

A WORKING SESSION ON THE MULTIANNUAL FINANCIAL FRAMEWORK POST-2027 - DISCUSSION PAPER

The Multiannual Financial Frameworks (MFFs) ensure that Union expenditure develops in an orderly manner, provide the stability and predictability of the financing of long-term EU policies and facilitate the annual budgetary procedures.

However, since the early 2010s, the EU has had to face a series of unpredictable events (financial crisis, migration, Brexit, COVID) as well as react to the current geopolitical context (Russia's war of aggression, economic challenges and fierce competition). The EU resorted to different forms of budgetary flexibility, including reprogramming of cohesion policy (CRII, CRII+, CARE, SURE, STEP, RESTORE), additional resources through the issuance of common debt in the context of Next Generation EU (NGEU) or making available ETS revenue to finance REPower EU, or a mix of increased flexibility, redeployments and "fresh money" like in the case of MFF revision in February 2024.

New challenges

In the upcoming MFF, the EU will face both new and existing challenges that require comprehensive solutions. These include strengthening the EU's defence capabilities, continuing aid to Ukraine, preparing for potential enlargement, and maintaining the EU's global competitiveness. The EU budget must be robust enough to meet these emerging priorities, while also managing the financial burden of servicing EU joint debt guaranteed by the margin under the Own Resources ceiling (from 2028, the EU is obliged to start the repayment of the principal).

The current geopolitical situation has significantly raised European awareness of the need for increased defence investments. The growing significance of security issues is prompting Member States to explore innovative funding sources to support financing defence expenditure needs, not only for the long-term future but also for immediate needs. Some Member States have called for the issuing of joint debt or have referred to the EIB and other means of financing.

As the migration pressure on the EU's external borders remains unabated and no significant progress in return policy is recorded, the EU internal security funds should remain a major priority.

Mario Draghi, in his report "The Future of European Competitiveness", identified an annual investment gap of EUR 800 billion and proposed addressing part of this gap through the EU budget (new common borrowing), by establishing a safe European asset which should fulfil certain criteria. The investment boost is supposed to help the EU to progress in green and digital transitions. Proposals in Letta's and Niinistö's reports also carry budgetary implications.

Context

The 9th Cohesion Report shows important improvement in economic and social cohesion, but at the same time highlights the challenges for the territorial cohesion in form of sub-national

disparities between large metropolitan areas and other regions, in particular the rural areas. The Southern countries have largely overcome the effects of the financial and sovereign debt crises, while the 2004 and later enlargement countries have experienced significant convergence. However, so far only one of these has reached the EU average level of GDP per capita in PPS.

The current budgetary period marks a much closer link between the budget and the Rule of Law. This link is embodied in general conditionality regulation, judiciary “supermilestones” in the Recovery and Resilience Facility and the horizontal enabling condition linked to the Charter of Fundamental Rights in cohesion policy.

Future reform

The Commission presented its initial ideas in the Political Guidelines, Commissioners’ mission letters and parliamentary hearings. The Commission implied that the budget will be more focused, streamlined in its implementation (with fewer programmes), include a greater scope of flexibility to react to new developments and be more efficient, with an emphasis on enhancing competitiveness, including the possibility of creating a separate Competitiveness Fund.

The Recovery and Resilience Facility was created as the main instrument to implement Next Generation EU (a one-off instrument). It fulfilled its tasks during the health crisis but it has shown some shortcomings which are described in the Court of Auditors reports. At the same time cohesion policy is enshrined in the Treaties and well established. Given that in recent years some issues have emerged (errors, slow start) the mid-term review of this policy should serve as the process to identify them and offer corrections. The result should be long-term, building on well-established key principles of Cohesion Policy, such as shared management, multi-level governance, partnership and place-based approach and leading to predictability, flexibility to address challenges, accessibility, transparency and resilience to fraud. It remains to be seen if and which solutions from the RRF could be imported into shared management policies to strengthen their effectiveness. Some Member States have called for a thematically closer link between the reforms and investments. Moreover, some doubted whether the reforms should encompass areas subject to unanimity voting in the Council (e.g. taxation) or others being at the core of internal democratic dispute (pensions, labour market, etc). The Commission considers the idea of one-plan-per-country implementation approach. The above mentioned elements have caused unease among regions over their role in such an implementation system. The involvement of regions is conducive to development of participatory democracy and can be helpful if autocratic tendencies appear at the central level. The Court of Auditors in its reports highlighted that the proper tracking of all financial flows is deemed necessary.

New Own Resources

In order to implement the roadmap for the introduction of new own resources over the duration of the current MFF, the Commission tabled two baskets on new Own Resources (OR). However, there has been no agreement in the Council. While some Member States insisted that the decisions on new OR should be part of the overall agreement on the next MFF, others could not

accept certain elements of the proposals, arguing that they are not compatible with the spirit of Protocol No. 28¹, which states that the regressive features of the own resources system should be removed. While new OR do not automatically increase the EU's budgetary capacity based on a fixed MFF ceiling, the upcoming need to repay the EU's joint debt should create an impetus to introduce new OR that diversify the revenue stream, while at the same time the residual nature of GNI-based OR continues to guarantee seamless coverage of financial needs.

Discussion questions:

- What are your expectations (addressing current and emerging challenges) regarding the European Commission's upcoming proposal on the Multiannual Financial Framework post-2027?
- What, in your opinion, are the most promising proposals for new own resources?

Agence Europe

¹ Protocol (no 28) on economic, social and territorial cohesion of the Treaty on the Functioning of the European Union (TFEU).