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The next Multiannual Financial Framework (MFF) and the Unity of EU budget

Budgetary Affairs

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The next Multiannual Financial Framework (MFF) and the Unity of EU budget

Abstract

The traditional issues of European budgetary negotiations are the size of the budget, the distribution of funds and the system of own resources. Under difficult circumstances, the negotiations on the new MFF post-2020 will start in 2018 and should be concluded by the end of 2019 or no later than the beginning of 2020.

The unity of the EU budget is a cornerstone of European budgetary policy. However, a complete unity of all revenue and expenditure, and all financial instruments has not yet been achieved. Today the budgetary system is characterised by differentiation, fragmentation and increased use of 'satellite' instruments, and debates on additional financial instruments, like a budget for the Eurozone. The question of how to integrate these instruments into the Union's budget system and thus guaranteeing democratic scrutiny, should be an additional issue of the negotiations on the MFF post-2020.

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AUTHOR

Dr. Peter Becker
Stiftung Wissenschaft und Politik
Ludwigkirchplatz 3-4
D-10719 Berlin
E-Mail: Peter.Becker@swp-berlin.org

RESPONSIBLE ADMINISTRATOR

Ms Minna Ollikainen
Policy Department on Budgetary Affairs
European Parliament
B-1047 Brussels
E-mail: poldep-budg@europarl.europa.eu

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LIST OF ABBREVIATIONS

CAP	Common Agricultural Policy
CSR	Country Specific Recommendations
BoP	Balance of Payment assistance programme
EAFRD	European Agricultural Funds for Rural Development
EASA	European Aviation Safety Agency
ECB	European Central Bank
ECJ	European Court of Justice
EDA	European Defence Agency
EDF	European Development Fund
EEC	European Economic Community
EFSM	European Financial Stabilisation Mechanism
EFSF	European Financial Stabilisation Facility
EFSI	European Funds for Strategic Investments
EIB	European Investment Bank
EP	European Parliament
EMU	European Monetary Union
ESM	European Stability Mechanism
EUSC	European Union Satellite Centre
EU	European Union
GLF	Greek Loan Facility
GMES	Global Monitoring for Environment and Security
GNI	Gross national Income
HLGOR	High Level Group on Own Resources
IIA	Interinstitutional Agreement
ITER	International Thermonuclear Experimental Reactor
MFA	Macro-Financial Assistance
MFF	Multiannual Financial Framework
TEU	Treaty on European Union
TFEU	Treaty on the Functioning of the European Union

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EXECUTIVE SUMMARY

The negotiations for a new Multiannual Financial Framework (MFF) post-2020 will begin in 2018 when the European Commission submits its proposals. The European Commission has already started the period of reflection and outlined five scenarios for the future of European finances. In its reflection paper, the Commission indicated some hints for starting the discussions on reform; four of the five scenarios argue for reforming the main spending policies and for reducing European expenditure on agriculture and cohesion policies.

The persuasiveness of the Commission's proposal will be of paramount importance to convince the Member States that reforming European budgetary policy is a necessity. In previous MFF negotiations it had become the practice to use an ambitious project to further European integration and to justify European funds with this project, hence developing a kind of narrative for a substantial reform of the budget system. Secondly, it had been successful in exploiting the Member States' interests in an efficient and effective European budget and, therefore, aligning the EU budget with creating European added value. Moreover, because the negotiations will be difficult and disputed, it is important to start the negotiation process as early as possible. To launch fundamental reforms it will take time to hammer out compromises.

The classic issues of European MFF negotiations are the size of the budget, the distribution of funds across the European spending policies and hence the definition of European policy priorities, and certainly the system of own resources. Today, it seems that the negotiations on a new MFF post-2020 will follow the same, almost traditional, lines of conflict between net contributors and net recipients and between the Council and the European Parliament. There is still little willingness for comprehensive change among Member States. However, reform and change are arduous and difficult, but still possible. Besides the classical topics of the negotiations, some procedural questions might become issues of the MFF negotiations post-2020:

a) the flexibility of the next MFF to allow the EU to react rapidly to new challenges and political circumstances;
b) the efficiency to regain financial leeway and to strengthen the legitimacy of European budgetary policy;
c) the duration of the MFF to find a new balance between predictability and reliability on the one hand, and flexibility and democratic legitimacy on the other.

In principle, the objective should be to extend the scope for decision and policy-making in the Union's budgetary policy and to become less dependent on the goodwill of its Member States. Whatever changes and reform steps are proposed, negotiated and decided upon, forms of differentiation must not undermine the principle of budget unity. This principle is certainly a precondition for parliamentary scrutiny and for the European Parliament's participation in budgetary policy. The components of the EU budget determine the scope and the intensity of the EP's budgetary participation rights.

However, a complete unity of all revenue and expenditures and all financial instruments has not been achieved yet. There are still exceptions possible from this principle of unity. There seems to be two trade-offs between (a) budgetary flexibility and multiannual planning security and (b) parliamentary scrutiny and flexible and rapid European budgetary policy making. The Member States rather try to consolidate and extend their control over the EU budget by opting for limited instruments, such as the European trust funds, and for differentiated participation in certain instruments. However, parliamentary control and scrutiny are inevitable when European funds are used or EU bodies are involved. This means implicitly, however, in cases of strictly intergovernmental measures when no European funds are used and no European bodies are involved or responsible for implementation, budgetary scrutiny is a task for national parliaments of Member States involved.

Moreover, it seems that the trend of European budgetary policy towards more differentiation and fragmentation has accelerated with the Treaty of Lisbon. This growing "galaxy of financial instruments" outside the EU budget restricts the budgetary powers of the European Parliament. Therefore, it is extremely important for the EP to respect and consolidate the principles of budgetary unity and completeness – and to reduce the exceptions. This conclusion, however, implies that exceptions are possible and sometimes necessary. The unity of the EU budget does not mean that all satellite budgets should be incorporated in principle into the Union's budget. Exceptions should be limited and only possible, when unavoidable. This is certainly true for the instruments of budgetary flexibility, like the emergency funds. Therefore, there is a more general dilemma in the current budget system – the European Union has to find a convincing answer for this need for flexibility and rapid reaction by the executive while strengthening democratic legitimacy and the unity of the budget, and thus preventing further fragmentation and differentiation of the budget system and policy.

To strengthen Parliament's budgetary rights, it might be a pragmatic solution to ask for principles and rules justifying and regulating cases where an exception from the principle of budgetary unity could be a better and necessary option. Combining the involvement of European institutions and the use of European funds with these exceptions could lead to ranking the level of EP participation and rights from merely information to full parliamentary rights of scrutiny and granting discharge. This ranking should end the current ad hoc policy preferred and dominated by Member States.

1. INTRODUCTION

The European budget system, as we know it today, has grown slowly over more than 25 years with strong signs of path dependency (Becker 2014). However, path dependency does not mean that institutions and policies remain completely unchanged. Nevertheless, the willingness to compromise and to substantially reform the European budget is very limited among Member States for many reasons, particularly because of domestic politics. The European budget system is, therefore, characterised by a strong status quo bias. Often constrained by narrowly defined national interests, substantial changes in the system are extremely rare; incremental reform with small steps are the rule. Scope and outreach of changes can and will differ between incremental adaptations or fundamental change. The negotiations on the Union's Multiannual Financial Framework (MFF) are the best and most important opportunity to negotiate change and adaptation of the budget system.

Today, it seems that the MFF negotiations will follow the same, almost traditional, lines of conflict between net contributors and net recipients and between the Council and the European Parliament. There is still little willingness for comprehensive change among Member States, especially as the individual EU partners do not agree on a common analysis of the weaknesses of the system and, therefore, implicitly on naming the starting points for reform. However, reform and change are arduous and difficult, but still possible. While the focus of the Member States is on their net payments respectively, net benefits and on the budget's overall size, reforming the procedures, guiding principles and structure might be easier to negotiate.

One of these topics for reform could be to strengthen the principles of budgetary unity and universality. This was one of the European Parliament's four key demands during the previous MFF negotiations. The principles are almost classic principles of budgetary policy on which budget systems are built.

Usually, the supremacy of the parliament in budgetary policy is a principle in all democratic countries and the budget process is often characterised by a quarrel between the legislature and the executive over who should have the upper hand in budgetary issues. The European budget system, however, is a special case. The European Parliament represents the legislative power and the European Commission is part of the executive, but the role of the Council is ambiguous and divided between executive and legislative powers. Moreover, the European system comprises not only annual budgets but also the long-term multiannual financial framework that sets the ceilings for European spending. This specific system causes two particularities:

1. European budgetary policy-making is characterised by the conflict inside the Council between the net contributor and net recipient countries and the dispute between the Council and the European Parliament on the size and spending priorities of the budget. The traditional quarrel between the executive and legislature is replaced by conflicts inside and between the legislatures. The classic role of the legislature to scrutinise the executive has been replaced by scrutinising each other.

   This, however, has consequences for the parliamentary element of the EU budget system – democratic legitimacy and the parliamentary scrutiny of Union's budget is at stake. The European Parliament (EP) gives its assent and thus democratic legitimacy to the EU budget; it is responsible for parliamentary scrutiny and for granting discharge.
2. The strength of the European budget system is its predictability and stability. Nearly 80% of EU expenditure is pre-allocated to spending headings at the very start of the MFF's term and firmly committed to the Member States, who are keen to preserve their "national envelopes" and this pre-allocation. Fixing expenditure in this way has the advantage that Member States can predict, with a very high degree of precision, how much money to expect from Brussels and for which areas of spending. Moreover, this long-term commitment system allows for long-term investment and innovation strategies while avoiding repeated difficult and often controversial negotiations.

At the same moment, this strength is also a weakness in the European budget system; this pre-allocation of funds makes it very difficult for the EU to respond to unexpected circumstances and to react adequately and rapidly to acute challenges and crises.

There is obviously tension between the need for short-term flexibility and the long-term commitments fixed by pre-allocated funds in the MFF. The Commission and the Member States found a pragmatic answer and, first created satellite budgets outside the Union's budget, second used new financial instruments and third invented new assigned revenues. These new instruments of budgetary policy will speed up the negotiation process and help achieve executive leeway by avoiding lengthy negotiations inside the Council, bypass national vetoes and prevent side payments and package deals on specific issues.

There is, therefore, a more general dilemma in the current budget system – the European Union has to find a convincing answer for this need for flexibility and rapid reaction by the executive, whilst strengthening democratic legitimacy and the unity of the budget and thus preventing further fragmentation and differentiation of the budget system and policy.

This paper shall first discuss the opportunities for using the MFF negotiations for substantial or incremental reform, and its limits. Secondly, the paper shall concentrate on the tension between the principle on unity of the budget and the "European budgetary galaxy"[1], and thirdly, the paper will discuss the current debate on creating a special budget for the Euro area.

2. GENERAL APPROACH FOR THE NEXT MFF POST-2020

The current MFF 2014-2020 was the first framework negotiated and decided under the new legal requirements of the Treaty of Lisbon. For the first time, the MFF was enshrined in a formal regulation and the new President of the European Council, Hermann Van Rompuy, conducted the negotiations in the European Council. Nevertheless, the negotiations in 2011-2013 came to an almost predictable outcome (Becker 2012). The Lisbon Treaty could not break the tendency to prolong the status quo of the budget system and especially of the MFF (Benedetto 2013).

The negotiations on a new MFF post-2020 allow for substantial reform of the system. The European Commission described five scenarios for the future of Europe in its White Paper (European Commission 2017a) and elaborated on these scenarios in a reflection paper (European Commission 2017b) with regard to the future of European finances. The strength of this paper is less the description of ideal-type models, than the analysis of the particular budgetary challenges and needs, and the discussion of tensions and quarrels for each reform issue. Although the Commission did not describe its preferences and priorities, the reflection paper gave some hints for starting the discussions on reform. Four of the five scenarios argue for reforming the main spending policies and for reducing European expenditure on agriculture and cohesion policies.

The political effectiveness and assertiveness of the White Paper and then the Commission's proposal for the next MFF post-2020 and, as a consequence, the influence on agenda-setting and forming opinions, will depend on two things: firstly on the persuasiveness of the recommendations for reform; and secondly on the Member States' willingness to agree to a comprehensive change in the current system and budgetary policy. However, the initial views and positions of participants and stakeholders in the process are already showing the traditional lines of conflict between net contributors and net recipients and between the Council and the European Parliament. National interests and national negotiation objectives still dominate over European interests and the interest to achieve a better budget for the European Union as a whole. So far, the unifying link between all participants in the

[1] This "galaxy of funds and instruments around the EU budget" was the topic of a workshop of the Committee on Budgets in the European Parliament on 25 January 2017 (European Parliament 2017a).

negotiations is their interest in striking a compromise at the end of the process, realising that a new MFF is still more important than negotiating a better MFF.

The advent of Brexit, the exit of one of the biggest contributors to the budget in recent years, increases pressure to reform both the revenue and the expenditure side. At present, it appears inconceivable that the remaining net contributors will close the gap whilst retaining current spending priorities and financial volumes. Conversely, it is equally unrealistic to simply reduce the EU budget by the volume of British payments and reduce percentage-spending priorities accordingly, with the associated consequences for individual Member States. Rather, the EU must discuss appropriately reallocating the additional financial burdens arising from the departure of the UK from the EU.

The extent to which Brexit will affect the European budget includes two distinguishable aspects (Becker 2017a):

a) The question and the size of the "Brexit-Bill", i.e. the final payment to settle the commitments of the United Kingdom. Various calculations are currently available on the amount of possible British exit payments; ranging from EUR 15 billion to the extreme scenario of EUR 109 billion (Barker 2017; Begg 2017; Chomicz 2017; Darvas et.al. 2017; Haas, Rubio 2017; House of Lords 2017; Núnez Ferrer, Rinaldi 2016).
b) The size of the long-term, structural gap in the EU budget, which will inevitably arise as result of the withdrawal of one big net contributor. However, the British government has already indicated its intention to participate in some EU programmes (such as EU research funding) or special agencies, similar to Norway or Switzerland and its preparedness to pay for this participation. According to a calculation in the House of Lords, a solution similar to the Norwegian model would mean British contributions to the Union's budget of EUR 2.7 billion annually. These UK payments then would reduce the structural gap in the Union's budget (House of Lords 2017).

Nevertheless, reform is still necessary as the challenges ahead are still there, like the Brexit impact, the need to better respond to crises and finally to keep the EU-27 together and to win back the consent and the support of European citizens.

2.1. LESSONS TO BE LEARNED FROM THE NEGOTIATIONS ON THE MFF 2014-2020

At least three lessons can be drawn from the last negotiations on the current MFF 2014-2020:

1. *Clear and shared substantiation*: One recipe for successfully convincing all actors and in particular the Member States has been to develop a clear and shared substantiation, or a kind of a persuasive narrative to argue for change in the current budget system. A commonly shared project, which is in the interest of all Member States, European institutions and stakeholders, should surmount all doubts and reservations against change and should enable some steps towards major reform. The Commission used this strategy successfully to legitimize the first financial perspective in the 1990s and put together larger negotiating packages, including a kind of side-payments with benefits for every stakeholder and institution. The 'Delors' packages combined the first two financial perspectives with the Member States' interest in deepening economic integration, the internal market and then EMU; the 'Agenda 2000' package was linked with eastward enlargement. However, the attempts to couple the last two MFF packages with the Lisbon strategy for growth and employment and with the succession strategy 'Europa 2020', have proved unsuccessful; both efforts could obviously not convince Member States. For the next MFF negotiations, it will be of outmost importance to find this common and true European project.
2. *European added value*: This search for a clear European substantiation for the next MFF could be combined with a second lesson learned. It is one important interest of Member States in the negotiations to make the European budget as efficient and effective as possible. To develop and

to refocus the EU budget on creating European added value could mean the use of synergy effects by European policy making. The European Court of Auditors notes that "*the concept provides a useful reference point to help ensure that the EU acts when Member States cannot, or where it can secure better results. It can help to shift the focus of discussion from how the EU budget is distributed among Member States to how common resources are best invested for shared purposes*" (European Court of Auditors 2014, 29). The concept of European added value could become the main criterion for assessing the pertinence and legitimacy of the EU budget.

However, this concept is difficult and sometimes superficial (Tarschys 2005). Over the past decade, the search for a common definition has been unsuccessful, despite repeated attempts and the fact that the first stage of MFF negotiations is traditionally the debate on this concept and all stakeholders agree in principle on the concept. Unanswered questions remain as to what European added value might be, where it could be found and how it would be measured. The main open question is, however, how to define European added value. A precise definition of European added value has been highly controversial for many years. Already during the mid-term review of the MFF 2007-2013, the European Commission asked Member States for their definition of this guiding principle (European Commission 2011a). This discussion then brought some ideas on possible indicators and criteria for European added value: a common interest of Member States, cost advantages by achieving critical financial mass, increasing efficiency and positive cost-benefit effects, preventing fragmentation of the internal market, avoiding duplication and parallel structures or broadening the scope of fundamental rights and increasing European bargaining power in international fora. However, some Member States argued that the principle should not jeopardize existing European policies; particularly those such as the common agricultural policy or European cohesion, which exemplify European added value.

Nevertheless, the next MFF negotiating round will make a renewed effort to find a common reorientation of spending policies. The High Level Group on Own Resources (HLGOR), headed by Mario Monti, defined European added value as the increase of value which arises through the actions of the European Union in addition to the actions of the Member States. However, given the limited resources of the EU budget, it seems inevitable that the policy fields would be given differing priorities depending on where such added value is best achieved. On the expenditure side, the EU budget should, therefore, focus on areas where the greatest *relative* European added value is to be expected, or where promoting central public goods can only be achieved through joint European action. This would be the case, for example, in areas of internal and external security or spending on research and development that generate new jobs and additional growth.

Certainly, focussing on a *relative* European added value, as proposed, might offer a way out of the impasse in finding the right definition. The Commission picked up this discussion and search for a definition; in its reflection paper on the future of EU finances, it argues that the value added could be "*results from pooling resources and delivering results that uncoordinated national spending cannot*" (European Commission 2017b, 9). This seems to be the lowest common denominator. However, the question remains unanswered, how to work out the spending priorities from this very general definition of the principle.

3. *Timing*: A third lesson is certainly that the negotiations, especially when intended to launch fundamental reform or change, will take time to hammer out compromises. Moreover, the legal implementation of any financial compromise in various policies is complex and complicated and, therefore, will also take time. This time factor, however, is still an advantage for net payers – the pressure to find a compromise increases with each day spent negotiating, especially on those Member States expecting European funds.

Negotiations will have to be concluded by the end of 2019, or no later than beginning of 2020, to allow for proper preparation and implementation of the multiannual programmes. However, this timetable is complicated by the current mandates ending. In 2019, the 9th direct elections to the European Parliament will be held in May/June. Afterwards, the new European Commission has to be nominated and appointed and then will take office after 31 October 2019. Finally, the second 2½ year term of the President of the European Council, Donald Tusk, expires on 30 November 2019. This means, the negotiations on the next MFF post-2020 will take place in parallel to European elections, to the selection and nomination of new personnel for the Union's central institutions[2], and to the attempts to re-organize internal structures and to find new staff within the institutions. Moreover, there may be links between the two negotiation processes on the MFF and on the terms of Brexit. Hence, this might be the time for complicated and complex package deals - including the European budget.

If the negotiations follow the path and schedule of previous MFF negotiations, the timetable will look like this:

1. the Commission will table its proposal before the 2018 summer break;
2. the Member States will first begin examining the proposal *in toto* under the Austrian presidency (second half 2018) and then start to negotiate building blocks under the Romanian presidency (first half 2019);
3. the European Council will negotiate a final compromise in summer 2019;
4. the new elected European Parliament will start the budget negotiations with the Council in autumn 2019;
5. a final deal will be hammered out in spring 2020.

As a consequence of this possible timetable, the time to prepare the next funding period for post-2020 will be very short.

Therefore, the main task for the European Commission, when preparing its proposal for the next MFF post-2020, is firstly, to couple the new MFF with a common project of European integration shared by all stakeholders in the MFF negotiations. Secondly, it seems important to find a convincing definition for the principle of added value. Both procedures might help to legitimize comprehensive changes in the structure and system of the EU budget and budgetary policy. Above all, and although the Brexit negotiations are still in the early stages and the consequences for the EU budget are still unclear, the Commission has very little time to prepare the grounds for a substantial reform of European budgetary policy.

2.2. ISSUES AND TOPICS FOR THE NEGOTIATIONS AND THE ROLE OF THE EUROPEAN PARLIAMENT

The European Parliament, however, should be interested in preparing the groundwork as far as possible with the Council until the end of its mandate, such as compromises on structure and principles to frame and guide the negotiations. When focussing on questions of structure and procedures, three issues could become main points for the MFF negotiations:

1. *Flexibility*: In past years, the EU has shown itself incapable of providing quick and adequate resources to respond to political challenges. As a result, there were increasing calls to make the EU budget more flexible. MFF headings are largely set irrespective of developments in the political environment. Currently, around 80 % of the EU budget is fixed for seven years at the beginning of the MFF period and this means that it is very difficult for the EU to respond to unexpected

[2] Besides the presidents of the European Commission and the European Council also the term of the president of the European Central Bank will expire on 31 October 2019.

challenges. The MFF negotiations will have to find a new relationship between the necessity to react quickly to new political challenges and the medium-term predictability of the EU budget.

2. *Efficiency*: Given the limitations on both current and future budgetary resources available to the EU, European budgetary policy will have to seek to use its scarce financial resources more efficiently. This could mean that spending should be targeted significantly more towards the common objectives of the EU, i.e. towards European political added value. Additionally, greater use of innovative financial instruments, i.e. loans or credit, could allow for multiple use of limited European resources.
3. *Duration*: The EP continues to demand that the MFF's term be adjusted to match the Commission and Parliament political mandate periods. Its objective is to politicise the procedure and thus strengthen the MFF's democratic legitimacy. However, every modification to the MFF term raises fundamental problems for reconciling it with the EU's multiannual funding programmes.

Although some observers argued that the Lisbon Treaty had increased the budgetary powers of the European Parliament, at least in legal terms; in practical political terms, the new treaty resulted in the EP's powers in European budgetary policy-making being reduced (Bauer, Graham, Becker 2015; Bauer, Becker 2017). The outcome of the 2014–2020 MFF negotiations showed that the influence of the European Parliament on the important issues of the MFF negotiations – the size, the revenue and the setting of spending priorities – remained marginal. At least, the EP could not achieve the objectives it had set out for its approval of the MFF. The focus on net contributions and *juste retour* dominated the discussions and thus increased the reluctance of Member States to even consider any significant and ambitious options for reform. Narrowly defined national interests were superseding and replacing true European interest and needs for a better budget.

Nevertheless, it could become an important task for the European Parliament and its particular role in the negotiations on the post-2020 MFF to commit itself and to secure European interests. However, this does not mean sticking only to fundamental reform; the EP also has to be able to compromise on smaller steps and to push for incremental reform.

European parliamentarians must seriously commit to improving the efficiency and targeting of European funding policies. They should also resist the temptation to respond to the expected financial consequences of Brexit with a seemingly simple solution and to only call for compensation in the form of additional payment obligations from current net contributors, without also naming spending programmes where savings could be achieved.

There is certainly a long-term trend not to reform the MFF as such, but to make changes inside the policies and shift funds away from traditional spending priorities to new objectives like research and development, education and innovation and sustainability and climate change issues, derived from European strategies like Europe 2020. This shift could be accelerated in the framework of the negotiations on the new regulations – with EP as co-legislator.

3. THE UNITY OF THE BUDGET AND THE BUDGETARY RIGHTS OF THE EUROPEAN PARLIAMENT

Budgetary policy is an almost classic field of parliamentary policy-making as it was the first independent parliamentary power. This parliamentary power in budgetary policy includes the participating and monitoring of all steps of budgetary policy, beginning with drafting of the budget until granting discharge to the executive. One fundamental issue of this parliamentary budgetary policy is the principle of unity of the budget.

3.1. THE PRINCIPLE OF UNITY

At the beginning of European integration, enshrined in Article 199 EEC Treaty, the principle of budgetary unity is codified today in Article 310 TFEU: "*All items of revenue and expenditure of the Union shall be included in estimates to be drawn up for each financial year and shall be shown in the budget*." Moreover, Article 7 of the Financial Regulation stipulates that the EU budget "*shall comprise the revenue and the expenditure of the Union, including administrative expenditure occasioned for the institutions by the provisions of the TEU relating to the Common Foreign and Security Policy, and the operational expenditure occasioned by implementation of those provisions where this is charged to the budget*". In addition, the budget has to display "*the guarantees for borrowing-and-lending operations entered into by the Union, including the European Financial Stability Mechanism and Balance of Payment Facility operations...*".

The principle of budgetary unity is closely linked to the principle of completeness or universality. *All* revenue and *all* expenditure of the European Union has to be included in *one* EU budget. This means in principle, separate, subsidiary or satellite budgets or special funds are forbidden.

The unity of the budget is one requirement for European budgetary policy-making as well as financial planning, and it is certainly one precondition for parliamentary scrutiny and for the EP's participation in European budgetary policy. This almost classic principle of budgetary policy is also the result of the development in creating a single European budget dating back to the first fundamental overhaul of the budget system with the Treaty of Luxembourg in 1970 (Crowe 2017).

However, there are some exceptions possible from this principle of unity. Some of these exceptions stem from history or the origins of European budgetary policy, such as the European Development Fund (EDF), or are based on the legal personality of an institution like the ECB or the EIB, or because of the division of competencies between the EU and the Member States (Repasi 2013). Others have been created recently in the framework of European crisis policy, such as the European Stability Mechanism (ESM). The exceptions are, therefore, enshrined not only in European primary law but in secondary law too, like the Financial Regulation, and backed by case law from the Court of Justice (Crowe 2017, 22). The Treaties provide for certain policies, like defence operations and initiatives of enhanced cooperation, being financed directly by participating Member States. In particular, the Treaty of Maastricht introduced and expanded this differentiation inside the EU budget system by its structure of pillars (HLGOR 2016, 62). Secondary law, especially the Financial Regulation, allows for assigned revenues and provides the legal basis for European trust funds, which have been used as budgetary instruments for the European reaction to the challenges of the migration and refugee crisis (D'Alfonso, Immenkamp 2015). One of the oldest exceptions from the principle of unity, the European Development Fund (EDF), was backed by case law from the Court of Justice in the 1990s (D'Alfonso 2014). However, the European Stability Mechanism (ESM), as a new instrument created in the context of the sovereign debt crisis, has also been justified by the ECJ (Crowe 2017, 13).

Table 1: The "galaxy" of European financial instruments

Type/Policy	Instrument (Funds, Facilities)	Funding and Size	Legal Base
EU external policy	1. European Development Fund (EDF) 2. External trust funds – Bêkou, Africa, Madad, Colombia 3. Blending facilities 4. Facility for the Refugees in Turkey as external assigned revenue 5. Athena, the mechanism to administer the financing of the common costs of European Union operations having military or defence implications	1. direct payments from Member States (2014-2020 EUR 30,5 bn.) 2. Emergency Trust Funds a) Bêkou EUR 108 mio. b) Africa EUR 1,8 bn. c) Madad EUR 542 mio. d) Colombia 2016/17 EUR 3 bn. 3. – 4. EUR 1 bn. from EU budget (and 2 bn. from Member States) 5. Direct payments from Member States	1. Regulation 2015/323, 2.3.2015 2. Art. 187 Financial regulation a) COM decision C(2014) 5019 11.7.2014 b) COM decision C(2015) 7293 20.10.2015 c) COM decision C(2015)9691 21.12.2015 d) COM decision C(2016) 1653 22.3.2016 3. – 4. Art. 210 and 214 TFEU and Com decision C(2015) 9500 24.11.2015 5. Art. 41 TEU and Council Decision (CFSP) 2015/528 27.3.2015
Budgets of bodies, institutions and agencies with legal personality	1. ECB 2. EIB 3. Specific agencies of CFSP and CSDP like European Defence Agency (EDA), European Union Satellite Centre (EUSC)	1. own budget 2. own budget 3. direct payments from Member States for CFSP and CSDP agencies	
Financial support and assistance instruments	1. Balance of payment assistance programmes (BoP) for Member States outside the euro area 2. Greek Loan Facility (GLF) 3. European Financial Stabilisation Mechanism (EFSM) for Member States inside the euro area 4. European Financial Stability Facility (EFSF) 5. European Stability Mechanism (ESM) 6. European Fund for Strategic Investments (EFSI)	1. guarantees EUR 50 bn. 2. direct funding from Member States 3. direct payments from Member States, guarantee EUR 60 bn. 4. direct payments from Member States 5. direct payments from Member States 6. EUR 8 bn. from EU budget and EUR 16 bn. EFSI guarantee	1. Council Regulation 332/2002 2. MoU 2.5.2010 3. Council Regulation 407/2010 4. EFSF Framework Agreement 7.6.2010, establishing Company inc. in Luxembourg 5. Art 136 3 TFEU, ESM Treaty 1.2.2012 6. Regulation EU 2015/10171 25.6.2015

Hence, a complete unity of all revenue and expenditure, and all financial instruments has not been achieved yet. Table 1 lists, as a non-comprehensive overview, the types of exceptions from the principle of unity creating the new "galaxy" around the EU budget system.

Moreover, the EU has the opportunity to use special instruments to increase the flexibility of the budget. Council Regulation No. 1311/2013 laying down the Multiannual Financial Framework for the years 2014-2020 renewed and replenished these instruments, which are not part of the MFF 2014-2020.

Table 2: Flexibility instruments and provisions

Instrument	Size	MFF regulation/ IIA
Emergency Aid Reserve	280 EUR mio./year	Article 9 MFF Article 10 IIA
Flexibility Instrument	max. EUR 471 mio./year	Article 11 MFF Article 12 IIA
Contingency Margin	EUR 3.2 bn.	Article 13 MFF Article 14 IIA
Global Margin	EUR 543 mio.	Article 14 MFF
Revision of structural funds because of new rules and late adoption of the basic act	EUR 21.1 bn.	Article 19 MFF
European Solidarity Fund	EUR 500 mio./year	Article 10 MFF Article 11 IIA
European Globalisation Adjustment Fund	EUR 150 mio./year	Article 12 MFF Article 13 IIA

3.2. THE EUROPEAN PARLIAMENT'S POSITION AND ROLE

The Commission justifies this "galaxy" in its reflection paper on the future of EU finances: "*This extended financial architecture has allowed the Union to mobilise additional funding but it has added to the complexity of EU finances*" (European Commission 2017b, 9). Nevertheless, besides all the advantages in terms of flexibility, this galaxy of financial instruments outside the EU budget restricts the budgetary powers of the European Parliament.

The European Parliament's budgetary powers vary in four major areas of the European budgetary system – the own resources system of revenue, the multiannual financial framework (MFF), the annual budgets and the implementation and discharge. With regard to the own resources, the EP is consulted; when deciding on the MFF, the Parliament has to give its consent; it co-decides on the annual budgets and independently discharges the European Commission after the implementation of the annual budgets.

The European Parliament's budgetary rights, therefore, are:

a) *Ex-ante* by participating in the decision-making processes on the MFF and the annual budgets. The EP is able to co-decide on the distribution of European funds for various policies when establishing the Union's annual budget and, thus, influence political and budgetary priorities.
b) *Ex-post* by scrutinising the implementation of the budget and giving discharge to the Commission. The Parliament compares the implementation of policies and budgetary priorities with the ex-ante set priorities and, thus, can check whether the Commission fulfils the tasks set by the legislators.

According to Art. 165 of the Financial Regulation, the "*discharge decision shall cover the accounts of all the Union's revenue and expenditure, the resulting balance and the assets and liabilities of the Union shown* *in the balance sheet.*" This discharge procedure for the EU's annual budgets provides for parliamentary scrutiny at a political level and so guarantees democratic legitimacy of European budgetary policy.

These rights of participation, however, relate to the budget of the Union. This means that, in general, EP's budgetary rights do not cover revenue or expenditure, which are not included in the budget. The components of the EU budget thus determine the scope and intensity of the EP's budgetary participation rights. The instruments outside the Union budget could threaten the unity of the budget and circumvent the budgetary procedures, i.e. the involvement and scrutiny of the European Parliament, which is a fundamental part of the EP's contribution to budgetary policy. Therefore, it is extremely important for the EP to keep the principles of unity and integrity of the EU budget – and to reduce the exceptions.

The Parliament requested the inclusion of all subsidiary budgets into the EU budget (European Parliament 2013) and, in its resolution concerning the Multiannual Financial Framework for 2014-2020, the EP insisted on budgetary unity and transparency (European Parliament 2014). It repeated this demand while preparing the negotiations on the mid-term review/revision of the MFF 2014-2020 (European Parliament 2016e). Then, in its resolution of 6 July 2016 on the preparation of the revision of the MFF 2014-2020, the EP underlined once again the importance of the principle of unity and was concerned about the recent shift from the Community method to intergovernmental decision-making (European Parliament 2016c). The Parliament reiterated its long-standing position that the European Development Fund should be integrated in the Union budget with the beginning of the next MFF, post-2020.

As a kind of second-best option, some instruments outside the EU budget were included into annual reports by the Commission accompanying the general budget of the Union. This improvement of interinstitutional cooperation in budgetary matters, laid down in the Interinstitutional Agreement (IIA) between the European Parliament, the Council and the Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management (IIA 2013, No. 16) states, "*that borrowing and lending operations, revenue, expenditure, assets and liabilities of the EDF, the EFSF, the ESM, and other possible future mechanisms, including trust funds, as well as expenditure incurred by Member States in the framework of enhanced cooperation shall be included in this annual report*". So, the exemptions from the unity of the EU budget still prevail, but the consequences for EP's scrutiny rights are minimized. The EP is trying to develop its budgetary monitoring rights further. So far, the EP has no formal role in the ESM Treaty or a seat on ESM boards. However, the EP's Committee on Economic and Monetary Affairs has informal exchanges of views on a regular basis with the Head of the Board of Governors, Jeroen Dijsselbloem, and the Managing Director, Klaus Regling. The same is true for the instruments for financing EU external policy, like the EU trust funds or the new facility for refugees in Turkey. With regard to these instruments, in its resolution of 26 October 2016 on the draft general budget for the year 2017, the EP requests the Commission to incorporate the new instruments into the EU budget. These tools should become more transparent and more in line with the principle of budgetary unity. The EP calls for evidence of the financial instruments implementing the objectives under their initial legal bases (European Parliament 2016d).

With this pragmatic solution, to a certain extent, the Parliament could maintain its ex-post budgetary rights, i.e. the power to discharge. This is undoubtedly a significant tool to foster the EP's influence on EU budgetary policy. In cases where the EP postpones its decision to discharge, the Commission has a legal obligation to take all appropriate steps to address the observations on the implementation of expenditure (Art. 319, 3 TFEU). The Commission is then obliged to take all necessary measures promptly to remove or facilitate removal of obstacles to granting discharge (Article 164, Financial Regulation). Therefore, the EP is able to exert political pressure on the Commission and can adopt a resolution including observations on the implementation of the budget.

Nevertheless, the granting of discharge is still an ex-post scrutiny of accounts, the financial statement and the evaluation of the Court of Auditors (Art. 319, 1 TEU). It does not allow for defining ex-ante policy or spending priorities.

4. HOW TO STRENGHTEN THE PRINCIPLE OF UNITY?

The challenge to integrate all financial instruments into the EU budget is not a new one. In contrast to the principle of unity, the fragmentation and differentiation of the Union's budget system has accelerated (Crowe 2017).

4.1. EXPERIENCE FROM PREVIOUS NEGOTIATIONS

Reversing this trend of differentiation, however, is difficult. Options and hindrances to incorporate, for example, the EDF into the EU budget was an issue during the negotiations on the MFF 2007-2013 and on the current MFF 2014-2020. The debates at that time circled around three issues:

1. Predictability of payment profiles

As mentioned above, EU budgetary policy has special instruments to increase the flexibility of the budget, which are not part of the MFF. At the beginning of the negotiations for the current MFF, the Commission separated these instruments into three groups – (a) flexibility funds, (b) EDF and (c) major industrial projects, such as the International Thermonuclear Experimental Reactor (ITER) or the Global Monitoring for Environment and Security (GMES).

The flexibility instruments, such as the European Solidarity Fund or the Emergency Aid Reserve, are, by their very nature, emergency instruments and mobilised by the two arms of the EU budgetary authority, the EP and the Council, in case of unexpected events like natural disasters. This means that the incidents triggering the mobilisation of these flexibility instruments are unpredictable and, therefore, the financial use of the tools is impossible to plan. To incorporate them into the MFF would mean estimating payment schedules ex ante and thus planning them over the seven year period. This seems inappropriate and maybe impossible. For example, the European Globalisation Fund covers measures to be implemented over several years. However, a crisis initiating active labour market measures financed by the fund cannot be predicted. Therefore, these instruments are closely connected with the question of a flexible budget. This, however, is a problem for multiannual financial planning when negotiating and deciding on the MFF. For annual budgets, this seems to be a problem only when the actual amounts needed deviate from amounts planned in the MFF and would exceed the MFF ceilings.

However, the Commission argued that this problem of predictability is also true for large-scale projects, like ITER and GMES, because of "*potential implications of time-lags in contracting major components*". Moreover, the EDF is affected by the same problem since no annual commitment tranches are planned (European Commission 2011b). Here, this argument of missing predictability and flexibility seems to be overstretched. Certainly, large-scale industrial projects have to be planned, also in financial terms, and the EDF, as a multiannual instrument, needs strategic planning and hence payment schedules.

2. Budget volume and MFF ceilings

National net payments are still the main focus of Member States when negotiating on the MFF. Therefore, the question of the total size of the MFF is of special importance, especially for the group of net payers. They struggle to limit the MFF at a maximum of 1% of EU-GNI and to include all funds outside the MFF and the budget under this overall ceiling. This would mean implicitly reducing other headings to finance the additional financial instruments and funds, like the EDF. From this point of view, the issue of integrating all financial instruments into the EU budget and the MFF is a question of budget volume, their national gross payments to Brussels, the distribution of funds and the definition of policy priorities.

For the MFF negotiations between the Member States, the unity of the budget is not a question of transparency, democratic accountability and budget scrutiny but primarily of net payments and net receipts. This is the reason why the European Parliament, not only demands respect of the principle of EU budget unity, but that any integration of financial instruments into the EU budget requires an increase in the MFF ceilings. The financing of other EU policies and programmes should not be jeopardised.

3. Budgetary rights and institutional disputes

There is obviously a connection between the unity of the EU budget and the Community method, as the European Parliament has already mentioned in some of its resolutions on budgetary policy. This means that incorporating financial instruments or special funds into the EU budget might be linked with the Community method for European policy-making or, more concretely, with EP's co-decision. The European Parliament's demand for respecting the unity of the EU budget might also be a way to enhance its legislative powers. Subsequently these tactics lead to reservations and partial resistance in the Council. Member States often understand Parliament's insistence on budget unity as function, or a consequence, of a power game on legislative rights.

4.2. PROPOSALS TO APPROACH UNITY OF THE BUDGET

The Monti High level Group argued that differentiation "*remains, nonetheless, a useful tool*" and "*different types of differentiation can be used, with varied consequences for the EU budget, which may become more versatile and responsive, but also more complex*" (HLGOR 3016, 67).

The experience from former debates shows that, in general, three ways are conceivable and may be possible:

1. *Net-payers' approach:* This option would mean including the special instruments into the EU budget while keeping the total MFF volume untouched, that means at the expense of other headings. In the end, this would lead to a smaller budget.
2. *Pragmatic solution:* This option would mean keeping the formal budgetary construction unchanged, but introducing additional monitoring and scrutiny procedures for instruments outside the annual budget and the MFF. In practice, this approach would mean strengthening the role of the European Parliament as one branch of the EU budgetary authority, at least partly.
3. *Substantial budget reform:* This option would mean including all financial instruments and funds outside the MFF into the EU budget by increasing the total volume of the EU budget with additional funds on top of MFF ceilings. New genuine own resources, as proposed by the High Level Group on Own Resources, could be introduced to fill this gap and to increase the Union's financial autonomy.

Certainly, fragmentation of the EU budget should be the exception and a unified, universal budget should remain the norm for European budgetary policy. Nonetheless, the unity of the EU budget does not mean that all satellite budgets should be incorporated into the MFF. This is certainly true for the instruments for budgetary flexibility, such as the emergency funds. Here there seems to be a trade-off between budgetary flexibility and multiannual planning and stability. This conclusion, however, implies that exceptions are possible and sometimes necessary.

There are different models for how the Parliament could be involved in approving, scrutinizing and granting discharge on the revenue and expenditure of satellite budgets:

1. The European Parliament is not involved at all in approving, scrutinizing and granting discharge on extra-budgetary funds. One concise example of this model is the European Defence Agency (EDA).
2. The Commission informs the Parliament about the revenue and expenditure of satellite budgets. This is currently the case for example the European Stability Mechanism (ESM).
3. The Parliament is informed and approves the satellite budgets, which, however, are implemented outside the Union's budget. This is the case for assigned revenues listed in Art. 21 of the Financial Regulation.
4. The Parliament approves the draft satellite budgets and grants discharge to the Commission. This full involvement of the EP is currently the case for European Trust Funds according Art. 187, Financial Regulation or for specific European agencies, such as Europol or Frontex.

These models and procedures show a variety of parliamentary involvement and differing rights. This involvement seems to be ranked where the first level is merely to inform the Parliament about satellite budgets, through to full parliamentary budget rights for extra budgetary funds. Thus, it seems feasible, and necessary, as a first step to order this variety of models according to general rules or principles. Three principles are obvious:

- First, exceptions should be limited and only possible when budgetary flexibility is proven to be necessary.
- Second, unity of the budget and parliamentary control and scrutiny are inevitable when European funds are used or EU bodies are involved. This means implicitly, however, in cases of strictly intergovernmental measures when no European funds are used and no European bodies are involved or responsible for implementation, budgetary scrutiny is a task for national parliaments of Member States involved.
- Third, the European Parliament should use the principle of budgetary unity and proper scrutiny carefully. The refusal or postponement of discharge are also exceptions and should be reserved for strictly justified cases.

In a second step, these parliamentary rights and options for involvement could be combined with the extent of European funds' use and the degree of European institutions' participation. One option could look like the proposed ranking in table 3.

In general, the European Parliament should acknowledge the thin line separating its scrutiny rights as one branch of European legislative power, from the policy-making tasks of European executive power. The Parliament's legislative rights in budgetary policy are limited to deciding on MFF, on annual budgets and on the basic acts and regulations of European spending policies. The implementation of these policies is the task of the European Commission.

The integration of the European Development Fund (EDF) into the EU budget will be the first and most probable option for instruments, currently outside the budget, to be included. Here, the argument of missing predictability is no longer relevant. However, the most controversial and difficult question will be, whether the funds of currently EUR 30.5 billion for the period 2014-2020 are incorporated into heading 4 "Global Europe". This will not be an issue of budgetary unity but of budgetary priorities and how these priorities should be financed; that means it will be an issue for the negotiations on the next MFF post-2020.

The current legislative process on a European Defence Union could serve as a good example of how to balance legislative and budgetary powers with executive powers. On 7 June 2017, the European Commission launched a European Defence Fund, which shall have two legally distinct pillars or windows for common funding for research and for joint development and acquisition of defence capabilities. As the Commission explained, the policy will remain essentially in the hands of Member

States and the role of the EU budget will be limited. However, the Commission proposes to support Member States in many respects, "*notably by helping them deploy the most suitable and cost-saving financial arrangements for the joint acquisition of defence capabilities*" (European Commission 2017c, 11). The Commission suggests inserting new financial instruments into the next MFF post-2020 to finance the two windows of the European Defence Fund. The research window should be provided with an annual reference amount of EUR 500 Million and the capability window with EUR 1 billion per year for a more substantial programme.

Table 3: Parliamentary rights and policy participation

Types of satellite budgets	Ranking of EP Participation	Examples
• strictly intergovernmental • no funds from European budget • no involvement of EU institutions	• no participation	–
• intergovernmental • no funds from European budget • EU institutions involved	• Information	ESM, EFSF
• European funds outside the MFF • EU institutions involved	• Participation but not in the framework of Art. 314 TFEU (outside the EU budget) • Basic act with EP as co-legislator	Emergency and Flexibility funds Facility for Refugees in Turkey
• European funds inside MFF ceilings, but extra-budgetary • EU institutions involved	• Full participation acc. Art. 314 TFEU (EU budget) • Basic act with EP as co-legislator	EFSI

5. A BUDGET FOR THE EUROZONE

A special case for accelerating differentiation and fragmentation of the Union's budget (and probably of the Union as such) will be the idea of creating a separate budget for the Eurozone or a fiscal capacity. This debate is part of the more general discussion about the future of European Monetary Union (EMU), but is also part of the debate of the future EU budget. At least this proposal has been picked up by the Monti Group on Own Resources and by the Commission's reflection paper on the future of European finances.

The need for transfers and automatic stabilisers in the EMU was already raised in the early days of monetary union (European Commission 1977). In the course of the EU's response to the deep economic and financial crisis, and in order to prepare the Eurozone and the European Union for the next crisis to come, this old debate came to the fore once again. Various forms and functions for an additional automatic solidarity and stabilisation instrument for EMU have been discussed (Rubio 2012; Gross 2012; Enderlein et.al. 2012) as the first steps towards a true fiscal union.

5.1. DIFFERENT MODELS FOR A FISCAL CAPACITY OR EUROZONE BUDGET

Certainly, there are many ways to design and implement a fiscal capacity or a budget for the Euro area. The function, purpose and tasks, financial size, revenue as well as priorities for expenditure, the best mixture with other economic and fiscal policy measures and finally the governance of the proposed common fiscal instruments all differ (European Parliament 2016b).

The various proposals could be categorised to three models:

1. Limited fiscal capacity in connection with contractual arrangements

This idea aims to use fiscal capacity as an instrument of conditioned solidarity to assist national structural reforms of economic and employment policies (Vanden Bosch 2013a; Vanden Bosch 2013b). Contractual arrangements between the European Union and the Member States should frame and determine national reform policies and, additionally, serve as a precondition to receive European financial assistance. Therefore, the fiscal capacity shall serve as an incentive to implement structural reforms in EMU Member States. As the tasks and function of this capacity should be limited, its financial size would be limited as well. The main purpose of this type of financial capacity is not to serve macro-economic stability but to assist national policies for structural reform.

This approach began with the Van Rompuy report in 2012 (Van Rompuy 2012) and was then picked up by the Commission's blueprint for a genuine in-depth economic and monetary union (European Commission 2012). Aiming to convince the Member States of the need to reform their national policies and to strengthen their commitment, the Commission finally proposed an "instrument for convergence and competitiveness" (European Commission 2013). In November 2012, the European Parliament endorsed this call for EMU reform and supported the proposals (European Parliament 2012).

2. A crisis mechanism - rainy day fund or unemployment insurance

This mechanism should work as a financial instrument for stabilisation within the Eurozone, in cases of crisis and asymmetrical regional shocks. A "rainy day fund" could work as a sort of insurance mechanism between the Member States in the Euro area. National contributions and disbursements would be calculated based on cyclically sensitive indicators, such as the output gap or unemployment levels (Enderlein, Guttenberg, Spiess 2013). An alternative idea used unemployment rates as an indicator and proposed creating an unemployment insurance scheme for the Euro area and thus establishing a stabilization mechanism directly targeting households and not the national budgets. This approach recommends creating a European fund, which should be filled by contributions from national unemployment insurances and then, in case of increasing unemployment, should pay out for the short-term unemployed as additional European unemployment benefits (Dullien 2008; Dullien, Fichtner 2010; Brandolini, Carta, D'Amuri 2014).

This approach, with both options, tries to combine the idea of risk sharing between Member States when absorbing asymmetric shocks with the necessary national responsibilities for sound economic and fiscal policy. For specific Member States at the beginning of a crisis or a recession, it should stimulate policies to enhance growth and employment (Enderlein et.al 2012; Allard et.al 2013). This solidarity instrument, therefore, would be used exclusively in times of crisis and would provide limited assistance in duration and scope.

3. A fully-fledged budget for the Euro area

The third, and most substantial, proposal is to establish an additional fully-fledged Eurozone budget as a permanent instrument for macro-economic stabilization via intergovernmental transfers to cushion economic downturns on the demand side. The payments in and transfers out of this budget should stay within national economic cycles (Claudal et. alt., 2013; Wolff, 2012; Pisani-Ferry, Vihriälä, Wolff, 2013). This budget for the Euro area should balance out cyclical differences and stimulate growth during periods of recession. The budget should receive cyclical revenue such as a European corporate tax and should spend counter-cyclical expenditure like investments or unemployment benefits (Bénavy-Quéré, Ragot, Wolff 2016).

The size of this separate Eurozone budget should be about 2% of Euro area GDP, which, currently, would equal about EUR 200-250 billion. The purpose of this budget should be, first, to promote macro-economic stability via counter-cyclical fiscal policy in the Euro area and, second, to increase investment and employment and, therefore, convergence. This additional budget should be coupled with a borrowing capacity to ensure counter-cyclical revenue and thus further increase macro-economic stabilisation of the Euro area. In addition, this proposal would require a strong Euro area executive, i.e. a European treasury with a European Minister of Finance, and a separate form of democratic legitimacy and control for the Euro area and its budget (Bara et.al. 2017).

This debate about the possibility of a specific Eurozone budget, with its own resources and spending priorities, is part of a debate on the need to create a genuine fiscal union, which should include a permanent stabilisation mechanism including the transfer of European funds. Hence, the proposal dares "*a qualitative leap in the integration of the Eurozone with the adoption of a special Euro treaty and a major transfer of sovereignty*" (Glienicker Gruppe, 2013).

5.2. THE BUDGET FOR THE EUROZONE AND THE UNITY OF THE EU BUDGET

In addition to these models or ideal types, a wide range of combinations have been proposed and discussed, with additional elements like Eurobonds, an expanded ESM, an EMU insolvency regime, a debt redemption fund or a borrowing capacity for the Euro area and, finally, new bodies and institutions for the Euro area. Although, a broad sympathy for automatic stabilisers or shock absorbers in the Euro area exists, there is still no consensus on one model or the elements. The proposals differ in their purposes and tasks, the revenue, the expenditure, the governance and finally the question of installing the fiscal capacity inside or separately from the EU budget.

The specific purposes pursued, with the idea of a Eurozone budget, have different consequences for the unity of the budget. If the central objective is to create a mechanism of macro-economic stabilisation the size, the priorities of spending and maybe the sources of revenue should allow for counter-cyclical policymaking. If the main objective is to create a limited fiscal capacity, as European assistance to implement structural reform in the Member States, the size of the capacity might be distinctly smaller, the spending limited to and focused on national reforms and even the revenue side of this instrument might be not that important.

Hence, with regard to the European budget, all these options pose questions for the system of revenue, expenditure and governance. Should a budget for the Euro area be financed by national contributions or tax based, via a European tax? Should a detached budget be controlled by EU bodies or by separate Euro area institutions? Who should implement this budget and who should grant discharge?

To summarize, the debate should address at least five issues:

1. *Purpose and tasks:* Currently the EU budget already transfers European funds between the Member States and between policies. However, the major purpose of this type of vertical transfers is not to balance economic cycles and provide buffers against asymmetric shocks, but to even out the divergent levels of welfare between Member States and regions.
   If the task of the Eurozone budget is to finance counter-cyclical macro-economic measures in case of asymmetric or symmetric shocks, the payments have to be paid out quickly and immediately to obtain a stabilising effect. The funds available for measures on the demand side certainly have to be bigger than for measures which are simply to assist limited and targeted national reforms.

   This obviously means the intended purpose of a fiscal capacity will influence the decision-making process for rapid spending and the volume of revenues and thus will have consequences for the EU budget including the necessity of treaty changes.
2. *Expenditure:* The idea of combining European assistance with contractual arrangements inherently defines the priorities of spending. These should be fixed in bilateral contracts and focused on national reforms, as listed and explained in the country specific recommendations in the framework of the European Semester.

The proposals to use the Eurozone budget as a buffer against asymmetric or symmetric shocks are still vague on the question, where to spend and for what purpose, using the funds of the capacity. A paper published by the French Ministry for Economics and Finance argues for a Euro area budget comprising three principal instruments: (1) an investment budget to foster economic convergence, (2) a common unemployment insurance scheme and (3) an extended ESM to protect Member States against any liquidity crisis. The proposed investment budget, as a permanent investment stream, should account for at least 2% of Euro area GDP and finance public investments in progressing countries, especially in infrastructure but also investments in human capitals, like R&D, innovation and education. Counter-cyclical spending in times of recession would require higher spending than GDP growth and lower spending in good times.

However, it still seems unclear which investment priorities should be financed through a Eurozone investment capacity and which should be implemented with European structural funds and cohesion policy for the EU-27, which cover very similar spending priorities.

3. *Revenue:* In general, three types of revenue are considered to finance an EMU fiscal capacity or budget: (a) contributions from national budgets of Member States in the Euro area or participating in the capacity; (b) some form of tax collection or contributions stemming from national social insurance systems, i.e. unemployment insurance; and (c) a borrowing capacity, at least as an additional source of revenue.
   The proposals for new own resources, included a European financial transaction tax or contributions from the banking sector. Some argue for seigniorage stemming from the European Central Bank and others claim that European revenue should not be constrained by annual balanced budget requirements (Bara et. al. 2017, 8).
   National budget contributions according the national GDP would certainly fit into the existing system of own resources, whereas the option of revenue stemming from national social insurance systems would require new own resources and at least a borrowing capacity option would require a Treaty change.
   If the capacity were to function as a macro-economic buffer, the size of the current EU-budget might be too small and the own resources ceiling too low for a significant capacity. To raise this own resources ceiling, the consensus of all Member States and the ratification by all national parliaments is required, which might become a high hurdle.
4. *Governance:* The proposal for a specific Eurozone budget is often combined with the idea of establishing new institutions specifically for the Eurozone, such as a Eurozone Minister of Finance or a Eurozone Parliament. Thus, this idea is not only challenging the unity of the EU budget, but also the unity of EU institutions. The creation of a Euro-Chamber or a Eurozone Parliament, composed of national and European parliamentarians, could be interpreted as a step back to the seventies, to the days of dual mandates before the first direct elections to the European Parliament. Moreover, competences and tasks of this chamber are still not clear and require concrete definition and delineation of the tasks of national parliaments and the EP.
5. *Within or separated from the EU budget:* With regard at the unity of the EU budget, the idea of a separate or additional Euro zone budget or a fiscal stabilisation capacity has basically two options:

   (a) Within the EU budget:

   The way to establish a fiscal capacity for the Euro area within the EU budget would mean solving the problem of differentiation and concentration on Euro area Member States. On the revenue side of the budget, this would mean to assign revenue to a specific budget line and to collect this revenue from a specific group of Member States inside the Euro area. The option to collect assigned revenue was already proposed by the Commission in its communication on a Eurozone convergence and competitiveness instrument in 2013 (European Commission 2013). This assigned revenue, according to Art. 21 of the Financial Regulation, need not be part of the procedure to adopt the European annual budget as laid down in Art. 314 TFEU, but the contributions of the Member States would be incorporated in the EU budget. On the expenditure side, a basic act must assign this revenue to specific items of expenditure. This could mean establishing a new MFF heading for the benefit of only a group of Member States. Both seem possible and there are some examples for these requirements. One example for this differentiation is enshrined in the Stability and Growth Pact; revenue stemming from the corrective arm is assigned to the EFSF (Art. 10 regulation on the effective enforcement of budgetary surveillance in the Euro area).

(b) Outside the EU budget and separated from EU governance:

The option to create a Euro area budget, outside the EU budget, would possibly be easier and straightforward, but it would certainly enhance institutional fragmentation and differentiation, add complexity and lack transparency, and contradict the principle of unity. Moreover, financing a new Eurozone capacity or budget with the old system of mainly GNI-based contributions of Member States, would hinder the fledgling debates aimed at reforming the current, unsatisfactory, system and introducing a genuine European own resource. This option would certainly mean establishing a separate budget, which is significantly bigger than the current EU-27 budget, with similar spending priorities such as investment in infrastructure and R&D reserved for Eurozone members.

Should the European Commission implement the Eurozone budget and decide, evaluate and monitor investment projects in the Euro area? Which parliament should then monitor, scrutinise and grant discharge to the Commission? Additional questions concerning this new institutional structure are if, and why, an enforced ESM should to be included in the EU? Integration into the Eurozone core might be sufficient.

It remains unclear, how to distinguish revenue and expenditure from the EU budget without driving a wedge into the unity of EU budget and of EU institutions. The approach requires Eurozone specific institutions, a Euro area executive controlled by a Euro area parliamentary body. The integration of this core into the existing EU-27 and the fundamental legal requirements into the European Treaties might be more difficult than to negotiate a completely new Eurozone Treaty.

Table 4: The Eurozone-budget and the unity of the EU budget

Type of Fiscal Capacity	Purpose & Tasks	Size & Revenue	Spending	EP scrutiny and discharge	Inside or Outside the EU budget	Legal requirements & Community method
Limited Fiscal Capacity	• assistance for national reform • limited tasks • indirect macro-economic stabilisation	• small financial size • assigned revenues • within MFF-ceilings (possible)	• assistance to national policies • linked with economic cooperation (CSR, European Semester) • as part of cohesion policy possible	• ex ante and ex post budgetary rights • scrutiny and discharge by EP	• inside MFF (new heading) • part of annual budget	• Community method for policy making and decision-making • no treaty change necessary • part of MFF negotiations
Insurance Type (Rainy Day Fund or Unemployment Insurance)	• macro-economic stabilization for asymmetric shocks • in recession as buffer against economic downturn	• contributions from national budgets or national insurance schemes • on basis of cyclical indicators	• insurance for crisis • growth and employment • investments or unemployment	• ex post-discharge and scrutiny by EP • limited ex ante participation	• fond and insurance scheme • outside MFF	• intergovernmental treaty for "rainy day fund" • treaty change for European unemployment insurance
Fully-fledged Eurozone Budget	• counter-cyclical macroeconomic stabilisation • buffer against symmetric shocks	• borrowing capacity • new own resources • higher own resources ceiling	• investment capacity & unemployment scheme • ESM	• no involvement of EP as such • only Eurozone-Parliament, chamber or Eurozone-only sessions • cooperation with national parliaments	• outside EU-budget	• new Euro area treaty or comprehensive treaty change • new Eurozone institutions (executive, parliament)

5.3. THE EUROPEAN PARLIAMENT'S ROLE

The European Parliament has already extensively debated and decided on the option and design of a fiscal capacity for the Euro area. In January 2016, the Bresso/Brok-report for the EP's Committee on Constitutional Affairs called for the establishment of a fiscal capacity within the EU budget but outside the MFF ceiling; the final resolution was adopted in February 2017 (European Parliament 2017b). The more specific work and discussion on this topic took place in the Committee on Budgets and the Committee on Economics and Monetary Affairs. The Böge/Berès-report, two working documents and finally the resolution, adopted on 16 February 2017, all picked up the various proposals.

The Committees discussed the tasks, purposes, the legal basis and necessities, the question of governance of a fiscal capacity and the consequences of differentiation. Finally, the EP supported the proposal to create a fiscal capacity inside the EU budget as a case of assigned revenues. However, the Parliament adopted some general principles for the capacity:

- The fiscal capacity should compound the ESM with a "specific additional budgetary capacity", which should be part of the EU budget but above MFF ceilings.
- It should be financed by the members of the Euro area, and participating Member States, via a new source of assigned revenue. In time, the capacity should be financed through EU own resources.
- Three pillars should cover the purpose and the policy objectives:
  a) the financing of structural reforms;
  b) economic convergence as a buffer against asymmetric shocks and;
  c) the absorption of symmetric shocks.
- The governance of the new instrument should follow the community method. The institutional set up should merge the office of President of the Euro group with that of the Commissioner for Economic and Financial Affairs and so establish a Vice-president of the European Commission responsible for the fiscal capacity.

To sum up, the EP noticed early on that the debate on a Euro area fiscal capacity will not only affect its budgetary policy participation and scrutiny rights, but also its role in the institutional set up of the European Union. The question on how to design, establish and implement a central fiscal capacity, or a separate budget for the Euro area, is above all a question of democratic legitimacy, distribution of powers, subsidiarity, national sovereignty on fiscal and budgetary policy making and, therefore, a question of parliamentary policy. Fiscal stabilisation and risk sharing via European structures and institutions must go hand in hand with a shift of sovereignty and powers from national to European levels of policy-making, decision making and democratic surveillance. Creating a fiscal stabilisation instrument inside or outside the EU budget, within the framework of an EU institutional set-up or separately with new instruments, structures, institutions and procedures, and even a new legal basis, are not technical but highly political questions.

6. CONCLUSION

The negotiations on a new MFF post-2020 will take place under very difficult circumstances and with an extremely complicated timetable. Brexit makes the negotiations and the schedule even more difficult. There will certainly be a gap in European resources when one of the biggest net-payers to the EU budget leaves the Union. However, the exact size of this gap will only be known at the end of the Brexit negotiations. The gap might become smaller as the United Kingdom pays for its commitments as Member State. Moreover, with regard to the long-term gap, the negotiations might lead to annual payments into the Union's budget for any British participation in specific EU programmes or agencies. However, when the negotiations have settled the next MFF post-2020 one will not be speaking of a Brexit gap, but of a new MFF for the EU-27. The EU-27 will have to show whether the Union is, ready, willing and able to take advantage of the political impact of Brexit (Becker 2017b).

A fundamental and comprehensive overhaul of the EU budget that aims to reform the European budget from scratch seems impossible. MFF negotiations are certainly not the right venue to negotiate a completely new system or questions regarding the distribution of competences that would make Treaty changes necessary.

The European budget may still be a "*historical relic*" and doubtless a matter for reform. However, the negotiations on the post-2020 MFF are not negotiations on new European Treaties or on the distribution of powers and competencies. To introduce a genuine new own resource in the sense to introduce an own European tax and the right to tax, for example, would require Treaty change as well as a European unemployment insurance scheme, and a new fully-fledged Eurozone budget would need a new European Treaty.

For this reason, the path of gradual, and long-term, reforms within existing European spending priorities towards new objectives and content seems more realistic than a fundamental change of system. This might be not the best but is possibly the most pragmatic and realistic option. The structure and spending priorities of the EU budget might continue to appear old-fashioned, but the policies themselves could be modernized, more clearly oriented, and aligned to European public goods and common goals. The headings could keep their old names, but European funds would be used to finance new policies. Budgets and the result of budget negotiations are always second-best solutions.

The principle of budgetary unity requires that the budget presents all revenue and expenditure. However, exemptions and satellite budgets sometimes seem necessary under specific conditions. In order to respect the principles of unity and universality, the creation of satellite budgets or funds should remain an exception and should be limited.

Nevertheless, the Union needs more budgetary flexibility to react quickly to new challenges and, in the long term, a more flexible MFF in a rapidly changing political environment would require a greater degree of political and budgetary autonomy for the EU to interpret the need for action and the scope of funding. However, Member States currently prefer to control the degree of autonomy and flexibility. They rather look for solutions outside the budget with different groups of participating Member States or create new instruments, like the European trust funds focussed on specific and limited tasks. Consequently, this policy accelerates differentiation and budgetary fragmentation. This policy of differentiation and fragmentation must not lead to a loss of democratic budgetary legitimacy and parliamentary scrutiny.

Consequently, it might be a pragmatic solution to agree on general rules and principles, balancing flexibility and differentiation with democratic legitimacy and scrutiny, and thus avoid ad hoc solutions, which are still preferred by Member States. This pragmatism, however, should avoid new subsidiary budgets, with a new Treaty and new institutions, being created alongside the original Union's budget and being even bigger than the original EU budget.

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The traditional issues of European budgetary negotiations are the size of the budget, the distribution of funds and the system of own resources. Under difficult circumstances, the negotiations on the new MFF post-2020 will start in 2018 and should be concluded by the end of 2019 or no later than the beginning of 2020.

The unity of the EU budget is a cornerstone of European budgetary policy. However, a complete unity of all revenue and expenditure, and all financial instruments has not yet been achieved. Today the budgetary system is characterised by differentiation, fragmentation and increased use of 'satellite' instruments, and debates on additional financial instruments, like a budget for the Eurozone. The question of how to integrate these instruments into the Union's budget system and thus guaranteeing democratic scrutiny, should be an additional issue of the negotiations on the MFF post-2020.

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