but is closely followed by financial support for the Union's poorer regions in the form of aid for restructuring declining industrial sectors and regenerating struggling regions, particularly those with a per capita income below 75% of the EU's regional average.

Today, significant funds also go towards financing the Union's increasing role on the world stage – foreign policy initiatives, development aid to poorer countries and, increasingly, special funding to help lift the new EU Member States which joined in 2004 out of relative poverty.