



EU Budget: the Multi-annual Financial Framework (MFF) and the Next Generation EU (NGEU) instrument

Key points:

- The **Multiannual Financial Framework (MFF)** is a seven-year framework with a budget of €1,074.3 billion which sets an overall ceiling for annual income and spending.
- The **Next Generation EU (NGEU)** instrument with a budget of €750 billion is additional expenditure for the sectors and regions most affected by the COVID-19 pandemic. Next Generation EU will be funded by borrowing from capital markets by the European Commission.
- The **Recovery and Resilience Facility** (part of the NGEU) will provide funding for investment and structural reforms to EU Member States. Supports will be concentrated in the Member States most affected by the Covid-19 pandemic.
- This EU budget significantly expands the amount the European Commission borrows from capital markets.

Introduction

The European Council (on the 17th December 2020) approved an economic and financial plan to assist the European economy to recovery from the Covid-19 pandemic and to fund the European institutions and programmes for the next seven years. There are two elements: the **Multi-annual Financial Framework (MFF)** for the years 2021 to 2027 with a budget of €1,074.3 billion; and a new **Next Generation EU (NGEU)** instrument for the years 2021 to 2024 with a budget of €750 billion. Figures are expressed in 2018 prices. The combined figure for the EU Budget is **€1.8 trillion**, which will be the largest EU Budget ever.

The MFF is the standard seven-year budgetary framework for the EU institutions and programmes that is funded by EU contributions. Whereas Next Generation EU is a new and temporary instrument which will be funded by borrowing from the international capital markets by the European Commission. This significantly expands the amount the Commission can borrow. The Next Generation Instrument is designed to mitigate the socio-economic consequences of the COVID-19 pandemic and re-orientating the EU economy to meet the challenges in climate change and the digital transition.

This PBO Note will look at the **expenditure side of the EU Budget**: the Multi-annual Financial Framework and the Next Generation EU instrument, including the Recovery and Resilience Facility. The Note will also examine the **revenue side of the EU Budget**: Contributions from EU Member States; EU Traditional Own Resources; budget headroom and the issuing of debt. Finally, the Note will look at Ireland's funding allocation from the EU Budget.

Overview

The **EU Budget sets out the annual limits** for the next seven years for EU commitments in different programme areas (the budget's expenditure) as well as **contributions from EU Member States and EU Traditional Own Resources** (the budget's revenue).¹ The expenditure side will be greatly increased in 2021 in order to develop the post-COVID 19 economy with an emphasis on developing "a more greener, digital and resilient European economy".² The revenue side will be enhanced by the borrowing from capital markets for the Next Generation EU instrument and proposed new own resources (carbon border adjustment mechanism, digital levy, a financial transaction tax, and a levy based on a common corporate tax base). These proposals have yet to be agreed by the Council. In addition, there is a new rule of law conditionality to the budget. This links payment of the budget to EU Member States to adherence to the rule of law for the management of the EU Funds.³

The **European Council has approved these budgetary plans and the European Parliament has given its consent to the Multi-Financial Framework**, as it falls under its competence.⁴ However, the Next Generation EU instrument only requires the European Council's approval with the European Parliament being informed of the decision (Article 122 of the Treaty on the Functioning of the European Union (TFEU)).

Expenditure of the EU Budget

The value of the EU's overall fiscal package is €1.8 trillion, combining the Multi-annual Financial Framework and the Next Generation EU instrument. Table 1 shows the main thematic framework of the EU Budget and the funding allocation for the various programmes. The Next Generation EU funding will be used to fund three of the seven areas, single market, innovation and digital; cohesion, resilience and values; and natural resources and environment.

Table 1: Multiannual Financial Framework 2021-2027 and Next Generation EU instrument (Commitments, € billions in 2018 prices)

	MFF 2021 - 2027	Next Generation EU	Total
1. Single Market, Innovation and Digital	132.781	10.6	143.381
2. Cohesion, Resilience and Values	377.768	721.9	1,099.668
3. Natural Resources and Environment	356.374	17.5	373.874
4. Migration and Border Management	22.671	-	22.671
5. Security and Defence	13.185	-	13.185
6. Neighbourhood and the World	98.419	-	98.419
7. European Public Administration	73.102	-	73.102
Total	1,074.3	750.0	1,824.3

Source: European Commission (2020) "[Recovery plan for Europe](#)".

1 European Parliamentary Research Service (2020) "[Multiannual Financial Framework for the years 2021-2027 and the New Own Resources](#)".

2 European Commission (2020) "[Recovery plan for Europe](#)".

3 European Parliament (2020) "[Parliament approves the "rule of law conditionality" for access to EU funds](#)".

4 European Parliament (2020) "[Parliament approves seven-year EU budget 2021-2027](#)".

In terms of priorities, there are important structural changes to the EU Budget, compared to previous EU Multi-annual Financial Frameworks. Around half of the overall EU Budget (MFF and Next Generation EU) will focus on the **priority policy areas of innovation, climate change and digitalisation**.⁵ The funding will be channelled through various programmes e.g. Horizon Europe, Just Transition Fund, the Digital Europe programme, the Recovery and Resilience Facility and EU4Health programme. The EU Budget on climate change (including biodiversity protection) is the highest single budgetary allocation. The EU Just Transition Fund will have an allocation of €17.5 billion to be distributed across EU Member States over the period 2021-2027. Ireland is set to receive up to €77 million from this Fund or 0.4% of the total.⁶

The **Multi-annual Financial Framework (MFF)** covering 2021-2027 will fund the cohesion policy, Common Agricultural Policy (CAP), the green transition and the digital transitions. The Common Agricultural Policy will account for approximately 30% of the MFF.

The **Next Generation EU** instrument will provide €750 billion of additional expenditure for the sectors and regions most affected by the COVID-19 pandemic.⁷ The fund is a temporary programme (2021-2024) to mitigate the socio-economic difficulties caused by the Covid-19 pandemic. The Next Generation EU recovery instrument will enable the transfer of these funds to EU programmes as outlined in Table 2.⁸

Table 2: Next Generation EU (€ billion)

	Next Generation EU	Total (with MFF)
Recovery and Resilience Facility (RRF)	672.5	673.3
ReactEU	47.5	47.5
Horizon Europe	5	84.9
InvestEU	5.6	9.4
Rural Development	7.5	85.4
Just Transition Funds (JTF)	10	17.5
RescEU	1.9	3.0

Source: European Commission (2020) "[EU Next Long Term Budget & Next Generation EU: Facts and Figures](#)".

The **Recovery and Resilience Facility (RRF)** is a temporary recovery Facility that is central to the working of the Next Generation EU instrument.⁹ The Recovery and Resilience Facility will make €673.3 billion in loans and grants available to Member States (Table 3). The funding is mostly from the Next Generation EU instrument and will support EU governments in implementing reforms and growth-enhancing investments.¹⁰

5 European Commission (2020) "[Questions and answers on the adoption of the EU's long-term budget for 2021-2027](#)".

6 PBO (2020) "[An overview of the EU Just Transition Fund](#)".

7 PBO (2020) "[An Overview of the European Commission's Next Generation EU Instrument](#)".

8 European Council (2020) "[Long-term EU budget 2021-2027 and recovery package](#)".

9 European Parliamentary Research Service (2021) "[Establishing a Recovery and Resilience Facility](#)".

10 European Commission (2020) "[Questions and answers on the adoption of the EU's long-term budget for 2021-2027](#)".

Table 3: Recovery and Resilience Facility (€ billion)

	Next Generation EU	Total (with MFF)
Recovery and Resilience Facility	672.5	673.3
<i>Of which Grants</i>	312.5	313.3
<i>Of which Loans</i>	360.0	360.0

Source: European Commission (2020) "[EU Next Long Term Budget & Next Generation EU: Facts and Figures](#)".

The funding for this facility is generated from low-cost borrowing by the EU from international capital markets and will be made available to fund the proposed projects in the recovery and resilience plans of the Member States. There are six pillars to the Recovery and Resilience Facility: green transition, digital transformation, economic cohesion, social and territorial cohesion, institutional resilience and Next Generation EU.

The dispersion of the funds is based on Recovery and Resilience Plans submitted by the Member States to the EU and aim to both reduce the consequences of the pandemic and prepare a more resilient and sustainable economy for the climate and digital transitions. Each plan would have at least 37% of its budget to climate transition and at least 20% to digital transition. There will be regular recovery and resilience dialogue with the European Parliament by the European Commission.

Ireland must submit its Recovery and Resilience Plan to the EU Commission by end-April 2021 and the Government has opened a public consultation process on it.¹¹

Revenue to the EU Budget

The **EU Own Resources** funds the European Union's Budget. There are three types of own resources: Duties and Levies (including customs duties and sugar levies); Value Added Tax (VAT)-based own resource (contributions from the Member States); and Gross National Income-based own resource (contributions from the Member States).

There is annual Own Resources ceiling of 1.4% of EU Gross National Income (GNI). This is an increase of 0.2 percentage points on the previous ceiling due to economic difficulties and Brexit. The **ceiling set in the MFF will impact the overall contributions required from EU Member States**. The higher the ceiling, the higher the potential contributions which can be requested under each budget.¹²

In addition, each Member State in any given year has an individual 'Own Resources' ceiling. This outlines the maximum amount of own resources a Member states must contribute to the EU Budget and provides certainty and clarity to Member States for their fiscal policy and budgetary planning. The new MFF increases the Own Resources Ceiling for Member States by 0.6 percentage points.¹³ This increase will be temporary and will only be used in the context of the economic recovery from the Covid-19 pandemic.

¹¹ Department of the Taoiseach (2021) [Public Consultation on Ireland's National Recovery and Resilience Plan](#) (closing date 22nd Feb 2021).

¹² PBO (2018) "[The Multiannual Financial Framework of the EU](#)".

¹³ European Commission (2020) "[Questions and answers on the adoption of the EU's long-term budget for 2021-2027](#)".

In addition, the European Commission will use the **budget headroom** - the difference between the Own Resources ceiling and actual expenditure - as a guarantee for the European Commission's debt issued to fund the Next Generation EU instrument. The EU will be able to get more advantageous terms from the international capital market than some individual EU Member States. The Next Generation EU instrument will not need an increased contribution by EU Member States as repayment of borrowings will be part of future EU Budgets.

Policy Changes

As a result of this EU Budget, there are **policy changes to Own Resources**. The Value Added Tax-based own resource is being simplified, with a uniform rate of 0.3% being applied to the VAT bases of all Member States. Member States will now retain 25% of the amounts collected to cover collection costs. There is a new Member State contribution based on **non-recycled plastic packaging waste**. This Own Resource will be calculated on the weight of non-recycled plastic packaging waste with a rate of €0.80 per kilogram. This Own Resource is a Member State contribution and lump-sum reductions will be applied to contributions from Member States whose GNI per capita in 2017 is below the EU average.

Policy proposals

There are several proposals by the European Commission in order to fund the budget and to rely less on direct contributions from EU Member States. These proposals include a **carbon border adjustment mechanism** which is a charge on the carbon intensity of products imported into the EU. This would help to ensure EU producers have more level playing field with importers in terms of environmental and climate protection standards, though possibly at the expense of EU consumers.

The European Commission is proposing a **digital levy**, a levy on digital business activities, to align multi-national companies' share of taxable profits to the location of the company's actual sale. This issue of taxation and the digital economy is currently under negotiation in the OECD Base Erosion and Profit Shifting (BEPS) programme.¹⁴

There is a proposal for an EU Own Resource based on the **EU Emissions Trading System**. The EU Emissions Trading System will be reviewed to see if it can include the aviation and maritime sectors. There is also discussion on other potential Own Resources such as a **Financial Transaction Tax** and a levy based on a **Common Corporate Tax Base (CCTB)**.

¹⁴ PBO (2020) "[An Overview of the OECD BEPS Negotiations](#)".

Ireland

As the largest EU Budget ever, there will be significant financial expenditure for Ireland. The available data for Ireland's allocation of the various streams of Next Generation EU instrument and the Multi-annual Financial Framework is outlined in the table below.

Table 4: Ireland's allocation of the EU Budget 2021 - 2027

	Ireland's allocation	EU total
Next Generation EU Figures (€ million, 2018 prices)		
Recovery & Resilience Facility*	853	218,750
REACTEU	84	37,500
Just Transition Fund	77	17,500
Multi-annual Financial Framework (MFF) figures (€ million, current prices)		
Cohesion Policy (in million EUR, current prices)	1,195	372,573
European Agricultural Guarantee Fund (EAGF) - direct payments	8,304	270,044.1
European Agricultural Fund for Rural Development	2,250.4	87,441.3

Source: European Commission (2020) "[Recovery plan for Europe](#)". * The figure for Recovery and Resilience Facility is a defined EU commitment for 2021-2022. Other financing under this facility will depend on the loss in real GDP observed over 2020 and by the cumulative loss in real GDP observed over the period 2020-2021, to be calculated by June 2022. The maximum value of the loans available to each EU Member State cannot exceed 6.8% of their GNI.

The **varying economic and demographic profiles of Member States** means that the weighting of policy priorities in the EU Budget will impact differently.¹⁵ Ireland has a relatively high GDP-per-capita and a relatively low population, so Ireland's allocations under different policy funding streams are relatively small. For instance, Ireland allocation of the Just Transition Fund is 0.4% of the overall EU budget. However, in absolute figures, the Irish breakdown of the EU budget shows the significant level of resources being mobilised to tackle challenges generated by the Covid-19 pandemic, as well as, preparing the economy for the forthcoming climate and digital transitions.

In addition, there is a **Brexit Adjustment Reserve** in the EU Budget which will have particular significance for Ireland. The funding allocation is calculated on the expected impact of Brexit on each Member State's economy based on the relative level of economic interaction with the UK. This mechanism has an allocation of €5 billion and can assist in the substantial challenge for Ireland arising from the UK leaving the European Union. The Brexit Adjustment Reserve will support businesses and employment in affected sectors, regions and local communities and public administration (for border, customs, sanitary and phytosanitary controls and for services to the citizens and companies affected by Brexit).

¹⁵ PBO (2018) "[The Multiannual Financial Framework of the EU](#)".



Since 2014, Ireland has been a net contributor to the EU Budget. In 2018, Ireland made a net contribution of €0.7 billion to the EU Budget, paid €2.5 billion to the EU Budget and received €1.8 billion.¹⁶ This net contribution is €148 per person which is the second highest gross contributor per capita in the EU. The contributions to the EU budget are expected to rise the coming period.

The estimated **gross contributions by Ireland to the EU Budget**, for both the Multi-annual Financial Framework (MFF) 2021-2027 and the Next Generation EU instrument are not yet available. For the MFF, the Department of Finance roughly estimated in 2020 that gross contributions are likely to be in the region of €3 billion to €4 billion annually.¹⁷

The Next Generation EU instruments is financed by borrowings. The repayment of this borrowing will be over a thirty year plus period from future EU Budgets and repayments of the loans from the instrument by individual Member States. These repayments will not commence before 2028 and the Irish contribution will depend on its share of the overall EU budget over the course of the repayment period.¹⁸

The financial reputation of the EU means the European Commission should be able to borrow at low interest rates. However, this debt could be perceived by financial markets as a joint responsibility for all EU Members, and the financial reputation of the Member States will likely become more interlinked. For Ireland, the fiscal reputation of the State could be impacted now not only by the country's policy actions but also the fiscal reputation of other EU countries.

¹⁶ Department of Finance (2020) "[Annual Report on Ireland's Transactions with the EU in 2018](#)"

¹⁷ Oireachtas (2020) "[EU Budget Contribution](#)"

¹⁸ PBO (2020) "[An Overview of the European Commission's Next Generation EU Instrument](#)".