European Parliament

Future financing of the Union: MFF, Own Resources and Next Generation EU

On 21 July, EU Heads of State or Government reached a political agreement on the future design of EU finances. The next step involves negotiations between Parliament, whose consent is required for the adoption of the EU's multiannual financial framework (MFF), and Council. In an extraordinary part-session two days later, Parliament is expected to vote on a motion for a resolution that confirms Parliament's readiness to enter immediately into negotiations to improve the deal and sets out conditions for its consent to the MFF.

European Commission proposal

The current MFF, also known as the EU's long-term budget, comes to an end in December. On 2 May 2018, the European Commission put forward proposals for the 2021-2027 MFF, including a reform of the own resources system that ensures its financing. Proving lengthy, negotiations have recently become intertwined with the debate on the creation of a common EU tool to counter the severe socio-economic impact of the coronavirus pandemic. In May 2020, the Commission tabled revised proposals for a lower MFF worth €1 100 billion (2018 prices) and its financing, together with a proposal for a €750 billion recovery instrument, Next Generation EU (NGEU). Unlike the MFF, the latter would be financed with funds borrowed on the capital markets, and reinforce EU budgetary instruments in the first half of the new financing period.

Outcome of the July 2020 European Council

In the second longest European Council meeting ever (17-21 July 2020), Heads of State or Government reached political agreement on a package worth €1 824.3 billion (see Figure) combining the new MFF (€1 074.3 billion) with the recovery instrument, NGEU (€750 billion). Climate mainstreaming will apply to both components, devoting up to €547 billion to climate-relevant projects (i.e. 30 % of total resources). As regards the protection of the EU's financial interests and respect for the rule of law, the introduction of a regime of conditionality was announced but the wording may be open to interpretation.

Own resources system

The own resources ceiling, the maximum level of resources that can be called from the Member States annually, will be modified as proposed by the Commission. It will rise permanently from 1.20 % to 1.40 %, of the EU's total gross national income (GNI) to take account of developments such as the smaller total GNI of the post-Brexit EU and the uncertain economic outlook owing to the pandemic. In addition, a temporary increase in the ceiling, worth a further 0.60 % of EU GNI, will be devoted exclusively to borrowing operations for NGEU and apply until December 2058 at the latest. This temporary increase enables the Commission to borrow on a much larger scale than in the past, and aims to preserve the Union's AAA credit rating. A new own resource based on non-recycled plastic waste will be introduced as of 2021, which should be a first step in a broader reform. The European Council invites the Commission to make proposals for other new own resources: a border carbon adjustment mechanism and a digital levy, and a revised proposal linked to the EU's Emissions Trading System (ETS). Contrary to the Commission proposal, the corrections that reduce the contributions of five Member States (Austria, Denmark, Germany, the Netherlands and Sweden) to the EU budget will not be phased out, but maintained and, overall, increased. In addition, the collection costs that Member States retain on customs duties, often deemed a hidden correction, will rise from 20 % to 25 %.

2021-2027 MFF

The €1 074.3 billion for the new MFF represents a decrease in resources when compared to the current MFF (excluding the UK but including the currently off-budget European Development Fund). The new MFF is structured into seven policy areas ('headings'). As compared to the Commission proposal of May 2020, appropriations for cohesion policy and agriculture have been increased (by 2.2 % and 0.9 %), confirming Member States' attention to funds with geographically pre-allocated expenditure. 'Migration and Border Management' and 'Security and Defence', the two headings afflicted by the largest relative cuts, have

Author: Alessandro D'Alfonso; Graphic: Nadejda Kresnichka-Nikolchova, Members' Research Service
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higher allocations than in 2014-2020, but significantly lower than in the Commission proposals and in Parliament's position of November 2018. The same applies to programmes considered to be investments in EU common goods such as Horizon Europe (-6.2 % on the revised Commission proposal) and Erasmus (-13.8 %). Special instruments outside the MFF ceilings to tackle unexpected events amount to €20.1 billion for the entire period, including a €5 billion reserve to counter the impact of Brexit.

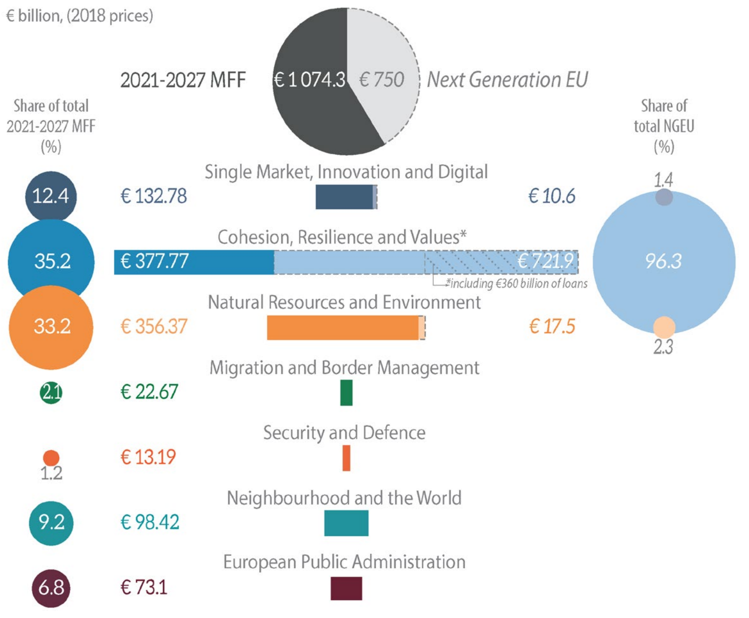
Next Generation EU (NGEU)

The total volume of the EU recovery instrument is kept at €750 billion, but the mix of grants (€390 billion, down from €500 billion in the proposal) and loans (€360 billion, up from €250 billion) changes. The time available for commitments is shortened by one year (2021-2023 instead of 2021-2024). While the resources for the Recovery and Resilience Facility (RRF) increase further, the cuts to the grant component reduce reinforcements that NGEU was planned to provide to various EU budgetary instruments (e.g. Horizon Europe and Just Transition Fund) or eliminate such top-ups altogether (e.g. Health programme, development and humanitarian aid). The idea of a Solvency Support Instrument is dropped. The bridging solution to finance some action in 2020 already, through an amendment of the current MFF is dropped, but the RRF and REACT-EU should be able to finance retroactively eligible measures launched as of February 2020. In 2023, the allocation key for the RRF will take account of new data on the impact of the pandemic.

Some reactions

The *Financial Times* has dubbed the deal momentous, arguing that it provides for a large and timely stimulus, thus supporting both the single market and economic and monetary union (EMU). Guntram Wolff, Director of the Bruegel think-tank, finds the deal good and balanced overall, but identifies increased rebates and cuts to the amounts initially proposed for various future-oriented programmes as two downsides. Professor Brigid Laffan argues that the agreement on collective borrowing makes this the most significant budgetary deal in the history of the EU.

European Council figures for the MFF and NGEU



Source: EPRS, based on data from the European Council, 2020.

European Parliament

Parliament is a strong advocate of a robust MFF and has been ready to negotiate with the Council since November 2018. It confirmed and updated its negotiating mandate in October 2019. In May 2020, Parliament demanded a bold recovery package, including the next MFF, and built on the EU budget. Commenting on the outcome of the July meeting, Parliament's negotiators on the MFF and own resources welcomed the fact that the European Council eventually reached a common position, as well as the launch of a recovery instrument financed through borrowing. However, they were critical of essential elements of the compromise, such as cuts to the core MFF (long-term investments) and insufficient modernisation of the own resources system, warning that Parliament's consent should not be taken for granted. They noted that if Parliament's conditions are not met sufficiently, the recovery instrument could be launched while programmes could be adopted on the basis of the current MFF (with the Treaty providing for an automatic extension of the 2020 ceilings if a new MFF is not adopted). Several political groups have tabled a motion for a resolution confirming Parliament's readiness to enter into negotiations immediately and setting out the conditions for its consent to the MFF. Elements expected to be at the heart of negotiations include: a firm commitment to introducing a basket of new own resources to repay borrowed funds; a repayment plan that should not reduce other MFF expenditure in the future; a strong mechanism on respect for the rule of law; and a reform of the EU's Financial Regulation to reconsider the budgetary treatment of external assigned revenue that is expected to finance the EU budget on an unprecedented scale under NGEU.