Economic and Budgetary Outlook for the European Union 2020

This study, the fourth 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 2020, and sets out the wider budgetary framework – the multiannual financial framework (MFF) – and its possible evolution in the new decade. A special 'economic focus' puts the spotlight on the international role of the euro, and on various recent EU-level initiatives in this field.
Executive summary

Growth in the European Union and euro-area economies – albeit still positive – slowed significantly in 2019. Moreover, prospects for the next two years remain muted, against the backdrop of a generalised slowdown. Uncertainty is the overarching theme of this year's outlook, whether at regional level, or more globally, and whether in terms of short-term policy or deeper, structural economic factors affecting the world's important economies.

Gross domestic product (GDP) growth in Europe progressed at uneven speeds, from both geographic and sectoral perspectives. Moreover, while downward trends are expected for all the factors underpinning GDP (private and public consumption, investment and exports), their respective contributions to the final figure are also set to change (for example, private consumption will carry less weight). When it comes to employment, the positive trends observed last year are continuing. In this context, the forecasts for 2019 and 2020 have observed – and tried to explain – the reasons why, contrary to textbook theory, (i) an increase in wages did not come immediately after the improvement in employment conditions, and (ii) when the increase in wages came, it did not translate into an increase in prices (inflation).

For 2019, the general government deficit is expected to reverse its previous decline and pick up modestly, a trend that is likely to continue for the next two years. The debt-to-GDP ratio, meanwhile, decreased in 2019 both for the euro area and for the EU as a whole, and is expected to maintain its downward trend in 2020. Lastly, inflation for the euro area is expected to remain below the ECB target of 2 % in the near future, a trend that played a part in the European Central Bank’s decision to resume its asset purchase programmes in 2019, after a brief pause, and to take further accommodative measures. The 2020 EU budget amounts to €168.7 billion, representing only 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 of 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 (such as research, innovation and development cooperation).

The most prominent aspect of the agreement between the European Parliament and the Council of the EU on the 2020 budget, highlighted by all the negotiating parties, was the increased focus on climate-related action. This additional 'greening' of the EU annual budget is designed to help the EU meet the 20 % goal for climate-related spending over the 2014-2020 MFF period. Other spending priorities include stimulating investment, growth and research, and new jobs, especially for young people, as well as addressing migration and security challenges. As in all previous years of the 2014-2020 MFF, the budgetary authority had to resort to the flexibility provisions in order to finance these persistent policy challenges.

The 2020 EU budget is the last under the EU’s current financing framework. This year, the EU institutions and Member States are expected to finalise the design of the next multiannual financial framework (MFF) to cover the 2021-2027 period. Negotiations, which are based on the proposals that the Juncker Commission tabled in mid-2018, are proving lengthy and complex. Taking into account the withdrawal of the UK from the EU, the proposal organises allocations for 27 Member States, around a new structure reinforcing priorities that emerged during the current MFF, such as research, innovation, digital transformation, climate action, borders, migration, security and defence. Against the backdrop of the new agenda for Europe set out by the von der Leyen Commission, financial support for the recently proposed European Green Deal and the transition to a climate-resilient economy will be a major topic in the debate on the next MFF.
Current global trends, the emergence of new economic powers and the development of new technologies are leading to a potential transition of the international monetary system from a still dollar-dominated environment to a more diversified and multipolar system involving several international currencies. After quickly establishing itself as the second most important global currency, the euro gradually lost international standing from the mid-2000s onwards, and has only recently shown signs of reversing the trend.

Recent unilateral third-country actions, such as the renewal of sanctions on Iran, and challenges to international rules-based governance and trade, have highlighted the need to reinforce the EU’s economic and monetary sovereignty. As a result, the idea that the single currency could be a tool of foreign economic policy is coming back into fashion, and the case for an increased international role for the euro being considered more prominently. The benefits arising from this role would seem to offset the possible challenges, nonetheless the consequences of a stronger international role for the euro should be carefully assessed, including those affecting the ECB’s monetary policy.

Against this backdrop, the Commission adopted a communication, ‘Towards a stronger international role of the euro’, and a recommendation on the international role of the euro in the field of energy in December 2018. In this context, the strengthening of the euro’s international role is seen ‘as part of Europe’s broader commitment to an open, multilateral and rules-based global economy’. In the same month, the Euro Summit discussed economic and monetary union reform and, in this context, noted the Commission’s communication, and called for ‘work to be taken forward to this end’.

Policies supporting the euro’s international role should address three broad weaknesses in the institutional design of the EU and EMU: the ability to provide stability both domestically and internationally; the limited depth and liquidity of euro-area financial markets; and Europe not speaking with a single voice on international matters, including security.
Table of contents

1. Introduction ........................................................................................................... 1

2. The EU economy in 2020 ......................................................................................... 2
   2.1. Overview ........................................................................................................... 2
   2.2. Main indicators ................................................................................................. 3
      2.2.1. Gross domestic product .............................................................................. 3
      2.2.2. Labour market ............................................................................................ 4
      2.2.3. Public finances ........................................................................................... 6
      2.2.4. Trade and developments at global level ...................................................... 7
   2.3. Inflation and monetary policy ............................................................................. 9
      2.3.1. Inflation ....................................................................................................... 9
      2.3.2. Monetary policy ......................................................................................... 10
   2.4. Going forward ................................................................................................... 12
      2.4.1. Potential risks ............................................................................................. 12
      2.4.2. Potential ways to mitigate the impact of the above risks ............................. 13

3. EU budget in perspective ......................................................................................... 15
   3.1. Size and role of the EU budget ......................................................................... 15
   3.2. Structure of the EU budget: revenue and multiannual planning ....................... 19
   3.3. Main institutional actors in two key phases of the budgetary cycle .................... 20
   3.4. Challenges in the current programming period ................................................ 21

4. EU budget for 2020 ................................................................................................. 23
   4.1. Result of the 2020 budgetary procedure .......................................................... 23
   4.2. Budget headings in detail .................................................................................. 28

5. EU budget in the medium and long term ............................................................... 36
   5.1. The preparation of the proposals for the post-2020 MFF ................................... 36
   5.2. Proposals for the 2021-2027 MFF and its financing ......................................... 38
   5.3. European Parliament ....................................................................................... 42
   5.4. Council and European Council ......................................................................... 45
   5.5. Other reactions to the Commission proposals ................................................... 48
   5.6. The remaining road to the next MFF and the post-2020 relationship with the UK . 49
6. Economic focus: the international role of the euro

6.1. Overview

6.2. Main drivers of the international role of currencies

6.2.1. Size, strength and international linkages of the real economy

6.2.2. Depth, size and openness of financial markets

6.2.3. Stability of a currency and confidence in its future stability

6.2.4. Incumbency advantage and inertia of an existing international currency

6.3. The evolving structure of the monetary system and the current international role of the euro

6.3.1. Recent developments in the monetary system

6.3.2. Use of the euro as an international reserve and investment currency

6.3.3. Use of the euro as a payment currency

6.3.4. Use of the euro as an invoicing currency

6.4. The case for an increased international role for the euro

6.4.1. Benefits and costs of a stronger international role for the euro

6.5. The consequences for monetary policy of a greater international role for the euro

6.5.1. Preliminary reflections

6.5.2. Recent developments

6.6. Policies supporting the euro's international role

6.6.1. A multifaceted stability

6.6.2. Deeper and more liquid capital markets

6.6.3. Use of the euro in key strategic sectors: energy sector

6.6.4. A single voice in international affairs

7. References

8. Annexes
Table of figures

Figure 1 – Gross domestic product growth, EU-28. .................................................. 3
Figure 2 – Unemployment rate, EU-28 ........................................................................ 5
Figure 3 – EU budget and general government public spending in the EU (2018, € billion) ___ 15
Figure 4 – EU budget as a share of public spending in individual Member States (2018) _____ 16
Figure 5 – EU revenue in 2018 .................................................................................. 19
Figure 6 – 2014-2020 multiannual financial framework by heading (€ million, current prices) _ 20
Figure 7 – Total commitment and payment appropriations, EU budget 2019 and 2020. _____ 24
Figure 8 – 2020 EU budget (commitments, € billion, current prices) __________________ 24
Figure 9 – A comparison of EU budgets in 2019 and 2020 (commitment and payment appropriations, € billion) .......................................................... 27
Figure 10 – Subheading 1a Competitiveness for growth and jobs, 2020 commitment appropriations ___________________________ 28
Figure 11 – Subheading 1b Economic, social and territorial cohesion, 2020 commitment appropriations ____________________________________________ 29
Figure 12 – Heading 2 Sustainable growth: natural resources, 2020 commitment appropriations 30
Figure 13 – Heading 3 Security and citizenship, 2020 commitment appropriations _______ 31
Figure 14 – Heading 4 Global Europe, 2020 commitment appropriations _______________ 32
Figure 15 – Heading 5 Administration, 2020 commitment appropriations _______________ 33
Figure 16 – EU discharge procedure from the perspective of the European Parliament _____ 35
Figure 17 – Mix of EU revenue in 2018 and estimated average for 2021-2027 period _______ 42
Figure 18 – Timeline for establishing the 2021-2027 MFF ............................................. 54
Figure 19 – euro-area and US GDP .......................................................................... 57
Figure 20 – Trade in goods with the world, euro area and US .................................... 58
Figure 21 – Simplified structure of the financial sector in the EU, 2010-2014 (% GDP, average) 59
Figure 23 – Composite index of the international role of the euro ______________________ 63
Table of tables

Table 1 – Flexibility tools mobilised with the adoption of the 2020 EU budget _____________ 28
Table 2 – Proposal for the 2021-2027 multiannual financial framework (commitments, 2018 prices, € million) _____________________________________________________________________ 41
Table 3 – New MFF: Parliament resolution, Commission proposal and 2014-2020 allocations (€ million, 2018 prices, EU-27) ____________________________________________________ 44
Table 4 – New MFF: Finnish Presidency’s negotiating box, Parliament resolution, Commission proposal and 2014-2020 allocations (€ million, 2018 prices, EU-27) ______________________ 47
Table 5 – 2020 MFF ceilings by heading (€ million, current prices) ______________________ 52
Annex 1 – EU spending allocation by Member State in 2018 (€ million) ___________________ 82
Annex 2 – Own resources by Member State in 2018 (€ million and % of GNI) ____________ 84
Annex 3 – The EU budget 2019 and 2020 _____________________________________________ 86
Annex 4 – List of rapporteurs for the main budgetary procedures in 2020 _________________ 90
1. Introduction

Preliminary results for 2019 indicate that the EU economy is continuing to grow, but that compared with previous years, growth has slowed down significantly: gross domestic product (GDP) is projected to grow by only 1.1% in the euro area and by 1.4% in the EU-28. The European Commission expects euro-area GDP growth to continue being muted in 2020 and 2021, at only 1.2%, while figures for the European Union as a whole are only expected to exceed this level marginally, at 1.4% for both years.

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 2019 the growth of the EU –in terms of GDP and employment– slowed down significantly. Lower inflation than last year, and a generalised slow down led in part to the ECB maintaining its monetary accommodation, slowly restarting its asset purchase programme and changing its forward guidance. Significant fragility and risks remain for the near future. They stem both from the international environment and from inside the EU and euro area; some are specific to certain countries, others are more general. Whether potential uncertainties materialise and the extent to which those risks are addressed ahead of any future crisis, will have a significant impact on the way the EU weathers that crisis.

As in last year’s edition, the study goes on to present the EU budget, its nature and its role (Section 3), before providing an overview of the budget for 2020 (Section 4) and the preparations that are shaping the future of EU finances after 2020 (Section 5). The 2020 budget is modest – the €153.6 billion of total payments agreed is similar to the public expenditure of a country the size of Denmark. The commitments adopted for 2020 amount to €168.7 billion, which represents only 0.99% 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 in order to achieve its goals.

This year’s edition of the study includes a focus on the international role of the euro (Section 6). The section gives an overview of how the euro has developed as a global currency since its introduction in 1999, while exploring the underlying dynamics and the evolving structure of the international monetary system. After examining where the euro stands at present and what the implications are of further development of its international role, attention is given to the way this role relates to the ECB’s monetary policy. The section ends with an examination of policies supporting the euro’s international role.
2. The EU economy in 2020

2.1. Overview

Growth of the European Union (EU) and euro-area economies – albeit still positive – slowed significantly in 2019, with year-end gross domestic product (GDP) projections at 1.1 % for the euro area and 1.4 % for the EU-28. Prospects remain muted for the next two years (1.2 % for the euro area and 1.4 % for the EU-28).\(^1\) This growth is set against a generalised slowdown (see point 2.2.4). Although there are several reasons for this slowdown, one reason features in all the forecasts: *uncertainty*. Uncertainty is the overarching theme of this year’s outlook, whether at regional level (the manufacturing crisis in Germany – especially in the automotive sector) or more globally (the current context of tensions between the US and China, the departure of the United Kingdom (UK) from the EU, geopolitical tensions in the Middle East), or in terms of short-term policy or deeper, structural economic factors affecting China, the US and Europe.

The positive trend observed last year regarding employment is, meanwhile, continuing: the European Commission estimates that unemployment for the euro area in 2019 will hover around 7.6 %, while the rate for the EU-28 is even more promising (6.3 %). In the next two years, unemployment rates are expected to drop further, to 7.4 % and 7.3 % for the euro area and to 6.2 % for both years for the EU. In this context, the forecasts for 2019 and 2020 have observed – and tried to explain – the reasons why, contrary to textbook theory, (i) the increase in wages did not come immediately after the improvement in employment conditions and (ii) when the increase in wages came, it did not translate to an increase in prices (inflation).

In 2019, the general government deficit is expected to reverse its previous decline and pick up modestly, a trend that is likely to continue for in the next two years: from 0.9 % in 2017 and 0.5 % for 2018, the deficit should stand at 0.8 % for the euro area and is projected to increase to 0.9 % in 2020 and 1.0 % in 2021. Similarly, from 1 % in 2017 and 0.7 % in 2018, the deficit for the EU 28 should rise to 0.9 % in 2019, before continuing to 1.1 % in 2020 and 1.2 % in 2021. The debt-to-GDP ratio, meanwhile, decreased from 87.9 % in 2018 to 86.4 % for the euro area and from 81.9 % to 80.6 % for the EU-28. It is expected to maintain its downward trend in 2020 (85.1 % and 79.4 % respectively) and 2021 (84.1 % and 78.4 % respectively).

Inflation for the euro area is projected to reach 1.2 % for 2019 and 2020, before increasing slightly to 1.3 % in 2021. Similarly, for the EU, inflation is projected to reach 1.5 % for 2019 and 2020, before increasing slightly to 1.7 % in 2021. In this context of low inflation, the European Central Bank resumed its asset purchase programmes in 2019 after a brief pause, and took further accommodative measures (see Section 2.3.2. for more detail).

---

\(^1\) European Commission, Autumn European Economic Forecast, November 2019, p. 1. Please note that the European Commission’s GDP projections for the EU 27 and EU 28 are the same.
2.2. Main indicators

2.2.1. Gross domestic product

Tentative results for 2019 indicate that the growth of the EU economy slowed down significantly last year: gross domestic product (GDP) grew by just 1.1 % in the euro area and 1.4 % in the European Union as a whole (versus 1.9 % and 2.0 % respectively in 2018 and 2.5 % and 2.6 % the year before). Furthermore, closer inspection reveals that growth in Europe progressed at uneven speeds, from both geographic and sectoral perspectives.

In terms of geography, reports show a difference between 'advanced' and 'emerging' Member States: in the context of lower global demand, growth in 'advanced' EU economies slowed in the first half of 2019, mainly because of lower net exports and slowing fixed investment. In contrast, growth in 'emerging' EU economies, proved resilient in the first half of 2019 thanks to private consumption, itself driven by strong labour markets. In specific Member States (Hungary, Poland), a higher absorption of EU funds and resilient service exports also helped to cushion the adverse effects of weakening manufacturing trade and heightened uncertainty.

In sectoral terms, it has been noted that while the manufacturing sector contribution to growth has decreased, the services sector, supported by domestic demand, is –for the moment at least– faring better. In this context it should be pointed out that services are more resilient even in times of crisis.

According to European Commission projections, EU-28 GDP growth should continue in 2020 and 2021 at 1.4 %, while the euro area is expected to lag slightly behind the EU-28 in both years at 1.2 %.

While still positive, private consumption has been decelerating since 2016, despite broad growth in disposable income. In 2019 it stood at 1.1 % for the euro area (1.4 % for the EU) and is projected to remain at those levels (1.2 % for the euro area, 1.5 % for the EU) for the next two years. This partly

---

2 International Monetary Fund (IMF), *Regional economic outlook – Europe*, p. 2.
5 *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.
reflects a trend towards increased private precautionary saving, due possibly to fears of a coming recession, employment-related fears, or the impact of low interest rates on saving. 

Public consumption increased in 2019 compared with the two previous years and ended 2019 at around 1.6 % for the euro area and 1.8 % for the EU. It is expected to slightly decrease over the next two years (1.5 % in 2020 and 1.3 % in 2021 for the euro area, and to 1.7 % in 2020 and 1.4 % in 2021 for the EU). As has already been noted in previous outlooks, these projections mask divergences between Member States, which face differing fiscal consolidation needs and find themselves in varying economic situations.

Investment has been growing (by 4.3 % in 2019 for the euro area and 3.8 % for the EU-28), but it is expected to decelerate by almost half in the next two years (2.0 % and 1.9 % for the euro area, 1.8 % and 1.7 % for the EU). In the near future, investment should be supported by the accommodative monetary policy of the European Central Bank (ECB), low interest rates, high business confidence, and the Investment Plan for Europe (future InvestEU). Factors weighing against further increases include heightened levels of uncertainty, the slowdown in trade (a large part of investment is linked to trade), and a lower capacity utilisation rate, which is reducing the need for investments linked to capacity expansion and lessening incentives to upgrade.

Lastly, export growth (2.4 % in 2019 for the euro area, 2.5 % for the EU) declined significantly compared with the previous two years (5.5 % in 2017 and 3.3 % in 2018 for the euro area, 5.7 % and 3.0 % for the EU). Going forward, growth is set to remain at those levels, projected to reach 2.1 % and 2.3 % for the euro area in 2020 and 2021, and 2.3 % and 2.4 % for the EU respectively. At the same time, imports of goods and services were higher than exports for 2019 and the trend is expected to be maintained in the next two years, acting as a drag on growth.

2.2.2. Labour market

In 2019, employment in the EU (in terms of the number of people employed) continued the positive trend started in 2013 as a result of ongoing economic expansion and moderate wage growth. A further positive element in 2019 was that the labour market situation has also improved in terms of the number of hours worked. In addition, both unemployment and underemployment continued to decline, to their lowest levels since before the crisis, a decrease stronger than expected, given the pace of economic growth. Unemployment for 2019 was at 7.6 % for the euro area and 6.3 % for the
EU as a whole.\textsuperscript{14} It is expected to decrease further over the next two years (to 7.4\% in 2019 and 7.3\% in 2020 for the euro area and to 6.2\% in 2019 and 2020 for the EU as a whole).\textsuperscript{15}

However, as the European Commission again points out this year, significant differences remain between Member States for a range of different employment indicators – including the gap between the highest and lowest unemployment rates (at 2.1\% for the Czech Republic versus 17.3\% for Greece in 2018), employment rates and activity rates.\textsuperscript{16}

For the near future, despite employment growth being linked to GDP growth, the Commission forecasts that the impact of the economic slowdown on labour markets may turn out to be smoother and slower than in previous slowdowns.\textsuperscript{17}

The labour productivity slowdown

With the swelling number of employed workers and hours worked in the EU unmatched by sufficient growth in GDP, labour productivity growth\textsuperscript{18} has slowed down. The high share of part-time employees in total employment compared with the pre-crisis level has also had a dampening effect on measured productivity.

According to some economists, the recent decline in productivity growth is part of a long-term trend – as the euro area’s economy gradually shifts from the more capital-intensive manufacturing sector (25\%) to a service sector (73\%) that relies more intensely on labour, productivity gains per worker are tapering off. ‘Older’ Member States are experiencing the weakest productivity growth, in particular Denmark, Finland, Luxembourg and Spain, where figures even turned negative in 2018. Conversely, in the majority of countries

\textsuperscript{14} The rate for the euro area is close to the low point of 7.3\%, reached early in 2008, while the rate for the EU as a whole is already lower than the lowest point of 6.8\% reached in early 2008.

\textsuperscript{15} Please note that the unemployment rate projections are slightly different for the EU with (6.2\% and 6.2\%) and without (6.7\% and 6.5\%) the United Kingdom for 2020 and 2021 respectively.

\textsuperscript{16} 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 and 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 people in relation to the comparable total population. For more information on employment statistics (May 2019 data), see Eurostat’s dedicated page.

\textsuperscript{17} European Commission, Autumn European Economic Forecast, op.cit., p. 44.

\textsuperscript{18} While labour productivity is usually measured as real GDP per occupied person, labour productivity growth measures the annual change in real GDP per occupied person.
that became Member States after 2004, labour productivity growth has not fallen below 1.5 %, and similar trends are expected until 2021.19

This regional discrepancy follows a well-known pattern: less developed countries catch up with more advanced economies by using new market possibilities that significantly speed up their efficiency. Overall, at EU level, labour productivity growth is forecast to be limited, given that the aggregate sectoral shift towards a service-based economy may be a barrier to a sustainable upturn in the figures.

Employment and lagging wage growth

Labour market conditions have generally been improving in Europe since 2013, with strong job growth and unemployment at lower-than-pre-crisis levels in most economies. Yet, nominal wage growth followed two distinct patterns until recently, when trends broadly started to reverse: in Member States that joined after 2004, wages grew as employment increased, while in 'older' Member States, the trend was not so pronounced.

Research20 attributed these patterns to the fact that, while in new Member States, wages adapt mainly to increases or decreases in employment, in older Member States, they are a function of inflation and inflation expectations, which are currently low. Additional explanations include cross-country labour market spillovers through labour market conditions21 and wage competition, as well as the potential for continued labour market slack (the ratio between the unemployed and active populations) despite falls in unemployment.

2.2.3. Public finances

After a modest downward trend over the last few years, the general government deficit is projected to reverse its decline in 2019 and rise to 0.8 % for the euro area and 0.9 % for the EU-28 (from 0.5 % and 0.7 % respectively in 2018). This upward trend is expected to continue in the following years: in 2020 the general government deficit-to-GDP ratio is projected to increase slightly to 0.9 % of GDP for the euro area and 1.1 % of GDP for the EU as a result of low GDP growth and discretionary fiscal policies in some Member States, while, in 2021, the respective numbers are projected to hover around 1.0 % and 1.2 % respectively, provided there is no policy change, mainly on account of the fall in the expected revenue ratio not being matched by the fall in the expected expenditures ratio.

In 2019, the general government debt-to-GDP ratio of the euro area continued to decrease (86.4 % for the euro area and 80.6 % for the EU-28) since its 2014 peak (94.2 % and 88.1 % respectively) and, despite the increasing deficits, it is projected to maintain this trend in 2020 (85.1 % and 79.4 % respectively) and 2021 (84.1 % and 78.4 % respectively) for almost all Member States,22 supported by a debt-decreasing snowball effect.23 Despite this encouraging trend, in 2021 the ratio is projected

---

19 The exceptions are Cyprus, Croatia, Malta and Slovenia.
22 It is projected to remain stable or increase very slightly in Belgium, France, Italy, Finland and Romania, but the general trend is downward, despite those very small increases.
23 The current snowball effect is the impact on the debt to GDP ratio of the difference between (nominal) growth and (implicit) historically low interest rates paid on debt.
to remain above 60% in 10 Member States, while in six of them (Belgium, France, Greece, Italy, Portugal and Spain) it will be higher than 90%.

2.2.4. Trade and developments at global level

Global trade remains exceptionally weak owing to increasing trade restrictions, the weakness of fixed investment (a trade-intensive category of expenditure) and the supply-chain impact of low import demand in China. Growth in world merchandise trade volumes (excluding the EU) reached 0.4% in 2019, as against 4.1% in 2018 and 6.2% in 2017. It is projected to increase to 2.1% in 2020 and 2.5% in 2021, which is still low compared with the previous years. In Europe, an extra factor weighing on trade developments has been the uncertainty surrounding the UK's exit from the EU and the shape of the future relationship between them, which has resulted in considerable trade volatility and contributed to weak trade data.

The bilateral tariff measures introduced by the United States and China since the start of 2018 are an important factor behind the weakness of global demand. The deferral of the US tariff increases that were set to take effect in mid-October 2019 and the ongoing trade talks on the remaining trade issues between the United States and China are positive developments. Nonetheless, the measures implemented this year, including those still planned at the end of 2019, will continue to weigh on global activity and trade over the next two years, particularly given the additional uncertainty that they create. The Organisation for Economic Cooperation and Development (OECD) estimates that the measures introduced this year by the US and China could reduce global GDP growth by 0.4 percentage points (p.p.) in 2020 and 0.3 p.p. in 2021.

The withdrawal deal between the United Kingdom and the European Union was agreed in October 2019 and has now been ratified by the UK and European Parliaments. Ratification removes the immediate risks of a no-deal withdrawal of the United Kingdom from the European Union, but uncertainty still remains about the nature of the future UK-EU trading relationship and about whether agreement can be reached before the end of the transition period set out in the withdrawal deal (currently set at the end of this year). The possibility that a formal trade deal will not be agreed remains a considerable risk and a source of policy uncertainty. A limited trade deal would also impact negatively on both economies.

The OECD is of the view that if trade between the UK and the EU were to revert to World Trade Organization (WTO) terms after 2020, the outlook would be significantly weaker and more volatile than otherwise, particularly in the short term. Such effects could be stronger still if preparations for border arrangements fail to prevent significant delays, or if financial market conditions and consumer confidence were to deteriorate considerably. The OECD estimates suggest that the

24 In descending order, Greece (163.1%), Italy (137.4%), Portugal (113.7%), Belgium (100%) France (99.2%), Spain (96%), Cyprus (81.8%), Austria (64.6%), Hungary (64.4%) and Croatia (64.4%). NB The United Kingdom was also in this group, with its debt forecast to decrease to 84.2% in 2021.

25 European Commission, Autumn European Economic Forecast, op.cit., p. 26. Please note that respective figures for EU export market growth are 2.3% for 2019, 2.6% for 2020 and 2.7% for 2021.


27 At the date of writing of this report.

28 OECD Economic Outlook, op. cit., p. 16.

29 For more information on the WTO terms and possible effects for the UK, see What would ‘trading on WTO terms’ mean for the UK?, The UK in a changing Europe.

30 In fact, the OECD notes that ‘even a relatively smooth change in UK-EU trade arrangements, with fully operational border infrastructure, would potentially have large costs in the event of trade between the United Kingdom and the European Union reverting to WTO Most-Favoured-Nation (MFN) terms. UK exporters would face higher tariff and non-
gross domestic product of the United Kingdom could be 2.0 to 2.5 % lower than otherwise in the first two years if trade shifts to being on WTO terms and over 0.5 % lower than otherwise in the first two years following trade becoming subject to WTO most favoured nation terms.\(^{31}\)

Independently from the two 'shocks' mentioned above, there are other structural causes that are expected to slow trade activity in the near future:\(^{32}\) the automobile sector will probably continue to slow down growth, because of a variety of factors, including market saturation in China (the world's largest auto market), continued tightening of emission standards, and shifting consumer preferences towards electric vehicles. Within the EU, the impact could be particularly sizeable for countries where the vehicle sector accounts for a significant share of trade, such as Germany or the Slovak Republic.\(^{33}\) In broader terms, the emerging trend in Asia towards less capital expenditure and towards lowering imports of consumer durables, will likely impact Europe's exports, as the region is a major exporter of consumer durables and transport equipment. So far this trend has been mitigated by increased demand for such items in the United States – a large trading partner for many European countries – but this growth is expected to slow down.\(^{34}\)

The Commission expects **global GDP growth** (excluding the EU) to hover around 3.2 % in 2019 and slightly increase to 3.3 % in 2020 and 3.4 % in 2021. The slowdown in 2019 is attributed mainly to the toll the US-China trade conflict is taking on global investment and trade. The main impediments to growth in the next two years include geopolitical tensions in the Middle East, ageing demographics, productivity trends, the structural slowdown in China, and the impact of climate change.\(^{35}\)

GDP growth in **China** is projected to moderate further to around 6.1 % in 2019, 5.8 % in 2020 and 5.6 % in 2021. Escalating trade tensions are weighing on investment and adding to uncertainty, but fiscal and quasi-fiscal stimulus\(^ {36}\) measures and reductions in reserve requirements should help to cushion credit growth and demand as the economy continues to rebalance.\(^ {37}\) Going forward, growth moderation in China is in part attributable to structural changes in the Chinese economy, such as the rebalancing from investment to consumption, a shrinking working age population, the substitution of domestically produced brands for imported goods, persistently high levels of debt, and moves to limit environmental damage.\(^ {38}\)

GDP growth in **India** is projected to pick up from 5.6 % in 2019 to 6.1 % in 2020 and 6.3 % in 2021. Investment is set to be helped by reductions in corporate borrowing costs and taxes, along with continued reform efforts, but could be held back owing to tight credit conditions.\(^ {39}\) For their part,
moderate oil prices and income support schemes for rural farmers are expected to help support private consumption.\textsuperscript{40}

In Japan, GDP growth is set to slow from 0.9% in 2019 to 0.4% in 2020 and 0.6% in 2021. This year’s results are due to strong public spending and private consumption, which fostered growth despite the weak trade environment resulting from the trade tensions between the US and China, but also between Korea and Japan. Stronger social spending should help to support demand following the recent consumption tax increase, but fiscal consolidation efforts will resume in 2020 and 2021, possibly weakening domestic demand. Labour shortages and capacity constraints should continue to stimulate private investment, and export growth is projected to pick up as global trade recovers.\textsuperscript{41}

In Russia, growth reached 1.0% in 2019 due to weak wage growth, increasing taxes and lower oil revenues. Despite those challenges, growth is projected to pick up and rise to 1.4% in 2020 and 1.5% in 2021, assuming the planned national projects are implemented effectively.\textsuperscript{42}

A gradual recovery is set to continue in Brazil, with GDP growth projected to pick up from 0.8% this year to around 1.5% in 2020 and 1.8% in 2021. Lower real interest rates provide support for private consumption, and further progress towards implementing reforms should help to support sentiment and investment.\textsuperscript{43}

Lastly, GDP growth in the United States is projected to reach 2.3% this year, as a result of strong private consumption sustained by a strong labour market. Going forward, growth is set to moderate further, at 1.8% in 2020 and 1.6% in 2021. It will be sustained by growing wages and an accommodative monetary policy from the Federal Reserve, which should continue to ensure the provision of favourable financing conditions and to support household spending and housing investment.\textsuperscript{44} It will be held back by the current fiscal stimulus fading away, higher tariffs and policy uncertainty, which are expected to weigh on business confidence and restrain the growth of business investment and exports.\textsuperscript{45}

2.3. Inflation and monetary policy

2.3.1. Inflation

Inflation in the euro area (harmonised index of consumer prices)\textsuperscript{46} is projected to reach 1.2% in 2019 and 2020, before increasing slightly to 1.3% in 2021. Similarly in the EU28, it is projected to reach 1.5% in 2019 and 2020, before dropping to 1.7%.

Aggregate rates continue to conceal significant disparities between Member States, with the Baltic countries, Romania and Hungary showing the highest inflation for the three-year forecast period.

\textsuperscript{40} OECD Economic Outlook, op. cit., p. 21.
\textsuperscript{41} OECD Economic Outlook, op. cit., p. 21.
\textsuperscript{42} IMF, Regional economic outlook – Europe, op. cit., p. 3. See also World Bank, 42nd issue of the Russia Economic Report, 4 December 2019.
\textsuperscript{43} OECD Economic Outlook, op. cit., p. 21.
\textsuperscript{44} European Commission, Autumn European Economic Forecast, op. cit., p. 27.
\textsuperscript{45} OECD Economic Outlook, op. cit., p. 20.
\textsuperscript{46} According to Eurostat, the harmonised index of consumer prices, abbreviated as HICP, is ‘the consumer price index as it is calculated in the European Union (EU), according to a harmonised approach and a single set of definitions. It is mainly used to measure inflation’.
(2.4 % to 3.9 % in 2019, 2.0 % to 3.4 % in 2021), while Portugal, Greece, Cyprus and Italy are showing the lowest (0.3 % to 0.6 % in 2019, 0.9 % to 1.4 % in 2021). \(^{47}\)

Going forward, the Commission projects that inflation should remain low over the next two years, in line with low economic growth and under the assumption of moderately declining oil prices. \(^{48}\)

Wage growth and absent inflation

In its regional economic outlook for Europe, the International Monetary Fund identifies an incongruity. The report points out that economic theory suggests that if real wage growth exceeds productivity gains, the higher labour costs faced by businesses should eventually raise the prices of the products and services they provide – and thus, inflation. However, while wages have been rising faster than productivity in many European Member States, they have not yet translated into increasing inflation. Research by the IMF finds that while, historically, in a sample of European Member States, wage growth leads to higher core inflation after several quarters, the impact has weakened since 2009. This is due to several factors, including low inflation, \(^{49}\) competition, \(^{50}\) and corporate profitability. \(^{51}\) These findings suggest that the recent pickup in wage growth is likely to have a more muted impact on inflation than in the past. \(^{52}\)

\[2.3.2. \text{Monetary policy}\]

After halting net asset purchases at the end of the previous year, \(^{53}\) the European Central Bank decided in September 2019 \(^{54}\) to resume net purchases under the asset purchase programme in November, at a monthly pace of €20 billion. \(^{55}\) According to the latest available data, Eurosystem holdings under the programme \(^{56}\) are €2.097 trillion for the public sector purchase programme (up...
from €2.076 trillion a year ago), €263.2 billion for the covered bond purchase programme (up from €259.3 billion), €183 billion for the corporate sector purchase programme (up from €170.4 billion) and €28.2 billion for the asset-backed securities purchase programme (up from €26.9 billion in November 2017), for total holdings of €2.571 trillion.

Another measure taken during that meeting was to lower the deposit facility rate to -0.5 %.57 The ECB also announced a change in its forward guidance58 on policy rates to reinforce the impact of the cut in the deposit facility rate as well as the signalling effect of asset purchases. From the two legs used until now (date-based and state-based)59 the ECB’s forward guidance has retained only the state-based element, according to which, ‘over the projection horizon projected inflation would not only need to converge to, but also stabilise around, levels “sufficiently close to, but below, 2%”.60

As part of the monetary policy easing package, the modalities of the new series of targeted longer-term refinancing operations61 announced in June 201962 were eased in the September 2019 meeting,63 making it possible for banks to access longer-term funding at lower rates with a longer maturity.64 Lastly, to mitigate the impact of negative policy rates on euro area banks’ profitability and safeguard bank-based policy transmission, the ECB also announced that a two-tier system for reserve remuneration would be introduced, in which part of banks’ holdings of excess liquidity would be exempt from the negative deposit facility rate.65

Bank lending continued to expand, with the annual growth rate of loans to the euro area private sector remaining strong (3-4 %) since the beginning of 2018. However, credit developments are quite divergent among Member States, with lending to corporates expanding by more than 5 % annually in France and Germany, while shrinking by about 1 % in Italy and Spain, where banks are still deleveraging. Banks are continuing to make progress in consolidating their balance sheets, with

57 The deposit facility is a standing facility of the Eurosystem which counterparties may use to make overnight deposits at a national central bank. Such deposits are remunerated at a pre-specified interest rate, the deposit facility rate – one of the three interest rates the ECB sets every six weeks as part of its monetary policy. The rate defines the interest banks receive for depositing money with the central bank overnight. Since June 2014, this rate has been negative. For more information on the negative ECB deposit rate, see the relevant webpage of the Dutch central bank.

58 For useful background information, see ECB, What is forward guidance?, for more detail, see the recent speech by Benoît Cœuré, Forward guidance and policy normalisation.

59 Central banks have used different types of forward guidance. Open-ended guidance includes purely qualitative statements about the policy path; time-contingent guidance includes statements about the policy path with an explicit reference to a calendar date (e.g. ‘at least until mid-2020’); lastly, state-contingent guidance uses statements about the policy path that are conditional on economic outcomes (e.g. until inflation reaches 2 %). These can differ in how they affect the expectations of agents about the future course of policy. For more information, see Michael Ehrmann et al., Can more public information raise uncertainty? The international evidence on forward guidance, ECB working paper, April 2019.

60 See the account of the monetary policy meeting of the Governing Council of the European Central Bank held in Frankfurt am Main on Wednesday and Thursday, 11-12 September 2019.

61 For more information on TLTROs, see ECB Targeted longer-term refinancing operations (TLTROs).

62 See ECB announces details of new targeted longer-term refinancing operations (TLTRO III), press release, 6 June 2019. For a summary of the measures, see Deutsche Bundesbank, Targeted longer-term refinancing operations III.

63 See ECB announces changes to new targeted longer-term refinancing operations (TLTRO III), press release, 12 September 2019.

64 OECD Economic Outlook, op. cit., p. 39.

65 See the account of the monetary policy meeting of the Governing Council of the European Central Bank held in Frankfurt am Main on Wednesday and Thursday, 11-12 September 2019.
the share of non-performing loans declining, supported by asset disposals. However, the overall level of non-performing loans remains high in some countries.\textsuperscript{66}

In the euro area, credit to households increased by 3.0\% in 2019 (3.1\% in the EU) and it is projected to continue increasing by 2.9\% in 2020 and 3\% in 2021 respectively (3.1\% and 3.2\% in the EU) under strong demand and supportive credit terms and conditions by banks.\textsuperscript{67} Loans to non-financial corporations are following a similar trend, increasing by 3.3\% in 2019 (3.5\% in the EU) and are projected to continue increasing by 3.1\% in 2020 and 3.2\% in 2021 respectively (3.4\% and 3.5\% in the EU).\textsuperscript{68}

The aforementioned trends, trade tensions in world markets, and also specific fiscal issues relating to particular Member States, resulted in a mixed picture, with the euro weakening versus safe-haven currencies such as the Japanese yen and the US dollar, and appreciating versus some emerging market currencies and the currencies of other EU Member States.\textsuperscript{69}

2.4. Going forward

2.4.1. Potential risks

As mentioned above, the overarching challenge going forward is elevated uncertainty – especially in relation to trade policy, but also in relation to the deeper, structural transformations of the EU manufacturing industry and potential spillover to the services sector. Apart from that, the main challenges identified stem from sources both outside and inside the EU.

Outside the EU three main challenges can be identified.

First is the further escalation of US-China trade tensions. Apart from the obvious impact on international trade and its indirect impact on investment, for instance, such an escalation could possibly also impact on financial markets, causing increased volatility or falling asset prices.

Secondly, geopolitical tensions and significantly higher oil prices could raise production costs and push up consumer prices.

Lastly, and this is noteworthy, as it is the first time it appears clearly as a point in a forecast, climate change could have a direct impact on the economy by affecting agricultural output and commodity prices, but also by distorting production chains, or spilling over to the financial system.

In addition to the aforementioned challenges, others have also been identified on the domestic side. First of all, spillovers to services from the weakening manufacturing sector could heighten consumers’ unemployment fears, reduce their confidence, weaken private consumption and thus contribute to slower GDP growth.

Also, as mentioned earlier, the departure of the United Kingdom from the European Union is expected to have significant economic consequences. But the above-mentioned calculations take

\textsuperscript{66} For more information, see European Commission, \textit{Fourth progress report on the reduction of non-performing loans (NPLs) and further risk reduction in the Banking Union}, 12 June 2019.

\textsuperscript{67} The Commission noted already last year, however, that the annual growth rate of loans to households for house purchases remains low from an historical perspective.

\textsuperscript{68} European Commission, Autumn \textit{European Economic Forecast}, op.cit., p. 32.

\textsuperscript{69} The Commission estimates that on average, the euro's \textit{nominal effective exchange rate} (a weighted average of nominal bilateral rates between the euro and a basket of foreign currencies) is expected to depreciate by 1\% in 2019 and to broadly stabilise in 2020.
into consideration orderly exit. A 'disorderly' Brexit would potentially have far worse consequences for the trade relationship and economic activity in both the EU and the UK than those currently envisaged under the purely technical assumption of status quo in terms of trading relations between the EU27 and the UK. It remains to be seen to what extent any future deal will affect the current trade levels. There are reports relating to the UK that trade will be affected negatively even with an orderly Brexit.

To the above factor, must be added longer structural trends such as demographic challenges (including population ageing), climate change, and rising inequalities.

### 2.4.2. Potential ways to mitigate the impact of the above risks

To overcome these challenges or, at least mitigate their impact, several measures have been proposed by the forecasts. They can be divided between measures that have to be taken as soon as possible, and measures that could be implemented if the situation worsens.

In the first group, there is agreement in the forecasts that structural reforms are an essential element to raise potential output and strengthen the resilience of Member States’ economies. Product market reforms in many countries have the potential to improve those Member States’ competitiveness and increase productivity. Policies to increase labour force participation rates and enhance human capital are also very important, especially taking into consideration the rising challenges caused by demographic change and technological developments.

Another recommendation is that those Member States with ample fiscal space and human capital or infrastructure needs (e.g. Germany, Netherlands) should consider a measured fiscal expansion, while, on the other hand, those Member States with still-elevated levels of public debt and deficit should proceed with fiscal consolidation, except in those cases where private demand is already so weak that consolidation would push output growth far below potential.

Should the situation worsen, additional options proposed by the IMF, the OECD and the Commission include the following:

- monetary policy could become more accommodative;
- targeted and temporary fiscal measures could be implemented to support investment in some sectors, and to assist with the retraining of displaced workers and new job creation in those countries most affected. In this context, EU assistance could come from the European Globalisation Adjustment Fund and the European Union Solidarity Fund;
- the state aid framework could be adapted temporarily to provide broader support, as was done at the height of the financial crisis in 2008-09;
- more leeway could be allowed within the EU fiscal rules for economies affected.

---

72 IMF, Regional economic outlook – Europe, op. cit., p. 5.
73 Some proposals in this context include shifting taxes away from labour, enhancing apprenticeship programmes, and doing more to tailor education to labour market needs.
74 There are reports that such an expansion has begun to take place in Germany.
75 IMF, Regional economic outlook – Europe, op. cit., p. 7.
Lastly, should the situation be substantially worse, a more broadly based coordinated fiscal stimulus by EU Member States, particularly those that trade relatively intensively with the United Kingdom, could offer a timely and greater support for demand.\textsuperscript{76}

\textsuperscript{76} OECD Economic Outlook, op. cit., p. 33.
3. EU budget in perspective

The EU budget represents a limited share of public spending in the European Union, but it has features that can increase its impact. The 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 €156.7 billion in 2018, the EU budget accounts for around 1 % (0.99 % in 2018) of the European Union’s gross national income (GNI), while Member States’ public spending represents, on average, 46 % 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 to 20 % of gross domestic product) in decentralised models, such as the US.

Figure 3 – EU budget and general government public spending in the EU (2018, € billion)

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

Analysts 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, 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). 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 estimates that the annual redistribution of resources operated by the EU

---

77 The consolidated annual accounts of the EU for financial year 2019 are expected to be made available in June 2020.
78 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).
80 The third function, which is not covered by the EU budget, is macroeconomic stabilisation.
81 Part Three, Title XVIII, TFEU.
budget over the last 15 years corresponds to 0.2 % of the area’s GNI, as compared with 1.5 % for the federal budget in the US. In other words, 80 % of resources returned to the 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 investment (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. For example, in half of the 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 4.65 % for Slovenia and 13.44 % for Lithuania (Figure 4).

Figure 4 – EU budget as a share of public spending in individual Member States (2018)

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

In addition, when focusing on investment 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).

---

83 In recent years, the figure has reached 0.3 % as a result 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.

84 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 2018.

85 The group also includes some pre-2004 Member States. For example, the case of Luxembourg (7.97 %) 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 2017, this figure amounted to €26.2 billion.

86 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 the benefits of cohesion policy are not limited to the Member State directly receiving the resources, since projects implementing the
2015–2017 period, the pattern is confirmed with 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.\(^{87}\) As regards investment in research and innovation, Horizon 2020 is the world’s largest transnational programme devoted to such activities: in 2018, the largest recipients were Germany, Belgium, France, the United Kingdom 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\(^{88}\) 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, has sought 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.\(^{89}\)

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.

As regards the 22 financial instruments covering internal policies, the European Commission reports that, by the end of 2018, EU contributions worth over €10 billion have triggered around €100 billion of total financing provided by financial intermediaries to final recipients. These data suggest an average leverage of close to a factor of 10, i.e. each euro invested by the EU has generated on average €10 of financial support for final beneficiaries. Over the 2014 to 2018 period, almost half a million small and medium-sized enterprises (SMEs) are reported to have received funding thanks to these 22 financial instruments.\(^{90}\)
The High-Level Group on Own Resources (see Section 5.1) notes that, based on a study it commissioned, wealthier Member States have a comparative advantage when it comes to attracting resources linked to the main financial instruments. Therefore, the distribution of such resources differs from that in traditional EU spending areas (e.g. cohesion and agriculture). The leverage effect and evolving 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.

In some policy areas, the pooling of resources at EU level may bring advantages such as economies of scale and elimination of duplication, generating 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. The EU, with its Member States, is 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 the mapping the cost of non-Europe exercise carried out for the European Parliament, improved coordination of EU donors could bring economic benefits worth between €3.6 billion and €14.5 billion per year – with a mid-point estimate of €9 billion – including both direct savings and better results in recipient countries. Other policy areas often deemed to have a great potential for enhanced joint action include: climate change mitigation, digital infrastructure and its protection, defence initiatives, external borders and asylum management.

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 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 5.1).

---

91 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.
92 Future financing of the EU: final report and recommendations, High-Level Group on Own Resources, December 2016.
95 J. Pisany-Ferry, ‘Europe can take a bigger role in providing public goods’, Financial Times, 3 December 2019.
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’ GNI, which plays the role of balancing the budget. 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).

Currently, the bulk of revenue is provided by a GNI-based resource and a VAT-based resource, which Member States perceive as national contributions rather than EU own resources. In 2018, these two resources jointly accounted for around 77 % of EU financing (see Figure 5).

According to a number of analysts and stakeholders, including the European Parliament, the predominant role of national contributions promotes a focus in budgetary negotiations on Member State net balances and programmes with geographically pre-allocated expenditure. In the current configuration of the system, permanent and/or temporary correction mechanisms reduce the contributions of the following Member States: Austria, Denmark, Germany, the Netherlands, Sweden and the United Kingdom. Annex 2 recapitulates national contributions by Member State and traditional own resources collected on behalf of the EU in 2018.

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 to 2013).

![Figure 5 – EU revenue in 2018](image_url)

Data source: European Commission, see Annex 2.

---

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

98 Following the entry into force of the new Own Resources Decision in 2016, the Commission 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.


101 Total ceilings for commitments and payments respectively decreased by €33.6 billion and 34.7 billion (in constant 2011 prices).
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 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. Their tasks include intervening at the authorisation stage, and 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 powers of the European Parliament and the Council 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. 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. 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.

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 the current programming period

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 2015-2016 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.

---


103 See for example: Dutch Presidency of the Council, Towards a forward-looking and flexible multiannual financial framework, Presidency report, 30 May 2016.


105 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.
The immediate 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 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).

The resources available under flexibility provisions and special instruments were used almost entirely during the first years of the current programming period. In June 2017, the mid-term revision of the MFF, for which the European Parliament had long pushed, was used to replenish and strengthen these instruments with a view to increasing the capacity of the EU budget to respond to unexpected challenges and to avoid a repeat of abnormal payments backlogs in the last years of the framework. The mid-term revision was part of a broader package of legislative and non-legislative initiatives, whose objectives included: increasing the impact of EU funds by simplifying the rules for their implementation; and enhancing EU instruments and resources devoted to job creation, growth, migration and security challenges, without modifying MFF ceilings.\textsuperscript{106}

In the wake of the euro crisis, a different challenge in relation to which the possible role and contribution of the EU budget have been debated concerns efforts to strengthen European monetary union (EMU). However, in its current configuration, the EU budget is deemed unable to play a stabilisation role in the event 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.\textsuperscript{107} In 2017, French President Macron called for the creation of a common budget for the euro area,\textsuperscript{108} while Jean-Claude Juncker, Commission President at that time, supported the establishment of a dedicated euro-area budget line as a subsection of the EU budget itself.\textsuperscript{109} In May 2018, the European Commission put forward\textsuperscript{110} proposals for the establishment of two new budgetary instruments to deepen EMU under the post-2020 MFF (see Section 5.2). In the Meseberg Declaration of June 2018, France and Germany jointly proposed creating a euro area budget within the EU framework as of 2021, identifying the promotion of competitiveness, convergence and stabilisation in the currency area as its objective.\textsuperscript{111} In this respect, the two countries presented a proposal on the architecture of such an instrument to the Eurogroup in November 2018. In 2019, discussions advanced on the design of a budgetary instrument for convergence and competitiveness (BICC), but references to a stabilisation function have not been included.\textsuperscript{112}


\textsuperscript{107} A. D’Alfonso and A. Stuchlik, \textit{A fiscal capacity for the euro area?}, EPRS, European Parliament, September 2016.

\textsuperscript{108} E. Macron, \textit{Initiative for Europe}, Sorbonne speech, 26 September 2017.


\textsuperscript{110} \textit{EU budget: A reform support programme and an investment stabilisation function to strengthen Europe’s economic and monetary union}, press release, European Commission, Brussels, 31 May 2018.

\textsuperscript{111} Meseberg Declaration. Renewing Europe’s promises of security and prosperity, Presse- und Informationsamt der Bundesregierung, 19 June 2018.

\textsuperscript{112} Eurogroup, \textit{Term sheet on the budgetary instrument for convergence and competitiveness (BICC)}, Press release, 10 October 2019.
4. EU budget for 2020

The EU budget for the year 2020 is in many ways exceptional. The budgetary procedure leading to the agreement on the EU 2020 budget took place in an election year. It was the last annual budget proposed by the Juncker Commission and the first adopted by the newly-elected European Parliament. It will be the first implemented by the new European Commission, led by Ursula von der Leyen.

The agreement on the 2020 budget was reached on 18 November 2019. It was then adopted by Council on 25 November, by Parliament on 27 November, and signed into law by David Sassoli, the President of the Parliament. The total amount of commitments agreed was 1.5% higher than for the 2019 budget. The biggest reinforcements are in the budgetary lines supporting measures to address climate change, and improve the EU’s economic competitiveness and youth employment. As has been the case with all previous annual budgets under the current MFF, the budgetary authority resorted to the flexibility tools provided for in the MFF Regulation in order to cover needs. The agreed amounts are based on the premise that the United Kingdom will continue to participate fully in financing and implementation as if it were a Member State until the end of the current MFF.

The most prominent aspect of the agreement on the 2020 budget, highlighted by all the negotiating parties, was the increased focus on climate-related action. This ‘greening’ of the EU annual budget, makes it future oriented and will ensure that the EU reaches the 20% goal for climate-related spending for the 2014-2020 MFF period.

4.1. Result of the 2020 budgetary procedure

Total commitments of the 2020 EU budget were set at €168.7 billion and total payments at €153.6 billion. In comparison with the 2019 budget this represents an increase of 1.5% and 3.4% respectively (Figure 7). The increase in payment appropriations can be attributed to the accelerating implementation of many spending programmes. The commitments agreed account for 0.99% of EU-28 GNI, which is a slight decrease from 1.01% of EU-28 GNI in 2019 and 1.02% in 2018. The margin below the 2014-2020 multiannual financial framework ceilings still available for unexpected needs in 2020 amounts to €1.5 billion in commitment appropriations (for detailed figures, see Annex 3).

113 The approved budget for 2020 awaits final publication in the Official Journal of the European Union. For the details on the procedure and the documents please see the European Parliament Legislative Observatory, procedure 2019/2028(BUD).

The procedure, in accordance with Article 314 of the TFEU, started with the Commission presenting a draft budget on 5 July 2019. In the autumn the Parliament and the Council negotiated the budget based on this proposal and the Amending Letter 1/2020, which increased the draft budget by €1.4 million in commitment appropriations and decreased it by €5.4 million in payment appropriations. In their respective readings during the procedure, the Council cut the initial proposal of the European Commission by 0.9%, while the Parliament increased it by 1.1%. Thus, the gap between the positions of the two arms of the budgetary authority amounted to €4.21 billion (Figure 8). The negotiations culminated in the meetings of the Conciliation Committee, which reached the agreement within the limits of 21 days, as provided for in the Treaty. The agreement was concluded on 18 November 2019 (see Box 1).

The Council's position on the proposal for the 2020 budget included cuts in commitment and payment appropriations for all headings. The biggest reduction in the needs estimated by the Commission concerned subheading 1a Competitiveness for Growth and Jobs (-3%) and heading 3 Security and Citizenship (-3.4%). In comparison with the 2019 budget, the cuts were the most severe in the areas covered by heading 3 Security and Citizenship (-14.9%) and 4 Global Europe (-10.6%).\footnote{Council position on the draft general budget of the European Union for the financial year 2020.}
The European Parliament\textsuperscript{116} strongly opposed the Council's approach and considered the cuts unjustified and contradictory to the Union’s priorities.\textsuperscript{117} Parliament emphasised that the 2020 budget should make an important contribution towards matching the political commitments made and citizens' expectations with regard to tackling climate change and protecting the environment. It therefore called for more resources, and efforts to be made to reach the 20 \% EU climate expenditure target for the period 2014-2020, to implement the UN sustainable development goals (SDGs) and to deliver on the European Pillar of Social Rights. It proposed to reinforce a number of programmes in excess of the Commission's proposal, including the Horizon 2020 (+€737.8 million), the Connecting Europe Facility (+€545 million), Erasmus+ (+€123.4 million), and the Youth Employment Initiative (+€363.3 million). Moreover, as was the case during the negotiations on the 2019 budget, the Parliament insisted on applying Article 15(3) of the Financial Regulation and use the amount of €280.7 million de-committed in 2018, as a result of the non-implementation of research projects, for the budget lines of Horizon 2020 that are most relevant to climate-related research projects.\textsuperscript{118}

### Box 1 – 2020 budgetary procedure milestones

**July 2019**: The European Commission tables the draft EU budget for 2020.

**September 2019**: The Council formally adopts its position on the draft 2020 EU budget.

**October 2019**: The European Parliament amends the Council's position on the draft 2020 EU budget.

**October 2019**: The European Commission tables modifications to its proposal for next year's EU budget by means of Amending Letter (AL) 1/2020, which increased the draft budget by €1.4 million in commitment appropriations and decreased it by €5.4 million in payment appropriations.

Amendments proposed in Amending Letter 1/2020:
1) an update of the estimated needs, assigned revenue and appropriations for agricultural expenditure;
2) adjustments related to the legislative proposals included in the Brexit preparedness package of 4 September 2019;
3) adjustments concerning the administrative budgets of the European Parliament and the European External Action Service, and sustainable fisheries partnership agreements;
4) creation of three new budget lines in order to start the implementation of the Innovation Fund;
5) a technical correction of appropriations for the European Union Agency for the Operational Management of Large-Scale IT Systems in the Area of Freedom, Security and Justice (eu-LISA).

**18 November 2019**: European Parliament and Council negotiators agree on joint conclusions.

**25 November 2019**: Council adopts its reading of the second draft budget.

**27 November 2019**: The European Parliament approves the joint text agreed by the Conciliation Committee. On the same day the budget is signed by European Parliament President David Sassoli.

\textsuperscript{116} Data on leading European Parliament committees involved in budgetary procedures are available in Annex 4.

\textsuperscript{117} European Parliament resolution of 23 October 2019 on the Council position on the draft general budget of the EU for the financial year 2020.

\textsuperscript{118} During the budgetary negotiations on the 2019 budget, based on Article 15(3) of the Financial Regulation, the Commission and the Parliament wanted to use the unspent commitments for research from 2017 to increase Horizon 2020 financing. The Council, however, opposed this move on grounds of principle, so as to avoid setting a precedent. See: Economic and budgetary outlook for the European Union 2019, A. D’Alfonso, A. Delivorias, M. Sapala, M. Szczepanski and I. Zachariadis, EPRS, European Parliament 2019, p. 21.
The Conciliation Committee agreed to increase the commitment appropriations proposed by the Commission in the draft budget by €400 million and decrease the payment appropriations by €49.1 million. The 2020 budget is €1.9 billion higher than stipulated in the Council reading and €2.3 billion lower than the amount demanded by Parliament (Figure 8). A number of reinforcements were in line with the Parliament position, for example additional resources were allocated for projects addressing climate change and environment protection under Horizon 2020 (+€302 million),\(^{119}\) the Connecting Europe Facility (+€133 million, mostly for the projects in the field of energy) and the LIFE programme for environment and climate action (+€10 million). As a result, one of the most important features of the 2020 budget is its increased focus on climate-related action. This decision will make it possible to exceed the 20 % target for EU expenditure addressing climate change over the 2014-2020 period.\(^{120}\) In addition, the Commission declared that it would monitor budget implementation closely in this regard in the course of 2020. In the event of under-implementation in the relevant headings, the Commission will make the appropriate budgetary proposals to reinforce climate-related expenditure where possible.\(^{121}\)

Other priorities for which allocations were increased as a result of the conciliation agreement, and which are in line with Parliament’s position, include the Erasmus+ programme for education and youth (an additional €50 million), the Youth Employment Initiative (+€28.3 million and an additional €50 million to be added in the course of the year if necessary), the Creative Europe cultural programme (+€7.5 million), the European Neighbourhood Instrument (+€25 million) and the Development Cooperation Instrument (DCI) (+€20 million).

Heading 4 ‘Global Europe’ was affected by the largest cut in comparison with the 2019 budget (-9.34 %). This decrease is explained by the budgetary implication of the end of the second tranche of the Facility for Refugees in Turkey, which significantly increased the last year’s allocation to humanitarian aid under heading 4.\(^{122}\) Moreover, as in 2018 and 2019, the budgetary authority reduced pre-accession aid for Turkey by €85 million as compared to the Commission’s draft proposal.

---

\(^{119}\) However, the Parliament was not successful in its attempt to use Article 15(3) of the Financial Regulation and reinforce the Horizon 2020 with the unspent commitments.

\(^{120}\) For a comprehensive overview of the climate-related initiatives in the EU budget see: A. D’Alfonso, Mainstreaming of climate action in the EU budget. Impact of a political objective, EPRS, European Parliament, October 2019.

\(^{121}\) Budget 2020 – Elements for joint conclusions.

In 2020, the level of the payment appropriations increases more than the level of the commitments. The increase can be noted in all areas except for heading 4 'Global Europe' (-4.6 %). The largest reinforcement is in subheading 1a 'Competitiveness for growth and jobs' (+8.7 %) (Figure 9).

As far as the payment appropriations are concerned, both Parliament and Council recalled the need for close monitoring and assessment of the progression of payments in order to avoid any abnormal level of unpaid invoices at year-end. Should the payment appropriations entered in the 2020 budget be insufficient to cover the estimated needs, the Commission is expected to present an appropriate solution as a matter of urgency to allow the budgetary authority to take the necessary decisions.

As in all previous years of the 2014-2020 MFF, mobilisation of the flexibility tools\textsuperscript{123} proved necessary to finance reinforcements agreed by the budgetary authority for 2020. Two such tools had to be applied to finance pressing needs which could not be financed under the tight ceilings of headings 1 and 3 (Table 1). However, the amounts mobilised were lower than in 2019. As a result, €4.2 billion is still available under the flexibility instruments for unexpected situations that may occur in 2020.\textsuperscript{124}

\textsuperscript{123} 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 'flexibility', was an important issue during the negotiations on the MFF 2014-2020. Parliament strongly supported enforced flexibility provisions and the relevant articles strengthened in the MFF Regulation are an important negotiation achievement. These were already very useful in the first years of implementation of the current MFF. Therefore the flexibility instruments were expanded as part of the mid-term review/revision of the MFF. This increased the EU budget's capacity to respond to unexpected challenges and new priorities in the second part of the period covered by the MFF.

\textsuperscript{124} As regards other special instruments, the agreement included the offsetting of the Contingency Margin mobilised in 2017 against the unallocated margins under heading 5 'Administration'; and set the level of commitments
Table 1 – Flexibility tools mobilised with the adoption of the 2020 EU budget

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Amount mobilised</th>
<th>Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Margin for Commitments</td>
<td>€269.6 million</td>
<td>To finance additional allocations under subheading 1a 'Competitiveness for growth and jobs' (€93.8 million) and subheading 1b 'Economic, social and territorial cohesion' (€175.8 million)</td>
</tr>
<tr>
<td>Flexibility Instrument</td>
<td>€778.1 million</td>
<td>To address needs under heading 3 'Security and Citizenship' (to finance support for measures to manage the migration, refugee and security crisis)</td>
</tr>
</tbody>
</table>

4.2. Budget headings in detail

Heading 1 ‘Smart and inclusive growth’ is the largest in the 2014 to 2020 MFF and finances investments in EU priority areas in the Member States and their regions. In the 2020 EU budget it accounts for 50% of total commitment appropriations (up from 48.6% in 2019). Heading 1 is divided into subheading 1a ‘Competitiveness for growth and jobs' and subheading 1b 'Economic, social and territorial cohesion'.

Figure 10 – Subheading 1a Competitiveness for growth and jobs, 2020 commitment appropriations

![€ 25 284.8 million](image)

15.0% of total EU 2020 budget

<table>
<thead>
<tr>
<th>Appropriations</th>
<th>13 485.9</th>
<th>4 070.3</th>
<th>2 885.4</th>
<th>2 218.8</th>
<th>2 624.4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Horizon 2020</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CEF (Connecting Europe Facility)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Erasmus+ (Education, Training and Sport)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large infrastructure projects</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Data source: European Commission see Annex 3.

Subheading 1a includes EU investments providing an important contribution in the area of research and innovation, education and training, large infrastructure projects, trans-European networks in transport, communication and energy, social policy, and enterprise development. Examples of programmes and instruments supported include Horizon 2020, the Connecting Europe Facility, Erasmus+, the European satellite navigation systems (EGNOS and Galileo), the Competitiveness of enterprises and small and medium-sized enterprises (COSME) programme, European Defence Industrial Development Programme (EDIDP) and the European Fund for Strategic Investments (EFSI).

appropriations for the European Globalisation Adjustment Fund (EGF), the European Solidarity Fund and for the Emergency Aid Reserve (EAR) in 2020 as in the draft budget.
While the total volume of commitments for the 2020 EU budget is only moderately higher than in the previous financial year, expenditure under subheading 1a marks the highest relative increase (7.89%). Moreover, the share of subheading 1a in the EU budget has increased from 9.36% in 2014 to almost 15% in 2020. This confirms the EU’s determination to strengthen the resilience and competitiveness of the European economic system and job creation.

In comparison with 2019 budget, some programmes have been reinforced while some have received lower allocations. The largest relative increase, amounting to almost 75%, is in the European satellite navigation systems EGNOS and Galileo. These are being developed as part of EU space policy and provide Europe with independent access to reliable satellite positioning signals. Efforts in 2020 are focused on making Galileo fully operational. Other significantly reinforced programmes include the energy sector (+35%) and information and communications technology (+20%) under the Connecting Europe Facility (CEF), the European Solidarity Corps (+15.9%), COSME (+13.8%) and Horizon 2020 (+8.8%). The boost in the CEF and Horizon 2020 will contribute mainly to the mainstreaming of climate action and achieving the sustainable development goals. These allocations went beyond the amounts initially proposed by the Commission and reflect the Parliament’s firm position during the budgetary procedure.

As in previous years, with no margin left under the expenditure ceilings of subheading 1a, in order to finance these reinforcements it was necessary to use €93.8 million from the Global Margin for Commitments.

Figure 11 – Subheading 1b Economic, social and territorial cohesion, 2020 commitment appropriations

<table>
<thead>
<tr>
<th>Regional convergence (less developed regions)</th>
<th>Cohesion Fund</th>
<th>Competitiveness (more developed regions)</th>
<th>Transition regions</th>
<th>other</th>
</tr>
</thead>
<tbody>
<tr>
<td>28,762,4</td>
<td>10,064,6</td>
<td>8,822,3</td>
<td>5,963,9</td>
<td>5,032,5</td>
</tr>
</tbody>
</table>

Data source: see European Commission, Annex 3.

Subheading 1b covers EU expenditure on cohesion policy and supports the 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. The funds contribute to two main objectives of the EU cohesion policy: ‘Investment for growth and jobs’ and ‘European territorial cooperation’. Moreover, the subheading 1b includes a specific contribution from the Cohesion Fund to the Connecting Europe Facility, a specific allocation for the Youth Employment Initiative, and the Fund for European Aid to the most Deprived (FEAD).

In 2020, total commitment appropriations for subheading 1b are set at €58.6 billion and represent a 2.5% increase compared with the previous year. The amounts agreed for the ESI funds under this

---

125 On the role of the EU budget in development of the EGNOS and Galileo systems see more in: M. Svášek, Galileo and EGNOS: How the EU budget is spent, EPRS, European Parliament, January 2018.
127 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’.
subheading are based on the envelopes set in the relevant legal bases and in the operational programmes adopted. As there was no margin left under the expenditure ceiling of this subheading, it was necessary to mobilise the Global Margin for Commitments for an amount of €175.8 million. It will be used to finance the reinforcements of the Youth Employment Initiative and the Structural Reform Support Programme (SRSP).

The level of payment appropriations for subheading 1b in 2020 was set at 50.05 billion which is 6.40% than in 2019. According to the Commission, this should be sufficient to cover the needs, even though the budgetary implementation of the 2014-2020 programmes is expected to accelerate in 2020. The progress in the selection of the projects has been significant and, at the end of 2019, the financial resources allocated to selected projects covered 80% of the seven-year allocation. The financial implementation will continue until the end of 2023 (N+3 rule) and can create pressure on payments in the first years of the 2021-2027 programming period. As emphasised in the joint statement by the European Parliament, Council and Commission attached to the budgetary agreement, in order to avoid any abnormal level of unpaid invoices at year-end, it is necessary to continue close and active monitoring of the payment requirements in 2020.

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 and increase of the specific allocation for the YEI agreed in the mid-term revision of the MFF in 2017 was strongly supported by the European Parliament. In 2020, the commitment appropriations for the YEI total €145 million, in line with Parliament’s reading of the budget (up from the €116.7 million proposed by the Commission). This amount is matched with the same amount from the ESF doubling the funds available. In addition, in the statements attached to the budgetary agreement, the budgetary authority expressed an intention to increase the allocation for the YEI by €50 million in the course of 2020 should such a need be identified based on the results of the Commission’s implementation report (to be submitted before 30 June 2020).

Figure 12 – Heading 2 Sustainable growth: natural resources, 2020 commitment appropriations

Data source: European Commission see 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 the 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. Most of the 2020 budget includes pre-programmed commitments for market measures, direct payments (under the common agricultural policy), rural development and fisheries programmes.

In comparison with 2019, total commitments and payments for heading 2 are virtually stable (+0.4 % and +0.9 respectively). Next to heading 5 'Administration', this is the only heading with a margin left under the expenditure ceiling (€514 million).

According to the Commission, the market situation and the implementation pattern of the direct payments to farmers are back to normal after the difficulties experienced in the first years of the current MFF. The implementation of the rural development measures under the EAFRD has reached cruising speed. At least 30 % of EAFRD resources is earmarked for the climate-related and environmental measures.

The implementation of the EMFF, which was slow at the beginning of the current MFF, accelerated significantly in 2018 and reached a full cruising speed in 2019. Owing to this progress, the need for payment appropriations for the fund increases by 35 % in 2020.

The LIFE programme is the only EU programme dedicated exclusively to the environment and climate action and as such it increases the added value of EU action in this important area. The objectives of the LIFE programme, updated after the mid-term evaluation, are more concentrated on financing for measures relating to nature and biodiversity and climate change mitigation. 130 Programme implementation is at cruising speed. The programme, therefore, will be allocated €560 million in the commitment and €383 million in payment appropriations, which is 5.6 % and 12.1 % more than in 2019. This is in line with the Parliament's insistence on investing more in this area and on reaching the target of 20 % climate-relevant spending over the 2014-2020 period.

Figure 13 – Heading 3 Security and citizenship, 2020 commitment appropriations

<table>
<thead>
<tr>
<th>Decentralised agencies</th>
<th>AMIF (Asylum, Migration and Integration Fund)</th>
<th>ISF (Internal Security Fund)</th>
<th>Food and feed</th>
<th>other</th>
</tr>
</thead>
<tbody>
<tr>
<td>1232.7</td>
<td>948.7</td>
<td>500.9</td>
<td>228.5</td>
<td>768.3</td>
</tr>
</tbody>
</table>

Data source: European Commission, see Annex 3.

Heading 3 is the smallest in the 2014 to 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). An important and growing share of heading 3 is allocated to the EU decentralised agencies. Among them in particular the European Border and Coast Guard Agency (Frontex) and the European

---

Agency for the operational management of large-scale IT systems in the area of freedom, security and justice (eu-LISA).

Addressing the challenges of migration, border management and security continues to be one of the financing priorities in the 2020 budget. Many measures and actions have been taken during the 2015-2016 refugee crisis in this area and they will be continued in 2020. The level of the support under heading 3 will be maintained at a level similar to 2019. Although the commitments agreed for the AMIF and the ISF decrease in the 2020 budget (by 15.4 % and 6.1 % respectively), more financial support will go to the EU agencies active in security and migration management, such as the European Border and Coast Guard Agency (Frontex) (+30 %) and the European Agency for Asylum (+15 %). In the case of Frontex, the increase relates mainly to the gradual creation of a standing corps of 10 000 border guards, which should become fully operational in 2027.131

Among other EU agencies under heading 3, the 2020 budget provides extraordinary resources for the Brexit-related relocation from London of the European Medicines Agency to Amsterdam and the European Banking Authority to Paris. Furthermore, the budget takes into account the creation of the new European Public Prosecutor’s Office.

Similarly to previous years, a share of migration-related needs will have to be financed from the Flexibility Instrument. This time, even though the commitment appropriations are lower than in 2019, the gap between the agreed allocation and the expenditure ceiling amounts to €778.1 million and represents around 20 % of the total envelope for the heading. Provision of this funding is possible thanks to the reinforcement of the special and flexibility instruments agreed in the mid-term revision of the MFF in 2017.

The remaining part of heading 3 is dedicated to different programmes promoting justice, citizens’ rights, democracy, health, consumer protection and culture. Among them, in line with the Parliament’s reading of the budget proposal, the Creative Europe programme will receive €7.1 million more than in the 2019 budget.

Figure 14 – Heading 4 Global Europe, 2020 commitment appropriations

Data source: European Commission see Annex 3.

Heading 4 covers external actions of the EU, focusing on development assistance, humanitarian aid and the EU’s 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

131 European Border and Coast Guard, Legislative Observatory, 2018/0330A(COD).
allocations go to the Development Cooperation Instrument (DCI), European Neighbourhood Instrument (ENI), Instrument for Pre-accession assistance (IPA II) and Humanitarian aid (HUMA).132

Expenditure secured under heading 4 in 2020 will continue to support development cooperation (73.2% of the allocation) and humanitarian aid (14.6%). In addition, most instruments under heading 4 contribute to addressing the external dimension of migration challenges, by directly assisting the countries and communities hosting refugees and tackling the root causes of migration in the regions of origin.

Compared with the 2019 budget, there has been a significant decrease in the overall envelope for the heading, from €11.3 billion to €10.3 billion (-9.3%). Accordingly, its share in total commitment appropriations agreed for 2020 decreases from 6.8 to 6%. This is explained by the fact that in 2019 the allocation for heading 4 was reinforced with an extraordinary allocation of the second and last tranche of the Facility for Refugees in Turkey.133 The change was also reflected in the allocations for the IPA II and HUMA, through which the facility was financed.

The 2020 budget takes into account the budgetary consequences of the new pledges made to support humanitarian action, development and resilience in Syria, Jordan and Lebanon as well as to combat the root causes of migration via North Africa.134 The total contribution of €560 million will be taken from the heading 4 margin for the following programmes: humanitarian aid, European Neighbourhood Instruments (ENI), Instrument contributing to Stability and Peace and the Development Cooperation Instrument.

As in 2018 and 2019, the budgetary authority decided to reduce the pre-accession funds for Turkey. The situation is continuing to deteriorate in terms of democracy, rule of law and human rights and the financial contribution was revised downwards by €85 million.135

Contrary to what happened in 2019, flexibility tools did not have to be mobilised for heading 4 at the stage of the adoption of the 2020 budget. The budgetary authority decided to keep the margin of €248.4 million so as to have resources to cover unexpected needs that may arise in the course of the 2020.

Figure 15 – Heading 5 Administration, 2020 commitment appropriations

<table>
<thead>
<tr>
<th>Administrative expenditure of the institutions</th>
<th>Pensions</th>
<th>other</th>
</tr>
</thead>
<tbody>
<tr>
<td>€10.272.1 million</td>
<td>€7.956.2</td>
<td>€2.123.0</td>
</tr>
<tr>
<td>6.1% of total EU 2020 budget</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Data source: European Commission see Annex 3.

---

132 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 is not part of the EU budget, however.

133 The total EU budget contribution to the second tranche of the FRT amounts to €2 billion. Of this, an initial amount of €550 million was financed under the 2018 budget, based on Amending Budget 3/2018 and from the existing budgetary envelope for humanitarian aid. The second tranche, included in the 2019 budget, amounted to €1.450 million.

134 Brussels conference ‘Supporting the future of Syria and the region’ in March 2019.

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 total commitments, the same level as in 2019.

The 2020 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 3.3% increase in appropriations in comparison to the previous year include the increase by 6.12% in the pensions bill for former staff and Members (with a growing number of pensioners expected).\textsuperscript{136}

4.3. Scrutiny of EU spending: procedures in the European Parliament

In accordance with the cycle of scrutiny for the EU annual budget, management and execution of the 2020 budget will be evaluated during the course of 2021 and 2022 (Figure 16). The procedure will begin in the middle of 2021 after adoption of the final accounts by the European Commission (stage A), and end with a decision of the European Parliament adopted before 15 May 2022 (stage D) or in October 2022 in case of postponement (stage E).\textsuperscript{137}

In 2020, the European Parliament is expected to take a discharge decision on the 2018 financial year. The ongoing discharge procedure has closed the stage of hearings with respective commissioners and representatives of EU institutions and bodies in the European Parliament’s Budgetary Control Committee (CONT) (stage C).\textsuperscript{138} In January 2020, the members of the CONT committee will discuss the draft reports. Following this stage, and after receiving the Council recommendation on the discharge, the European Parliament is expected to take its decision by mid-May at the latest (stage D). According to the calendar for the procedure for the year 2018, most likely the decision will be taken already at the second plenary session of the Parliament in March 2020.\textsuperscript{139}

The European Parliament is also responsible for initiating the next discharge procedure in 2020, covering the 2019 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)\textsuperscript{140} on the implementation of the 2019 financial year. In addition, in the course of 2020, the ECA

---


\textsuperscript{137} The discharge procedure is based on Articles 317 to 319 of the Treaty on the Functioning of the EU. The timeframe for the procedure is determined in the Financial Regulation, in particular Articles 258 to 263. Regulation (EU, Euratom) 2018/1046 of 18 July 2018.

\textsuperscript{138} See the timetable for the discharge procedure for the financial year 2018 as of October 2019, Secretariat of the Committee on Budgetary Control.

\textsuperscript{139} The discharge procedures for the 2017 and 2018 budgets have been slightly accelerated in comparison with the previous years and with the timetable laid down in the Financial Regulation. Since the presentation of the annual accounts by the Commission took place in June instead of July, also the European Court of Auditors advanced the presentation of its annual report on the EU budget and the European Parliament could start its procedure earlier. As a result, the decision on the 2017 discharge was voted in March 2019, one month earlier than usually. The calendar for the discharge of the 2018 budget also envisages the adoption of the decision on the discharge in plenary in March. The discharge procedure for the 2018 financial year can be followed on the European Parliament’s Budgetary Control Committee website.

\textsuperscript{140} 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).
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 to be examined by the Court in the years 2018-2020 are: sustainable use of natural resources and addressing climate change; investment for cohesion, growth and inclusion; migration, security and global sustainable development challenges; functioning single market and sustainable monetary union; and financing and administering the Union accountably and efficiently.¹⁴¹

Figure 16 – EU discharge procedure from the perspective of the European Parliament

Source: EPRS.

The European Parliament plays a crucial role in the democratic scrutiny and control of the implementation of the EU budget.¹⁴² 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.¹⁴³ 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 focuses increasingly 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 have been 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 and the European Parliament’s resolutions.¹⁴⁴

The possibility to accelerate the discharge procedure and close it within the year following the accounting year in question (n+1) is a longstanding demand of the CONT committee. However, the revision of the EU’s Financial Regulation adopted in July 2018 did not introduce any significant changes that could shorten the time lag between the implementation of the budget and its political scrutiny.

¹⁴¹ For a detailed list of priority topics to be covered by the ECA in 2020, please see the ECA 2020 Work Programme.
¹⁴³ For the methods of implementation of the EU budget please see Section 3.3.
¹⁴⁴ For more on performance-based budgeting in the EU’s budget see: M. Sapala, Performance budgeting – A means to improve EU spending, EPRS, European Parliament, March 2018.
5. EU budget in the medium and long term

The current MFF sets out the structure for EU spending up until the end of 2020, but an agreement on the design of the next programming period and its allocations has not yet been reached. While the debate on reform started well in advance and the European Commission called for an agreement before the 2019 European elections, the first discussions on the figures in the European Council took place only in December 2019. The withdrawal of the UK from the EU on 31 January 2020, following three extensions of the negotiating period, means that the MFF negotiations are taking place against a different background from the one that characterised the current framework.

5.1. The preparation of the proposals for the post-2020 MFF

The debate on the post-2020 MFF and possible reform of the EU budget began at the very beginning of the current programming period. Unsatisfied with the limited changes to the EU’s financing system agreed by the European Council in 2013, the European Parliament included the creation of an interinstitutional High-Level Group on Own Resources (HLG) among the conditions to give its consent to the 2014 to 2020 MFF regulation. The HLG, which was created by Parliament, Council and Commission already in 2014, reviewed not only the revenue side of the budget, but also EU expenditure, stressing how closely related the two aspects are. Presenting its final report in January 2017, the HLG recommended in-depth reform of both revenue and expenditure to increase the ability of the EU budget to respond to priorities.

Confirming its salience, the reflection on the next MFF has become part of the broader debate on the future of the EU, which was kick-started by the Bratislava Declaration agreed by 27 EU Heads of State and Government in the wake of the UK referendum, a Commission white paper and the Rome Declaration adopted on the 60th anniversary of the Treaties of Rome. This development reflects the deeply political nature of the MFF, which translates agreed EU policy priorities into budgetary figures.

The expected withdrawal of the UK from the EU means that the preparation of the proposal for the next MFF took place against a different backdrop, which a number of analysts have identified as an opportunity for broader reform of the EU budget. 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 that hinder the reform of both the revenue and the expenditure sides of the EU budget.

---

145 European Council, Decision taken in agreement with the United Kingdom extending the period under Article 50(3)TEU, EUCO XT 20024/2/19, 28 October 2019.
146 Future financing of the EU: Final report and recommendations, High Level Group on Own Resources, December 2016.
149 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).
150 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.
While the proposal for the post-2020 MFF was originally due by December 2017, the European Commission decided to postpone it until mid-2018. Various contributions have fed the preparation of the next MFF, including important mid-term evaluations on a number of EU sectoral policies and spending programmes, such as the seventh cohesion report published in October 2017.

The June 2017 reflection paper on the future of EU finances, which the European Commission presented as part of the wider debate on the future of the EU, made a significant input to the process. Taking into account the conclusions and recommendations of the HLG on own resources, the document 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 EU 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. The reflection paper 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. The text concludes that the EU will certainly change after 2020, and that its budget will evolve accordingly, depending on the path that is chosen for the future of the EU.

In February 2018, the European Commission produced its contribution to an informal European Council, illustrating the financial impact of various possible policy choices that had been evoked in the vivid debate surrounding the next MFF. The text estimated the resources that the EU budget would need in domains such as external border control, defence, mobility of young people, digital transformation, research and innovation, economic and monetary union, agriculture and cohesion under different policy options. In addition, the Commission outlined ways to modernise the EU budget, for example by streamlining the use of financial instruments and promoting a stronger link between EU resources and respect for the EU’s fundamental values.

EU institutions have contributed ideas and views to the discussion on various occasions. Following its first official reaction to the reflection paper, the European Parliament detailed its input on both the expenditure and revenue sides of the post-2020 MFF ahead of the Commission’s proposals. 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. The European Committee

---

151 On the basis of Article 25 of the MFF Regulation.
152 Seventh report on economic, social and territorial cohesion, European Commission, 9 October 2017.
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.\(^\text{158}\)

In addition, the European Commission consulted stakeholders, including all Member States, on their expectations for the next MFF, with a view to preparing a balanced proposal that was both ambitious and realistic. EU leaders held a debate on political priorities for the new MFF at an informal European Council meeting on 23 February 2018.

As regards the possible impact on the EU budget of the UK withdrawal from the Union, Günther H. Oettinger, then European Commissioner in charge of Budget and Human Resources, quantified it in lower resources for the budget amounting to €12-15 billion per year. He suggested that part of this gap be covered by fresh resources and the remainder by cuts to expenditure.\(^\text{159}\)

Many other stakeholders were involved in the debate. There is general agreement that the EU budget needs reform. A focus on results, leverage, synergies, conditionality and European added value is 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 has faced demonstrate how difficult the task is, and the weaknesses of the EU financing system.\(^\text{160}\)

The main issues for consideration and possible modifications that have emerged from the debate include: the own resources system; the size, structure and priorities of the MFF; its duration; its flexibility provisions; the unity of the budget (following the recent proliferation of instruments at least partially outside the budget); the streamlining of financial instruments; the role of the budget in EU economic governance and respect for the rule of law; and the creation of instruments with a stabilisation function for the euro area (see Section 3.4).

### 5.2. Proposals for the 2021-2027 MFF and its financing

In May and June 2018, the European Commission presented its package of proposals for the next MFF, the related implementing programmes and a reform of the own resources system. The package is designed for a Union with 27 Member States on account of the expected withdrawal of the UK. The proposed MFF covers the 2021 to 2027 period and its commitments amount to €1 134.5 billion in constant 2018 prices,\(^\text{161}\) which corresponds to 1.11 % of EU27 GNI (i.e. with UK GNI subtracted). Payment appropriations are set at €1 104.8 billion (1.08 % of EU27 GNI).

---


\(^{161}\) Or €1 279 billion in current prices, taking into account a 2 % annual inflation rate.
Table 2 provides an overview of the MFF proposal and its new structure, comparing it with expenditure in the current period after deduction of the amounts relating to the UK. The main issues for consideration to have emerged in the MFF debate ahead of the proposals are discussed below.162

- **Duration** – the European Commission has again proposed a seven-year framework, which is not aligned to the five-year political cycle of the European Commission and the European Parliament. Ideas for changes include a five-year MFF synchronised with the political mandates of these two EU institutions; five + five years with a compulsory mid-term review; and ten years with compulsory mid-term revision for programmes requiring long-term programming and five years for the others.

- **Unity of the budget** – the Commission has proposed to bring the European Development Fund (EDF), an intergovernmental tool for development cooperation with the African, Caribbean and Pacific Group of States (ACP), into the EU budget and the MFF.

- **Size** – according to the Commission, the total resources are broadly similar to the current programming period in real terms, when taking into account the inclusion of the EDF into the EU budget.163 The expected withdrawal of the UK makes comparisons harder than in previous negotiations and the conclusions depend on the perspective adopted (e.g. amounts in constant or current prices, with or without the UK). For example, when deducting the amounts relating to the UK in the current period, the proposal represents a 5 % increase in absolute figures, but a decrease from 1.16 % to 1.11 % as a share of EU27 GNI. In any case, total allocations are well below 1.3 % of EU27 GNI, the level estimated necessary by Parliament for the EU to address all its priorities and objectives.

- **Structure and priorities** – the Commission is proposing a new structure with seven headings instead of six, with a view to aligning the presentation and nomenclature of the budget to an evolving set of EU priorities (see Table 2). Two separate headings are created for policy areas that have played a major role in the EU debate in recent years: 'Migration and border management' and 'Security and defence'. Within headings, expenditure is presented around 17 policy clusters, including 'European public administration'. An increase in resources is planned for activities relating to various domains such as: research, innovation and digital transformation; young people; external border control; security; defence; migration; and external action.164 According to the European Commission, 80 % of these reinforcements would come from fresh resources, while redeployments from other policy areas would provide the remaining 20 %. In this respect, traditional policies such as agriculture and cohesion would see their resources decrease by around 15 % and 11 %, respectively (in constant prices). In addition, some EU instruments would move to a different heading as compared to the current MFF. This change has implications for the flexibility of the framework since shifting resources is easier within headings than between them. As regards the cross-cutting topic of climate mitigation and adaptation, the Commission is proposing that the principle of integrating ('mainstreaming') climate considerations and objectives

---

162 Some of these elements do not come from the draft MFF regulation, but from other proposals in the package. For other details, see: M. Parry and M. Sapala, 2021-2027 multiannual financial framework and new own resources: Analysis of the Commission’s proposal, EPRS, European Parliament, 2018; and A. D’Alfonso, Multiannual financial framework for the years 2021 to 2027: The future of EU finances, EPRS, European Parliament, 2019.


164 As regards defence, the Commission is also proposing an off-budget European peace facility that would be endowed with €9.2 billion (2018 prices) over the 2021 to 2027 period.
across all major EU funding programmes be maintained. The quantitative objective of investing a given share of the total MFF resources in climate-relevant projects would be raised from 20% in the current period to 25% under the next framework.  

Flexibility – various elements of the proposals seek to ensure that the MFF is able to tackle unforeseen events and needs rapidly, by reinforcing its flexibility. Examples are provisions to increase the possibility to move resources between headings and financial years, as well as within and between individual programmes. Unallocated margins under the headings are in general higher than in the current MFF. In addition, higher annual amounts would be available for special instruments outside the MFF ceilings, including the Flexibility Instrument, the European Union Solidarity Fund and the Emergency Aid Reserve. The scope of the latter would be extended to cover also emergencies within the EU. The transformation of the Global Margin for Commitments into a Union reserve would increase the possibilities to resort to unused margins and decommitted resources from previous financial years.

Simplification – the number of implementing programmes would be significantly reduced from 58 to 37, in an effort to increase efficiency of spending and streamline fragmented sources of funding. In this spirit, for example, the InvestEU programme would cover loans, guarantees and other innovative financial instruments currently dispensed across various programmes, with a view to maximising economies of scale, providing a single set of requirements and eliminating overlaps. In addition, the Commission aims to promote further simplification in implementing rules, with the objective of having a single rule book for resources implemented under direct, indirect and shared management to the extent possible.

The creation of specific instruments for economic and monetary union (EMU) – against the background of the debate on a possible fiscal capacity with a stabilisation function for the euro area (see Section 3.4), the Commission has proposed the establishment of two new instruments aimed at contributing to a stable and resilient EMU. Endowed with €25 billion and included under the 'Cohesion and values' heading of the new MFF, a reform support programme has been designed to offer financial and technical support to Member States that carry out key reforms to increase national resilience, especially in the context of the European Semester. Outside the MFF, a European investment stabilisation function (EISF) would provide a tool to help euro-area and European exchange rate mechanism-participating Member States stabilise investment levels in the event of large asymmetric shocks. The EISF would play this role by means of a mechanism capable of disbursing loans guaranteed by the EU budget (for a total amount of up to €30 billion for the 2021 to 2027 period).

Stronger link between the budget and the respect for the rule of law – a new mechanism would suspend, reduce or restrict access to EU funds if general deficiencies in the rule of law put their sound financial management or the financial interests of the EU at risk. The mechanism is designed to not affect final beneficiaries of the funds, since Member States remain responsible for implementing the programmes.

---

165 For more detail on climate action and the EU budget, see: A. D’Alfonso, Mainstreaming of climate action in the EU budget: Impact of a political objective, EPRS, European Parliament, October 2019.
Table 2 – Proposal for the 2021-2027 multiannual financial framework (commitments, 2018 prices, € million)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Single market, innovation and digital</td>
<td>116 361</td>
<td>11.0 %</td>
<td>166 303</td>
<td>14.7 %</td>
<td>+43 %</td>
</tr>
<tr>
<td>1. Research and innovation</td>
<td>69 787</td>
<td>6.4 %</td>
<td>91 028</td>
<td>8.0 %</td>
<td>+30 %</td>
</tr>
<tr>
<td>2. European strategic investments</td>
<td>31 886</td>
<td>2.9 %</td>
<td>44 375</td>
<td>3.9 %</td>
<td>+39 %</td>
</tr>
<tr>
<td>3. Single market</td>
<td>5 100</td>
<td>0.5 %</td>
<td>5 672</td>
<td>0.5 %</td>
<td>+11 %</td>
</tr>
<tr>
<td>4. Space</td>
<td>11 502</td>
<td>1.1 %</td>
<td>14 404</td>
<td>1.3 %</td>
<td>+25 %</td>
</tr>
<tr>
<td>Margin</td>
<td>-1 913</td>
<td></td>
<td>10 824</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Cohesion and values</td>
<td>387 250</td>
<td>35.8 %</td>
<td>391 974</td>
<td>34.5 %</td>
<td>+1 %</td>
</tr>
<tr>
<td>5. Regional development and cohesion</td>
<td>272 647</td>
<td>25.2 %</td>
<td>242 209</td>
<td>21.3 %</td>
<td>-11 %</td>
</tr>
<tr>
<td>6. Economic and monetary union</td>
<td>273</td>
<td>&lt;0.1 %</td>
<td>22 281</td>
<td>2.0 %</td>
<td></td>
</tr>
<tr>
<td>7. Investing in people, social cohesion and values</td>
<td>115 729</td>
<td>10.7 %</td>
<td>123 466</td>
<td>10.9 %</td>
<td>-7 %</td>
</tr>
<tr>
<td>Margin</td>
<td>-1 399</td>
<td></td>
<td>4 018</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Natural resources and environment</td>
<td>399 608</td>
<td>36.9 %</td>
<td>336 623</td>
<td>29.7 %</td>
<td>-16 %</td>
</tr>
<tr>
<td>8. Agriculture and maritime policy</td>
<td>390 155</td>
<td>36.0 %</td>
<td>330 724</td>
<td>29.1 %</td>
<td>-15 %</td>
</tr>
<tr>
<td>9. Environment and climate action</td>
<td>3 492</td>
<td>0.3 %</td>
<td>5 085</td>
<td>0.4 %</td>
<td>+46 %</td>
</tr>
<tr>
<td>Margin</td>
<td>5 960</td>
<td></td>
<td>814</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Migration and border management</td>
<td>10 051</td>
<td>0.9 %</td>
<td>30 829</td>
<td>2.7 %</td>
<td>+207 %</td>
</tr>
<tr>
<td>10. Migration</td>
<td>7 180</td>
<td>0.7 %</td>
<td>9 972</td>
<td>0.9 %</td>
<td>+39 %</td>
</tr>
<tr>
<td>11. Border management</td>
<td>5 492</td>
<td>0.5 %</td>
<td>18 824</td>
<td>1.7 %</td>
<td>+243 %</td>
</tr>
<tr>
<td>Margin</td>
<td>-2 621</td>
<td></td>
<td>2 033</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Security and defence</td>
<td>1 964</td>
<td>0.2 %</td>
<td>24 323</td>
<td>2.1 %</td>
<td>+1 138 %</td>
</tr>
<tr>
<td>12. Security</td>
<td>3 455</td>
<td>0.3 %</td>
<td>4 255</td>
<td>0.4 %</td>
<td>+23 %</td>
</tr>
<tr>
<td>13. Defence</td>
<td>575</td>
<td>0.1 %</td>
<td>17 220</td>
<td>1.5 %</td>
<td></td>
</tr>
<tr>
<td>14. Crisis response</td>
<td>1 222</td>
<td>0.1 %</td>
<td>1 242</td>
<td>0.1 %</td>
<td>+2 %</td>
</tr>
<tr>
<td>Margin</td>
<td>-3 289</td>
<td></td>
<td>1 606</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Neighbourhood and the world</td>
<td>96 295</td>
<td>8.9 %</td>
<td>108 929</td>
<td>9.6 %</td>
<td>+13 %</td>
</tr>
<tr>
<td>15. External action</td>
<td>85 313</td>
<td>7.9 %</td>
<td>93 150</td>
<td>8.2 %</td>
<td>+9 %</td>
</tr>
<tr>
<td>16. Pre-accession assistance</td>
<td>13 010</td>
<td>1.2 %</td>
<td>12 865</td>
<td>1.1 %</td>
<td>-1 %</td>
</tr>
<tr>
<td>Margin</td>
<td>-2 027</td>
<td></td>
<td>2 913</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. European public administration</td>
<td>70 791</td>
<td>6.5 %</td>
<td>75 602</td>
<td>6.7 %</td>
<td>+7 %</td>
</tr>
<tr>
<td>TOTAL commitments</td>
<td>1 082 320</td>
<td>100 %</td>
<td>1 134 583</td>
<td>100.0 %</td>
<td>+5 %</td>
</tr>
<tr>
<td>in % of GNI (EU-27)</td>
<td>1.16 %</td>
<td></td>
<td>1.11 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL payments</td>
<td>1 104 805</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>in % of GNI (EU-27)</td>
<td>1.08 %</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: EPRS, based on annexes to the European Parliament resolution on the MFF of 14 November 2018.

In addition, as expected following the work of the interinstitutional High-Level Group on Own Resources, the MFF package includes proposals to reform the revenue side of the EU budget. Some of the main changes proposed by the Commission concern: 1) the streamlining of existing resources, through simplification of the VAT-based resource and a reduction of the amounts that Member States retain as collection costs on customs duties; 2) the abolition of the UK rebate with that country’s expected withdrawal, and the phasing out of all other correction mechanisms; 3) the introduction of three new genuine own resources linked to EU policies on climate (part of the...
revenue stemming from the ETS, the existing EU emissions trading system), environment (a resource based on the quantity of non-recycled plastic packaging waste generated by Member States) and the single market (a resource assigning to the EU budget 3% of the taxable profits of a CCCTB, a common consolidated corporate tax base still to be introduced); and 4) the increase of the own resources ceiling for payments from 1.20% to 1.29% of EU GNI, which takes into account the inclusion of the EDF within the EU budget and the automatic reduction of total EU GNI that the expected withdrawal of the UK implies.

Based on European Commission estimates at the time of the proposal, Figure 17 shows how this would modify the revenue mix, with 12% of total revenue expected to accrue from the three new own resources. The European Commission estimates that, once the changes proposed in the package are implemented, the GNI-based resource would provide 50-60% of total revenue, which is well above the 40% share that the European Parliament has advocated in various resolutions.

Figure 17 – Mix of EU revenue in 2018 and estimated average for 2021-2027 period

Source: EPRS, based on European Commission estimates.

5.3. European Parliament

The European Parliament started its work on the proposed package for the post-2020 MFF and own resources immediately after the Commission tabled it. On 30 May 2018, Parliament outlined its first reaction to the proposals in a resolution that reflected the mandates previously adopted on the topics (see Section 5.1), urging the Council to ensure that the next MFF endowed the EU with sufficient resources to deliver on its objectives and priorities.

In November 2018, the European Parliament stood ready to start negotiations with the Council following the adoption of a resolution on an interim report that detailed its position. The text

---

167 The actual revenue mix in 2018 was eventually different to a certain extent (see Section 3.2), owing mainly to a higher than expected level of other revenue.

168 European Parliament, Resolution on the next MFF: Preparing the Parliament’s position on the MFF post-2020, Strasbourg, 14 March 2018; Resolution on reform of the European Union’s system of own resources, Strasbourg, 14 March 2018; and Resolution on the 2021-2027 multiannual financial framework and own resources, Strasbourg, 30 May 2018.


translated Parliament’s mandate into budgetary figures and proposed amendments to the draft MFF regulation and accompanying interinstitutional agreement. The resolution expressed concern that proposed MFF resources as a share of EU-27 GNI were lower than in the 2014 to 2020 period (1.11%, down from 1.16%), and would not enable the EU to tackle its commitments. Taking Brexit into account, Table 3 recaps the main changes requested. These include further reinforcing priorities such as: research and innovation (Horizon), youth (Erasmus+ and measures against unemployment), transport, space, small businesses, environment, climate, neighbourhood, and development; and restoring resources for agriculture and cohesion to their 2014 to 2020 levels. The proposed modifications, which were based on a bottom-up approach estimating needs in each individual policy area, would bring the next MFF to €1.32 trillion (1.3% of EU-27 GNI). The resolution welcomed proposals for increased flexibility and own resources, supporting even more ambitious reform. In addition, Parliament reiterated that negotiations should tackle the MFF and EU revenue jointly, urging the Council to start them rapidly. The timeline proposed by the Commission with an agreement before the European elections was considered positively, with a view to avoiding the negative impact of late adoption on the implementation of the next generation of EU programmes and funds. However, the text stressed that a mandatory mid-term revision should enable the Parliament elected in May 2019 to have its say on the new MFF. A seven-year duration should apply for one last time, before moving to five-plus-five-year frameworks with compulsory mid-term revisions to align the EU’s budgetary and institutional cycles more effectively.
Table 3 – New MFF: Parliament resolution, Commission proposal and 2014-2020 allocations (€ million, 2018 prices, EU-27)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Single market, innovation and digital</td>
<td>116 361</td>
<td>166 303</td>
<td>216 010</td>
<td>+29.9 %</td>
<td>Horizon Europe, InvestEU Fund, Connecting Europe Facility (CEF) Transport, Decentralised agencies, Single Market Programme, Fiscalis, EU Anti-Fraud Programme, Sustainable tourism, European Space Programme</td>
</tr>
<tr>
<td>2. Cohesion and values</td>
<td>387 250</td>
<td>391 974</td>
<td>457 540</td>
<td>+16.7 %</td>
<td>European Regional Development Fund (ERDF) and Cohesion Fund (CF), Support to the Turkish-Cypriot Community, European Social Fund+, (including a Child Guarantee), Erasmus+, Creative Europe, Justice, Rights and Values (including Union values strand), Decentralised agencies</td>
</tr>
<tr>
<td>3. Natural resources and environment</td>
<td>399 608</td>
<td>336 623</td>
<td>404 718</td>
<td>+20.2 %</td>
<td>European Agricultural Guarantee Fund (EAGF) and European Agricultural Fund for Rural Development (EAFRD),[^2] European Maritime and Fisheries Fund, Other Programme for Environment and Climate Action (LIFE), Just Energy Transition Fund, Decentralised agencies</td>
</tr>
<tr>
<td>4. Migration and border management</td>
<td>10 051</td>
<td>30 829</td>
<td>32 194</td>
<td>+4.4 %</td>
<td>Decentralised agencies</td>
</tr>
<tr>
<td>5. Security and defence</td>
<td>1 964</td>
<td>24 323</td>
<td>24 639</td>
<td>+1.3 %</td>
<td>Nuclear decommissioning, Decentralised agencies</td>
</tr>
<tr>
<td>6. Neighbourhood and the world</td>
<td>96 295</td>
<td>108 929</td>
<td>113 386</td>
<td>+4.1 %</td>
<td>Instrument(s) in support of neighbourhood and development policies, Overseas countries and territories (including Greenland), Decentralised agencies, Pre-accession assistance</td>
</tr>
<tr>
<td>7. European public administration</td>
<td>70 791</td>
<td>75 602</td>
<td>75 602</td>
<td>=</td>
<td></td>
</tr>
<tr>
<td>Total MFF ceilings</td>
<td>1 082 320</td>
<td>1 134 583</td>
<td>1 324 089</td>
<td>+16.7 %</td>
<td></td>
</tr>
<tr>
<td>In % GNI (EU-27)</td>
<td>1.16 %</td>
<td>1.11 %</td>
<td>1.30 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Instruments outside ceilings</td>
<td>N/A</td>
<td>26 023</td>
<td>38 623</td>
<td>+48.4 %</td>
<td>Emergency aid reserve, EU Solidarity Fund, Flexibility Instrument</td>
</tr>
</tbody>
</table>


Since the deadline for an agreement initially set by the Commission was not met (see Section 5.4), in October 2019 the newly elected Parliament adopted a resolution on the next MFF, based on a

[^1]: In addition, the interim report increases the margins for Headings 1, 2, 3 and 6 as compared to the Commission proposal.

[^2]: The interim report maintains the financing of the common agricultural policy for the EU-27 at the 2014 to 2020 level in real terms, while budgeting the initial amount of the agricultural reserve.
motion tabled by four political groups (EPP, S&D, Renew and Greens/EFA). The new resolution confirmed the negotiating mandate of the interim report on the MFF figures, own resources, flexibility and revision provisions, and horizontal principles, reiterating that Parliament’s consent to the MFF is conditional on a proper reform of own resources. Support for conditionality linked to the rule of law was reaffirmed. In addition, the text reflected the results of the elections and recent developments in the new institutional cycle. Welcoming Commission President-elect Ursula von der Leyen’s commitments to new political initiatives, Parliament stressed that these should receive fresh appropriations on top of the Commission’s initial proposal. In the context of the European Green Deal, climate mainstreaming in the EU budget should be further stepped up, with resources commensurate with the goal of facilitating a just transition to a carbon-neutral economy. Finally, the text called for the immediate launch of interinstitutional negotiations, underscoring that Parliament’s legislative prerogatives cannot be pre-empted by a political decision in the European Council. Regretting the delay in reaching an agreement in the latter, Parliament asked the Commission to prepare a contingency plan that would extend the current MFF to protect beneficiaries of EU funds should it prove impossible to finalise negotiations in time.

5.4. Council and European Council

In the Council, the rotating presidencies started to steer the examination of the MFF proposal at technical level following the Commission proposals. In December 2018, the European Council discussed the details of the next MFF for the first time, welcoming the intensive preparatory work carried out by the Council in 2018. In addition to a progress report, the Austrian presidency produced a draft negotiating box, a technical tool that lists issues to be addressed and related options with a view to facilitating an agreement. EU leaders invited the Romanian presidency to continue this technical work and develop an orientation for the negotiations during the first semester of 2019, setting the objective to reach an agreement in the European Council in autumn 2019.

In 2019, the Romanian and the Finnish Presidencies pursued work on the MFF proposals. However, differences in perspective among the Member States appeared to persist on several crucial elements of the new MFF. Following production of an updated draft negotiating box by the Romanian Presidency, the European Council of June 2019 called for more work, with a view to reaching an agreement at the level of Heads of State and Government before the end of the year.

On 5 December 2019, the Finnish Presidency disclosed the first draft negotiating box to contain figures for the headings. The proposal that the Finnish Presidency submitted to the Member States for their consideration ahead of the European Council set the next MFF at €1 087 billion (2018 prices), i.e. 1.07% of EU-27 GNI (down from 1.16% in the current period). Apparently, the draft negotiating box seeks to strike a balance between the Commission proposal and the demands from

---

173 European Parliament, Resolution on the 2021-2027 multiannual financial framework and own resources: time to meet citizens' expectations, 10 October 2019.
175 Council of the European Union, Multiannual financial framework (MFF) 2021-2027: Presidency progress report (14346/18), Brussels, 30 November 2018; and Multiannual financial framework (2021-2027): draft negotiating box (14759/18), Brussels, 30 November 2018.
176 European Council, Conclusions of the meeting (EUCO 17/18), Brussels, 14 December 2018.
177 Council of the European Union, Multiannual Financial Framework (MFF) 2021-2027: revised draft Negotiating Box (10010/1/19), Brussels, 14 June 2019.
178 European Council, Conclusions of the meeting (EUCO 9/19), Brussels, 20 June 2019.
a group of Member States that, according to press sources, would like to cap the MFF at 1 % of EU-27 GNI. As compared to the Commission proposal, all the headings would get lower resources except the one covering agricultural policy that would be increased by 3 %, but would remain below the levels available in the current MFF. This change is part of a broader attempt to rebalance cuts in agriculture and cohesion. Although new priorities would generally receive additional funding as compared to the current period, in relative terms some of the related policy areas would see the strongest reductions on the Commission proposal for 2021-2027: -24.1 % for migration and border management; -39.6 % for security and defence (see Table 4). The text provides further details of the proposed level of resources for various funding programmes. The objective for climate-relevant expenditure would amount to at least 25 % of the total resources, as proposed by the Commission, but as a share of a smaller framework. In addition, the special instruments for flexibility outside the MFF ceilings would be partly redesigned and their overall resources reduced. As for new revenue streams, the resource linked to plastic packaging waste is mentioned, while the attribution of a share of the revenue from the ETS to the EU budget is indicated between brackets as a possible additional option. Conversely, the CCCTB-based resource is not included. Deeming its work on the new MFF complete, the Finnish presidency declared that the new European Council President, Charles Michel, would now be in charge of the negotiations.

180 Council of the European Union, Multiannual Financial Framework (MFF) 2021-2027: Negotiating Box with figures (14518/1/19), Brussels, 5 December 2019; and Tytti Tuppurainen, Future EU needs a modern financial framework, Finnish Government Communications Department, 5 December 2019.
### Table 4 – New MFF: Finnish Presidency’s negotiating box, Parliament resolution, Commission proposal and 2014-2020 allocations (€ million, 2018 prices, EU-27)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Single market, innovation and digital</td>
<td>116 361</td>
<td>166 303</td>
<td>216 010</td>
<td>151 790</td>
<td>-8.7%</td>
</tr>
<tr>
<td>2. Cohesion and values</td>
<td>387 250</td>
<td>391 974</td>
<td>457 540</td>
<td>374 056</td>
<td>-4.6%</td>
</tr>
<tr>
<td>3. Natural resources and environment</td>
<td>399 608</td>
<td>336 623</td>
<td>404 718</td>
<td>346 582</td>
<td>3.0%</td>
</tr>
<tr>
<td>4. Migration and border management</td>
<td>10 051</td>
<td>30 829</td>
<td>32 194</td>
<td>23 389</td>
<td>-24.1%</td>
</tr>
<tr>
<td>5. Security and defence</td>
<td>1 964</td>
<td>24 323</td>
<td>24 639</td>
<td>14 691</td>
<td>-39.6%</td>
</tr>
<tr>
<td>6. Neighbourhood and the world</td>
<td>96 295</td>
<td>108 929</td>
<td>113 386</td>
<td>103 217</td>
<td>-5.2%</td>
</tr>
<tr>
<td>7. European public administration</td>
<td>70 791</td>
<td>75 602</td>
<td>75 602</td>
<td>73 602</td>
<td>-2.6%</td>
</tr>
<tr>
<td>Total MFF ceilings</td>
<td>1 082 320</td>
<td>1 134 583</td>
<td>1 324 089</td>
<td>1 087 327</td>
<td>-4.2%</td>
</tr>
<tr>
<td>In % GNI (EU-27)</td>
<td>1.16 %</td>
<td>1.11 %</td>
<td>1.30 %</td>
<td>1.07 %</td>
<td></td>
</tr>
<tr>
<td>Instruments outside ceilings</td>
<td>N/A</td>
<td>26 023</td>
<td>38 623</td>
<td>17 646</td>
<td>-32.2%</td>
</tr>
</tbody>
</table>


Commenting on the draft negotiating box presented by the Finnish Presidency, new Commission President Ursula von der Leyen warned that proposed cuts threatened key EU policy objectives, including for border management, common defence and the fight against climate change. Likewise, Parliament’s negotiating team strongly criticised the proposal, arguing that it would not allow the new European Commission to deliver its programme.181

According to press sources, while the Finnish Presidency’s negotiating box provides an indication on the direction of negotiations, Member States’ first reactions to it showed how distant their positions remain.182 The European Council of December 2019 discussed the Finnish proposal, calling on its President, Charles Michel, to take the negotiations forward with the aim of reaching a final agreement. However, the conclusions did not specify any timeline (see Section 5.6). In a separate point on climate change, the document underscored that the next MFF will contribute significantly to climate action.183

---

183 European Council, Conclusions of the meeting (EUCO 29/19), Brussels, 12 December 2019.
5.5. Other reactions to the Commission proposals

The proposals for the next MFF and the own resources system have received a mixed response. They do not represent a radical redesign of the current provisions, but rather their evolution. Defining its package as pragmatic and modern, the European Commission appears to suggest that it has taken into account the extensive consultations carried out beforehand (see Section 5.1) to propose a degree of reform on which an agreement is deemed politically achievable.

The European Economic and Social Committee (EESC) and the Committee of the Regions (CoR) delivered their opinions, in September and October 2018 respectively. Both advisory committees welcomed a number of positive elements in the package, but were critical of the cuts proposed for cohesion and agriculture. They recommended that the EU budget should reach 1.3% of EU-27 GNI to be able to tackle all EU objectives, in line with the position already expressed by the Parliament on the appropriate size of the post-2020 MFF. The EESC welcomed the investment support function envisaged for the InvestEU Fund, but considered that more resources would be needed to tackle the investment gap in the EU, while the new investment stabilisation mechanism proposed for the euro area was deemed unable to make a difference in the event of an asymmetric shock owing to its limited size. The EESC supported the timeline for the negotiations proposed by the Commission and the CoR urged EU institutions to reach a swift agreement.

Analysts and observers have differing views on the extent of the modifications that the proposals imply and their effectiveness. The Bruegel think tank gives a prudently positive assessment, noting the major constraints with which the European Commission was confronted in preparing the proposal. According to this analysis, the positive elements of the package include: higher allocations for policy areas that provide European public goods (border control, defence, research and innovation, digital sector, and migration); higher national co-financing for cohesion and rural development; stronger flexibility provisions; an attempt to link the EU budget to respect for the rule of law; and the proposed changes to the revenue side. Conversely, the authors assess other elements of the package negatively, such as: insufficient efforts to simplify the budgetary system; a too limited increase in resources for external policies; and ineffective design of the two new instruments put forward to reinforce economic and monetary union.

According to a policy brief by the Jacques Delors Institute, the planned rebalancing of resources between traditional policies (agriculture and cohesion) and new priorities is more ambitious than in the Commission’s proposals for previous MFFs, but not radical. While recalling the various factors that make comparability with the size of the current MFF difficult, the authors conclude that the economic environment helps to smooth the impact of the expected withdrawal of the UK. The document notes some conceptual innovations in spending programmes, such as the streamlining of the use of financial instruments by means of the InvestEU programme. However, the proposed basket of new own resources is criticised as insufficiently bold when compared with the recommendations of the High-Level Group.

---

184 EU budget: Commission proposes a modern budget for a Union that protects, empowers and defends, press release, European Commission, 2 May 2018.
The European Policy Centre (EPC) assesses some developments as positive such as: increased resources for new priority areas, climate mainstreaming across all EU programmes with the target of devoting 25% of the MFF to climate-related objectives, the proposed abolition of all correction mechanisms on the revenue side, and the endeavour to tie the budget to respect for the rule of law in Member States. However, continuity is deemed to prevail and the author calls for more ambitious reform that, despite the limited size of the EU budget, would align its expenditure more closely to the Union’s principles and goals.188

The CEPS think tank sees the proposed MFF as old-fashioned. Considering the novelties overall to be minor, the commentary points to elements of continuity such as the absence of provisions introducing national co-financing for income support to farmers in agricultural expenditure.189 In another commentary, the same think tank outlines the limitations of the EU budget, including the proposed European investment stabilisation function, in fulfilling a stabilisation role against economic shocks (see Section 3.1). The authors conclude that the Commission proposals do not provide a political process to identify stabilisation as a necessary component of EU expenditure.190

More recently, other analyses have noted that new Commission President Ursula von der Leyen’s political guidelines include commitments that have implications for the EU budget.191 In this respect, the fact that an agreement on the next MFF was not achieved before the European elections of May 2019 could be seen not only as a challenge but also as an opportunity. A paper by the Jacques Delors Institute argues that, while the new European Commission cannot put forward a completely new MFF proposal, it could try and influence the ongoing negotiations to align the next framework with the new EU agenda, highlighting a number of key areas to this effect (the European Green Deal, digital and social policies, migration, EMU, external action, security, defence, and links between the EU budget and the rule of law). The Juncker Commission did not have such an opportunity, since the current MFF was proposed and adopted under the Barroso II Commission.192

5.6. The remaining road to the next MFF and the post-2020 relationship with the UK

The timeline for the negotiations on the post-2020 MFF was perceived as a challenge from the outset of the process. When presenting its MFF proposals in May 2018, the European Commission called for swift negotiations to take maximum one year, with a view to reaching an agreement before the European Parliament elections.193 It noted the negative knock-on effect that late adoption of the current MFF had had on the start of its implementation, pointing to the objective of avoiding a repeat of the situation.

The timeline proposed by the Commission was ambitious, given that these negotiations are traditionally complex and lengthy. It took around two and a half years to find an agreement on the

189 J. Núñez Ferrer and D. Gros The multiannual financial framework, where continuity is the radical response, CEPS, Commentary, 4 May 2018.
190 J. Núñez Ferrer and C. Alcidi, Should the EU budget have a stabilisation function?, CEPS, Commentary, 30 May 2018.
192 E. Rubio, New beginnings: An EU budget in support of the next Commission’s agenda, Jacques Delors Institute, 2 September 2019.
193 European Commission, EU budget: Commission proposes a modern budget for a Union that protects, empowers and defends, Press release, 2 May 2018.
current MFF and adopt it.\textsuperscript{194} The unanimity requirement for the adoption of the MFF regulation in the Council remains an important challenge for such a broad proposal, with groups of Member States habitually reported to have differing views on various elements. In addition, some analysts argue that the new background characterising the negotiations for the post-2020 period may trigger cleavages within traditional coalitions.\textsuperscript{195}

At the end of 2019, i.e. eight months after the deadline initially proposed by the Commission, the European Council did not yet appear to have started substantial discussions on the new MFF. Deeming the delays regrettable, Johan Van Overtveldt (European Conservatives and Reformists, Belgium), Chair of Parliament’s Committee on Budgets, urged the European Council and the Council to step up contacts with Parliament and to engage in a substantial dialogue, with a view to reaching a timely and satisfactory agreement.\textsuperscript{196}

A factor that has added a layer of complexity in the design of the post-2020 MFF is the expected withdrawal of the United Kingdom (UK) from the EU, which had been factored into the Commission proposals from the beginning (see Section 5.2). Following the triggering of the Article 50 procedure by the UK in 2017, and three requests for extension of the period leading to its withdrawal, the UK and the EU finally ratified the Withdrawal Agreement in January 2020. On that basis, the UK’s EU membership ceases as of 1 February 2020. A transition period, during which the UK is to participate in the EU budget as if it were still an EU Member State, will apply up to 31 December 2020.

Given the multiannual nature of many expenditure items in the EU budget, a number of the commitments that the EU entered into during the 2014-2020 period will only become payable after 2020. The settlement of the UK’s financial obligations towards the EU was one of the three priorities identified for the first phase of the negotiations on the withdrawal agreement.\textsuperscript{197} During the negotiations, the UK agreed to honour its share of the financing of all the obligations undertaken during its EU membership. The Withdrawal Agreement translates the conclusions on the financial settlement reached during the negotiations into legal provisions. In practice, now it has been approved by the UK House of Commons and the European Parliament, it should result in the UK withdrawal having no impact on the 2014-2020 MFF, the payment of related obligations and the transition to the next MFF.\textsuperscript{198}

Should the EU-UK joint committee in charge of implementing and applying the Withdrawal Agreement agree an extension of the transition period by one or two years (i.e. up to 31 December 2021 or 2022), the UK will make a contribution to the EU budget during the extended period of the transition for an amount to be determined by the joint committee itself.\textsuperscript{199} An extension must be agreed by 30 June 2020. In this respect, a policy brief by the European Policy Centre (EPC)

\textsuperscript{194} The Council’s adoption of the accompanying Own Resources Decision, which introduced minor changes to the EU’s financing system, took even longer, i.e. almost three years.

\textsuperscript{195} J. Haas, E. Rubio and P. Schneemelcher, \textit{op. cit.}

\textsuperscript{196} European Parliament, \textit{Chair of Committee on Budgets regrets European Council’s MFF delays and urges to step up contacts with Parliament}, press release, 13 December 2019.

\textsuperscript{197} 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, \textit{The Brexit negotiations: Issues for the first phase}, EPRS, European Parliament, June 2017; C.-C. Cirlig, \textit{Brexit: Understanding the withdrawal agreement and political declaration}, EPRS, European Parliament, March 2019; and C.-C. Cirlig, \textit{The revised Brexit deal: What has changed and next steps?}, EPRS, European Parliament, October 2019.


\textsuperscript{199} Article 132 of the agreement on the withdrawal of the UK from the EU.
recommends that the EU already prepare a plan to adjust its post-2020 MFF to a possible last-minute extension request of the transition period from the UK.\(^{200}\) The UK government has expressed its intention not to request such an extension.

The possibility of longer-term UK participation in some of the post-2020 EU programmes remains to be seen. This topic could be part of the negotiations on the future EU-UK relationship that should take place during the transition period. As for third countries that do not have a framework agreement or decision already in place with the EU, the Finnish Presidency's negotiating box (see Section 5.4) makes their participation conditional on the conclusion of an agreement that sets the applicable conditions. The text specifies that such an agreement should ensure a fair balance between contributions and benefits, exclude any decision-making power for the third country on relevant programmes, and contain rules on protecting the EU's financial interests.\(^{201}\)

At all events, deeming cross-border support for peace and reconciliation in the border counties of Ireland and Northern Ireland invaluable, the Commission recommended the continuation and enhancement of relevant programmes in its proposals for the post-2020 MFF (see Section 5.2). Along these lines, the Finnish Presidency's negotiating box includes a specific allocation for the PEACE PLUS programme in support of peace and reconciliation and of the continuation of North-South cross-border cooperation.

According to a paper published by Stiftung Wissenschaft und Politik (SWP), the expected withdrawal of a net contributor to the EU budget is one of the elements making the negotiations for a new MFF more unpredictable and even more complex than in the past. However, the author argues that, while uncertainty among participants in the decision-making process has increased, this development could also trigger new reform options.\(^{202}\)

Should a new MFF not be adopted by the end of 2020, the Treaty on the Functioning of the European Union includes a safety net to ensure continuity. The ceilings and other MFF provisions applicable to the last year of the current framework would be extended until the new MFF is adopted by the Council.\(^{203}\) Table 5 recaps the ceilings available for each MFF heading in 2020, which would apply in the event of such an extension. The figures in bold highlight the categories of spending for which commitments in the 2020 budget are higher than the 2020 ceilings (see Section 4), since the budgetary authority had to resort to special instruments (the Flexibility Instrument and the global margin for commitments) to finance additional needs on top of the ceilings: subheading 1a 'Competitiveness for growth and jobs', subheading 1b 'Economic, social and territorial cohesion', and heading 3 'Security and citizenship'.\(^{204}\) Resorting to special instruments would remain possible, given that the extension would include any other provisions set in the MFF regulation for the smooth functioning of the annual budgetary procedure.

---

\(^{200}\) L. Brunner, The EU should prepare for all UK post-election scenarios, European Policy Centre, 6 December 2019.

\(^{201}\) Council of the European Union, Multiannual Financial Framework (MFF) 2021–2027: Negotiating Box with figures (14518/1/19), Brussels, 5 December 2019; and Tytti Tuppurainen, Future EU needs a modern financial framework, Finnish Government Communications Department, 5 December 2019.


\(^{203}\) Article 312(4) of the Treaty on the Functioning of the European Union.

\(^{204}\) The financing of heading 4 'Global Europe' has also necessitated the use of special instruments on several occasions during the current MFF.
Table 5 – 2020 MFF ceilings by heading (€ million, current prices)\(^{205}\)

<table>
<thead>
<tr>
<th>Commitment appropriations</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>1a Competitiveness for growth and jobs</td>
<td>25 191</td>
</tr>
<tr>
<td>1b Economic, social and territorial cohesion</td>
<td>58 470</td>
</tr>
<tr>
<td>2 Sustainable growth: natural resources</td>
<td>60 421</td>
</tr>
<tr>
<td>of which: Market-related expenditure and direct payments</td>
<td>43 888</td>
</tr>
<tr>
<td>3 Security and citizenship</td>
<td>2 951</td>
</tr>
<tr>
<td>4 Global Europe</td>
<td>10 510</td>
</tr>
<tr>
<td>5 Administration</td>
<td>11 254</td>
</tr>
<tr>
<td><strong>Total commitments</strong></td>
<td><strong>168 797</strong></td>
</tr>
<tr>
<td>As a percentage of EU-28 GNI</td>
<td>0.99 %</td>
</tr>
</tbody>
</table>

| Payment appropriations                                       | 172 420 |
| As a percentage of EU-28 GNI                                 | 1.01 % |


However, it is expected that the lack of an agreement on a new MFF by the end of the year would hinder the adoption of related EU operational programmes, resulting in legal and financial uncertainty. Current EU budgetary instruments cover the period until the end of 2020 and the extension of their implementing period would not be automatic, contrary to what would happen with the MFF ceilings and provisions. For this reason, being concerned with the delays in the negotiations in the Council and the European Council, the European Parliament has called for the Commission to prepare a contingency plan for the MFF extension, with a view to protecting beneficiaries of EU funding.\(^{206}\)

Another element to be monitored and considered in the event of an extension of the current MFF would be the available level of payment appropriations. The multiannual nature of many EU investments results in an increase in payments at the end of a programming period and at the beginning of the following one. A certain level of outstanding commitments (also known as RAL\(^{207}\)) is inherent in the EU budgetary system due to the time lag between many commitments and the related payments, but part of this phenomenon may become problematic at times. For example, the EU budget was afflicted by high abnormal payments backlogs in the final years of the 2007-2013 MFF and in the initial years of the current framework.\(^{208}\) In 2019, the European Court of Auditors analysed the trend of outstanding commitments over time. The Court made recommendations to avoid an excessive increase of the RAL and possible related problems, which included the timely adoption of the new MFF and its implementing programmes.\(^{209}\)

---

\(^{205}\) The total for 2019 is lower than the overall appropriations for the 2019 EU budget, since it does not include the instruments that are outside the MFF ceilings.

\(^{206}\) European Parliament, Resolution on the 2021-2027 multiannual financial framework and own resources: time to meet citizens’ expectations, 10 October 2019.

\(^{207}\) French acronym for reste à liquider.


\(^{209}\) European Court of Auditors, Outstanding commitments in the EU budget : A closer look, Rapid case review, April 2019.
In 2020, the European Council is expected to start substantial discussions on the new MFF. While the European Council is not part of the legislative procedure for the adoption of the MFF regulation, it has traditionally played a major role in reaching an agreement between Member States. Following the European Council of December 2019, its new President Charles Michel has committed to intensifying work on the MFF with a view to reaching an agreement.

While the conclusions of 12 December 2019 remained silent on the next milestones,210 in late January 2020 President Charles Michel convened a special European Council meeting to discuss the next MFF on 20 February 2020 (see Figure 18). If an agreement at the level of Heads of State and Government is not reached by then, the procedure will start to lag behind the timeline followed for the current framework. The European Council actually reached an agreement on the 2014-2020 MFF in February 2013.211 Being dissatisfied with the outcome (see Section 5.1), the European Parliament was able to negotiate modifications, such as the reinforcement of the flexibility provisions and the inclusion of a compulsory mid-term review/revision, before giving its consent. The Council eventually adopted the current MFF in December 2013, just one month before the start of the programming period.

The objective is now for the post-2020 MFF to be adopted in 2020, with a view to avoiding the negative knock-on effect that a delayed adoption would have on the new generation of implementing programmes. An equally salient point, as underlined on numerous occasions by the European Parliament, is that the new MFF endows the EU with appropriate resources to achieve its jointly agreed objectives. Challenging issues on which agreement has to be reached include the overall size of the budget, the allocation of resources to individual policy areas, the flexibility provisions, and the proposals to introduce conditionality linked to the rule of law. Various analysts and commentators deem an agreement before late 2020 unlikely.212

The European Parliament has called on the European Council to make the process smoother, by activating the passerelle clause of the Treaty, which would allow the Council to act by qualified majority in this domain.213 Since the adoption of the interim report detailing its position in November 2018 (see Section 5.3), Parliament and its negotiating team have repeatedly urged the Council and the European Council to step up discussions on the next MFF, with a view to reaching a timely agreement. Likewise, the European Commission has stressed the importance of such an objective.214 In December 2019, Parliament leaders decided to suspend large parts of the MFF negotiations with Council, on account of the latter’s failure to make progress in establishing its position on the post-2020 MFF.215

---

210 European Council, Conclusions of the meeting (EUCO 29/19), Brussels, 12 December 2019.
212 D. Gros, C. Egenhofer and M. Elkerbout, Making the political weather to combat climate change, CEPS in brief, CEPS, 12 December 2019.
Figure 18 – Timeline for establishing the 2021-2027 MFF

**2018**
- 2 May: European Commission: proposals for post-2020 MFF and own resources
- 14 November: European Parliament adopts its detailed negotiating position
- 30 November: Council: Presidency produces progress report and draft negotiating box
- 13 December: European Council: first discussion on the content of the proposals

**2019**
- 25-26 May: Informal European Council on the future of the EU in Sibiu
- 10 October: Newly elected European Parliament confirms and updates its negotiating position
- 17-18 October: European Council: exchange of views on the new MFF
- 1 December: New European Council and European Commission Presidents take office
- 5 December: Council: Finnish Presidency publishes first negotiating box with figures
- 12 December: European Council calls on its President to take the negotiations forward to reach a final agreement
- 19 December: European Parliament Conference of Presidents decides to suspend most MFF negotiations with Council

**2020**
- 20 February: Special European Council meeting convened to discuss the next MFF

**2021**
- Scheduled start of the new MFF

Source: EPRS.
6. Economic focus: the international role of the euro

6.1. Overview

More than two decades have passed since the euro was launched, ending a long journey\(^{216}\) begun in the early 1970s, when the then Heads of State or Government of the European Communities asked the Council to draw up a plan for closer monetary integration. The resulting Werner Report\(^{217}\) unveiled in October 1970, delivered an ambitious plan to achieve economic and monetary union (EMU)\(^{218}\). Among other things, it defined the procedures for setting up reciprocal exchange rates among Member States and granting intra-Community loans. The Werner Report built on the assumption that exchange rates with the US dollar would remain stable. However, on 13 August 1971, President Nixon of the United States decided to quit the US dollar's convertibility into gold, thereby unilaterally ending the fixed exchange rate system that had been in place since the Second World War (see section 6.3.1). That gave Europe an incentive to speed up progress on the path towards a single currency. The first concrete step was taken with the European Monetary System (EMS)\(^{219}\) – an exchange rate regime keeping participating currencies within a narrow band – and the single currency finally came into being on 1 January 1999. The main aim of monetary union was to maximise the benefits of the EU's internal market and thereby put Europe on a higher growth path. The Member States that have adopted the single currency have increased in number from the original 12 to the current 19 and are known collectively as the euro area\(^{220}\) (or eurozone).

Along side the consequences for the euro area domestic economy, the international implications of introducing the single currency have been the subject of increasing attention. Even before the start of the third and final stage\(^{221}\) of EMU various observers wondered how it would affect international policy cooperation and in which direction exchange rates would move. Others asked to what extent the introduction of the euro could change the relative use of other major currencies outside their home countries. The international use of the euro and the evolution of the international monetary system have attracted renewed interest from academics and policy-makers since the financial crisis broke out in 2008. This interest has grown even more in recent times on account of major political developments at global level.

This chapter gives an overview of how the international role of the euro has developed since the currency's introduction, by exploring the underlying dynamics and evolving structure of the international monetary system. After examining where the euro stands at present in this respect and what the implications are of further development of its international role, attention is given to the way this role relates to the ECB's monetary policy. The chapter ends with an examination of the policies supporting the euro's international role.

6.2. Main drivers of the international role of currencies

According to a standard classification, a currency can be used as a medium of exchange facilitating the indirect trade of goods and services, as a unit of account to accurately compare the value of

---

\(^{216}\) See [History and purpose of the euro](https://ec.europa.eu/economy_finance/euro/history_en), European Commission website.


\(^{218}\) See [Economic and Monetary Union](https://ec.europa.eu/economy_finance/euro/monetaryunion_en), European Commission website.

\(^{219}\) See [European Monetary System](https://ec.europa.eu/economy_finance/euro/monetaryunion_en), Eurostat website.

\(^{220}\) See [What is the euro area?](https://ec.europa.eu/economy_finance/euro/area_en), European Commission website.

\(^{221}\) See [Economic and Monetary Union](https://ec.europa.eu/economy_finance/euro/monetaryunion_en), European Central Bank website.
goods and services, and as a store of value to transfer purchasing power from the present to the future. It becomes 'international' when it is sizeably used not only by residents of the country (or group of countries) issuing it, but also by non-residents. The extent to which non-residents use a currency as compared to other currencies demarcates its international role. In the international sphere the typical functions performed by a currency take on additional connotations, both in the public interest and for private use. In the first field, a country's own currency can be purchased or sold by the issuing central bank on the foreign exchange market to influence its value (currency interventions – or 'forex' interventions); it can be held by another central bank or monetary authority for the purposes of currency intervention and the settlement of intergovernmental claims (reserve currency or anchor currency); or it becomes a pegging currency when another country's currency's rate of exchange is attached to it. On the private side, the counterparties in a cross-border import or export transaction can settle with a currency that is the national currency of a third country (vehicle or invoicing currency); a currency can be also used to determine the value of another currency (quote currency), to make speculative investments benefiting from value fluctuations (investment currency), or to profit from the spread or carry trade between a low-interest currency and a higher-yielding asset (funding currency). Economies of scope mean that these functions tend to reinforce each other, but an international currency does not necessarily need to meet all these criteria.

Another aspect of the international role of a currency is the extent to which its interest and exchange rate developments generate similar movements in the interest and exchange rates of other currencies. These two notions of the international role of a currency are obviously interrelated, insofar as a currency that is largely used abroad often exercises a major influence on interest rates and exchange rates.

Historically, since businesses began crossing domestic boundaries, there has always been a dominant currency. The silver drachma issued by ancient Athens in the fifth century BC was most likely the first currency to be widely circulated, followed by the Romans' gold aureus and the silver denarius, from the first century BC to the fourth century AD. The first relatively well documented case of a dominant international currency was the Byzantine gold nomisma, followed by the Florentine fiorino, the Venetian ducato, the Amsterdam bank guilder, the pound sterling and most recently the US dollar. In almost all documented cases, the transition from one leading international currency to another took a long time.

The factors that determine the international use of currencies have been explored extensively by academics. While historical analyses have often emphasised the role of the real economy and goods trade, the more recent scientific literature has increasingly pointed to the role of financial markets, international portfolio investment and international financing. Another important factor influencing the internationalisation of a currency is its stability. The incumbency advantage of an existing international currency and the political stature of the issuing country also play a major role.

Factors such as the size of the real economy or the capital markets can lead to economies of scale in the use of currencies, and explain why there has often been a single dominant international currency in history. On the other hand, risk factors causing diversification or the need for internationally active agents to hedge can explain why there has sometimes been more than one international currency. The state and future development of these factors are highly significant when it comes to the current and future international role of the euro.

[222] See A brief history of global trade or reserve currencies, This Time is Different website.
6.2.1. Size, strength and international linkages of the real economy

The frequency with which foreign economic operators do transactions with domestic operators depends on the size of the domestic real economy compared with the rest of the world, on the country's competitiveness in international trade, and on its place in the international division of labour. Other factors held constant, the greater a country's economic size – measured by its gross domestic product (GDP) – the more open is its economy and the greater its volume of international trade. In fact, if a country has a large cross-border goods trade volume, the transaction costs of using that country's currency to feed global trade are generally lower. If traders find it convenient to use this country's currency as a medium of exchange for transactions with other countries' traders, then the currency becomes a vehicle currency and its status is enhanced to international money.

Figure 19 shows that the US economy has been growing at a more stable pace over recent decades compared with the euro area economy. That suggests that, inasmuch as real domestic performance fosters the international role of a currency, in recent years the dollar may have benefited from the strong performance of the US economy. Actually, the nexus between size and growth rate of the real economy and the international use of a currency has not been explored very much in literature. However, empirical evidence suggests that a successful and sustainably fast growing economy may bring higher asset returns, in that way attracting foreign investment leading to enhanced investment currency use.

Figure 19 – euro-area and US GDP

In terms of foreign trade, euro area exports are larger than US exports at fixed exchange rates, while US imports were for a long time slightly lower than euro area imports (see Figure 20). The similar trend in trade between the euro area and the US suggests these factors may not play the most important role in determining the relative use of the euro and the dollar as invoicing currencies.
6.2.2. Depth, size and openness of financial markets

In the most recent era of financial innovation, liberalisation of financial systems and free capital movements, the sizeable extent of national and cross-border financial transactions is much more likely to exert a preponderant influence on the international role of currencies than real commercial transactions. Large and liquid financial markets imply low transaction costs, which make it attractive for foreign investors to use these markets and to trade financial instruments denominated in that country’s currency, instead of other currencies with larger transaction costs. In addition, well-developed financial markets, offering a broad range of liquid instruments, make it easier to manage the currency and interest rate exposures that typically characterise international transactions.

This is also what the historical record suggests. The pound sterling was the leading international currency in the 19th century, when not only was the UK the world’s largest economy but the City of London was the dominant financial centre. The dollar has been the leading international currency since the 20th century. Recent research224 shows that the size of capital markets was instrumental in helping the US dollar to catch up and then overcome, the pound sterling in the first half of the 20th century. Financial deepening was by far the most important contributor to the increase in the share of dollar-denominated international bonds issued between 1918 and 1932. Its impact exceeded that of economic size.

The size of capital markets is conventionally measured by the ratio of outstanding financial assets relative to economic activity (i.e. GDP). According to this definition, the EU has a much larger capital market than the US if financial assets held by banks are taken into account. However, if such assets are excluded and the size of capital markets is measured just as the volume of outstanding bonds and shares, the financial markets in the US and Japan are substantially greater (see Figure 21).

---

In fact, banks rather than capital markets play a primary role in financing the EU economy. According to the economic analysis\textsuperscript{225} accompanying the 2015 capital markets union action plan\textsuperscript{226}, bank loans represent 14\% and 3\% of the total liabilities of European and US companies, respectively. On the other hand, US companies use corporate bonds more as a source of funding, these representing 11\% of their total liabilities, compared with 4\% in EU firms. Corporate bonds account for a third of bank credit in the EU whereas for US companies they are a more important funding tool than bank loans. The supremacy of market over non-market funding sources in the US is also evident when looking at equity. While the portion of equity on firms’ balance sheets do not significantly differ in the US and the EU, only about one third of this equity is in the form of listed shares in the EU, compared with more than half in the US. Non-listed shares are more difficult to trade and therefore less liquid, which means investors require a higher liquidity premium as compensation for their longer-term engagement. The relative costs and benefits of bank and capital market financing have been broadly discussed in the academic literature. What is acknowledged is that securitised assets are more fungible and therefore more suitable for international transactions, so that the more bank-based European financial system may also pose a limit to the further expansion of the euro’s international role.

Financial market infrastructures contribute significantly to a currency’s liquidity, which is a key determinant of its international standing. Various challenges may also exist in processing cross-border transactions. For example, the absence of common or interoperable technical standards may lead to higher failure rates and costs.

\subsection*{6.2.3. Stability of a currency and confidence in its future stability}

The stability of a currency is traditionally attributed to two main elements: price stability (also referred to as internal monetary stability) and exchange rate stability (external monetary stability).

\textsuperscript{225} European Commission, Commission staff working document, Economic analysis accompanying the document Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – Action plan on building a capital markets union, SWD(2015) 183 final.

\textsuperscript{226} European Commission, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – Action plan on building a capital markets union, COM(2015) 468 final.
Price stability is an important precondition for the development and maintenance of the international role of a currency. It is essential for external investors' confidence that their purchasing power regarding nominal assets will be preserved over time. Internal monetary stability is also a precondition for external stability, in the sense that it contributes to lower exchange rate volatility and helps to preserve confidence in the currency. In other words, internal and external stability of a currency limit the risks for external agents wishing to use a currency for their international transactions, so that, other things being constant, more stable currencies are more attractive than less stable ones in this respect.

The monetary policy for the euro is conducted by the European Central Bank (ECB) within the constitutional environment set by the Maastricht Treaty, pursuing the primary objective of maintaining price stability (internal monetary stability). Price stability means a yearly increase in the Harmonised Index of Consumer Prices (HICP) of 'close to, but below, 2%', with a medium-term horizon.227

Figure 22 shows the inflation trend of the euro against the dollar and the yen in terms of the consumer price index (CPI) measured in the relevant economies. The graph suggests that internal monetary stability in the United States and the euro area is quite comparable, while Japanese data display well-known deflationary trends. Actually, for most of the time since the euro’s introduction, inflation in the euro area has been lower than in the United States. Similar statements can be made for inflation variability.

**Figure 22 – Inflation rate, consumer prices**

![Inflation Graph](source: World Bank)
monetary stability in the euro area undoubtedly shores up the development of the international role of the euro, exchange rate movements may have put the euro at a disadvantage to the dollar so far.

Political stability and good governance in the issuing country are also important factors when it comes to the international role of currencies. Economic agents must be confident that the country whose currency is chosen to be international money is committed to providing a market-friendly regulatory framework and to delivering good governance. Therefore, a country with a wise fiscal authority, a sound legal and judicial system, efficient regulatory authorities (i.e. banking supervision, anti-trust, etc.), and with a credible monetary authority is more likely to have its currency used as international money. Other policies can have a bearing on a currency's international role. For example, the rule of law and the enforcement of financial contracts support a currency's role as a medium of exchange and store of value. As will be discussed in section 6.6.4, security policy also matters.

6.2.4. Incumbency advantage and inertia of an existing international currency

Another important factor affecting the international role of a currency is the incumbency of an existing international currency. As mentioned in section 6.2, traders’ preferences for a specific currency appear to change very slowly. This inertia may have a variety of causes, including economies of scale in using currencies, habit formation, sunk costs, network increasing returns or a lack of credible alternatives. As is often pointed out, the pound sterling maintained its international status for decades despite the strength of the US economy relative to the British economy. The international commodity markets, which commonly trade in the same currency over years, are another typical example. Therefore, the most widely used international currency will usually have the largest and broadest financial markets, sustained by the numerous transactions related to that same role. Unless a major exogenous shock or structural change occurs, it seems quite difficult for another currency to benefit from the network externalities that could raise it to a similar role. However, a number of recent studies\(^\text{228}\) have challenged this conventional insight, suggesting that inertia effects are less strong than previously supposed and that the advantages of incumbency are not insurmountable.

6.3. The evolving structure of the monetary system and the current international role of the euro

6.3.1. Recent developments in the monetary system

The international monetary system has been evolving in recent years. In fact, current global trends, the emergence of new economic powers and the development of new technologies are leading to a potential transition from a still dollar-dominated environment to a more diversified and multipolar system of several global currencies. To understand the current setting, it is worth taking a look at the past, namely, at the Bretton Woods system,\(^\text{229}\) which was established in the aftermath of the Second World War to design a new international monetary order preventing the perceived problems of the interwar period: protectionism, beggar-thy-neighbour devaluations, hot money flows and unstable exchange rates. That system was built on fixed but adjustable exchange rates:


participating countries pegged their currencies to the US dollar; in turn, the United States maintained the dollar's convertibility into gold at a fixed rate. Possible temporary imbalances of payments could be bridged with the assistance of the International Monetary Fund (IMF), but countries benefitting had to implement a mix of fiscal and monetary policies consistent with a stable dollar parity or, rarely, were required to adjust their currency's exchange rate.

The ‘asymmetric’ Bretton Woods regime granted the US what was referred to as an ‘exorbitant privilege’, summarised by American economist Barry Eichengreen as follows: ‘It costs only a few cents for the Bureau of Engraving and Printing to produce a $100 bill, but other countries had to pony up $100 of actual goods in order to obtain one.’ The long-term sustainability of this system was put into question at a certain point. The world economy grew rapidly in the 1950s and 1960s; global demand for liquidity and the stock of dollar assets held abroad rose significantly, while global gold supplies remained unchanged. In these conditions, the dollar could not survive as the world’s reserve currency without the United States having to run ever-growing current account deficits. Indeed, the more popular a reserve currency is relative to other currencies, the higher its exchange rate and the less competitive domestic exporting industries become. This causes a trade deficit for the country issuing the currency. In addition, to have its currency used as a global reserve currency, a country has to inject large amounts of it into circulation, possibly increasing domestic inflation. The famous Triffin dilemma illustrated that it is not possible at the same time having interest-free loans generated by selling currencies to foreign agents and using capital and monetary policy to grant competitiveness to domestic industries. In 1968, Triffin’s predictions came true: faced with a run to gold reserves, the US authorities suspended dollar-gold convertibility in 1971, committing the Bretton Woods system to the history books.

Under the new regime of floating exchange rates that has ruled since then, countries are free to conduct monetary policy independently, even if, according to the Mundell-Fleming trilemma, they can only choose either to allow the value of their currencies to be governed by market forces or to impose capital controls. In principle, this regime should be more balanced than the US-dependent Bretton Woods system, since other countries are no longer obliged to hold low-interest dollar reserves to maintain their dollar parity; exchange rates can adjust freely; and no Triffin dilemma can arise since dollar liquidity is de-coupled from gold supply.

Nonetheless, recent research illustrates that the era of floating rates shares many of the same structural features as the Bretton Woods regime. As financial globalisation advanced, US investors concentrated their foreign holdings in high interest, risky and/or illiquid securities such as portfolio equity or direct investment, while foreign investors concentrated their US asset purchases in low interest portfolio debt, especially treasuries and bonds issued by government-affiliated agencies in areas such as housing finance and cross-border loans. Thus, what was once the ‘exorbitant privilege’ of the United States, seems to have turned into a risk premium resulting in large and growing US returns that could have significant implications for the sustainability of US trade deficits and the interpretation of current account deficits.

The end of the Bretton Woods system and the challenging foreign economic policies of the 1980s pushed Europe towards monetary union. Before the start of stage 3 of EMU, a widely debated issue

---

230 See B. Radcliffe, How The Triffin Dilemma Affects Currencies, Investopedia website.
231 See Two out of three ain’t bad, Economics brief, The Economist website.
was whether the introduction of the euro could lead to a bipolar (around the dollar and the euro, each with comparable roles) or tripolar (around the dollar, the euro and the yen) international monetary system and what the consequences of such developments would be for the international financial architecture and for international financial stability. Still in 2008, some economists expected the euro to overtake the US dollar as an international reserve currency by around 2020. These forecasts never came true: the dollar has preserved its dominant role so far, whereas the euro, after quickly establishing itself as the second most important global currency, gradually lost international standing from the mid-2000s onwards, and has only recently shown signs of reversing the trend.

Figure 23 – Composite index of the international role of the euro


The size of domestic Japanese financial markets, some difficulties in the Japanese banking system, the deflationary tendencies in the Japanese economy and a smaller share in world exports have prevented the yen from assuming a wider international role. On the other hand, the Chinese renminbi is not yet an international currency that could challenge the position of the dollar or even the euro, but its international use is an important element on China's reform agenda. The renminbi, for example, was included in 2016 in the International Monetary Fund's special drawing rights (SDR) basket together with the US dollar, euro, yen and pound sterling. China recently also launched its first oil futures contract denominated in renminbi – the so-called petroyuan – in an apparent attempt to strengthen the renminbi's hold on global energy markets.

6.3.2. Use of the euro as an international reserve and investment currency

As seen from the 2019 ECB interim report on the international role of the euro, the US dollar remains the leading global reserve currency, but its share has declined by more than seven percentage points relative to its peak level before the global financial crisis, settling now at approximately 61.7%. The euro grew temporarily in importance as an international reserve unit in the wake of the global financial crisis, yet its role declined after the onset of the euro area debt crisis in the 2010-2011 period, showing slight signs of recovery only recently: it accounts nowadays for around 21%. At constant exchange rates, the share of international reserves in euros held by foreign

---

central banks increased by more than a full percentage point between the end of 2017 and the end of 2018. The recent increase in the share of the euro in global reserve portfolios appears partly related to factors that weighed on the use of the US dollar, one of which is that several emerging market economies – many of which are large reserve holders – have sold US dollar-denominated reserves. Another factor is that some central banks might have started to consider reducing their positions in financial assets exposed to the risks of unilateral actions. The shares of both the Japanese yen and the pound sterling have remained stable, once adjusted for valuation effects arising from exchange rate movements. Stability in the share of the pound sterling, in turn, suggests that official reserve holders remained convinced that risks associated with the withdrawal of the United Kingdom from the EU could be mitigated.

Weaker euro area growth prospects and the prolonged effects on interest rates of the ECB’s asset purchase programme may contribute to reducing the attractiveness of the euro as an international investment currency. Declining demand for euro area equities in 2018 mainly reflects global factors, not least lower levels of global investor risk appetite in a context of slowing global growth, intensified trade tensions and persisting political uncertainty. However, factors specific to the euro area further hamper the global attractiveness of euro area equities; these include fears of a harsher downturn in activity in the euro area. Against the backdrop of the ECB’s asset purchase programme and low euro area yields, foreign investors remained net sellers of debt securities in 2018, for an amount of €190 billion.

At constant exchange rates, the use of the euro in international debt markets – measured as a share of outstanding amounts of international debt securities – remained stable in 2018, at about 23%. Since the mid-2000s, the share of the euro has declined by about 8 percentage points, while that of the US dollar has increased by close to 20 percentage points, to over 63%. However, developments in issuance rather than in stocks better mirror recent trends in international debt markets. In 2018 global volumes of foreign currency denominated debt issuance fell by more than 10% to approximately US$ 1 900 billion, essentially because of a decrease in US dollar issuance by emerging market borrowers concerned by a stronger US dollar exchange rate, weaker global growth and possibly rising debt servicing costs. Debt financing in the euro and other currencies remained stable or increased slightly. As a result, the share of euro debt issuance increased by 2.5 percentage points in 2018, to more than 20%. Despite this level being just a half of that achieved before the financial crisis, it shows the recently increased interest of emerging market borrowers in using the euro as a funding currency to diversify their funding base and reduce exposures to US dollar exchange rate movements.

Between 2006 and 2014 the share of the euro in cross-border loans declined continuously, as a result, among other things, of the deleveraging by euro area banks, and regulatory efforts to reduce exposures to foreign loans denominated in the euro. This trend has stopped and partly reversed in the past few years. The share of the euro in the stock of international loans stood at 19.3% at the end of 2018, an increase of almost 1 percentage point relative to the end of 2017. The ECB’s accommodative monetary policy incentivised euro area banks operating internationally to transfer funds abroad within their respective networks. A greater supply of euro-denominated funds outside the euro area also increased euro lending from banks outside the euro area.

At constant exchange rates, the share of the euro in the stock of international deposits stands at around 25%, some seven percentage points above its minimum at the end of 2015 and close to its previous peak of 2005. The share of the US dollar also increased in the last year by almost

---

235 See Asset purchase programmes, European Central Bank website.
1 percentage point. However, it is down by about five percentage points compared with 2015, as a result of concerns about unilateral sanctions, among other factors.

It is interesting to note that the share of the euro in outstanding loans decreased further in central, eastern and south-eastern Europe. This may depend on local authorities' efforts to promote the use of domestic currencies to mitigate financial stability risks raised by unofficial euroisation. The share of the euro in foreign deposits also decreased moderately in some of these countries.

### 6.3.3. Use of the euro as a payment currency

As stated in the 2018 ECB interim report on the international role of the euro, the share of the euro in the value of global payments increased from about 31% in 2016 to almost 36% in 2017. These data are collected by the Society for Worldwide Interbank Financial Telecommunication (SWIFT) – the world’s leading provider of secure financial messaging services – and may lead to overestimations insofar they include intra-euro area payments. However calculations available from SWIFT for two previous years (2015 and 2017), which exclude intra-euro area payments, confirm that the share of the euro is in the order of 39% and has been increasing. The US dollar remained the most used currency in global payments in 2017 (accounting for about 40% of the payments in question), but its share decreased by about 2%. Exchange rate valuation effects may again help to explain these developments. Payments in pounds sterling and yen did not undergo significant changes, while the share of the renminbi continued to fall, most likely because of the capital controls that China introduced in 2016 and started to remove only recently; that would suggest that the renminbi’s scaling as a currency for global international payments has taken time.

### 6.3.4. Use of the euro as an invoicing currency

The 2019 ECB interim report also shows that, in contrast to other dimensions of the international use of the euro, the share of the euro in the invoicing of euro area international trade transactions in goods has lingered at around 50-60% over the past decade. However, trade invoicing practices vary significantly across euro area trading partners. For instance, the vast majority of euro area trade with the United States is invoiced and settled in US dollars, while the bulk of euro area trade with non-euro area EU countries is invoiced in euro.

On the other hand, unlike the US dollar, the use of the euro for invoicing when transactions do not involve a euro area counterparty is proving limited. A different picture is observed in the EU Member States of central and eastern Europe and Turkey, which reflects the fact that they are using the euro as a vehicle currency for international transactions with countries outside the euro area. This might be an indication that countries in this region trade in euro with one another.

### 6.4. The case for an increased international role for the euro

As mentioned above (see section 6.3.1), the push towards monetary union took place against the backdrop of the end of the Bretton Woods system and the challenging foreign economic policies of the 1980s. Nonetheless, the protective feature of the single currency was quickly neglected in the years that followed, when conflicts between great powers seemed to be a thing of the past, replaced by a widespread liberal order. Recent third country unilateral actions, such as the renewal of sanctions on Iran, and new emerging economic powers and challenges to international rules-based governance and trade, have however highlighted the need to reinforce the EU’s economic and

---

237 See European Central Bank, The international role of the euro, June 2018.
monetary sovereignty. As a result, the idea that the single currency could be a tool of foreign economic policy is coming back into fashion.

In his State of the Union address of September 2018, the previous European Commission President, Jean-Claude Juncker, emphasised the strategic importance of the euro in helping the EU to become a stronger global actor. This echoed the EU Leaders' hopes when they signed the Rome Declaration in 2017, on the occasion of the 60th anniversary of the Treaty of Rome. For this reason, Mr Juncker called for action to enhance the euro's role on the global stage. In the wake of the financial crisis, the EU has taken resolute action to make the euro a source of economic protection and empowerment. On the basis of the vision set out in the Five Presidents' Report of June 2015 and further developed in the reflection papers on the deepening of economic and monetary union and the future of EU finances, unveiled in mid-2017, the Commission laid down a roadmap for deepening economic and monetary union, in December 2017. Strengthening the international role of the euro is envisaged as 'both the logical continuation of and a new frontier in this overall agenda'.

Against this backdrop, the Commission adopted a communication Towards a stronger international role of the euro and a recommendation on the international role of the euro in the field of energy in December 2018. In this context, the strengthening of the euro's international role is seen 'as part of Europe's broader commitment to an open, multilateral and rules-based global economy'. In the same month, the Euro Summit discussed economic and monetary union reform and, in this context, noted the Commission's communication, and called for 'work to be taken forward to this end'.

6.4.1. Benefits and costs of a stronger international role for the euro

The first advantage of issuing an international currency, is commonly seen in the 'exorbitant privilege' from which the dollar has benefitted, both in the fixed rate system of Bretton Woods and in the subsequent new monetary order. As examined above (section 6.3.1), the first concrete facet of this general notion is 'international seignorage', which relates to the gain deriving from issuing zero-interest banknotes used by foreign agents and from the lower interest paid on external liabilities thanks to the wider international demand for the sovereign paper of the country issuing the international currency. A more attractive euro as a safe store of value would reduce the return demanded by investors on liabilities issued by euro area entities and lower interest rates paid by European households, businesses and Member States. It has been argued, however, that while seignorage was estimated at a non-negligible level for the US, the much lesser circulation of euro banknotes outside the euro area – compared with the foreign circulation of dollar banknotes – and

---

243 See Commission sets out roadmap for deepening Europe's Economic and Monetary Union, European Commission, 6 December 2017.
244 Communication from the Commission to the European Parliament, the European Council (Euro Summit), the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions – Towards a stronger international role of the euro, COM/2018/796 final.
245 Recommendation on the international role of the euro in the field of energy, European Commission, 2018.
246 See Euro Summit, 14 December 2018, Main results.
the absence of federal euro bonds – playing the same role as treasuries – would make this advantage much less significant for the euro area. Also, the cheaper external borrowing allowed by the issuance of liabilities in the domestic currency is less important for a jurisdiction with large current account surpluses, such as the euro area.247

Another benefit connected to the international strength of a currency is the ‘denomination rents’ that banks get from the use of their domestic currency in international finance. As for seignorage, the advantage for European banks to conduct international business in their own currency is not as material as for US banks, since, as seen above (see section 6.3.2), they reduced their international activity significantly during the financial crisis. In any case, trading in euros rather than in a foreign currency would remove the exchange risk and other currency-related costs also for non-financial agents, such as small and medium-sized European businesses.

Overall, the financial advantages stemming from the international use of the euro seem quite limited. The most important benefit for Europe of a stronger international role for the single currency can be envisaged in what is called ‘financial autonomy’. If the euro enjoyed wider international use, the influence over the EU resulting from the extraterritorial scope of US rules, decisions and policies granted by the dollar’s broad international role would be reduced. Stronger autonomy of European consumers and businesses would allow them to pay or receive payments for their international trade, and finance themselves with reduced exposure to legal actions taken by third country jurisdictions, such as extraterritorial sanctions. This is becoming more relevant as the interests of the US appear to be diverging more frequently from those of Europe, as the case of the Iran sanctions has recently revealed. The wider international role for the euro could be also linked to a multilateral system, in which the oversized role of any single currency would be limited and competition between currencies would be enhanced.

On the other hand, the emergence of a bipolar euro-dollar scenario raises some issues in relation to financial stability. Some argue, in fact, that contexts where clear international monetary leadership was lacking in the past were also characterised by instability, for example because large short-term portfolio shifts between two leading and fiercely competing international currencies could cause enhanced exchange rate volatility,248 while systems dominated by one single currency are supposed to be inherently more stable.249 Others argue that with only two or three main global players, international policy coordination would be easier.250

What is broadly acknowledged, is that the benefits associated with wider use of an international currency bring about increased global responsibilities, in line with central banks’ respective mandates. The benefits arising from a stronger international role for the euro seem to offset the possible challenges, nonetheless its consequences should be carefully assessed, including those affecting the ECB’s monetary policy.

247 See K. Efstathiou and F. Papadia, The international role of the euro, Bruegel.
6.5. The consequences for monetary policy of a greater international role for the euro

6.5.1. Preliminary reflections

Since the launch of EMU, the Eurosystem has advocated a neutral stance with respect to the international role of the euro, trying neither to hinder nor foster its international use. This position was the outcome of two views, one pointing out the economic benefits of international currency status, and the other stressing the costs. The earliest analyses focused on the effects that a strengthening of the international role of the euro would have on the two pillars of the monetary policy of the ECB.

The ECB conducts monetary policy according to its stability-oriented monetary policy strategy, which provides a comprehensive framework within which decisions are taken on the appropriate level of short-term interest rates needed to pursue the primary objective of maintaining price stability. Price stability has been defined as an annual increase in the harmonised index of consumer prices (HICP) for the euro area of below, but close to, 2 per cent. According to this definition, price stability is to be maintained over the medium term. The ECB's monetary policy strategy comprises a two-pillar approach to the analysis of the risks to price stability: economic analysis and monetary analysis.

The economic analysis assesses the short to medium-term determinants of price developments. The focus is on real activity and financial conditions in the economy. The economic analysis takes account of the fact that price developments over those horizons are largely influenced by the interplay of supply and demand in goods, services and market factors. The indicators considered include, for example, the exchange rate, wages, the yield curve, measures of real activity, business and consumer surveys, etc., as well as the ECB's own macroeconomic projections and other organisations' forecasts. The exchange rate is an economic indicator of particular interest in the present context. It has sometimes been argued that the further development of the euro's international role could lead to an early appreciation of the euro exchange rate, implying some price pressure for the euro area. This view assumes that increased consolidation and integration of domestic financial markets would bring about swift capital inflows into the euro area through external investors' demand for assets denominated in euros. Other commentators have instead highlighted that this effect is questionable if the supply of assets to external investors reacts promptly to demand movements, and it could even be annulled if international issuance of bonds denominated in euro is fast and broad enough. These arguments suggest that a currency's internationalisation as such does not give a direction to the exchange rate. If internationalisation goes first on the supply side, the exchange rate may suffer downward pressure, while if it proceeds first on the demand side it may develop upward dynamics. In any case, it is important to note that the significant role played by the exchange rate in economic analysis does not imply any intention on the part of the ECB to pursue some form of direct exchange rate policy or even target.

The monetary analysis focuses on a longer-term horizon than the economic analysis. It exploits the long-term link between money and prices. The monetary analysis serves mainly as a means of cross-checking, from a medium to longer-term perspective, the short to medium-term indications for monetary policy coming from the economic analysis. More generally, the monetary analysis consists

---


253 See *Strategy*, European Central Bank website.
of a number of estimates and tools directed at the examination of information on future price developments detectable from monetary aggregates.

An important aspect of monetary aggregates as indicators for price developments is that they measure precisely the volume of short-term assets held by residents. This measurement starts from the liability side of the balance sheet of the central bank (notes and coins) and of private financial institutions (deposits, short-term securities etc.). For a purely domestic currency, these liabilities will be identical to domestic short-term asset holdings. The internationalisation of the currency can modify the relationship between domestic short-term liabilities and domestic short-term asset holdings, since a share of the liabilities are held by non-residents.

These foreign holdings may not easily affect demand for goods and services so, ideally, cash circulating abroad could be deducted from monetary aggregates. This is not easy, because of the anonymous character of cash holdings. The central bank obviously knows how many notes it has printed and put in circulation, but it can only estimate what share of them circulates domestically with immediate relevance for domestic expenditure. This means that, if changes in foreign banknote holdings foster volatility in the monetary aggregates, these aggregates may be more difficult to use for monetary analysis. Overall, however, the holding of euro banknotes by non-residents is not a major problem for the use of M3 aggregate as a prominent indicator of price pressures in the euro area. The reason is that the share of currency in circulation accounted for in such a broad aggregate is rather small, so that only minor distortions could occur. Things change when it comes to financial institutions’ liabilities. In fact, as the euro's international role increases, a larger share of these institutions’ liabilities could be held by non-residents (for example owing to a greater investment currency function). This can easily become quantitatively more sizeable than foreign note circulation and therefore potentially lead to a more appreciable difference between domestic short-term liabilities and domestic short-term asset holdings. The Eurosystem addressed this issue by increasing transparency on external short-term holdings, in particular as far as money market funds are concerned. Thus, M3 can be considered relatively robust if faced with any future change in the international holdings of euro area short-term marketable paper.

6.5.2. Recent developments

It has been argued that the monetary policy relevance of international currencies has probably increased over time, because of both the evolution of the international monetary system itself and the way central banks implement monetary policy today, especially at the zero-lower bound.254

First of all, the positive effect of internationalisation on the degree to which domestic prices adjust to exchange rate movements (exchange rate pass-through) must be noted: the more the domestic currency is used for trade invoicing, the lesser the effect on import prices due to fluctuations in the exchange rate. This applies not only in the short run, when prices are not as elastic, but also in the long run when they are adjusted by producers. Lower pass-through means that import prices are better protected from exogenous exchange rate shocks, and monetary policy can focus more on domestic sources of price pressures. However, the effect of domestic monetary policy on import prices is more limited if pass-through is low. Some authors have estimated that a rise in local currency pricing would, in principle, attenuate an important lever of monetary policy.255 In any case it has been noted that, in the euro area, exchange rate pass-through has already fallen significantly.

---


over the past two decades, mainly on account of the declining share of commodity imports and the increasing role of global value chains.\footnote{See B. Coeuré, The transmission of the ECB’s monetary policy in standard and non-standard times, speech at the workshop ‘Monetary policy in non-standard times’, Frankfurt am Main, 11 September 2017.}

The second way in which the international role of a currency is relevant for monetary policy is its effect on interest rates. In principle, international currency issuers enjoy greater monetary autonomy. International currencies are typically less exposed to foreign spillovers in setting interest rates than small open economies’ currencies, however even dominant currencies are not isolated. Greater external demand for euro area securities, for instance, can increase the influence of foreign factors on domestic monetary and financial conditions. These effects are generally transitory and therefore policy makers can master such volatility. The past experience of the Federal Reserve however has brought to light more durable effects. It is well recognised that large demand for US securities from foreign central banks in advance of the financial crisis contributed to the decrease in longer-term US interest rates, thereby annulling in part the parallel efforts of the Federal Open Market Committee to increase them.\footnote{See B. Bernanke, The Global Saving Glut and the U.S. Current Account Deficit, Remarks by Governor Ben S. Bernanke at the Sandridge Lecture, Virginia Association of Economists, Richmond, Virginia, 10 March 2005.} It has been strongly argued that the effects of such purchases by foreign central banks do not differ essentially from those of domestic central banks aimed at stimulating the economy (quantitative easing).\footnote{See S. Arslanalp and T. Poghosyan, Foreign Investor Flows and Sovereign Bond Yields in Advanced Economies, IMF Working Paper, 2014.} As the second most important reserve currency, demand from foreign central banks might have affected euro area financing conditions. However, the lack of a single euro-denominated safe asset spoils these effects as, on the contrary, foreign demand widened the gap between sovereign yields in the euro area. As a result, efforts to improve EMU could be expected to lead to a more even distribution of reserve demand effects across the euro area (see section 1.6.1). This, in itself, would benefit the transmission of ECB monetary policy.

The final monetary policy implication of a stronger international role for the euro is that the impacts that seemingly unrelated events in other nations can have on the domestic economy (spillovers and spillbacks) through international trade and finance would probably be greater. This would happen through two main channels. The first is that the increased use of the euro as an international funding currency would amplify the so-called ‘international risk-taking channel’ of monetary policy, which operates through international bank leverage. This phenomenon is strong for the United States. In fact, when monetary policy eases, the US dollar depreciates and the volume of international dollar loans grows because the balance sheets of emerging market borrowers (expressed in local currencies) become stronger in dollar terms, which encourages lenders to provide them with dollar credit. Secondly, if the euro were used more for trade among third countries, a depreciation of the euro would make all euro-denominated exports cheaper, both from euro area and non-euro area firms. According to some analysts, this would produce an increase in global trade with potentially positive spillbacks.\footnote{See E. Boz, G. Gopinath and M. Plagborg-Møller, Global Trade and The Dollar, NBER Working Paper Series, 2017.} Furthermore, since the euro area is more open to trade than the United States, the spillbacks to it could even be larger than those to the United States. The drawback is that central banks in smaller economies, not least in emerging market economies, could turn to the ECB more frequently for currency swap lines, i.e. if and when monetary policy narrows and the availability of international liquidity in euros diminishes.
The ECB would therefore be called upon to increase its activities as an international lender of last resort. Any extension of the global network of foreign exchange swap lines should however be based on solid monetary arguments.

6.6. Policies supporting the euro’s international role

Assuming it is desirable to enhance the status of the euro as an international currency, the question is what tools the euro area could use to pursue this objective.

The euro area already meets two of the fundamental conditions that economists consider essential to foster a currency’s international use: it is a large economy that is comparable in size to that of the United States and it is the world’s largest trading bloc. As discussed above (see section 6.2), these two elements were at the heart of the discussions that took place 20 years ago as to what extent the euro could match the international role of the dollar. However, the observed decline of the euro’s international role since then suggests that they play a limited role only. Non-euro area contingent factors – such as the parallel ascent of the renminbi – have certainly hindered the euro’s progress, but empirical evidence shows that establishing an international currency is not just a matter of economic size. The United States accounts for a much smaller share of the global economy today than it did after the Second World War, but the US dollar is nonetheless still the leading global reserve currency.

This suggests that specific euro area factors are likely to have prevented the euro from rising faster as an international currency. Some commentators have identified such factors as strictly related to three broad weaknesses in the institutional design of the EU and EMU: the ability to provide stability both domestically and internationally; the limited depth and liquidity of euro area financial markets; and Europe not speaking with a single voice on international matters, including security. 260 Widening the use of the euro in the field of energy has been acknowledged as an additional key action.

6.6.1. A multifaceted stability

As discussed above (see section 6.2.3) together with size and openness of the economy, stability is a key determinant of international standing for a currency. Price stability, or internal monetary stability, depends primarily on the central bank’s monetary policy frameworks. This dimension of stability is particularly relevant for borrowers, who use a currency as a financing vehicle. In fact, research shows that currencies that become dominant in international financing are those whose central banks actively pursue an inflation stabilisation policy that protects foreign borrowers’ real debt burdens. 261

External stability, on the other hand, is generally the result of market forces and matters above all for investors, who hold currencies as a store of value. For investors, external stability not only means exchange rate stability, as traditional literature maintains. It also affects a currency’s ability to act as a safe haven in times of global financial stress. This is what some have coined as the ‘exorbitant duty’ of international currency status, counterbalancing the ‘exorbitant privilege’ in times of crisis when it brings negative wealth effects for the currency issuer. 262 That dimension of external stability affects sovereign debt in particular. Theoretical analyses suggest that investors are more likely to recognise

sovereign debt as safe if the economic fundamentals of the issuer are sounder compared to other possible issuers, but not necessarily sound on an absolute basis.\footnote{263} It was noted, however, that ‘for currency unions absolute fundamentals arguably matter more. The reason is that, ‘in the absence of a common consolidated balance sheet, sovereign debt exhibits a higher degree of credit risk than it does in economies that can pursue their own monetary policy. Public debt can therefore behave like private debt when risk aversion rises’.\footnote{264}

That was the case for the euro area between the end of 2009 and early 2010, when the lack of appropriate governance to address the sovereign debt crisis led international markets and investors to price the risk that a political breakdown of the euro could result in the sovereign bonds issued by the euro area countries being redenominated in reborn national currencies. That made the spreads between the yields of securities issued by ‘peripheral’ countries and the German bund shoot up to levels unthinkable in a monetary union. Many efforts have been made in recent years to address the issue and to improve the euro-area governance framework. The European Stability Mechanism (ESM) was established and provides financial support for euro area sovereign issuers that risk losing access to markets, providing they implement sound economic policies.

Furthermore, Parliament and Council adopted key pieces of legislation in 2014 to build the banking union,\footnote{265} which currently rests on two pillars: the single supervisory mechanism,\footnote{266} created to supervise major banks established in the euro area Member States and in other participating Member States, and the single resolution mechanism,\footnote{267} aimed at ensuring that failing banks in the banking union undergo orderly resolution procedures. A Single Resolution Fund (SRF)\footnote{268} to finance those resolution activities was also created. Completion of the banking union will be crucial to improve the EMU governance framework. That includes the creation of a European deposit insurance scheme (EDIS)\footnote{269} and a common backstop to the SRF. The Commission’s proposal for an EDIS would complement the EMU by improving the protection of bank customers and further increasing the stability and resilience of the financial system in the euro area and beyond.\footnote{270} In this respect, during his hearing before the Committees for Economic and Monetary Affairs (ECON) and for Employment and Social Affairs (EMPL), Executive Vice-President Valdis Dombrovskis stated that new elements might be put on the table to facilitate discussions.\footnote{271} The June 2018 Euro Summit agreed that the ESM will provide the common backstop to the SRF, while the details were to be arranged at a later stage.\footnote{272} Further discussions took place both at Euro Summit and at Eurogroup level. On 13 December 2019, the euro-area leaders took stock of progress made on the

\footnotesize{\footnote{263} See Z. He, A. Krishnamurthy and K. Milbradt, ‘A Model of Safe Asset Determination’, American Economic Review, 2019. This may explain, for example, why investors did not rebalance away from US treasuries throughout the global financial crisis, despite the stark deterioration in the United States’ fiscal position.
\footnote{265} See Banking union, European Commission website.
\footnote{266} See Single supervisory mechanism, European Commission website.
\footnote{267} See Single resolution mechanism, European Commission website.
\footnote{268} See What is the Single Resolution Fund?, Single Resolution Board website.
\footnote{269} See European deposit insurance scheme, European Commission website.
\footnote{270} See Commission proposal for a European deposit insurance scheme (EDIS), European Commission, 24 November 2015.
\footnote{271} See Commitments made at the hearing of Valdis Dombrovskis, Executive Vice President-designate An Economy that Works for People, Briefing, 2019.
\footnote{272} See Euro Summit statement, 29 June 2018}
implementation of the political agreement reached in June 2019 and tasked the Eurogroup with continuing work on the ESM package of reforms.\textsuperscript{273}

However, in order for the euro to act as a genuinely effective hedge tool in times of stress, and therefore to achieve and maintain international status, further strengthening the fiscal dimension of EMU is crucial. Sound fiscal and structural policies are needed to provide international investors with a broad and flexible supply of safe assets. The fact that the supply of euro-denominated safe assets may decline precisely at the time when the demand for such assets is on the rise is still a source of concern for investors and was recognised as a dominant factor in preventing the euro from having a stronger international role. In 2018 the Commission proposed a regulation on sovereign bond-backed securities (SBBS), a new class of low-risk securities backed by a diversified pool of national government bonds.\textsuperscript{274} The proposal aims at providing an enabling framework for market-led development of a European safe asset, encouraging banks and investors to diversify their holdings of euro area bonds. Parliament voted a resolution in plenary on 16 April 2019 to conclude in first reading and preserve its position for next term. However, in the EU Council, discussions on this legislative proposal are at a standstill.\textsuperscript{275} During his parliamentary hearing in October 2019, Dombrovskis acknowledged that the Commission will need to ‘try to reinvigorate this discussion’ on the creation of a European safe asset.

In any case, while progressing towards this objective, efforts should be made to enhance the credit quality of outstanding bonds, something that can only be achieved by implementing effective fiscal rules. To this end, the Commission will work on delivering a budgetary instrument for convergence and competitiveness in the euro area, as part of the work on supporting Member States’ structural reforms aimed at fostering inclusive growth and territorial cohesion. To achieve a more growth-friendly fiscal stance in the euro area, the Commission will also make full use of the flexibility allowed within the Stability and Growth Pact (SGP).\textsuperscript{276} The Commission is currently conducting a review of the SGP and plans to publish its findings in early February. In this respect, Dombrovskis stated that the Commission will work on the basis of the report of the European Fiscal Board, which sets out some ideas on simplifying of the rules of the SGP. A ‘limited golden rule’ will be taken as the basis for the Commission’s considerations. That should help to counter the risk of pro-cyclical effects, which ‘is very clear’, as Commissioner Paolo Gentiloni said.\textsuperscript{277}

\textbf{6.6.2. Deeper and more liquid capital markets}

The second, and related, flaw of EMU is the fragmentation of its capital markets.

As discussed in section 6.2.2, deep and liquid financial markets are fundamental for a currency to achieve international status. Before the 2008 financial crisis, the financial market within the EU appeared to be integrating at a rapid pace, however this impression was based more on price convergence than on real cross-border integration. The reasons behind the European markets’ fragmentation are of a structural nature and concern various legal and institutional barriers hampering the creation of a single pool of liquidity. For these reasons, on 30 September 2015, the

\begin{itemize}
  \item See Euro Summit statements of 13 December 2019 and 21 June 2019.
  \item See Stability and Growth Pact, European Commission website.
  \item See Commitments made at the hearing of Paolo Gentiloni, Commissioner-designate for the Economy, Briefing, 2019.
\end{itemize}
Commission published its action plan on building a capital markets union (CMU). It contained a list of over 30 actions and related legislative and non-legislative measures aimed at establishing more integrated capital markets in the EU by 2019. The CMU aims to increase funding choices for Europe’s businesses and small and medium-sized enterprises (SMEs), create more opportunities for investors, and facilitate infrastructure and cross-border investment. In its mid-term review of the CMU action plan, published in June 2017, the Commission updated the proposed actions and added complementary measures in response to new challenges affecting EU financial markets, such as the departure of the EU’s largest financial centre with the expected withdrawal of the UK. As part of the EU’s project for a CMU, an action plan on financial technology (fintech) was tabled in March 2018 with the aim of enabling the EU’s financial sector to make use of the rapid advances in new technologies that are transforming the industry and revolutionising the way people access financial services. The Commission also published an action plan on financing sustainable growth in March 2018, with the aim of boosting the role of finance in achieving the EU goal of a more sustainable economy. In the context of the CMU mid-term review, co-legislators agreed on a comprehensive package aimed at reviewing the European system of financial supervision (ESFS) by strengthening the powers, governance and funding of the European supervisory authorities (ESAs), and introducing targeted amendments to the European Systemic Risk Board Regulation. This initiative followed a proposal for a regulation introducing a more pan-European approach to the supervision of EU central counterparties (CCPs) and aiming to ensure further supervisory convergence. This framework should be complemented by a proposal for a regulation establishing a recovery and resolution regime for EU CCPs, which is currently the subject of trilogue negotiations.

The Commission will continue to work on completing the CMU. The planned review of the relevant legislation adopted in recent years will offer an opportunity for a further acceleration in the integration of EU capital markets. The potential of the CMU to facilitate SMEs’ access to capital will be increased by a private-public fund specialising in initial public offerings of SMEs.

The ECB has been complementing these efforts by upgrading its payment system infrastructure, contributing to market integration and, in turn, to the depth and liquidity of euro area securities markets. Recent initiatives include the successful launch of the securities settlement platform TARGET2-Securities, a new platform for instant payments and the upgrade of the large-value transactions TARGET system. In time, these systems may offer international market participants easier access to the euro.

---

278 See Capital markets union action plan, European Commission website.
279 See Mid-term review of the capital markets union action plan, European Commission, 8 June 2017.
281 Communication on reinforcing integrated supervision to strengthen capital markets union and financial integration in a changing environment, European Commission, 8 March 2018.
283 See What is TARGET2-Securities (T2S)?, European Central Bank website.
6.6.3. Use of the euro in key strategic sectors: energy sector

In its December 2018 communication, the Commission acknowledged the fundamental importance of a stronger EMU and completion of CMU in order to secure a strong international role for the euro. Meanwhile, the Commission has also recognised the importance of wider use of the euro in key strategic sectors as an additional strategic action potentially reinforcing the international role of the single currency, and a specific recommendation is devoted to the field of energy.

Energy commodities, and crude oil in particular, are the most traded raw materials in the EU and worldwide. Annual traded volumes on European energy markets are worth over €40 trillion. However, over 90% of the aggregated transactions relating to oil, gas and other energy commodities are made in currencies other than the euro. The EU is the largest energy importer in the world, for a volume exceeding more than half of the energy it consumes. Yet, the vast majority of long-term contracts underlying EU energy imports are not referenced in euros. Price benchmarks for crude oil quoted by price-reporting agencies are used as a reference for oil supplies. They also serve as an underlying reference for other energy commodities, such as natural gas and derived financial instruments for crude oil or petroleum products. Currently, there are no price benchmarks for crude oil denominated in euro.

The Commission therefore recognises that widening the use of the euro in the field of energy, trade and investment, would ‘help to achieve the EU energy policy objectives and reduce the risk of disruption of energy supplies, while ensuring general economic efficiency’. European companies operating in the energy sector would pay or receive payments for their international trade in euro, and finance themselves with reduced exposure to legal actions taken by third country jurisdictions.

The main measures proposed concern the wider use of the euro in international agreements and non-binding instruments related to energy, in transactions in the field of energy carried out by European market participants, and for energy related projects and transactions by companies providing financial services.

6.6.4. A single voice in international affairs

A much less explored factor affecting the ability of a currency to enhance its international use is what has been called a ‘security premium’. It has been noted that the US dollar benefits from such a premium insofar as countries that depend on the US security umbrella hold a sizeable share of their foreign reserves in dollars.

A model analysing merely economic factors under-estimates the dollar reserves held by countries that depend on the United States for their security, whereas a model including the NATO membership of those countries approximates much closer the actual shares. According to recent estimates, military alliances increase the share of a currency in the partner country’s foreign reserve holdings by about 30 percentage points.

As has been pointed out, this is not a new phenomenon. During the late 19th century, a growing share of Deutsche marks in Austria-Hungary’s reserves went hand in hand with the Triple Alliance, i.e. the secret agreement between Germany, Austria-Hungary and Italy signed in 1882 and renewed

---

285 Communication from the Commission to the European Parliament, the European Council (Euro Summit), the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions – Towards a stronger international role of the euro, COM(2018) 796 final.

286 Recommendation on the international role of the euro in the field of energy, European Commission website.

periodically until World War I. The increasing importance of French francs in Russia’s reserves in the years after the Franco-Russian alliance of 1894 reflected similar security patterns.

This quite neglected dimension of the international status of a currency goes beyond EMU. Nonetheless it has clear implications for policy makers. Europe has already achieved global leadership in regulatory, competition and trade, but European initiatives to promote security and defence cooperation, to speak with one voice on international affairs are still needed. They would play a major role in promoting the global spread of the euro and further assert EU global leadership.
7. References


Chen, J., Bretton Woods Agreement and System, Investopedia website.


De Feo A. and Laffan B., (eds.), Effectiveness and added value of the EU budget, European University Institute, Robert Schuman Centre for Advanced Studies, 2017.
ECB, Survey on the Access to Finance of Enterprises in the euro area – April to September, November 2018.
EIB, Restoring EU competitiveness, January 2016.
Eichengreen, B. and Flandreau, M., 'The rise and fall of the dollar (or when did the dollar replace sterling as the leading reserve currency?)', European Review of Economic History, 2009.
Emmanouilidis J.A., The need to 'Re-unite EUrope': the results of another Brexit summit, European Policy Centre, 17 December 2018.
ESMA, Access to public capital markets for SMEs, Securities and Markets Stakeholder Group, 8 November 2017.
Europe’s economic recovery and implications for monetary policy, Remarks by Peter Praet, Member of the Executive Board of the ECB, at the International Conference of Commercial Bank Economists (ICCBE) in France, Paris, 6 July 2017.
European Central Bank, The international role of the euro, June 2018.
European Central Bank, The international role of the euro, June 2019.
European Commission, Commission proposal for a European deposit insurance scheme (EDIS), 24 November 2015.
European Commission, Commission sets out roadmap for deepening Europe’s Economic and Monetary Union, 6 December 2017.
European Commission, Communication from the Commission to the European Parliament, the European Council (Euro Summit), the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions – Towards a stronger international role of the euro, COM(2018) 796 final, December 2018.
European Commission, Recommendation on the international role of the euro in the field of energy, December 2018.
European Commission, Commission staff working document, Economic analysis accompanying the document Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – Action plan on building a capital markets union, SWD(2015) 183 final, 30 September 2015.


European Commission, Mid-term review of the capital markets union action plan, 8 June 2017.


European Commission, Commission action plan on financing sustainable growth, 8 March 2018.


European Commission, An action plan to improve access to finance for SMEs, December 2011.


European Commission, Assessing the Potential for EU Investment in Venture Capital and Other Risk Capital Fund of Funds, October 2015.


European Commission, European Economic Forecast, November 2018.


European Commission, VentureEU: €2.1 billion to boost venture capital investment in Europe’s innovative start-ups, Press release, Brussels, 10 April 2018.


Euro Summit, Euro Summit – 14 December 2018, Main results.


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

International Monetary Fund, Global Financial Stability Report, October 2018.

International Monetary Fund, Regional Economic Outlook, November 2018.

International Monetary Fund, World Economic Outlook, October 2018.


Krueger T., Masson P. and Turtelboom B., EMU and the International Monetary System, IMF eLibrary.


Núñez Ferrer J. and Gros D., The Multiannual Financial Framework, where continuity is the radical response, CEPS, Commentary, 4 May 2018.


The Economist, *Two out of three ain’t bad*, Economics brief, website.

This Time is Different, *A brief history of global trade or reserve currencies*, May 2018


### 8. Annexes

**Annex 1 – EU spending allocation by Member State in 2018 (€ million)**

<table>
<thead>
<tr>
<th>Subheading</th>
<th>1a</th>
<th>1b</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>9</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2017 (€ million)</strong></td>
<td>Competitiveness for growth and jobs</td>
<td>Economic, social and territorial cohesion</td>
<td>Sustainable growth; natural resources</td>
<td>Security and citizenship</td>
<td>Global Europe</td>
<td>Administration</td>
<td>Special instruments</td>
</tr>
<tr>
<td>BE</td>
<td>1 757.4</td>
<td>533.9</td>
<td>707.6</td>
<td>346.8</td>
<td>0.0</td>
<td>5 167.6</td>
<td>0.3</td>
</tr>
<tr>
<td>BG</td>
<td>72.2</td>
<td>988.2</td>
<td>1 030.1</td>
<td>58.1</td>
<td>5.6</td>
<td>12.2</td>
<td>2.3</td>
</tr>
<tr>
<td>CZ</td>
<td>127.9</td>
<td>2 777.0</td>
<td>1 184.9</td>
<td>17.5</td>
<td>0.0</td>
<td>15.9</td>
<td>0.0</td>
</tr>
<tr>
<td>DK</td>
<td>311.0</td>
<td>68.3</td>
<td>940.0</td>
<td>19.2</td>
<td>0.0</td>
<td>72.7</td>
<td>0.0</td>
</tr>
<tr>
<td>DE</td>
<td>2 588.6</td>
<td>2 804.7</td>
<td>6 165.6</td>
<td>261.4</td>
<td>0.0</td>
<td>233.6</td>
<td>0.0</td>
</tr>
<tr>
<td>EE</td>
<td>72.1</td>
<td>375.2</td>
<td>266.1</td>
<td>36.7</td>
<td>0.0</td>
<td>9.3</td>
<td>0.0</td>
</tr>
<tr>
<td>IE</td>
<td>213.5</td>
<td>203.9</td>
<td>1 560.0</td>
<td>24.5</td>
<td>0.0</td>
<td>61.8</td>
<td>0.0</td>
</tr>
<tr>
<td>EL</td>
<td>268.7</td>
<td>1 429.2</td>
<td>2 708.6</td>
<td>424.7</td>
<td>0.0</td>
<td>32.8</td>
<td>6.1</td>
</tr>
<tr>
<td>ES</td>
<td>1 366.5</td>
<td>4 263.0</td>
<td>6 300.5</td>
<td>221.1</td>
<td>0.0</td>
<td>116.1</td>
<td>3.2</td>
</tr>
<tr>
<td>FR</td>
<td>2 533.3</td>
<td>2 094.5</td>
<td>9 505.8</td>
<td>167.8</td>
<td>0.0</td>
<td>430.3</td>
<td>46.5</td>
</tr>
<tr>
<td>HR</td>
<td>56.7</td>
<td>552.4</td>
<td>480.3</td>
<td>14.5</td>
<td>7.3</td>
<td>9.1</td>
<td>0.0</td>
</tr>
<tr>
<td>IT</td>
<td>1 588.6</td>
<td>3 218.9</td>
<td>5 006.7</td>
<td>317.2</td>
<td>0.0</td>
<td>205.6</td>
<td>0.0</td>
</tr>
<tr>
<td>CY</td>
<td>74.1</td>
<td>89.9</td>
<td>79.4</td>
<td>14.6</td>
<td>0.0</td>
<td>6.0</td>
<td>0.0</td>
</tr>
<tr>
<td>LV</td>
<td>62.3</td>
<td>650.7</td>
<td>450.7</td>
<td>21.4</td>
<td>0.0</td>
<td>9.1</td>
<td>17.7</td>
</tr>
<tr>
<td>LT</td>
<td>98.0</td>
<td>1 187.9</td>
<td>718.1</td>
<td>39.8</td>
<td>0.0</td>
<td>10.0</td>
<td>16.9</td>
</tr>
<tr>
<td>LU</td>
<td>208.7</td>
<td>64.5</td>
<td>61.0</td>
<td>40.7</td>
<td>0.0</td>
<td>1 633.4</td>
<td>0.0</td>
</tr>
<tr>
<td>HU</td>
<td>98.1</td>
<td>4 435.4</td>
<td>1 715.8</td>
<td>31.8</td>
<td>0.4</td>
<td>16.6</td>
<td>0.0</td>
</tr>
<tr>
<td>MT</td>
<td>17.3</td>
<td>67.4</td>
<td>16.0</td>
<td>48.0</td>
<td>0.0</td>
<td>7.3</td>
<td>0.0</td>
</tr>
<tr>
<td>NL</td>
<td>1 089.9</td>
<td>172.3</td>
<td>877.9</td>
<td>236.4</td>
<td>0.0</td>
<td>94.0</td>
<td>0.0</td>
</tr>
<tr>
<td>AT</td>
<td>444.4</td>
<td>179.8</td>
<td>1 238.5</td>
<td>62.7</td>
<td>0.0</td>
<td>27.3</td>
<td>0.0</td>
</tr>
<tr>
<td>PL</td>
<td>264.2</td>
<td>11 481.9</td>
<td>4 465.8</td>
<td>95.7</td>
<td>0.0</td>
<td>30.1</td>
<td>12.3</td>
</tr>
<tr>
<td>PT</td>
<td>250.6</td>
<td>3 293.4</td>
<td>1 310.2</td>
<td>59.0</td>
<td>0.0</td>
<td>45.5</td>
<td>52.1</td>
</tr>
<tr>
<td>RO</td>
<td>135.0</td>
<td>1 660.3</td>
<td>2 978.1</td>
<td>48.8</td>
<td>24.1</td>
<td>18.8</td>
<td>0.0</td>
</tr>
<tr>
<td>SI</td>
<td>95.1</td>
<td>550.0</td>
<td>256.7</td>
<td>15.4</td>
<td>0.0</td>
<td>9.6</td>
<td>0.0</td>
</tr>
<tr>
<td>Country</td>
<td>SK</td>
<td>FI</td>
<td>SE</td>
<td>UK</td>
<td>EU-28</td>
<td>earmarked</td>
<td>other</td>
</tr>
<tr>
<td>---------</td>
<td>----</td>
<td>----</td>
<td>----</td>
<td>----</td>
<td>-------</td>
<td>-----------</td>
<td>-------</td>
</tr>
<tr>
<td>Value</td>
<td>168.3</td>
<td>257.6</td>
<td>414.9</td>
<td>1,658.6</td>
<td>16,311.6</td>
<td>1,317.8</td>
<td>2,684.4</td>
</tr>
<tr>
<td>%</td>
<td>1,614.3</td>
<td>211.3</td>
<td>356.9</td>
<td>3,600.1</td>
<td>46,412.8</td>
<td>7,911.9</td>
<td>130.0</td>
</tr>
<tr>
<td>%</td>
<td>653.0</td>
<td>910.8</td>
<td>915.4</td>
<td>147.7</td>
<td>5103.8</td>
<td>1,826.5</td>
<td>11.0</td>
</tr>
<tr>
<td>%</td>
<td>10.2</td>
<td>37.2</td>
<td>86.3</td>
<td>0.0</td>
<td>2,904.8</td>
<td>116.8</td>
<td>25.5</td>
</tr>
<tr>
<td>%</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>37.4</td>
<td>497.8</td>
<td>1,682.3</td>
</tr>
<tr>
<td>%</td>
<td>11.4</td>
<td>42.9</td>
<td>40.8</td>
<td>138.9</td>
<td>8,508.3</td>
<td>444.9</td>
<td>448.9</td>
</tr>
<tr>
<td>%</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>157.4</td>
<td>22.4</td>
<td>0</td>
</tr>
<tr>
<td>%</td>
<td>2,457.2</td>
<td>1,477.7</td>
<td>1,814.2</td>
<td>6,633.1</td>
<td>130,436.2</td>
<td>12,138.3</td>
<td>4,982.1</td>
</tr>
</tbody>
</table>

Annex 2 – Own resources by Member State in 2018 (€ million and % of GNI)

<table>
<thead>
<tr>
<th></th>
<th>VAT-based resource</th>
<th>GNI-based resource</th>
<th>UK correction</th>
<th>Netting of adjustments to the VAT and GNI-based own resources for previous financial years</th>
<th>Lump sum reduction granted for DK, NL, AT &amp; SE (**)</th>
<th>Total national contribution</th>
<th>Traditional own resources (TOR, net 80 %)</th>
<th>Total own resources</th>
<th>% GNI</th>
<th>% GNI</th>
</tr>
</thead>
<tbody>
<tr>
<td>BE</td>
<td>589.6</td>
<td>3 014.4</td>
<td>241.0</td>
<td>-36.5</td>
<td>31.4</td>
<td>3 839.8</td>
<td>0.84%</td>
<td>2 084.1</td>
<td>5 923.9</td>
<td>1.39%</td>
</tr>
<tr>
<td>BG</td>
<td>78.9</td>
<td>379.3</td>
<td>29.4</td>
<td>-4.1</td>
<td>3.7</td>
<td>487.1</td>
<td>0.88%</td>
<td>96.4</td>
<td>583.5</td>
<td>1.05%</td>
</tr>
<tr>
<td>CZ</td>
<td>254.0</td>
<td>1 357.9</td>
<td>109.1</td>
<td>-14.5</td>
<td>13.6</td>
<td>1 720.1</td>
<td>0.88%</td>
<td>266.6</td>
<td>1 986.8</td>
<td>1.01%</td>
</tr>
<tr>
<td>DK</td>
<td>345.9</td>
<td>2 173.1</td>
<td>167.6</td>
<td>-25.0</td>
<td>-120.4</td>
<td>2 541.2</td>
<td>0.83%</td>
<td>337.5</td>
<td>2 878.7</td>
<td>0.94%</td>
</tr>
<tr>
<td>DE</td>
<td>2 085.1</td>
<td>22 900.9</td>
<td>320.0</td>
<td>-279.0</td>
<td>239.7</td>
<td>25 266.7</td>
<td>0.73%</td>
<td>3 999.8</td>
<td>29 266.5</td>
<td>0.85%</td>
</tr>
<tr>
<td>EE</td>
<td>36.5</td>
<td>161.0</td>
<td>12.9</td>
<td>-1.9</td>
<td>1.7</td>
<td>210.2</td>
<td>0.84%</td>
<td>33.0</td>
<td>243.2</td>
<td>0.97%</td>
</tr>
<tr>
<td>IE</td>
<td>250.1</td>
<td>1 920.2</td>
<td>152.2</td>
<td>-20.0</td>
<td>17.7</td>
<td>2 320.2</td>
<td>0.92%</td>
<td>285.1</td>
<td>2 605.3</td>
<td>1.03%</td>
</tr>
<tr>
<td>EL</td>
<td>163.2</td>
<td>1 228.2</td>
<td>99.0</td>
<td>-15.4</td>
<td>12.7</td>
<td>1 487.7</td>
<td>0.81%</td>
<td>180.2</td>
<td>1 667.9</td>
<td>0.91%</td>
</tr>
<tr>
<td>ES</td>
<td>1 629.0</td>
<td>8 051.2</td>
<td>648.3</td>
<td>-98.5</td>
<td>83.9</td>
<td>10 313.9</td>
<td>0.85%</td>
<td>1 528.1</td>
<td>11 842.0</td>
<td>0.98%</td>
</tr>
<tr>
<td>FR</td>
<td>3 218.1</td>
<td>16 084.4</td>
<td>1 300.1</td>
<td>-196.0</td>
<td>166.9</td>
<td>20 573.5</td>
<td>0.85%</td>
<td>1 647.0</td>
<td>22 220.5</td>
<td>0.92%</td>
</tr>
<tr>
<td>HR</td>
<td>78.1</td>
<td>345.7</td>
<td>27.5</td>
<td>-4.0</td>
<td>3.5</td>
<td>450.8</td>
<td>0.89%</td>
<td>36.7</td>
<td>487.5</td>
<td>0.96%</td>
</tr>
<tr>
<td>IT</td>
<td>2 321.8</td>
<td>11 955.0</td>
<td>958.9</td>
<td>-143.6</td>
<td>123.0</td>
<td>15 215.1</td>
<td>0.86%</td>
<td>1 817.0</td>
<td>17 032.1</td>
<td>0.96%</td>
</tr>
<tr>
<td>CY</td>
<td>31.2</td>
<td>138.1</td>
<td>11.1</td>
<td>-1.5</td>
<td>1.4</td>
<td>180.3</td>
<td>0.89%</td>
<td>23.1</td>
<td>203.4</td>
<td>1.01%</td>
</tr>
<tr>
<td>LV</td>
<td>36.3</td>
<td>183.3</td>
<td>14.8</td>
<td>-2.3</td>
<td>2.0</td>
<td>234.0</td>
<td>0.80%</td>
<td>42.7</td>
<td>276.7</td>
<td>0.94%</td>
</tr>
<tr>
<td>LT</td>
<td>53.7</td>
<td>279.6</td>
<td>23.0</td>
<td>-3.4</td>
<td>3.0</td>
<td>355.8</td>
<td>0.83%</td>
<td>91.3</td>
<td>447.1</td>
<td>1.04%</td>
</tr>
<tr>
<td>LU</td>
<td>62.0</td>
<td>274.2</td>
<td>21.2</td>
<td>-3.2</td>
<td>2.7</td>
<td>356.9</td>
<td>0.86%</td>
<td>20.1</td>
<td>377.0</td>
<td>0.91%</td>
</tr>
<tr>
<td>HU</td>
<td>154.1</td>
<td>856.1</td>
<td>66.9</td>
<td>-9.9</td>
<td>8.6</td>
<td>1 075.8</td>
<td>0.85%</td>
<td>193.1</td>
<td>1 268.9</td>
<td>1.00%</td>
</tr>
<tr>
<td>MT</td>
<td>17.8</td>
<td>78.6</td>
<td>6.3</td>
<td>-0.9</td>
<td>0.8</td>
<td>102.6</td>
<td>0.91%</td>
<td>12.9</td>
<td>115.4</td>
<td>1.02%</td>
</tr>
<tr>
<td>NL</td>
<td>485.1</td>
<td>5 052.9</td>
<td>70.8</td>
<td>-60.4</td>
<td>-703.8</td>
<td>4 844.7</td>
<td>0.62%</td>
<td>2 502.9</td>
<td>7 347.7</td>
<td>0.94%</td>
</tr>
<tr>
<td>AT</td>
<td>518.3</td>
<td>2 726.0</td>
<td>36.5</td>
<td>-30.5</td>
<td>26.8</td>
<td>3 277.1</td>
<td>0.85%</td>
<td>209.7</td>
<td>3 486.8</td>
<td>0.91%</td>
</tr>
<tr>
<td>PL</td>
<td>588.1</td>
<td>3 143.2</td>
<td>256.0</td>
<td>-37.2</td>
<td>33.1</td>
<td>3 983.2</td>
<td>0.84%</td>
<td>735.0</td>
<td>4 718.2</td>
<td>0.99%</td>
</tr>
<tr>
<td>PT</td>
<td>301.5</td>
<td>1 295.3</td>
<td>104.9</td>
<td>-15.9</td>
<td>13.6</td>
<td>1 699.4</td>
<td>0.86%</td>
<td>175.9</td>
<td>1 875.3</td>
<td>0.95%</td>
</tr>
<tr>
<td>RO</td>
<td>239.1</td>
<td>1 311.9</td>
<td>105.4</td>
<td>-15.4</td>
<td>13.7</td>
<td>1 654.7</td>
<td>0.83%</td>
<td>175.8</td>
<td>1 830.5</td>
<td>0.92%</td>
</tr>
<tr>
<td>SI</td>
<td>63.7</td>
<td>298.3</td>
<td>24.0</td>
<td>-3.5</td>
<td>3.2</td>
<td>385.7</td>
<td>0.85%</td>
<td>70.4</td>
<td>456.1</td>
<td>1.01%</td>
</tr>
</tbody>
</table>
### Data Source


(**) Totals for UK correction payments and GNI reduction granted to NL and SE are not equal to zero on account of exchange rate differences.

Note: (*) For simplicity of presentation, the GNI-based own resource includes the adjustment for Denmark, Ireland and the United Kingdom related to the specific activities in the area of freedom security and justice (FSJ) in which they do not take part.
## Annex 3 – The EU budget 2019 and 2020

<table>
<thead>
<tr>
<th>SMART AND INCLUSIVE GROWTH</th>
<th>2019 budget (incl. AB1-3 and DAB5)</th>
<th>2020 budget</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CA € million</td>
<td>PA € million</td>
<td>CA € million</td>
</tr>
<tr>
<td>Competitiveness for growth and jobs</td>
<td>80 627.450</td>
<td>67 556.947</td>
<td>83 930.598</td>
</tr>
<tr>
<td>— Large infrastructure projects</td>
<td>1 959.404</td>
<td>2 141.958</td>
<td>2 218.750</td>
</tr>
<tr>
<td>— European satellite navigation systems (EGNOS and Galileo)</td>
<td>690.718</td>
<td>923.000</td>
<td>1 207.028</td>
</tr>
<tr>
<td>— International Thermonuclear Experimental Reactor (ITER)</td>
<td>407.216</td>
<td>616.558</td>
<td>364.775</td>
</tr>
<tr>
<td>— European Earth Observation Programme (Copernicus)</td>
<td>861.470</td>
<td>602.400</td>
<td>646.947</td>
</tr>
<tr>
<td>— Nuclear safety and decommissioning</td>
<td>143.947</td>
<td>158.136</td>
<td>146.827</td>
</tr>
<tr>
<td>— European Fund for Strategic Investments (EFSI)</td>
<td>186.879</td>
<td>1 022.300</td>
<td>172.852</td>
</tr>
<tr>
<td>— Common Strategic Framework (CSF) research and innovation</td>
<td>12 765.075</td>
<td>11 341.814</td>
<td>13 883.614</td>
</tr>
<tr>
<td>— Horizon 2020</td>
<td>12 391.501</td>
<td>10 971.809</td>
<td>13 485.949</td>
</tr>
<tr>
<td>— Euratom Research and Training Programme</td>
<td>373.575</td>
<td>370.005</td>
<td>397.665</td>
</tr>
<tr>
<td>— Competitiveness of enterprises and small and medium-sized enterprises (COSME)</td>
<td>367.177</td>
<td>251.821</td>
<td>418.102</td>
</tr>
<tr>
<td>— Education, training and sport (Erasmus+)</td>
<td>2 786.425</td>
<td>2 563.127</td>
<td>2 885.368</td>
</tr>
<tr>
<td>— Employment and Social Innovation (EaSI)</td>
<td>136.061</td>
<td>118.400</td>
<td>117.111</td>
</tr>
<tr>
<td>— Customs, Fiscalis and Anti-Fraud</td>
<td>135.215</td>
<td>134.179</td>
<td>133.354</td>
</tr>
<tr>
<td>— Connecting Europe Facility (CEF)</td>
<td>3 763.983</td>
<td>1 701.245</td>
<td>4 070.302</td>
</tr>
<tr>
<td>— Energy</td>
<td>948.678</td>
<td>326.800</td>
<td>1 281.033</td>
</tr>
<tr>
<td>— Transport</td>
<td>2 640.168</td>
<td>1 222.807</td>
<td>2 579.156</td>
</tr>
<tr>
<td>— Information and communication technology (ICT)</td>
<td>175.137</td>
<td>151.638</td>
<td>210.113</td>
</tr>
<tr>
<td>— Energy projects to aid economic recovery (EERP)</td>
<td>61.000</td>
<td>60.000</td>
<td>61.000</td>
</tr>
<tr>
<td>— European Solidarity Corps (ESC)</td>
<td>143.325</td>
<td>119.550</td>
<td>166.088</td>
</tr>
<tr>
<td>— European defence industrial development programme (EDIDP)</td>
<td>245.000</td>
<td>147.000</td>
<td>255.000</td>
</tr>
<tr>
<td>— Other actions and programmes</td>
<td>194.397</td>
<td>164.724</td>
<td>196.384</td>
</tr>
<tr>
<td>— Actions financed under the prerogatives of the Commission and specific competences conferred to the Commission</td>
<td>128.409</td>
<td>114.974</td>
<td>135.684</td>
</tr>
<tr>
<td>— Pilot projects and preparatory actions</td>
<td>97.258</td>
<td>99.631</td>
<td>85.365</td>
</tr>
<tr>
<td>— Decentralised agencies</td>
<td>382.895</td>
<td>381.678</td>
<td>399.739</td>
</tr>
<tr>
<td>Economic, social and territorial cohesion</td>
<td>57 192.000</td>
<td>47 035.410</td>
<td>58 645.824</td>
</tr>
<tr>
<td>----------------------------------------</td>
<td>------------</td>
<td>------------</td>
<td>------------</td>
</tr>
<tr>
<td>— Investment for growth and jobs</td>
<td>52 357.460</td>
<td>43 736.616</td>
<td>53 848.933</td>
</tr>
<tr>
<td>— Regional convergence (less developed regions)</td>
<td>27 875.240</td>
<td>24 042.312</td>
<td>28 762.438</td>
</tr>
<tr>
<td>— Transition regions</td>
<td>5 848.702</td>
<td>4 370.076</td>
<td>5 963.909</td>
</tr>
<tr>
<td>— Competitiveness (more developed regions)</td>
<td>8 648.891</td>
<td>7 441.507</td>
<td>8 822.312</td>
</tr>
<tr>
<td>— Outermost and sparsely populated regions</td>
<td>231.005</td>
<td>176.442</td>
<td>235.627</td>
</tr>
<tr>
<td>— Cohesion fund</td>
<td>9 753.622</td>
<td>7 706.279</td>
<td>10 064.646</td>
</tr>
<tr>
<td>— Connecting Europe Facility (CEF) — CF contribution</td>
<td>1 700.429</td>
<td>851.591</td>
<td>1 780.568</td>
</tr>
<tr>
<td>— European territorial cooperation</td>
<td>1 972.954</td>
<td>1 190.567</td>
<td>2 012.414</td>
</tr>
<tr>
<td>— Youth Employment initiative (specific top-up allocation)</td>
<td>350.000</td>
<td>631.500</td>
<td>145.000</td>
</tr>
<tr>
<td>— Technical assistance and innovative actions</td>
<td>239.701</td>
<td>212.747</td>
<td>274.321</td>
</tr>
<tr>
<td>— European Aid to the Most Deprived (FEAD)</td>
<td>567.780</td>
<td>401.200</td>
<td>578.988</td>
</tr>
<tr>
<td>— Pilot projects and preparatory actions</td>
<td>3.675</td>
<td>11.188</td>
<td>5.600</td>
</tr>
</tbody>
</table>

**SUSTAINABLE GROWTH: NATURAL RESOURCES**

<table>
<thead>
<tr>
<th></th>
<th>59 642.078</th>
<th>57 399.857</th>
<th>59 907.021</th>
<th>59 904.492</th>
<th>0.4%</th>
<th>0.9%</th>
</tr>
</thead>
<tbody>
<tr>
<td>— European Agricultural Guarantee Fund (EAGF)</td>
<td>43 191.947</td>
<td>43 116.399</td>
<td>43 410.106</td>
<td>43 380.032</td>
<td>0.5%</td>
<td>0.6%</td>
</tr>
<tr>
<td>— Market related expenditure and direct payments</td>
<td>14 727.263</td>
<td>13 148.188</td>
<td>14 708.662</td>
<td>13 141.224</td>
<td>-0.1%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>— European Maritime and Fisheries Fund (EMFF)</td>
<td>942.055</td>
<td>570.725</td>
<td>960.254</td>
<td>769.899</td>
<td>1.9%</td>
<td>34.9%</td>
</tr>
<tr>
<td>— Sustainable fisheries partnership agreements (SFAs) and compulsory contributions to regional fisheries management organisations (RFMOs) and to other international organisations</td>
<td>147.900</td>
<td>142.035</td>
<td>148.000</td>
<td>142.532</td>
<td>0.1%</td>
<td>0.4%</td>
</tr>
<tr>
<td>— Environment and climate action (LIFE)</td>
<td>558.071</td>
<td>341.561</td>
<td>589.563</td>
<td>382.882</td>
<td>5.6%</td>
<td>12.1%</td>
</tr>
<tr>
<td>— Pilot projects and preparatory actions</td>
<td>13.500</td>
<td>19.607</td>
<td>22.515</td>
<td>20.003</td>
<td>66.8%</td>
<td>2.0%</td>
</tr>
<tr>
<td>— Decentralised agencies</td>
<td>61.342</td>
<td>61.342</td>
<td>67.921</td>
<td>67.921</td>
<td>10.7%</td>
<td>10.7%</td>
</tr>
</tbody>
</table>

**SECURITY AND CITIZENSHIP**

<table>
<thead>
<tr>
<th></th>
<th>3 786.629</th>
<th>3 527.435</th>
<th>3 729.074</th>
<th>3 685.227</th>
<th>-1.5%</th>
<th>4.5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>— Asylum, Migration and Integration Fund</td>
<td>1 120.814</td>
<td>952.604</td>
<td>948.690</td>
<td>952.604</td>
<td>-15.4%</td>
<td>0.0%</td>
</tr>
<tr>
<td>— Internal Security Fund</td>
<td>533.498</td>
<td>663.722</td>
<td>500.869</td>
<td>670.402</td>
<td>-6.1%</td>
<td>1.0%</td>
</tr>
<tr>
<td>— IT systems</td>
<td>0.100</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>-100.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>— Justice</td>
<td>44.625</td>
<td>38.137</td>
<td>46.553</td>
<td>42.850</td>
<td>4.3%</td>
<td>12.4%</td>
</tr>
<tr>
<td>— Rights, equality and citizenship</td>
<td>65.721</td>
<td>57.950</td>
<td>69.658</td>
<td>70.700</td>
<td>6.0%</td>
<td>22.0%</td>
</tr>
<tr>
<td>— Union civil protection mechanism</td>
<td>149.556</td>
<td>81.660</td>
<td>141.170</td>
<td>62.000</td>
<td>-5.6%</td>
<td>-24.1%</td>
</tr>
</tbody>
</table>
### Europe for citizens

<table>
<thead>
<tr>
<th></th>
<th>28.682</th>
<th>29.222</th>
<th>30.812</th>
<th>29.499</th>
<th>7.4%</th>
<th>1.0%</th>
</tr>
</thead>
</table>

### Food and feed

<table>
<thead>
<tr>
<th></th>
<th>289.691</th>
<th>239.272</th>
<th>278.500</th>
<th>244.675</th>
<th>-3.9%</th>
<th>2.3%</th>
</tr>
</thead>
</table>

### Health

<table>
<thead>
<tr>
<th></th>
<th>68.308</th>
<th>61.250</th>
<th>69.674</th>
<th>64.150</th>
<th>2.0%</th>
<th>4.7%</th>
</tr>
</thead>
</table>

### Consumer

<table>
<thead>
<tr>
<th></th>
<th>29.255</th>
<th>23.608</th>
<th>29.685</th>
<th>27.685</th>
<th>1.5%</th>
<th>17.3%</th>
</tr>
</thead>
</table>

### Creative Europe

<table>
<thead>
<tr>
<th></th>
<th>244.843</th>
<th>194.780</th>
<th>251.914</th>
<th>215.404</th>
<th>2.9%</th>
<th>10.6%</th>
</tr>
</thead>
</table>

### Instrument for Emergency Support within the Union (IES)

<table>
<thead>
<tr>
<th></th>
<th>0.250</th>
<th>69.537</th>
<th>∞</th>
<th>∞</th>
<th></th>
<th></th>
</tr>
</thead>
</table>

### Actions financed under the prerogatives of the Commission and specific competences conferred to the Commission

<table>
<thead>
<tr>
<th></th>
<th>105.790</th>
<th>99.881</th>
<th>106.283</th>
<th>104.610</th>
<th>0.5%</th>
<th>4.7%</th>
</tr>
</thead>
</table>

### Of which ‘Communication actions’

<table>
<thead>
<tr>
<th></th>
<th>77.118</th>
<th>74.000</th>
<th>79.403</th>
<th>76.760</th>
<th>3.0%</th>
<th>3.7%</th>
</tr>
</thead>
</table>

### Pilot projects and preparatory actions

<table>
<thead>
<tr>
<th></th>
<th>15.075</th>
<th>18.261</th>
<th>22.520</th>
<th>16.256</th>
<th>49.4%</th>
<th>-11.0%</th>
</tr>
</thead>
</table>

### Decentralised agencies

<table>
<thead>
<tr>
<th></th>
<th>1 090.422</th>
<th>997.551</th>
<th>1 232.746</th>
<th>1 184.392</th>
<th>13.1%</th>
<th>18.7%</th>
</tr>
</thead>
</table>

### GLOBAL EUROPE

<table>
<thead>
<tr>
<th></th>
<th>11 319.266</th>
<th>9 358.296</th>
<th>10 261.572</th>
<th>8 929.061</th>
<th>-9.3%</th>
<th>-4.6%</th>
</tr>
</thead>
</table>

### Instrument for Pre-Accession Assistance (IPA II)

<table>
<thead>
<tr>
<th></th>
<th>2 423.420</th>
<th>1 707.516</th>
<th>1 571.102</th>
<th>1 431.655</th>
<th>-35.2%</th>
<th>-16.2%</th>
</tr>
</thead>
</table>

### European Neighbourhood Instrument (ENI)

<table>
<thead>
<tr>
<th></th>
<th>2 677.281</th>
<th>2 060.307</th>
<th>2 796.283</th>
<th>2 796.662</th>
<th>2.6%</th>
<th>0.0%</th>
</tr>
</thead>
</table>

### Development Cooperation Instrument (DCI)

<table>
<thead>
<tr>
<th></th>
<th>3 189.899</th>
<th>2 796.283</th>
<th>3 272.459</th>
<th>2 796.662</th>
<th>2.6%</th>
<th>0.0%</th>
</tr>
</thead>
</table>

### Partnership instrument for cooperation with third countries (PI)

<table>
<thead>
<tr>
<th></th>
<th>154.004</th>
<th>99.605</th>
<th>162.284</th>
<th>133.242</th>
<th>5.4%</th>
<th>33.8%</th>
</tr>
</thead>
</table>

### European Instrument for Democracy and Human Rights (EIDHR)

<table>
<thead>
<tr>
<th></th>
<th>196.658</th>
<th>159.311</th>
<th>196.254</th>
<th>174.597</th>
<th>-0.2%</th>
<th>9.6%</th>
</tr>
</thead>
</table>

### Instrument contributing to Stability and Peace (IcSP)

<table>
<thead>
<tr>
<th></th>
<th>376.737</th>
<th>321.300</th>
<th>393.807</th>
<th>349.700</th>
<th>4.5%</th>
<th>8.8%</th>
</tr>
</thead>
</table>

### Humanitarian aid (HUMA)

<table>
<thead>
<tr>
<th></th>
<th>1 651.824</th>
<th>1 603.043</th>
<th>1 101.824</th>
<th>1 207.289</th>
<th>-33.3%</th>
<th>-24.7%</th>
</tr>
</thead>
</table>

### Common Foreign and Security Policy (CFSP)

<table>
<thead>
<tr>
<th></th>
<th>334.857</th>
<th>305.500</th>
<th>351.927</th>
<th>328.650</th>
<th>5.1%</th>
<th>7.6%</th>
</tr>
</thead>
</table>

### Instrument for Nuclear Safety Cooperation (INSC)

<table>
<thead>
<tr>
<th></th>
<th>33.630</th>
<th>41.476</th>
<th>32.885</th>
<th>32.691</th>
<th>-2.2%</th>
<th>-21.2%</th>
</tr>
</thead>
</table>

### Macro-financial assistance (MFA)

<table>
<thead>
<tr>
<th></th>
<th>27.000</th>
<th>27.000</th>
<th>20.000</th>
<th>27.000</th>
<th>-25.9%</th>
<th>0.0%</th>
</tr>
</thead>
</table>

### Guarantee Fund for external actions (GF)

<table>
<thead>
<tr>
<th></th>
<th>233.376</th>
<th>233.376</th>
<th>233.376</th>
<th>233.376</th>
<th>∞</th>
<th>∞</th>
</tr>
</thead>
</table>

### Union Civil Protection Mechanism

<table>
<thead>
<tr>
<th></th>
<th>23.546</th>
<th>20.665</th>
<th>18.729</th>
<th>15.706</th>
<th>-20.5%</th>
<th>-24.0%</th>
</tr>
</thead>
</table>

### EU Aid Volunteers initiative (EUAV)

<table>
<thead>
<tr>
<th></th>
<th>19.537</th>
<th>16.054</th>
<th>20.611</th>
<th>18.841</th>
<th>5.5%</th>
<th>17.4%</th>
</tr>
</thead>
</table>

### European Fund for Sustainable Development (EFSD)

<table>
<thead>
<tr>
<th></th>
<th>25.000</th>
<th>25.000</th>
<th>25.000</th>
<th>25.000</th>
<th>0.0%</th>
<th>0.0%</th>
</tr>
</thead>
</table>

### Other actions and programmes

<table>
<thead>
<tr>
<th></th>
<th>83.606</th>
<th>72.954</th>
<th>84.828</th>
<th>85.950</th>
<th>1.5%</th>
<th>17.8%</th>
</tr>
</thead>
</table>

### Actions financed under the prerogatives of the Commission and specific competences conferred to the Commission

<table>
<thead>
<tr>
<th></th>
<th>75.452</th>
<th>73.684</th>
<th>80.740</th>
<th>78.184</th>
<th>7.0%</th>
<th>6.1%</th>
</tr>
</thead>
</table>

### Pilot projects and preparatory actions

<table>
<thead>
<tr>
<th></th>
<th>6.325</th>
<th>8.109</th>
<th>4.000</th>
<th>3.392</th>
<th>-36.8%</th>
<th>-58.2%</th>
</tr>
</thead>
</table>

### Decentralised agencies

|          | 20.489    | 20.489   | 20.937    | 20.937    | 2.2%  | 2.2%  |

### ADMINISTRATION

<table>
<thead>
<tr>
<th></th>
<th>9 944.067</th>
<th>9 945.997</th>
<th>10 272.093</th>
<th>10 275.097</th>
<th>3.3%</th>
<th>3.3%</th>
</tr>
</thead>
</table>
### Economic and Budgetary Outlook for the European Union 2020

Data source: European Commission. Figures for the 2020 budget have been approved (see Section 4), and await final publication in the Official Journal of the European Union. See also: European Parliament, Resolution on the joint text on the draft general budget of the European Union for the financial year 2020 approved by the Conciliation Committee under the budgetary procedure, Strasbourg, 27 November 2019.

<table>
<thead>
<tr>
<th>Category</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Of which: administrative expenditure of the institutions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Pensions and European Schools</td>
<td>2 192.716</td>
<td>2 192.689</td>
<td>2 315.890</td>
<td>2 315.890</td>
<td>5.6%</td>
</tr>
<tr>
<td>— Pensions</td>
<td>2 000.619</td>
<td>2 000.592</td>
<td>2 122.986</td>
<td>2 122.986</td>
<td>6.1%</td>
</tr>
<tr>
<td>— European schools</td>
<td>192.097</td>
<td>192.097</td>
<td>192.904</td>
<td>192.904</td>
<td>0.4%</td>
</tr>
<tr>
<td>Administrative expenditure of the institutions</td>
<td>7 751.314</td>
<td>7 753.281</td>
<td>7 956.203</td>
<td>7 959.206</td>
<td>2.6%</td>
</tr>
<tr>
<td>— European Parliament</td>
<td>2010.050</td>
<td>2010.050</td>
<td>2 038.119</td>
<td>2 038.119</td>
<td>1.4%</td>
</tr>
<tr>
<td>— European Council and Council</td>
<td>581.415</td>
<td>581.415</td>
<td>590.633</td>
<td>590.633</td>
<td>1.6%</td>
</tr>
<tr>
<td>— European Commission</td>
<td>3 628.914</td>
<td>3 630.845</td>
<td>3 731.002</td>
<td>3 734.006</td>
<td>2.8%</td>
</tr>
<tr>
<td>— Court of Justice of the European Union</td>
<td>428.965</td>
<td>428.965</td>
<td>436.593</td>
<td>436.593</td>
<td>1.8%</td>
</tr>
<tr>
<td>— European Court of Auditors</td>
<td>146.711</td>
<td>146.711</td>
<td>153.137</td>
<td>153.137</td>
<td>4.4%</td>
</tr>
<tr>
<td>— European Economic and Social Committee</td>
<td>138.392</td>
<td>138.392</td>
<td>142.539</td>
<td>142.539</td>
<td>3.0%</td>
</tr>
<tr>
<td>— European Committee of the Regions</td>
<td>98.751</td>
<td>98.751</td>
<td>101.508</td>
<td>101.508</td>
<td>2.8%</td>
</tr>
<tr>
<td>— European Ombudsman</td>
<td>11.279</td>
<td>11.279</td>
<td>12.138</td>
<td>12.138</td>
<td>7.7%</td>
</tr>
<tr>
<td>— European data protection Supervisor</td>
<td>16.530</td>
<td>16.530</td>
<td>19.477</td>
<td>19.477</td>
<td>17.8%</td>
</tr>
<tr>
<td>— European External Action Service</td>
<td>690.354</td>
<td>690.354</td>
<td>731.056</td>
<td>731.056</td>
<td>5.9%</td>
</tr>
<tr>
<td>APPROPRIATIONS FOR HEADINGS</td>
<td>165 319.490</td>
<td>147 788.532</td>
<td>168 100.359</td>
<td>153 147.706</td>
<td>1.7%</td>
</tr>
<tr>
<td>Appropriations as % of GNI</td>
<td>1.00%</td>
<td>0.90%</td>
<td>0.99%</td>
<td>0.90%</td>
<td></td>
</tr>
<tr>
<td>Other special instruments</td>
<td>1.01%</td>
<td>0.90%</td>
<td>0.99%</td>
<td>0.90%</td>
<td></td>
</tr>
<tr>
<td>— Emergency Aid Reserve (EAR)</td>
<td>351.500</td>
<td>351.500</td>
<td>358.500</td>
<td>358.500</td>
<td>2.0%</td>
</tr>
<tr>
<td>— European Globalisation Adjustment Fund (EGF)</td>
<td>175.748</td>
<td>10.000</td>
<td>179.263</td>
<td>10.000</td>
<td>2.0%</td>
</tr>
<tr>
<td>— European Union Solidarity Fund (EUSF)</td>
<td>343.6</td>
<td>343.6</td>
<td>50.000</td>
<td>50.000</td>
<td>-85.5%</td>
</tr>
<tr>
<td>TOTAL APPROPRIATIONS</td>
<td>166 190.290</td>
<td>148 493.584</td>
<td>168 688.122</td>
<td>153 566.206</td>
<td>1.5%</td>
</tr>
<tr>
<td>Appropriations as % of GNI</td>
<td>1.01%</td>
<td>0.90%</td>
<td>0.99%</td>
<td>0.90%</td>
<td></td>
</tr>
</tbody>
</table>
### Annex 4 – List of rapporteurs for the main budgetary procedures in 2020

**Committee on Budgets (BUDG)**

**Chair:** Johan Van Overtveldt (ECR, Belgium)

**Multiannual financial framework for the years 2021-2027**

Rapporteurs: Jan Olbrycht (EPP, Poland), Margarida Marques (S&D, Portugal)

Shadow rapporteurs: Moritz Körner (RE, Germany), Rasmus Andresen (Green/EFA, Germany), Marco Zanni (ID, Italy), Roberts Zile (ECR, Latvia), Younous Omarjee (GUE/NGL, France), Dimitrios Papadimoulis (GUE/NGL, Greece)

**System of own resources of the European Union**

Rapporteurs: José Manuel Fernandes (EPP, Portugal), Valerie Hayer (RE, France)

Shadow rapporteurs: Elisabetta Gualmini (S&D, Italy), David Cormand (Green/EFA, France), Hélène Laporte (ID, France), Roberts Zile (ECR, Latvia), Younous Omarjee (GUE/NGL, France), Dimitrios Papadimoulis (GUE/NGL, Greece)

**2020 general budget: all sections**

Rapporteurs: Monika Hohlmeier (EPP, Germany), Eider Gardiazabal Rubial (S&D, Spain)

Shadow rapporteurs: Michael Gahler (EPP, Germany), Charles Goerens (RE, Luxembourg), Bernd Lange (S&D, Germany), Corina Crețu (S&D, Romania), Lucia Nicholsonová (ECR, Slovakia), Pascal Canfin (RE, France), Adina Ioana Vălean (EPP, Romania), Svenja Hahn (RE, Germany), Daniel Freund (Green/EFA, Germany), Younous Omarjee (GUE/NGL, France), Chris Davies (Renew Europe, United Kingdom), Paolo de Castro (S&D, Italy), Petra Kammerevert (S&D, Germany), Gwendoline Delbos-Corfield (Green/EFA, France), Frances Fitzgerald (EPP, Ireland)

**Budgetary Control Committee (CONT)**

Chair: Monika Hohlmeier (EPP, Germany)

**2018 discharge – EU general budget, European Commission**

Rapporteur: Monika Hohlmeier (EPP, Germany)

Shadow rapporteurs: Tsvetelina Penkova (S&D, Bulgaria), Olivier Chastel (RE, Belgium), Viola von Cramon-Taubadel (Green/EFA, Germany), Joachim Hans Kuhs (ID, Germany), Ryszard Czarnecki (ECR, Poland), Luca Ming Flanagan (GUE/NGL, Ireland)

**2018 discharge – ECA’s special reports**

Rapporteur: Monika Hohlmeier (EPP, Germany)

Shadow rapporteurs: Tsvetelina Penkova (S&D, Bulgaria), Olivier Chastel (RE, Belgium), Luca Ming Flanagan (GUE/NGL, Ireland)

**2018 discharge – European Development Funds (EDFs)**

Rapporteur: Michèle Rivasi (Green/EFA, France)

Shadow rapporteurs: David Lega (EPP, Sweden), Tsvetelina Penkova (S&D, Bulgaria), Luisa Porritt (RE, United Kingdom), Joachim Hans Kuhs (ID, Germany), Younous Omarjee (GUE/NGL, France), Charles Goerens (RE, Luxembourg)
### 2018 discharge – EU general budget, European Parliament

Rapporteur: Maria Grapini (S&D, Romania)

Shadow rapporteurs: Tamás Deutsch (EPP, Hungary), Gilles Boyer (RE, France), Daniel Freund (Green/EFA, Germany), Joachim Hans Kuhs (ID, Germany), Ryszard Czarnecki (ECR, Poland), Younous Omarjee (GUE/NGL, France)

### 2018 discharge – other institutions

Rapporteur: Tomáš Zdechovský (EPP, Czechia)

Shadow rapporteurs: Isabel García Muñoz (S&D, Spain), Cristian Ghinea (RE, Romania), Martina Dlabajová (RE, Czechia), Ramona Strugariu (RE, Romania), Olivier Chastel (RE, Belgium), Mikulas Peska (Green/EFA, Czechia), Joachim Hans Kuhs (ID, Germany), Ryszard Czarnecki (ECR, Poland), Luke Ming Flanagan (GUE/NGL, Ireland)

### 2018 discharge – agencies

Rapporteurs: Ryszard Czarnecki (ECR, Poland), Joachim Brudziński (ECR, Poland)

Shadow rapporteurs: Andrej Novakov (EPP, Bulgaria), Lara Wolters (S&D, Netherlands), Ramona Strugariu (RE, Romania), Cristian Ghinea (RE, Romania), Gilles Boyer (RE, France), Katalin Cseh (RE, Hungary), Luisa Porritt (RE, United Kingdom), Olivier Chastel (RE, Belgium), Bas Eickhout (Green/EFA, Netherlands), Joachim Hans Kuhs (ID, Germany), Younous Omarjee (GUE/NGL, France)

### 2018 discharge – joint undertakings

Rapporteurs: Ryszard Czarnecki (ECR, Poland), Joachim Brudziński (ECR, Poland)

Shadow rapporteurs: Markus Pieper (EPP, Germany), Maria Grapini (S&D, Romania), Martina Dlabajová (RE, Czechia), Michèle Rivasi (Green/EFA, France), Joachim Hans Kuhs (ID, Germany), Younous Omarjee (GUE/NGL, France)

This study, the fourth 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 2020, and sets out the wider budgetary framework – the multiannual financial framework (MFF) – and its possible evolution in the new decade. A special ‘economic focus’ puts the spotlight on the international role of the euro, and on various recent EU-level initiatives in this field.