BRIEFING

Long-term EU budget for 2021 to 2027: State of play

SUMMARY

New financing needs, not foreseen when the EU's long-term budget for 2021 to 2027 was finalised, have arisen in recent months, reflecting multiple crises.

From the very outset, in 2021, implementation of the EU's 2021-2027 budget faced challenging circumstances, with the pandemic and its consequences. In response, the EU and its Member States mobilised €3.7 trillion overall, with the EU budget providing direct support of €70 billion to help EU citizens and enterprises, and countries outside the EU, cope with the COVID-19 crisis.

Financial pressure amplified in 2022 with Russia's war of aggression against Ukraine. The EU and its Member States have so far provided €72 billion in financial, military and humanitarian aid for Ukraine. The war has, in addition, led to inflationary pressure, diminishing the real-terms value of financial resources.

The EU's budgetary resources for the current financial period from 2021 to 2027 were originally set at €1.8 trillion from the multiannual financial framework (MFF) and from the EU's temporary recovery instrument, Next Generation EU (NGEU). These resources have been consumed much faster than anticipated. The funds set aside for responding to unforeseeable events, the special instruments, earmarked €10.5 billion for the years 2021 to 2024 and are almost entirely depleted. The European Parliament has called repeatedly for a meaningful and urgent revision of the EU budget.

This briefing presents the state of the EU's finances as initially set for 2021 to 2027, as updated in June 2023, and provides an overview of how the EU's financial means have been impacted by two major unexpected crises. It provides background information in view of the Commission's adoption of the MFF revision, scheduled for 20 June 2023.

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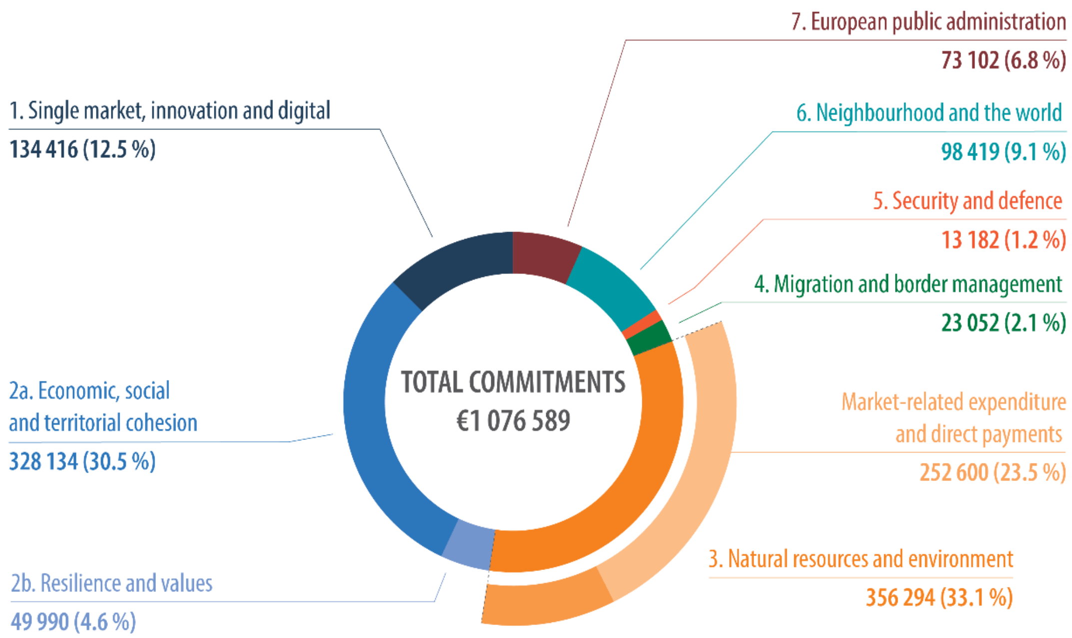
Introduction

The current multiannual financial framework (MFF) sets out the structure for EU spending from 2021 until the end of 2027, while the Next Generation EU (NGEU) recovery instrument significantly reinforces the resources channelled through EU budgetary instruments over the years 2021 to 2023. The withdrawal of the United Kingdom (UK) from the EU on 31 January 2020 and the end of the transition period on 31 December 2020 make this the first long-term budgetary framework not to include the UK. In the current programming period, further reform of the financing system is envisaged on the basis of Commission proposals on the revenue side, in line with the agreed roadmap, and on expenditure, including possibly a revision of the current MFF.

1. EU spending for 2021 to 2027: Structure and priorities

Figure 1 – EU financing for 2021-2027 per heading (2018 prices, commitments, in € million)



Data source: COM(2023) 320.

1.1. Ceilings for commitments and payments

Table 1 shows the maximum level of resources available for each major category of EU spending under the traditional MFF each year until 2027, taking into account the technical adjustment for 2024,[1] in accordance with Article 4 of Council Regulation 2020/2093 laying down the 2021-2027 MFF. Appropriations total €1 076.589 billion for commitments and €1 065.558 billion for payments (2018 prices). The figures include the calculation, as from the year 2022, of additional allocations for specific programmes referred to in Annex II to the MFF Regulation. During the last MFF negotiations, Parliament secured a total increase in the ceilings of €11 billion for the whole 2021-2027 period.

Any margins left available between relevant ceilings and the appropriations authorised by the budgetary authority for the annual budget represent potential additional resources that amending budgets can mobilise during the year to address new challenges and unexpected events. At the same time, the Single Margin Instrument enables use to be made of the margins that were left available under commitments ceilings in previous budget years.

With regard to payments, the ceilings are higher in the first 2 years of the programming period before stabilising at €151 billion from 2024 in 2018 prices. That feature may help to avoid a repeat of the issue of payments backlogs that afflicted the initial years of the 2014-2020 MFF. Payment needs tend to increase during the transition between programming periods, because many projects financed under the old generation of programmes come to completion.

For 2021,[2] the first year of the current MFF, the European Court of Auditors (ECA) reported an increased level of absorption of the 2014-2020 European structural and investment (ESI) funds, with cumulative payments reaching 67 % (compared to 55 % at the end of 2020), but noted delays – with almost no payments for the 2021-2027 ESI funds. According to the ECA, while outstanding commitments relating to the EU budget decreased considerably, at €251.7 billion by the end of 2021, €89.9 billion of outstanding commitments relating to NGEU had been added. Unlike previous years, budget implementation in 2021 was low for commitments but high for payments and the ECA points out that 'this is the first time that this has happened for the last 40 years'.

Through the technical adjustment made by the European Commission in June 2023, total payment appropriations per year have been increased towards the end of the programming period, as spending had focused in priority on the national recovery and resilience plans (NGEU), delaying implementation of cohesion programmes for 2021 to 2027.[3] In addition, since 2022, unused resources under the payment ceiling from the previous year may be used to adjust the payments ceiling of subsequent years upwards, by means of the Single Margin Instrument, which is designed to increase the flexibility of the framework (see below).

Table 1 – MFF for the 2021-2027 period (€ million, 2018 prices), including technical adjustment for 2024

Commitments	2021	2022	2023	2024	2025	2026	2027	Total 2021-2027
1. Single market, innovation and digital	**19 712**	**20 211**	**19 678**	**19 178**	**18 518**	**18 646**	**18 473**	**134 416**
2. Cohesion, resilience and values	**5 996**	**62 642**	**63 525**	**65079**	**65 286**	**56 787**	**58 809**	**378 124**
2a. Economic, social and territorial cohesion	1 666	56 673	57 005	57 436	57 874	48 414	49 066	328 134
2b. Resilience and values	4 330	5 969	6 520	7 643	7 412	8 373	9 743	49 990
3. Natural resources and environment	**53 562**	**52 626**	**51 893**	**51 013**	**50 107**	**48 932**	**48 161**	**356 294**
of which: market-related expenditure and direct payments	38 040	37 544	36 857	36 054	35 401	34 729	34 015	252 640
4. Migration and border management	**1 687**	**3 104**	**3 454**	**3 569**	**3 820**	**3 682**	**3 736**	**23 052**
5. Security and defence	**1 598**	**1 750**	**1 762**	**1 779**	**1 952**	**2 078**	**2 263**	**13 182**
6. Neighbourhood and the world	**15 309**	**15 522**	**14 789**	**14 056**	**13 323**	**12 592**	**12 828**	**98 419**
7. European public administration	**10 021**	**10 215**	**10 342**	**10 454**	**10 554**	**10 673**	**10 843**	**73 102**
of which: administrative expenditure of the institutions	7 742	7 878	7 945	7 997	8 025	8 077	8 188	55 852
TOTAL COMMITMENTS	**107 885**	**166 070**	**165 443**	**165128**	**163 560**	**153 390**	**155 113**	**1 076 589**
TOTAL PAYMENTS	**154 065**	**157 568**	**152682**	**151 436**	**151 175**	**151 175**	**151 175**	**1 065 558**

Data source: Annex to the communication from the Commission on the technical adjustment of the multiannual financial framework for 2024, COM(2023) 320.

Looking at the evolution of ceilings for commitments within the current programming period, upward trends can be seen to characterise the following headings: 4 – Migration and border management; 5 – Security and defence; 7 – European public administration and sub-heading 2b - Resilience and values. The opposite is true for the following headings: 1 – Single market, innovation and digital; 3 – Natural resources and environment including direct payments under the common agriculture policy; 6 – Neighbourhood and the world and sub-ceiling 2a – Economic, social and territorial cohesion. In this MFF, for the first time, expenditure relating to 'Migration and border management' and 'Security and defence' have each been allocated their own specific heading.

In addition to the distribution of resources between headings, the current MFF and NGEU have horizontal priorities involving different headings. Climate mainstreaming[4] is the incorporation of climate considerations and objectives across all major spending programmes. The political agreement reached by Parliament and the Council on the current MFF included an increase in the climate mainstreaming objective from 20 % of total resources in the past framework to 30 % in the years 2021 to 2027. This strengthened objective applies both to the MFF and Next Generation EU.

As advocated by Parliament, the current interinstitutional agreement on budgetary matters[5] includes provisions to strengthen climate mainstreaming methodology and to introduce corrective measures in the event of insufficient progress towards the 30 % objective. In addition, Parliament managed to obtain a commitment to the development of methodologies for a biodiversity spending target (7.5 % in 2024 and 10 % from 2026) and to measure expenditure's gender impact.

1.2. Special instruments

The MFF includes five special instruments, with resources on top of the MFF ceilings.

There are two types of special instrument:

- 'thematic special instruments' (the Solidarity and Emergency Aid Reserve, the European Globalisation Adjustment Fund and the Brexit Adjustment Reserve), which provide for flexibility and additional means for specific events or budget lines; and
- 'non-thematic special instruments' (the Flexibility Instrument and the Single Margin Instrument), which offer the possibility of addressing more generally unforeseen circumstances or new and emerging priorities throughout the duration of the MFF.

For three special instruments (the Solidarity and Emergency Aid Reserve and the two 'non-thematic special instruments'), unused amounts can be carried over to subsequent years. Four out of the five special instruments have annual or total amounts available, set in the MFF Regulation, including the Brexit Adjustment Reserve, which is designed to counter unforeseen and adverse consequences in the Member States and sectors worst affected by the UK's withdrawal from the EU. Table 2 sets out the amounts available for those four instruments.

Table 2 – Four special instruments with specific (annual or total) amounts available outside the MFF ceilings (commitments, 2018 prices, € million)

Special instrument	Annual amount	Total amounts for 2021 to 2027
European Globalisation Adjustment Fund	186	1 302
Solidarity and Emergency Aid Reserve	1 200	8 400
Brexit Adjustment Reserve		5 000
Flexibility Instrument	915	6 405
TOTAL		**21 107**

Data source: Council Regulation 2020/2093 as updated by COM(2023) 320.

The fifth special instrument, the Single Margin Instrument, has no pre-fixed amounts, but enables ceilings to be raised in a given year by resorting either to unused margins from previous years or to resources to be offset from ongoing and subsequent years. Its annual use is capped at 0.04 % of EU gross national income (GNI) for commitments, and 0.03 % of EU GNI for payments. For unused margins from previous years, different rules apply for payments, which are automatically transferred to the following year, and for commitments, which may be mobilised by Parliament and the Council in the framework of the budgetary procedure.

2. Unexpected challenges

Since the beginning of the current financial framework, the EU has had to deal with multiple crises and with two major consecutive shocks. First, the pandemic and its dire economic consequences and, second, Russia's war against Ukraine and the ensuing rising inflation and high interest rates.

2.1. COVID-19 pandemic

Right from the start of the 2021-2027 financial period, the EU budget had to deal with demanding financing needs to tackle the COVID-19 pandemic and its consequences. Even with the additional funds provided through a new European instrument, Next Generation EU, to counter the economic consequences of the pandemic, the EU had to lean heavily on budget flexibilities, which have been almost depleted in the first years of the MMF's implementation. The EU took numerous measures. Overall, the EU's economic response reached €3.7 trillion, including national measures and support in the form of loans, such as the European instrument for temporary Support to Mitigate Unemployment Risks in an Emergency (SURE) and support through the European Investment Bank for small and medium-sized businesses, with the EU's direct budget support standing at €70 billion.

The 2021 budget prioritised support for the recovery as well as healthcare, by channelling additional funds to the EU's health programme. To cope with greater needs, already at the time of adoption of the 2021 budget, the flexibility instrument was mobilised for €76.4 million under Heading 2b on Resilience and values. At the end of 2021, it was further used (€470 million) to reinforce the Union civil protection mechanism (rescEU) and to finance vaccines for third countries. Overall, in 2021, the special instruments mobilised, to provide resources on top of the ceilings, stood at €3.765 billion.

As soon as the 2022 budget was adopted, the EU agreed to use the Flexibility Instrument to mobilise €368.4 million to fight the pandemic, by increasing vaccinations for third countries (Heading 6).

2.2. Russia's war of aggression against Ukraine

Since Russia began its full-scale invasion on 24 February 2022, the EU has provided financial and humanitarian support, in line with its commitment to stand with Ukraine. By May 2023, more than 6 million refugees had fled the war and needed emergency shelter, medical care and education.

In 2022, the EU used cohesion policy funds for the 'Cohesion's Action for Refugees in Europe' (CARE) and FAST-CARE initiatives and €10 billion from the funds under the Recovery Assistance for Cohesion and the Territories of Europe (React-EU) programme.[6] Support provided directly or guaranteed by the EU budget stood at €11.6 billion, of which €1.4 billion in grants and exceptional macro-financial assistance of up to €9 billion in loans. At the end of 2022, with the EU's budget availabilities mostly consumed, the Union civil protection mechanism (UCPM) had to be reinforced, using up the whole of the remaining margin of two expenditure headings on 'Resilience and values' (€130.8 million) and 'Security and defence' (€83.7 million). That enabled the continued provision of in-kind assistance for Ukraine and covered the needs for the EU's aerial firefighting, also addressing the most critical defence gaps by promoting cooperation of Member States on common procurement. The EU additionally helped Member States to cater for refugees' needs through the programmes under Heading 4 on Migration and border management.

The budget for 2023 focused on providing more effective support for Ukraine and addressing the consequences of the war. It included a further €18 billion support package in the form of highly concessional loans (MFA+), backed by the EU budget. To finance support under the MFA+ instrument in the form of loans, the Commission was empowered, on behalf of the Union, to borrow the necessary funds on the capital markets or from financial institutions in accordance with Article 220a of the Financial Regulation.

Since the beginning of the full-scale invasion, the EU and its Member States have provided €72 billion for economic, military and humanitarian aid to Ukraine and for support for refugees within the EU. Humanitarian and financial needs remain substantial. Security and defence expenditure (Heading 5) has to bear additional expenditure to increase military mobility and cooperation, and notably for two new initiatives in this area, which have been built into the proposal for the 2024 budget (see below). The war and its consequences have significantly affected most of the EU's budget expenditure headings.

Already a few months after the start of Russia's war on Ukraine, the European Parliament pointed out[7] that the EU's financial means, including its flexibility for unforeseen provisions, were not sufficient to cover the financial needs arising from the war, and called on the Commission to present an MFF revision to take into account the war's long-term implications. When preparing the 2023 budget, Parliament underlined how complex and numerous the consequences of the war in Ukraine were, arguing that a substantial revision of the MFF had become urgent. It asked for a revision proposal to be submitted by the Commission no later than the first quarter of 2023, to increase the budgetary ceilings and make the EU budget more flexible, to enable the EU to respond to new needs relating to the war on Ukraine and its impact, notably rising inflation and energy prices. Parliament stated that those new challenges amplified the shortcomings of the current MFF, repeating the need to ensure a more robust and agile EU budget, with more financial means, to enable the EU to address the already existing funding gaps. According to the working document presented by the European Commission together with the REPowerEU action plan, the EU's aspiration to reduce dependence on Russian fossil fuels to zero and accelerate the green transition will require €210 billion in investment by the end of 2027, with REPowerEU investments corresponding to around 5 % of total investments for the 'fit for 55' package up until 2030.

Box 1 – Borrowing and lending programmes

The European financial stabilisation mechanism (EFSM), provides back-to-back loans to any EU country facing or threatened by severe financial difficulties, while the EU offers balance of payments assistance to EU countries outside the euro area facing difficulties regarding their balance of payments.

Set up in October 2020, the temporary Support to Mitigate Unemployment Risks in an Emergency (SURE) instrument, with a funding envelope of €100 billion, financed short-term employment schemes across the EU to keep people in jobs during the COVID-19 pandemic. A total of €98.4 billion was spent; the programme ended in December 2022.

In 2023, the macro-financial assistance (MFA) programmes, including the new MFA+ programme for Ukraine, will provide up to €18 billion for Ukraine in the form of highly concessional loans.

Euratom loans cover investment in nuclear power generation projects, or in nuclear safety improvements or decommissioning.

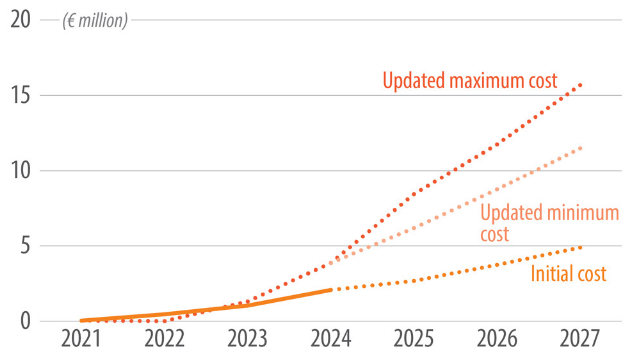
Looking at the medium to longer term, provision must be made for financial support for Ukraine's reconstruction and recovery. In a resolution of 2 February 2023 on the preparation of the EU-Ukraine Summit, Parliament called for Ukraine's relief, reconstruction and recovery to be supported by the necessary EU budget capacity. In March 2023, the cost of reconstruction and recovery of Ukraine was estimated by the World Bank at €383 billion over a period of 10 years. The European Council granted candidate status to Ukraine on 23 June 2022[8] and pre-accession support will have to be taken into account in future. It is unclear, however, whether Ukraine will be able to tap into the EU programmes envisaged for candidate countries or whether the EU will adopt a new separate financial instrument to finance Ukraine's running and recovery costs.

The shock of the war has increased inflationary pressure in the euro area, pushing up energy and food costs. In April 2023, EU annual inflation stood at 8.1 %, down from 11.5 % in October 2022. The EU budget is subject to a fixed annual deflator of 2 %, decreasing its real-terms value given the current inflation rates,[9] thus diminishing the EU budget's purchasing power. Inflation in the EU is expected to remain at 6.7 % in 2023 and decrease to 3.1 % in 2024.[10]

2.3 Increased NGEU borrowing cost

Before the NGEU was established, the Commission, on behalf of the EU, was already operating financial assistance programmes issuing debt on the market to support Member States or third countries, albeit on a much smaller scale (see Box 1).

Figure 2 – NGEU financing costs



Data source: European Commission, SEC(2023)250.

The establishment of the NGEU instrument in 2021, to provide support for recovery following the pandemic, tasked the European Commission with borrowing the necessary funds on the market on behalf of the EU. For that purpose, an increase in the own-resources ceiling of 0.60 % of EU GNI was agreed exclusively to guarantee borrowing operations for NGEU, to be applicable until the end of 2058. The Commission is therefore borrowing on a much bigger scale than ever before and the EU has become one of the largest issuers of euro-denominated debt. By the end of 2022, according to the Commission's half-yearly reporting on borrowing,[11] the EU had raised €171 billion for long-term funding for NGEU, €8.7 billion to finance SURE loans, and €7.5 billion for MFA loans. The Commission had made available a total of €162.6 billion, of which €93.5 billion in the form of loans and €45.2 billion as grants for Member States, and €23.9 billion for the EU budget for the programmes reinforced by NGEU. With NGEU's total envelope at €806.9 billion in current prices, the European Commission is expected to continue raising up to €150 billion per year on average until 2026, thus issuing much higher volumes in debt than before, with the amounts and schedule of repayments linked with the EU budget.

The EU will have to ensure timely reimbursement of interest costs and the debt related to the grant part of NGEU (€421.1 billion in current prices), to be covered by EU revenue, while loans (€385.8 billion) will be repaid by the Member States. Even if funds borrowed for NGEU loans are neither integrated nor recorded in the EU budget, they can have implications in terms of liabilities and risks. Furthermore, under its Heading 2b, the EU budget covers the cost associated with the funds borrowed on the capital markets on behalf of the Union in the framework of the European Union Recovery Instrument (NGEU).[12] The Own Resources Decision states that repayment must be scheduled, in accordance with the principle of sound financial management, so as to ensure the steady and predictable reduction of liabilities and limits the amount of annual repayments to 7.5 % of the total amount of the NGEU grants. All liabilities incurred by the borrowing of funds have to be repaid fully at the latest by the end of 2058.

By the end of 2021, the EU had an outstanding balance for its borrowing and lending operations of €271.23 billion. In the first half of 2023, the Commission intended to issue up to €80 billion, of which €70 billion for the NGEU and €10 billion for the MFA+ programme for Ukraine, while for the full year 2023, the borrowing decisions authorise up to €170 billion in long-term funding – greater in size than an average EU budget – and up to €60 billion in short-term funding.

At the time of the agreement on the budgetary package for the EU's financing for 2021 to 2027, including the MFF and the NGEU, the European Parliament underlined the need to introduce new own resources, sufficient to repay the repayment costs of NGEU, both the grant component and its borrowing costs. In a joint declaration, the European Parliament and the Council agreed that expenditure relating to NGEU should not affect other EU programmes or funds.

Sub-heading 2b on Resilience and values covers the financing costs of the non-repayable component of the EU Recovery Instrument (EURI) under cluster 6 on Recovery and resilience (budget line 06 04 01). The total amount of the NGEU financing cost for the 2021-2027 financial period was initially estimated at €14.9 billion. However, the steep rise in interest rates on the markets has multiplied the NGEU borrowing cost and thus the burden on the EU budget substantially.[13] The overall cost is estimated[14] at between €17 billion and €27 billion, assuming full disbursement of the grants component by the end of 2026. Cost overruns, additional to the financial programming, range from €15 billion to €24.45 billion for the 2025-2027 period (Figure 2).[15]

According to the Commission, the initial amount available for the financing cost of the EU recovery instrument (EURI) is nowhere near enough to cover the interest cost. In the financial programming accompanying its proposal on the 2024 draft budget, the Commission states that it will address this issue in the context of the forthcoming revision of the 2021-2027 MFF.

The Members of the European Parliament's Committee on Budgets have expressed deep concern, noting that increasing borrowing costs for NGEU could lead to severe cuts to the EU's ongoing programmes. The proposal presented for the 2024 budget bears the harmful consequences of a long-term budget that was designed too tight from the start. Members are calling for a solution with regard to NGEU borrowing costs and for a significant revision of the MFF to enable the proper financing of the programmes that exist to support EU citizens and enterprises. In April 2023, Parliament had expressed concern at the rising borrowing costs of the Recovery Instrument. It asked for an urgent and ambitious MFF revision, which would provide, by 1 January 2024, the architecture necessary to finance the borrowing costs, preserve existing programmes' envelopes and provide further flexibility and resources for emerging needs.

Box 2 – Borrowing cost of NGEU in 2024

For 2024, the borrowing cost of the NGEU instrument proposed in the draft estimates for the 2024 budget has increased by 53.6 % compared with the initial financial programming, to almost €3.9 billion (an increase of 194.1 % compared with 2023). The heading's margin (€84.9 million) was not sufficient to cover those additional needs. The Commission is therefore proposing to cover its financing in 2024 through the mobilisation of two special instruments: the Flexibility Instrument (€1 335.4 million, with no further amount available until the end of 2024) and the Single Margin Instrument (€372.8 million, leaving available €566.3 million), as well as the use of a carry-over from 2023 (€96 million) and of the remaining margin under sub-heading 2b of €84.9 million.

This situation makes it extremely difficult to increase other programmes under the same sub-heading 2b 'Resilience and values', such as Erasmus+, EU4Health, the Union civil protection mechanism or the European Solidarity Corps since there is no margin left and because the amounts for the Flexibility Instrument have been fully consumed with this proposal. The amount required to cover NGEU borrowing costs will be reassessed in the autumn, on the basis of updated information on the disbursements' profile and applicable interest rates.

Source: European Commission, Draft estimates for the 2024 budget.

3. Budgetary resources to rise to the challenges

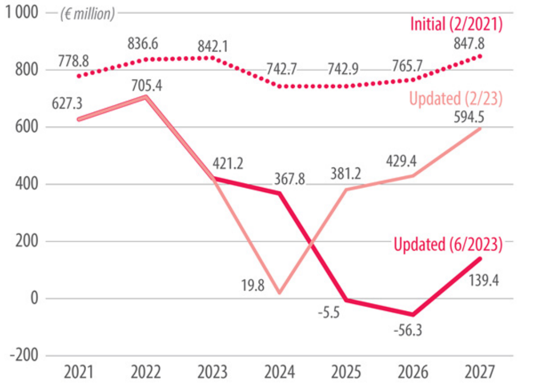
3.1. 2021-2027 MFF margins

The necessary funds for new initiatives or unforeseen events can be provided either from the margins under the ceilings of the different headings or from special instruments.

When the current MFF was agreed, the EU's recovery plan – NGEU – with €750 billion (in 2018 prices) was established to cope with the COVID-19 pandemic and its consequences. In February 2021, the overall margin available for the remaining years was projected at €5.5 billion. The situation has changed dramatically since Russia's full-scale invasion of Ukraine, triggering unprecedented financial support for Ukraine from the EU. Large parts of the MMF margins have now been used up, and the Commission's new estimate (June 2023) for the overall margin for 2021-2027 is at €2.7 billion (-51 %) compared with the margin initially envisaged at the start of the MFF (Figure 2).

Looking at the proposed 2024 draft budget, there is no margin left under the ceilings of three headings (Security and defence, Neighbourhood and the world and European public administration) and one sub-heading, demonstrating that the EU budget has no leeway either to increase any of the programmes under those headings or take on any new initiatives. Mobilisation of the instruments allowing additional funding beyond the MFF ceilings is already required to cover financing needs or new initiatives that have already been agreed. When the Commission presented the financial programming in February 2023, it was already clear that needs exceeded the funding possibilities under Heading 5 on Defence and security. The margin was therefore presented in February 2023 in negative numbers to cover part (€310.8 million) of the new €500 million 'European defence industry through common procurement act' (EDIRPA).

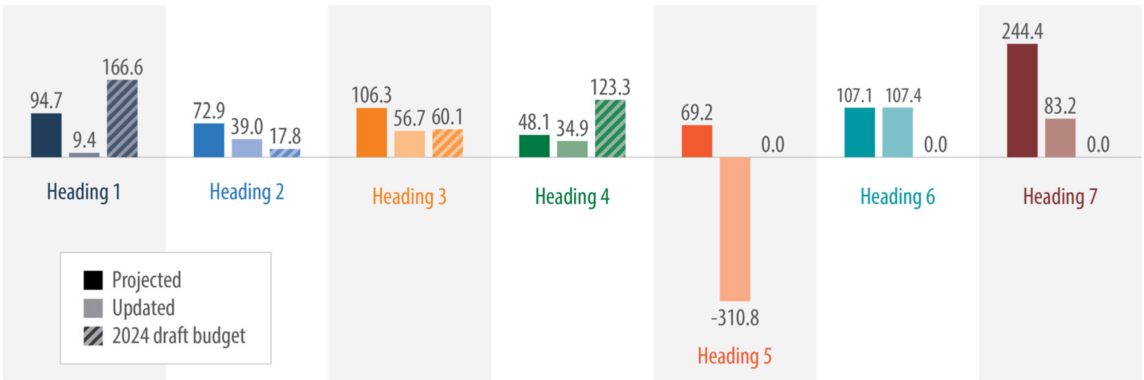
Figure 3 – Overall margins 2021-2027 (commitments, € million)



Data source: Financial programming 2/2021, 2/2023 and SEC(2023) 250.

In the 2024 budget proposal, the Commission is proposing to mobilise the Flexibility Instrument for €300.2 million to cope with the needs for EDIRPA and the new act in support of ammunition production (ASAP). Concerning Heading 1 – Single market, innovation and digital, the margin was increased in the 2024 draft budget proposal by means of a reduction of €250 million for the ITER-F4E joint undertaking. The Commission justified this by a delay in implementation of the ITER project and the use of part of this amount to reinforce the energy strand of the Connecting Europe Facility and the semiconductor strand of the Digital Europe programme (€50 million each).

Figure 4 – Overview of the development of margins for the 2024 budget year (commitments, € million)



Data source: Financial programming 2/2021, 2/2023 and SEC(2023)250.

For Heading 2b on Resilience and values, according to the 2024 draft budget, 16.5 % of the financing needs will be covered by the use of special instruments to meet the increased borrowing cost of NGEU (see above). Under Heading 4 on Migration and border management, unspent funds could be recovered from 2022 from decentralised agencies, in particular Frontex.

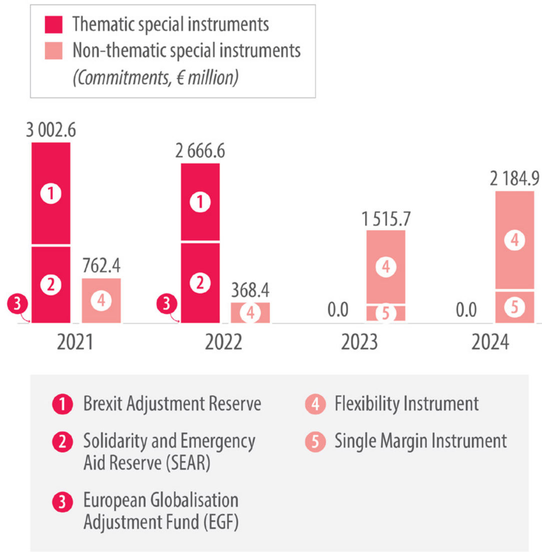
Regarding expenditure on Heading 6 – Neighbourhood and the world, the financial pressure will remain in 2024, owing to the ongoing need to support Ukraine and the neighbourhood countries, and assist the Syrian population and refugees in Turkey and Syria's other neighbouring countries. Lastly, higher inflation rates and rising energy costs are putting the European public administration under strain; an additional sum of €176.6 million is required for which the Commission proposes to mobilise the Single Margin Instrument.

3.2. Special instruments under the 2021-2027 MFF

The special instruments' contribution is essential to cover unforeseen needs. Under the current MFF, they have been mobilised for a total of €3.765 billion in 2021 and €3.035 billion in 2022.

The Solidarity and Emergency Aid Reserve (SEAR), covering the EU Solidarity Fund (EUSF) and the Emergency Aid Reserve, has been used extensively. The scope of the EUSF, initially designed for major natural disaster response, now includes public health emergencies. The thematic special instruments are only mobilised as needs arise.[16] This explains the zero amount for the years 2023 and 2024; implementation for 2023 is ongoing.

Figure 5 – Use of the special instruments 2021-2024



Data source: COM(2023) 320.

For the non-thematic instruments, there has been a 44.1 % rise in the amount earmarked in the 2024 draft budget compared with 2023. The Commission is proposing that the Flexibility Instrument be mobilised for a total of €300.1 million to finance two new defence initiatives (EDIRPA and ASAP) under Heading 5, and €1 335.4 million for the NGEU borrowing cost under Heading 2b. This consumes all the availabilities of this instrument until the end of 2024 (€605.1 million from 2023 and €1 030.4 million from 2024). To date, the special instruments have been or are proposed to be mobilised for a total amount of €10.5 billion, equivalent to 5.5 % of the 2024 budget proposal.

4. Revision of the MFF: The next steps

At the time of the agreement on the 2021-2027 MFF, the European Commission committed to present by 1 January 2024 a review (a technical assessment of the functioning of the MFF), that 'may, as appropriate, be accompanied by relevant proposals for the revision' (an amendment) of the MFF Regulation. As outlined above, the current MFF is under significant pressure from the multiple crises the EU is facing, not least Russia's war on Ukraine and the effects it has triggered.

Under Article 312 of the Treaty on the Functioning of the EU –TFEU, the MFF is adopted in the form of a regulation under a special legislative procedure, with the Council acting unanimously after receiving Parliament's consent expressed by an absolute majority. The same provision applies for any revision of the MFF. With funds and flexibility measures already widely depleted and further funding challenges still ahead, the European Parliament, in an own-initiative report adopted in December 2022,[17] called for an urgent and ambitious revision of the MFF. Members noted that the EU must provide itself with the means necessary to attain its objectives and carry through its policies (Article 311 TFEU). They recalled that, with funds and flexibility measures already extensively used and amidst high inflation, an ambitious revision of the MFF was urgently needed to address the funding gaps and allow the EU to finance its priorities. The revised MFF should provide the EU with a larger and more flexible budget and allow effective and faster crisis response.

More specifically, the European Parliament called for fresh funding in line with policy priorities that have emerged since the current MFF was agreed. It insisted that the debt repayment of the EU recovery instrument – which is non-discretionary, but subject to interest rate fluctuations – should be set outside the MFF headings in order both to preserve current spending programmes and to enable the budget to respond to emerging needs. Parliament finally emphasised the need to enhance parliamentary scrutiny and transparency over the EU financing instruments, in particular off-budget instruments. Parliament called on the Commission to present such a revision of the MFF no later than the first quarter of 2023.

In its 2023 work programme,[18] following pressure from the European Parliament, the Commission, announced that it would conduct the review earlier than initially planned, in the second quarter of 2023, with the objective of reassessing 'if the current EU budget continues to provide the means for common responses to common challenges'.

For Parliament, it is clear that the EU budget has no more leeway and only limited capacity to respond to new developments. The Commission is expected to present a proposal for a revision of the MFF on 20 June 2023. This will very likely include a new financing instrument for Ukraine and a proposal for new own resources. Parliament is expecting a courageous and bold proposal from the Commission to give the EU the resources it needs to achieve its ambitious objectives. Parliament will be fully involved in this process through the consent procedure, in line with the Treaty's provisions on interinstitutional cooperation (Article 312(5) TFEU) and the interinstitutional agreement (IIA) on budgetary matters (point 15).

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ENDNOTES

1. Annex to the communication from the Commission to the European Parliament and the Council, Technical adjustment of the multiannual financial framework for 2024, COM(2023) 320 final.
2. European Court of Auditors, Annual reports concerning the financial year 2021, October 2022.
3. G. J. Koopman, Cohesion policy and the Recovery and Resilience Facility: not just two sides of the same coin, ECA journal No 1 | 2022.
4. A. D'Alfonso, Mainstreaming of climate action in the EU budget: Impact of a political objective, EPRS, European Parliament, 2019.
5. Interinstitutional Agreement between the European Parliament, the Council of the European Union and the European Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management, as well as on new own resources, including a roadmap towards the introduction of new own resources, 22 December 2020.
6. REACT-EU is one of the programmes under the Next Generation EU. It totals €47.5 billion in 2018 prices and can be used until 31 December 2023.
7. European Parliament resolution of 19 May 2022 on the social and economic consequences for the EU of the Russian war in Ukraine – reinforcing the EU's capacity to act.

[8] For the 2021-2027 MFF, the Instrument for Pre-accession Assistance (IPA III) has been allocated €14.2 billion.

[9] For more on inflation and the EU budget, see F. Padilla Olivares, The impact of inflation on the EU budget, DG IPOL, European Parliament, November 2022.

[10] European Commission, Spring 2023 Economic Forecast.

[11] Report from the European Commission, Half-yearly report on the implementation of borrowing, debt management and related lending operations pursuant to Article 12 of Commission Implementing Decision C(2022)9700, COM(2023) 93 final, 22.2.2023.

[12] Article 5(2) second sub-paragraph of the Own Resources Decision: Council Decision (EU, Euratom) 2020/2053 of 14 December 2020 on the system of own resources of the European Union and repealing Decision 2014/335/EU, Euratom 14 December 2020.

[13] For more on the EU borrowing costs: G. Claeys, C. McCaffrey and L. Welslau, EU borrowing costs – Drivers and dynamics in times of rising rates, Policy Department for Budgetary Affairs, European Parliament, May 2023.

[14] European Commission, Statement of estimates of the European Commission: Preparation of the 2024 draft budget (page 9 of the Financial Programming 2025-2027), June 2023. Estimates are based on an assumption of full disbursement of non-repayable support by end 2026 and different scenarios for the evolution of the interest rates. Given the high degree of uncertainty with regard to the disbursement profile, the Commission has not updated the financial programming of the EURI line for the years 2025 to 2027.

[15] For more on the projected borrowing costs borne by the EU budget: G. Claeys, C. McCaffrey, L. Welslau, The rising cost of European Union borrowing and what to do about it, Policy Department for Budgetary Affairs, European Parliament, May 2023.

[16] In 2023, three proposals to mobilise the European Globalisation Adjustment Fund for Displaced Workers have been presented: two have been adopted and one is currently under discussion.

[17] European Parliament resolution of 15 December 2022 on upscaling the 2021-2027 multiannual financial framework: a resilient EU budget fit for new challenges (2022/2046(INI)).

[18] Commission 2023 work programme.

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