BRIEFING

EU policies – Delivering for citizens

European Parliament

# Future financing of EU policies


## SUMMARY

The principle of subsidiarity means that the European Union (EU) should act where it can do so more effectively than its constituent Member States individually, and this also holds true in the area of public finance – the EU's budget together with off-budget tools for financing EU policies. At €165.8 billion in 2019 – or approximately 1 % of Member States' collective gross national income (GNI) – the EU budget is a great deal smaller in relative terms than EU national governments' budgets. It serves mainly as a vehicle for investment, particularly in the areas of rural and regional development, industrial research and support for small and medium-sized enterprises (SMEs), and political and economic development in neighbouring countries. These policies are designed to yield European public goods, with benefits that go beyond the national borders of individual EU countries. The Commission calculates that they do so for less than the cost of one cup of coffee a day per citizen.

During the 2014-2019 parliamentary term, the EU was buffeted by challenges to its capacity to act, including financially, by geopolitical instability in the wider region, the migration and refugee crisis, and unresolved questions about the future of the euro, linked to the legacy of the economic, financial and sovereign debt crises. However, the EU also saw several notable achievements. These include the update to the financial rules governing the use of EU funds, simplifying the rules and strengthening the focus on performance and results; the creation of a European Public Prosecutor's Office to help address the roughly 0.35 % of the EU budget at risk of fraud; a mid-term revision of the multiannual financial framework (MFF), enhancing its flexibility to provide for a more responsive EU; the development of proposals for new sources of revenue in time for negotiations on the post-2020 MFF; and policy innovation in the field of financial engineering, helping EU finance go further by leveraging private investment.

The 2019 elections mark a turning point in the future financing of EU policies, since the new Parliament will be responsible for concluding negotiations on the next multiannual spending plan. The Commission has proposed a 2021-2027 MFF totalling 1.11 % of the post-Brexit EU-27's GNI, and new sources of EU revenue to reduce the burden on national treasuries and forge a clearer link between revenue and policies. It also proposes to consolidate progress made in the last term with regard to budgetary flexibility, financial integrity and the rule of law, and in encouraging private investment in Europe.

*This is an update of an earlier briefing issued prior to the 2019 European elections.*


In this Briefing

- State of play
- EU framework
- Deliveries of the 2014-2019 parliamentary term
- Potential for the future


EPRS | European Parliamentary Research Service

Author: Matthew Parry
Members' Research Service


PE 635.545 – June 2019

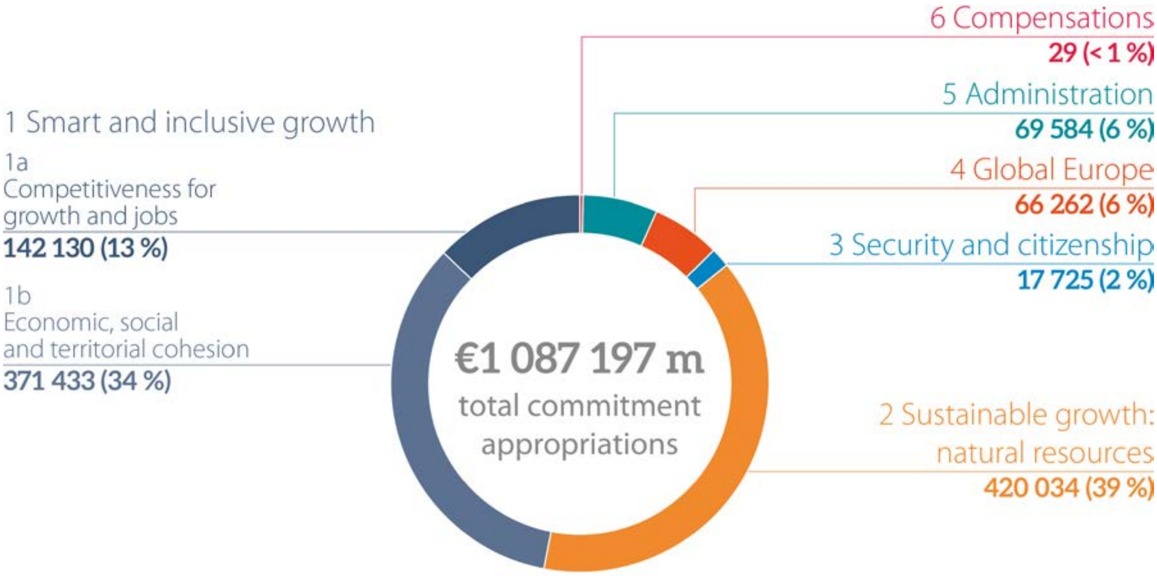

EN

# State of play

## The EU budget and the MFF

The EU finances its policies mainly by way of an annual budget, whose size and structure are largely pre-determined by a seven-year multiannual financial framework (MFF). The budget reflects the EU's spending priorities, as agreed collectively by the Member States, the Parliament and the Commission. The current MFF covers the 2014 to 2020 period and amounts to €1.09 trillion (current prices), or roughly 1 % of EU gross national income (GNI); the budget for 2019 amounts to €165.8 billion. The 2014 to 2020 MFF was negotiated between 2011 and 2013 against the backdrop of the economic crisis and fiscal consolidation in the Member States, and is the first to be smaller than its predecessor, which covered the 2007 to 2013 period. Negotiations on the next MFF were launched in May 2018, when the Commission adopted its proposal for a Council regulation laying down the multiannual financial framework for the years 2021 to 2027.

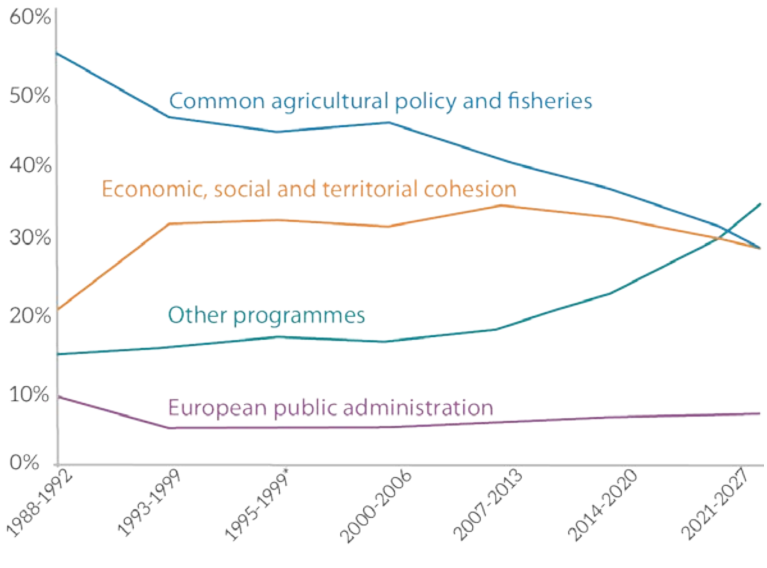
Figure 1 – 2014-2020 multiannual financial framework by heading (€ million, current prices)




Data source: Economic and Budgetary Outlook for the European Union 2019, EPRS.

The MFF is divided into 'headings', or categories of expenditure, which set the maximum level of resources for each major category of EU spending, and within which are grouped a number of relevant spending programmes. The six (or seven, if subheadings 1a and 1b are counted separately) headings in the 2014-2020 MFF are set out in Figure 1. Under the current MFF, approximately one third of the EU budget is spent on cohesion policy, aimed at developing lower-income regions to help them catch up with the EU average. Almost 40 % of the budget goes towards the EU's common agricultural policy (CAP), which provides both direct income support for farmers and support for rural development schemes. The rest of the EU budget is divided between industrial policy, (including support for research), external policies (such as foreign development aid), security and 'home affairs' policies, and administrative expenditure. The common agricultural policy is one of the EU's oldest spending policies and has traditionally accounted for a large chunk of the budget. However, as shown by Figure 2, its relative weight has declined gradually over the years, with the adoption of successive CAP reforms, and growing political emphasis placed on other EU policies. The Commission's proposal for the next MFF would see this trend continue.

Figure 2 – Evolution of main policy areas in the EU budget




*Adjusted for 1995 enlargement.

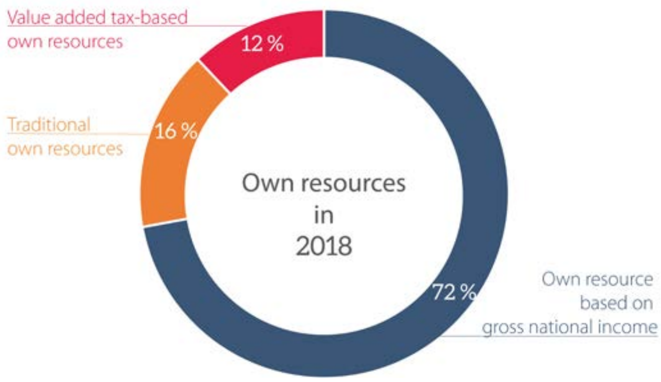
Source: Reflection paper on the future of EU finances, European Commission, June 2017.

## How the EU budget is financed

The EU budget currently draws on three categories of revenue, which are referred to as the EU's 'own resources'. The first (estimated at €23 billion in 2018, or 15.8 % of revenue) is based on 'traditional own resources' linked to the EU's customs union and the tariffs it levies at its customs border, which consist of customs duties and sugar levies. The second (€17 billion in 2018, or 11.9 %) is an own resource consisting of a percentage of Member States' estimated VAT income, and linked to the EU's single market. The third (€103 billion in 2018, or 71.0 %) is an own resource based on a fixed percentage of Member States' gross national income (GNI), which functions as a balancing resource, ensuring that however much the other resources yield in any given year, revenue and spending will always be in equilibrium. Other revenue includes taxes on EU staff salaries, contributions by non-EU countries to EU-budget-funded programmes, fines paid by companies in breach of competition law, and revenue from EU borrowing and lending operations that operate separately from the EU budget (see below). Unlike national budgets, the EU budget per se cannot be in deficit, which means that spending must be matched by revenue.[1] Own resources mobilised to cover EU budget spending are limited currently by law to 1.20 % of EU GNI per year.

Some Member States' contributions are partly reduced by 'rebates', or reductions designed to offset the gap between what they pay into the budget in own resources, and what they get out of it, in the form of EU spending on public and private sector recipients at home. While the United Kingdom's rebate is the largest (in both relative and absolute terms) and most high-profile of these, there are others of varying design for Austria, Denmark, Germany, the Netherlands and Sweden.[2] The Commission has proposed that these rebates be phased out over the course of the next MFF.

Figure 3 – Estimated EU budget own resources in 2018




Data source: European Commission, 2018.

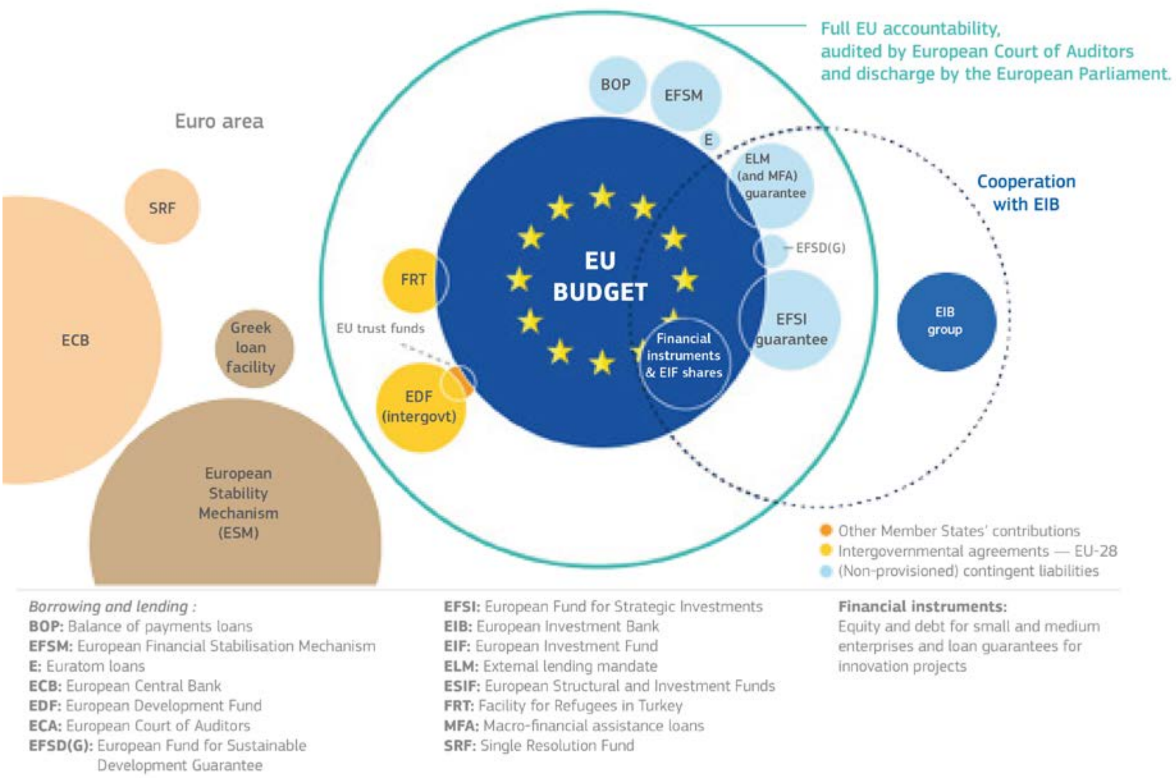
## Financing EU policies outside the EU budget

Significant spending on EU priorities also takes place outside the EU budget, either through direct grants, or using some form of financial guarantee. Some EU spending, in particular the European

Development Fund (EDF), has never been integrated into the EU budget. However, off-budget spending has also grown over the past decade, as EU Member States have found it easier to agree on ad hoc spending projects in response to recent economic and migration-related challenges, than to formally amend the MFF.[3] The EDF, which amounts to €30.5 billion in the 2014 to 2020 period, is a separate intergovernmental fund to which Member States contribute individually, and which provides development aid for African, Caribbean and Pacific (ACP) countries and overseas countries and territories (OCTs).[4] In other examples, EU budget funds are combined with contributions from additional sources. This is the case of the EU trust funds, which pool money from the EU budget, the EDF and other donors to respond to specific emergencies or to finance specific objectives; and of the €6 billion EU Facility for Refugees in Turkey to support Syrian refugees, which is financed through a mix of EU budget funds and Member State contributions.

An example of financing EU policies by way of financial guarantees is the European Fund for Strategic Investments (EFSI), which uses an EU-budget-backed guarantee to the European Investment Bank (EIB) to help the latter provide financing to higher-risk projects than would otherwise be the case, given the Bank's policy of striving to maintain a premium credit rating. The primary aim of EFSI is to encourage additional public and private-sector investment to bridge an EU investment shortfall identified by the Commission, but the fund has supplementary objectives related to renewable energy and resource efficiency, for example. The EIB, whose shareholders are the EU Member States, provides financing for projects that further common EU aims within and beyond the EU's borders. The EIB is also one of the joint owners of the European Bank for Reconstruction and Development (EBRD), which was originally created after the end of the Cold War to assist post-communist countries in central and eastern Europe with the transition to a market-oriented economy, and whose scope and tasks have since been broadened to include Mediterranean and Central Asian countries.

Figure 4 – Financing of EU policies




Source: Reflection paper on the future of EU finances, European Commission, June 2017.

Another example of an EU financial guarantee is the one that underpins loans to either Member States or third countries. This can be a guarantee against the EU budget similar to the one for EFSI, but used to allow the European Commission to issue bonds to raise loans on financial markets to provide temporary support to countries in financial distress, examples of which include:

- the macro-financial assistance instrument for candidate, potential candidate and neighbourhood countries;
- balance of payments (BoP) assistance for Member States that are not part of the euro area;
- the European Financial Stabilisation Mechanism (EFSM), established in 2010 to lend money to Greece, Ireland and Portugal; and
- Euratom loans issued by the Commission to finance investment projects related to nuclear power generation in EU countries.

Alternatively, Member States' national treasuries may guarantee loans, as happened in the early stages of the European sovereign debt crisis via the Greek Loan Facility (GLF) and the European Financial Stability Facility (EFSF). It is also the design of the intergovernmental European Stability Mechanism (ESM), which is meant to replace all other euro-area-relevant crisis mechanisms and operate on a significantly larger scale. In December 2017, the Commission proposed turning the ESM into a 'European monetary fund', which would be given a number of new prerogatives and would be formally integrated into EU law. At present, however, the Council is discussing an alternative, which is to extend the ESM's mandate, for example so that it serves as a backstop to the Single Resolution Fund (SRF), while maintaining its intergovernmental character.

Finally, for EU Member States that form part of the euro area, a further important element of the EU's financial architecture is the European Central Bank (ECB), whose main task is to ensure price stability in the euro area, and which also carries out specific tasks in the areas of banking supervision, macroprudential policy and financial stability.

## Challenges

The EU has faced raised expectations in recent years to do more about issues of increasing concern to Europeans – foremost among them the lingering effects of the economic and financial crisis, the migration and refugee crisis, and domestic and external security. At the same time, the funding available for EU policies, and the EU budget in particular, are modest in comparison with government spending[5] in the Member States, as illustrated by Figure 5. On top of this, the loss of a significant net contributor to the EU budget, with the expected withdrawal of the United Kingdom, was one factor obliging the European Commission to identify savings in its 2021-2027 MFF proposal. Those savings have been found in the traditional EU priority areas of agriculture and cohesion (regional development), a decision the European Parliament has criticised. The MFF proposal amounts to €1 279 408 million (commitments, current prices) over seven years, or 1.11 % of the EU-27's GNI, which falls some way short of the 1.3 % of GNI called for by Parliament.

The structure of the MFF, with its multiannual caps on categories of expenditure, is designed to make the EU budget predictable, and to limit the potential liability for Member States' national budgets. However, it also limits the EU's ability to respond to unforeseen events by shifting funding between headings or tapping additional resources as required. In its proposal for 2021-2027, the Commission has sought to adjust the balance between planning and responsiveness by enhancing a cluster of flexibility instruments outside the

Figure 5 – EU budget and general government public spending (aggregate of EU Member States') in the EU (2017, € billion)


Data source: Economic and Budgetary Outlook for the European Union 2019, EPRS.

MFF heading ceilings, stating that the current EU budget is 'still too rigid'.

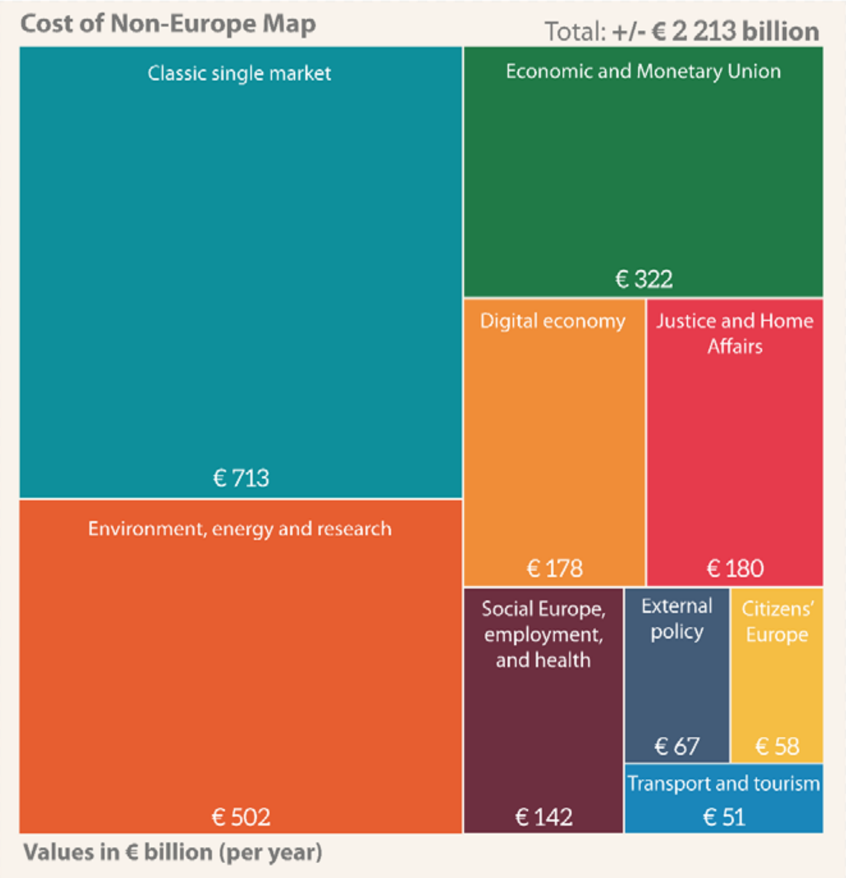
The question of Member State liability is connected to an additional challenge in the distinction drawn in EU accounting between financial pledges ('commitment appropriations') and the money appropriated to make good on those pledges once certain conditions are met ('payment appropriations'). There is a natural lag (backlog) between the former and the latter for most items of EU expenditure. However, if the amount of payment appropriations budgeted in any year by Parliament and Council is too low to meet prior commitments, this, among other factors, can give rise to an 'abnormal payments backlog', which is precisely what began to happen in 2011 and in subsequent years. Previous Parliaments took steps to address this problem, first by pushing for greater flexibility in the use of appropriations during negotiations on the 2014-2020 MFF, and second, under the 2014-2019 Parliament, by working with the Commission and the Council on a budgetary management plan to eliminate the abnormal backlog. Parliament also opposed repeated attempts by Council to cut the level of payments appropriations proposed by the Commission in draft annual budgets.[6]

Finally, there is the broader question of negotiating and adopting the Commission's proposed 2021-2027 MFF, which would take the form of a Council regulation adopted unanimously by the Council of the EU, and requiring the consent of the European Parliament. The Commission and the Parliament initially signalled a willingness to conclude negotiations before European Parliament elections in May 2019, though EU national leaders are now aiming for a political agreement by autumn 2019. However, compared with the length of negotiations on the 2014-2020 MFF, even this deadline seems ambitious.[7]

## Potential

There is no shortage of ideas for how the EU should source its financing, and where and how it should spend that money. Nevertheless, the Treaties stipulate[8] that the EU budget must be financed wholly from 'own resources', which are the sources of revenue for the EU budget agreed unanimously by national governments in the Council. In other words, the EU cannot raise taxes independently of the Member States, but relies on national authorities to collect the EU budget's own resources on the Union's behalf. The High-Level Group on Own Resources (HLGOR) concluded in its December 2016 final report that any reform of the revenue side of the EU budget should be

Figure 6 - Potential savings from further European initiatives in selected fields




Data source: Europe's two trillion euro dividend: Mapping the cost of non-Europe 2019-2024, EPRS, European Parliament, April 2019.

based on a 'broader measurement' of the 'collective benefit of EU policies, economic synergies, cross-border effects and positive external outcomes', and that any new revenue sources should be explicitly tied to EU policy objectives – especially economic, social and environmental sustainability. This conclusion echoes the concept of the 'cost of non-Europe', or potential efficiency gains from more action at EU level in selected policy domains, relaunched by Parliament in recent years. The estimated efficiency gains in selected policy areas are set out in Figure 6.

The HLGOR concluded that ultimately, the EU budget and other financing of EU policies translate EU priorities into action. Therefore, it makes sense to guide a discussion of the future financing of EU policies by first determining what those priorities should be, itself requiring reflection on the nature and purpose of the European project. The EU budget is often described as an investment budget, partly to distinguish it from spending in national-level budgets, much of which consists of social security, healthcare and education. The Commission has styled its proposed new MFF a 'modern budget for a Union that protects, empowers and defends'. It remains to be seen how the proposal will evolve during the course of negotiations and, depending on the length of those negotiations, how its emphasis could shift with the arrival of a new Parliament, and the appointment of a new Commission.

# EU framework

## Financial provisions in the Treaties

The primary legal basis for the financing of EU policies is formed by Articles 310 to 325 of the Treaty on the Functioning of the European Union (TFEU), and Article 41 of the Treaty on European Union (TEU). Articles 310-325 TFEU include provisions on the general principles governing the EU budget, own resources, the MFF, the annual budget, budget implementation and auditing, and on combatting fraud. Article 41 TEU contains provisions on the financing of operations under the EU's common foreign and security policy (CFSP).[9] Most importantly, this article draws a distinction between CFSP administrative and operational expenditure, and, in particular, CFSP operational expenditure with military or defence implications. The latter cannot be charged to the EU budget, but must be financed directly by the Member States instead, after they have decided unanimously. The Commission's proposal for a 2021-2027 MFF includes a European Defence Fund, but this does not fall within the CFSP; rather, it is designed to develop a European defence industrial base that fosters economies of scale, whilst leaving it up to Member States to decide individually on procurement of the resulting military assets.

In terms of secondary legislation, the most important elements are the 2018 Financial Regulation, the 2014-2020 MFF Council Regulation, and the current Council decision on own resources. In addition, the legal framework for EU finance is subject to rules adopted by agreement between the institutions in interinstitutional agreements, and to the governing statutes of the EIB, the ECB, the EDF, and the ESM.

## Role of the European Parliament

The European Parliament has long advocated reform of both the MFF and the revenue side of the EU budget. In March 2018, shortly before the Commission published its proposals for a 2021-2027 MFF and a new system of own resources, the European Parliament passed resolutions advocating a larger MFF amounting to 1.3 % of the EU-27's GNI, and new own resources that would bring about a 'substantial reduction' (aiming at 40 %) in the weight of Member States' GNI-based contributions.

Parliament's competences in the matter of EU finance vary depending on the element in question. Under the TFEU, Parliament co-decides the EU's annual budget with the Council: together Parliament and Council constitute the two arms of the budgetary authority. However, as explained above, annual budgets must respect the limits of the MFF, a Council regulation which Parliament can only approve or reject (consent procedure), rather than formally amend. The revenue side of the

EU budget, in turn, is subject to the own resources decision, a Council decision on which Parliament is only consulted (although its consent is required for the decision's implementing measures). Parliament also has the power to grant or withhold 'discharge' to the other EU institutions, based on the results of an annual accounting audit. In doing so, it effectively makes a declaration on the financial soundness of the EU institutions' and agencies' accounts, and it has used this tool in the past to signal its dissatisfaction with the quality and transparency of financial reporting by the Council, most recently voting to refuse to grant discharge to that institution for the 2016 financial year, in October 2018.

Although Parliament has no right to propose an alternative budget, it can request the funding of 'preparatory actions' that can lead to new EU policies, and have done so in the past. The new European Defence Fund, for example, is based on a preparatory action in defence-related research.

Parliament has no formal say in the size or shape of EU finances falling outside the MFF, such as the EIB, the ECB, the EDF, and the ESM, beyond the extent to which they touch on the EU budget (as in the case of the EU's external lending mandate to the EIB, which depends on an EU-budget-backed guarantee). As off-budget elements take on an increasingly important role in the EU's finances, the calls for greater parliamentary oversight over those elements are expected to grow louder.[10]

# Deliveries of the 2014-2019 parliamentary term

## Policy initiatives

### Updating the financial rules

In July 2018, Parliament voted to adopt a new Financial Regulation and amend 15 other sectoral instruments, in order to make the rules governing the establishment, spending and control of the EU budget and EU funds simpler and more flexible, and to place more emphasis on performance and results, as well as making the rules more user-friendly for smaller businesses. The new regulation is based on a 2016 Commission proposal designed to address criticisms of the increasing complexity and heterogeneity of EU financial rules. That proposal was subsequently split into two proposals, with a spin-off part, amending sectoral regulations in the field of agriculture, adopted in December 2017.

While Parliament welcomed the objective of simplifying the EU's financial rules and emphasising results, Parliament negotiated with the Council to introduce a number of changes to the Commission's proposal, notably the retention of the existing no-profit principle, whereby EU grants may not have the purpose or effect of generating a profit. The Commission had proposed to abolish this rule.

### Creation of a European Public Prosecutor's Office to fight fraud

In November 2017, the Council adopted Council Regulation (EU) 2017/1939 establishing a European Public Prosecutor's Office (EPPO) under enhanced cooperation between some Member States, following Parliament's consent. The EPPO, which is expected to be up and running by the end of 2020, will be tasked with investigating, prosecuting and bringing to judgment crimes against the EU budget. At present, national authorities alone have the power to investigate and prosecute fraud against the EU budget, which means that fraud-fighting efforts are fragmented along national borders. While bodies such as Eurojust, Europol and the EU's anti-fraud office (OLAF) do tackle fraud, these still rely on national authorities to carry out criminal investigations and prosecutions. The EPPO will also work with national authorities, but coordinate a unified approach.

In 2017, irregularities reported as fraudulent amounted to €467.1 million, or approximately 0.35 % of that year's €134.5 billion EU budget. Irregularities not reported as fraudulent amounted to €2.1 billion, or 1.6 % of the 2017 EU budget.

## Making EU finance more flexible and effective

The Council Regulation for the 2014-2020 MFF contains a provision requiring a 'mid-term review/revision', i.e. a review and, if appropriate, a proposal to revise the regulation, by the end of 2016 at the latest. After the EU was confronted with a series of challenges during the first years of the current MFF, which tested the limits of the seven-year financial plan's flexibility, a revision was proposed in September 2016.[11] Those challenges included:

- constant pressure on the 'security and citizenship' and 'global Europe' headings in the context of growing instability in the EU's neighbourhood;
- the migration crisis and security threats;
- a significant remaining investment gap in the EU many years after the outbreak of the financial and economic crisis;
- a high abnormal payments backlog, afflicting the EU budget at the end of both 2014 and 2015;
- and the knock-on effect of the late adoption of the MFF, which delayed the start of its 2014 to 2020 implementing programmes.

Changes to the MFF were chiefly designed to strengthen the flexibility provisions in the MFF, by increasing the global margin for payments for the years 2018-2020, topping up the amounts set aside for the Flexibility Instrument and the Emergency Aid Reserve, and removing some of the limitations on the global margin for commitments. Under the Commission's proposal for a 2021-2027 MFF, budgetary flexibility would be strengthened further still.

## Work on reforming own resources

There is a broad consensus among the European Commission, the European Parliament and many academic observers that the current own resources system needs reform.[12] It is seen as complex and opaque, and as encouraging Member States to focus on getting a 'fair return' on their national contributions through money spent locally, rather than on shared European priorities. One of Parliament's conditions for its consent to the 2014-2020 MFF was the establishment of a High-Level Group on Own Resources (HLGOR), to study proposals to reform the revenue side of the EU budget. The HLGOR released its final report in December 2016.

In May 2018, the Commission accompanied its proposal for a 2021-2027 MFF with a proposed new decision on the EU's system of own resources. That proposal, which will be negotiated alongside the proposal for a new MFF, would simplify and adjust the existing 'traditional own resources' and VAT-based resources, introduce three new own resources linked to the single market and to the EU's climate and environmental objectives, and phase out the existing EU budget 'rebates', or discounts on the contributions of some Member States.

## Leveraging the EU budget to attract additional investment

In June 2015, Parliament voted to establish, and in December 2017 to amend and extend, the European Fund for Strategic Investments (EFSI). EFSI started out as a Commission proposal published in January 2015 as part of a three-strand investment plan for Europe. The plan was designed to mobilise public and private finance to bridge an apparent investment gap in the EU – a legacy of the economic and financial crisis in Europe and around the world. EFSI is based on an EU budget-backed guarantee to the EIB, providing the bank with first-loss protection that enables it to finance higher-risk projects. The initial version of EFSI was launched in 2015 with the objective of mobilising at least €315 billion in additional investment over the 2015 to 2018 period, based on a €16 billion guarantee from the EU budget, combined with €5 billion from the EIB's own resources.

After the EIB assessed that EFSI was on course to meet that target, the Commission proposed an extension of the initiative through to 2020 ('EFSI 2.0'), increasing the EU budget guarantee to €26 billion and setting a new target of total additional investment of at least €500 billion, as well as making some changes to the way the fund operates. Negotiations between the Parliament and the

Council resulted in amendments to the Commission's initial proposal, with more emphasis placed on defining and assessing additionality (i.e. ensuring that EFSI-supported investment does not duplicate public or private investment that would have happened anyway), support for SMEs, cooperation with national promotional banks, and support for gender equality and environmental goals.

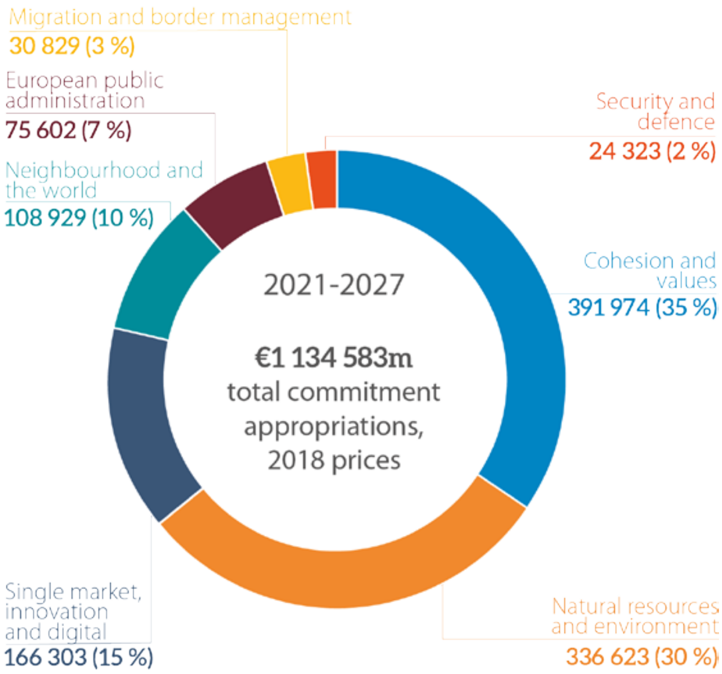
# Potential for the future

## Policy strategies and debates

In June 2017, the Commission published a reflection paper on the future of EU finances. This was one of a series of reflection papers related to an earlier white paper on the future of Europe that set out five scenarios of varying scale and ambition, with corresponding implications for the EU's finances. The finance paper lists a number of economic, demographic, social, environmental and security-related challenges facing the EU, noting that such challenges have already tested the EU budget's size and flexibility to the limit. At the same time, the Commission questioned whether the current budget is fit for purpose, given the complexity and perceived unfairness of parts of the system for revenue, and the tight limits on the level of expenditure – the latter set to be exacerbated by the expected withdrawal from the EU of the United Kingdom, a major net contributor.

In May 2018, the Commission translated its reflection paper into a package of specific legislative proposals for an MFF for the 2021-2027 period (see Figure 7), as well as a new system of own resources to finance it (see Figure 8). In doing so, it offered a response to a set of long-standing issues facing the EU budget, and the financing of EU policies more broadly. These included: the overall size of the EU budget; pressure on revenue in the form of Brexit and on expenditure in the form of new EU objectives; the need to forge a link with the European Semester and with economic and monetary policy generally, by using EU budget funds to incentivise and support Member State economic reforms recommended by the Commission; flexibility; rule of law issues; duration; and own resources reform. The proposals officially launched negotiations that national governments have said they hope can be concluded in autumn 2019. Parliament's initial response to the Commission's proposal was mixed: at 1.11 % of the EU-27's GNI, the MFF is not as big as the 1.3 % initially called for by Parliament. On the other hand, Parliament has welcomed the extra funding for new priorities in security and border control, for example, as well as the proposals for new own resources clearly and explicitly linked to EU objectives.

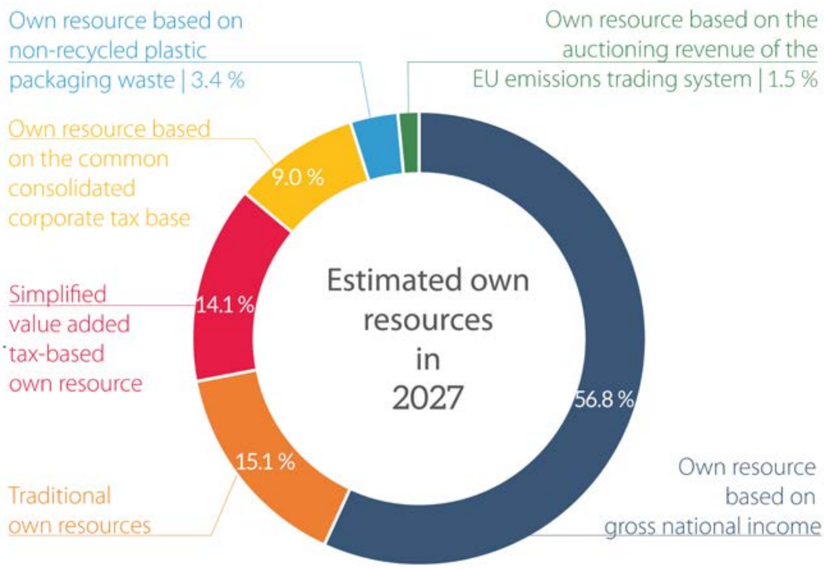
Figure 7 – Commission proposal for a 2021-2027 MFF




Source: EPRS, 2021-2027 multiannual financial framework and new own resources, July 2018, based on Secretariat of the Committee on Budgets, European Parliament.

Despite the European Parliament's varying competences regarding the legislative files for a new MFF and a new own resources decision, it made clear during the last term that it viewed the two files as a package, effectively making its consent to a new MFF conditional on substantive own resources reform. It now falls to the new Parliament to conclude negotiations on these files with Member State governments in the Council.

Figure 8 – Estimated own resources in 2027




Data source: European Commission, 2018.

## MAIN REFERENCES

European Union public finance, 5th edition, European Commission, December 2014.

Reflection paper on the future of EU finances, European Commission, June 2017.

D'Alfonso A Delivorias A, Sapała M, Szczepanski M and Zachariadis I., Economic and Budgetary Outlook for the European Union 2019, EPRS, European Parliament, January 2019.

Parry, M. and Sapała, M., 2021-2027 multiannual financial framework and new own resources – Analysis of the Commission's proposal, EPRS, European Parliament, July 2018.

## ENDNOTES

[1] The EU budget is subject to the EU's Financial Regulation, which stipulates that it must be managed in accordance with certain principles, including the principle of equilibrium ('revenue and payment appropriations shall be in balance').

[2] In 2017, the UK rebate amounted to €4.9 billion, compared, for example, to a lump sum correction of €706 million for the Netherlands.

[3] The growth in off-budget EU spending in the form of 'trust funds', for example, has been criticised on the grounds of respect for EU budgetary principles, transparency and democratic accountability to the European Parliament. See, for example, Oversight and Management of the EU Trust Funds, Policy Department for Budgetary Affairs, European Parliament, May 2018.

[4] The EDF is currently outside the EU budget, but there is a longstanding debate about its incorporation into the budget, or 'budgetisation', which is explored by D'Alfonso A., European Development Fund – Joint development cooperation and the EU budget: out or in?, EPRS, European Parliament, November 2014. The European Commission has proposed budgetising the EDF in the 2021 to 2027 MFF period.

[5] Public spending of general government includes all public spending within a state, including central and local authority spending.

[6] On the nature and causes of the abnormal payments backlog, see D'Alfonso A. and Sapała M., Payments backlog in recent EU budgets – Lessons learnt and outlook, EPRS, European Parliament, November 2015.

[7] For comparison, the 2014 to 2020 MFF took approximately two and a half years to negotiate and adopt, from publication of the Commission's initial proposal in June 2011 to formal adoption of the Council regulation in December 2013. For more on the procedure and timeline for negotiating and adopting the next MFF, see D'Alfonso A., Delivorias A., Sapała M., Szczepanski M. and Zachariadis I., Economic and Budgetary Outlook for the European Union 2019, EPRS, European Parliament, January 2019, and Parry M. and Sapała M., 2021-2027 multiannual financial framework and new own resources: Analysis of the Commission's proposal, EPRS, European Parliament, July 2018.

[8] Article 311 of the Treaty on the Functioning of the European Union states: 'Without prejudice to other revenue, the budget shall be financed wholly from own resources. The Council, acting in accordance with a special legislative procedure, shall unanimously and after consulting the European Parliament adopt a decision laying down the provisions relating to the system of own resources of the Union'.

[9] For more on the scope for EU defence policy development within the constraints of the Treaties, see Bassot E., Unlocking the potential of the EU Treaties – An article-by-article analysis of the scope for action, EPRS, European Parliament, January 2019.

[10] Parliament does have a formal role in the discharge procedure for the EDF.

[11] For more on the changes introduced by the mid-term revision of the 2014-2020 MFF, see D'Alfonso A., 2014-2020 Multiannual Financial Framework (MFF): Mid-term revision, EPRS, European Parliament, July 2017.

[12] See European Commission, Reflection paper on the future of EU finances, June 2017; European Parliament Resolution on the reflection paper on the future of EU finances of 24 October 2017; and inter alia Gleays G. and Darvas Z., The Commission's proposal for the next MFF: A glass half-full, Bruegel, May 2018, and Lamy P and Letta E., Renforcer le budget européen grâce à une contribution des énergies fossiles, Institut Jacques Delors, February 2018.

## DISCLAIMER AND COPYRIGHT



eprs@ep.europa.eu (contact)

www.eprs.ep.parl.union.eu (intranet)

www.europarl.europa.eu/thinktank (internet)

http://epthinktank.eu (blog)