MULTI ANNUAL FINANCIAL FRAMEWORK

There have been six multiannual financial frameworks (MFFs) to date, including 2021-2027. The Treaty of Lisbon transformed the MFF from an interinstitutional agreement into a regulation. Established for a period of at least five years, an MFF is there to ensure that the EU’s expenditure develops in an orderly manner and within the limits of its own resources. It sets out provisions with which the annual budget of the EU must comply. The MFF Regulation sets expenditure ceilings for broad categories of spending called headings. After its initial proposals of 2 May 2018 and in the wake of the COVID-19 outbreak, on 27 May 2020 the Commission proposed a recovery plan (NextGenerationEU) that included revised proposals for the MFF 2021-2027 and own resources, and the setting up of a recovery instrument worth EUR 750 billion (in 2018 prices). The package was adopted on 16 December 2020 following interinstitutional negotiations. A review of the functioning of the MFF, and, as appropriate, proposals for a revision, are due by 1 January 2024, a date which Parliament has called to bring forward.

LEGAL BASIS

— Article 312 of the Treaty on the Functioning of the European Union;
— Council Regulation (EU, Euratom) No 2020/2093 of 17 December 2020 laying down the multiannual financial framework for the years 2021-2027;
— Interinstitutional Agreement of 16 December 2020 between the European Parliament, the Council of the European Union and the European Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management, as well as on new own resources, including a roadmap towards the introduction of new own resources.

BACKGROUND

In the 1980s, a climate of conflict in relations between the institutions arose out of a growing mismatch between available resources and actual budgetary requirements. The concept of a multiannual financial perspective was developed as an attempt to lessen conflict, enhance budgetary discipline and improve implementation through better planning. The first interinstitutional agreement (IIA) to this end was concluded
in 1988. It contained the financial perspective for 1988-1992 (also known as the Delors I package), which aimed to provide the resources needed for the budgetary implementation of the Single European Act. A new IIA was agreed on 29 October 1993, together with the financial perspective for 1993-1999 (the Delors II package), which enabled the Structural Funds to be doubled and the own resources (1.4.1) ceiling to be increased. The third IIA, on the financial perspective for 2000-2006, also known as Agenda 2000, was signed on 6 May 1999, and one of its main goals was to secure the necessary resources to finance enlargement. The fourth IIA, covering the period 2007-2013, was agreed on 17 May 2006.

The Treaty of Lisbon transformed the MFF from an interinstitutional agreement into a Council regulation to be adopted unanimously, subject to the consent of the European Parliament, under a special legislative procedure. In addition to determining the ‘amounts of the annual ceilings on commitment appropriations by category of expenditure and of the annual ceiling on payment appropriations’, Article 312 of the Treaty on the Functioning of the European Union (TFEU) states that the MFF must also ‘lay down any other provisions required for the annual budgetary procedure to run smoothly’.

The fifth MFF, covering the period 2014-2020, was the first to see a decrease in overall amounts in real terms. One of Parliament’s preconditions for accepting the MFF was therefore a mandatory mid-term revision allowing a reassessment and adjustment of budgetary needs during the MFF period, if necessary. The agreement also secured, inter alia, enhanced flexibility to enable full use of the amounts planned and an understanding on the way towards a true system of own resources for the EU. A revised MFF for 2014-2020 was adopted on 20 June 2017 with additional support for migration-related measures, jobs and growth. The Flexibility Instrument and the Emergency Aid Reserve were also reinforced, allowing for further funds to be shifted between budget headings and years, in order to be able to react to unforeseen events and new priorities.

THE 2021-2027 MULTIANNUAL FINANCIAL FRAMEWORK

On 2 May 2018, the Commission presented legislative proposals for an MFF covering the years 2021 to 2027. The Commission’s proposal amounted to EUR 1 134.6 billion (2018 prices) in commitment appropriations, representing 1.11% of the EU-27’s GNI. It contained increases for border management, migration, security, defence, development cooperation and research, among others. Cuts were proposed in particular for cohesion and agricultural policy. The overall architecture was to be streamlined (from 58 to 37 expenditure programmes) and the Commission proposed a set of special instruments outside the MFF ceilings to improve flexibility in EU budgeting. The European Development Fund (EDF) would be integrated into the MFF. The Commission also proposed modernising the revenue side, with the introduction of several new categories of own resources.

Parliament adopted resolutions on the MFF for 2021-2027 on 14 March 2018 and 30 May 2018. On 14 November 2018, Parliament further outlined its negotiating mandate, including amendments to the MFF Regulation and IIA proposals and a complete set of figures with a breakdown by heading and by programme. It specified that the MFF ceiling for commitments should increase from 1.0% (for the EU-28)
to 1.3% of EU GNI (for the EU-27), i.e. EUR 1 324 billion (2018 prices), an increase of 16.7% on the Commission proposal. Allocations for the common agricultural policy and cohesion policy should remain unchanged in real terms, while several priorities should be further reinforced, including Horizon Europe, Erasmus+ and LIFE; a new Child Guarantee (EUR 5.9 billion) and a new Energy Transition Fund (EUR 4.8 billion) should be created; financing for decentralised agencies involved in migration and border management should increase more than fourfold (to more than EUR 12 billion). The EU budget's contribution to the achievement of climate objectives should be set at a minimum of 25% of MFF expenditure for 2021-2027, be mainstreamed across relevant policy areas, and rise to 30% no later than 2027. Mid-term revision of the MFF should be mandatory.

On 30 November 2018 and 5 December 2019, the Council published a draft ‘negotiating box’, also comprising horizontal and sectoral issues that were normally in the remit of expenditure programmes subject to the ordinary legislative procedure (which was criticised by Parliament).[1] The Council was in favour of an overall MFF amount of EUR 1 087 billion in commitment appropriations, in 2018 prices (1.07% of the EU-27 GNI), well below Parliament’s expectations.

On 10 October 2019 and 13 May 2020, Parliament updated its mandate following the European elections and requested that the Commission submit a proposal for an MFF contingency plan to provide a safety net to protect the beneficiaries of EU programmes in the event that the ongoing MFF needed to be extended, given the disagreement within the European Council.

Meanwhile, on 14 January 2020, the Commission had put forward a proposal for a Just Transition Fund as an additional element in the package of MFF proposals, as part of the European Green Deal.

Following the COVID-19 crisis and the serious economic effects of the necessary lockdowns, the Commission published amended proposals on 27 and 28 May 2020[2] for an MFF of EUR 1 100 billion and an additional recovery instrument, NextGenerationEU (NGEU)[3], worth EUR 750 billion (in 2018 prices), EUR 500 billion of which in the form of grants and EUR 250 billion as loans. The package involved legislative proposals for new financial instruments as well as changes to MFF programmes already on the table. The financing of the additional package was to be secured by borrowing on the financial markets. For this purpose, the Commission also modified the proposal for an Own Resources Decision to enable the borrowing of up to EUR 750 billion. Finally, the Commission package included a EUR 11.5 billion increase in the MFF 2014-2020 commitments ceiling for the year 2020, in order to begin mobilising support before the new MFF.

On 21 July 2020, the European Council adopted conclusions[4] on the recovery effort (NextGenerationEU), the 2021-2027 MFF, and own resources. The recovery effort was endorsed at EUR 750 billion for the years 2021-2023. However, the grant component

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[1] See, for example, paragraphs 14-16 of its resolution of 10 October 2019.
[3] Special meeting of the European Council (17, 18, 19, 20 and 21 July 2020) – Conclusions.
was reduced from EUR 500 to 390 billion and the loan component was increased from EUR 250 to 360 billion. The European Council rejected the upward revision of the MFF ceiling for the year 2020. The overall ceiling for commitments in the 2021-2027 MFF was set at EUR 1 074.3 billion. Furthermore, the conclusions stated that a regime of conditionality to protect the budget and NGEU would be introduced. A new own resource was agreed from 1 January 2021 based on non-recycled plastic packaging waste and work towards the introduction of other own resources in the course of the 2021-2027 MFF was planned, to be used for early repayments of borrowing under the NGEU. The proposed legal basis of the NGEU was Article 122 of the TFEU, which allows the EU to establish measures appropriate to the economic situation with a qualified majority in the Council, without involving Parliament in the legislative procedure.

Parliament immediately reacted to these conclusions in a resolution adopted on 23 July 2020, in which it called the creation of the recovery instrument a historic move, but deplored the cuts made to future-oriented programmes. It insisted that targeted increases on top of the figures proposed by the European Council must single out programmes relating to the climate, the digital transition, health, youth, culture, infrastructure, research, border management and solidarity. It reiterated, furthermore, that it would not give its consent to the MFF without an agreement on the reform of the EU’s own resources system, with the aim of covering at least the costs related to the NGEU (principal and interest), so as to ensure its credibility and sustainability. Parliament also demanded, as part of the budgetary authority, to be fully involved in the recovery instrument, in line with the Community method.

Trilateral talks involving Parliament, the Council and the Commission started in August 2020 and were concluded on 10 November 2020. The Council regulation on the MFF 2021-2027 was adopted on 17 December, following Parliament’s consent.

All 27 Member States ratified the Own Resources Decision by 31 May 2021, enabling the EU to begin issuing debt on the capital markets under NGEU.

A new mechanism to protect the EU budget from breaches to the principles of the rule of law, another condition set by Parliament for its consent, entered into force on 1 January 2021.

### Multiannual financial framework (EU-27) (EUR million, 2018 prices)

<table>
<thead>
<tr>
<th>Commitment appropriations</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>Total 2021-2027</th>
</tr>
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<tbody>
<tr>
<td>1. Single market, innovation and digital</td>
<td>19 712</td>
<td>19 666</td>
<td>19 133</td>
<td>18 633</td>
<td>18 518</td>
<td>18 646</td>
<td>18 473</td>
<td>132 781</td>
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<tr>
<td>2. Cohesion, resilience and values</td>
<td>49 741</td>
<td>51 101</td>
<td>52 194</td>
<td>53 954</td>
<td>55 182</td>
<td>56 787</td>
<td>58 809</td>
<td>377 768</td>
</tr>
<tr>
<td>2a. Economic, social and territorial cohesion</td>
<td>45 411</td>
<td>45 951</td>
<td>46 493</td>
<td>47 130</td>
<td>47 770</td>
<td>48 414</td>
<td>49 066</td>
<td>330 235</td>
</tr>
<tr>
<td>2b. Resilience and values</td>
<td>4 330</td>
<td>5 150</td>
<td>5 701</td>
<td>6 824</td>
<td>7 412</td>
<td>8 373</td>
<td>9 743</td>
<td>47 533</td>
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<tr>
<td>3. Natural resources and environment</td>
<td>55 242</td>
<td>52 214</td>
<td>51 489</td>
<td>50 617</td>
<td>49 719</td>
<td>48 932</td>
<td>48 161</td>
<td>356 374</td>
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Fact Sheets on the European Union - 2023
<table>
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<tr>
<th>of which: market-related expenditure and direct payments</th>
<th>38 564</th>
<th>38 115</th>
<th>37 604</th>
<th>36 983</th>
<th>35 772</th>
<th>35 183</th>
<th>258 594</th>
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<tr>
<td>4. Migration and border management</td>
<td>2 324</td>
<td>2 811</td>
<td>3 164</td>
<td>3 282</td>
<td>3 672</td>
<td>3 682</td>
<td>22 671</td>
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<td>5. Security and defence</td>
<td>1 700</td>
<td>1 725</td>
<td>1 737</td>
<td>1 754</td>
<td>1 928</td>
<td>2 078</td>
<td>13 185</td>
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<tr>
<td>7. European public administration</td>
<td>10 021</td>
<td>10 215</td>
<td>10 342</td>
<td>10 454</td>
<td>10 554</td>
<td>10 673</td>
<td>73 102</td>
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<td>of which: administrative expenditure of the institutions</td>
<td>7 742</td>
<td>7 878</td>
<td>7 945</td>
<td>7 997</td>
<td>8 025</td>
<td>8 077</td>
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<tr>
<td>TOTAL COMMITMENT APPROPRIATIONS</td>
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<td>153 254</td>
<td>152 848</td>
<td>152 750</td>
<td>152 896</td>
<td>153 390</td>
<td>1 074 300</td>
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<tr>
<td>TOTAL PAYMENT APPROPRIATIONS</td>
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<td>154 822</td>
<td>149 936</td>
<td>149 936</td>
<td>149 936</td>
<td>149 936</td>
<td>1 061 058</td>
</tr>
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The political agreement covers not only the 2021-2027 MFF, but also the future system of own resources and flanking measures for the new NGEU recovery instrument. In addition to the MFF Regulation of 17 December 2020, the compromise is reflected in an interinstitutional agreement (IIA) and a set of joint declarations.

Parliament was able to secure, in particular:

- EUR 15 billion extra compared to the July 2020 proposal, going to flagship programmes: Horizon Europe, Erasmus+, EU4Health, InvestEU, the Border Management Fund, the Neighbourhood, Development and International Cooperation Instrument (NDICI), Humanitarian Aid, Rights and Values, Creative Europe;

- A legally binding roadmap for the introduction of new EU own resources;

- A progressive increase of the overall ceiling for the 2021-2027 MFF from EUR 1 074.3 to EUR 1 085.3 billion in 2018 prices (explained below);

- A further EUR 1 billion for the Flexibility Instrument;

- A new procedural step (the ‘budgetary scrutiny procedure’) for the setting up of future crisis mechanisms based on Article 122 of the TFEU, with potential appreciable budgetary implications;

- Parliament’s involvement in the use of NGEU external assigned revenue (EAR), a general reassessment of EAR and borrowing and lending in the next revision of the Financial Regulation, and of arrangements for cooperation in future MFF negotiations;
— An enhanced climate tracking methodology to reach the target of at least 30% of MFF/NGEU expenditure to support climate objectives[^5];

— A new annual biodiversity target (7.5% in 2024 and 10% in 2026 and 2027) and the design of a methodology to measure gender expenditure;

— A reform of the collection, quality and comparability of data on beneficiaries in order to better protect the EU budget, including NGEU expenditure.

Other components of the MFF 2021-2027 corresponding to Parliament’s priorities include:

— Integration of the EDF into the EU budget;

— Overall levels of funding for agriculture and cohesion of a size comparable to 2014-2020;

— Creation of the Just Transition Fund.

The main source for the increases (EUR 11 billion) come from a new mechanism linked to fines collected by the Union and result in automatic additional allocations to the programmes concerned in 2022-2027. The overall ceiling of the seven-year MFF will therefore incrementally reach EUR 1 085.3 billion in 2018 prices, i.e. EUR 2 billion higher in real terms than the equivalent 2014-2020 MFF ceiling (EUR 1 083.3 billion in 2018 prices, without the UK, with the EDF). Further top-ups (EUR 2.5 billion) come from margins left unallocated within the ceilings set by the European Council. EUR 1 billion comes from reflows from the ACP Investment Facility (EDF), to the benefit of the NDICI. EUR 0.5 billion come from decommitted appropriations in the area of research, to the benefit of Horizon Europe (Article 15(3) of the Financial Regulation).

Under the IIA, repayments and interests of recovery debt are to be financed by the EU budget under the MFF ceilings for the 2021-2027 period, ‘including by sufficient proceeds from new own resources introduced after 2021’. This is without prejudice to how this matter will be addressed in future MFFs from 2028 onwards and the express aim is to preserve EU programmes and funds.

On 22 December 2021, the Commission proposed new own resources and a targeted amendment of the MFF Regulation. Parliament adopted an interim resolution concerning this amendment on 13 September 2022. The amendment is, inter alia, aimed at introducing a new mechanism that allows ceilings to automatically increase from 2025 in order to accommodate any additional revenue yielded by new own resources for the early repayment of NGEU debt.

The Commission stated that it would present a review of the functioning of the MFF by 1 January 2024[^6], and, as appropriate, proposals for a revision. In its communication of 18 May 2022 on Ukraine relief and reconstruction, it stated that the ‘unforeseen needs created by war in Europe are well beyond the means available in the current multiannual financial framework’.

[^5]: On 21 June 2022, the Commission published its approach to climate mainstreaming in the 2021-2027 MFF and the NGEU in a staff working document.

[^6]: This was confirmed in the State of the Union 2022 letter of intent of 14 September 2022 addressed by the Commission to Parliament and the Council.
Council Regulation (EU, Euratom) 2022/2496 amended the MFF as part of a package adopted by Parliament on 24 November 2022, under an urgency procedure. It extends the budgetary coverage currently applicable to the loans to the Member States to macro-financial assistance loans to Ukraine, for the years 2023 and 2024: in case of default, the necessary amounts would be mobilised over and above the MFF ceilings, up to the limits of the own resources ceiling (from the so-called headroom). A total of EUR 18 billion in macro-financial assistance is due to be provided to Ukraine in 2023.

On 19 May 2022, Parliament requested ‘a legislative proposal for a comprehensive MFF revision as soon as possible and no later than the first quarter of 2023’. To set the agenda, on 15 December 2022 Parliament adopted a resolution on ‘Upscaling the 2021-2027 Multiannual Financial Framework: a resilient EU budget fit for new challenges’, setting out its key demands:

— Sufficient flexibility and crisis response capacity,
— Extra resources to fund new policy ambitions or make up for existing under-financing,
— Placing NGEU debt repayment over and above the spending ceilings to reduce pressure from increasing interest rates, safeguard programmes and create space for the budget to respond where needed.

For more information on this topic, please see the website of the Committee on Budgets.

Alix Delasnerie
04/2023