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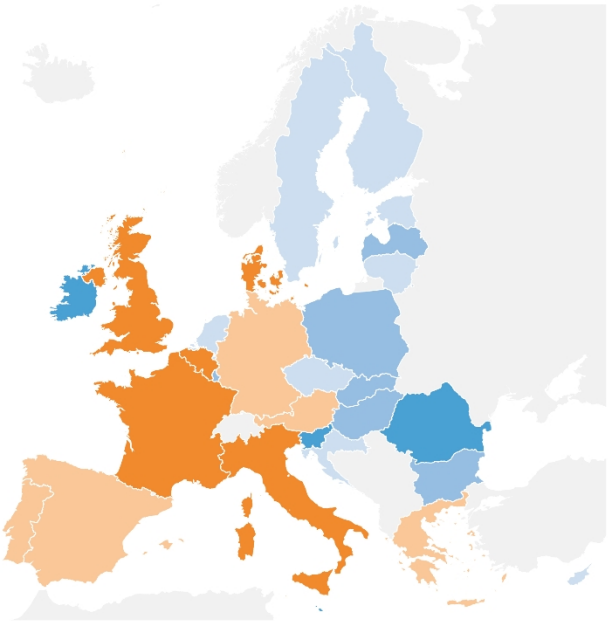
Economic and Budgetary Outlook for the European Union 2018



STUDY

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Economic and Budgetary Outlook for the European Union 2018

This study, the second in an annual series, provides an overview of the economic and budgetary situation in the EU and beyond. It summarises the main economic indicators in the EU and euro area and their two-year trends. It explains the annual EU Budget, provides an overview of its headings for 2018, and sets out the wider budgetary framework – the Multiannual Financial Framework (MFF) – currently covering the years 2014 to 2020. A special 'economic focus' aims to provide a bird's eye view of industry and industrial policy in Europe, and provides an overview of various recent EU-level initiatives.

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EXECUTIVE SUMMARY

In 2017, the EU and euro-area economies continued their moderate growth (slightly over 2 %) in a context of global improvement (3.5 %) underpinned by a strong rebound in world trade, continuing growth in China and a return to growth in countries such as Brazil and Russia. This growth, which should continue in the next two years, was shared by all euro-area Member States for the first time since the crisis, and was accompanied by the creation of jobs – unemployment is at a post-crisis low – and strong investment, which reached pre-crisis levels.

With regard to public finances, the general government deficit for both the EU and the euro area has declined and is projected to decline further in the following years, to below 1 %. The general government debt-to-GDP ratio is projected to follow a similar path, decreasing to 85.2 % and 79.8 %, for the euro-area and the EU-28 respectively, a trend that, while positive, means levels are still a long way from the expected 60 %.

After significant fluctuations in 2016, inflation rose closer to the target, of around 2 %, by the fourth quarter of 2017, helped by the recovery in oil prices, but is not expected to reach the target until 2019, due to a negative base effect in energy prices and the increase of the euro's nominal effective exchange rate. In this context, the European Central Bank continued with its unconventional monetary policy in 2017 and decided to keep it for 2018, albeit moderating its purchases as of January 2018, due to the improving economic outlook and the need to reduce the risk of financial imbalances.

The aforementioned positive trends concerning the euro-area economy, as well as the results of the various elections held in 2017 in the EU, have likely outweighed the negative developments such as the deteriorating geopolitical context, the uncertainty concerning the Brexit negotiations and the policy-mix outlook in the US. This has helped to strengthen the common currency against its major counterparts since spring 2017. As a result, the euro has appreciated against most of its major trading partners' currencies. While these trends are projected to continue over the next two years, their strength is expected to subside, on account of the phasing out of temporary supportive fiscal measures in Member States and the tapering of accommodative monetary measures.

The 2018 EU Budget amounts to €160.1 billion, representing only some 2 % of total public spending in the European Union – approximately 1 % of gross national income (GNI). Despite its volume, the overall impact of the EU Budget is amplified by a number features, including: a higher share of resources devoted to investment than in national budgets; the capacity to leverage additional funding from other sources; and attention to policy areas where the pooling of resources can provide the EU as a whole with added value (e.g. research, innovation and development cooperation).

Agreed by the European Parliament and the Council of the European Union, the 2018 budget focuses on priorities such as promoting sustainable growth, creating employment, especially for young people, and addressing migration and security challenges. In recent years, these persistent policy challenges have almost exhausted the flexibility provisions available under the EU's 2014-2020 multiannual financial framework (MFF). However, the 2017 adoption of the mid-term revision of the MFF has strengthened a number of flexibility tools, proving instrumental in reinforcing the resources devoted to key policy areas in 2018.

With the 2014-2020 MFF in the second half of its programming period, the debate on its successor and further streamlining of the EU Budget has already gained momentum, with a reflection paper on the future of EU finances published by the European Commission.

Taking into account difficulties that the current MFF has experienced, one objective is to increase capacity to respond to the concerns of EU citizens and to the unprecedented challenges the Union is facing. In May 2018, following a broad consultation of stakeholders, the Commission is expected to present its proposals for the post-2020 MFF and a possible reform of the EU's financing system.

Many instruments in the EU Budget directly or indirectly address the objectives of industrial policy, against the backdrop of a quickly evolving sector. The importance of the sector to the EU, in both economic and political terms, as well as the changing nature and scope of industry and industrial policy, made it the subject of this year's economic focus. This examines industry in the EU from four perspectives (production, gross value added, employment and the regional perspective), its evolution over the past decade and the impact of the crisis, and presents the EU-level initiatives designed to rekindle industrial activity.

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List of main acronyms used

AMIF:	Asylum, Migration and Integration Fund
BUDG:	Committee on Budgets (European Parliament)
CA:	Commitment appropriation
CEF:	Connecting Europe Facility
CONT:	Budgetary Control Committee (European Parliament)
COSME:	Competitiveness of Enterprises and Small and Medium-sized Enterprises
DAS:	Statement of assurance (from the French: *déclaration d'assurance*)
DCI:	Development Cooperation Instrument
EAGF:	European Agriculture Guarantee Fund
ECA:	European Court of Auditors
ECON:	Committee on Economic and Monetary Affairs (European Parliament)
EDF:	European Development Fund
EFRD:	European Fund for Rural Development
EFSD:	European Fund for Sustainable Development
EFSI:	European Fund for Strategic Investments
EIAH:	European Investment Advisory Hub
EIB:	European Investment Bank
EIF:	European Investment Fund
EMFF:	European Maritime and Fisheries Fund
ENI:	European Neighbourhood Instrument
ERDF:	European Regional Development Fund
ESF:	European Social Fund
ESI funds:	European structural and investment funds
GDP:	Gross domestic product
GNI:	Gross national income
IPA:	Instrument for pre-accession assistance
ISF:	Internal Security Fund
MFF:	Multiannual Financial Framework
PA:	Payment appropriation
SMEs:	Small and medium-sized enterprises

1 Introduction

In 2017, the real GDP growth rate for the EU-28 stood at an average of 2.3 %.[1] While this increase is still smaller than the pre-crisis peaks (3.3 % in 2006 and 3.1 % in 2007) and the global GDP growth rate for 2017 (3.5 %), it is better than last year's growth (1.8 %) and the projected growth rate for 2017 (1.6 %).

The labour market is also showing positive signs, with unemployment for the EU-28 decreasing to 7.8 % in 2017 and projected to decrease further in the next two years. In addition, most of the rise in employment relates to permanent and full-time jobs.

Following last year's pattern, the study delves into two of the tools and initiatives that European institutions use to contribute to the European response to social, economic and geopolitical crises: the European Union budget and the way it is designed to tackle challenges, and EU and European Investment Bank/Fund investment-oriented initiatives aimed at reviving industrialisation.

The economic situation in the EU and the euro area, as well as two-year projections for the main economic indicators are presented first (Section 2). In 2017, the EU continued its recovery in terms of both GDP and employment. This recovery was not shared equally by all countries however. In addition, recovery is still – to a large extent – dependent on accommodative fiscal and monetary policies. Further, there is still a degree of fiscal and financial fragility in some Member States (such as high public and/or private debt). Lastly, there is still substantial uncertainty on a number of issues, both internal – the future relationship between the EU and the United Kingdom – and external (such as high geopolitical tensions and the possible spill-over effects of policy choices, such as the faster-than-expected tightening of United States (US) monetary policy conditions).

As in the previous edition, the study goes on to present the EU Budget, its nature and its role (Section 3), before providing an overview of this year's budget (Section 4). It is a limited budget – the €144.68 billion of total payments agreed is less than the public expenditure of a country like Denmark. The commitments adopted for 2018 amount to €160.11 billion, which represents only 1.02 % of EU gross national income (GNI). However, contrary to many national budgets, a significant share of the available resources is allocated to investment rather than to consumption and transfers. The EU Budget focuses on promoting sustainable growth, creating jobs – especially for young people – and tackling migration and security challenges. It also seeks to trigger additional funding from other public and/or private sources to reach its goals. The study then addresses the perspectives for the EU's wider budgetary framework – the multiannual financial framework (MFF) – in the medium and long-term (Section 5). Following significant challenges from the very start of the 2014-2020 period, the final years of the current MFF can count on flexibility provisions that have been partly strengthened through a mid-term revision of the framework. The debate on the post-2020 MFF as well as on possible reform of the EU Budget and its financing system has intensified in the run-up to the presentation of the relevant proposals by the Commission, which are expected in May 2018.

One of the five objectives highlighted by Commission President Jean-Claude Juncker in his State of the Union address is to make European Union industry stronger and more competitive. Despite being widely used terms, industry and industrial policy can be difficult to pin down. Therefore, in this year's economic focus (Section 6), we examine

[1] European Economic Forecast – Autumn 2017, European Commission, November 2017.

Europe's industry and industrial policy, and present and future initiatives to revive them –whether that is through EU policies, the budget or the European Fund for Strategic Investments (EFSI).

2 EU economy 2018

2.1 Overview

The EU and euro-area economies continue their trend of moderate growth, with the euro area projected to grow by 2.2 % in 2017 and the EU-28 by 2.3 %. Moderate growth should continue over the coming two years (2.1 % in 2018 and 1.9 % in 2019 for both the euro area and the EU-28).[2] This growth is set in the context of global improvement,[3] driven by factors such as stronger-than-expected growth in China and recovery of the Russian and Brazilian economies, which, according to the European Commission, should trigger further increases in global trade and investment.

Also, the positive trend observed last year regarding employment is continuing: the European Commission estimates that unemployment for the euro area in 2017 will hover around 9.1 %, while the forecast for the EU-28 is even more promising (7.8 %).

At the same time, the Commission notes that elements such as muted domestic demand, fiscal and financial fragility (non-performing loans and low bank profitability) and the extent to which the recovery is still dependent on accommodative fiscal and monetary policies, suggest this recovery may not yet be complete.

Furthermore, it notes that the EU's economic recovery may be hampered by a number of external events – such as uncertainty concerning the future relationship between the EU and the United Kingdom;[4] high geopolitical tensions;[5] the possible spill-over effects of policy choices,[6] the realisation of risks in other countries;[7] or internal challenges, such as high public and private debt in some Member States or the stronger-than-assumed appreciation of the euro.

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[2] European Economic Forecast – Autumn 2017, European Commission, 9 November 2017, p. 13.

[3] Growth projections for the United States of America (USA) indicate real growth of 2.3 % in 2018 and 2.1 % in 2019; for Japan, 1.2 % in 2018 and 1.0 % in 2019; and for China, 6.5 % in 2018 and 6.2 % in 2019.

[4] In its latest forecast, the European Commission notes that 'Given the ongoing negotiation on the terms of the UK withdrawal from the EU, projections for 2019 are based on a purely technical assumption of status quo in terms of trading relations between the EU27 and the UK'.

[5] For instance, in the Middle East and the Korean peninsula.

[6] Such as the faster-than-expected tightening of US monetary policy conditions.

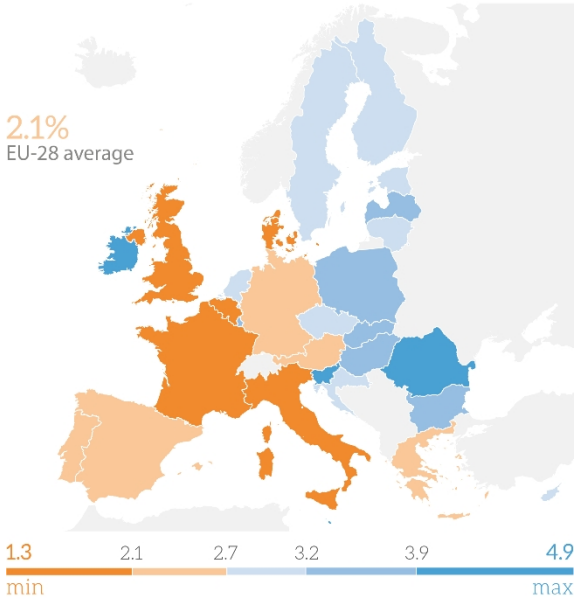
[7] Such as a negative evolution of the issue of corporate debt in China.

2.2 Main indicators

2.2.1 Gross domestic product

Tentative results for 2017[8] indicate that gross domestic product (GDP) grew by 2.2 % in the euro area and by 2.3 % in the EU-28. The European Commission projects euro-area and EU-28 GDP growth to continue in 2018 and 2019, at 2.1 % and 1.9 % respectively.[9] Furthermore, for the first time since before the crisis, all euro-area Member States are expected to enjoy economic growth over the forecast period. Presumably, this modest[10] increase is driven mainly by domestic demand (private and public consumption) and employment growth (see next point). At the same time, while being the main driver of economic recovery since 2013, it is noted that private consumption[11] is weaker when compared with previous recoveries of the last 40 years and, further, is expected to lose some momentum over the next two years (from 1.8 % in 2017 to 1.5 % in 2019 for the euro area and from 2 % in 2017 to 1.6 % in 2019 for the EU-28), owing to less dynamic employment growth and slightly higher inflation.

Figure 1 – Real GDP growth in the EU Member States, 2018 forecast, in %



Source: European Commission, autumn forecast, November 2017.

Public consumption has contributed to economic growth too and, furthermore, is expected to continue doing so for the next two years, albeit in a less pronounced way (from 1.6 % in 2018 to 1.4 % in 2019 for the euro area; and from 1.5 % in 2018, to 1.3 % in 2019 for the EU-28). This increase is not shared equally by all Member States, as they face different economic situations and varying fiscal consolidation needs, and some have needed to increase their expenditure in order to address security or migration-related needs.

Lastly, investment has been growing (by 3.9 % in 2017 for the euro area and 3.8 % for the EU-28). It must also be noted that this growth matches the period before the crisis, and also that the trend should continue (3.9 % and 3.3 % for the euro area in 2018 and 2019 and, similarly, 3.7 % and 3.1 % for the EU-28), in part as a result of low interest

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8 Data drawn from the European Economic Forecast op. cit., data from mid-October 2017.

9 It must be noted here that, just like in last year's outlook, there are wide disparities with regard to this GDP growth: Romania and Malta are projected to have grown by 5.9 % and 5.8 % respectively in 2017, while projections for Italy and the UK stand at 1.5 %.

10 As the Commission notes 'The recovery since the second quarter of 2013 has been subdued and weaker than other recoveries ..., including the recovery that immediately followed the economic and financial crisis in 2009'. op. cit. p.38.

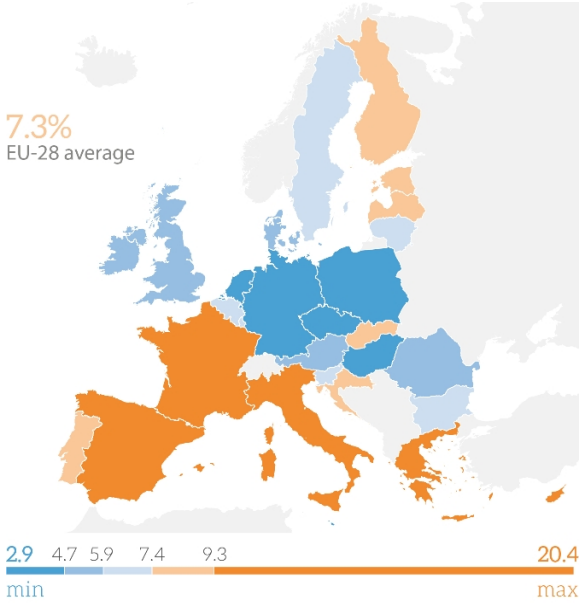
11 Private consumption is the value of goods and services (such as health and education) consumed by individuals and households that are acquired through the private sector. Public consumption, in contrast, is the value of goods and services individuals receive through the public sector.

rates, high business confidence, and the Investment Plan for Europe.[12] However, trends diverge both with regard to the object of investment (investment in construction is trailing investment in equipment),[13] and the sector initiating it (the public sector is lagging behind the private sector).

2.2.2 Labour market

Unemployment in 2017 continued to decline. As of October 2017, it was set at 9.1 % for the euro area and 7.8 % for the EU as a whole. It is expected to decrease further over the next two years (to 8.5 % in 2018 and 7.9 % in 2019 for the euro area and to 7.3 % in 2018 and 7.0 % in 2019 for the EU as a whole). A further positive note is that most of the rise in employment relates to permanent and full-time jobs. As reported in the previous outlook, this reduction is underpinned by growth based on domestic (intra-EU) demand, moderate wage increases, and the implementation of fiscal policy measures and structural reforms in some Member States.

Figure 2 – Unemployment rates in the EU Member States, 2018 forecast, in %



Source: European Commission, autumn forecast, November 2017.

However, as the European Commission points out, significant differences remain between Member States, for a range of different employment indicators – including the gap between the highest and lowest unemployment rates, employment rates and activity rates.[14]

Furthermore, as already noted last in last year's economic and budgetary outlook, the somewhat positive outlook of decreasing unemployment at the aggregate level does not automatically imply a reduction in disparities between EU Member States. While the unemployment rate for the EU-28 is predicted to fall from 7.8 % in 2017 to 7.3 % in 2018, prospects for Member States such as Spain (17.4 %), Italy (11.3 %), or France (9.5 %), remain mixed. Spain's unemployment rate for instance has been falling rather fast since 2013 and could reach 15.6 % in 2018, reducing the total number of

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[12] In 2017 the resources for the main pillar of the plan – the European Fund for Strategic Investments – were enhanced by an additional €47.4 billion. As a result, €240.9 billion of total investment will support mainly the SME, research, development and innovation, and energy sectors. For a detailed breakdown of results by country and sector see Investment Plan results, European Commission. (See Section 6.6.2).

[13] The Commission identifies as possible causes the high stock of non-performing loans (NPLs) in some Member States, as well as the need for further deleveraging.

[14] The unemployment rate is the number of people unemployed as a percentage of the labour force. An unemployed person is defined by Eurostat as someone aged 15 to 74 (in Italy, Spain, the United Kingdom, Iceland, Norway: 16 to 74 years); without work during the reference week; available to start work within the next two weeks (or having already found a job due to start within the next three months); and actively having sought employment at some time during the previous four weeks. The employment rate is the percentage of employed people in relation to the comparable total population. The activity rate is the percentage of active persons in relation to the comparable total population. For more information on employment statistics (2016 data), see Eurostat's dedicated page.

people unemployed to 3 524 million (from a peak of 6.05 million in 2013).[15] In contrast, rates in Italy are projected to fall more slowly (by 11.3 % in 2017; by 10.9 % in2018; and by 10.5 % in 2019). Accordingly, the number of people unemployed should drop to 2 836 million in 2018 (2 938 million in 2017). Similarly, while unemployment in France is expected to fall to 9.3 % in 2018 (from 9.5 % in 2017), it should remain above the EU average the year after (8.9 % in 2019; compared with 7.0 % for the EU-28). On the other side of the spectrum, countries such as the Netherlands (4.8 %) or Germany (3.7 %) already have significantly lower unemployment rates than the EU-28 average and are projected to continue to show significantly lower rates (3.5 % in 2018 and 3.2 % in 2019 for Germany; 4.0 and 3.5% respectively for the Netherlands).

While employment growth is projected to continue in 2018 and 2019,[16] it is likely to slow down, as a result of the phasing out of temporary supportive fiscal measures in some Member States,[17] shortages in the supply of skilled labour in both the manufacturing and services sectors, as well as the (expected) increase in labour productivity growth.[18] At the same time, this slowdown is expected to be contained, as net migration into the EU and the integration of refugees, should contribute to expanding the total labour force over the next few years.[19]

2.2.3 Public finances

In 2017, the general government deficit is projected to decline to 1.1 % for the euro area and 1.2 % for the EU-28 (from 1.5 % and 1.7 % respectively in 2016), underpinned by growth in gross domestic product[20] and historically low interest rates, which both support the reduction of debt in the public sector.

Further declines are forecast in 2018 and 2019, with the general government deficit-to-GDP ratio expected to continue falling in both areas – in the euro area to 0.9 % of GDP in 2018 and 0.8 % of GDP in 2019, and in the EU-28 to 1.1 % of GDP in 2018 and 0.9 % of GDP in 2019.

The European Commission expects this reduction to be driven mainly by the budgetary impact of economic growth surpassing potential growth (the cyclical component[21] of the budget), but also by a falling expenditure-to-GDP ratio, which is larger than the drop in the revenue-to-GDP ratio.[22]

The general government debt-to-GDP ratio of the euro area has continued decreasing since its 2014 peak (94.2 % for the euro area and 88.2 % for the EU-28). In 2017, it is expected to continue falling to 89.3 % of GDP for the euro area and 83.5 % for the EU-

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[15] Data from AMECO (European Commission annual macro-economic database, last update 9 November 2017).

[16] Benefitting from sustained expansion, moderate wage growth and the structural reforms implemented in some Member States.

[17] The Commission provides as examples the temporary reductions in social security contributions in Italy, active labour market policies in Spain and tax credits to encourage job creation in France.

[18] For useful information and more data on this subject, see GDP per hour worked, OECD, and the recent OECD Compendium of Productivity Indicators 2017.

[19] European Economic Forecast, op. cit., p.56.

[20] The Commission specifies that this growth rate is nominal, i.e. in current prices, without adjustment for inflation.

[21] The part of the budget that tends to rise and fall in line with fluctuations in economic activity.

[22] In turn owing to lower interest expenditure, but also lower unemployment benefits, as labour markets keep improving.

28, and the trend should continue in 2018 (87.2 % for the euro area and 81.6 % for the EU-28) and 2019 (85.2 % for the euro area and 79.8 % for the EU-28),[23] supported by a debt-decreasing snowball effect in all Member States except Italy.[24] Despite this encouraging trend, the ratio will remain above 60 % in 14 Member States in 2019,[25] while in seven of them (Belgium, Cyprus, France, Greece, Italy, Spain and Portugal) it will be higher than 90 %.

2.2.4 Trade and developments at global level

In 2017, there was a strong rebound in world trade (with a 4.3 % increase in world merchandise trade volumes) – in both advanced economies and emerging markets – supported by recovery in commodity prices, continued rapid growth in China (6.8 % in 2017, expected to decrease to 6.2 % by 2019), a return to growth in major commodity-exporting countries such as Brazil (0.7 % in 2017, expected to rise to 2 % by 2019)[26] and Russia (1.7 %, expected to decrease slightly to 1.5 % by 2019)[27] and stabilising demand in advanced economies. It must also be noted that the momentum is general and not dependent on only one country.[28]

Nevertheless, risks such as the potential effects of Brexit on trade flows (already identified in last year's outlook),[29] are still present.

As for growth globally, the Commission expects this to reach 3.5 % in 2017, marginally higher than in 2016, and to pick up modestly to 3.7 % in 2018 and 2019, but still modest, in comparison with past trends.[30]

In the United States of America (USA), the economy's momentum is underpinned by employment growth and decreasing unemployment (currently at 4.5 %, expected to decrease to 4.1 % by 2019). Given that the moderation in employment growth is likely to be accompanied by wage growth – which in turn is expected to stimulate household consumption – US GDP should sustain this momentum, growing by over 2.2 % in 2018 and 2.1 % in 2019, despite more moderate assumptions for future fiscal stimulus and the gradual exit of its monetary policy from the non-standard measures introduced to counter the financial crisis. Risks remain, however, and relate mainly to US trade policy (namely the possible future shift towards protectionism) and the (already) high and rising corporate leverage which could create concerns when interest rates rise again.

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[23] Autumn statement, op. cit. p. 180.

[24] The snowball effect is the impact on the debt to GDP ratio of the difference between (nominal) growth and (implicit) interest rates paid on debt. According to the Commission 'For the euro area aggregate, nominal GDP growth is projected to average 3.5 % over 2017-2019 and thus outpace the average interest rate paid on debt, which is set at 2.2 %. As a result, the snowball effect is expected to help reduce the debt ratio in the euro area aggregate by slightly more than 1 percentage point of GDP per year on average over the forecast period'.

[25] In descending order, Greece (170.1 %), Italy (130 %), Portugal (121.1 %), Belgium (101.2 %) France (96.9 %), Spain (95.5 %), Cyprus (93.9 %), the United Kingdom (84.2 %), Croatia (74.5 %), Austria (73.4 %), Slovenia (72 %), Hungary (69.4 %), Ireland (67.2 %) and Finland (61.6 %).

[26] Underpinned by easier monetary policies and higher commodity prices.

[27] Supported by stabilisation in oil prices and the strengthening of the rouble.

[28] The Commission provides the example of Q2 2017, when trade slowed down in China but was offset by trade growth in the euro area, Australia, Canada and Norway.

[29] Alessandro D'Alfonso et al. Economic and budgetary outlook for the European Union 2017, EPRS, European Parliament, p. 14.

[30] OECD Economic Outlook – General assessment of the macroeconomic situation. November 2017

In Japan, private consumption was the main growth driver in 2017, supported by continued employment creation. This private consumption should dampen in the coming years, as a result of slow wage dynamics. Other elements contributing to growth were stronger international trade, an on-going expansionary monetary policy and continued fiscal stimulus.[31] On the other hand, a deterioration in the geopolitical situation in the area could affect trade and possibly investment. Another risk could possibly come from government debt, which has surpassed 220 % of GDP.[32] Japanese GDP growth should reach 1.6 % in 2017, before decreasing to 1.2 % in 2018 and 1 % in 2019.

In China, GDP growth is projected to reach 6.8 % in 2017, driven by services and some strategic industries, before slowing to 6.5 % and 6.2 % in the next two years, as exports decelerate.[33] The Commission explains this slowdown by the falling labour supply, the declining expected rise in property market prices and the possible dampening of consumption growth (as lately it has been boosted by a combination of a falling household savings rate and higher borrowing). Rapid credit growth,[34] a sharper than expected slowdown in the property sector and rising corporate leverage remain important risks[35] over the next two years.

Lastly, Russia's economic recovery is gaining traction, supported by the stabilisation of its macroeconomic environment and rising oil prices. It is projected to reach GDP growth of 1.7 % in 2017, growth that should however fall slightly to 1.5 % by 2019 as a result of low productivity, a shrinking workforce, a relatively strong rouble, international sanctions and fiscal consolidation needs.[36] Geopolitical tensions and the future prices of oil are the main risks that Russia is expected to face in the next two years.

2.3 Inflation and monetary policy

In 2017, inflation briefly reached 2 % in both the EU-28 and the euro area, before decreasing to 1.8 % and 1.5 % respectively in September. This contrasts starkly with 2016, where, for most of the year, inflation fluctuated between -0.2 % and +0.6 %.[37] These higher inflation levels have been driven by the recovery in oil prices from their low levels of last year (latest available data).[38]

Inflation rates are likely to dip to 1.4 % (in the euro area) and 1.7 % (in the EU-28) in 2018, dragged down by negative base effects in energy[39] and unprocessed food prices but also

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[31] OECD Japan – Economic forecast summary (November 2017).

[32] The OECD notes that, at present, the debt burden is limited by negative interest rates on government bonds of less than 10 years' maturity, as a result of purchases by the Bank of Japan, which now owns 41 % of the outstanding stock of government bonds.

[33] OECD China – Economic forecast summary, November 2017.

[34] The OECD observes that, while shadow banking is being reined in, 'bank lending continues to grow unabated, increasing the probability of future bad loans'.

[35] Given that in 2017, the Chinese authorities have cracked down on riskier forms of financial intermediation, this risk could be considered less immediate than the other risks.

[36] OECD Russian Federation – Economic forecast summary, November 2017.

[37] Eurostat database HICP – monthly data. It should be noted that those ultra-low levels of inflation reached a turning point at the end of 2016, jumping from 0.6 % to 1.2 % for the EU-28 and 1.1 % for the euro area.

[38] See OPEC Monthly Oil Market Report, 13 November 2017.

[39] See also The role of energy base effects in short-term inflation developments, ECB Economic Bulletin, Issue 1 / 2017.

on account of the rise of the euro's nominal effective exchange rate,[40] which is expected to lower imported price inflation. They will however rise afterwards to 1.6 % (in the euro area) and 1.8 % (in the EU-28) in 2019, as this effect wears off.[41] The disparities between individual countries are still pronounced, with the Baltics, Romania and Hungary showing the highest inflation for the three-year forecast period (2.3 % to 3.8 %), while Cyprus, Greece and Ireland (0.8 % to 1.3 %) show the lowest.

Furthermore, core inflation[42] is still subdued; this may partly reflect the delayed negative impact of a prolonged period of low inflation, but it also reflects slack[43] in European labour markets (i.e. the quantity of labour and capital that isn't employed productively, while it could be) and wage growth well below historical averages; (annual growth in compensation per employee was 1.6 % in Q2 2017, but it is still lower than 2.1 %, the average since 1999).[44]

The European Central Bank continued with its unconventional monetary policy in 2017. As of October 2017 (latest available data) the Eurosystem holdings under the expanded asset purchase programme[45] were €1.798 trillion for the public sector purchase programme (from €1.204 trillion in November 2016), €236 billion for the covered bond purchase programme (up from €202.7 billion), €121.6 billion for the corporate sector purchase programme (up from €47.2 billion) and €24.68 billion for the asset-backed securities purchase programme (up from €22.5 billion in November 2016), for total holdings of €2.181 trillion.

With respect to its asset purchase programme(s), at its 26 October 2017 meeting,[46] the Governing Council decided that, as of January 2018, monthly net asset purchases would be halved to €30 billion until the end of September 2018, or beyond.[47] It justified its decision on the basis of an improving economic outlook and the need to reduce the risk of financial imbalances.[48] However, the Eurosystem intends to reinvest principal payments from maturing securities purchased under the programmes for an extended period of time after the end of its net asset purchases, to 'contribute both to favourable liquidity conditions and to an appropriate monetary policy stance'.

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[40] A country or currency's nominal effective exchange rates (NEERs) provide a way to track changes in the value of that country's currency relative to the currencies of its principal trading partners. Real effective exchange rates (REERs), meanwhile, are used to assess a country or currency area's price or cost competitiveness relative to its principal competitors on international markets. For data on the daily NEER of the euro, see the ECB page on balance of payments and other external statistics.

[41] Economic and monetary developments, ECB Economic Bulletin, Issue 8/2016.

[42] That is the ECB's Harmonised Index of Consumer Prices, excluding energy and food.

[43] For a comprehensive non-specialist description, see the blog post 'Labor Market Slack: A Guide for the Perplexed'.

[44] Economic and monetary developments (prices and costs), ECB Economic Bulletin, Issue 7/2017. The Commission notes that this is closely correlated with services inflation.

[45] For more information on those programmes see ECB – Asset purchase programmes.

[46] Monetary policy decisions, press release, European Central Bank, 26 October 2017.

[47] As the ECB has repeatedly stated 'in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim'.

[48] Forecast: Euro Area, OECD Economic Outlook, November 2017.

On the basis of this projection, policy rates are expected to begin to rise in 2020, but longer-term market interest rates will begin rising earlier, as financial markets start pricing in a policy rate rise.[49]

In this context, and with the help of still low interest rates, banks' net lending to households and non-financial corporations continued to increase to a 2.7 % annual growth rate for the former and +2.5 % for the latter,[50] while remaining moderate by historical standards and lower than nominal GDP growth.[51]

From the point of view of financial markets, monthly net issuance volumes of corporate bonds have risen further since the spring, leading to an annual growth rate of +9.3 % in August.

The aforementioned positive trends concerning the euro area economy, as well as the results of the various elections held in 2017 in the EU, seem to have outweighed the negative developments such as the deteriorating geopolitical context, the uncertainty concerning the Brexit negotiations and the policy-mix outlook in the USA. This has helped to strengthen the common currency against its major counterparts since spring 2017. As a result, the euro has appreciated against most[52] of its major trading partners' currencies.

2.4 Going forward

Despite the aforementioned tailwinds, there are some potential risks ahead. The OECD notes in particular that financial risks are rising in advanced economies, with the extended period of low interest rates encouraging greater risk-taking and further increases in asset valuations, not least on housing markets. Furthermore, productive investments that would generate the revenues necessary to repay the associated financial obligations (as well as fulfil other commitments to citizens) appear insufficient. Lastly, the speed at which monetary policy is tightened can weigh on recovery in countries with high unemployment and large output gaps.

On top of the aforementioned economic risks, policy uncertainty remains high and could increase further. The outcome of the Brexit negotiations will play a significant role when it comes to confidence and trade, and political developments in Member States can still undermine confidence.[53]

The OECD is of the view that the aforementioned tailwinds provide a propitious window of opportunity for further rebalancing policies to tackle the remaining structural obstacles to stronger and more inclusive medium-term growth[54] and build up resilience against risks. Additionally, better integrated policy packages that address domestic and international weaknesses are necessary to ensure that the gains from technological change and cross-border trade and investment are more widely shared by workers, households and regions.[55]

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[49] Forecast: Euro Area, OECD Economic Outlook, November 2017.

[50] Note: Annual growth in August 2017.

[51] European Economic Forecast - Autumn 2017, op. cit., European Commission, p. 25.

[52] Except the Czech koruna and the Polish zloty. See ECB Economic Bulletin, op. cit., p.9.

[53] Forecast: Euro Area, OECD Economic Outlook, November 2017.

[54] 'Countries with room to provide additional fiscal support should use it to support public initiatives that yield the highest benefits for inclusiveness and long-run supply, including investment, education and childcare'.

[55] General assessment of the macroeconomic situation, OECD Economic Outlook, November 2017.

3 EU Budget in perspective

The EU Budget represents a limited share of public spending in the European Union, but has features that can increase its impact. Challenges emerging in recent years have widened the debate on the budget's role and its possible reform.

3.1 Size and role of the EU Budget

Amounting to €136.4 billion in 2016,[56] the EU Budget accounts for less than 1 % (0.92 % in 2016) of the European Union's gross national income (GNI), while Member States' public spending represents, on average, 47 % of their GNI. The EU Budget therefore represents some 2 % of total public spending in the European Union (see Figure 3), reflecting the fact that spending competences and resources in most policy areas lie mainly at national and/or local levels. These data show a situation very different from that of federal entities, where federal spending usually represents some 50 % at least of final public spending (or 15-20 % of gross domestic product) in decentralised models, such as the USA.[57]

Figure 3 – EU Budget and general government public spending in the EU (2016, € billion)

Data source: European Commission (DG Budget and Eurostat) data. Eurostat data are provisional.

Analysts[58] note that, to date, the EU Budget has played two of the three functions that economic theory traditionally attributes to public finance: the provision of public goods (e.g. promotion of research and innovation activities); and some redistribution of resources to reduce disparities,[59] in line with the objectives of economic, social and territorial cohesion between EU regions enshrined in the Treaty on the Functioning of the European Union (TFEU).[60] The two functions are not mutually exclusive, since a policy area with redistributive objectives, such as cohesion, can also provide public goods.

Studies often draw attention to the relatively small size of the EU Budget, concluding that this and other features limit its overall capacity to provide public goods and to play a redistributive role. For example, one paper[61] estimates that the annual redistribution of resources operated by the EU Budget over the last 15 years corresponds to 0.2 % of the

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[56] The consolidated annual accounts of the EU for financial year 2017 are expected to become available in June 2018.

[57] C. Cottarelli and M. Guerguil (eds.), *Designing a European Fiscal Union. Lessons from the experience of existing federations*, Routledge, 2015. The authors examine the budgetary arrangements between the central and subnational levels of government in a sample of 13 federations (all those with a nominal GDP higher than US$400 billion in 2011).

[58] A. Bénassy-Quéré, X. Ragot and G. B. Wolff, Which Fiscal Union for the Euro Area?, Les notes du conseil d'analyse économique, No 29, February 2016.

[59] The third function, which is not covered by the EU Budget, is macroeconomic stabilisation.

[60] Part Three, Title XVIII, TFEU.

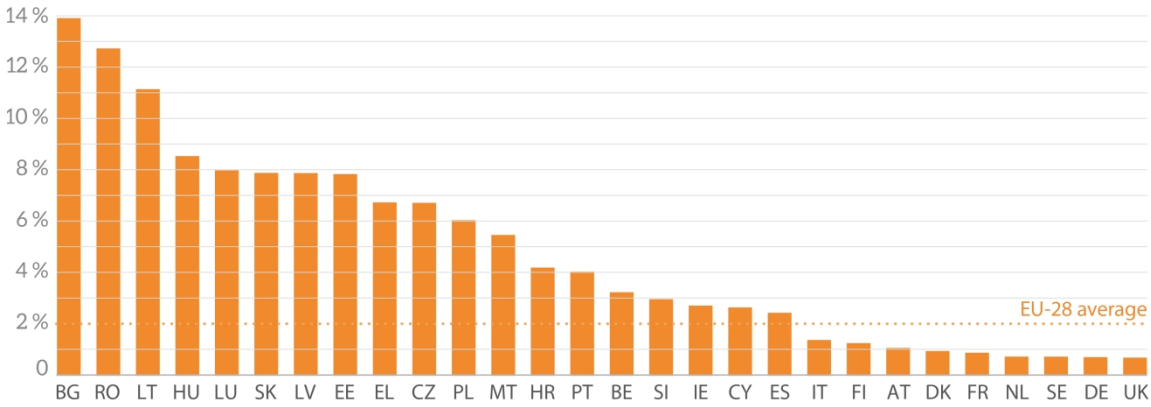
[61] P. Pasimeni and S. Riso, The redistributive function of the EU Budget, IMK – Hans-Böckler-Stiftung, Working Paper No 174, November 2016.

area's GNI,[62] as compared with 1.5 % for the federal budget in the USA. In other words, 80 % of the resources returned to the same Member State that provided them.

However, the role that the EU Budget can play in the economy, and the achievement of EU policy objectives on account of a number of its characteristics, should not be underestimated. Examples include the share of the EU Budget devoted to investments (as compared with national budgets, where most resources are usually allocated for consumption and transfers), its capacity to leverage complementary sources of financing (e.g. through innovative financial instruments), and to achieve advantages such as economies of scale in policy areas where the pooling of resources at EU level may help to meet objectives more effectively (e.g. in the field of development cooperation with third countries).

In some countries, the EU Budget may represent a significant source of resources for investment.[63] For example, in 14 Member States, mainly among those that joined the European Union after April 2004, the EU Budget, as a share of total public spending, is significantly higher than 2 %, with figures ranging between 4.06 % for Portugal and 13.94 % for Bulgaria (Figure 4).[64]

Figure 4 – EU Budget as a share of public spending in individual Member States (2016)



Source: EPRS, based on European Commission (DG Budget and Eurostat) data.

In addition, when focusing on investments only, the contribution of the EU Budget to public investment in the Union is higher: according to the European Commission, the 2007 to 2013 cohesion policy alone represented 6.5 % of government capital investment in the Union on average, with peaks of over 50 % in four Member States (Hungary, Latvia, Lithuania, and Slovakia).[65] For the 2015 to 2017 period, the pattern is confirmed with

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[62] In recent years, the figure has reached 0.3 % as a consequence of increasing diversity in the EU, determined on the one hand by the accession of 13 Member States with lower per capita income as of 2004, and on the other by growing divergence in economic performance and unemployment rates following the financial and economic crisis.

[63] While the European Commission publishes the allocation of expenditure to Member States, it underlines that this is only an accounting exercise, which does not provide a complete overview of the benefits that each Member State derives from EU membership: Annex 1 recapitulates this allocation for each major category of EU spending in 2016.

[64] The group also includes some pre-2004 Member States. For example, the case of Luxembourg (8.01 %) is mainly explained by the size of the country, its role as host to a number of EU institutions, and the administrative expenditure attributed to the country on this basis. As for the EU Budget, the graph does not include either spending in countries outside the EU or spending that could not be attributed to individual Member States. In 2016, this figure amounted to €18.5 billion.

[65] Commissioner C. Creţu, Cohesion policy: Delivering added value to the EU and its citizens, presentation given at the EU Budget focused on results conference, 27 September 2016. It should also be noted that

cohesion policy's average contribution to government capital investment estimated at 8.5 % in the EU and at 41 % in the 13 Member States that joined the Union after April 2004.[66] As regards investment in research and innovation, Horizon 2020 is the world's largest transnational programme devoted to such activities: in 2016, the largest recipients were the United Kingdom, Germany, France, Belgium and the Netherlands (in decreasing order according to the total amount beneficiaries located in their territories received from the programme).

From this perspective, the European Commission and the European Parliament stress[67] that the EU Budget is different in nature and function from national budgets, since it is mainly an investment budget with a focus on measures with European added value. The current multiannual financial framework (MFF), which sets the EU Budgetary structure for the 2014 to 2020 period, seeks to focus spending priorities on sustainable growth, employment, and competitiveness, pursuant to the objectives of the Europe 2020 strategy and in line with the priorities of the Juncker Commission.[68]

Co-financing is a characteristic of the EU Budget that can increase its impact on job creation and growth. This means that EU spending is normally used in conjunction with funding from other public and/or private sources, thus resulting in total investments higher than the EU contribution proper. To some extent, this is already the case for traditional grants. In addition, with a view to maximising the so-called multiplier effect of the EU Budget, innovative financial instruments (triggering equity, quasi-equity, debt or guarantee funding) have been developed to support economically viable investments in line with EU objectives.

While innovative financial instruments are not deemed to fit all kinds of public spending, they have features that make them attractive for some policy areas and objectives, notably by: attracting additional funding from other sources (leverage effect); and generating income through amounts repaid by beneficiaries of funding that can be used for new operations in line with the same policy objectives (revolving nature of the instruments). The leverage effect can vary significantly from one instrument to another. The European Commission reports that 2014-2020 financial instruments with budgetary resources of almost €9 billion are targeted to support the total financing of more than €88 billion, which results in an average leverage close to ten.[69]

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the benefits of cohesion policy are not limited to the Member State directly receiving the resources, since projects implementing the programmes may be awarded to companies from other Member States.

66 Seventh Report on Economic, Social and Territorial Cohesion, European Commission, 9 October 2017, p. xxii.

67 The added value of the EU Budget, (SEC (2011)0867), staff working paper, European Commission 29 June 2011; Resolution of 13 June 2012 on the multiannual financial framework and own resources, European Parliament; Reflection paper on the future of EU finances, (COM(2017) 358), European Commission, 28 June 2017.

68 The 10 priorities of the Juncker Commission are jobs, growth and investment; the digital single market, the energy union and climate; a deeper and fairer internal market; a deeper and fairer economic and monetary union; a balanced EU-US free trade agreement; justice and fundamental rights; migration; the EU's external action; and democratic change.

69 Report on financial instruments supported by the general budget according to Article 140.8 of the Financial Regulation as at 31 December 2016, (COM/2017/0535), European Commission, 25 September 2017; For more details on the advantages and challenges of financial instruments, please see: Implementing the EU Budget through financial instruments – lessons to be learnt from the 2007-2013 programme period, European Court of Auditors, (Special Report No 19/2016); and J. Núñez Ferrer

The High-Level Group on Own Resources (see Section 5.2) notes that, based on a study[70] it commissioned, wealthier Member States have a comparative advantage in attracting resources linked to the main financial instruments.[71] Therefore, the distribution of such resources differs from that in traditional EU spending areas (e.g. cohesion and agriculture). The leverage effect and the revolving nature of these instruments mean that the standard representation of the allocation of EU expenditure to Member States (see Annex 1) provides only a partial picture of the overall benefits deriving from the EU Budget and EU membership.[72]

In some policy areas, the pooling of resources at EU level may bring advantages such as economies of scale and elimination of duplication, producing EU added value and enabling a more effective achievement of results. For example, the OECD considers the geographic reach, scale and scope of EU programmes as three comparative advantages of the EU in development cooperation.[73] The EU with its Member States are the world's biggest development aid donor. However, in addition to EU programmes, Member States channel development assistance by means of national and/or intergovernmental schemes. According to cost of non-Europe papers drafted for the European Parliament in 2013, further coordination of EU donors could save some €800 million per year in overhead costs associated with activities such as programming, implementation and monitoring of assistance, while increasing the overall impact of development measures.[74]

In conclusion, the EU Budget is relatively small in size, but has features that can reinforce its overall impact. Nevertheless, in the debate on the preparation of the post-2020 financing period, many analysts and stakeholders agree that, while the EU Budget has already undergone many changes, it needs further modification and streamlining to increase its capacity to respond to the concerns of EU citizens and to the unprecedented challenges the EU is facing. For example, an analysis by the CEPS think-tank[75] argues that there is a need to clarify the key objectives of the EU Budget in today's world, moving from a perspective in which each Member State is mainly interested in its net balance, to an approach where the EU Budget complements national budgets and further increases its focus on EU objectives that can be better achieved at EU level. The debate on the post-2020 EU Budget has identified the objective of concentrating resources on the policy areas with the highest EU added value, among the key principles of any reform (see Section 5.2).

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et al., Financial Instruments: defining the rationale for triggering their use, Policy Department for Budgetary Affairs, DG IPOL, European Parliament, October 2017.

70 J. Núñez Ferrer, J. Le Cacheux, G. Benedetto and M. Saunier, Study on the potential and limitations of reforming the financing of the EU Budget, 3 June 2016, CEPS, Université de Pau et des Pays de l'Adour, LSE Enterprise and Deloitte.

71 Future financing of the EU: Final report and recommendations, High-Level Group on Own Resources, December 2016.

72 See footnote 65.

73 European Union – DAC Peer Review of Development Co-operation, Organisation for Economic Co-operation and Development, 2012.

74 M. Nogaj, The Cost of Non-Europe in Development Policy: Increasing coordination between EU donors, European Added Value Unit, European Parliament, 2013; A. Bigsten, Quantifying the economic benefits of increased EU donor coordination, 2013.

75 J. Núñez Ferrer, The Multiannual Financial Framework post-2020: Balancing political ambition and realism, CEPS Policy Paper No 2016/2, 18 November 2016.

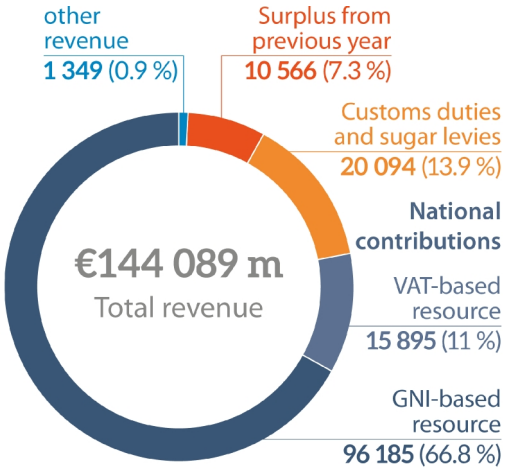
3.2 Structure of the EU Budget: Revenue and multiannual planning

The 'own resources' system sets out how the EU Budget is financed, while the structure of the expenditure side of the budget is determined, for a period of at least five years, by a multiannual planning tool – the multiannual financial framework (MFF).

Unlike national budgets, the EU Budget cannot run a deficit. Its financing is ensured by three main sources of revenue: traditional own resources (customs duties and sugar levies); an own resource based on a harmonised base of value added tax (VAT); and an own resource linked to Member States' GNIs, which plays the role of balancing the budget.[76] The maximum level of resources available for the EU Budget is set at 1.20 % of EU GNI (the 'own resources ceiling', which has remained virtually unchanged since the 1990s).[77]

Currently, the bulk of revenue (around 78 % in 2016, see Figure 5) is provided by a GNI-based resource and a VAT-based resource, which Member States perceive as national contributions rather than EU own resources. According to a number of analysts and stakeholders, including the European Parliament, this contributes to a focus in budgetary negotiations on Member State net balances and programmes with geographically pre-allocated expenditure. In the current configuration of the system,[78] permanent and/or temporary correction mechanisms reduce the contributions of the following Member States: Austria, Denmark, Germany, the Netherlands, Sweden and the United Kingdom.[79] Annex 2 recapitulates national contributions by Member State and traditional own resources collected on behalf of the EU in 2016.

Figure 5 – EU revenue in 2016



Data source: European Commission, see Annex 2.

As for the expenditure side of the budget, the 2014-2020 MFF sets the maximum level of resources ('ceiling') for each major category ('heading') of EU spending for a period of seven years. Negotiated between 2011 and 2013 against the backdrop of the economic crisis and fiscal consolidation in Member States, the current MFF is the first to have lower resources in comparison with the previous programming period (2007-2013). The share

[76] Other revenue, which is not classified as own resources, includes taxes on EU staff salaries, contributions from non-EU countries to certain programmes, and fines on companies for breaching competition law.

[77] Following the entry into force of the new Own Resources Decision in 2016, the Commission has carried out the technical adaptation of the ceiling to the new GNI data according to the ESA 2010 system (COM(2017) 473). The ceiling is now established at 1.20 % of GNI (down from 1.23 %). For more details on the financing system: A. D'Alfonso, How the EU Budget is financed. The 'own resources' system and the debate on its reform, EPRS, European Parliament, 2014.

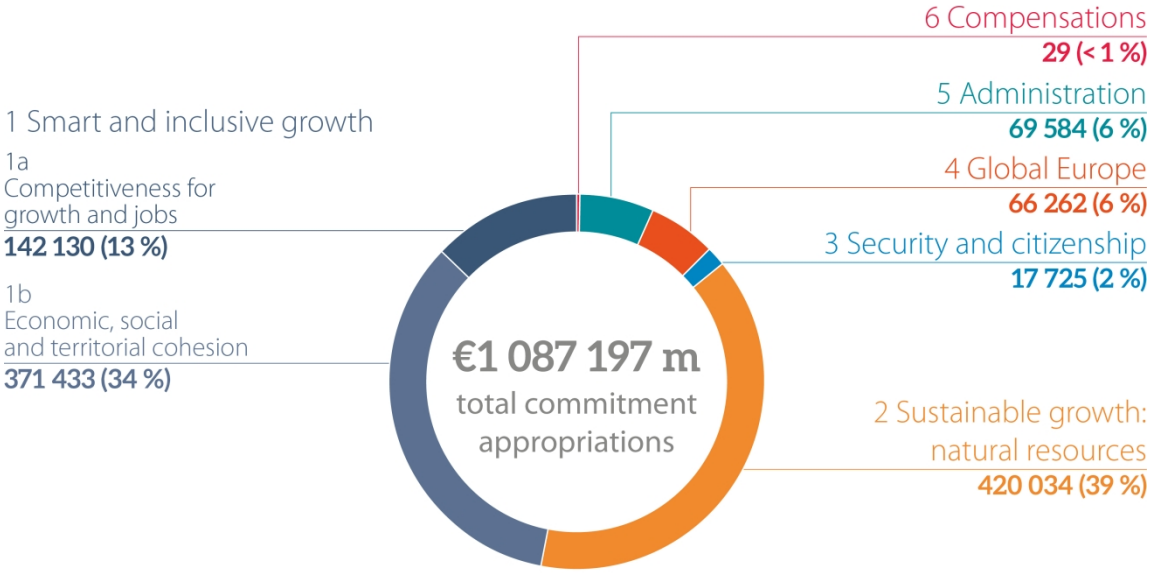
[78] Council Decision of 26 May 2014 on the system of own resources of the European Union (2014/335/EU, Euratom).

[79] A. D'Alfonso, The UK 'rebate' on the EU Budget: An explanation of the abatement and other correction mechanisms, EPRS, European Parliament, 2016.

of EU GNI devoted to the MFF was set at 1 % for commitments and 0.95 % for payments (down from 1.12 % and 1.06 % for the 2007 to 2013 period).

The MFF resources for commitments over the entire 2014 to 2020 period amount to €1 087.1 billion in current prices (or €963.5 billion in 2011 prices). Figure 6 shows their distribution among the six major categories of EU spending (one category has two subcategories or 'subheadings'). The MFF details the annual ceilings for new commitments in each spending category and an overall ceiling for annual payments. In addition, it contains some special instruments outside the MFF ceilings (e.g. the Emergency Aid Reserve, the European Globalisation Adjustment Fund and the European Union Solidarity Fund) and flexibility provisions, to give some room for manoeuvre in the case of unexpected events. The challenge is to strike the right balance between predictability of investments and the capacity to address the unforeseen events and new priorities that can emerge during a rather long programming period.

Figure 6 – 2014-2020 multiannual financial framework by heading (€ million, current prices)



Data source: EPRS, based on European Commission.

3.3 Main institutional actors in two key phases of the budgetary cycle

The European Parliament and the Council of the European Union are the two arms of the EU Budgetary authority. Among other tasks, they intervene at the authorisation stage, establishing the annual EU Budget and its amendments, which they negotiate on the basis of a proposal from the European Commission and within the requirements set out by the own resources system and the MFF Regulation (see Section 3.2 above).

The European Parliament and the Council's powers differ depending on the issue at stake; for the annual budgetary procedure they enjoy an equal footing. The decision on the design of the own resources system requires the unanimity of the Member States in the Council, while the European Parliament is only consulted. The Council also unanimously adopts the regulation establishing the MFF, but in this case needs to obtain the European Parliament's consent beforehand.

This asymmetry in the powers of the two arms of the budgetary authority is said to sharpen the differences in their perspectives on budgetary issues.[80] In addition, the requirement of unanimity in the Council for the adoption of own resources and the MFF is often seen as an obstacle to major EU Budget reform. While the budget has been modified over the years, stakeholders generally acknowledge that further changes are needed.[81] However, the veto power enshrined in the procedures would tend to favour the continuation of the status quo, which has up to now ensured an equilibrium between Member States that join forces in subgroups sharing the same interests (e.g. debates on budgetary negotiations often refer to groups, such as net contributors and net beneficiaries; and 'friends of cohesion', 'friends of better spending or correction mechanisms', and 'friends of agriculture'). The European Parliament has long pushed for EU Budgetary reform, including in areas where its powers are more limited, such as own resources and the MFF, with the aim of shifting the focus of budgetary discussions to measures with EU added value.[82]

As regards the implementation stage, the European Commission is ultimately responsible for the execution of the EU Budget. However, implementation involves a wide range of actors under the three different management modes set out by the EU Financial Regulation. In practice, Member States implement some 80 % of the EU Budget in 'shared management' with the European Commission, which applies to most expenditure under subheading 1b 'Economic, social and territorial cohesion' and heading 2 'Sustainable growth: natural resources'. The remaining 20 % of the budget is implemented either under 'direct management' (European Commission and EU executive agencies) or under 'indirect management' (other entities such as third-country authorities, international organisations, EU decentralised agencies and the European Investment Bank).

With the aim of ensuring correct and effective use of EU resources, the Financial Regulation applicable to the EU Budget details key principles that the entities entrusted with budget implementation must respect. These include control and audit obligations for the various types of implementing methods. At political level, oversight of EU Budget implementation is a key responsibility of the European Parliament (see Section 4.3).

3.4 Challenges in recent years

Since the beginning of the 2014-2020 programming period, the EU Budget has been confronted with a number of challenges, including: constant pressure on the 'Security and citizenship' and 'Global Europe' headings in the context of growing instability in the EU's neighbourhood, the migration crisis, and security threats; a continued significant investment gap in the EU many years after the outbreak of the financial and economic crisis; and a high abnormal payments backlog at the end of both 2014 and 2015.

The response of EU institutions and Member States to such challenges has included leaning heavily on the resources available under the relevant flexibility provisions of the MFF and creating budgetary tools at least partially outside the EU Budget, to try to

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[80] See for example: B. Patterson, *Understanding the EU Budget*, 2011; S. Becker, M. W. Bauer and A. De Feo [eds.], *The New Politics of the European Union Budget*, 2017.

[81] See for example: Dutch Presidency of the Council, Towards a forward-looking and flexible Multiannual Financial Framework, Presidency report, 30 May 2016.

[82] See for example: on the preparation of the post-electoral revision of the 2014-2020 MFF: Parliament's input ahead of the European Commission's proposal (P8_TA(2016)0309); and on the Reflection Paper on the Future of EU Finances (P8_TA-PROV(2017)0401).

leverage funding from other public and/or private sources (e.g. the European Fund for Strategic Investments (EFSI) to address the investment gap; and EU Trust Funds and the Facility for Refugees in Turkey to deal with the migration crisis).

Furthermore, efforts to tackle the euro crisis and strengthen the European monetary union have raised discussion of the possible role of the EU Budget. However, in its current configuration, the EU Budget is deemed unable to play a stabilisation role in the case of economic shocks, on account of its size and limited flexibility in the context of MFF planning (see Sections 3.1 and 3.2 above).

One idea proposed is the creation of a specific 'fiscal capacity' for the euro area.[83] In 2017, French President Macron called for the creation of a common budget for the euro area,[84] while Commission President Jean-Claude Juncker supported the establishment of a dedicated euro area budget line as a subsection of the EU Budget itself.[85] Before the end of the year, the European Commission announced[86] its intention to put forward initiatives on new budgetary instruments for a stable euro area within the EU framework in the context of its proposals for the post-2020 MFF in May 2018 (see Section 5.2).

4 EU Budget 2018

On 30 November 2017, the European Parliament[87] approved an agreement, reached in the Conciliation Committee, on the general budget of the EU for the 2018 financial year. Commissioner Günther H. Oettinger, in charge of budget and human resources, considers that the 2018 EU Budget is designed to respond to multiple priorities, noting that it: '… will go to create more jobs, more growth, more investments. It will help young people find jobs and internships. It will help making Europe more secure'.[88]

While the total amount of commitments agreed is substantially the same as in the 2017 budget (+0.2 %), the distribution of the resources between different EU priorities, as well as under individual headings and programmes shows a number of modifications. The budgetary authority resorted to the flexibility tools provided for in the MFF Regulation and its mid-term revision (see Section 5.1), with a view to financing growing needs in some areas, such as those related to sustainable growth, employment (with a particular focus on youth) and security issues.

4.1 Result of the 2018 budgetary procedure

Total commitments of the 2018 EU Budget were set at €160.11 billion and total payments at €144.68 billion (€159.83 billion and €126.77 billion in 2017 respectively). The 2018 budget commitments represent around 1.02 % of the EU-28 GNI, down from 1.05 % in 2017 (for detailed figures, see Annex 3).

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[83] A. D'Alfonso and A. Stuchlik, A fiscal capacity for the euro area?, European Parliament, EPRS, September 2016.

[84] E. Macron, Initiative for Europe, Sorbonne speech, 26 September 2017.

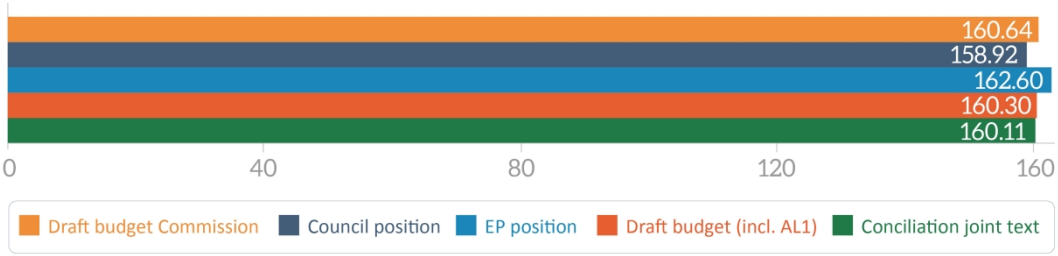
[85] J.-C. Juncker, State of the Union Address 2017, 13 September 2017.

[86] Communication on New budgetary instruments for a stable euro area within the Union framework (COM(2017) 822), European Commission, 6 December 2017.

[87] Data on leading European Parliament committees involved in budgetary procedures are available in Annex 4.

[88] 2018 EU Budget: jobs, investments, migration challenge and security, press release, European Commission, Brussels, 18 November 2017.

Figure 7 – 2018 EU Budget (commitments, € billion, current prices)



Source: EPRS.

Based on the draft budget (presented on 29 June 2017) and the amending letter 1/2018 from the European Commission, the Parliament and the Council negotiated the budget in the annual budgetary procedure (see Box 1 below). In their respective readings during the procedure leading to adoption, the Council cut the initial proposal of the European Commission, while the Parliament increased it (Figure 7 above). The adopted budget set the overall level of commitments at a level in between the two positions, and partly modified the distribution of resources initially proposed by the European Commission in line with priorities identified by the Parliament.

Box 1 – 2018 budgetary procedure milestones

June 2017: The European Commission tables the draft EU Budget for 2018.

September 2017: The Council formally adopts its position on the draft 2018 EU Budget.

October 2017: The European Parliament amends the Council's position on the draft 2018 EU Budget.

October 2017: The European Commission tables modifications to its proposal for next year's EU Budget by means of amending letter (AL) 1/2018.

Amendments proposed in the amending letter 1/2018:

1) an update of the estimated needs and assigned revenue for agricultural expenditure;

2) reduction of the appropriations entered in reserve for the European Union Solidarity Fund (EUSF), which takes into account a recent frontloading of EUSF resources for a decision related to a series of earthquakes in Italy between August 2016 and January 2017.

3) a series of administrative and technical adjustments.

November 2017: European Parliament and Council negotiators agree on a joint text (taking into account AL 1/2018) within the conciliation procedure.

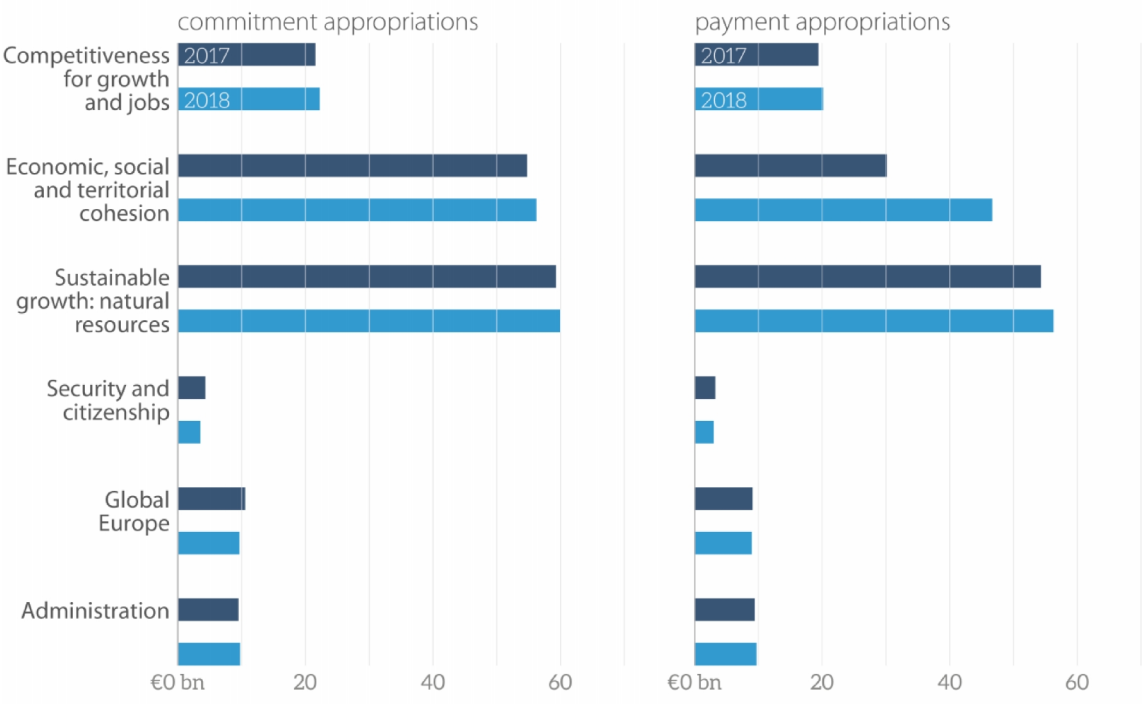
November 2017: The European Parliament approves the joint text agreed by the Conciliation Committee.

In 2018, the EU Budget will focus on stimulating sustainable growth and creating new jobs, especially for young people, as well as addressing migration and security challenges. In line with the priorities identified by the European Parliament for its October 2017 reading, the agreed budget increased the level of commitment appropriations initially proposed by the Commission for a number of programmes and activities related to these objectives (e.g. reinforcements on the draft budget of additional €116.7 million for the Youth Employment Initiative, €110 million for research and innovation under Horizon

2020, €24 million for Erasmus+ and €15 million for support for small and medium-sized enterprises under COSME).[89]

Total commitment appropriations for 2018 remain stable for the most part in comparison with the 2017 budget (+0.2 %). However, this is the result of increases for some headings and reductions for others. In contrast, the overall level of payment appropriations for 2018 is 14.1 % higher than in the previous financial year. The main reason for this is the significant growth in payments needs (+54.7 %), which is expected under subheading 1b 'Economic, social and territorial cohesion' (Figure 8). In fact, programmes under this subheading experienced a slow start during the first half of the current MFF, but should reach cruising speed in 2018 (see Sections 4.2 and 5.1 below).

Figure 8 – A comparison of EU Budgets in 2017 and 2018 (commitment and payment appropriations, € billion)



Source: European Commission, DG Budget, 2017.

As in previous years, the mobilisation of the flexibility tools of the MFF[90] proved necessary to finance budgetary priorities and reinforcements, already at the initial stage of adoption. The conciliation agreement for the 2018 budget included the mobilisation of two such instruments: the Global Margin for Commitments and the Flexibility

[89] European Parliament, EU Budget 2018 deal: EP boosts support for youth and growth initiatives, Press release, 18 November 2017.

[90] Specified in Articles 9 to 15 of the MFF Regulation, these special flexibility instruments can be applied when an expenditure cannot be financed within the limits of the ceilings available under the headings. The possibility to shift available margins between headings and years, known as 'the flexibility', was an important issue during the negotiations on the MFF 2014-2020. The EP strongly supported enforced flexibility provisions and the relevant articles introduced in the MFF Regulation are an important negotiation achievement. These were already very useful during the first years of implementation of the current MFF. In its mid-term review/revision, the European Commission therefore proposed to expand the flexibility instruments and thereby increase the capacity of the EU Budget to respond to unexpected challenges and new priorities (see Section 5.1.).

Instrument (Table 1).[91] In the resolution accompanying the mobilisation of the latter, the European Parliament reiterated its longstanding view that the flexibility of the EU Budget should be increased.[92]

Table 1 – Flexibility tools mobilised with the adoption of the 2018 EU Budget

Instrument	Amount mobilised	Goal
Global Margin for Commitments	€1 113.7 million	To finance additional allocations under subheading 1a 'Competitiveness for growth and jobs' (€762.5 million) and subheading 1b 'Economic, social and territorial cohesion' (€351.2 million)
Flexibility Instrument	€837.2 million	To address migration and security challenges under heading 3 'Security and Citizenship'

Source: EPRS, based on data from the European Parliament Legislative Observatory, 2017.

This has been a recurrent challenge since the beginning of the 2014-2020 MFF, because the EU Budget has had to deal with many unforeseen events and crises. Extraordinary resources had to be redirected to measures aimed at dealing with migration and refugee issues, neighbourhood policy, employment, and investment policy. As a result, the intensive recourse to the flexibility tools of the MFF had already almost exhausted their resources in the first half of the current programming period.

In 2017, the adoption of the mid-term revision of the MFF eventually reinforced a number of these flexibility instruments for the remaining years of the framework, which has been instrumental in financing priorities such as the Youth Employment Initiative (see Sections 4.2 and 5.1).

4.2 Budget headings in detail

Heading 1 'Smart and inclusive growth' is the largest in the 2014-2020 MFF and finances investments in EU priority areas in the Member States and their regions. In the 2018 EU Budget, it accounts for 48.4 % of total commitment appropriations. Heading 1 is divided into subheading 1a 'Competitiveness for growth and jobs' and subheading 1b 'Economic, social and territorial cohesion'.

Many programmes and initiatives under heading 1 contribute to objectives related to the EU industrial policy, which is the focus of this year's economic section of the Outlook (see Section 6). Relevant instruments cover a wide range of sectors. A few examples are: energy; digital infrastructure; space; key enabling technologies; fashion and textiles; cultural and creative industries; and the tourism industry.

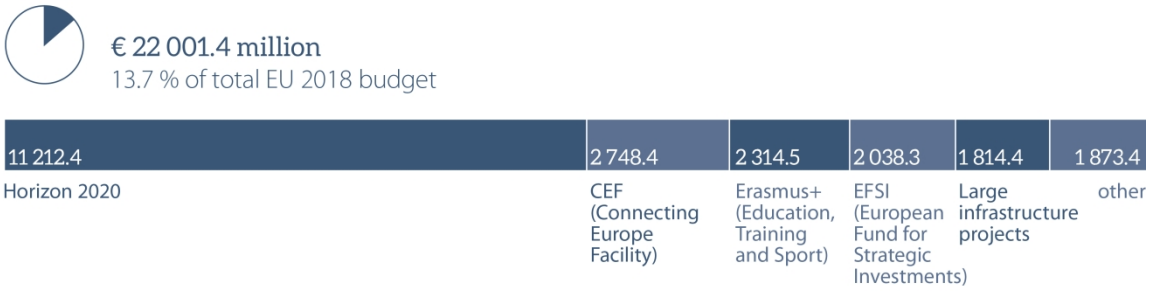
The various instruments addressing industrial policy's objectives have recurring features such as: promotion of innovation, competitiveness and job creation; a special focus on

[91] As regards other special instruments, the conciliation agreement also: revised the decision on the mobilisation of the Contingency Margin in 2017; tackled the 2017 mobilisation of the European Globalisation Adjustment Fund (EGF) for two cases; made available €50 million for the payment of advances under the European Union Solidarity Fund (EUSF) in 2018; and set the level of commitment appropriations for the Emergency Aid Reserve (EAR) and for the EGF in 2018.

[92] Resolution of 30 November 2017 on the proposal for a decision on the mobilisation of the Flexibility Instrument to finance immediate budgetary measures to address the on-going challenges of migration, refugee inflows and security threats, European Parliament.

small- and medium-sized enterprises (SMEs); and the facilitation of the transition to a low-carbon economy. In 2015, a study concluded that, across its different headings, the 2014-2020 MFF allocates significant resources to instruments relevant to industrial policy. The authors estimated the total amount for the current programming period at around €200 billion, which represents some 20 % of the MFF, with the largest contribution coming from cohesion policy (subheading 1b), but with significant financial envelopes available in other expenditure areas as well.[93] Box 2 provides additional details on instruments related to industrial policy's objectives and some more recent budgetary data.

Figure 9 – Subheading 1a Competitiveness for growth and jobs, 2018 commitment appropriations



Source: EPRS, based on European Commission data. Figures for the 2018 budget were approved, and await final publication in the Official Journal of the European Union, see also Annex 3.

Subheading 1a includes EU investments in research and innovation, education and training, large infrastructure projects, trans-European networks in transport, communication and energy, social policy and development of enterprises. Examples of supported programmes and instruments are Horizon 2020, the Connecting Europe Facility, Erasmus+, the European satellite navigation systems (EGNOS and Galileo), the European Earth Observation Programme (Copernicus) and the European Fund for Strategic Investments (EFSI).

While the total volume of commitments for the 2018 EU Budget is essentially the same as for the previous financial year (see Section 4.1), subheading 1a is the expenditure area that marks the highest relative increase in terms of commitment appropriations (+3.2 % on 2017, see Figure 8), and required the use of the Global Margin for Commitments in 2018.

This confirms the EU's determination to reinforce investment in policy areas instrumental to consolidating the European economic recovery and job creation in the long term, against a backdrop of investments that are growing, but still remain below pre-crisis level as a share of GDP in the euro area.[94]

Reinforcements to subheading 1a were facilitated by the adoption of the mid-term revision of the MFF[95] (see Section 5.1), which included an agreement on the allocation of additional resources for the 2017-2020 period to programmes and instruments that have proved successful in promoting growth and job creation (e.g. Horizon 2020, CEF

[93] J. Pellegrin, M. L. Giorgetti, C. Jensen and A. Bolognini, EU Industrial Policy: Assessment of Recent Developments and Recommendations for Future Policies, Policy Department for Economic and Scientific Policy, European Parliament, March 2015, p. 7.

[94] See: Statement of estimates of the European Commission for the financial year 2018, SEC(2017) 250, May 2017.

[95] Council Regulation (EU, Euratom) 2017/1123 of 20 June 2017.

Transport, Erasmus+ and COSME).[96] They are also important in the context of supporting EU industrial policy (see Box 2). The aim of these reinforcements is to further enhance the impact of such instruments.

Programmes with a significant increase of commitment appropriations in comparison with 2017 include Erasmus+ (+12.1 %), the transport component of the Connecting Europe Facility (+10.1 %) and Horizon 2020 (+8.4 %). In a number of cases, and in line with Parliament's reading of the 2018 EU Budget, additional allocations agreed in the budgetary procedure went beyond the amounts initially proposed by the Commission in the draft budget (see Section 4.1).

Established as part of the Investment Plan for Europe in 2015 and managed by the European Investment Bank, another fund of growing importance for investment stimulation is the EFSI, which is active in all 28 Member States, and was reported to have leveraged more than €250 billion in total investment by November 2017 (for more information, see Section 6).[97] Being designed in a different way in terms of risk profile and criteria, the EFSI is additional to and complements funds available under cohesion policy (subheading 1b). On the basis of its initial results and in the framework of the MFF review/revision package, the European Commission proposed that the duration of the EFSI be extended and its resources enhanced; this was eventually agreed in December 2017 (see Section 5.1).[98] The 2018 EU Budget allocates to EFSI around €2 billion in commitment appropriations, which should trigger through a leverage effect a much higher level of private and public investments.

In addition, subheading 1a includes some €42.7 million in commitments for the European Solidarity Corps, a new initiative that the European Commission has proposed, with a view to offering opportunities for young people to engage in solidarity activities where these are most needed.[99]

Box 2 – Instruments addressing industrial policy objectives

Many instruments under subheading 1a contribute to industrial policy objectives. The Horizon 2020 framework programme for research and innovation (€11.2 billion of commitments in 2018) has a number of strands and instruments specifically relevant to industrial policy. For instance, its Industrial Technologies Programme focuses on four key enabling technologies (nanotechnologies, advanced materials, production technologies, and biotechnology), which may significantly contribute to the competitiveness of various EU industrial sectors. Another example under Horizon 2020 is the SME instrument, which provides full business innovation support to highly innovative SMEs. Apart from Horizon 2020, the Connecting Europe Facility will invest in transport, energy and digital infrastructure for a total of 2.7 billion in 2018. The EU satellite navigation systems (EGNOS and Galileo) and the European Earth Observation Programme (Copernicus), whose commitment appropriations amount to €1.4 billion in 2018, support competitiveness and job-creation in the European space industry, but are also designed

[96] In the first years of the current MFF, programmes such as Horizon 2020 attracted numerous, high-quality applications. However, on account of the level of available resources, only part of the positively evaluated proposals could be financed. European Commission SWD(2016) 299 final, 14 September 2016 p. 7.

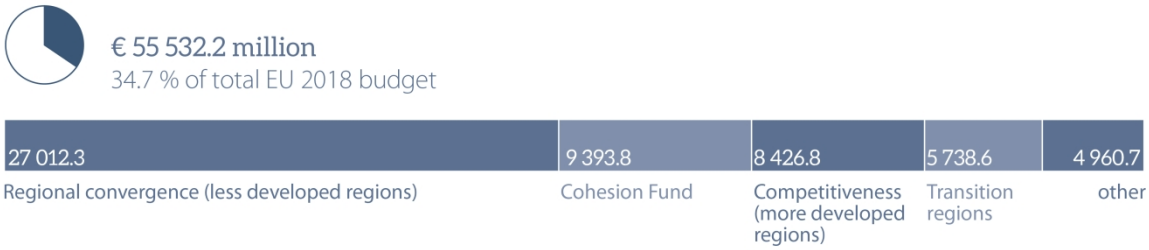
[97] Data source: EIB EFSI dashboard (accessed on 14 November 2017).

[98] During the relevant negotiations, the European Parliament succeeded in increasing the role of EFSI-assigned revenues and investment reflows in financing the additional contribution to EFSI, thus reducing the redeployments from the Connecting Europe Facility.

[99] Proposal for a regulation of the European Parliament and of the Council laying down the legal framework of the European Solidarity Corps, COM(2017) 262, European Commission, 30 May 2017.

to boost commercial applications and opportunities in many other sectors. The COSME programme has a 2018 allocation of €354 million to achieve objectives such as improving access to finance and to markets for SMEs as well as the framework conditions for the competitiveness and sustainability of EU enterprises. Another example under subheading 1a is the preparatory action for defence and security research at EU level, which will receive €40 million in 2018, and is meant to pave the way to a European defence fund enhancing the EU's strategic and industrial autonomy in this policy area. In addition, the EFSI, which aims to leverage vast private investment, has significant potential to contribute to the modernisation of EU industry. As regards other budgetary headings, a 2015 study[100] estimates that cohesion policy under subheading 1b allocates more than half of its significant financial envelope to initiatives contributing to industrial policy objectives. Thematic objectives of the 2014-2020 cohesion policy include research and innovation, digital infrastructure, competitiveness of SMEs and the shift towards a low-carbon economy. The authors note as well that, under heading 2, the European Agricultural Fund for Rural Development (EAFRD) supports the diversification and development of non-agricultural SMEs in rural areas, while the European Maritime and Fisheries Fund (EMFF) has financial allocations to facilitate the adaptation of the fishing industry to changing conditions.

Figure 10 – Subheading 1b Economic, social and territorial cohesion, 2018 commitment appropriations



Source: EPRS, based on European Commission data, see above and Annex 3.

Subheading 1b covers EU expenditure on cohesion policy and supports harmonious economic, social and territorial development of EU regions and cities. Most of the expenditure in the subheading is pre-allocated to the Member States and implemented through three European structural and investment (ESI) funds, namely the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund (CF).[101] The resources of these three funds, which include a specific contribution from the CF to the Connecting Europe Facility, are distributed between two objectives: 'Investment for growth and jobs' and 'European territorial cooperation'. The ESI funds make a significant contribution to initiatives directly and indirectly supporting industrial policy objectives (see Box 2 above). In addition, subheading 1b has a specific allocation for the Youth Employment Initiative.

In 2018, total commitment appropriations for subheading 1b increase by 2.7 % compared with the previous year. The amounts for the ESI funds under this subheading are in line with those set in the relevant legal bases. The figures include the €1.1 billion upward revision of the 2018 allocations for these funds, triggered by the technical adjustment that revised their 2017-2020 financial envelopes to take into account the particularly difficult situation of Member States suffering from the crisis. Member States benefiting from this additional allocation are encouraged to use it for measures relating

[100] J. Pellegrin, M. L. Giorgetti, C. Jensen, and A. Bolognini, op. cit., p. 32.

[101] The remaining two of the five ESI funds are the European Fund for Rural Development (EFRD) and the European Maritime and Fisheries Fund (EMFF), which are included under heading 2 'Sustainable growth: natural resources'.

to youth employment, refugees and migrants, and investment in combination with the EFSI, based on their specific needs in these policy areas.[102]

Payment appropriations for subheading 1b register a 54.7 % increase on the 2017 level. This is due to the fact that, after a slow start of their implementation cycle, the 2014-2020 ESI fund programmes are expected to reach cruising speed in 2018, triggering a much higher submission of payment claims. Delays in implementation were due to a number of drivers, including the late agreement on the 2014-2020 MFF, its knock-on effects on the adoption of ESI fund legal bases and of their operational programmes, and unexpected delays in the designation of national managing and certifying authorities.[103]

The reprogramming of significant commitment appropriations from 2014 to 2015, for which justification of expenditure has to be provided by the end of 2018, should also contribute to the surge in payment claims. In practice, as was the case for the 2007-2013 programmes, it is again expected that payments will be concentrated in the final years of the programming period and the first years of the next MFF. The mid-term revision of the MFF includes measures to reduce possible pressure on payment appropriations in the years to come (see Section 5.1).[104] A joint declaration by Parliament, Council and Commission accompanying the 2018 EU Budget reaffirms the need to continue a close monitoring of payment needs and the commitment to avoid an accumulation of unpaid claims.[105]

In addition to the ESI funds, subheading 1b includes an allocation for the Youth Employment Initiative (YEI), which is specifically targeted at the regions most affected by youth unemployment, complementing other actions supported by the ESF. The continuation of the YEI, which was strongly supported by the European Parliament, was agreed in the framework of the mid-term revision of the MFF in 2017 (see Box 3 and Section 5.1). In 2018, commitment appropriations for the YEI total €350 million, in line with Parliament's reading of the budget and up from the €233 million initially proposed in the draft budget. The specific allocation to the YEI, which is financed by the Global Margin for Commitments, is to be coupled by at least a corresponding amount financed from targeted investment from the ESF.[106]

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[102] Provided for in Article 7 of the MFF Regulation, this technical adjustment resulted in a total increase of €4.6 billion for the 2017-2020 financial envelopes for cohesion policy. The total increase is to be spread in equal proportions over these four years. See: European Commission, COM(2016) 311 final, 30 June 2016.

[103] See Statement of estimates of the European Commission for the financial year 2018, SEC(2017) 250, May 2017, pp. 34-36.

[104] Abnormal payment backlogs at year-end afflicted the EU Budgets at the end of the previous MFF and at the beginning of the current one. See A. D'Alfonso and M. Sapala, Payments backlog in in recent EU Budgets. Lessons learnt and outlook, EPRS, European Parliament, November 2015.

[105] 2018 general budget: all sections, Legislative Observatory (OEIL), European Parliament.

[106] See Statement of estimates of the European Commission for the financial year 2018, SEC(2017) 250, May 2017, p. 33.

Box 3 – Youth Employment Initiative (YEI) extended to 2020

The YEI supports young people who are not in education, employment or training (NEETs), and live in regions with youth unemployment rates higher than 25 %. It finances the provision of apprenticeships, traineeships, job placements and further education leading to a qualification. All the original resources of the initiative under the current MFF were frontloaded to the 2014 and 2015 EU Budgets, and eligibility was based on 2012 unemployment rates. The European Parliament strongly supported the continuation of the YEI in the remaining years of the MFF. On the basis of YEI results (around 1.6 million young people included in supported measures by the end of 2016) and of persistent challenges, the mid-term revision of the MFF endowed the YEI with a specific allocation of €1.2 billion (and a corresponding amount from the ESF) for the 2017-2020 period. For the new allocation, eligibility is based on 2016 unemployment rates. The Global Margin for Commitments finances the specific YEI allocation of €350 million in the 2018 budget. A joint declaration by Parliament, Council and Commission accompanying the budget reaffirms that reducing unemployment and, in particular, youth unemployment, is a high and shared political priority. The Commission undertook to put forward a proposal to mobilise additional resources for the YEI through an amending budget should the implementation trend of the initiative justify this.[107]

Figure 11 – Heading 2 Sustainable growth: natural resources, 2018 commitment appropriations

Source: EPRS, based on European Commission data, see above and Annex 3.

Heading 2 finances the common agricultural policy, which focuses on three priorities for the 2014-2020 period: viable food production; sustainable management of natural resources; and balanced development of rural areas throughout the EU. The two funding tools available for these objectives are the European Agricultural Guarantee Fund (EAGF), which deals with market measures and direct payments, and the European Agricultural Fund for Rural Development (EAFRD), which is one of the five European structural and investment (ESI) funds.

In addition, heading 2 covers EU expenditure on common fisheries policy and environmental measures, by means of such instruments as the European Maritime and Fisheries Fund (EMFF), which is also an ESI fund, and the LIFE programme for environment and climate measures.

In comparison with 2017, total commitments for heading 2 increase by 1.2 %, which is attributed mainly to a lower level of assigned revenue estimated to be available to the EAGF. The implementation of the EMFF, which was slow at the beginning of the current MFF, is expected to accelerate in 2018, while LIFE will have updated objectives on the basis of the mid-term evaluation of the programme.[108]

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[107] 2018 general budget: all sections, Legislative Observatory (OEIL), European Parliament.

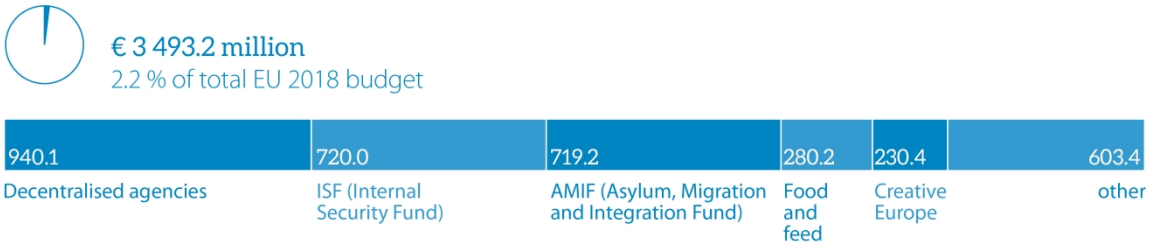
[108] See Statement of estimates of the European Commission for the financial year 2018, SEC(2017) 250, May 2017, p. 38.

The 2018 budget includes pre-programmed commitments for market measures, direct payments and rural development programmes. The conciliation agreement has strengthened resources to reduce youth unemployment in rural areas, and funding for agricultural practices that are beneficial to the climate and the environment.[109] The EAFRD and the EMFF include initiatives that support industrial policy objectives (see Box 2 above). Heading 2 has a significant focus on sustainability (see Box 4).

Box 4 – Contribution of heading 2 to climate and environmental objectives

Under the 2014-2020 MFF, at least 20% of EU expenditure should be climate-related further to a Commission proposal endorsed by the European Council and the European Parliament. According to the methodology developed to track progress against this objective, the European Commission estimates that the 2018 EU Budget should almost reach the target, with 19.5 % of the total expenditure being climate-related. Environmental and climate objectives are mainstreamed into many EU policies and funding programmes. Heading 2 is the expenditure area that is contributing the most to the climate target (accounting for some 54 % of the EU climate-related expenditure in 2018).[110]

Figure 12 – Heading 3 Security and citizenship, 2018 commitment appropriations



Source: EPRS, based on European Commission data, see above and Annex 3.

Heading 3 is the smallest in the 2014-2020 MFF, but finances EU actions of high and growing importance in policy areas such as border control, migration and asylum, public health, consumer protection, culture, information and dialogue with citizens. The biggest funds under this heading are the Asylum, Migration and Integration Fund (AMIF) and the Internal Security Fund (ISF).

In 2018, the budgetary authority allocated commitment appropriations of around €3.5 billion to heading 3, representing 2.2 % of the annual EU Budget. This amount is €837 million higher than the 2018 ceiling set in the MFF for the heading. The mobilisation of the Flexibility Instrument enabled the EU to finance additional measures, which are related to emergency assistance, border control, relocation, resettlement, integration of refugees and asylum-seekers, and return of those not entitled to international protection. In 2018, therefore, flexibility provisions of the MFF cover around one quarter of expenditure under heading 3. Without the mid-term revision of the MFF, the resources available under the Flexibility Instrument would have been more limited (see Section 5.1).

In the current programming period, the insufficient level of the annual ceiling and the need to resort to flexibility provisions have been a recurrent feature of heading 3, which has been confronted with significant challenges and needs since very early on. Many

[109] EU Budget 2018 approved: support for youth, growth, security, press release, European Parliament, 30 November 2017.

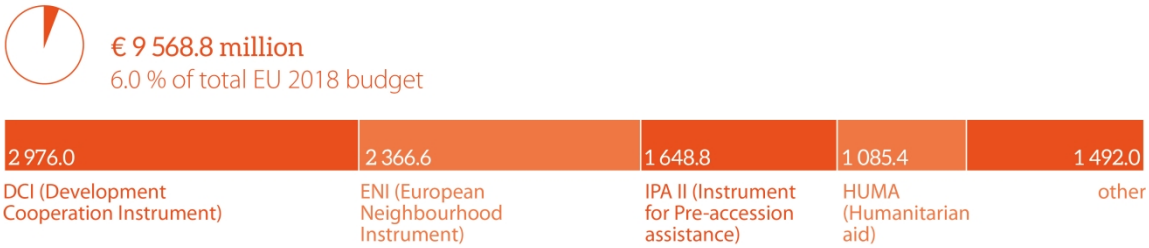
[110] See Statement of estimates of the European Commission for the financial year 2018, SEC(2017)250, May 2017, pp. 101-106.

measures relating to migration, asylum and security were frontloaded in the first half of the MFF with a peak of financing needs in 2017, but the 2018 mobilisation of the Flexibility Instrument confirms the commitment to a significant effort for migration and security measures against a backdrop of persistent challenges.

As in previous years, measures dealing with external border controls, migration, refugee inflows and security issues get a significant share of the allocations under heading 3 (€2.2 billion in total, while the external dimension of these policy areas is financed under heading 4).[111]

Tackling migration and security challenges is one of the two priorities identified by the budgetary authority for the 2018 financial year. This is reflected also by the 8.9 % increase (on the 2017 budget) in the resources allocated to EU agencies active in the security and citizenship fields. The additional resources go mainly to Europol, Eurojust and the European Asylum Support Office, which receive amounts beyond the proposals in the draft budget in line with Parliament's position in the budgetary procedure.[112]

Figure 13 – Heading 4 Global Europe, 2018 commitment appropriations



Source: EPRS, based on European Commission data, see above and Annex 3.

Heading 4 covers external actions of the EU, focusing on development assistance, humanitarian aid and the EU Common Foreign and Security Policy. The instruments under the heading seek to promote peace, democracy, poverty reduction, solidarity and stability in third countries. The largest allocations go to the Development Cooperation Instrument (DCI), European Neighbourhood Instrument (ENI) and Instrument for Pre-accession assistance (IPA II).[113]

Expenditures secured under heading 4 in 2018 will continue to support development cooperation and humanitarian aid. In addition, most instruments under heading 4 contribute to addressing the external dimension of the migration challenges, by directly assisting the countries and communities hosting refugees and tackling the root causes of migration in the regions of origin. In 2018, the amount available for migration-related objectives across the different instruments of the heading is around €1.9 billion. The 2018 EU Budget includes the new contributions for humanitarian and

[111] See Statement of estimates of the European Commission for the financial year 2018, SEC(2017) 250, May 2017, pp. 46-47; and 2018 EU Budget: jobs, investments, migration challenge and security, press release, European Commission, 18 November 2017.

[112] The other priority is boosting innovation, growth and employment in the EU. Please see 2018 EU Budget adopted, press release, Council of the European Union, 30 November 2017; and EU Budget 2018 approved: support for youth, growth, security, press release, European Parliament, 30 November 2017.

[113] In addition to the programmes and funds allocated under heading 4, EU Member States also provide financial support for third countries and regions through the European Development Fund (EDF). This intergovernmental fund, however, is not part of the EU Budget.

development/resilience assistance in Syria, Jordan and Lebanon pledged at the conference on the future of Syria and the region in April 2017.[114]

Contrary to what happened in 2017, flexibility tools were not mobilised for heading 4 at the stage of the adoption of the 2018 EU Budget. Commitment appropriations for the three largest instruments of the heading are down in comparison with the previous year, mainly on account of the fact that the DCI, the ENI and IPA II received exceptional reinforcements in the 2017 budget. Conversely, the 2018 allocations of the Instrument contributing to Stability and Peace (IcSP) are up by 35.4 %. The budgetary authority decided to keep a margin of €256 million under heading 4, so as to have resources to cover needs that may arise in the course of 2018.

The European Fund for Sustainable Development (EFSD) Guarantee Fund, which received the bulk of its EU Budget financing (€275 million) at its creation in 2017,[115] was allocated an additional €25 million from the ENI under the 2018 budget. Part of the MFF mid-term review/revision package, the EFSD aims to catalyse investment from public and private sources to foster sustainable and inclusive socioeconomic development in Africa and the European neighbourhood, thus addressing specific root causes of migration.

Amounting to around €1.1 billion, the funding for humanitarian aid activities was increased by 14.8 % in comparison with 2017. These resources provide assistance, relief and protection in complex crises in vulnerable countries, as well as aid to regions affected by natural disasters. Funds are also used to build resilience among communities recurrently affected by disasters.

The budgetary authority decided to reduce the pre-accession funds for Turkey proposed in the draft budget by €105 million and to hold another €70 million in reserve in view of the situation in the country as regards democracy, rule of law, human rights and press freedom.[116]

Figure 14 – Heading 5 Administration, 2018 commitment appropriations

Source: EPRS, based on European Commission data, see above and Annex 3.

Heading 5 covers the administrative expenditure of all EU institutions, pensions for former staff and former Members of the institutions, as well as financing for European schools. The share of the budget allocated to this heading remains stable at 6 % of the total commitments, the same level as in 2017.

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[114] See Statement of estimates of the European Commission for the financial year 2018, SEC(2017)250, May 2017, pp. 54-57; and 2018 EU Budget: jobs, investments, migration challenge and security, press release, European Commission, 18 November 2017.

[115] Regulation (EU) 2017/1601 of the European Parliament and of the Council of 26 September 2017 establishing the European Fund for Sustainable Development (EFSD), the EFSD Guarantee and the EFSD Guarantee Fund.

[116] See 2018 EU Budget adopted, press release, Council of the European Union, 30 November 2017; and EU Budget 2018 approved: support for youth, growth, security, press release, European Parliament, 30 November 2017.

The 2018 budget for the EU administration reflects the strict measures that have been taken to ensure that this category of expenditure integrates all possibilities for rationalisation and savings. Drivers of the 2.2 % increase in appropriations under heading 5 include the increase in pensions for former staff and Members (with a higher number of pensioners expected in 2018).[117]

4.3 Scrutiny of EU spending: Procedures in the European Parliament

In accordance with the cycle of scrutiny of the EU annual budget, the management and execution of the 2018 budget will be evaluated during the course of 2019 and 2020 (Figure 15). The procedure will begin in the middle of 2019 after adoption of final accounts by the European Commission (stage A), and finish with a decision of the European Parliament adopted before 15 May 2020 (stage D) or in October 2020 in case of postponement (stage E).

In 2018, the European Parliament is expected to take a discharge decision on the 2016 financial year. The ongoing discharge procedure is at the stage of hearings with respective commissioners and representatives of EU institutions and bodies, conducted by the European Parliament's Budgetary Control Committee (CONT) (stage C). Following this stage, and after receiving the Council recommendation on the discharge, the European Parliament is expected to take its decision by mid-May 2018.[118]

The European Parliament is also responsible for initiating the next discharge procedure in 2018, covering the 2017 budgetary year. The procedure will begin with the publication of a series of budgetary reports and evaluations by the European Commission. Following this stage, the European Court of Auditors (ECA) will present its annual report with the statement of assurance (DAS)[119] on the implementation of the 2017 financial year. In addition, in the course of 2018, the ECA will publish various special reports and other products on topics selected on the basis of its assessment of the main risks to EU spending and policy delivery. The five priority areas identified by the ECA for its 2018 work programme are: sustainable use of natural resources; growth and inclusion; migration and global development; the single market; and an accountable and efficient European Union.[120]

Figure 15 – EU discharge procedure from the perspective of the European Parliament

Source: EPRS.

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[117] Statement of estimates of the European Commission for the financial year 2018, SEC(2017) 250, May 2017, pp. 64-69.

[118] The discharge procedure for the 2016 financial year can be followed on the European Parliament's Budgetary Control Committee website.

[119] The statement of assurance (known as the DAS) is the official opinion issued by the ECA on the reliability of the accounts and on the legality and regularity of the underlying transactions (Article 287 TFEU and Article 148 Financial Regulation).

[120] For the list of high priority and priority topics to be covered by the ECA in 2018, please see the ECA 2018 Work Programme.

The European Parliament plays a crucial role in the democratic scrutiny and control of the implementation of the EU Budget.[121] Within the annual discharge procedure it not only signs off the financial year, but also makes recommendations for improving the financial management and implementation of the EU Budget. After receiving a recommendation from the Council, it ascertains whether the European Commission upheld the principles of sound financial management, and abided by the applicable rules and regulations when implementing the budget.[122] The Parliament grants separate discharge to the other EU institutions for the management of their sections of the general budget, and to the decentralised agencies and joint undertakings for their budgets.

Apart from scrutinising the regularity and legality of the budget's implementation, the discharge procedure increasingly focuses on performance culture, performance information and achievement of goals. The principles of performance orientation have gradually permeated many aspects of the management, implementation and control of the EU Budget. Since 2015, the principles are included in the Commission's 'EU Budget focused on results' initiative. This wider approach to the assessment of EU spending is strongly supported by the European Parliament and the ECA. Many of the improvements introduced so far in this respect were triggered by opinions and demands expressed during the budgetary discharge procedure, for instance in the ECA's annual and special reports[123] and the European Parliament's resolutions.[124]

The ongoing legislative procedure on the revision of the EU's Financial Regulation (see Section 5.1.1) has a potential impact on the timing of the discharge procedure, which could be brought forward from year n+2 to year n+1. A shorter time lag between the implementation of the budget and its political scrutiny is a longstanding demand of Parliament's Committee on Budgetary Control (CONT).

5 EU Budget in the medium- and long-term

The current MFF sets out the structure for EU spending up until 2020. In 2018, the debate on the next programming period should gain momentum, since the European Commission is expected to put forward its proposal for the post-2020 MFF in May.

5.1 The final years of the 2014-2020 MFF

Table 2 compares commitments in the adopted EU Budget for 2018 and the ceilings available for each heading in the remaining years of the current MFF. The figures in bold highlight the categories of spending for which the budgetary authority resorted to special

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[121] Please see: R. Corbett, F. Jacobs and D. Neville, *The European Parliament*, 9th edition, John Harper Publishing, 2016, pp. 333-337; A. D'Alfonso, Discharge procedure for the EU Budget. Political scrutiny of budget implementation, Briefing, European Parliament, EPRS, April 2016.

[122] For the methods of implementation of the EU Budget please see Section 3.3.

[123] For example: Making the best use of EU money: a landscape review of the risks to the financial management of the EU Budget, European Court of Auditors, 2014; Annual report on the implementation of the budget concerning the financial year 2016, European Court of Auditors, OJ C 322 (especially Chapter 3 'Getting results from the EU Budget').

[124] For an overview of the European Parliament resolutions referring to the topic please see: Performance-based budgeting, Policy Department for Budgetary Affairs, European Parliament, 2015. For a recent example please see: the Report on discharge in respect of the implementation of the general budget of the European Union for the financial year 2015, Section III – European Commission and executive agencies, Committee on Budgetary Control, European Parliament, 3 April 2017.

instruments (the Flexibility Instrument and the global margin for commitments) when adopting the 2018 budget: subheading 1a 'Competitiveness for growth and jobs', subheading 1b 'Economic, social and territorial cohesion' and heading 3 'Security and citizenship'. Until 2020, pressure on the expenditure ceilings may be expected to recur for some of these categories, in particular 'Security and citizenship', which receives 24 % of its 2018 financing from special instruments (down from around 40 % in 2017).

Table 2 – EU Budget 2018 commitments and 2019-2020 MFF ceilings by heading (€ million, current prices)[125]

Heading/subheading	2018	2019	2020
1a Competitiveness for growth and jobs	**22 001**	23 082	25 191
1b Economic, social and territorial cohesion	**55 532**	56 842	58 470
2 Sustainable Growth: Natural Resources	59 285	60 344	60 421
3 Security and citizenship	**3 493**	2 801	2 951
4 Global Europe	9 568	10 268	10 510
5 Administration	9 665	10 786	11 254
Total	159 546	164 123	168 797

Data source: European Commission, DG Budget.

5.1.1 Mid-term revision of the MFF

In June 2017, the adoption of the mid-term revision of the MFF Regulation strengthened a number of flexibility provisions and special instruments for the remaining years of the current MFF.[126]

Against the backdrop of persistent challenges, the mid-term revision aimed to increase the EU Budget capacity to react to unforeseen challenges, as well as reducing possible pressures on payment ceilings during the final years of the framework. In particular, the revision introduced the following modifications:

- The cap on the global margin for payments for the years 2018-2020 is increased by €5 billion (i.e. +€2 billion in 2019 and +€3 billion in 2020).
- The annual amounts (expressed in 2011 prices) available for the Flexibility Instrument and the Emergency Aid Reserve are increased respectively to €600 million (from €471 million) and €300 million (from €280 million).
- The annual amount of the Flexibility Instrument is further increased by an amount equivalent to the unused resources of the European Union Solidarity Fund and the European Globalisation Adjustment Fund, which would otherwise be lost.
- The time limitation on the global margin for commitments is removed. The limitation on its scope is kept, but extended to include migration and security measures alongside those related to growth and employment.

The mid-term revision was part of a broader package of legislative and non-legislative initiatives put forward by the European Commission in September 2016 (see Table 3), which sought to allocate an extra €6.33 billion to job creation, growth, migration and security challenges, without modifying MFF ceilings.

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[125] The total for 2018 is lower than the overall appropriations for the 2018 EU Budget, since it does not include the instruments that are outside the MFF ceilings.

[126] A. D'Alfonso, 2014-2020 Multiannual Financial Framework (MFF): Mid-term revision, European Parliament, EPRS, 6 July 2017. Council Regulation (EU, Euratom) 2017/1123 of 20 June 2017.

A joint statement accompanying the adopted mid-term revision of the MFF Regulation places total reinforcements for the remaining MFF period at some €6 billion (€2.07 billion for job creation and growth objectives and €3.93 billion for migration and security), to be implemented in the framework of the annual budgetary procedure and without modifying the MFF ceilings. The declaration states that it does not prejudge the prerogatives of the budgetary authority or the outcome of negotiations on draft legislative proposals. The European Parliament, which had long pushed for MFF revision, approved the compromise package supported in the Council, pointing out that statements cannot prejudge the prerogatives of the budgetary and legislative authority.[127]

Table 3 shows the other objectives that, according to the European Commission, need to be addressed in the current programming period. Different procedures apply to the relevant proposals.

In the course of 2017, the European Parliament and the Council reached agreement on and adopted the legislative or budgetary measures related to the following proposals of the MFF review package: bringing forward the offsetting of the contingency margin;[128] establishing the European Fund for Sustainable Development (EFSD), the EFSD Guarantee and the EFSD Guarantee Fund;[129] creating an initiative to promote the availability of internet connectivity in local communities;[130] extending the duration of the European Fund for Strategic Investments (EFSI) and increasing its means;[131] and revising the provisions applicable to agricultural expenditure.[132]

Legislative procedures concerning other proposals of the MFF review/revision package are still ongoing (in some cases being close to completion) at the beginning of 2018, in particular as regards those on: the extension of the European Investment Bank's mandate for its investment activities outside the EU; the revision of the Guarantee Fund for external actions; and the revision of the implementing rules for EU funds in spending areas other than agriculture (see above).

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[127] Multiannual financial framework for the years 2014-2020: special instruments, and Multiannual financial framework for the years 2014-2020, mid-term revision, Legislative Observatory (OEIL), European Parliament.

[128] Decision (EU) 2017/1331 of the European Parliament and of the Council of 4 July 2017.

[129] Regulation (EU) 2017/1601 of the European Parliament and of the Council of 26 September 2017.

[130] Regulation (EU) 2017/1953 of the European Parliament and of the Council of 25 October 2017.

[131] European Fund for Strategic Investments: extension of duration; technical enhancements for the Fund and the European Investment Advisory Hub, Legislative Observatory (OEIL), European Parliament.

[132] Financial rules applicable to the general budget of the Union: agricultural provisions, Legislative Observatory, European Parliament. The European Parliament and the Council reached an agreement on the changes to the agricultural provisions. In order for these changes to enter into force on 1 January 2018, these provisions were separated from the rest of the proposal to modify the Financial Regulation and related basic acts. On the remainder of the proposal, the European Parliament and Council eventually reached a provisional deal on 12 December 2017, and the legislative procedure needs to be completed in 2018.

Table 3 – MFF review package: core objectives of the main proposals

Core objective	Examples of related proposals and procedure file(s)
Increasing EU Budget capacity to react to unforeseen challenges	- Revision of the MFF Regulation – (2016/0283 (APP))
Avoiding pressure on payment ceilings during the final years of the 2014-2020 MFF	- Revision of the MFF Regulation – (2016/0283 (APP)) - Contingency margin mobilised in 2014: bringing offsetting forward from 2018-2020 to 2017 (2016/2233(BUD))
Increasing EU tools and/or means addressing job creation and growth	- Revision of the EFSI Regulation to extend the duration of EFSI to 2020 and increase its means (2016/0276(COD)) - Creation of a Wifi4EU initiative to promote the availability of internet connectivity in local communities (2016/0287(COD))
Increasing EU tools and/or means addressing migration and security challenges	As part of the Commission's external investment plan of June 2016: - Setting up a European Fund for Sustainable Development (2016/0281(COD)) - Extension of the European Investment Bank's mandate for its investment activities outside the EU (2016/0275(COD)) and revision of the Guarantee Fund for external actions (2016/0274(COD))
Simplifying implementing rules for EU funds and increasing their impact	- Revision of the EU's Financial Regulation and of related basic acts in specific spending areas such as agriculture, cohesion, Connecting Europe Facility and space (2016/0282(COD))

Source: A. D'Alfonso, 2014-2020 MFF: Mid-term revision, EPRS, European Parliament, July 2017.

Some of the measures already adopted from the mid-term review/revision package are designed to avoid a repetition of an abnormal payments backlog at year-end towards the end of the current programming period. To this end, some of the limitations that were in place for the flexibility provisions applicable to payments have been removed.

The issue of unpaid claims[133] at the end of the year was particularly difficult during the final period of the previous MFF and the beginning of the new one. An intense interinstitutional dialogue to tackle the problem resulted in the decision to resort to 2014-2020 MFF flexibility provisions and to improve the forecasting and management of payment needs, which helped to normalise the year-end backlog.[134]

However, this challenge may recur in the coming years. Although the pressure on payments has decreased significantly, this is also due to the delayed start and slow implementation of the 2014-2020 programmes, especially in cohesion policies (see Section 4.2). In October 2017, the European Commission put forward a proposal to reduce the level of 2017 payment appropriations by €7.7 billion, mainly on account of interim payments for ESI funds being lower than those initially forecasted by Member States.[135]

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[133] At the worst point, in 2014, the level of payment backlog was estimated at some €26 billion. Most of this was accumulated under subheading 1b 'Economic, social and territorial cohesion', but some serious problems occurred also under the Erasmus and research programmes, neighbourhood and humanitarian aid programmes. For a thorough analysis of the problem see: A. D'Alfonso and M. Sapala, Payments backlog in in recent EU Budgets. Lessons learnt and outlook, EPRS, European Parliament, November 2015.

[134] It is worth noting that forecasting the payments, especially in Heading 1b is very difficult. The Commission estimates that in this heading a +/- 1 % of change in the pace of implementation leads to a +/- €4 billion change in payment needs. See Mid-term review/revision of the multiannual financial framework 2014-2020. An EU Budget focused on results, SWD, European Commission, p. 56.

[135] DAB No 6/2017, COM(2017) 597 final.

In fact, halfway through the 2014-2020 programming period (i.e. by July 2017), only some 7 % of the €480 billion of investments planned under cohesion policy[136] had actually been disbursed. On the other hand, funding committed to selected projects amounted to 39 % of the total for the programming period.[137] This suggests that payment claims will again tend to concentrate in the final years of the current MFF and the first years of the next one.

While the mid-term revision of the MFF and the earlier offsetting of the contingency margin are helping to address possible problems, close monitoring of payment needs will nevertheless be needed so as to avoid a repeat of abnormal payments backlogs at year-end, as stressed by Parliament, Council and Commission in a joint declaration accompanying the 2018 EU Budget.[138] In the MFF review package, the Commission also underlined that, during the second half of the current MFF, the overall payment ceiling is only sufficient on condition that the payments for special flexibility instruments are counted over and above the ceilings in the same way as commitments.[139]

5.1.2 Negotiations on UK withdrawal from the EU

A factor that may have an impact on the EU Budget by 2020 and/or beyond is the withdrawal of the United Kingdom (UK) from the EU, which is currently being negotiated. Following the triggering of the Article 50 procedure by the UK on 29 March 2017, the 2018 EU Budget will possibly be the last to include the UK as an EU Member State for the entire financial year.

The unprecedented request of one Member State to withdraw from the EU poses the challenge of disentangling the ongoing financial liabilities of the withdrawing country from those of the other 27 Member States, which will continue to honour their obligations through the mechanisms agreed to this effect. The settlement of the UK's financial obligations towards the EU is one of the three priorities identified for the first phase of the negotiations on a possible withdrawal agreement.[140]

According to an analysis by the CEPS think tank, a settlement of past obligations with or without further UK's participation in some EU activities would have a limited and manageable impact on the EU Budget and other Member States' contributions. The authors consider that the UK's net contribution would be partly compensated by financial participation in EU activities in one scenario, or by customs duties in other.[141] A number of analysts identify 'Brexit' as an opportunity for broader reform of the EU

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[136] The €480 billion figure is the overall financial envelope for the policy, including both the contribution from the EU Budget (€349 billion) and national contributions (€131 billion).

[137] Seventh Report on Economic, Social and Territorial Cohesion, European Commission, 9 October 2017, pp. 177-178.

[138] 2018 general budget: all sections, Legislative Observatory (OEIL), European Parliament.

[139] Since 2014 when the contingency margin was mobilised for the first time under the 2014-2020 MFF Regulation, the Council and the Parliament have had a different interpretation of how the payments of the special instruments should be budgeted. According to the Parliament (and the Commission), they should be counted, just like the commitments, over and above the annual MFF ceilings. The Council takes a contrary view.

[140] The MFF and the annual EU Budget are immediate examples of financial liabilities to be disentangled, but the landscape of financial obligations jointly undertaken by EU Member States is broader and more complex than that. For more details, please see A. D'Alfonso, E.-M. Poptcheva, J. McEldowney and L. Tilindyte, The Brexit negotiations: Issues for the first phase, EPRS, European Parliament, June 2017.

[141] J. Núñez Ferrer and D. Rinaldi, The Impact of Brexit on the EU Budget: A non-catastrophic event, CEPS Policy Brief No 347, 7 September 2016.

Budget.[142] Over the years, critics of the current EU financing system have often argued that its complexity and opacity also result from the UK rebate and other correction mechanisms,[143] which hinder the reform of both the revenue and the expenditure side of the EU Budget.[144] A policy paper by Notre Europe – Jacques Delors Institute identifies four different ways of adjusting the EU Budget to 'Brexit', concluding that this would represent either a threat or an opportunity for the EU Budget, depending on the path that EU Member States decide to follow.[145] Another paper analyses the changes in net contributions for EU Member States under different scenarios (with or without budgetary cuts), and considers it unlikely that the UK will discontinue its participation in all EU activities.[146]

In her Florence speech of September 2017, the UK Prime Minister Theresa May declared that the UK would not jeopardise the 2014-2020 MFF, indicating that the other Member States would not have 'to pay more or receive less over the remainder of the current budget plan' on account of her country's withdrawal from the EU.[147]

In the absence of a detailed UK position on the financial settlement, the press interpreted her words as the intention to pay some €20 billion to the EU, i.e. around the amount of the net UK contribution to the EU Budget for two years. However, the multiannual nature of many EU programmes and funds means that part of the projects committed and implemented during one programming period become payable during the next. The EU expects the UK to cover its share of the outstanding funding of EU programmes for the 2014-2020 period, its share of EU liabilities and the full withdrawal cost.

In October 2017, the EU negotiator Michel Barnier pointed out that, during the fifth round of negotiations, the UK could not yet clarify the commitments that it intended to honour.[148] The same month, the European Council considered that the progress on the three priorities[149] for the first phase of the negotiations with the UK was not sufficient to move to the second phase.

On 8 December 2017, following intensive negotiations between the EU and the UK, the European Commission assessed that sufficient progress had been reached on the three priorities of the first phase, recommending that the European Council allow the

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[142] H. Enderlein, What should happen? What is likely to happen? Notes on Brexit, Jacques Delors Institut – Berlin, 30 June 2016.

[143] For example, this criticism has been expressed on many occasions by the European Parliament (e.g. legislative resolution of 16 April 2014 on the draft Council decision on the system of own resources of the European Union legislative resolution) and by the European Court of Auditors (e.g. Opinion No 4/2005).

[144] See for example: F. Zuleeg, 'Britain outside Europe? Fewer EU concessions to UK post-Brexit', European Policy Centre, 2014; and Q. Peel, 'A fair deal demands that Britain rethink the rebate', *Financial Times*, 8 December 2005.

[145] J. Haas and E. Rubio, Brexit and the EU Budget: threat or opportunity?, Notre Europe – Jacques Delors Institute, Policy paper, January 2017.

[146] G. Felbermayr, C. Fuest, J. Gröschl and D. Stöhlker Economic Effects of Brexit on the European Economy, EconPol Europe, European Network of Economic and Fiscal Policy Research, November 2017.

[147] T. May, A new era of cooperation and partnership between the UK and the EU, 22 September 2017.

[148] Press statement by Michel Barnier following the fifth round of Article 50 negotiations with the United Kingdom, 12 October 2017.

[149] Citizens' rights and the border between the Republic of Ireland and Northern Ireland are the other two priorities.

negotiations to move to their second phase.[150] The European Council did so on 15 December.

As regards financial obligations, the UK has agreed to honour its share of the financing of all the obligations undertaken during its EU membership. Among other points, this implies in relation to the EU Budget and the 2014-2020 MFF that the UK 'will contribute to, and participate in, the implementation of the EU annual budgets for the years 2019 and 2020 as if it had remained in the Union. It will also contribute its share of the financing of the budgetary commitments outstanding on 31 December 2020 (i.e. *reste à liquider*) as well as its share of the financing of the Union's liabilities incurred before 31 December 2020, except for liabilities with corresponding assets. In addition, the United Kingdom will remain liable for its share of the EU's contingent liabilities as established at the date of withdrawal'.[151] In practice, this agreement, if finalised, should result in the UK withdrawal having no impact on the 2019 and 2020 EU Budgets. Neither would the overall 2014-2020 MFF be affected.

Subsequent phases in the negotiations may also tackle possible transitional arrangements and exploratory discussions on the framework for future EU-UK relations. As regards the next generation (post-2020) of EU programmes, possible UK participation in some of them remains to be seen. Deeming very valuable the PEACE and INTERREG programmes that promote cross-border cooperation between the Republic of Ireland and Northern Ireland, the European Commission has already expressed its intention to propose their continuation in the post-2020 MFF.[152]

5.2 Debate on the post-2020 MFF

In 2017, the European Commission decided to postpone its proposal for the post-2020 MFF until mid-2018.[153] However, the longstanding debate on reform of the EU Budget and the preparation of the post-2020 MFF have gained momentum, with significant contributions including the presentation of the final report of the High-Level Group on Own Resources (HLG)[154] in January and of important mid-term evaluations on a number of EU sectoral policies and spending programmes, such as the seventh cohesion report published in October.[155]

A significant input to the preparation of the next MFF is the June 2017 reflection paper on the future of EU finances[156] that the European Commission presented as part of the wider debate on the future of the EU that was kick-started some months earlier. A white paper of March 2017 outlined five different scenarios for the future of the EU: 1) carrying on with the current reform agenda; 2) doing less together in all policy areas; 3) some

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[150] Communication to the European Council on the state of progress of the negotiations with the United Kingdom under Article 50 of the Treaty on European Union, (COM(2017) 784), European Commission, 8 December 2017.

[151] COM(2017) 784, European Commission, p. 10.

[152] COM(2017) 784, European Commission, p. 9.

[153] Initially, the proposal was due before 1 January 2018 on the basis of Article 25 of the MFF Regulation.

[154] Future financing of the EU: Final report and recommendations, High Level Group on Own Resources, December 2016.

[155] Seventh Report on Economic, Social and Territorial Cohesion, European Commission, 9 October 2017.

[156] Reflection paper on the future of EU finances, COM(2017) 358, European Commission, 28 June 2017.

Member States do more in specific areas; 4) radical redesign; and 5) doing much more together across all policy areas.[157]

The reflection paper on EU finances, which takes into account the conclusions and recommendations of the HLG on own resources appointed by Parliament, Council and Commission,[158] identifies the key principles that should drive any reform, irrespective of the way forward that the EU decides to pursue. In particular, these principles are: 1) concentrating resources on the policy areas with the highest EU added value, selected through criteria such as Treaty objectives and obligations, economies of scale, and public goods with a European dimension; 2) continuing simplification efforts with a view to further streamlining implementation; 3) keeping the creation of tools outside the EU Budget to a minimum so as to ensure democratic accountability and transparency; and 4) strengthening the flexibility provisions with a view to reducing the rigidity, inherent in a framework covering many years, which makes it harder to tackle unexpected challenges. The text adds that, with the withdrawal of the UK from the EU, the revenue side of the budget should be simplified by eliminating all current correction mechanisms.

In addition, the reflection paper analyses the impact that each of the five scenarios for the future of the EU would have on the EU Budget in terms of overall volume, revenue system and allocation of resources across the main spending areas (see Table 4, below), showing how the financial implications would differ significantly. Traditional spending areas such as cohesion and agriculture have lower shares of the total and/or resources in all scenarios, other than the fifth ('doing much more together'). Conversely, priorities such as competitiveness, security, defence, migration and external action get higher resources and/or shares of the total in all scenarios, except the second ('doing less together'). The reflection paper concludes that the EU will certainly change after 2020, and that its budget, seen as a tool to achieve the agreed objectives, will evolve accordingly, depending on the path that is chosen.

[157] White Paper on the future of Europe, COM(2017) 2025, European Commission, 1 March 2017.

[158] The European Parliament, which has long pushed for a reform of EU finances, included the creation of an interinstitutional high-level group tasked with a thorough review of the EU financing system among the conditions for its consent to the 2014-2020 MFF.

Table 4 – Budgetary impacts of the Commission's five scenarios for the future of Europe

SCENARIOS	1 Carrying on	2 Doing less together	3 Some do more	4 Radical redesign	5 Doing much more together
POLICY PRIORITIES	Taking forward current reform agenda	Mainly financing of functions needed for the single market	As in scenario 1; additional budgets are made available by some Member States for the areas where they decide to do more	Financing of priorities with very high EU value added	Doing much more across policy areas
VOLUME	Broadly stable	Significantly lower	Somewhat higher	Lower	Significantly higher
COMPETITIVENESS	Slightly higher share	Same as in scenario 1 but significantly lower amount	Same as in scenario 1	Higher share	Higher share
ECONOMIC, SOCIAL AND TERRITORIAL COHESION	Lower share	Lower amount	Same as in scenario 1	Lower share	Higher amount
AGRICULTURE	Lower share	Lower amount	Same as in scenario 1	Lower share	Higher amount
SECURITY, DEFENCE, MIGRATION	Higher share	No funding	Higher share partly covered by willing Member States	Significantly higher share	Significantly higher share
EXTERNAL ACTION	Higher share	Lower amount	Higher share partly covered by willing Member States	Significantly higher share	Significantly higher share
ECONOMIC AND MONETARY UNION			Macroeconomic stabilisation function for euro-area Member States		Macroeconomic stabilisation function and a European monetary fund
REVENUE	Current system without rebates; other sources of revenue or fees finance the EU Budget	Current system without rebates	Same as scenario 1; plus new policies financed only by participating Member States	Scenario 1 further simplified; new own resources	In-depth reform beyond scenario 4; new own resources finance significant share of the EU Budget

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

In August 2017, Commission President Jean-Claude Juncker ruled out the option of going back to a high-level free trade area stage, considering that the second scenario does not correspond to the EU's vocation. In his opinion, a sixth scenario will eventually prevail, but he did not provide details on it.[159] The paper on EU finances points out that a combination of elements from different scenarios is also a possible outcome.

In the run-up to the comprehensive proposals for the own resources system and the next MFF now scheduled for May 2018, the reflection paper on EU finances has further intensified an already vivid debate among stakeholders.

So far, the EU institutions have contributed initial ideas and views to the discussion on various occasions. Following its first official reaction to the reflection paper,[160] the European Parliament is preparing its detailed input on both the expenditure and revenue sides of the post-2020 EU Budget ahead of the Commission's proposals.[161] A vivid exchange of ideas took place during the conference dedicated to the future MFF organised by the Dutch Presidency of the Council in 2016.[162] In a briefing note on the mid-term review of the MFF, the European Court of Auditors made a number of recommendations on the preparation of the post-2020 framework.[163] The European Committee of Regions, meanwhile, presented its opinion on the reform of the financing system of the EU and commissioned a study on key challenges and opportunities for cities and regions.[164]

Following the publication of the reflection paper, the European Commission is consulting stakeholders, including all Member States, on their expectations for the next MFF, with a view to preparing a balanced proposal that is both ambitious and realistic. EU leaders are due to have a debate on political priorities for the new MFF at an informal European Council meeting on 23 February 2018.

At the same time, according to press sources, the Commission has asked its departments to develop three possible scenarios for the main EU expenditure lines: status quo, 15 % cut and 30 % cut.[165]

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[159] J.-C. Juncker, Discours à la conférence des ambassadeurs de l'UE, 29 August 2017.

[160] European Parliament, Resolution on the Reflection Paper on the Future of EU Finances (P8_TA-PROV(2017)0401), Strasbourg, 24 October 2017.

[161] Parliament's Committee on Budgets is working on two reports (Next MFF: preparing the Parliament's position on the MFF post-2020 and Reform of the European Union's system of own resources, Legislative Observatory (OEIL). To this end, it has commissioned studies on specific aspects of the budgetary framework: P. Becker, The next Multiannual Financial Framework (MFF) and the Unity of EU Budget, Policy Department for Budgetary Affairs, European Parliament, November 2017; A. Kengyel, The next Multiannual Financial Framework (MFF) and its Duration, Policy Department for Budgetary Affairs, European Parliament, October 2017; E. Rubio, The next Multiannual Financial Framework (MFF) and its Flexibility, Policy Department for Budgetary Affairs, European Parliament, November 2017; and M. Schratzenstaller-Altzinger, The next Multiannual Financial Framework (MFF), its Structure and the Own Resources, Policy Department for Budgetary Affairs, European Parliament, October 2017.

[162] Report of the presidency Conference on the Multiannual Financial framework (MFF), 28 January 2016.

[163] European Court of Auditors, EU Budget: time to reform? A briefing on the mid-term review of the Multiannual Financial Framework 2014-2020, Luxembourg, 2016.

[164] European Committee of Regions, Reform of EU own resources within the next MFF post-2020, COTER-VI/026, 125th plenary session; J. N. Ferrer, D. Rinaldi, A. Hassel, M. Nesbit, A. Illes and K. Paque, Key challenges and opportunities for Cities and Regions and MFF post 2020, 2017.

[165] C. Ducourtieux, 'Après le Brexit, le budget de l'Union sous tension', *Le Monde*, 28 November 2017.

As regards the possible impact of the UK withdrawal from the Union on the EU Budget (see Section 5.1.2), European Commissioner Günther H. Oettinger in charge of Budget and Human Resources has quantified it in lower resources for the budget amounting to €12-15 billion per year. He suggested that half of this gap could be covered by fresh resources and the other half by cuts to expenditure.[166] In practice, this would translate into an EU Budget whose overall volume is lower than the current one in absolute figures, but higher in relative terms as a share of the EU's gross national income (i.e. going above the current 1 % threshold).

Many other stakeholders are involved in the debate, and some have already expressed their views. There is general agreement that the EU Budget needs reform. Focus on results, leverage, synergies, conditionality and European added value are often mentioned among the principles that should underpin any changes. Stakeholders from academic, expert and political circles underline that in a rapidly evolving world, the design of the EU Budget has to ensure the right balance between predictability of investments and capacity to respond to new challenges and priorities. The problems that the current MFF faces demonstrate how difficult the task is, and the weaknesses of the EU financing system.[167] In summary, the main issues highlighted by the EU institutions and stakeholders are the following:

- Reform of the financing side of the budget – the current system of EU own resources is widely criticised and there is a growing consensus on the need for reform. It is expected that the HLG's recommendations on own resources will make a significant contribution to the Commission's concrete proposals for change, which should be tabled together with the post-2020 MFF proposal.
- Duration of the MFF – the current, seven-year MFF is not synchronised with the five-year political cycle determined by the political terms of the European Commission and the European Parliament. Proposals that could fix the problem include a five-year MFF aligned to the political mandates of the main EU institutions; five + five years with a compulsory mid-term review; ten years with compulsory mid-term revision for programmes requiring long-term programming and five years for other elements of the MFF. According to others, the seven-year MFF has its advantages and should not be changed.
- MFF priorities and structure – some analyses consider the current structure of the MFF outdated, too focused on past priorities and insufficiently supportive of initiatives with high European added value. From this perspective, aligning the budget to a new and evolving set of EU strategic priorities appears to be a crucial aspect of the reform. New areas frequently identified as requiring stronger financial EU intervention include border management, migration and refugees, security challenges and defence, and a reinforced investment policy.
- Flexibility – experience of the implementation of the current MFF appears to show that the capacity to respond swiftly to new challenges requires that more flexibility and reserve capacity be built into the MFF. There is considerable demand for greater

[166] G. H. Oettinger, An EU Budget fit for future Europe, Keynote speech, Conference on the future of EU finances, 25 September 2017.

[167] For some interesting considerations on the reform of the EU Budget, see for example: I. Begg, The EU Budget after 2020, European Policy Analysis, Sieps, September 2017:9; and P. Becker, The EU Budget's mid-term review: with its promising reform proposals, the European Commission lays the groundwork for the next, post-2020 budget, Stiftung Wissenschaft und Politik, SWP Comments 48/2016, Berlin, 2016.

possibilities to shift resources within and between MFF headings; for creation of a special crisis reserve; for the re-use of de-committed amounts and fines; and action to secure bigger margins under annual ceilings. At the same time, however, the question of ensuring the MFF's predictability is also raised.

- Unity of the budget – the proliferation of new instruments for financing EU actions, especially in external policy, and partially outside the EU Budget (e.g. the EFSI; EU trust funds for external action; and the Facility for Refugees in Turkey), raise questions about the principle of the unity of the budget and democratic accountability.
- The creation of instruments with a stabilisation function for the euro area – such instruments could be developed outside or within the EU Budget. The European Commission has already expressed its intention to put forward proposals within the EU framework in the context of the next MFF (see Section 3.4).
- Financial instruments – the use of innovative financial instruments has become an important feature of the current MFF. While these can be advantageous to the budget's effectiveness, some aspects of their functioning in the EU Budget will have to be reconsidered, for instance their interplay with grants, capacity to leverage public and private investments, simplification of delivery, etc.
- European Development Fund (EDF) budgetisation – the €30.5 billion EDF, an intergovernmental tool for development cooperation with the African, Caribbean and Pacific Group of States (ACP), is not currently included in the EU Budget. In the 2013 interinstitutional agreement on budgetary matters, the Commission declared its intention to propose the EDF's inclusion in the EU Budget as of 2021.
- Role of the budget in EU economic governance and respect of rule of law – there are proposals to strengthen and extend existing links between the EU Budget and the EU's economic governance framework (for example, macro-conditionality of the ESI funds and links with country-specific recommendations). The idea of creating stronger links between the disbursement of EU funds and respect for the rule of law has also been mentioned.
- Changes to the decision-making process – the current procedure leading to agreement on the MFF with a unanimity vote in the Council is seen as one of the main obstacles to budget reform. Stakeholders are calling for greater transparency in the process and the involvement of EU citizens. Some proposals emphasise the need to shift towards qualified majority voting in the Council or to give more power to the European Parliament.

Figure 16 – Timeline of main MFF 2014-2020 events

Source: EPRS.

In May 2018, the Commission proposal for the next MFF should show the outcome of the broad debate on the future of EU finances that the wider reflection on the future of the EU has triggered (see Figure 16 for a timeline of main events for the current and next MFF).

6 Economic focus: Industry and industrial policies in the EU

6.1 Introduction

While examples of 'industry' are abundant, the term itself is elusive. Introductory economics students learn about it in the context of the productive sectors that constitute any national economy, i.e. primary (agriculture), secondary (industry) and tertiary (services).[168] However, as Xavier Vanden Bosch[169] points out 'if we equate industry purely with the production of goods, we miss the fundamental point that 'some manufacturing enterprises also produce services, others mainly produce services, and others no longer produce anything but services'. Furthermore, as the author notes, the EU institutions make rather ambiguous use of the term: traditionally, industry in EU documents refers to the manufacturing industry, although recently the Commission seems to adopt a broader definition.[170]

The key industrial sectors supported by the EU include: chemicals,[171] the automotive sector,[172] tourism, textiles and clothing,[173] fashion and high-end products, defence, the cultural and creative industry,[174] raw materials, food, healthcare, biotechnology, electrical engineering,[175] including electrical devices, radio equipment and telecommunications, and the maritime and aeronautic industries.

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[168] In the following, more elaborate, definitions: the primary sector involves 'the harvesting and extraction of natural resources and rudimentary processing of these raw materials', the secondary 'the conversion of the outputs of the primary sector into products suitable for use or consumption' and the tertiary 'the provision of services rather than tangible goods'. Definitions taken from the book by Sebastian Dullien, Neva Goodwin, Jonathan M. Harris, Julie A. Nelson, Brian Roach and Mariano Torras *Macroeconomics in Context: A European Perspective*. As Xavier Vanden Bosch notes in his paper 'Industrial policy in the EU: a guide to an elusive concept', this breakdown was popularised by the work of Simon Kuznets on national accounts.

[169] Xavier Vanden Bosch 'Industrial policy in the EU: a guide to an elusive concept, Egmont paper 69, 2014. The author refers to the report by Lionel Fontagné, Pierre Mohnen and Guntram Wolff 'No Industry, No Future?' Conseil d'Analyse Economique, 2014

[170] For example, in a recent communication, the Commission states that industry provides 36 million direct jobs. It further clarifies that those figures include manufacturing, extractive and utilities industries, excluding however business services and construction.

[171] The production of petrochemicals, polymers, basic inorganics, specialties, and consumer chemicals. For more information, see European Commission, DG Growth – Sectors.

[172] Manufacturing, sales and maintenance and transport.

[173] This industrial sector covers activities ranging from the transformation of natural (cotton, flax, wool, etc.) or synthetic (polyester, polyamide, etc.) fibres into yarns and fabrics, to the production of a wide variety of products such as hi-tech synthetic yarns, bed linens, industrial filters, and clothing.

[174] Including subsectors such as architecture, archives and libraries, artistic crafts, cultural heritage, design, fashion, film, music, performing and virtual arts, publishing, radio, television and video-games.

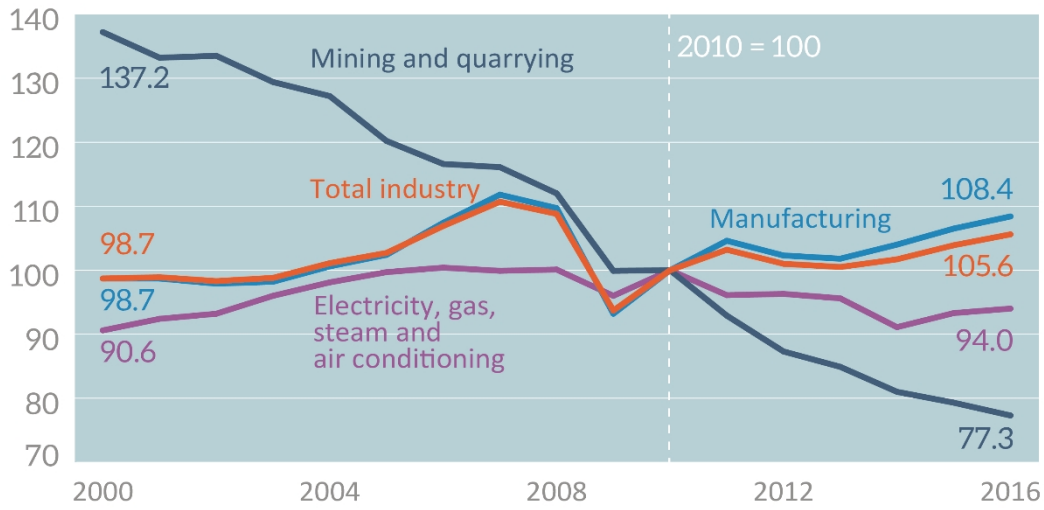
[175] Which includes the electrical devices, radio equipment and telecommunications industries.

6.2 A bird's eye view of industry in the European Union

6.2.1 Production

Since mid-2003 industrial output in the EU has been growing in a relatively stable way. This growth ended with the onset of the crisis in May 2008 when the month-on-month rate of change for the EU industrial production index[176] turned negative (see Figure 17). The pre-crisis peak of April 2008 was followed by steep decline[177] (-22%) and marked by the trough[178] recorded in April 2009 when industrial output was the lowest since September 1997. This abrupt fall lasted one year, and rebounded only in May 2009. At this early stage in the crisis, more developed financial markets in the euro area helped to some extent to mitigate the impact of the crisis on growth in industrial sectors dependent on external finance. However, this effect weakened in later stages of the crisis, particularly on well-developed markets for bank loans.[179]

Figure 17 – EU industrial production for total industry and the main industrial groupings, 2005-2016



Data source: Eurostat (sts_inpr_m), DG ECFIN.

Nevertheless, after the initial drop, the recovery set in and the production volume grew back, regaining over 90 % of its pre-crisis value by May 2011. However, a slow downward trend set in the second half of 2011 and lasted until the end of 2012. Since early 2013 production has been rising moderately again but has still not matched its 2009 peak. It can be concluded that recovery from the crisis has been taking place, albeit at a rather subdued pace and with moderate growth figures: industry gross value added for the EU increased by 6.4 % between 2009 and 2016.

Taking into account the crisis period and the recovery, the value added of manufacturing has grown by 23 % in real terms since 2009 and the share of manufacturing as a proportion of the economy has risen from 14.7 % to 16.1 %.

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[176] The industrial production index is a business cycle indicator that measures monthly changes in the price-adjusted output of industry.

[177] For more details see for instance: EU industrial structure report 2011. Trends and Performance, European Commission, 2011.

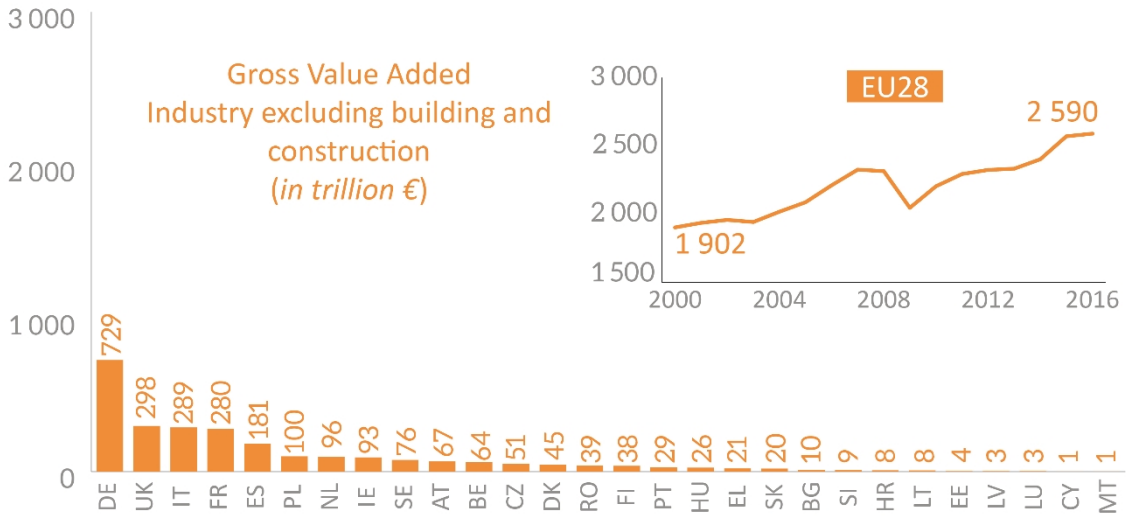
[178] A trough is the stage of a business cycle that marks the end of a declining period and the beginning of expansion.

[179] E. Canton, Financing the real economy, ECFIN Economic Brief, February 2014.

6.2.2 Gross value added

In 2016, from the perspective of **gross value added** (GVA),[180] industry[181] accounted for approximately 20 % of total GVA for the EU,[182] while services accounted for almost 75 %. These shares have been on more or less opposing paths since the beginning of the millennium: in 2000, industry corresponded to 22 % of the total GVA for the EU, dropping to 20 % by 2008 and to 19 % by 2016. In contrast, services have been slowly gaining in importance in terms of value creation, from 70 % in 2000, to 72 % in 2008 and 74% in 2016.

Figure 18 - Gross value added of industry, 2016



Data source: European Commission, DG ECFIN.

Comparing globally with other industrially developed countries, it can be observed that the USA and Japan followed similar paths: in the USA, industry accounted for 19 % in 2000, diminishing to 16 % in 2015, while in Japan, industry declined from 26 % in 2000 to 23 % in 2015.[183] A last point concerning the comparison between industry and services is that it seems that services weathered the financial and economic crises with less turbulence than industry: in the EU, the GVA created by services dropped by 3 % in 2009, as opposed to 12 % for industry. Similarly, the year after, the GVA generated by services increased by 3 %, while industry-created GVA increased by 8 %.

Krzysztof Falkowski[184] attributes this relative decrease in industry and increase in services to several factors, including (i) higher income elasticity of demand[185] for some services (education or leisure) than for most goods; (ii) the increasing use of services as

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[180] Gross value added (GVA) is a productivity metric that provides a value (in this case in EUR) for the amount of goods and services produced, less the cost of all inputs and raw materials directly attributable to that production (output minus intermediate consumption).

[181] Here 'industry' is understood as including manufacturing, but excluding building and construction (sectors B-E of NACE 2). It must be noted that the most important section with regard to GVA creation in the EU is manufacturing, accounting for around four fifths of industry (excluding building and construction).

[182] The same proportions can be observed at euro-area level.

[183] The figures used are for 2015, as there is no 2016 data for these two countries in AMECO.

[184] Krzysztof Falkowski 'The Industrial Sector in the European Union' in A.A. Ambroziak (ed.), *The New Industrial Policy of the European Union*, Springer International Publishing Switzerland, 2017, pp. 41.

[185] The income elasticity of demand measures the effect of a change in real income and the quantity demanded for a good. Given that elasticity is higher for services than for goods, the income growth in the EU increased the demand for (and thus the share of) services in the economy.

intermediate inputs[186] in manufacturing;[187] (iii) the faster growth of productivity and slower growth of prices in manufacturing (compared with services); and (iv) the greater exposure of manufacturing to competition from low-cost producers outside the EU, resulting in a reallocation of resources in the EU towards services, where exposure to such competition was lower.

Focusing on Member State level – within the industry branch– it must be noted, first, that in absolute values, the pre-2004 Member States still account for a much bigger share of GVA in industry (89 %). Specifically, in 2016, the most important contributors in absolute values in industry GVA are Germany (28 %), the United Kingdom (12 %), France and Italy (both at 11 %). It is also interesting to note here that, while the contribution of industry to total EU GVA has remained more or less unchanged in the UK, France and Italy, in Germany it increased from 26 % in 2008 to 28 % in 2016.

Still at Member State level, in 2015, the importance – in terms of GVA – of industry in relation to the total economy was more pronounced in Ireland (39 %), the Czech Republic (32 %), Hungary (28 %), Romania and Slovenia (27 %) and Germany (26 %), while it was least important (and at least lower than the EU average) in Latvia and the Netherlands (16 %), Greece and France (14 %).[188]

6.2.3 Employment

When it comes to employment, similar trends can be observed. First of all, all three of the aforementioned regions (EU28, USA and Japan) are showing a declining trend in employment in industry: in the EU, 41.4 million were occupied in industry in 2000, decreasing to 35.6 million in 2016. In the USA, the numbers employed in industry dropped from 21.7 million in 2000 to 16.54 million in 2010, before bouncing back to 18.07 million in 2015. Lastly, in Japan, employment in industry declined steadily from 12.93 million in 2000, to 10.76 million in 2015. On the other hand, the numbers of those working in services increased more or somewhat markedly in all three regions during the same period (from 2000 to 2015, the population employed in the services sector increased by 26.6 million in the European Union, by 15.5 million in the United States and by 5.3 million in Japan).[189]

Furthermore, as far as the European Union is concerned, it is worth noting that this trend towards decreasing employment in industry seems to be starting to reverse (see Figure 19). Indeed, the trend described above reached a low point in 2013-2014, at 35 million employed, before picking up slightly by 2016 (35.6 million). Notably, between 2008 and 2015, employment in medium- and high-tech manufacturing grew from 35 % to 37 % of total employment in industry.[190]

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[186] That is inputs that are used in the production process to produce goods or services other than for final consumption.

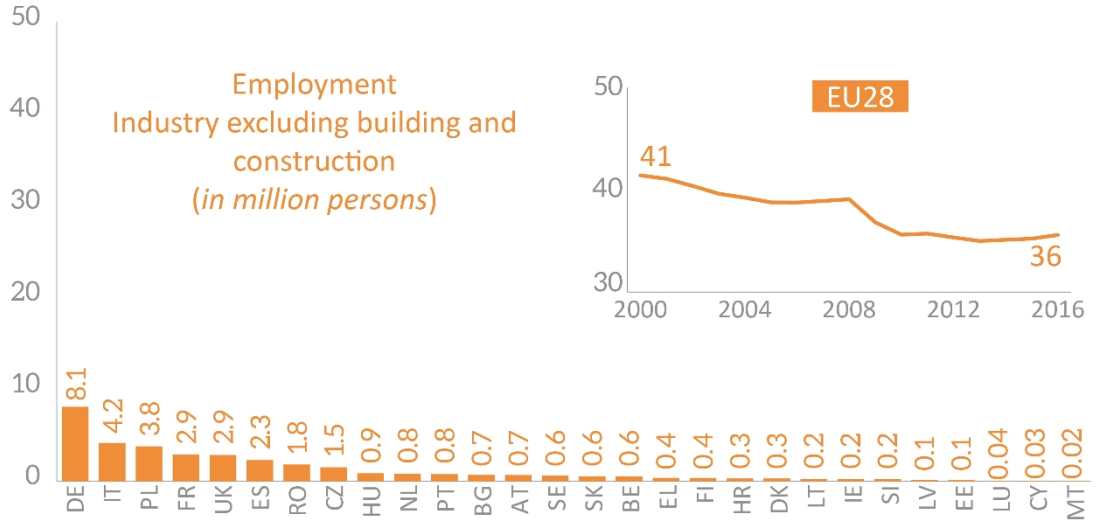
[187] The author attributes this effect partly to the trend whereby industrial companies are externalising services they would previously have performed themselves.

[188] In Malta (11 %), Cyprus (8 %) and Luxembourg (7 %), the share is even lower. However, they were excluded on account of their size and specific specialisation.

[189] 168.7 million in the EU, 120.6 million in the USA and 47.7 million in Japan.

[190] European Commission, Industry in Europe, Facts and figures on competitiveness and innovation, November 2017, p. 14.

Figure 19 - Employment in industry, 2016



Data source: European Commission, DG ECFIN.

In the European Union, the relative importance of industry in total employment, as measured by its share, has also declined since the millennium, from 19.3 % to 15.3 %. Furthermore, despite a generally declining trend identified above, it is still visible that industry is much more important in the Member States that joined the EU during and after the 2004 enlargement than in the other Member States. In 2016, the highest share of persons employed in industry relative to total employment in the country's economy was recorded in the Czech Republic (29.1 %), Poland (23.5 %), Slovenia (22.5 %), Slovakia (22.3 %), Romania (21.4 %), Estonia and Bulgaria (both at around 20.2 %). Despite this relative importance, however, only Poland and Romania have kept the percentage of their population occupied in industry virtually unchanged. The rest of the countries have followed a (slower or faster) declining trend, attributed by Falkowski both to structural changes implemented under the EU's industrial policy and to the economic crisis of 2009, which had a considerable impact on those countries' industries.[191]

On the other side of the spectrum, the EU Member States occupying the least people in industry (relative to their total population in employment) in 2016 were the United Kingdom (9 %), Greece (9.3 %), the Netherlands (9.5 %) and France (10.5 %).

6.2.4 Regional dimension

Traditionally, European industry has been concentrated around the 'blue banana' – a corridor stretching from north-west England to northern Italy through the Benelux countries, western Germany and eastern France. The enlargement of the EU to the east changed this as many production activities have been relocated to eastern regions, which have had stronger industrial growth than the EU-15[192] and have responded better to the crisis.[193] In general, industry records a higher share of employment in the easternmost regions of the EU. The largest clusters of industrial activity are located in Italy, Germany and Spain and, in the EU-13, Poland and the Czech Republic.[194]

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[191] K. Falkowski, 'The Industrial Sector in the European Union' op. cit. pp. 52.

[192] With the exception of Germany and Northern Sweden.

[193] Committee of the Regions, The future of industry in Europe, 2017, p.5.

[194] For more on regional clusters see L. Puccio, R. Harte and M. Szczepański, Interactions between trade, investment and trends in EU industry. EU regions and international trade, EPRS, European Parliament, October 2017.

According to the 2017 Eurostat[195] report: 'There were 54 NUTS level 2 regions where the industrial workforce accounted for at least 35.0 % of those working in the non-financial business economy in 2014 ... none of which were capital city regions. The weight of the industrial economy in the non-financial business economy workforce was most concentrated in a band of regions that ran from Bulgaria up through Romania into Hungary before splitting to the south into Slovenia and northern Italy, and to the north into Slovakia, the Czech Republic and Poland and moving westwards into Germany and Austria. In addition, there were single regions in Spain, France, central Italy and Finland which reported employment shares of at least 35 %. The relatively high degree of specialisation for industrial activities in eastern regions of the EU may reflect, to some degree, relatively low labour costs, outsourcing and foreign direct investment strategies, as well as natural resource endowments. By contrast, the industrial sectors of the German and Austrian economies are often characterised by engineering activities which produce products that are particularly successful in export markets (for example, machinery and electrical equipment)'.

This tallies with the Committee of the Regions study, which found[196] that regions with high-income 'tend to specialise in high-technology intensive exports, but are less competitive in less technology-intensive goods. On the other hand, low-income regions tend to be more specialised in medium low and low-technology-intensive exports and have deficits in high-technology trade. However the link between high incomes and specialisation in high-technology goods may be more a trend than a general rule: some low-income regions are developing advantages in high-technology exports, presumably via foreign direct investment and global value chains'. While many of the EU-15 economies have a strong national industrial sector the EU-13 rely to higher extent on foreign direct investment and are more attractive for foreign investors than most regions in the south-western Member States.

The share of industry and construction in total value added declined in the EU in the period 2004 to 2014 with the exception of 13 regions where it increased by at least five percentage points.[197] All of these were already relatively specialised in industrial and construction activities, which may indicate rising specialisation and concentration of activities in these regions over time. They were located in eastern EU Member States as well as (individual regions) in Germany and the Netherlands. A low degree of specialisation in 2004 resulted in a further strong decline in the share of industrial activities in total value added. The largest contractions in industrial activity were recorded in three Spanish, two Greek, two Finnish regions as well as on Malta and Cyprus.

Similarly, in the 2008 to 2015 period only a handful of regions experienced an increase in employment in industry. All these regions showed above average employment growth in 2008. The regions with the highest levels of labour productivity are in northern and central Europe, southern France and Ireland, but regions in Eastern Europe are catching up with the highest labour productivity growth rates. Overall, industry wages and labour productivity correlate across EU regions.

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[195] Eurostat, Regional yearbook 2017, August 2017, pp 136-137.

[196] Committee of the Regions, (2017), pp 10-11.

[197] Eurostat, Regional yearbook 2017, August 2017.

6.3 Industrial policy – overview

6.3.1 Main concepts

Definitions of industrial policy can be narrow (dedicated to selected traditional industries) or broad.[198] They depend on 'the goals, scopes, instruments, and the expected results and consequences for the economy and for the economic environment where it is applied.'[199] A commonly cited definition is 'any type of selective intervention or government policy that attempts to alter the structure of production toward sectors that are expected to offer better prospects for economic growth than would occur in the absence of such intervention'.[200]

Industrial policies can change over time, in parallel with wider changes in the international economic environment[201]

Historically, national governments have played a central role in the implementation of industrial policy by supporting infant industries,[202] 'picking the winners' and investing large amounts of public money via the disbursement of financial subsidies to private firms.[203] It is acknowledged that active government support (various forms of protection, as well as direct and indirect subsidies) was an essential element in countries that caught up with the leaders during the 19th and 20th centuries.[204]

A distinction is made between 'horizontal' and 'vertical' industrial policies. Interventions that are applied differentially across sectors of the economy and essentially target the economic output of specific industries (and even firms) are referred to as 'vertical' policies. Interventions applied across the board and aimed at achieving economic objectives that affect all sectors are referred to as 'horizontal' policies.[205] The former are structural policies, intended to alter the relative importance of industries and firms,

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[198] A good example is provided by Célestin Monga in Industrial Policy: The New Consensus: industrial policies are defined as 'government policies directed at affecting the economic structure or the shape of the economy'. For a good example of the range of possible definitions of 'industrial policy' found in literature, see Xavier Vanden Bosch 'Industrial policy in the EU: a guide to an elusive concept, Egmont paper 69, 2014, pp. 10-11.

[199] Adam A. Ambroziak, 'Review of the Literature on the Theory of Industrial Policy' in A.A. Ambroziak (ed.), The New Industrial Policy of the European Union, Springer International Publishing Switzerland 2017.

[200] Howard Pack and Kamal Saggi, 'Is There a Case for Industrial Policy? A Critical Survey' The World Bank, 2006. A similar, more recent, definition by Ken Warwick defines it as 'any type of intervention or government policy that attempts to improve the business environment or to alter the structure of economic activity toward sectors, technologies or tasks that are expected to offer better prospects for economic growth or societal welfare than would occur in the absence of such intervention'. ('Beyond Industrial Policy – Emerging Issues and New Trends', OECD Science, Technology and Industry Policy Papers, 2013).

[201] Enda Hannon, Kathy Monks, Edel Conway, Grainne Kelly, Patrick Flood, Katie Truss and Michele Mastroeni, 'The state and industrial policy in Ireland: a case study of the Irish pharmaceutical sector' The International Journal of Human Resource Management,2011. As referred to in Adam A. Ambroziak 'Review of the Literature on the Theory of Industrial Policy'.

[202] According to Cimoli et al., 'Safeguarding the possibility of learning is indeed the first basic pillar of the infant industry logic'.

[203] Enda Hannon et al., 'The state and industrial policy in Ireland: a case study of the Irish pharmaceutical sector'. The International Journal of Human Resource Management, 2011.

[204] Mario Cimoli, Giovanni Dosi and Joseph E. Stiglitz, 'The Rationale for Industrial and Innovation Policy', *Intereconomics*, Vol. 50 (3), 2015.

[205] Mustapha Kamel Nabli, *Breaking the Barriers to Higher Economic Growth: Better Governance and Deeper Reforms in the Middle East and North Africa*, World Bank, 2007.

while the latter influence the legal and institutional framework and modify technology and markets for inputs and outputs.[206]

Ambroziak notes[207] that in less advanced economies, the main aim is to choose and establish a particular path for catching up, and so 'the choice of vertical policies is in some sense easier'. In contrast, in advanced economies, the future development patterns with regard to new industrial activities, new products and new technologies are unknown, and so industrial policy has a more horizontal approach and is based on comparative advantages (building a stock of skills, infrastructure, and public inclinations to support technologies or selected activities).[208]

6.3.2 Arguments for and against industrial policy

Mario Pianta[209] notes that the rationale for industrial policy is that it can steer the evolution of the economy towards activities that are desirable in various economic, social, regional and environmental terms:

- economic – including 'the search for improvements in static and dynamic efficiency, especially in cases of market failure; (...) The resulting benefits include faster growth of production, incomes, employment and competitiveness';
- economic and social – to cope with the changes in the economic structure resulting from the recent crisis and the massive privatisations of past decades.[210] The aim is to create employment, but also increase knowledge, social integration and territorial cohesion;
- regional – in the case of the EU, to reduce deepening imbalances between a 'German-centred core' and the 'southern periphery';
- ecological – to make advanced economies sustainable by reducing the use of non-renewable resources, developing renewable energy sources and energy efficiency, reducing waste, and recycling;

On the other hand, Adam Ambroziak notes that in literature there are also 'strong arguments against governmental interventions in the market' that relate to the lack of well-defined objectives, inappropriate tools, improperly prepared companies or sectors, and the lack of well-qualified public administrators who could act without political pressure'. Horizontal industrial policy instruments are further criticised because they can disturb competition in the market or offer support to companies that don't need or deserve them.[211]

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[206] Who in turn, refers to James Foreman-Peck, 'Industrial policy in Europe in the 20th century', *EIB Papers*, Vol. 11 (1), 2006.

[207] Adam A. Ambroziak, 'Review of the Literature on the Theory of Industrial Policy', A.A. Ambroziak (ed.), *The New Industrial Policy of the European Union*, Springer International Publishing, 2017.

[208] Mariana Mazzucato, Mario Cimoli, Giovanni Dosi, Joseph E. Stiglitz, Michael A. Landesmann, Mario Pianta, Rainer Walz and Tim Page 'Which Industrial Policy Does Europe Need?' *Intereconomics*, Vol. 50 (3), 2015.

[209] Mario Pianta 'What Is to Be Produced? The Case for Industrial Policy', *Intereconomics*, Vol. 50 (3), 2015.

[210] According to the author, 'advanced countries face a structural loss of production capacity in industries that were previously the engines of growth', and this loss is not compensated by other economic activities. This situation was more acute during the crisis, as the prolonged stagnation resulted in the 'emergence of a polarised structure' with leaders gaining strength and 'weaker regions, industries and firms' becoming even weaker. This industrial decline impacts employment – especially for medium-skilled workers – and, increases inequality and poverty.

[211] Adam A. Ambroziak 'Review of the Literature on the Theory of Industrial Policy' pp.27-33.

6.4 EU context

6.4.1 Definition and scope

In the European Union, industrial policy is pursued at (at least) two levels of government: EU and Member State levels.[212] In 2002, the European Commission defined its industrial policy as 'horizontal in nature' and aimed at 'securing framework conditions favourable to industrial competitiveness.[213] ... However, it needs to take into account the specific needs and characteristics of individual sectors. It therefore needs to be applied differently, according to the sector. For example, many products, such as pharmaceuticals, chemicals, automobiles, are subject to detailed sector-specific regulations dependent on their inherent characteristics or use. Industrial policy therefore inevitably brings together a horizontal basis and sectoral applications'.[214]

According to Xavier Vanden Bosche 'Innovation policy is the core of industrial policy in Europe'.[215] There are various policies pertaining to innovation policy, meanwhile. On the supply side, the author identifies policies to support research and development, access to finance, and education and training. On the demand side, he mentions public procurement (public demand) and support for private demand (for instance through tax incentives), standardisation, and regulation.[216]

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[212] Jacques Pelkmans, 'European Industrial Policy'. For a helpful overview of EU and Member States' industrial policy, see page 6.

[213] The European Commission defines competitiveness as 'the ability of the economy to provide its population with high and rising standards of living and high rates of employment on a sustainable basis'.

[214] Industrial Policy in an Enlarged Europe, COM(2002) 714, European Commission.

[215] He further defines innovation policy as 'a set of policies and instruments that shape the conditions in which innovation flourishes'.

[216] The author notes that 'safety, health, environmental and consumer protection considerations, (...) shape demand considerably'.

Box 5 - EU Competition Policy

According to the Commission, competition policy together with industrial policy are at the core of the competitiveness policy framework. The former reduces distortions to competition through merger and state aid control as well as antitrust enforcement. The latter provides for structural conditions to ensure that industry's competitiveness in the globalised economy. As it is commonly argued, there is a link between increased competition and productivity growth – and this is also why the policies converge.[217]

Some however argue that the two are based on different concepts. Industrial policy at national level has traditionally, although less and less nowadays, included state intervention via tools such as public procurement or protectionist measures. Competition policy, in which the Commission has wide-ranging competences, allows economic agents to act freely on markets according to predefined rules.[218] A more nuanced view suggests[219] that both are compatible at EU level as long as the industrial policy promotes structural adjustment rather than protectionism. The role of competition policy is twofold: it is a prerequisite for successful industrial policy that stimulates competitiveness, and it constrains national industrial policies harmful to the internal market.

6.4.2 Evolution of industrial policy in Europe

According to Karl Aiginger and Susanne Sieber[220] the history of European industrial policy developed over several phases. A first attempt was made with the Treaty establishing the European Coal and Steel Community in 1951. According to Julie Pellegrin et al., during this phase, many interventions – in the form of minimum prices, quotas and trade protection – were allowed in the coal and steel market to improve the provision of coal and steel, which was then in short supply.[221]

The Treaty establishing the European Economic Community in 1957 marked the second phase, in which, while industrial policy is not mentioned in the Treaty, sectoral restructuring and policies favouring specific sectors or even 'grand projects' dominated the policy scene in most countries,[222] despite the overall aim of abandoning subsidisation and national assistance to specific sectors.

It was only with the Treaty of Maastricht (third phase, according to the above authors) however,[223] that Europe established a legal base enabling it to undertake an industrial policy.[224] Jean-François Jamet partly attributes this delay in adopting a Community

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[217] J. Almunia, Industrial policy and competition policy: Quo Vadis Europa?, February 2012.

[218] Lysios Public Affairs, La politique industrielle de l'Union européenne, December 2014.

[219] W. Sauter, Squaring EU competition law and industrial policy: the case of broadband, Tilburg Law School Research Paper No 017/2013, October 2013.

[220] Karl Aiginger and Susanne Sieber 'The Matrix Approach to Industrial Policy', *International Review of Applied Economics*, Vol. 20 (5), 2006.

[221] Julie Pellegrin, Maria Letizia Giorgetti, Camilla Jensen and Alberto Bolognini, 'EU Industrial Policy: Assessment of Recent Developments and Recommendations for Future Policies', March 2015.

[222] Julie Pellegrin, Maria Letizia Giorgetti, Camilla Jensen and Alberto Bolognini, 'EU Industrial Policy: Assessment of Recent Developments and Recommendations for Future Policies', March 2015.

[223] Pellegrin et al. set the start of this third phase in 1990 with the European Commission communication 'Industrial Policy in an Open and Competitive Environment: Guidelines for a Community Approach' (COM(90) 556 final), which 'reflects a convergence of views and an implicit agreement between Member States on the guiding principles for Community industrial policy, namely "openness of markets", "horizontal approach" and "subsidiarity"'.

[224] Namely Article 157 of the Treaty establishing the European Community. The current legal base is Article 173 of the Treaty on the Functioning of the European Union. The authors, however, note that the first steps towards an explicit industrial policy on the community level are mentioned in a 1970 Commission Memorandum to the Council 'The Community's industrial policy' COM(70) 100.

industrial policy to the differences in industrial policy traditions in the Member States – themselves supported by varying conceptions of the merits of State intervention.[225] The four main goals of industrial policy are defined in the Treaty as: 'speeding up the adjustment of industry to structural changes'; 'encouraging an environment favourable to initiative and to the development of undertakings throughout the Union, particularly small and medium-sized undertakings'; 'encouraging an environment favourable to cooperation between undertakings'; and 'fostering better exploitation of the industrial potential of policies of innovation, research and technological development'.[226] The EU coordinates national industrial policies deploying selected instruments such as guidelines and indicators, exchange of best practices, and monitoring and evaluation.

In the first decade of the new millennium factors such as new challenges (globalisation and technological process), the slowdown in economic growth, fears that Europe could lose some of its core industries (on account of offshoring for instance) and the accession of new Member States (for whom the structure and dynamics of the industrial sector have been of crucial importance), rekindled interest in industrial policy and initiated its fourth phase.

Pellegrin et al. add a fifth phase – as of March 2010 – during which, industrial policy is 'explicitly related to macroeconomics goals'.[227] The authors note that, overall, in this phase, industrial policy has merged with innovation policy and environmental policy and became a subset of a broader design for post-crisis growth and modernisation in Europe.

In order to understand recent developments in industrial policy it is useful to look in more detail at its responses to the recent financial and economic crisis. To mitigate the initial shocks, the EU firstly made efforts to maintain financing the real economy[228] including industry, such as the introduction of a temporary framework for state aid. Concerning wider policy-making, a successful exit from the crisis was one of the short-term priorities of the Europe 2020 strategy.[229] This was compatible with the strategy's overarching goal of creating the basis for smart, sustainable and inclusive growth. The EU has supported a horizontal approach to industrial policy to influence framework conditions conducive to improving innovation and productivity. It has also complemented it with targeted sectoral measures under the so-called 'matrix approach'.[230] The Europe 2020 strategy underlined the importance of industry in the

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[225] Jean-François Jamet, 'The European Union's Industrial Policy', Fondation Robert Schuman *European Issues* No 15, 2006. The author notes the contrast between the idea 'that the government should subsidise industrial projects whose technological potential appears to be decisive in improving or maintaining the competitiveness of the national economy', supported by France (policy of *grands programmes*, creation of national champions) and to a lesser extent by Germany (state or *Länder* aid), and the liberal strategies of countries such as the UK and Ireland, which focus on the attractive nature of those territories for industrial investment, notably via advantageous fiscal measures.

[226] Article 173 TFEU. See also Frédàèric Gouardères and Susanne Horl 'General principles of EU industrial policy' in European Parliament Fact Sheets on the European Union.

[227] Julie Pellegrin, Maria Letizia Giorgetti, Camilla Jensen and Alberto Bolognini, 'EU Industrial Policy: Assessment of Recent Developments and Recommendations for Future Policies', March 2015. The authors also place the new Investment Plan for Europe in this context.

[228] For more details see M. Szczepanski, EU competition policy. State aid control measures, European Parliament, library briefing, European Parliament, April 2013.

[229] European Commission, Europe 2020. A European Strategy for smart, sustainable and inclusive growth, 2010.

[230] For more on this please refer to K. Aiginger, S. Sieber, The matrix approach to industrial policy, International Review of Applied Economics, December 2016.

European economy and focused on its modernisation and development. Four of its seven flagship initiatives were aimed at improving industrial competitiveness.[231] One of them, 'an industrial policy for the globalisation era', presented an integrated industrial policy strategy encompassing competition, trade, innovation and energy. It proposed to boost European industry by measures such as focusing on access to strategic raw materials, increasing resource efficiency, enhancing standardisation, and strengthening the single market.

Consequently, the Union pursued the idea of reindustrialising Europe, seeking to support economic growth and jobs, a constant top priority of the post-crisis agenda. In 2012 a communication entitled 'A stronger European industry for growth and economic recovery' inaugurated a new partnership between the EU, Member States, and industry. It focused on investment in innovation,[232] improving market conditions, facilitating access to finance and capital and improving the human capital and skills available to industry. The communication set a target for industry to contribute to 20 % of EU's GDP by 2020.[233] A subsequent 2014 communication 'For a European industrial renaissance' further highlighted the need to boost post-crisis growth and industrial modernisation. It focused on including measures affecting industrial competitiveness in other policy areas, addressing the shortcomings of the single market, implementing regional development instruments that support innovation, skills and entrepreneurship, improving regulation, supporting integration of EU firms in global value chains, and enhancing access to resources such as raw materials, skilled labour and finance.[234]

This policy of rekindling European industry, supporting its global competitive standing and helping it to reap the benefits offered by modern technology is ongoing (as discussed in Section 6.6).

A recent overview of the debate on industrial policy in the EU[235] noted a number of critical stances: 'some state that across the EU many inconsistencies arise and in the best case the EU industrial policy is still far from being a fully-fledged and integrated strategy, according to others, the EU industrial policy is often criticised for lack of clear results, while certain claim directly that the EU misses an industrial policy. The peculiar image the set of policies developed under the EU umbrella provide is perhaps best exemplified by the opinion that there is not always a clear-cut and explicit idea of what purpose an EU industrial policy would serve, in that there are general references to objectives such as competitiveness, growth and jobs, but sometimes without explicit mention of possible tensions or overlaps between such objectives and how exactly an industrial policy can help achieve these objectives'.

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[231] Innovation Union, A digital agenda for Europe, New Skills for New Jobs and An industrial policy for the globalisation era.

[232] As a result six task forces were launched in the following areas: markets for advanced manufacturing technologies for clean production, markets for key enabling technologies, bio-based product markets, sustainable industrial policy, construction and raw materials, clean vehicles and vessels and smart grids.

[233] At that time manufacturing represented 16 % of Europe's GDP. Nowadays it generates above 17 % of Europe's GDP.

[234] The European Commission published an overview of key measures on the website Actions for industrial renaissance.

[235] Miklos Gyorffi, 'EU Industrial Policy', European Parliament Economic and Scientific Policy Department, November 2017.

6.5 Current trends and challenges

Modern technology transforms our world and often brings about disruptive changes. Accordingly, industry worldwide and in Europe is undergoing profound transformations.[236] There is no uniform, widely accepted definition of this phenomenon. Broadly, it means new organisation of production processes heavily reliant on technology and devices autonomously communicating with each other along the value chain.[237] It is a fusion of cutting edge-technologies such as big data and advanced analytics, the internet of things, remote monitoring, digital modelling, as well as additive and computer-integrated manufacturing. Altogether it offers the industry unprecedented possibilities to understand and control manufacturing performance, customer behaviour, and product development in unprecedented ways.

One of the main outcomes of this convergence of industry and digital technologies, which is still at a relatively early stage, is the integration of products with tailored services. Private sector firms estimate[238] that by 2020 EU industry will be investing €140 billion a year in industry 4.0. Industrial digitalisation is likely to improve Europe's competitiveness and productivity through the use of advanced data analytics which would form the cornerstone of future supply chains, ubiquitous automation, accurate quality control of products and processes, preventive diagnostics of machinery and a corresponding decrease in its downtime, as well as fewer manufacturing errors and faulty products. Early estimates[239] predict that these developments could increase industry's annual turnover by as much as €370 billion. Even though the main building blocks for this integrated vision already exist, the fusion of all the necessary technologies may take until 2025 to become fully operational.[240]

A better integrated single market may be helpful in this transition, owing to factors such as scale and specialisation. Most of the issues making it challenging to create a genuine single market for industrial goods have been identified by the Commission and the stakeholders and are still pertinent: 'they include the investment rate which is still below the pre-crisis levels, the widening productivity gaps among the Member States and regions, the increasing innovation gap between the EU and some of its competitors such as Korea and Japan, data sharing and cross-border flow issues, the legal questions of intellectual property rights, insufficient EU-level standardisation, and skills mismatches and shortages within the workforce.'[241] Further challenges include access to finance, resource efficiency, access to digitisation, participation in global value chains and a supportive legislative framework.[242]

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[236] Some have even called this process a 'fourth industrial revolution'.

[237] European Parliament, Industry 4.0, Study for the ITRE Committee, February 2016, p.20.

[238] Strategy& (PWC), Industry 4.0 – Opportunities and challenges of the industrial internet, 2014.

[239] Ambrosetti Club, Industry 4.0 revolution: challenges and opportunities for Europe, September 2016.

[240] See R. Harte, L. Puccio and M. Szczepański, Interactions between trade, investment and trends in EU industry: EU regions and international trade, EPRS, European Parliament, October 2017.

[241] M. Szczepański, A renewed industrial policy strategy, EPRS briefing, November 2017, p. 2.

[242] Industry in Europe. Facts and figures on competitiveness and innovation, European Commission, February 2017, p.11.

6.6 Support for EU industry

One of the top priorities of the 2014-2019 Commission is the creation of a deeper and fairer internal market with a strengthened industrial base.[243] In his political guidelines President Jean-Claude Juncker underlined the importance of a strong and high-performing industrial base, as economic growth cannot be built solely on the basis of services. The vision for industry is that of a global leader in strategic sectors that support high-value jobs, something that is to be achieved by reinforced investment, an improved business environment, open markets and a skilled workforce. The main action at EU-level to support European industry is outlined below. Some measures have budgetary envelope, as discussed in Section 4.1.

6.6.1 EU Budget responses

As seen in the budgetary part of the outlook, (see Section 4.2 and Box 2) several budget chapters directly or indirectly support objectives relevant to the EU's industrial policy.

6.6.2 Investment Plan for Europe

The European Fund for Strategic Investments (EFSI) has been in existence since July 2015 as part of the Investment Plan for Europe.[244] EFSI, a €16 billion guarantee from the EU Budget, complemented by a €5 billion allocation from the EIB's own capital, has generated – as of the end of October 2017 – a total investment value of €240.9 billion (76.5 % of the overall objective of €315 billion by mid-2018).[245] The transactions approved as of October 2017 cover all 28 EU Member States and are expected to benefit over 388 000 SMEs and mid-caps, add 2.3 % to European GDP and spawn 2.25 million jobs.[246]

One of EFSI's main objectives is to modernise European industry. While no public aggregate data exist on EFSI support for industry,[247] the European Investment Bank's website has a list[248] of projects to be financed, many of which relate to direct or indirect support of industry. Recently approved projects include the financing of research, development and innovation (RDI) activities,[249] renewal and upgrading of water treatment plants,[250] development of new health treatments,[251] and the remediation of industrially polluted land.[252] As part of the mid-term review of the MFF, and taking into account the successful take-up of EFSI, the Commission proposed to continue the fund

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[243] E. Bassot and W. Hiller, The European Commission at mid-term: State of play of President Juncker's ten priorities, EPRS, European Parliament, July 2017.

[244] For a concise introduction on EFSI, see Gustaf Gimdal, Cornerstone of the Commission's Investment Plan – European Fund for Strategic Investments (EFSI), EU legislation in progress briefing, EPRS, European Parliament, June 2015.

[245] European Investment Bank Group figures, 18 October 2017.

[246] European Investment Bank, New figures on impact of EIB Group investment on jobs and growth: 2.25 million more jobs expected by 2020, press release, 28 September 2017.

[247] The helpful 'EFSI investment by sector' information provided on the EIB website, breaks down investment into 'Smaller companies', 'Energy', 'RDI', 'Digital', 'Transport' and 'Social infrastructure'. Given, on addition, that there may be investment in infrastructure –supporting industries only indirectly – it is difficult to come with a precise number for industry.

[248] EIB 'Projects to be financed'. It must be noted that the EIB specifies that the list on the website is not exhaustive, as 'only projects covered by the EIB's transparency policy are included'.

[249] Biovet Peshtera (Bulgaria).

[250] Water supply OASEN NV (The Netherlands).

[251] Grifols Bioscience R&D II (Spain).

[252] Brownfields redevelopment fund 3 (multiple countries, mainly France and Belgium).

beyond the initial three-year period. In December 2017, the European Parliament and the Council agreed to extend the timeline of EFSI from mid-2018 to 31 December 2020, reinforce its resources and introduce a number of technical improvements to the fund (see Sections 4.2 and 5.1.1). As a result, the overall investment target of EFSI has increased from €315 billion to at least €500 billion. The second pillar of the Investment Plan includes the European Investment Advisory Hub and the European Investment Project Portal which help to create a pool of bankable projects and attract global investors. Finally, the third pillar of the Investment Plan focuses on improving the regulatory environment, by increasing its predictability, reducing red tape and encouraging investment.

Furthermore, according to the Commission 'the Commission proposal for an omnibus regulation[253] will simplify the combination of EFSI with resources from European structural and investment funds to achieve greater impact, including for investment platforms'.[254]

6.6.3 Industrial policy strategy

In September 2017 annual State of the Union address the Commission announced a renewed industrial policy strategy. This strategy takes a holistic approach, combining both existing and new horizontal and sector-specific initiatives with actions to be launched by early 2018. They are clustered around seven specific themes such as the single market, digitalisation, a low-carbon and circular economy, investment, and the international dimension. It also formalised fora to monitor progress and identify new action: a high-level industrial roundtable and an annual European industry day.

One of the main new proposals is a cybersecurity package,[255] which includes establishing a European cybersecurity research and competence centre to promote the development of technology and industrial capabilities in cybersecurity. Furthermore, it proposes the creation of EU cybersecurity agency, and an EU-wide certification scheme for secure products and services and a blueprint for how Europe and Member States can respond in a timely way to cyber-attacks.

The renewed strategy has also launched a proposal on the free flow of non-personal data,[256] which aims to remove unjustifiable and disproportionate barriers requiring firms or other organisations to locate the storage or processing of data in a particular Member State. Removing data localisation restrictions may double the value of the European data economy to 4 % of EU's GDP by 2020, corresponding to €739 billion. It will also help to reduce the cost of data services and is likely to increase enterprises' flexibility in organising their data management and data analytics.

There are new measures for trade and investment,[257] including a framework to allow the Member States and Commission to screen foreign investments in connection with

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[253] An omnibus regulation is a set of proposals to simplify implementing rules for EU funds and increase their impact. See Section 5.1, Table 3.

[254] The Commission provides the example of the dedicated fund in Nord-Pas-de-Calais bringing together the European Regional Development Fund (ERDF), EFSI and private actors.

[255] For more details see European Commission's cybersecurity website. State of the Union 2017 – Trade Package: European Commission proposes framework for screening of foreign direct investments.

[256] State of the Union 2017: A framework for the free flow of non-personal data in the EU, press release, European Commission, September 2017.

[257] State of the Union 2017 – Trade Package: European Commission proposes framework for screening of foreign direct investments, press release, European Commission, September 2017.

security and public order. The information and opinions will be exchanged using the new cooperation mechanism. The Council will open trade negotiations with Australia and New Zealand, and start negotiations on the establishment of a multilateral investment court. Furthermore, there will be increased transparency, since any new proposal for negotiating mandates for trade agreements will be made public and an advisory group on EU trade agreements will increase interaction between the Commission and civil society.

The Commission has also tabled initiatives on clean mobility,[258] seeking to strengthen the EU automotive industry, in particular clean vehicles. It has proposed new stricter long-term CO_2 emission standards to encourage innovation and investment and provide stability and long-term vision for the industry. To further improve investment the Commission announced an action plan for the trans-European deployment of alternative fuels infrastructure. Another initiative, the revision of the Combined Transport Directive aims to stimulate the combined use of trucks and trains, barges or ships for the transport of goods. The battery initiative proposes to allocate an additional €200 million to support European battery development and innovation from 2018 to 2020 aiming to promote the future invention and production of clean mobility devices in the EU.

There is also a revised list of 27 critical raw materials for the European manufacturing industry. This list is useful in incentivising domestic production through recycling or mining, in trade negotiations, and while designing research and innovation measures.

Regarding public procurement,[259] the Commission asked the Member States to focus on six priority areas and offered a voluntary mechanism to provide clarity and guidance to authorities planning large infrastructure projects (by setting up a helpdesk and checking the procurement plan for compatibility with EU legislation). Member States are also encouraged to follow specific steps to improve the technical knowledge, business skills and innovative purchasing practices of public buyers.

The intellectual property framework has also been updated, by measures[260] such as guidance on how to apply the 2004 Directive on the enforcement of intellectual property rights, encouraging industry to fight intellectual property infringements, reducing the volume of counterfeit products reaching the EU market and setting up a European licensing framework for standard essential patents.

The strategy also pledges to announce new initiatives on the circular economy, including a strategy on plastics and measures to improve the production of renewable biological resources and their conversion into bio-based products and bio-energy.

To address skills shortages in industry, the Commission will extend the 2016 skills agenda to new key industrial sectors, such as construction, steel, paper, green technologies and renewable energies, manufacturing and maritime shipping.

Finally, in order to stimulate private investment to take environmental, social and governance considerations into account the Commission will propose a strategy on sustainable finance.

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[258] State of the Union 2017 – Trade Package: European Commission proposes framework for screening of foreign direct investments, press release, European Commission, September 2017.

[259] Increasing the impact of public investment through efficient and professional procurement, press release, European Commission, Brussels, 3 October 2017.

[260] Intellectual property: Protecting Europe's know-how and innovation leadership, press release, European Commission, Brussels, 29 November 2017.

6.6.4 Capital markets union

The idea behind capital markets union (CMU) is to improve the investment environment in Europe by building deeper and better integrated capital markets. The objective of CMU is to enhance the connection between savings and investments through a mix of regulatory and non-regulatory reforms. The goal is to improve the availability of alternative sources of financing for European companies, including industrial firms. CMU should create easier access to funding especially for SMEs and start-ups, in areas such as venture capital and crowdfunding.[261] The European Investment Fund has started to provide for investment through a venture capital fund-of-funds, with a maximum budget of €400 million which is set to raise additional investments in venture capital of around €1.6 billion. This is quite significant considering that the venture capital funds raised in the EU in 2015 totalled €5 billion.

The CMU mid-term review[262] reports on the progress made so far in implementing the 2015 CMU action plan, with approximately two-thirds of the 33 actions delivered in 20 months. Recent agreements between the Parliament and the Council include the securitisation package[263] and the venture capital funds reform.[264] Furthermore, the EU has agreed on the new prospectus regime that will facilitate access to public markets especially for SMEs.[265] Since 2016 insurance companies have found it easier to invest in infrastructure projects.[266]

6.6.5 Single market strategy

In October 2015 the Commission presented its single market strategy, entitled 'Upgrading the single market: more opportunities for people and business'.[267] The strategy seeks to help SMEs and start-ups to grow by promoting innovation, unlocking investments and empowering consumers. Of particular relevance to industry is the standardisation package[268] from 2016, which prepared the way for the joint initiative on standardisation. The initiative brings together European and national standardisation organisations and bodies, industry, SMEs, consumer associations, trade unions, environmental organisations, Member States and the Commission, and is geared towards modernising and accelerating delivery of European standards in order to facilitate intra-EU and global trade for European industry.[269] Another relevant

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[261] For more details see A. Delivorias, Crowdfunding in Europe. Introduction and state of play, EPRS, European Parliament, January 2017.

[262] Communication on the Mid-Term review of the Capital Markets Union Plan, European Commission, June 2017.

[263] Securitisation: agreement struck between MEPs and Maltese Presidency, press release, European Parliament, May 2017.

[264] Review of EUVECA and EUSEF Regulation, Legislative Train Schedule, European Parliament.

[265] European Parliament press release, New rules to protect investors and help SMEs access diverse sources of capital, April 2017.

[266] European Commission, Capital Markets Union. Making it easier for insurers to invest in infrastructure, April 2016.

[267] For more details please see M. Szczepański, A deeper and fairer Single Market. New opportunities for business and people, EPRS, European Parliament, December 2015.

[268] Commission takes steps to modernise EU's standardisation policy, press release, European Commission, June 2016.

[269] One interesting point of view on EU compliance rules (market regulation) and standards is that they are increasingly taken up by international companies that find it cheaper to adhere to one system than individual separate ones. This means that their products comply with EU regulations even when their operations are outside the single market.

development is the Start-Up and Scale-Up Initiative,[270] which seeks to build a growth-conducive framework for European start-ups. It proposes to make it easier to access venture capital through the pan-European venture capital fund-of-funds and make it possible for entrepreneurs to have a second chance, by introducing a new proposal on insolvency law. It also seeks to simplify tax returns in a related proposal for a common consolidated corporate tax base (CCCTB).[271]

The EU also supports the integration of service markets with the services package,[272] which consists of a European services e-card that seeks to simplify the administrative formalities required to expand business across the EU. Secondly, the package reforms the notification procedure dealing with alerting the Commission and other Member States about draft measures concerning services.[273] It also contains new rules on proportionality assessments regarding regulated professions. Furthermore, the EU is committed to making the unitary patent a reality, which will make it possible to obtain protection for inventions in all participating EU countries by submitting a single application.

In December 2017, the Commission tabled two legislative proposals[274] to improve integration of the single market for goods. First, a new regulation on the mutual recognition of goods will improve the communication between authorities and companies, facilitate the process for recognising that a product is already lawfully sold in another EU country and introduce a new problem-solving mechanism. Second, a new regulation on market surveillance and enforcement of safety rules will improve cooperation of market surveillance authorities, increase Commission support to cross-border investigations, facilitate sharing evidence and strengthen cooperation with businesses in order to increase compliance with safety rules for products sold on the EU market.

6.6.6 Digital single market strategy

This 2015 strategy aims to use the possibilities created by digital technologies to establish an integrated area of digital trade based on innovation and safe, affordable interaction. New technologies create digital value chains, new business models and booming online sales. Information and communication technology-related investment significantly increases productivity in the economy.[275] The strategy aims to remove regulatory barriers and increase support to industry enabling it to benefit from the potential of digital technologies.

The 2016 Digitising European Industry initiative sets up the European Platform of National Initiatives on Digitisation, a coordination framework allowing experience and

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[270] For more details see M. Szczepański, Helping European SMEs grow: Start-up and scale-up initiatives for business ventures in the EU, EPRS, European Parliament, June 2017.

[271] For more details see A. Delivorias, Common Consolidated Corporate Tax Base (CCCTB), EPRS, European Parliament, September 2017.

[272] A services economy that works for Europeans, European Commission, January 2017.

[273] For more details see M. Szczepański, Reform of services notification procedure, EPRS, European Parliament, August 2017.

[274] Safe products in the EU single market: Commission acts to reinforce trust, press release, European Commission, Brussels, 19 December 2017.

[275] For more details see M. Szczepański, A connected digital single market. State of play and the way forward, EPRS, European Parliament, January 2015.

best practice across national industrial digitisation initiatives to be shared.[276] The platform enables joint investments to be launched, and common approaches to regulatory problems related to the emerging data economy to be developed, as well as methods for reskilling the workforce. Furthermore, the EU will invest more than €500 million to reinforce and connect digital innovation hubs across regions. So far EU investments amounting to approximately €100 million annually have supported more than 150 digital competence centres across Europe. They have also enabled more than 1 500 innovative SMEs to access technology and knowledge.[277] The hubs are one-stop localised shops helping enterprises to digitise their business. Moreover, the EU aims to mobilise €50 billion in combined investments together with the Member States and industry across several public-private partnerships to boost its key industrial value chains. The initiative also mentions setting up large-scale pilot projects to strengthen the internet of things, advanced manufacturing and technologies. The Commission is meanwhile working on the consolidation and modernisation of the intellectual property framework, including sectoral and SME-supporting measures to strengthen EU-based manufacturing and competitiveness.

6.6.7 Energy union

The EU is the largest energy importer in the world and many Member States depend heavily on a limited number of suppliers, particularly for natural gas. In a 2015 report on single market integration and competiveness, the Commission stated that high energy prices are disadvantageous to the international competitiveness of EU firms, which face higher prices than most of their leading competitors.[278] While the EU and Japan have a significantly lower energy intensity than the USA and China, efficiency improvements have stalled in some sectors. In order to improve the situation and ensure industry remains competitive, major efforts are needed to modernise Europe's ageing energy infrastructure, secure better integration of energy markets, particularly across borders, and provide for stronger coordination of national energy policies.

To integrate national energy markets into one, the Commission structured the energy union framework[279] around five dimensions: (i) energy security, (ii) the internal energy market, (iii) energy efficiency, (iv) decarbonisation, and (v) research, innovation and competitiveness, which comprise both legislative and non-legislative measures. The strategy also supports the transition to a low-carbon economy, aiming to assist industry with keeping on top of the game in this transition and achieve the decoupling of economic growth from greenhouse gas emissions. Accordingly, the European strategic energy technology plan (SET-Plan) was launched in 2015 to speed up the development and deployment of low-carbon technologies through promotion of research and innovation efforts across Europe on the technologies with the greatest impact in the transformation to a low-carbon energy system.

Recent efforts to decrease electricity prices for industrial use include the revision of common rules for the internal market for electricity.[280] Proposed full integration of

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[276] European countries join forces to digitise the industry, European Commission, March 2017.

[277] Digitising European industry: taking stock, European Commission, June 2017.

[278] Report on Single Market integration and competiveness in the EU, SWD(2015) 203, European Commission, October 2015, p. 44.

[279] Communication on A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy, COM(2015) 80, European Commission.

[280] For more details see G. Erbach, Internal market for electricity, EPRS, European Parliament, March 2017.

industrial, commercial and residential consumers into the energy system can potentially avoid significant costs for 'backup' generation. A 2016 strategy on heating and cooling[281] aims to help boost energy efficiency in the industry and the switch from fossil fuels to renewable energy sources and electricity. The ongoing revision of the EU emissions trading system is meant to address the problem of the relocation of production outside the EU (carbon leakage).[282] It proposes to introduce two categories of energy-intensive industry at the highest risk of leakage; these will be granted free allowances corresponding to all or part of their emissions. Furthermore, revenues generated from the auctioning of allowances (Commission proposed at least 50 %) will be earmarked to fund green energy and other climate change projects.

Another major initiative is the revision of the Energy Efficiency Directive[283] which seeks to improve the competitiveness of industry by keeping the costs lower by means of increased efficiency. Furthermore, a 2016 clean energy package[284] included a number of relevant proposals. With regard to governance of the energy union, it proposed to establish national energy and climate plans for the energy union covering the 2021 to 2030 period, which will lend investors and industry stability and predictability. The promotion of renewable energy sources – also for the 2021 to 2030 period – will provide a clearer roadmap for industry to invest in renewable or other clean energy sources. As the EU is a leading developer and producer of clean energy technologies, this should also help European industry remain internationally competitive in this field. Finally, proposal on the energy performance of buildings will provide incentives and a predictable regulatory framework for greater investment in energy efficient commercial and residential buildings.

6.6.8 Circular economy

Transition to a circular economy may help to increase the global competitiveness of European industry and generate sustainable economic growth and new jobs. Importantly, it could also increase savings on the cost of raw materials and energy (for example, recycling steel saves up to 90 % of the energy needed to produce it from raw materials) and mitigates supply risks. Eco-industries and eco-innovation currently represent a third of the global market for green technologies, worth €1 trillion, a figure expected to double by 2020. Better eco-design, waste prevention and reuse can generate net savings of up to €600 billion for European businesses, while also reducing total annual greenhouse gas emissions.

The circular economy action plan comprises legislative and non-legislative measures covering the whole product cycle from production and consumption to waste management and the market for secondary raw materials. Legislative proposals on waste[285] are currently being decided by the co-legislators. They deal with re-use,

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[281] Communication on an EU Strategy on Heating and Cooling, COM(2016) 51, European Commission.

[282] According to the Commission: 'carbon leakage refers to the situation that may occur if, for reasons of costs related to climate policies, businesses were to transfer production to other countries with laxer emission constraints. This could lead to an increase in their total emissions. The risk of carbon leakage may be higher in certain energy-intensive industries'.

[283] Proposal for a directive amending Directive 2012/27/EU on energy efficiency, COM(2016) 761, European Commission.

[284] European Commission, Commission proposes new rules for consumer centred clean energy transition, November 2016.

[285] For more details see D. Bourguignon, Circular economy package. Four legislative proposals on waste, legislative briefing, EPRS, European Parliament, May 2017.

recycling and landfill, strengthened provisions on waste prevention, and extended producer responsibility. On secondary raw materials, the Commission has simplified the shipping of waste across the EU and has developed the EU raw materials information system including electronic data exchange.

6.6.9 Skills

Skills gaps and mismatches relating to digital and high-tech technologies are increasing, and highly qualified employees are hard to find. This is particularly acute in the case of science, technology, engineering and mathematics professionals.[286] Interestingly, a 2015 study however concluded that for industry perceived labour shortages have decreased in all countries except Malta and the United Kingdom compared with the pre-crisis levels.[287] Nonetheless, skills shortages pose a problem mainly for growing, dynamic, international enterprises and are more likely to be present in specific economic sectors such as information and communication technology, manufacturing and the textile-clothing-leather-footwear industry.

A 2016 initiative to address this challenge was the new skills agenda,[288] which aims to equip the workforce with relevant skills, and calls on the Member States and stakeholders to improve the quality and relevance of qualifications for the labour market, and develop national digital skills strategies and establish coalitions to support their implementation. A blueprint for sectoral cooperation on skills was launched as part of the agenda, to help with the coordination and mobilisation of key stakeholders such as industry, training and education stakeholders. Its other goals include boosting private investment and promoting strategic use of the funding programmes. Several sectoral skills partnerships, which bring together businesses, trade unions, education providers and other stakeholders to prepare an EU wide skills strategy for the specific sector are being established with a total budget of €28 million. The six pilot sectors are the automotive industry, maritime technology, space, defence, textiles-clothing-leather-footwear, and tourism; and the Commission is currently considering a second wave. In addition, the existing digital skills and jobs coalition will also help to develop a large digital talent pool and ensure that the labour force is equipped with digital skills by supporting cooperation between education, employers and industry, aiming to provide the labour force with adequate digital skills.

6.6.10 Trade

Trade relations with third countries provide industry with easier and cheaper access to raw materials and other production inputs. Furthermore, exports support almost one in seven jobs in Europe, which are better paid than average.

Trade policy instruments are deployed by the EU to ensure a level playing field in global markets and to remove both tariff and non-tariff trade barriers.[289] Particularly important for the latter is the market access strategy from 2015, based on which (and within the market access partnership) the Commission is working on increasing the effectiveness of

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[286] Skills shortage and surplus occupations in Europe, Briefing note, European Centre for Development of Vocational Training, November 2016.

[287] Labour market shortages in the European Union, Study for the ECON Committee, Policy Department for Economic and Scientific Policy, European Parliament, March 2015, p. 40.

[288] Ten actions to help equip people in Europe with better skills, press release, European Commission, June 2016.

[289] Trade for all. Towards a more responsible trade and investment policy, European Commission, October 2015.

implementation of EU free trade agreements. To protect industry from unfair competition the Commission proposed in December 2017 trade-defence legislation[290] which introduces a new way of calculating whether dumping is involved in imports into the EU from countries with an economy distorted by state interference. Recent trade initiatives are also discussed in section 6.6.3 on industrial policy strategy.

6.7 Perspectives

In its 2017 review, the Commission identified a number of current challenges[291] and policy responses regarding access to finance,[292] resource efficiency,[293] industry digitisation,[294] access to global value chains (GVC),[295] an efficient and fully operational single market[296] and skills development.[297] These are a mix of issues already identified earlier (such as access to finance) and relatively new areas of activity (such as industrial digitisation).

According to Gyorffi, the novel approach taken by the Commission in the review is to 'create its own investments ... not in a kind of a champion company, but rather in privileged sectors, like clean energy innovation and strategic technologies for the industry of the future (key enabling technologies)'.

These enabling technologies already play an important role in the research, innovation and cluster strategies of many industries such as the automotive, aeronautics or energy sectors. Essentially, the Commission considers them of systemic relevance, as they contribute to industrial restructuring which is to lead to a transition to a knowledge-based, low carbon economy. Furthermore, the extent to which the European industry will be able to take advantage of new technological opportunities is likely to determine its mid- and long-term competitiveness. The Commission has therefore committed to work with the Member States and regions to support potential spill-over effects of new technologies to enhance existing and possibly develop new industrial value chains.

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[290] EU puts in place new trade defence rules, press release, European Commission, Brussels, 20 December 2017.

[291] For a good overview, see Miklos Gyorffi, EU Industrial Policy, Policy Department for Economic and Scientific Policy, European Parliament, November 2017.

[292] Recent initiatives to improve it are the investment plan for Europe, complemented by the ESI funds and helped indirectly by the capital markets union.

[293] Notable recent initiatives are the energy union framework strategy and the circular economy action plan.

[294] One of the main areas of action of the digital single market strategy (DSM).

[295] A value chain being 'the full range of activities that firms engage in to bring a product to the market, from conception to final use. Such activities range from design, production, marketing, logistics and distribution to support to the final consumer'.

[296] According to Gyorffi, a well-functioning single market is a precondition for re-shoring multiple elements of production into the EU. Hence the importance of the single market strategy. The Commission communication 'European Standards for the 21st century' (the standardisation package) is also important, according to the author, as it aims at helping 'modernise, prioritise and accelerate the delivery of standards which facilitate intra-EU and global trade'. The role of the single market in the market for goods in Europe was described in more detail in the 2014 communication A vision for the internal market for industrial products.

[297] Beyond strengthening the result orientation of the European Social Fund to support the resilience and competitiveness of labour markets, the Commission emphasises the perceived role of the Erasmus+ programme in developing new skills through learning abroad.

This increased focus on the role of regions in industrial development is reflected for example by the fact that they are targeted by initiatives such as the Horizon 2020 Policy Support Facility and the Smart Specialisation Platform. In its 2017 communication,[298] the European Commission takes the view that 'Europe's competitive edge depends increasingly on its capacity to promote new regional level growth models, by targeting investments in innovative sectors with significant growth potential and high added value.' As industrial modernisation and research and innovation challenges may be undermined by insufficient or unbalanced involvement of all the parties concerned, this outreach to a wider group of stakeholders is becoming more and more important in policy making. The September 2017 industrial policy strategy, where the Commission announced plans to consult national, regional and local authorities and industry, social partners, project promoters and civil society on issues ranging from policy implementation or setting its new objectives for investment in industry, is one example of this emphasis.

Box 6 - The Industrial Landscape Vision 2025

Interestingly, the Commission has developed 'The Industrial landscape Vision 2025', a foresight model[299] composed of three closely interrelated layers. The first layer identifies the agents of change, the driving forces that will shape the industrial landscape, organised into policy, economy, society, environment and technology. The second layer is comprised of enablers and constraints and lists factors – such as skills, markets, resources, and regulation – that can either enable or hamper the evolution of the industrial landscape. They are influenced by the agents of change. The third layer, the production and consumption system, contains the key elements that will determine future production and consumption trends, such as infrastructure, business environment and materials. The third layer is affected and linked to the previous two. This model has been used so far as a basis to develop specific visions for industrial sectors, such as the textiles and clothing industry and the non-ferrous metal industry, and identify the opportunities and challenges manufacturers face in achieving this vision and ways to respond to them, as well as policy recommendations. This kind of systemic and future-oriented thinking about industry also seems to be a rather recent development.

The need to pull together and manage EU industrial policy in a more coherent and targeted way has been voiced by the European Parliament, which has called on the Commission to develop a 'consistent and comprehensive industrial policy aimed at Europe's reindustrialisation, with targets, indicators, measures and time scales'.[300]

Nonetheless, the Treaties draw a limit to the possibility of profound change in EU intervention in industrial policy (as discussed in Section 6.4.2 above). The Member States have differing competitive positions, industrial traditions and models as well as approaches to state intervention. This means that the EU is likely to continue contributing as coordinator of national policies and as a platform for exchange and learning. It will also be helping to coordinate and integrate initiatives and programmes

[298] Strengthening Innovation in Europe's Regions: Strategies for resilient, inclusive and sustainable growth, European Commission, July 2017.

[299] For more details, please see the Industrial Landscape Vision 2025 website.

[300] Resolution of 5 July 2017 on building an ambitious EU industrial strategy as a strategic priority for growth, employment and innovation in Europe, European Parliament.

so that the synergies between and within industrial sectors (as well as with research organisations, public sector and services sector) can be better exploited.[301]

Some view the current political momentum[302] as decisive for the future of industrial policy: issues such as the rise anti-globalisation sentiments, exploited by populists, and changes in EU's external political framework fuel domestic debates while there also seems to be a renewed push for European integration exemplified by closer cooperation on defence. This momentum does not guarantee a positive outcome: there is a risk of a slide towards protectionism and rising performance gaps that could widen inequalities and increase fragmentation of the single market. A positive outcome would be a push for a comprehensive and consistent strategic framework based on a long-term vision that supports industrial transformation (e.g. greening, digitalisation, global value chains and innovation), addresses inconsistencies and social concerns, and improves Europe's competitiveness.

[301] A good example is recent research on industrial value chains with EU and global relevance, which identified specific investment needs, financing gaps and obstacles in five high-growth potential industries and gave policy recommendations on how to overcome these.

[302] F. Zuleeg, Why the EU will have an industrial policy – but not necessarily a good one, European Policy Centre, July 2017.

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8 Annexes

Annex 1 – EU spending allocation by Member State in 2016 (€ million)

Heading	1		2	3	4	5	9	
Subheading	1a	1b						
2016 *(€ million)*	Competitiveness for growth and jobs	Economic, social and territorial cohesion	SUSTAINABLE GROWTH: NATURAL RESOURCES	SECURITY AND CITIZENSHIP	GLOBAL EUROPE	ADMINISTRATION	SPECIAL INSTRUMENTS	TOTAL EXPENDITURE
BE	1 336.1	206.4	595.8	238.6	0	4 955.8	0.3	**7 333.1**
BG	83.2	1 152.0	1 013.0	84.6	0.6	12	0	**2 345.4**
CZ	123.1	3 317.1	1 210.1	23.9	0	15.8	0	**4 690.0**
DK	280.7	30.8	1 046.7	16.6	0	56.4	0	**1 431.2**
DE	1 981.6	1 353.0	6 306.8	221.1	0	219.7	0	**10 082.3**
EE	60.2	295.8	259.1	50.3	0	8.3	0	**673.7**
IE	213.1	112.3	1 634.1	30.2	0	48	0	**2 037.7**
EL	282.8	2 239.0	2 939.8	361.7	0	25	1.7	**5 849.9**
ES	1 247.7	3 779.7	6 275.7	182.7	0	107.2	0	**11 592.9**
FR	2 216.0	1 028.3	7 353.0	314.9	0	362.9	0	**11 275.0**
HR	39	497.3	305.5	19.7	50.9	8.9	0	**921.4**
IT	1 344.6	4 570.4	5 109.0	269.4	0	268.7	30	**11 592.1**
CY	38.7	49.9	77.9	12.6	0	5.3	0.7	**185.1**
LV	31.4	297.1	371.5	24.6	0	9.4	0	**734.1**
LT	158	533.1	721.1	55.2	0	10	0	**1 477.4**
LU	196.2	33.2	59	28.7	0	1 470.5	0	**1 787.7**
HU	98	2 738.5	1 667.2	27.2	0.1	15.2	0	**4 546.1**
MT	17.9	94.8	13.6	73.9	0	7.3	0	**207.5**
NL	988.9	97.1	871.8	227	0	104.1	0	**2 289.0**
AT	378.5	96.9	1 364.1	76.4	0	24	0	**1 939.9**
PL	254.9	5 502.2	4 742.4	108.4	0	29.9	0	**10 637.8**
PT	242.3	1 615.3	1 424.7	65.9	0	35.9	0.4	**3 384.4**
RO	126.6	4 408.6	2 757.7	43.7	3.8	19.4	0	**7 359.9**
SI	84.2	150.4	279	21	0.1	10.1	0	**544.9**
SK	85.5	1 989.6	566.4	10.7	0.1	10.6	0	**2 662.8**
FI	319.6	144.5	978.9	54.9	0	32.8	0	**1 530.8**
SE	456.1	131.6	956.6	132.7	0	34.9	0	**1 711.9**
UK	1 833.1	1 114.6	3 832.2	138.4	0	133	0.3	**7 051.6**
EU-28	14 518.0	37 579.4	54 732.6	2 915.1	55.5	8 041.4	33.4	**117 875.4**
earmarked	745.3	44	2 489.3	21.7	822.7	475.3	27.6	**4 626.0**
other	2 327.4	173.6	45.1	77.3	2 355.7	554.5	0.0	**5 533.6**
non-EU	870.4	6.9	144.8	63.2	7 043.1	253.1	0.0	**8 381.4**
Total	**18 461.2**	**37 803.8**	**57 411.8**	**3 077.3**	**10 277.1**	**9 324.2**	**61.0**	**136 416.4**

Source: EPRS, based on European Commission, Financial report 2016.

Annex 2 – Own resources by Member State in 2016 (€ million and % of GNI)

	VAT-based resource	GNI-based resource	UK correction	Adjustment retro-active implementation of the ORD2014	Lump Sum Reduction Granted for DK, NL, AT & SE	TOTAL national contribution		Traditional own resources (TOR), net (80 %)	TOTAL own resources	
	1	2*	3**	4	5	6=1+2+3+4+5	% GNI	7	8=6+7	% GNI
BE	516.6	2 737.1	325.8	0.0	31.4	3 611.0	0.86%	2 070.8	5 681.8	1.35%
BG	62.4	281.7	34.5	0.0	3.2	381.8	0.81%	71.9	453.8	0.97%
CZ	204.0	1 021.2	121.8	2.6	11.7	1 361.3	0.83%	251.0	1 612.3	0.98%
DK	307.2	1 803.8	214.1	-0.3	-122.1	2 202.7	0.77%	336.3	2 539.0	0.89%
DE	1 947.7	20 672.0	416.4	0.0	237.5	23 273.6	0.73%	4 149.4	27 423.1	0.86%
EE	30.8	134.3	16.2	0.0	1.5	182.8	0.89%	27.3	210.1	1.03%
IE	252.1	1 251.0	157.2	0.0	14.5	1 674.7	0.76%	285.1	1 959.8	0.89%
EL	227.8	1 136.7	131.6	0.0	13.1	1 509.2	0.86%	158.4	1 667.5	0.95%
ES	1 416.9	7 228.7	835.0	0.0	83.1	9 563.6	0.86%	1 512.0	11 075.7	0.99%
FR	2 913.8	14 668.4	1 725.3	0.0	168.5	19 476.0	0.86%	1 636.5	21 112.5	0.93%
HR	66.5	286.3	34.6	0.1	3.3	390.8	0.89%	46.7	437.4	0.99%
IT	1 777.3	10 776.6	1 261.9	0.0	123.8	13 939.5	0.83%	1 788.4	15 727.9	0.94%
CY	25.9	111.4	13.3	0.0	1.3	151.9	0.87%	21.1	173.0	0.99%
LV	29.6	167.1	19.5	0.0	1.9	218.2	0.87%	34.7	252.8	1.01%
LT	45.3	242.9	28.2	0.0	2.8	319.2	0.86%	77.5	396.8	1.07%
LU	52.5	226.1	30.1	0.0	2.6	311.4	0.88%	19.5	330.9	0.94%
HU	131.9	701.8	83.1	-0.6	8.1	924.3	0.85%	142.3	1 066.6	0.98%
MT	13.7	59.0	7.2	0.0	0.7	80.6	0.86%	12.1	92.6	0.99%
NL	418.1	4 540.4	94.3	0.0	-709.3	4 343.4	0.63%	2 373.7	6 717.2	0.98%
AT	467.0	2 235.6	45.2	0.0	14.7	2 762.6	0.79%	214.0	2 976.6	0.86%
PL	536.9	2 674.2	318.5	-6.7	30.4	3 553.3	0.87%	591.3	4 144.6	1.02%
PT	261.3	1 173.6	139.0	0.0	13.5	1 587.4	0.88%	138.4	1 725.8	0.95%
RO	166.4	1 068.4	127.6	-0.4	12.2	1 374.1	0.83%	163.2	1 537.4	0.93%
SI	53.6	253.0	30.1	0.0	2.9	339.5	0.86%	65.8	405.3	1.03%
SK	79.9	501.2	59.5	0.0	5.8	646.4	0.81%	99.1	745.5	0.94%
FI	274.6	1 374.1	164.1	0.0	15.8	1 828.6	0.85%	133.1	1 961.8	0.91%
SE	300.5	3 081.0	62.1	28.9	-159.9	3 312.5	0.71%	513.2	3 825.7	0.81%
UK	3 314.9	15 177.2	-5 870.2	-27.6	165.3	12 759.6	0.55%	3 161.1	15 920.7	0.68%
EU-28	**15 895.1**	**95 584.8**	**626.1**	**-4.1**	**-21.8**	**112 080.2**	**0.76%**	**20 094.1**	**132 174.3**	**0.89%**
								Surplus from previous year	10 565.8	
								Surplus external aid guarantee fund	0.0	
								Other revenue	1 349.1	
								Total revenue	**144 089.2**	

Source: EPRS based on European Commission, Financial report 2016.

Annex 3 – The EU Budget 2017, 2018 (€ million)

	2017 Budget (incl. AB1-6)		2018 Budget		Difference	
	CA	PA	CA	PA	CA	PA
SMART AND INCLUSIVE GROWTH	**75 398.754**	**49 393.819**	**77 533.698**	**66 624.486**	**2.8%**	**34.9%**
Competitiveness for growth and jobs	**21 312.156**	**19 320.945**	**22 001.453**	**20 097.168**	**3.2%**	**4.0%**
— Large infrastructure projects	1 827.610	1 810.612	1 814.411	1 826.155	-0.7%	0.9%
— European satellite navigation systems (EGNOS and Galileo)	897.465	687.500	807.859	718.000	-10.0%	4.4%
— International Thermonuclear Experimental Reactor (ITER)	322.713	426.340	376.361	500.555	16.6%	17.4%
— European Earth Observation Programme (Copernicus)	607.432	696.772	630.191	607.600	3.7%	-12.8%
— Nuclear Safety and Decommissioning	138.357	150.092	141.124	152.352	2.0%	1.5%
— European Fund for Strategic Investments (EFSI)	2 661.000	2 316.800	2 038.277	1 828.000	-23.4%	-21.1%
— Common Strategic Framework (CSF) Research and Innovation	10 687.139	10 543.977	11 568.056	11 216.937	8.2%	6.4%
— Horizon 2020	10 345.931	10 196.300	11 212.379	10 901.478	8.4%	6.9%
— Euratom Research and Training Programme	341.208	347.677	355.677	315.459	4.2%	-9.3%
— Competitiveness of enterprises and small and medium-sized enterprises (COSME)	349.314	369.164	354.109	253.456	1.4%	-31.3%
— Education, Training and Sport (Erasmus+)	2 064.157	1 886.872	2 314.549	2 145.614	12.1%	13.7%
— Employment and Social Innovation (EaSI)	136.044	97.420	131.712	118.480	-3.2%	21.6%
— Customs, Fiscalis and Anti-Fraud	137.053	117.247	135.016	124.754	-1.5%	6.4%
— Connecting Europe Facility (CEF)	2 547.020	1 211.604	2 748.429	1 522.964	7.9%	25.7%
— Energy	699.730	123.244	680.459	217.661	-2.8%	76.6%
— Transport	1 723.333	970.528	1 897.629	1 163.313	10.1%	19.9%
— Information and Communications Technology (ICT)	123.957	117.833	170.341	141.990	37.4%	20.5%
— Energy projects to aid economic recovery (EERP)		110.000		210.000	∞	90.9%
— European Solidarity Corps (ESC)			42.786	33.226	∞	∞
— Other actions and programmes	219.945	196.307	176.448	152.573	-19.8%	-22.3%
— Actions financed under the prerogatives of the Commission and specific competences conferred to the Commission	143.878	131.271	128.902	116.927	-10.4%	-10.9%
— Pilot projects and preparatory actions	56.390	43.831	91.650	77.637	62.5%	77.1%
— Decentralised agencies	344.249	335.748	315.985	318.093	-8.2%	-5.3%
Economic, social and territorial cohesion	**54 086.599**	**30 072.875**	**55 532.245**	**46 527.318**	**2.7%**	**54.7%**
— Investment for growth and jobs	49 278.457	27 815.314	50 797.976	43 447.389	3.1%	56.2%
— Regional convergence (Less developed regions)	26 121.899	14 290.599	27 012.258	23 387.572	3.4%	63.7%
— Transition regions	5 627.243	2 673.461	5 738.604	4 040.463	2.0%	51.1%
— Competitiveness (More developed regions)	8 251.458	4 986.143	8 426.792	7 394.060	2.1%	48.3%
— Outermost and sparsely populated regions	222.029	139.873	226.473	169.014	2.0%	20.8%
— Cohesion fund	9 055.828	5 725.238	9 393.849	8 456.279	3.7%	47.7%
— Connecting Europe Facility (CEF) – CF contribution	1 593.295	382.682	1 655.141	625.755	3.9%	63.5%
— European territorial cooperation	1 939.824	629.101	1 934.269	1 234.672	-0.3%	96.3%

— Youth Employment initiative (specific top-up allocation)	500.000	600.000	350.000	600.000	-30.0%	
— Technical assistance and innovative actions	215.966	190.091	230.285	199.613	6.6%	5.0%
— European Aid to the Most Deprived (FEAD)	546.257	441.430	556.875	401.400	1.9%	-9.1%
— Pilot projects and preparatory actions	12.800	14.257	7.700	18.490	-39.8%	29.7%
SUSTAINABLE GROWTH: NATURAL RESOURCES	**58 569.110**	**54 120.941**	**59 285.323**	**56 083.794**	**1.2%**	**3.6%**
— European Agricultural Guarantee Fund (EAGF) — Market related expenditure and direct payments	42 610.672	42 561.068	43 234.517	43 188.677	1.5%	1.5%
— European Agricultural Fund for Rural Development (EAFRD)	14 364.016	10 428.461	14 381.014	11 852.226	0.1%	13.7%
— European Maritime and Fisheries Fund (EMFF)	911.742	577.385	933.361	514.547	2.4%	-10.9%
— Sustainable Fisheries Partnership Agreements (SFPAs) and compulsory contributions to Regional Fisheries Management Organisations (RFMOs) and to other international organisations	127.026	122.831	141.100	131.600	11.1%	7.1%
— Environment and climate action (LIFE)	493.737	363.668	522.797	316.101	5.9%	-13.1%
— Other actions and measures				6.000	∞	∞
— Pilot projects and preparatory actions	7.700	13.311	15.600	17.708	102.6%	33.0%
— Decentralised agencies	54.217	54.217	56.934	56.934	5.0%	5.0%
SECURITY AND CITIZENSHIP	**4 284.031**	**3 224.307**	**3 493.241**	**2 980.707**	**-18.5%**	**-7.6%**
— Asylum, Migration and Integration Fund	1 620.259	749.603	719.155	594.385	-55.6%	-20.7%
— Internal Security Fund	738.555	617.505	719.986	481.234	-2.5%	-22.1%
— IT systems	19.708	16.907	26.334	13.167	33.6%	-22.1%
— Justice	53.831	41.489	47.149	35.871	-12.4%	-13.5%
— Rights, Equality and Citizenship	62.615	46.800	63.382	46.600	1.2%	-0.4%
— Union Civil protection Mechanism	31.025	30.925	33.246	34.270	7.2%	10.8%
— Europe for Citizens	26.441	26.370	27.555	28.634	4.2%	8.6%
— Food and feed	256.228	234.470	280.178	248.375	9.3%	5.9%
— Health	64.529	57.709	66.374	55.907	2.9%	-3.1%
— Consumer	26.923	20.731	27.966	23.091	3.9%	11.4%
— Creative Europe	207.912	176.861	230.386	180.685	10.8%	2.2%
— Instrument for Emergency Support within the Union (IES)	200.000	219.000	200.000	220.583		0.7%
— Actions financed under the prerogatives of the Commission and specific competences conferred to the Commission	100.908	102.328	98.757	91.713	-2.1%	-10.4%
— of which 'Communication actions'	*76.253*	*73.805*	*76.393*	*75.341*	*0.2%*	*2.1%*
— Pilot projects and preparatory actions	11.650	19.463	12.650	17.922	8.6%	-7.9%
— Decentralised agencies	863.447	864.147	940.124	908.271	8.9%	5.1%
GLOBAL EUROPE	**10 437.120**	**9 055.844**	**9 568.842**	**8 906.075**	**-8.3%**	**-1.7%**
— Instrument for Pre-accession assistance (IPA II)	2 114.743	1 448.068	1 648.771	1 451.614	-22.0%	0.2%
— European Neighbourhood Instrument (ENI)	2 440.357	1 923.854	2 366.637	2 278.002	-3.0%	18.4%
— Development Cooperation Instrument (DCI)	3 168.186	2 768.536	2 976.020	2 734.530	-6.1%	-1.2%
— Partnership instrument for cooperation with third countries (PI)	133.713	135.871	140.187	100.715	4.8%	-25.9%
— European Instrument for Democracy and Human Rights (EIDHR)	188.998	168.353	192.750	169.347	2.0%	0.6%

— Instrument contributing to Stability and Peace (IcSP)	273.280	294.180	370.010	325.265	35.4%	10.6%
— Humanitarian aid (HUMA)	945.429	1 145.810	1 085.394	1 094.987	14.8%	-4.4%
— Common Foreign and Security Policy (CFSP)	327.270	294.051	328.010	292.021	0.2%	-0.7%
— Instrument for Nuclear Safety Cooperation (INSC)	62.331	81.447	32.967	45.461	-47.1%	-44.2%
— Macro-financial Assistance (MFA)	45.828	45.828	42.086	42.086	-8.2%	-8.2%
— Guarantee Fund for external actions (GF)	240.540	240.540	137.801	137.801	-42.7%	-42.7%
— Union Civil Protection Mechanism	20.711	19.578	16.121	15.467	-22.2%	-21.0%
— EU Aid Volunteers initiative (EUAV)	22.011	23.718	20.328	16.874	-7.6%	-28.9%
— European Fund for Sustainable Development (EFSD)	275.000	275.000	25.000	25.000	-90.9%	-90.9%
— Other actions and programmes	84.148	92.770	83.452	74.903	-0.8%	-19.3%
— Actions financed under the prerogatives of the Commission and specific competences conferred to the Commission	66.055	67.310	74.352	67.555	12.6%	0.4%
— Pilot projects and preparatory actions	8.750	11.159	8.900	14.391	1.7%	29.0%
— Decentralised agencies	19.771	19.771	20.056	20.056	1.4%	1.4%
ADMINISTRATION	**9 394.514**	**9 394.600**	**9 665.514**	**9 666.319**	**2.9%**	**2.9%**
— Pensions and European Schools	1 975.611	1 975.611	2 085.593	2 085.593	5.6%	5.6%
— Pensions	1 789.856	1 789.856	1 892.806	1 892.806	5.8%	5.8%
— European schools	185.755	185.755	192.787	192.787	3.8%	3.8%
— Administrative expenditure of the institutions	7 418.903	7 418.989	7 579.921	7 580.726	2.2%	2.2%
— European Parliament	1 909.295	1 909.295	1 950.242	1 950.242	2.1%	2.1%
— European Council and Council	561.576	561.576	572.894	572.894	2.0%	2.0%
— European Commission	3 498.411	3 498.497	3 565.497	3 566.302	1.9%	1.9%
— Court of Justice of the European Union	399.323	399.323	409.985	409.985	2.7%	2.7%
— European Court of Auditors	141.240	141.240	146.016	146.016	3.4%	3.4%
— European Economic and Social Committee	133.807	133.807	135.631	135.631	1.4%	1.4%
— European Committee of the Regions	93.295	93.295	96.101	96.101	3.0%	3.0%
— European Ombudsman	10.650	10.650	10.628	10.628	-0.2%	-0.2%
— European data-protection Supervisor	11.325	11.325	14.449	14.449	27.6%	27.6%
— European External Action Service	659.980	659.980	678.479	678.479	2.8%	2.8%
APPROPRIATIONS FOR HEADINGS	**158 083.529**	**125 189.511**	**159 546.618**	**144 261.381**	**0.9%**	**15.2%**
Appropriations as % of GNI	***1.04%***	***0.82%***	***1.01%***	***0.92%***		
Other special instruments	**1 747.924**	**1 581.200**	**566.902**	**419.600**	**-67.6%**	**-73.5%**
— Emergency Aid Reserve (EAR)	337.800	315.000	344.600	344.600	2.0%	9.4%
— European Globalisation Adjustment Fund (EGF)	168.924	25.000	172.302	25.000	2.0%	
— European Union Solidarity Fund (EUSF)	1 241.200	1 241.200	50.000	50.000	-96.0%	-96.0%
TOTAL APPROPRIATIONS	**159 831.453**	**126 770.711**	**160 113.520**	**144 680.981**	**0.2%**	**14.1%**
Appropriations as % of GNI	***1.05%***	***0.84%***	***1.02%***	***0.92%***		

Source: EPRS, based on European Commission data. Figures for the 2018 budget have been approved (see Section 4), and await final publication in the Official Journal of the European Union. See also: 2018 general budget: all sections, Legislative Observatory (OEIL), European Parliament. The heading 'Compensations' is only part of the 2014-2020 MFF because of the inclusion of a dedicated budget line, relating to Croatia's accession, in the annual budget of 2014.

Annex 4 – List of rapporteurs of main budgetary procedures relevant for 2018

Committee on Budgets (BUDG)
Chair: Jean Arthuis (ALDE, France)
Next MFF: preparing the Parliament's position on the MFF post-2020
Rapporteurs: Jan Olbrycht (EPP, Poland), Isabelle Thomas (S&D, France)
Shadow rapporteurs: Bernd Kölmel (ECR, Germany), Gérard Deprez (ALDE, Belgium), Liadh Ní Riada (GUE/NGL, Ireland), Younous Omarjee (GUE/NGL, France), Jordi Solé (Greens/EFA, Spain), Marco Zanni (ENF, Italy)
Reform of the European Union's system of own resources
Rapporteurs: Janusz Lewandowski (EPP, Poland), Gérard Deprez (ALDE, Belgium)
Shadow rapporteurs: Daniele Viotti (S&D, Italy), Bernd Kölmel (ECR, Germany), Liadh Ní Riada (GUE/NGL, Ireland), Younous Omarjee (GUE/NGL, France), Helga Trüpel (Greens/EFA, Germany), Marco Valli (EFDD, Italy), Marco Zanni (ENF, Italy)
2018 general budget: all sections
Rapporteurs: Siegfried Mureșan (EPP, Romania), Richard Ashworth (ECR, United Kingdom)
Shadow rapporteurs: Paul Rübig (EPP, Austria), Manuel dos Santos (S&D, Portugal), Daniele Viotti (S&D, Italy), Bernd Kölmel (ECR, Germany), Gérard Deprez (ALDE, Belgium), Anneli Jäätteenmäki (ALDE, Finland), Liadh Ní Riada (GUE/NGL, Ireland), Younous Omarjee (GUE/NGL, France), Indrek Tarand (Greens/EFA, Estonia), Marco Valli (EFDD, Italy), Marco Zanni (ENF, Italy), Stanisław Żółtek (ENF, Poland)
Financial rules applicable to the general budget of the Union: simplification (excluding the provisions pertaining to the remit of the Committee on Agriculture and Rural Development and covered by the separate procedure)
Rapporteur: Ingeborg Grässle (EPP, Germany), Richard Ashworth (ECR, United Kingdom)
Shadow rapporteurs: Petri Sarvamaa (EPP, Finland), Inés Ayala Sender (S&D, Spain), Vladimir Maňka (S&D, Slovakia), Nedzhmi Ali (ALDE, Bulgaria), Liadh Ní Riada (GUE/NGL, Ireland), Bart Staes (Greens/EFA, Belgium), Indrek Tarand (Greens/EFA, Estonia), Marco Valli (EFDD, Italy)
Budgetary Control Committee (CONT)
Chair: Ingeborg Grässle (EPP, Germany)
2016 Discharge – European Commission
Rapporteur: Joachim Zeller (EPP, Germany)
Shadow rapporteurs: Inés Ayala Sender (S&D, Spain), Ryszard Czarnecki (ECR, Poland), Martina Dlabajova (ALDE, Czech Republic), Luke Ming Flanagan (GUE/NGL, Ireland), Indrek Tarand (Greens/EFA, Estonia), Marco Valli (EFDD, Italy), Jean-François Jalkh (ENF, France)
2016 Discharge – ECA Special Reports in the context of 2016 Discharge to the European Commission
Rapporteur: Joachim Zeller (EPP, Germany)
Shadow rapporteurs: Inés Ayala Sender (S&D, Spain), Ryszard Czarnecki (ECR, Poland), Martina Dlabajova (ALDE, Czech Republic), Luke Ming Flanagan (GUE/NGL, Ireland), Indrek Tarand (Greens/EFA, Estonia), Marco Valli (EFDD, Italy), Barbara Kappel (ENF, Austria)

2016 Discharge - The European Development Funds (EDF)
Rapporteur: Barbara Kappel (ENF, Austria)
Shadow rapporteurs: Tomáš Zdechovský (EPP, Czech Republic), Iris Hoffmann (S&D, Germany), Ryszard Czarnecki (ECR, Poland), Gerben-Jan Gerbrandy (ALDE, Netherlands), Younous Omarjee (GUE/NGL, France), Indrek Tarand (Greens/EFA, Estonia), Marco Valli (EFDD, Italy)
2016 Discharge – European Parliament
Rapporteur: Derek Vaughan (S&D, United Kingdom)
Shadow rapporteurs: Claudia Schmidt (EPP, Austria), Ryszard Czarnecki (ECR, Poland), Nedzhmi Ali (ALDE, Bulgaria), Dennis de Jong (GUE/NGL, Netherlands), Benedek Jávor (Greens/EFA, Hungary), Marco Valli (EFDD, Italy), Jean-François Jalkh (ENF, France)
2016 Discharge – Other Institutions
Rapporteurs: Marco Valli (EFDD, Italy)
Shadow rapporteurs: José Ignacio Salafranca Sánchez-Neyra (EPP, Spain), Julia Pitera (EPP, Poland) (for the EEAS), Arndt Kohn (S&D, Germany), Monica Macovei (ECR, Romania) (for the Court of Justice + the EESC), Ryszard Czarnecki (ECR, Poland) (for the remaining institutions), Hannu Takkula (ALDE, Finland), Dennis de Jong (Netherlands, GUE/NGL), Benedek Jávor (Greens/EFA, Hungary), Jean-François Jalkh (ENF, France)
2016 Discharge – Agencies
Rapporteur: Bart Staes (Greens/EFA, Belgium) for all agencies except for EFSA: Indrek Tarand (Greens/EFA, Estonia)
Shadow rapporteurs: Petri Sarvamaa (EPP, Finland), Bogusław Liberadzki (S&D, Poland), Monica Macovei (ECR, Romania), Raffaele Fitto (ECR, Italy), Notis Marisa (ECR, Greece), Nedzhmi Ali (ALDE, Bulgaria), Dennis de Jong (Netherlands, GUE/NGL), Marco Valli (EFDD, Italy), Barbara Kappel (ENF, Austria)
2016 Discharge – Joint Undertakings
Rapporteur: Brian Hayes (EPP, Ireland)
Shadow rapporteurs: Miroslav Poche (S&D, Czech Republic), Ryszard Czarnecki (ECR, Poland), Martina Dlabajová (ALDE, Czech Republic), Younous Omarjee (GUE/NGL, France), Indrek Tarand (Greens/EFA, Estonia), Marco Valli (EFDD, Italy), Barbara Kappel (ENF, Austria)

Source: European Parliament Legislative Observatory.

This study provides an overview of the economic and budgetary outlook for the European Union (EU) in 2018 and beyond. It summarises the main economic indicators in the EU and euro area, and their two-year trends. Economic projections point to robust growth, easing in the future, and falling unemployment. Risks are broadly balanced, but both internal and external challenges persist and may weaken economic recovery.

A special 'economic focus' aims to provide a bird's eye view of industry and industrial policy in Europe, and provides an overview of various recent EU-level initiatives. Industry, which is particularly important for generating growth and which provides one in five jobs in the EU, is on a positive path with growing value added, output and employment.

The study also explains the annual EU Budget, provides an overview of its main headings for 2018, and sets out the wider budgetary framework – the Multiannual Financial Framework (MFF) – currently covering the years 2014 to 2020. Amounting to €160.1 billion, the 2018 EU Budget focuses on priorities such as promoting sustainable growth, creating employment, especially for young people, and addressing migration and security challenges. While representing only some 1 % of the area's gross national income, the EU Budget has features that increase its overall impact, including the significant share of resources devoted to investment. The debate on the future of the EU Budget, which gained momentum in 2017, should lead to proposals for a post-2020 MFF and reform of the EU´s financing system, which the European Commission is expected to table in May 2018.

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