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Corrigendum
This document corrects SWD(2025) 570 final of 16.7.2025
It includes a number of technical corrections to tables and graphics
The text shall read as follows:

COMMISSION STAFF WORKING DOCUMENT
Accompanying the document

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE EUROPEAN COUNCIL, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

A dynamic EU budget for the priorities of the future: the Multiannual Financial Framework 2028-2034

{COM(2025) 570 final} - {SWD(2025) 571 final}

Executive summary

The Commission's proposal for the 2028-2034 Multiannual Financial Framework (MFF) comes at a time of heightened global uncertainty, and it matches the ambition of a stronger, more independent and more competitive Europe. As discussed in the Communication accompanying the MFF proposal,[1] the Union is facing a series of generational challenges. The size and design of the next EU budget must fit the ambitions and the needs of the coming decade, in an environment that is increasingly uncertain. At the same time, with the need to reimburse NextGenerationEU as of 2028, this proposal for the next long-term budget aims at squaring the circle between a budget fit for our ambitions, stable national contribution and the need for **new sources of revenue**.

The Union needs a simpler, more flexible and sharper MFF. The ongoing implementation of the 2021-2027 MFF and of NGEU provides valuable lessons for the next one. This Staff Working Document (SWD) identifies several key lessons learnt.

1. **The current MFF is not flexible enough.** Predictability is key in the EU budget for beneficiaries, project promoters and Member States. However, the current architecture is too rigid (also because of the high number of headings), and flexibility tools are fragmented, small in size, and cannot be easily redeployed. Additional targets, objectives and earmarking of amounts further constrain budgetary implementation. The constraints due to limited flexibility were compounded by the high inflation in the early years of this MFF.

2. **The current MFF is fragmented.** In comparison to previous programming periods, the current budget further reduced and streamlined the number of programmes. Yet, the architecture remains complex, with 52 programmes and instruments that often finance similar activities but differ in intervention logic, eligibility criteria, target groups, and administrative management.

3. **There is significant scope to reduce administrative burden.** For programmes with funds allocated to Member States, this burden arises mainly from complex reporting requirements, and different requirements across programmes. In addition, technical assistance and support to administrations and beneficiaries are provided in a scattered manner under different rules for eligibility.

4. **The EU budget's impact can be increased further by accelerating implementation, removing gaps and overlaps and improving leveraging.** In the financing for competitiveness, there is a gap in EU funding for higher technology readiness levels. Addressing the new and unexpected needs during this funding period required ad hoc solutions and new instruments that took time to be adopted. The slow start in implementation in the current financing period also resulted in a high level of outstanding commitments.

5. **There is room for further improvement in budgetary performance, particularly in terms of simplification, consistency and better monitoring of EU budget results.**

[1] Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions, COM(2025)570 final.

There are over 5,000 heterogeneous and non-aggregable indicators used for programme monitoring and evaluation, resulting in administrative burdens for all stakeholders.

6. **The increased number of tasks on EU institutions in recent years has stretched the resources of EU administration, in a context of stable staffing.** The additional staffing needs presented together with the legislative proposals since the entry into force of the current MFF amount to over 1.660 full-time equivalents, which were matched only by redeployment of staff. This, combined with high inflation affecting rents and other fixed costs, made the current set-up of the administrative heading no longer fit for purpose.

7. **The current own resources system has ensured stable and predictable financing of the EU budget, but the budget is largely, and increasingly, dependent on GNI contributions, which will reach its limits as financing needs increase.** Additional sources of revenue are necessary to match needs and ambitions and, at the same time, not weigh on national contributions.

The Communication on "The road to the next MFF" adopted in February[2] stressed that the scale of the challenges ahead thus calls for an ambitious budget, both in size and design. The Commission's proposal is ambitious, realistic and balanced. The proposed 2028-2034 MFF is ambitious in size, at 1.26% of EU GNI (EUR 1,984 billion, including EUR 168 billion or 0.11% of EU GNI for repayment of NextGenerationEU), and in design, as it presents a thorough simplification of the EU budget architecture and an unprecedented modernisation on the revenue side. The proposal is realistic, as it aims at not impacting national contributions. And it is balanced, as it puts its focus on EU added value.

Based on the lessons learnt from the 2021-2027 MFF, the next MFF proposal is based on five principles: flexibility, simplification, impact, protection of the EU budget and modern revenues. Higher budgetary **flexibility** will be achieved reducing the number of headings from seven (plus one sub-heading) to four, reducing the share of pre-programmed amounts to facilitate reallocations within programmes, simplifying the structure of special instruments *over and above* the ceilings and introducing an exceptional and temporary *crisis mechanism* to provide additional loans to Member States in case of a large crisis. The budgetary architecture will be **simplified** by reducing the number of programmes from 52 to 16, introducing a Portal consolidating information on funding opportunities and providing a single gateway to EU project promoters for simplified access to information, and through a single framework for monitoring and performance. In terms of **impact**, expanded use of financial instruments and budgetary guarantees will further leverage the EU budget to unlock private capital. Additional incentives in terms of pre-financing will speed up the impact of the EU budget on the ground. A new steering mechanism, with a reinforced dialogue between the European Parliament, the Council and the European Commission will reinforce the link between overall policy coordination and the whole EU budget. Respect for the **rule of law** will continue to be a must for access to EU funding. On the **revenue** side, new own resources are essential. They should have a significant revenue potential, not create excessive burden for compliance and administration, and be consistent with the Union's objectives and policies.

[2] Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions "The road to the next multiannual financial framework", COM(2025) 46 final.

The ambitious multiannual financial framework is accompanied by an enhanced proposal on own resources. The Commission is proposing the introduction of five new own resources: (i) an own resource based on revenue from the emissions trading system already in place, ETS 1; (ii) an own resource based on the Carbon Border Adjustment Mechanism (CBAM); (iii) an own resource based on e-waste; (iv) a Tobacco Excise Duty Own Resource (TEDOR) and (v) a Corporate Own Resource for Europe (CORE). The adjustments to current own resources include a reduction in Member States' collection costs for customs duties and the increase in the call rate for the own resource based on non-recycled plastic packaging waste to account for inflation developments.

1. Context of the proposal

The EU budget is at the heart of the Union's policies. It supports long-term investments and the resilience of the EU's economy. Over 60% of the funds in the current MFF and NextGenerationEU (NGEU) are focused on investment, ranging from infrastructure, skills, research and development, to space and defence[3]. At the same time, our long term budget **has increasingly had to respond to shocks and crises that could not be foreseen at the time the long-term budget was conceived.**

The proposal for the next Multiannual Financial Framework (MFF) comes against the backdrop of a drastically changed geopolitical and geoeconomic setting marked by uncertainty. Our competitiveness and sovereignty are challenged. The next long-term budget will start in more than two years from the time of the proposal and will cover seven years. Therefore, while this MFF provides for strategic responses to this new global environment, one structural lesson learned is that our budget has to cater for the unexpected and remain flexible to adjust to yet further change and challenge.

The MFF proposal is based on current expectations on the macro-economic and fiscal context.[4] The EU economy is expected to continue to grow, despite high uncertainty on global economic developments and with increasing headwinds for economic growth stemming from the volatile trade and security situation. Inflation is set to decrease in 2025-2026, falling slightly below 2%. Fiscal consolidation is expected to continue at a moderate pace. The recent reform of EU fiscal governance reinforced the link between national budgets and the EU budget: Member States have undertaken reforms and investments financed with EU funding, and consistent and complementary with the commitments included in the Recovery and Resilience Plans and the Partnership Agreements agreed under the MFF. These reforms and investments will be taken into account in the assessment of the medium-term fiscal adjustment paths. Moreover, national co-financing on Union-funded programs is now excluded from the calculation of next expenditure growth.

Joint investment at the EU level on common goals can generate savings at the aggregate level, which benefit national budgets.[5] The next MFF proposal thus provides an important opportunity to further increase the coherence between EU spending, EU priorities and national spending on priority investments.

As of 2028, the EU is due to start repaying the debt contracted to finance NGEU. The needs to repay NGEU come alongside new policy needs generated by the challenging global context, and the financing of existing priorities. At the same time, many Member States are in the process of fiscal consolidation, which limits the possibility to increase the national budgetary contributions. While a budgetary architecture focused on EU priorities and more efficient delivery systems can provide some relief to the budget, this will not be sufficient. It is imperative to reform the revenue side of the EU budget and equip it with more own resources to limit the need of national contributions.

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[3] See box 2.1 on the EU budget support to investment activity

[4] See also European Commission (2025) European Economic Forecast – Spring 2025. European Economy – Institutional paper 318.

[5] Busse, M., Huidan Lin, H., Nabar, M. S. and J. Yoo (2025) "Making the EU's Multiannual Financial Framework fit for purpose", IMF Working Paper WP/25/114.

The ongoing implementation of the 2021-2027 MFF and of NGEU provides valuable lessons for the design of the future one. As discussed in this Staff Working Document (SWD), the succession of unexpected crises and a changed geo-political and geo-economic landscape in recent years has brought the EU long-term budget to its limits. The mid-term revision agreed in 2024[6] provided the tools to address the most pressing needs, in particular support to Ukraine, but required long and complex discussions despite the general agreement on the priorities. Moreover, despite some improvements compared to the past, budgetary complexity, fragmentation in too many programmes, and overlaps have hampered access to funding, reduced impact and slowed implementation.
The 2028-2034 MFF has thus been designed with five key principles in mind: (i) flexibility; (ii) impact; (iii) simplification; (iv) coherence and (v) protection of the Union budget.

This SWD describes the assessment of the implementation of the 2021-2027 MFF and provides the analytical assessment behind the proposal for the next long-term budget.

2. The 2021-2027 MFF: lessons learnt

2.1 Limited flexibility

The EU budget has had to respond to new policy needs as well as to large and unexpected crises in and outside the EU in the past years. This has exposed design limitations, as confirmed by the mid-term revision which enabled the bare minimum for coping with the multiple crises. It provided support to address the unforeseen shocks of the pandemic, Russia's war of aggression against Ukraine, and also natural disasters of a new scale. To some degree this support to affected Member States and regions was enabled by means of built-in flexibilities and re-programming. However, this required in most cases changes to existing programmes and tools or even required new legislation which cost time. Examples are the Cohesion Action for Refugees in Europe (CARE),[7] Flexible Assistance to Territories (Fast-CARE),[8] RESTORE,[9] REPowerEU[10] and the Ukraine Facility.[11] This has allowed to address the most urgent needs, but added complexity to the budget and to its management. It provided fragmented responses to repeated, large and symmetric shocks. Also, this response came at the expense of other policy objectives. Cohesion funding, in particular, has been often redeployed towards other needs and emergencies. This has led to a quick depletion of the anyhow small available

[6] Council Regulation (EU, Euratom) 2024/765 of 29 February 2024 amending Regulation (EU, Euratom) 2020/2093 laying down the multiannual financial framework for the years 2021 to 2027.
[7] Regulation (EU) 2022/562 of the European Parliament and of the Council of 6 April 2022 amending Regulations (EU) No 1303/2013 and (EU) No 223/2014 as regards Cohesion's Action for Refugees in Europe (CARE).
[8] Regulation (EU) 2022/2039 of the European Parliament and of the Council of 19 October 2022 amending Regulations (EU) No 1303/2013 and (EU) 2021/1060 as regards additional flexibility to address the consequences of the military aggression of the Russian Federation FAST (Flexible Assistance for Territories) – CARE.
[9] Regulation (EU) 2024/3236 of the European Parliament and of the Council of 19 December 2024 amending Regulations (EU) 2021/1057 and (EU) 2021/1058 as regards Regional Emergency Support to Reconstruction (RESTORE).
[10] Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC.
[11] Regulation (EU) 2024/792 of the European Parliament and of the Council of 29 February 2024 establishing the Ukraine Facility.

flexibilities.

The reason for such fragmented approach lies in the lack of flexibility of the architecture of the current MFF. Whereas the MFF is designed to ensure predictability, experience has shown that, the MFF in its current construction has been too rigid. Moreover, flexibility tools are fragmented, small in size, and cannot be easily redeployed. Finally, additional targets, objectives and requirements further constrain the implementation of the EU budget.

The structure of the EU budget is too rigid. The 2021-2027 multiannual budget is the one with the highest number of headings (seven, plus one sub-heading), together with the 2000-2006 one. Furthermore, more than 90% of the 2021-2027 MFF and NextGenerationEU are pre-allocated for specific purposes, programmes or national envelopes, which makes very difficult to re-direct unused funds for new, emerging needs.

Flexibilities, in particular special instruments, are too fragmented. For that reason, they cannot compensate the rigid MFF design. With seven headings, unallocated margins are scattered among the headings and cannot be moved across headings for the same year. There are currently eight special instruments over and above the MFF ceilings, divided between thematic and non-thematic ones. The non-thematic special instruments (Flexibility Instrument and Single Margin Instrument) are the only tools providing the possibility to address unpredictable events or new and emerging priorities across all the budget lines. The Single Margin Instrument in particular allows for the use of available commitment and/or payment margins from the past to finance additional expenditure above the ceilings of another heading. Thematic special instruments provide additional means for specific objectives. In the MFF 2021-2027 these are the Solidarity and Emergency Aid Reserve (composed of the EU Solidarity Fund and the Emergency Aid Reserve), the European Globalisation Adjustment Fund (EGF), the Brexit Adjustment Reserve (BAR), the European Union Recovery Instrument (EURI) instrument and the Ukraine Reserve.

Only some programmes have unallocated reserves or cushions. These are the cushion in NDICI-Global Europe, the Thematic Facilities in the Home funds[12] and the agricultural reserve in the European Agricultural Guarantee Fund (EAGF).

Finally, and on top of the rigidity in the design, flexibilities in the EU budget are simply too small to be able to respond properly to changing geopolitical and economic circumstances. All special instruments, unallocated margins, the cushion in the Neighbourhood, Development, and International Cooperation Instrument (NDICI) – Global Europe and the Thematic Facilities in the Home funds amounted to 4% of the MFF ceilings at the time of adoption compared to 6.2% in the Commission proposal in 2018.[13] However, only considering 'pure' flexibilities, this amounts to 1.2%. As most of these flexibilities proved insufficient and were mostly depleted already at the time of the MFF mid-term revision[14], they were overall reinforced for the period 2024-2027.

Available thematic flexibilities cannot be easily redeployed. The Brexit Adjustment

[12] Asylum, Migration, and Integration Fund; Border Management and Visa Instrument; Internal Security Fund.
[13] See Annex A.1.3
[14] SWD(2023) 336 final.

Reserve (BAR) and, in particular, the EGF were not fully used due to limited demand. However, they could not be easily redeployed as the BAR was pre-allocated to Member States and the EGF unused amounts could not be transferred. The BAR was first redeployed by giving Member States the possibility to voluntarily transfer part of their allocation to REPowerEU. In 2024, remaining EUR 580 million were redeployed to contribute to finance the MFF mid-term revision. The EGF had only been mobilised by less than 20% annually at the time of the mid-term revision, and its annual amount was cut from EUR 186 million to EUR 30 million per year (in 2018 prices) to contribute to finance the mid-term revision.

During the current MFF, substantial redeployments were implemented, especially in the MFF mid-term revision. The European Chips Act, the Act in Support of Ammunition Production, or the Union Secure Connectivity IRIS2, for instance, were all financed through redeployments (see annex A.1.1). However, this required very long and complex discussions and budgetary solutions: for instance, the envelope of the Union Secure Connectivity IRIS2 is split across three headings (heading 1, 5 and 6). The mid-term revision of the MFF included redeployments for a total amount of EUR 10.6 billion (Table 2.1). Redeployments also involved the use of instruments outside the MFF. For instance, REPowerEU provided additional grants to Member States through the revenues from the sale of ETS allowances worth EUR 20 billion, as well as adjustments within the Recovery and Resilience Facility (RRF), as well as transfers from the BAR and voluntary transfers from Cohesion Policy and Rural Development Funds as well as Connecting Europe Facility (CEF).

Table 2.1. Redeployments in the MFF mid-term revision

	Redeployments (EUR billion, current prices)
NDICI and IPA	4.5
European Globalisation Adjustment Fund	1.3
Horizon Europe	2.1
Brexit Adjustment reserve	0.6
Cohesion/CAP directly managed envelope	1.1
EU4Health	1.0
Total redeployments	*10.6*

The mid-term revision provided important corrections in the flexibility architecture of the MFF. First, it was acknowledged that the Solidarity and Emergency Aid Reserve covering both internal and external emergencies had proved inefficient, in addition to an insufficient size.[15] The EU Solidarity Fund (EUSF) and the Emergency Aid Reserve (EAR) were thus split in separate envelopes.[16] Second, the MFF mid-term revision equipped the EU budget with the necessary tools to withstand the impact of increasing interest rates for NGEU debt. The EURI instrument and the 'cascade' approach to its mobilisation provided budgetary clarity on the treatment of the NGEU financing costs overrun. They also introduced the important novelty of financing the instrument by an amount equivalent to decommitments from other programmes.

[15] The largest cut compared to the Commission proposal of May 2020 affected the SEAR: the European Union Solidarity Fund was not retained as a separate instrument, and instead merged within the SEAR, which has itself an envelope 60% lower than the Commission proposal.

[16] The 'European Solidarity Reserve', to provide support to affected countries and regions under the EUSF and the EAR to provide budgetary reinforcements to relevant Union programmes in response to crises and emergencies within and outside the Union.

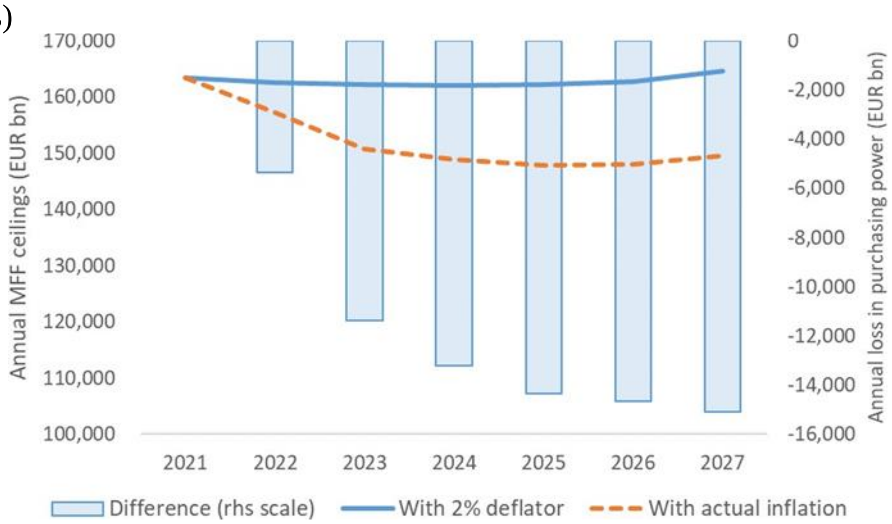
This increased the efficiency in the use of MFF resources and provided certainty over the source of financing and ultimately to Member States' contributions to finance the budget.

2.2 Volatile inflation and interest rates

The first years of the 2021-2027 MFF were characterised by very high inflation and increasing interest rates. The unfavourable price and interest environment affected negatively the MFF**.** The purchasing power of the EU budget was diminished in real terms. The MFF expenditure ceilings are adjusted annually by a 2% fixed deflator which has been substantially below actual inflation over the period 2021-2024.[17] The adjustment mechanism based on a fixed rate provides predictability for beneficiaries to enter in long term investments and for Member States contributions. At the same time, when inflation deviates from the fixed benchmark it affects the financial capacity of the budget in real terms.

When actual inflation deviates from the 2% fixed deflator, this has an impact on the purchasing power of the EU budget. When inflation is below 2%, which was the case from 2009 to 2020, the real value of the programmes' envelopes increases. The MFF ceilings as adjusted based on the 2% deflator can provide increased expenditure capability – in real terms – for the budgetary authority (European Parliament and Council) and the Commission. It is then the budgetary authority's choice, in principle, to decide whether to use such additional room, or keep expenditure rather stable in real terms. In contrast, when inflation is above 2%, this erodes the real value of MFF expenditure. In theory, the budgetary authority could use the unallocated margins or special instruments to (partially) compensate for price increases above 2%, but if the trend is sustained, it ultimately reduces the purchasing power of the EU budget.

Figure 2.1. MFF 2021-2027: Annual ceilings in real terms: fixed deflator and actual inflation (2021 prices)



Source. AMECO and European Commission Spring 2025 forecast for 2025-2027

By end 2027 the MFF will have lost 6.5% of its value, based on the latest forecasts.[18] Deviations of actual inflation from the fixed deflator in the early years have a bigger impact over the whole period's envelope as they accumulate over time. Figure 2.1 shows the MFF

[17] Art. 4(2) of Council Regulation (EU, Euratom) 2020/2093 of 17 December 2020 laying down the multiannual financial framework for the years 2021 to 2027.
[18] European Commission – Spring 2025 forecast.

commitment ceilings in the 2021-2027 MFF converted from current prices, for comparability, into 2021 prices using both the fixed 2% deflator and actual inflation (as measured by the GDP deflator). As average annual inflation is forecast at 3.49% over the 7-year period, with the highest values in 2023 (6.1%) and 2022 (5.5%), the real value of MFF expenditure is significantly lowered. This effect increases over time, as high inflation in the early years of the MFF has a 'snowball effect' on later years.

The impact of higher-than-expected inflation differs across Member States and programmes. Member States that experienced higher inflation in 2022-2023 have been more impacted, other things being equal. High inflation reduces the real value of a grant in real terms (e.g., Horizon Europe, European Defence Fund, Erasmus+, Creative Europe, CEF). Grants to students or teachers are provided mostly as lump sums/flat rates in Erasmus+. Therefore, inflation has the biggest impact on low-income beneficiaries. The number of projects and researchers that can be supported (and the number of grants) under Horizon Europe decreases with high inflation. For programmes in shared management, with a given nominal amount, national and regional authorities will not be able to finance the same number of of projects. Inflation is also felt by the farms that receive direct payments. For programmes that procure a given infrastructure, or service, such as the Space programme or the Union Civil Protection Mechanism, the costs for developers and operators increase when inflation is above target.

The most direct impact of inflation is on indexed expenditures such as for administrative expenditure (rents, energy, contracts for services, IT etc), but also the budget lines paying the support expenditure of the programmes.[19] For all the support expenditure, the increase in costs puts pressure on operational budget of the programmes concerned. Moreover, for programmes in indirect management such as Erasmus+, implementing partners or national agencies face higher salaries of their staff.

The rapid increase in interest rates has pushed the financing costs of NGEU upwards, necessitating the creation of the EURI Instrument in the MFF mid-term revision. The MFF 2021-2027 planned EUR 14.9 billion (in current prices) under the MFF ceilings for covering the interest payments for NGEU non-repayable support, based on a historical mean reversal assumption.[20] Because of the increase in interest rates in 2022-2023, this amount was no longer sufficient, putting pressure on other expenditures and the flexibilities of the budget. The MFF mid-term revision, as mentioned above, thus introduced a new special instrument exclusively to cover such cost overruns. All in all, with the benefit of hindsight, this experience shows that, from a budgetary perspective, inherently volatile and uncertain expenditures are better placed over and above the MFF ceilings, unless other ways are available to address the budgetary implications of interest rate volatility.

2.3 Fragmentation and complexity

In comparison to previous programming periods, the current budget further reduced and streamlined the number of programmes. InvestEU consolidated several heterogenous financial instruments and one budgetary guarantee. The Single Market Programme merged six predecessor programmes and several former prerogative budget lines, although the governance

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[19] Heading 7; research staff paid from Heading 1; contract agents paid from various shared management and external programmes; staff paid from NGEU resources.

[20] See also SWD(2023) 336 final, page 36.

structure remains fragmented. Other examples are the Citizens, Equality, Rights and Values Programme (which merged the Citizens Programme and Rights and Values),the European Social Fund+ (which brought together the European Social Fund, the Fund for European Aid to the Most Deprived, the Youth Employment Initiative and the European Programme for Employment and Social Innovation) and the NDICI-GE (which combined several external action programmes as well as the off-budget European Development Fund).

Yet, the architecture of the MFF remains complex, with 52 programmes and instruments that often finance similar activities but differ in intervention logic, eligibility criteria, target groups, and administrative management. For instance, 13 programmes in and outside the MFF finance energy investments in the EU,[21] nine finance digital technologies and digitisation,[22] and more than ten programmes support health and healthcare.[23] Programmes for candidate and accession countries also pursue similar and partly overlapping objectives, such as NDICI-GE, the Instrument for Pre-accession Assistance (IPA), the Reforms and Growth Facility for the Western Balkans and the Facility for Moldova. In other cases, particularly in defence, new instruments had to be created to address new challenges for which the existing instruments were not fit for purpose (e.g. Act in Support of Ammunition Production (ASAP), European Defence Industry Reinforcement through common Procurement Act (EDIRPA), and the proposed European Defence Industry Programme (EDIP)).

The Common Provisions Regulation (CPR) improved the coherence of the rules applied to funds under shared management. The coverage of the funds for migration, border management and internal security has enabled better alignment with the other 5 funds in shared management.[24] However, the exclusion of rural development from the CPR in this programming period has reduced synergies with some similar policy interventions and multiplied the regulatory requirements for Member States.

The multitude of funds with different legal bases has constituted a patchwork approach to crosscutting issues, including for instance crisis management. The increasing frequency of trans-national crises (e.g. the 2015 migration crisis, the COVID-19 pandemic, and various health, natural, and man-made disasters) has resulted in the development of numerous crisis management tools, such as the Emergency Support Instrument, the Support to mitigate Unemployment Risks in an Emergency (SURE),[25] NGEU, support related to health and the Health Emergency Response Authority (HERA), and the Ukraine Facility, among others. More specifically, financing for crisis management is currently scattered across (Figure 2.2):

- eight specific crisis response-oriented instruments: HOME funds' emergency assistance, European Solidarity Corps (Voluntary Aid strand), Macro Financial Assistance (MFA), the exceptional measures under European Maritime Fisheries and Aquaculture Fund

[21] Connecting Europe Facility-Energy, LIFE – Clean Energy Transition, European Regional Development Fund, Just Transition Fund, Cohesion Fund, ESF+, Horizon Europe Pillar II, InvestEU, ITER, RRF, Innovation Fund, Social Climate Fund, Modernisation Fund.

[22] ERDF, Cohesion Fund, Just Transition Fund, Digital Europe Programme, Connecting Europe Facility – Digital, Horizon Europe, Creative Europe, InvestEU, and the RRF.

[23] Including e.g. EU4Health, Horizon Europe Pillar II, Cohesion Fund, ERDF, ESF+, JTF, NDICI, InvestEU, UCPM and the Single Market Programme.

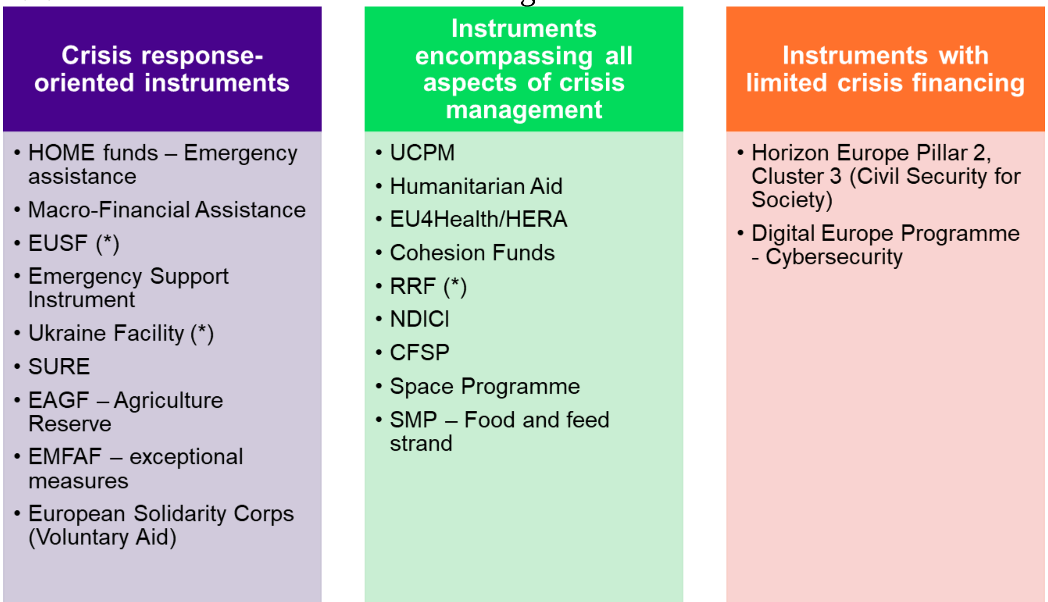
[24] European Regional Development Fund (ERDF), European Social Fund Plus (ESF+), Cohesion Fund, Just Transition Fund (JTF), European Maritime, Fisheries and Aquaculture Fund (EMFAF).

[25] Council Regulation (EU) 2020/672 of 19 May 2020 on the establishment of a European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak.

(EMFAF), EAGF reserve, EUSF, Emergency Support Instrument, Ukraine Facility.

- Nine programmes encompassing all aspects of crisis management (UCPM, Humanitarian Aid, EU4Health, CFSP) or provide significant support (e.g. RRF, cohesion, Common Agricultural Policy (CAP), HOME funds, NDICI, Space, Food and Feed under the Single Market Programme).
- Two programmes with limited crisis-related financing: Horizon Europe (Pillar 2, Cluster 3 ''Civil Security for Society'') and Digital Europe Programme (Cybersecurity strand), despite not having crisis management among their core objectives.

Figure 2.2. Instruments relevant for crisis management available in the 2021-2027 MFF



(*) Instrument outside the MFF ceilings.

The complex structure of the EU budget also hampers the consistency among external policy programmes on the one hand, and between internal and external policy programmes on the other. Today, there is limited coherence in the financing of internal and external policies which hampers the Union’s strategic interests. Internal policies such as defence, migration, energy security, infrastructure investment and the objective of twin transition have an intrinsic external dimension. The lack of policy steer and structured coordination hampers strong links between internal and external programmes. Stronger synergies occurred under NDICI and IPA via dedicated co-delegations to promote cross-border cooperation under Interreg or the external dimension under Erasmus+.

The financial toolbox in relation to budgetary guarantees and financial instruments suffers from a double fragmentation which hampers efficiency; similar objectives are delivered in multiple programmes and with different rules. InvestEU successfully consolidated different existing instruments under a single framework with common governance and a first step towards a clearer set of rules, but it treated guarantees as an objective *per se*, instead of a tool to deliver on policy. Moreover, rules for internal and external policies remain different which led to double standards and brought an unnecessary burden for implementing partners and beneficiaries. For example, the European Investment Bank (EIB) and European Bank for Reconstruction and Development (EBRD) are facing different rules depending on whether they are the implementing partner of an internal or external programme. As a result, the financial toolbox is fragmented and overly complex. The European Court of Auditors pointed to the absence of a common set of rules in its recent EFSI audit.[26] This situation renders more complex the oversight of the Union's growing contingent liabilities linked to guarantees.

Shared management programmes are currently mostly cost-based, while the take-up of financing not linked to costs and simplified cost options (including unit costs and flat rates) has increased in recent years. The Common Agricultural Policy (CAP) has taken on a more performance-based orientation, with the new CAP strategic plans adopted early 2023. The simultaneous implementation of significant EU funding under different delivery modes, however, has created complexity for the implementing authorities. This also includes the assessment of risks of double funding. The RRF contributed to further amplifying certain complexities, as this was the first large-scale performance-based instrument implemented by all national, managing and audit authorities, and as guidance was only being drawn up and updated gradually, as experience was further gathered.

The RRF and the enabling conditions under cohesion policy have demonstrated how the EU budget can promote reforms strengthening the rule of law in Member States, but there is scope for streamlining provisions across funds. Certain rule of law reforms included in the Recovery and Resilience Plans have a similar blocking effect ('super milestones') to the Conditionality Regulation and to the enabling conditions. However, the co-existence of different sectoral frameworks with varying scope and procedural rules poses challenges for beneficiaries, national authorities and other stakeholders, be it in terms of clarity of the EU action or predictability of payment as similar deficiencies may lead to different financial consequences depending on applicable rules.

Different focus, administration and internal rules of programmes also limit the possibility to effectively combine different sources of funding. The main factors are the different cycles and timing of programmes in direct, indirect and shared management; the transnational (for directly managed programmes) or national (for shared management programmes) focus of the investments and related rules; the different authorities responsible for cost declarations; the complexity of multi-beneficiary projects, and the use of different forms of financing - cost-based or performance-based funding not linked to costs. There are consequently only limited examples of combined funding, for instance under Digital Europe and the European Regional Development Fund (for the Digital Innovation Hubs), and few cases under Horizon Europe, and the Space Programme.

The Seal of Excellence and the Sovereignty (STEP) Seal were introduced to exploit better synergies between directly managed and shared management programmes. The Seal of Excellence increases coordination between programmes, but insufficient awareness of the functioning of the scheme limited its impact. As concerns the STEP Seal, Member States have shown interest in supporting projects awarded seals under Cohesion policy funds. For example, 20% of the submitted STEP programme amendments under Cohesion policy in 12 Member States include operations aimed at funding projects awarded the STEP Seal. However, there is still insufficient knowledge about the exact impact of the scheme, mainly

[26] European Court of Auditors, special report 07/2025: "The European Fund for Strategic Investments: Contributed substantially to addressing the investment gap, but had not fully reached the €500 billion target in the real economy by the end of 2022", Publications Office of the European Union, 2025.

due to the lack of obligation for MS to report support to projects awarded seals and the relatively early stage of the STEP initiative. Similarly to the Seal of Excellence, some elements that have limited its effectiveness include, for instance, conflicting applicable rules under direct and shared management programmes.[27]

InvestEU also provided an opportunity for Member States to add funds to the EU guarantee's provisioning by voluntarily channelling a part of their Cohesion Policy Funds or of their RRF funds to the Member States compartment for each policy area. While the EU label, the higher leverage and the simplified process generated interest from Member States, only 7[28] Member States have used the Member State Compartment option under InvestEU. The lack of necessity due to a high performing existing setup in managing structural funds for this type of instruments was a key limiting factor in combination with unclarity regarding State-Aid rules and other administrative processes at the beginning of the MFF.

2.4 Administrative burden

The administrative burden of programme implementation weighs on beneficiaries, managing authorities, and public institutions for all management modes of the EU programmes, be it direct, indirect or shared. For programmes with funds allocated to Member States, this burden arises mainly from complex reporting requirements, 'gold plating'[29] at the national level as well as inefficient data management and digital integration. For programmes implemented at EU level the administrative burden for beneficiaries arises for instance from different eligibility rules and complex application processes. For example, the procedural burden of Erasmus+ can be challenging, as even a small grant requires navigating an extensive 80-page grant agreement. Horizon Europe's very long and complex work programmes can discourage access by some beneficiaries or render it costly. The Digital Europe Programme imposes essential participation restrictions and security scrutiny, which require often lengthy processes leading to project delays. Similarly, the Connecting Europe Facility faces challenges with its evaluation requirements for grants. These processes should focus on streamlined project delivery, potentially undermining the programme's objective to achieve high-impact outcomes. Simplifying these procedures – with a greater focus on delivery rather than excessive documentation requirements – could make each program more efficient.

The requirements under programmes implemented under shared management and the RRF are different. There is only limited synergy between the RRF and programmes under the Common Provisions Regulation administrative processes, which makes joint implementation by responsible authorities challenging. Moreover, the time limits for the RRF led Member States to focus on that instrument, which in turn led to delays in the implementation of the shared management programmes. In addition, as a new instrument, the RRF created 'entry costs', and the administrative costs linked to the RFF implementation have increased over

[27] Further information is provided in the STEP interim evaluation (COM(2025) 421 final).
[28] Whose Contribution Agreement was signed at the end of 2024, see COM(2025) 300 - June 2025, Draft General Budget of the European Union for the financial year 2026 - Working document part XI - Budgetary guarantees and contingent liabilities.
[29] Gold plating is the practice of adding national-level regulatory requirements that exceed those mandated by the European Union, leading to higher administrative burden for implementing agencies.

time.[30] When it comes to the CAP, additional national mandates, such as specific environmental regulations of Member States, are considered as contributing to the complexity and increase both costs and workload for implementation.

Digital integration emerges as an area with significant potential for improving efficiency across several programmes. The IT systems supporting the CAP, for example, currently face challenges in interoperability with Member States' systems, affecting effective monitoring and evaluation. Advancing digital tools could help streamline processes and provide more efficient data management and reporting capabilities. Cohesion Policy faces similar digital integration challenges, where advances in data platforms could improve the efficiency and effectiveness of projects by enabling smoother data flow and reducing administrative redundancies. Programmes aimed at improving local (urban) infrastructure are confronted with fragmented information systems and incompatible data formats between the EU and national databases. Regional development projects also face complex local regulatory requirements beyond the EU mandates that are resource intensive and can lead to delays.

Technical assistance and support to administrations and beneficiaries are provided in a scattered manner under different rules for eligibility. In the 2021-2027 MFF, there are different types of technical assistance/support: a) technical assistance managed by the Member States as part of their national envelopes; b) technical assistance managed at the initiative of the Commission which can be used to support its operations on fund management but also to support Member States (e.g. JASPERS, support to cross-border regions community building, EU CAP network, common reporting system SFC, FAMENET); c) demand-driven technical support managed by the Commission to design and implement reforms in the Member States (under the Technical Support Instrument). Despite efforts for simplification, for example by the CPR that sets out uniform rules to some extent, different funds still have varying thresholds and different forms of EU contribution (flat-rate or eligible costs). The provision of technical assistance and support is highly fragmented and would greatly benefit from streamlining. Different rules for payments and audits can also lead to inefficiencies. In addition, expanding the use of lump-sum funding and unit cost options for personnel costs could reduce administrative burden.

2.5 EU added value

The EU budget is the financial arm of the Union policy action. By pooling together resources, the budget finances actions that would be too expensive for individual Member States or where the benefits of the investments do not coincide with the place of investments. The activities financed by the EU budget achieve economies of scale, avoid costly duplicative national efforts and deliver positive externalities across national borders in the Union. The Union's cohesion policy has continued to support economic convergence, focused on the EU's less developed regions and Member States. Under the 2021-2027 programmes 70% of the European Regional Development Fund and the European Social Fund Plus are allocated to regions with a per capita GDP below 75% of the EU average.[31] The Common Agricultural

[30] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions –Strengthening the EU through ambitious reforms and investments, COM(2024) 82 final.

[31] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions –on the 9th Cohesion Report, COM(2024) 149 final

Policy (CAP) has been contributing to the EU single market within the agricultural sector, by supporting farmers' income through direct payments and remuneration for environmentally friendly practices. These policies have also shown they inherent ability to contribute to the evolving challenges such as competitiveness and skills. The budget also finances European priorities or public goods that transcend Member States frontiers to the benefit of all Europeans, such as finance for climate and digital transitions, defence or promoting European values. By reducing the need for fragmented national spending, this generates tangible net savings and helps ease pressure on national budgets, reinforcing fiscal sustainability. This unique benefit of the EU budget should be further developed building on past experiences.

The implementation of the current MFF provides examples of the added value of financing EU public goods via the EU budget. Not only financing for EU public goods – for instance migration and border management, defence, cross-border interconnections, students' mobility under Erasmus+, fight against climate change – has increased significantly compared to the previous MFF. Such added value is further increased by leveraging on the EU budget and using EU financing as an incentive for the implementation of reforms. For instance, common borrowing at EU level to finance loans under SURE is estimated to save beneficiary Member States approximately EUR 9 billion in interest expenditure[32]. The joint implementation of reforms and investments, which has gained traction in several programmes under the current long-term budget (for instance, the RRF, the Ukraine Facility, the Reforms and Growth Facility for the Western Balkans), is further supporting productivity growth and competitiveness.[33]

The current MFF provides useful lessons on how to better align policy objectives with spending priorities and maximise EU added value. The MFF and NGEU clearly identified policy priorities, notably in relation to the green and digital transitions, as well as to the energy transition following Russia's war of aggression against Ukraine. The European Green Deal and the fit for 55 package have set a clear direction of travel which was reflected in the objectives of programmes, recommendations under the European Semester, green and biodiversity mainstreaming across the budget, and the green and digital targets under the Recovery and Resiliency facility. Member States have more ambitious environment and climate actions than in the previous programming period in their strategic plans under the CAP.

However, the current MFF is still not sufficiently geared to focusing on EU strategic actions and public goods, and this focus had to be reinforced during the implementation. Russia's war of aggression against Ukraine and the ensuing energy crisis has put to the fore the urgency of reinforcing Europe's strategic autonomy and preparedness. When the war led to a sharp increase in energy prices, the need to further reduce reliance on fossil fuels and accelerate deployment of renewable energy heightened. REPowerEU, the EU's response to the economic fallout of Russia's war of aggression against Ukraine provides another clear example of the benefits of being able to swiftly align the policy and budgetary framework.

Financing for defence and security in the current MFF increased substantially compared to the previous MFF: from less than EUR 500 million in 2014-2020 to EUR 10.8 billion in

[32] Evaluation - European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE), SWD(2025) 47 final.
[33] Vogel, L. (2025) "Reforms and Investments: the benefits of joint implementation", European Economy – Economic Brief 084, European Commission

2021-2027.[34] **Still, the events since the start of implementation showed that the available amounts fell significantly short of the needs.** In the case of Military Mobility under CEF, the envelope was frontloaded and supported crises-related packages, and the available budget was exhausted in 2023. To provide a fast solution to the need of reinforcing EU defence industry and production, two temporary programmes for 2023-2025 were adopted: ASAP[35] and EDIRPA.[36] ASAP provided direct support to the defence industry to enhance its production capacity and EDIRPA to Member States for common defence procurement cooperation. The Commission proposed EDIP in March 2024 for EUR 1.5 billion, to bridge the gap between the end of ASAP and EDIRPA and the next MFF, but as of mid-June 2025 negotiations among the co-legislators are still ongoing, which provides uncertainty over EU financing. Lastly, the ReArm Europe Plan, published in March 2025, boosted the Union's ambitions by proposing practical solutions to mobilise up to EUR 800 billion for defence investments paving the way for putting the defence sector among the future EU priorities. However, limited available funding proved a constraint in the face of the financing needs in the area of defence, including for the repair of critical infrastructure following various hybrid attacks.

Common EU action via the EU budget improves efficiency of spending, in particular for defence, preparedness and security. In the area of defence, the European Defence Equipment Market is potentially the world's second or third largest domestic defence equipment market (after the U.S. and similar in size to China's).[37] This should enable leveraging substantial economies of scale and efficiency gains. However, fragmentation along national borders with limited coordination and cooperation leads to duplications. Indeed, studies[38] have shown that joint procurement at EU level could yield savings of up to 30%. Stockpiling ensures immediate access to critical goods in the event of an emergency. It is particularly beneficial for items that are subject to spiking global demand (for instance: personal protective equipment; therapeutics; large generators). rescEU stockpiles have benefited Member States in a variety of contexts, providing essential items in quantities that exceed what is typically available at a national scale. At the same time, however, financing for preparedness in health and civil protection was split between EU4Health and the Union Civil Protection Mechanism, limiting synergies.

Research and innovation are key drivers for growth and competitiveness, but the current tools are hampered and diluted by a multitude of national and EU instruments and lack of focus.[39] Research and innovation (R&I) should be treated as an EU common good requiring more coordinated investments. Compared to international peers, European public expenditure in R&I is relatively high. However, this expenditure is not efficient enough. It is highly fragmented across Member States and lacks directionality, scale and alignment with EU-wide priorities. There are large spillovers from public R&I investment to the private sector,[40] still

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[34] Including the European Defence Fund, ASAP, EDIRPA, the proposed EDIP and military mobility under CEF.
[35] Regulation (EU) 2023/1525 of the European Parliament and of the Council of 20 July 2023 on supporting ammunition production (ASAP)
[36] Regulation (EU) 2023/2418 of the European Parliament and of the Council of 18 October 2023 on establishing an instrument for the reinforcement of the European defence industry through common procurement (EDIRPA)
[37] Defence investment spending data from the Military Balance + database
[38] McKinsey (2016), The Future of European Defence: Tackling the Productivity Challenge, Munich Security Conference (2017), More European, More Connected and More Capable
[39] Draghi, M. (2024). The future of European competitiveness. Part B – In-depth analysis and recommendations.
[40] Myers, K. and Lanahan, L., 'Estimating Spillovers from Publicly Funded R&D: Evidence from the US Department of Energy', American Economic Review, Vol. 112, No. 7, July 2022.

only one tenth of spending takes place at the EU level.[41]

In the current MFF, Horizon Europe promotes scientific excellence and generates new knowledge and technologies. It contributes to advancing the EU's general and specific objectives and policies, in terms of boosting sustainable growth, job creation and tackling global challenges. By financing large collaborative research projects and enhancing the collaboration and exchange of knowledge between researchers of the different Member States, it avoids overlapping and uncoordinated national support to research and development. Moreover, it also develops and scales up breakthrough technologies and game-changing innovations through the European Innovation Council.

However, funding under Horizon Europe is spread across too many fields and access is excessively complex. The interim evaluation points to inefficiencies in the governance with multiple impact-oriented streams, each with its own governance and sometimes weak internal links (EU Missions, European partnerships and clusters), and overlap of support in terms of activities and groups targeted. The overall landscape of EU programmes supporting innovation and deployment of research is increasingly perceived as complex and difficult to navigate for the targeted beneficiaries due to the many different subprogrammes with all different programming cycles and timelines deadlines.

Horizon Europe is still insufficiently focused on disruptive innovation and there is a gap in EU funding for higher technology readiness levels,[42] **i.e. concerning most mature technologies.** To bring more strategic steer and focus on strategic disruptive technologies a new Strategic Technologies for Europe (STEP) platform was set up with the MFF mid-term revision to ensure full mobilisation of available funding and existing financial instruments and deploy them in a more flexible manner to provide timely and targeted support in strategic sectors. The fragmentation of the R&I landscape in Europe, including of national and regional funding programmes, shows that EU action is needed to pool resources to achieve critical mass, to provide directionality to these common resources towards achieving EU-wide goals and to avoid duplication of efforts in different Member States.

Cross-border and multi country activities have significant EU added value and are supported in a variety of ways across EU programmes. Without financial support at EU level, Member States have suboptimal incentives to finance actions with a cross-border impact, due to asymmetry between the benefits at individual Member State level and Union-wide benefits. EU support and coordination is thus essential for the successful implementation of these activities. Cross-border activities can also generate net positive savings as the value created by these investments exceeds the costs that individual Member States would incur. Thus, net positive savings from joint actions can also ease financial pressure on Member States and their national budgets. Cross-border projects for example related to digital, energy, transport and military mobility are essential to improve EU competitiveness, security and to reduce strategic dependencies. At the same time, cross-border projects (e.g. collaboration between regions) also promote cohesion, and strengthens the single market by removing border obstacles

[41] Draghi, M. (2024), ibid.

[42] Technology Readiness Levels (TRL) are different points on a scale used to measure the progress or maturity level of a technology with lower TRL level linked to fundamental research and higher TRL levels linked to the testing of prototypes in an operational environment or system proven in an operational environment.

(e.g. development of common European electronic system).

The main instrument under the current MFF that provides financing for cross-border infrastructure investments between countries is the Connecting Europe Facility which covers transport, energy and digital infrastructure. By definition, as the networks it finances are trans-European, part of the investments has a cross-border/cross-country nature and part of it is be implemented within a single Member State, even if it still belongs to a trans-European network or corridor. Whereas all CEF investments belong to trans-European corridors, in the current MFF 53% of CEF for Transport (CEF-T) investments are at least partially cross-border – although it is 36% for military mobility investments. The share reaches 73% under CEF-Energy.[43]

Despite the widespread support for cross-border actives across the MFF, cross-border projects did not always materialise. While the RRF contributed to the implementation of multi-country projects, notably supporting the green and digital transitions, the inclusion of cross-border projects was hampered due to additional complexity stemming from the multi-partner component. Cross-border projects can also be hampered due to differing regulatory and procedural frameworks across Member States. Moreover, defining the precise scope and endpoint of cross-border investments remains a challenge.

Several EU funding programmes currently also finance the roll-out of central IT systems in different sectors and/or support cooperation among national administration, contributing to the completion of the single market. For example, Customs and Fiscalis mainly support the roll-out of an EU wide electronic system for respectively Customs and Tax authorities in conjunction with cooperation activities. The EU budget also supports cross- borders investments and cooperation at the regional and local level for example via Interreg.

EU financing for cross-border mobility, culture, rights and values contributes to address EU-wide challenges while promoting cooperation and mutual understanding and upholding EU values. EU-level financing through Erasmus+, European Solidarity Corps, Creative Europe, and the Citizens, Equality, Rights and Values programme is enabling cooperation, capacity building, mutual learning and the pooling of resources, sharing of expertise and best practices across Member States. EU-supported transnational cooperation supports skills investments and the scale up of innovative solutions in education and training. In addition, Member States have differing capacities to counter global phenomena such as online hate speech, cyberviolence, data protection issues, threats against the information space and risks associated with the use of generative AI – all of which affect EU values, citizens' fundamental rights and economic development of media and culture. EU action in the field of culture and media supports transnational cooperation, cross-country circulation of cultural works, (co)creation, networking, capacity-building and cultural diversity.

The added value of common EU action has been further proved by the strong and unwavering support to Ukraine also via the EU budget. Since the beginning of the Russian war of aggression against Ukraine on 24 February 2021, the EU budget enabled support at EUR 148.3 billion as of 31 May 2025 (see Table 2.2). This support is provided in the form of grants (including budget support and humanitarian aid), loans and budgetary guarantees. At the onset

[43] European Commission calculation based on CINEA data as of 2024.

of Russia's war of aggression against Ukraine, existing availabilities within Heading 6, including the NDICI-GE cushion, traditional Macro-Financial Assistance[44] and relevant special instruments (Solidarity and Emergency Aid Reserve) were used. This was clearly not sufficient. Given the limited resources within Heading 6 for a provisioning adequate to the risk of lending to a country at war, the exceptional MFA loans of 2022 were provided with additional counter-guarantees from Member States to complement limited availabilities in the Common Provisioning Fund (CPF).

As Russia's war of aggression ravaged, the headroom was used as a tool to leverage on the EU budget and provide support at a larger scale. A first MFF revision allowed the coverage of the MFA+ loan of EUR 18 billion in 2023[45]. In February 2024, the Ukraine Facility was established as part of the MFF mid-term revision for a maximum volume of EUR 50 billion, out of which EUR 17 billion of non-repayable support funded over and above the MFF ceilings and EUR 33 billion of loans backed by the headroom[46]. In October 2024, following agreement within the G7, an additional EUR 18.1 billion macro-financial assistance loan backed by the EU budget was adopted, whereby the repayment will be financed by the extraordinary revenues stemming from immobilised Russian sovereign assets as part of the Ukraine Loan Cooperation Mechanism.[47]

Table 2.2. Support to Ukraine by Team Europe since 2022 (as of July 2025)

TEAM EUROPE SUPPORT TO UKRAINE	Amount (EUR million)
OVERALL SUPPORT SINCE 2022	**164.760**
of which	
REPAYABLE SUPPORT	***60.903***
Direct loans	*49.396*
Guarantees	*9.429*
Member States	*2.078*
NON-REPAYABLE SUPPORT	***103.857***

Breakdown by Instrument/Type of support	
DIRECT SUPPORT ENABLED BY THE EU BUDGET	***69.555***
Humanitarian aid	*1.130*
NDICI-GE (all pillars)	*2.095*
Other grants (ENI, INSC, CFSP)	*367*
Connecting Europe Facility	*535*
Macro-financial assistance loans 2022	*7.200*

[44] i.e., MFA loans guaranteed by the Common Provisioning Fund with a 9% provisioning.
[45] Council Regulation (EU, Euratom) 2022/2496 of 15 December 2022 amending Regulation (EU, Euratom) 2020/2093 laying down the multiannual financial framework for the years 2021 to 2027.
[46] EUR 17 billion in grants and EUR 33 billion in loans.
[47] Regulation (EU) 2024/2773 of the European Parliament and of the Council of 24 October 2024 establishing the Ukraine Loan Cooperation Mechanism and providing exceptional macro-financial assistance to Ukraine.

MFA+ (incl. interest rate subsidy)	*19.135*
Support through EU guarantees (excl. Ukraine Guarantee)	*2.828*
Ukraine Facility (all pillars)	*28.265*
Exceptional MFA part of G7 ERA initiative	*8.000*
WINDFALL PROFITS STEMMING FROM RU SOVEREIGN ASSETS	***3.605***
European Peace Facility	*3.245*
Ukraine Facility	*360*
MILITARY SUPPORT (estimated value of military equipment from MS)	***59.600***
Amounts to be reimbursed through the European Peace Facility	*5.774*
EUMAM Ukraine (financed via the European Peace Facility)	*362*
BILATERAL ASSISTANCE FROM EU MEMBER STATES	***15.000***
FUNDING MADE AVAILABLE FOR UA REFUGEES	***17.000***

Source: *Factsheet - EU solidarity with Ukraine (incl. more recent update not yet reflected in factsheet. For example,*
for HUMA that latest DEC approved by the BA from the EAR). Available here: https://ec.europa.eu/commission/presscorner/detail/en/fs_22_3862 Last accessed: 2025 July 9.

2.6 Impact

2.6.1 Financing not linked to costs, simplified cost options and focus on performance

Contributions from the EU budget may take different forms, as defined in the Financial Regulation. Such forms of Union contribution include financing not linked to costs (FNLC), based on the fulfilment of conditions or achievement of results; reimbursement of eligible costs incurred, or payments based on simplified cost options (SCO: unit costs, lump sums, flat rate financing). Simplified forms of funding were introduced as a way of simplification to reduce error rates, resulting from the complexity of reimbursing expenditure based on costs actually incurred. Despite simplifications, checks and controls are still necessary on implementation to ensure that the conditions for reimbursement have been achieved.

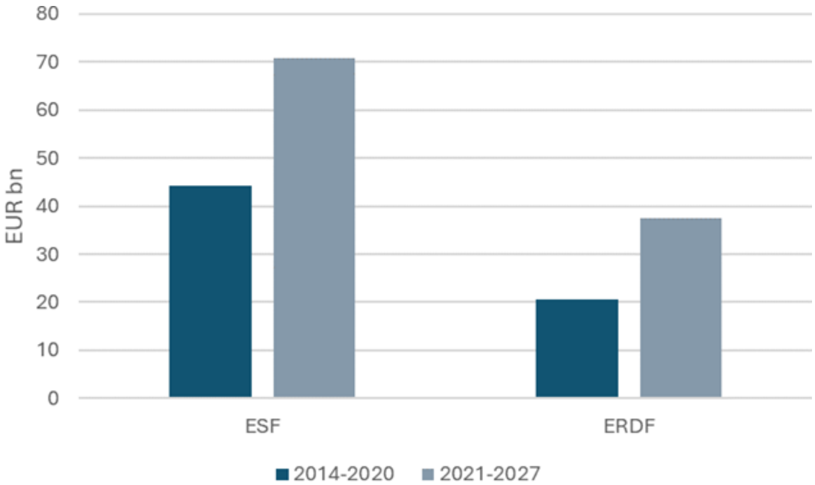
The RRF is the first fully performance-based instrument, with disbursements of funds linked to the achievement of pre-defined milestones and targets. This allows for quicker release of funds, as important launch steps can be rewarded with EU funds, providing early liquidity to Member States for the implementation of investments and reforms. Budget support can be used to provide a non-cost based financial contribution to third countries, on the basis of the fulfilment of certain general conditions.[48] In the Reform and Growth Facility for the Western Balkans, payments are conditional on the achievement of milestones, measured by performance indicators, reflecting results and reform progress. Using an incentive–based approach to reward reforms in the Eastern and Southern Neighbourhood has also provided positive results in NDICI-Global Europe.

Shifting towards a more performance-based delivery model may simplify and accelerate implementation, but has not always brought simplification. The use of SCO has increased in past years, nearly doubling from 2014-2020 to 2021-2027 (Figure 2.3). In Cohesion policy,

[48] As per article 236 of the Financial Regulation.

the use of SCOs and FNLC significantly reduces administrative burden for both authorities and beneficiaries. In particular, the European Social Fund+ is rapidly moving from a cost-based to a result-based approach. The use of SCOs also increased in the European Regional Development Fund (ERDF), but is still limited for the Cohesion Fund, EMFAF and HOME funds. As regards CAP, the move to a performance-based approach entailed a big shift in the focus of the system with a major change in CAP governance and it required significant efforts by Member States. However, the flexibility given to Member States did not translate automatically into simplification for beneficiaries as Member States were free to establish the requirements for farmers as well as their own penalty and control systems. In addition, the streamlined programming and reporting required Member States to integrate data and to further develop their IT systems.

Figure 2.3. Share of budget covered by finance-not-linked-to costs and simplified cost options ESF and ERDF



Source: Final Report on the study on the uptake of Simplified Cost Options (SC) and Financing Not Linked to Costs (FNLC) for the CPR (Inforegio - Simplified Cost Options)

The extent to which current programmes in direct and indirect management use financing not linked to costs and simplified cost options varies greatly. Some programmes make significant use of output-based lump sums. For example, the Innovation Fund almost fully provides a contribution either in the form of lump sums or unit costs for defined outputs (for example, GHG avoidance or production of Hydrogen). Horizon Europe is targeting 50% of its funding to be reimbursed using lump sums, while in 2021/2022, 25% of the European Defence Fund (EDF) was committed using lump sum grants. Erasmus+ and European Solidarity Corps almost exclusively use unit costs and lump sums. While those unit costs are in practice input-based unit costs (for example reimbursing travel or organisational costs), they contribute extensively to simplification. For other programmes like EU4Health, instead, the introduction of simplified cost options has not been considered or is not considered appropriate for the implementation of procurement actions in indirect management (for instance, in the Space Programme) or for large infrastructure deployment.

Some factors still hinder more extensive use of the simplified cost options and financing non linked to costs. For instance, these include limited administrative capacity of managing authorities, the time needed to develop the SCO methodology, and a lack of historical data (for innovative operations). The combination of a heterogenous pool of projects in a programme combined with procured projects also hinders the use of SCO and FNLC.

2.6.2. Implementation pace and outstanding commitments

The fragmentation of the financial landscape also translates into too many programming documents, which are resource-intensive for all administrations involved and cause delays. The current financial framework includes over ten funds that are pre-allocated to Member States[49] and that require a separate planning and programming efforts. This creates a heavy administrative burden for managing authorities and project promoters at the start of each financial period and leads to a substantial lag between the preparation of the financial framework and implementation on the ground. This has been the case also in the 2021-2027 programming period, where the late adoption of the sectoral legislation and the lengthy process to adopt programming documents led to delays in implementation. For instance, the operational programmes of Cohesion policy funds were only adopted by mid-2022.

The slow implementation of some programmes on the ground results in higher outstanding commitments or "*Reste à liquider*" and higher risk of decommitments, and may result in inefficiencies, as the policy priorities have shifted when there is a significant lag of several years between the priority setting, the programming and the actual implementation of the investments. Nevertheless, the initiatives put forward to support Member States, third countries and specific sectors recently accelerated payments for the outstanding and new programmes. The improved implementation of 2021-2027 cohesion policy programmes decreases the risks of decommitments.[50]

2.6.3. Monitoring, reporting and mainstreaming

The 2021-2027 MFF benefits from a more modern performance framework than in the previous MFF period[51]. The overall number of core performance indicators was reduced compared to the 2014-2020 MFF, while the quality of the indicators and performance information was enhanced, providing a more accurate and representative annual indication of performance. Additionally, programmes such as the RRF and the Ukraine, Western Balkans, and Moldova facilities have adopted delivery models more focused on objectives and results. At the same time, more robust mainstreaming methodologies have been put in place.

Despite these advancements in the performance framework, there remains room for further enhancement, particularly in terms of simplification, consistency and better monitoring of EU budget results. In the 2021-2027 MFF, there are more than 5,000 heterogeneous and non-aggregable indicators used for programme monitoring and evaluation. Different programmes operate under different systems. This fragmentation creates significant administrative burdens for all stakeholders and makes it difficult for the Commission to aggregate and compare performance data at the EU budget level. It also hampers transparency and access to information for budgetary authorities and MFF beneficiaries. As a result, the Union lacks a comprehensive overview of performance across programmes. This limits the

[49] The following programmes are nationally pre-allocated: Cohesion Fund, European Regional Development Fund, European Social Fund+, the Just Transition Fund, the RRF, European Agricultural Guarantee Fund, European Agricultural Fund for Rural Development, European Maritime, Fisheries and Aquaculture Fund, Brexit Adjustment Reserve and, outside the EU budget or the multiannual financial framework, the Social Climate Fund (from 2026) and the Modernisation Fund.

[50] Further information is available in the Long-term forecast of future inflows and outflows of the EU budget (2026-2034), COM(2025)573.

[51] Communication on the EU budget performance framework 2021-2027 - European Commission.

extent to which performance information can guide the implementation of the EU budget as well as the role it plays in informing the EU's political decision-makers. To address these challenges, the post-2027 MFF will benefit from reducing administrative burdens and strengthening accountability and transparency through a simplified, single performance framework for the entire EU budget. A streamlined common list of output and result indicators will reduce the number of EU budget performance indicators from over 5,000 to around 900, allowing the aggregation of resuls at the level of the EU budget. A single methodology will also enable to monitor the expenditure supporting climate mitigation, climate adaptation, biodiversity, environmental and social objectives.

The 2021-2027 budget features heterogeneous mainstreaming provisions and requirements at MFF and programme levels (such as on 'Do No Significant Harm' and gender equality). In the 2021-2027 MFF, the 'Do No Significant Harm' (DNSH) principle has been applied to the most relevant programmes, but not in a harmonised manner. A 2023 study by the European Commission's Joint Research Centre (JRC) shows the varied and inconsistent application of DNSH across programmes. As noted in the report, this heterogeneity creates challenges for implementation and complicates the identification of applicable frameworks and criteria. As a result, it creates complexity and burden for Member States, and project beneficiaries such as Small and Medium Enterprises (SMEs) and other businesses. Looking ahead, the post-2027 MFF will be aligned with recent legal developments, including the 2024 Financial Regulation recast[52] – which introduces new requirements on the principles of DNSH, gender equality, performance indicators as well as transparency rules regarding beneficiaries of EU budget programmes – and ensure a more consistent application of these requirements across the EU budget while ensuring proportionality and simplification.

A 35% climate and environment target will help steer support from the budget towards the goals set out in the European Green Deal. The mainstreaming of horizontal policies has proven to be an effective tool to prioritise climate spending into the 2021-2027 spending programmes. For the first time, in the current MFF there are overarching climate and biodiversity targets that apply at the level of the EU budget supported by dedicated monitoring methodologies. However, some mainstreaming provisions lacked consistency and tools to achieve their true potential. The next MFF will build on this experience and ensure a consistent approach covering all the six environmental objectives.

The system to monitor EU spending and its performance for the post-2027 MFF will be simpler, less burdensome and more consistent, thereby strengthening a results-driven approach and providing greater transparency and accountability. The new performance framework will apply horizontal priorities in a consistent way across the EU budget. It will also simplify the way in which EU spending and performance are monitored, reducing administrative complexity and enabling a more comprehensive overview of the EU budget as a whole.

[52] Regulation (EU, Euratom) 2024/2509 of the European Parliament and of the Council of 23 September 2024 on the financial rules applicable to the general budget of the Union (recast)

2.6.4 Leveraging on the EU budget: budgetary guarantees, financial instruments and borrowing

The 2021-2017 Multiannual Financial Framework put a strong focus on de-risking private sector investment to strengthen its impact. To support competitiveness and innovation, the EU budget provides support for high-risk projects and companies in selected industries (e.g. energy) and groups of economic actors (e.g. start-ups) of European interest that do not find sufficient funding in the market helping to overcome market failures.

If a project is likely to generate revenues, leading to a repayment capacity, repayable support such as budgetary guarantees or loans are an efficient policy instrument. The EU budget uses different financial products such as guarantees, loans, and equity investment for a much larger impact than the budgetary endowment itself (generating leverage). For example, the InvestEU budgetary guarantee mobilised so far around EUR 200 billion in private investment (with a multiplier of 14.8, i.e. EUR 14.8 mobilised for each euro of EU guarantee).[53] 95% of project promoters reported that their projects would have either not proceeded at all or not as planned without InvestEU financing. Moreover, 58% of project promoters stated that the InvestEU guaranteed financing had impacted other financiers or investors' decisions to commit to the project.[54]

The EU budget also has a wide range of non-repayable support tools to de-risk investments and mobilise additional private sector investments, including in particular grants. Joint Undertakings (JUs) and other public private partnerships (PPPs) also leverage and pool resources, notably from industry. In the area of semiconductors, the Chips Joint-Undertaking will raise EUR 11 billion in R&I investment until 2030. However, the leverage across the large number of partnerships and JUs is highly variable and not always sufficient.

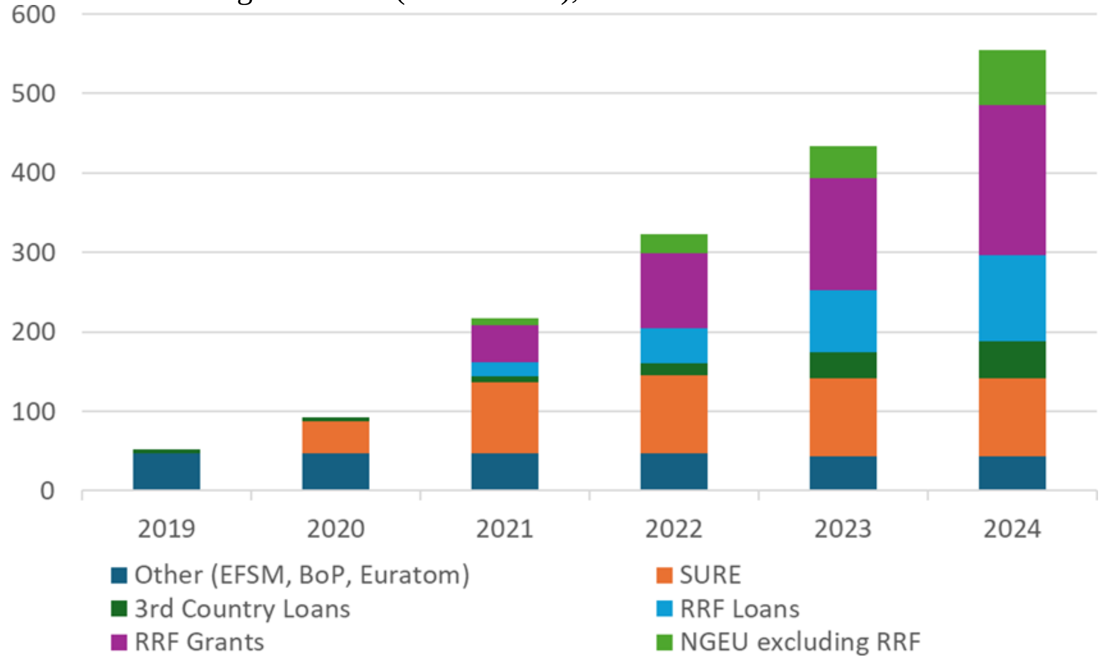
Still, mobilising private funding at necessary levels continues to be challenging across the EU. The Draghi Report on EU competitiveness shows that the capacity of the EU budget to mobilise private investment through risk-sharing instruments is hampered by limited risk appetite by implementing partners who remain mostly focused on relatively low-risk investment[55]. The Draghi Report also shows that there is scope to improve the capacity of the EU budget to complement and attract private investments for example from institutional investors, and venture capital into innovation and fast-growing companies which is much needed in Europe[56]. Support from the EU budget makes it easier for commercial banks, investors and venture capital to finance fast-growing companies and address barriers that restrict the amount of European capital available to finance innovation. However, attracting investments also requires a necessary degree of predictability and stability.

Capital market borrowing has further increased the impact of the Union budget, and has become a powerful policy tool. While the EU has been present on capital markets for several decades, the decision to empower the Commission to finance NGEU through joint borrowing brought a fundamental change to the Commission's debt management architecture. By end-

[53] InvestEU Operational Reports as at 31/12/2024
[54] SWD(2024) 228 final.
[55] Draghi, M. (2024). The future of European competitiveness. Part A – A competitiveness strategy for Europe.
[56] The use of funding sources different from bank financing is still below potential: for instance, EU venture capital is underdeveloped, with funds raising just 5% of global venture capital versus 52% in the US.

2024, outstanding EU debt has reached over EUR 550 billion (Figure 2.4), making the EU the fifth largest issuer of euro-denominated bonds and a large supplier of highly rated and very liquid safe assets in euro. EUR 73.2 billion of this debt has been issued as green bonds, making the EU also one of the largest green bond issuers in the world. Borrowing programmes since 2021 have supported Member States with SURE and the RRF, and third countries including Ukraine through MFA loans and the Ukraine Facility. The proposed Security Action For Europe (SAFE) will additionally provide up to EUR 150 billion in loans to Member States backed by EU borrowing between 2025 and 2030.

Figure 2.4 Outstanding EU bonds (EUR billion), 2019-2024

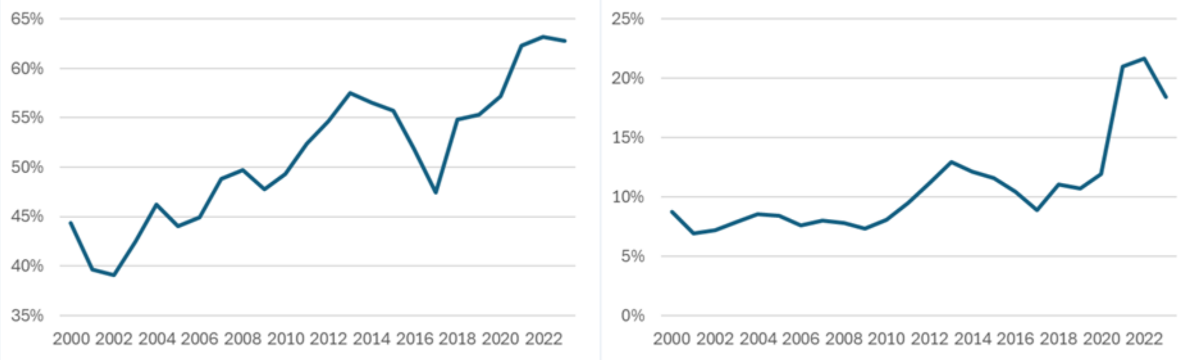


Source: European Commission

Box 2.1. The EU budget support to investment activity

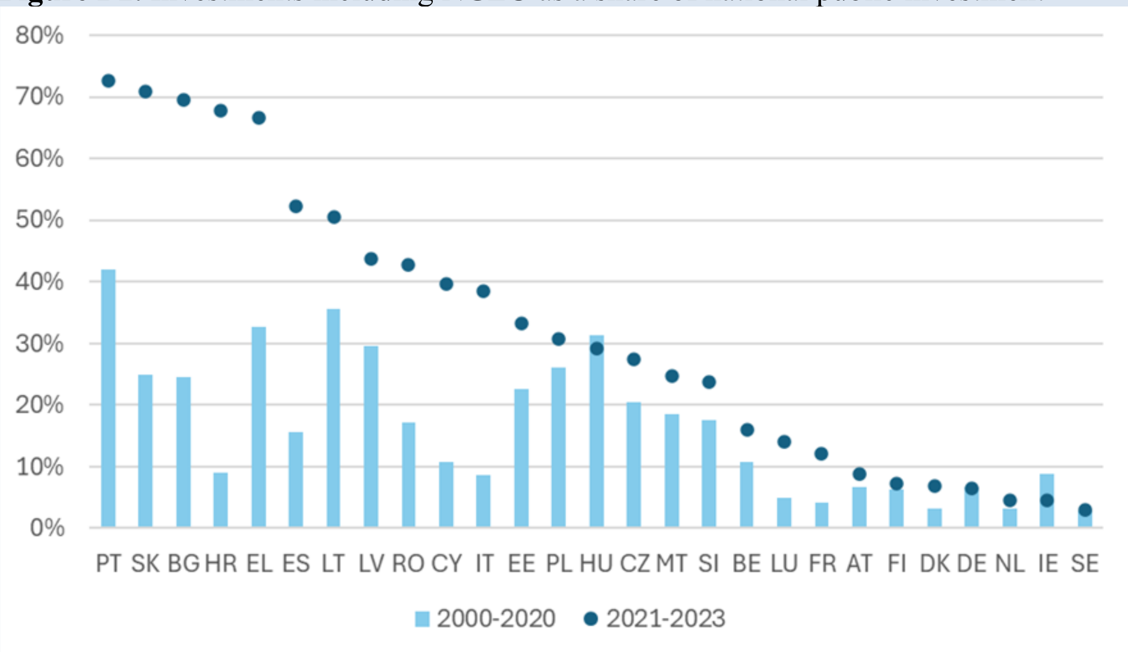
Public investment supports economic growth in a durable manner by expanding the productive capacity of the economy. Public investment also crowds-in private investment. In recent decades, the investment contribution of the EU budget has steadily gone up. Expenditure that can be classified as investment expenditure* represented almost 65% of the EU budget in 2023[4]. This reflects a sharp increase from a level of around 40-45% at the turn of the century (left panel). Especially NextGenerationEU reinforces the contribution of the EU budget to investment since 2021. As a percentage of public investment at Member State level, the budgetary allocations stemming from the EU budget are around 20% in recent years. Prior to NextGenerationEU, the level was around 10%.

Figure B1. Investments as a share of total MFF including NGEU (left) and as a share of public investment (right)



The ratio of investment financed by the EU budget to public investment differs substantially across Member States and over time (Figure B2). Zooming in at the national level, EU investment funds represented more than 30% of the total public investment in Greece, Latvia, Hungary and Portugal in over the period 2000-2020. For other Member States the ratio was lower, depending on the importance of cohesion funding and size of the economy. Mainly following the implementation of the investments under NextGenerationEU, the ratio increases dramatically in the years 2021-2023. In Bulgaria, Greece, Croatia, Portugal and Slovakia the investment financed by the EU budget represented around 70% of public investment, and also for large economies such as Spain and Italy, the importance of EU investment funds increased substantially.

Figure B2. Investments including NGEU as a share of national public investment



(*). Selected programmes providing investments expenditure (graph 1) are: European Regional Development Fund, European Social Fund, Cohesion Fund; Rural Development; Framework Programmes for research and development; large infrastructure projects (TEN in 2007-2013 and CEF in 2014-2027); funding devoted to key, strategic projects such as the Space Programme, Euratom R&T, ITER, European Defence Fund, EFSI and Invest EU; NextGenerationEU in the period 2021-2023.

To calculate the investment financed by the EU budget (graphs 2 and 3) the following assumptions were made:
- For cohesion policy funds, only the thematic objectives relevant for public investment were considered, such as those related to research, SME's or climate change adaptation as available in the Cohesion Open Data Platform. The shares that these thematic objectives related to public investment represented over the total cohesion policy funds for the period 2014-2020 were calculated at Member State level and then applied to the disbursement of cohesion policy funds for the period

2000-2023. This assumption was made based on the data availability in the Cohesion Open Data Platform for the periods 2014-2020 and 2021- 2027, while the choice of the period 2014-2020 was based that this programming period was implemented from 2014 onwards and would give the best estimate of the investment related thematic objectives in the cohesion policy funds.

- 40% of the total rural development is considered to be investment relevant structural expenditure.
- For the other funds, such as the programmes NextGenerationEU, for Research and Development, large infrastructures and other strategic projects were considered the full annual reimbursements for the period 2000-2023 were taken into account.

Source of the EU budget data EU spending and revenue (Spending and revenue - European Commission) and AMECO for public investment.

The increase in exposure via guarantees and financial assistance has required reinforcing the risk oversight. The objective to use the EU budget to leverage on private sector investments and to provide support by borrowing for loans has fostered an increase in contingent liabilities on the budget, from EUR 163 billion in 2021 to EUR 296 billion by end-2024. This is an increase of more than 80%. These contingent liabilities are either provisioned trough the Common Provisioning Fund (budgetary guarantees and loans to third countries) or backed by the headroom of the budget (loans to Member States and to Ukraine since 2023).[57]

Risk oversight has been reinforced by strengthening the role of the Commission's Chief Risk Officer (CRO) as an independent second line of defence at the corporate level and expanding the scope of its oversight to cover all the Union's financial operations. The main tasks of the CRO are to develop and implement the Commission's risk and compliance framework for managing financial risks in the Union's operations and independently assess, monitor, and report on key risk types. The Commission has thus implemented all recommendations in the ECA report to further improve its operations, processes, and reporting, including to (i) establish a separate middle-office function, (ii) reinforce the role of the Chief Risk Officer, (iii) implement a workforce strategy, (iv) formulate clear debt management objectives and related indicators, and (v) ensure consistency on internal documentation.

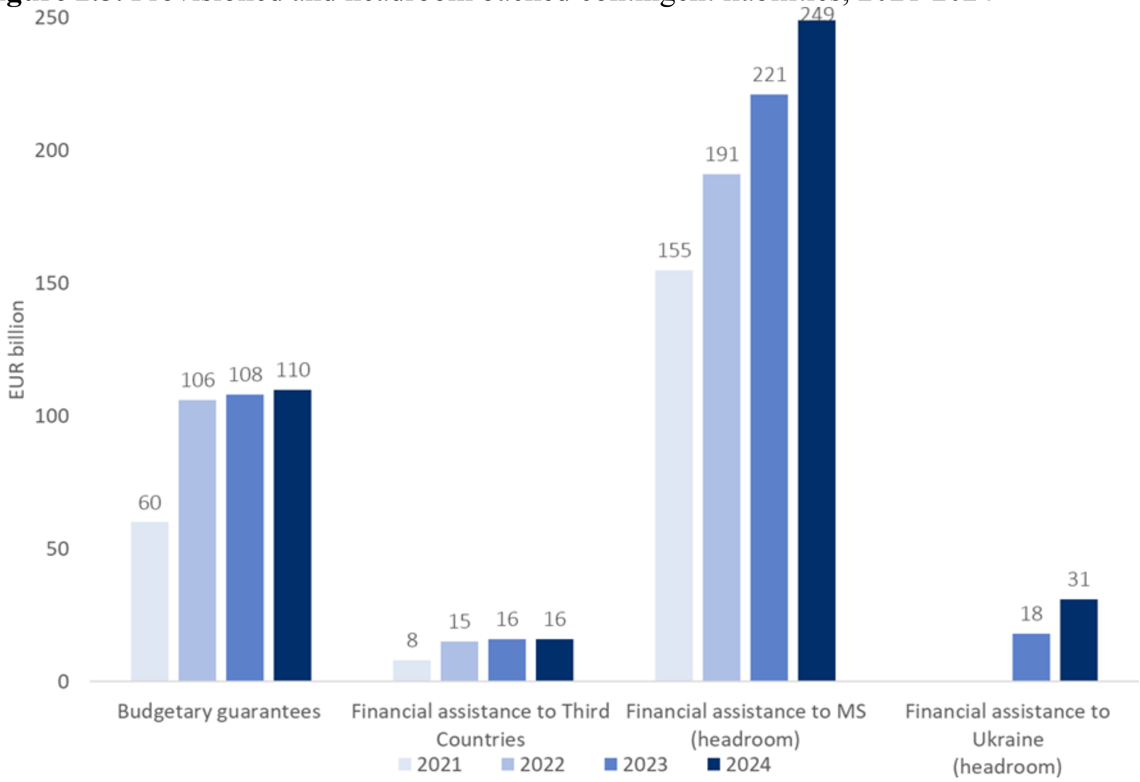
The Commission monitors the adequacy of provisioning and sustainability of contingent liabilities on a regular basis and informs the budgetary authority and market participants[58]. These assessments confirm the EU budget's ability to cover the existing obligations of the EU in relation to both spending programmes and financial markets (for debt issued under financial assistance programmes to Member States and the MFA+ instrument) even under extreme adverse circumstances[59].

[57] The headroom of the budget is the difference between the maximum amount of funds that the EU can request from Member States to cover its financial obligations (own resources ceilings) and the own resources it needs to finance its spending in a given period, and serves as a guarantee that the Union budget will be able to withstand sudden shocks and the Commission is always able to satisfy its payment obligations, including for example to investors in NGEU bond

[58] This includes the in the annual draft budget (Working document XI on budgetary Guarantees, Common Provisioning Fund and Contingent Liabilities) and the consolidated Report on contingent liabilities arising from budgetary guarantees and financial assistance and the sustainability of those contingent liabilities, published each year in autumn.

[59] Report from the Commission to the European Parliament and the Council on contingent liabilities arising from budgetary guarantees and financial assistance and the sustainability of those contingent liabilities Situation at 31 December 2023, COM(2024) 507 final.

Figure 2.5. Provisioned and headroom backed contingent liabilities, 2021-2024



2.7 Administration

Despite the increasing number of tasks, the Commission has sought to uphold the principle of stable staffing, except in a limited number of cases, notably where the co-legislators have added additional tasks to the Commission, on top of the original proposals. In total, the additional staffing needs presented together with the legislative proposals since the entry into force of the current MFF to date, amount to over 1.660 fulltime equivalents (FTE)[60]. Adhering to the stable staffing principle under the 2021-2027 MFF meant that these posts were not created, and solutions had to be sought through redeployment of staff within the institution – leading to a large saving for the budget. However, the approach has increased the challenge of ensuring business continuity, in the face of major challenges, and has had a considerable impact on staff.

The increased cost of living observed in recent years had a direct impact on the evolution of salaries of civil servants in the Member States and consequently on the annual adjustment of salaries and pensions of EU staff. This has resulted in additional pressure on administrative expenditure. The level of salary update is based on an automatic non-discretionary method provided under Annex XI to the Staff Regulations relying on two key factors:

[60] The figure is based on the number of fulltime equivalents (FTE) requested in the Legislative Financial and Digital Statements accompanying all proposals from the adoption of the current MFF to date. This does not include the needs identified for cybersecurity experts, nor any need in other Institutions.

- The net evolution of the purchasing power of national civil servants from a basket of ten Member States[61], representing at least 75% of the EU GDP. This constitutes the Global Specific Indicator (GSI).
- The Joint Index (JI), which takes account of inflation in Belgium and Luxembourg.

The automaticity of the salary update method of the Staff Regulations ensures the system is fair and efficient. It duly mirrors political decisions by Member States regarding their civil servants remunerations and the events in real economy (inflation). When Member States' real purchasing power of officials' salaries increase or decrease, this has a corresponding impact on the salaries of the EU staff and pension beneficiaries and their purchasing power. The method proved its efficiency, including in 2020, when the automatic implementation of the exception clause limited salary increases in a time of economic downturn and generated net savings for the EU budget.

The Commission has made extraordinary efforts to comply with the target of no more than 2% annual growth of non-salary expenditure. High energy costs and exceptionally high inflation in recent years have had a direct impact on non-salary administrative expenditure, much of which is automatically indexed (rents, IT costs, contracts for services such as security, translation, interpretation, cleaning etc.). Compliance with the 2% limit has only been possible through a very strict approach, which has certainly come at the expense of investments in IT, including cybersecurity, and the automation which could help alleviate staff pressure. The Commission has adopted a new building strategy, with a move to dynamic collaborate space, reducing the surface area occupied, and reducing costs. The Commission has also first cut and then frozen expenditure on professional travel and the organisation of meetings and committees, despite inflationary pressures. Moreover, the Commission has used the possibility granted to it under the Treaty to adjust the requests of the other institutions in the annual budget procedures, which had an impact on the staffing, cybersecurity, physical security and building infrastructure of those institutions. This has been particularly difficult for the smaller institutions, which have less margin for adjustments and redeployments.

Despite important savings, heading 7 on public administration in its current set-up has proven unsustainable. As shown by the use of availabilities table in Annex A.1.2, the challenge of respecting all of the Union's legal and contractual obligations while remaining within the ceilings and respecting stable staffing was already clear from the second year of implementation of the current MFF. Increasing the ceilings of Heading 7 was therefore part of the proposal for the mid-term revision of the MFF in 2023, when the anticipated gaps were estimated at the level of EUR 1,9 billion and 885 staff. At present, the total cumulative deficit on heading 7 has reached EUR 1 billion over the years 2021-2025, despite respecting a stable staffing principle at the level of the Commission and important savings, in particular in building space.

2.8 Protection of the EU budget

The management, control and audit of the EU funding are governed by specific rules to ensure transparency, accountability and the proper use of EU funding. These rules are set

[61] Austria, Belgium, France, Germany, Italy, Luxembourg, Netherlands, Poland, Spain and Sweden.

out in the Financial Regulation[62] and the main sectoral regulations. In the current MFF, the key requirements for the management, control and audit of EU funding differ across programmes, with the scope and intensity of controls varying according to the management mode, payment mode and legal framework of each fund.

Under the shared management mode, the Commission implements the funds and carries out controls and audits in cooperation with the Member States. Nevertheless, there are significant differences between the Common Agricultural Policy (CAP) and Cohesion Policy linked to the delivery system that make the day-to-day management and implementation on the ground of the EU funding programmes at national and regional level very different for the managing authorities.

Under the direct management mode, the Commission implements the funds and carries out controls and audits. Still, while the RRF is implemented under direct management, it implies a strong reliance on assurance provided by Member States.

Under indirect management, the Commission entrusts budget implementation to implementing partners. It thus relies on their systems for the proper management, audit and control of EU funds. Those systems are assessed before implementing partners are allowed to manage EU funds.

The Commission puts in place control strategies that are tailored to the specificities of the funds and the related risks of errors. Cost effectiveness is obtained with the differentiation of controls: riskier areas trigger a higher level of scrutiny and or frequency of controls whereas low-risk areas should lead to controls that are less intensive, less costly and less burdensome.

The co-existence of different sectoral frameworks and reporting requirements poses challenges and adds more complexity for beneficiaries, national authorities, external audit bodies and other stakeholders, be it in terms of clarity of the EU action, administrative burden or predictability as similar deficiencies may lead to different financial consequences depending on the fund and management mode.

Since 2021, with the entry into force of the regulation on a general regime of conditionality ('conditionality regulation')[63], the EU budget has added another layer of protection in cases when breaches of the rule of law principles affect or risk affecting the EU budget. The instrument complements other tools and procedures to protect the EU budget, for example checks and audits or financial corrections, or investigations by the EU's anti-fraud office (OLAF). The Commission can only recur to the Regulation if there is a sufficiently direct link between the breach of the principles of the rule of law and the Union budget and if the other Union budget tools cannot protect the Union budget more effectively.

The general regime of conditionality, applying to all Member States and covering both expenditure and revenues, has contributed to bring more protection to EU taxpayers'

[62] Regulation (EU, Euratom) 2024/2509 of the European Parliament and of the Council of 23 September 2024 on the financial rules applicable to the general budget of the Union.
[63] Regulation (EU, Euratom) 2020/2092 of the European Parliament and of the Council of 16 December 2020 on a general regime of conditionality for the protection of the Union budget.

money and to the protection of the rule of law in the EU thanks to both its deterrent and corrective effects. The regime has been recognised as a step forward in the protection of the Union budget by both the European Parliament and the European Court of Auditors, in addition to contributing to promote the protection of the rule of law in the EU. The general regime of conditionality defines which situations are indicative of breaches of the principles of the rule of law in the Member States, such as endangering the independence of the judiciary, allowing arbitrary or unlawful decisions by public authorities or failing to ensure the absence of conflicts of interest. It also defines how such breaches should be linked to the Union budget, for the regime to apply. Where the conditions are met, the European Commission can propose to the Council the adoption of measures to protect the EU budget such as the suspension or reduction of EU funding. The final decision is taken by the Council of the EU. Following a proposal by the Commission, measures adopted by the Council can be adapted or lifted if the Member State concerned adopts remedies that are adequate to address respectively partly or in full the relevant findings.

Conditionalities systems have been designed and implemented across the EU budget in a different way. While the RRF and the enabling conditions for funds under the Common Provisions Regulation have demonstrated how the EU budget can promote reforms that strengthen the rule of law in Member States, the co-existence of different sectoral frameworks with different scope and procedural rules may pose challenges as deficiencies of the same type and nature in the Member States may lead to different financial consequences depending on the rules that are applied.

2.9 Lessons learned on the revenue side

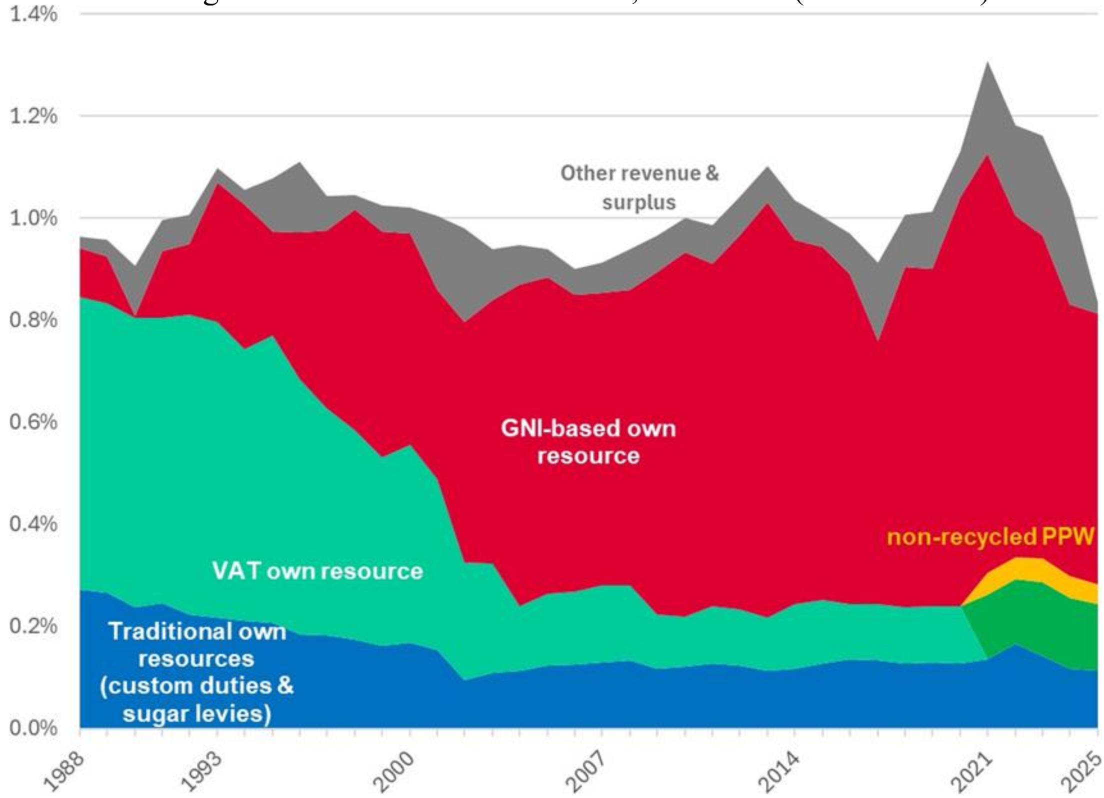
In the current MFF, the EU budget is financed through long-established own resources and other revenue, but also through a more recent own resource based on non-recycled plastic packaging waste. Established revenue items include Traditional Own Resources – mainly customs duties on imports from outside the EU – that Member States collect on behalf of the Union, a resource based on a fixed percentage of Member States' Value Added Tax (VAT) bases, and a contribution based on a uniform percentage of each Member State's Gross National Income (GNI). The GNI-based contribution is the largest source of EU revenue and serves as the budget's balancing item, i.e. it covers the difference between total expenditure and all other own resources and other revenue to ensure that total budgeted revenue equals total budgeted expenditure. The Own Resources Decision 2020[64] made the VAT own resource simpler and more transparent and introduced the own resource based on a uniform call rate applied to the weight of non-recycled plastic packaging waste. Other revenue, defined as sources of revenue that are not own resources, is an intrinsic part of a Union policy and can be general (i.e. non-assigned), which reduces the need for GNI contributions, or assigned to a specific purpose based on a relevant legal basis.

The current own resources system has ensured stable and predictable financing of the EU budget, but the budget is largely, and increasingly, dependent on GNI contributions, which will reach its limits as financing needs increase. The share of GNI contributions in total revenue has been consistently growing over the years (see Figure 2.5). Given the increasing financing needs and the strained budgetary situation of Member States, it cannot be

[64] Council Decision (EU, Euratom) 2020/2053 of 14 December 2020 on the system of own resources of the European Union and repealing Decision 2014/335/EU, Euratom.

expected that the dependence of GNI contributions can continue to increase at a similar pace in the future. The focus on GNI contributions has also strengthened the ‘net balances’ approach, which only compares how much Member States contribute to the EU budget with how much they receive back as direct cashflow. This ignores the numerous cross-border benefits of European public good character by allocating expenditure to individual Member States solely based on the residence of the main beneficiaries. It also ignores the broader benefits of Union membership. Member States with the most negative ‘net balances’ have traditionally been granted rebates on their contributions to the EU budget. Currently, five Member States benefit from lump-sum reductions in their GNI contribution, replacing all other previous corrections. 17 Member States also benefit from a lump-sum reduction in their plastics contribution.

Figure 2.5. EU budget revenues: evolution over time, 1988-2025 (% of EU GNI)



To repay the NextGenerationEU borrowing without expenditure cuts or a further increase in GNI-based contributions, the Commission put forward proposals in 2021 and 2023 on new own resources, but so far with limited success. According to the Interinstitutional Agreement of 2020, which paved the way for the current MFF, the EU budget expenditure for the repayment of NextGenerationEU should not lead to an undue reduction in programme expenditure or investment instruments while avoiding an increase in the Member States’ GNI-based contributions. Therefore, the Commission proposed in 2021 a package of new own resources, including a 25% share of the revenue from the Emissions Trading Scheme (ETS), 75% of the revenues from a Carbon Border Adjustment Mechanism (CBAM), and 15% of the share of residual profits from multinationals that will be re-allocated to EU Member States under the OECD agreement on a re-allocation of taxing rights (‘Pillar One’). Given the lack of progress in implementing the OECD agreement, the proposal was complemented in 2023 by a new statistical own resource based on company profits (CPOR). In addition, the 2023 package increased the call rate for the proposed ETS-based own resource to 30% in view of the increased carbon price and included a technical adjustment to the control framework of CBAM. However, so far negotiations in the Council have not reached the required unanimity on the new own resources proposals.

3. Key principles for the EU budget of the future

Based on the lessons learned presented in the first part of this document, the following section explains the approach adopted with the new MFF package with a view to addressing the main shortcomings.

3.1 Flexibility: new needs, crisis response and political steering

The next EU budget must be able to respond fast and efficiently to the evolving priorities of the future. Against the lessons learnt and depicted in section 2, a seven-year MFF can only work if it is equipped by design with the necessary flexibility. This MFF proposal addresses this issue in a holistic way.

First and foremost, the proposed MFF reduces structural rigidity. The reduction of the number of headings from seven in the 2021-2027 MFF (plus one sub-heading and two sub-ceilings) to four in the proposal for 2028-2034 facilitates redeployments across the MFF. In addition, the MFF Regulation proposed by the Commission retains the Single Margin Instrument as a tool to use past margins (and, as a last resort, current and future margins) across headings.

Second, as the current fragmentation of special instruments over and above the ceilings increases complexity to the MFF and its implementation, their architecture will be simplified. Special instruments allow the mobilisation of additional amounts over and above the MFF ceilings, providing the flexibility to increase expenditure in the face of unexpected needs. However, the existence of several thematic special instruments limits such flexibility. The 2028-2034 MFF proposal retains only two non-thematic special instruments, the Flexibility Instrument, reinforced compared to the current period and the Single Margin Instrument, as well as one thematic special instrument, the Ukraine Reserve. The annual reference amount of the Flexibility Instrument will be EUR 2 billion (in 2025 prices), compared to EUR 1.33 billion (2025 prices) in the current MFF on average, also including the MFF mid-term revision. In addition, it is proposed to reinforce the Flexibility Instrument with an amount equivalent to decommitments (as currently done in the EURI Instrument)[65] and amounts equivalent to the revenue from net fines and other penalties or sanctions imposed by Union institutions (that top up selected programmes in the current MFF). Moreover, it is proposed that any unused amount can be carried over throughout the whole MFF period.

The restructuring of special instruments has two benefits: predictability and simplification. First, it reduces substantially the flexibilities over and above the ceilings, thus increasing predictability for Member States concerning national contributions, other things being equal. Second, it simplifies implementation: the thematic special instruments that address disasters and emergencies under the current MFF (i.e., the EUSF and the Emergency Aid Reserve) have important synergies with the relevant policies in the national and regional partnership plans and the Global Europe Instrument. By integrating this type of support within the programmes, more a consistent approach towards, prevention, preparedness, and response

[65] Except for those cases where reuse of decommitment is included in the sectoral legislation.

to disasters is achieved. Finally, the BAR, the European Globalisation Adjustment Fund and the EURI instrument are discontinued. The first two instruments were largely redeployed to other objectives under the current MFF, as discussed in Section 2. The EURI instrument is no longer necessary, as no new net bond issuances under the EURI will occur in the next MFF, and thus interest rate risk will be limited to refinancing operations. Remaining interest risk can be managed within the fixed envelope for NGEU repayment (see Section 4).

The third piece of future MFF flexibility will come from the design and implementation of the future generation of programmes. Such increased flexibility comes from the presence of unallocated amounts or cushions in largest programmes and increased possibility to reprogramme when it is necessary. The merge of several programmes into larger programmes or instruments also contributes to increasing flexibility.
Section 4 discusses the structure of future programmes more in detail.

i. National and regional partnership plans

A share of Member States' initial allocation will remain unprogrammed ('flexibility amount'), becoming available both for crisis support, in case natural or man-made disasters hit a Member State or region, and for the new policy needs identified at the time of the mid-term review of the plans. This will allow the plans to adjust to new policy needs, while ensuring certainty to Member States and regions on the overall amounts available to them from the onset. A layered approach will allow for a cumulative and tailored response to crises. Member States will first reprogramme amounts available under their Plans, which they will be able to complement with their flexibility amount. Where the scale of the disaster or urgency calls for more significant support, a centrally managed EU Facility will provide emergency assistance to top up to national envelopes, as currently done by the EU Solidarity Fund, the Thematic Facility of Home Affairs funds (e.g. in case of a migration crisis) or the Agricultural reserve under the EAGF. As the Facility will also provide financing for other priorities, a cushion will ensure that funding can be accessed for emergencies or new priorities throughout the entire period.

ii. European Competitiveness Fund (ECF) and Horizon Europe

The ECF will focus on strategic sectors and technologies, structured into a small number of broad policy windows. These policy windows will have an indicative allocated amount and in-built capabilities to allow shifting funding within and between them. This will allow for broad policy flexibility and will ensure covering new emerging needs within the Fund. Policy windows under the ECF will have access
to the full financial toolbox of the EU budget including the use of budgetary guarantees, financial instruments and blending operations, which creates the flexibility to ensure that the appropriate tool is used for the different policy needs and beneficiaries. In the same vein, the proposed architecture of Horizon Europe will ensure predictability and continuity in funding priorities with agility to respond to emerging or unforeseen priorities.

iii. Global Europe

Each macro-region under Global Europe will have an indicative financial allocation. There will be the possibility to transfer across geographies and among countries in the same geography, as well as moving funding more effectively and swiftly between policy tools when needs or priorities change.

Not all funding will be pre-programmed for the whole period from the onset to leave enough flexibility. Each macro-region will have a set of unprogrammable actions such as humanitarian aid, crisis response, resilience, and competitiveness. Particularly, the resilience actions should enable the Union to step up its cooperation where needed in light of the volatility of the external context. They should be flexible in responding to and reinforcing actions addressing fragility, crisis, the humanitarian-development-peace-nexus, reconstruction and recovery needs, as well as balance of payment crises. This will be essential, since some needs (e.g. Syria or Gaza reconstruction) will have to be catered for under the allocations of Global Europe, but the timing of these funding needs is yet unclear. In addition, non-programmable competitiveness actions will enable the Union to respond to economic challenges and to swiftly seize opportunities, including via the support to the external dimension of the Union's internal policies.

A centrally managed cushion will enable Global Europe to react to unforeseeable events, needs or emergencies, and new policy priorities that will arrive during the MFF period and may affect different geographies. Building on the experience from the NDICI-GE cushion under the current MFF, it will be important to preserve the cushion in the first years of the MFF and design specific safeguards so that the cushion is not earmarked from the onset.

iv. Other programmes

One of the limitations of the current MFF, constraining the EU budget's ability to reallocate resources in case of new needs, is the detailed decomposition and earmarking across strands and sub-envelopes, as well as other targets, even in the legal acts of relatively small programmes. With the exception of the three main pillars mentioned above, the sectoral proposals for the next MFF do not provide such legal earmarking and other programme-specific targets.[66]

Figure 3.1 below provides a visual representation of the correspondence between special instruments and programme-specific cushions in the 2021-2027 and the 2028-2034 long-term budget.

Figure 3.1. Flexibilities in the 2021-2027 MFF and the 2028-2034 MFF

[66] An indicative split is provided in the Legislative Financial and Digital Statements accompanying each sectoral proposal.

To remain over and above the ceilings — Within the Global Europe Instrument — Within the national and Regional Partnership Plans (not pre-allocated) — X Discontinued

MFF 2028-2034		***MFF 2021-2027***
Over and above the Ceilings		**Over and above the Ceilings**
Flexibility Instrument		Flexibility Instrument
Single Margin Instrument		Single Margin Instrument
Ukraine Reserve (*)		Ukraine Reserve (*)
Crisis Instrument		European Union Solidarity Fund
		External Aid Reserve
		Brexit Adjustment Reserve X
		European Globalisation Adjustment Fund X
		EURI Instrument X (**)
Below the Ceilings		**Below the Ceilings**
Plan for Member States	*Pre-allocated / shared management part*	HOME Thematic Facilities
	Not pre-allocated / direct management part	CAP Reserve
External Action	Cushion	NDICI cushion
Unallocated margins in the different Headings		Unallocated margins in the different Headings

(*) See also Section 4 for a discussion on future support to Ukraine.
(**) NGEU repayment will be fully below the ceilings.

The use of flexibilities to address new priorities and unexpected needs will be guided by a steering mechanism that will allow to agree on key priorities to be financed in the annual budget (see section 3.4). The budgetary authority will decide, with each annual budget, how and where flexibilities are used, according to its prerogatives.

A new extraordinary and temporary mechanism will be established to respond to the consequences of severe crises, severe hardship or serious threat thereof affecting the Union or its Member States. Recent years have shown that the frequency, severity and depth of crises and hardships have increased. The rigidity of the current budget infrastructure restricted the Union in its response to such crises, although in specific areas the Union did eventually manage to put in place dedicated instruments for the EU/EA (e.g. EFSM), Banking Union (SRF) or even outside the EU framework (ESM). This underlined the importance of ensuring that the Union is structurally equipped with flexible and sufficient tools to respond to them. An extraordinary crisis response mechanism will therefore be embedded in the Own Resource Decision. This extraordinary crisis tool will apply solely to the period of the upcoming MFF 2028-2034 and will enable only repayable forms of support.

The activation of this extraordinary and targeted crisis response tool will be decided by the Council taking into account the specificities and needs arising from such severe crises, severe hardship or serious threat thereof. Given the exceptional nature of the tool, it should not be activated if Union instruments are already in place allowing to adequately address the consequences of the situation. The Council will act by means of a Council regulation adopted in accordance with the procedure set out in the fourth paragraph of Article 311 TFEU having obtained the consent of the European Parliament. The Council regulation will authorise the borrowing by the Commission, on capital markets, of the amount for the loans to Member States. The Council regulation will also establish the principles for the repayment. This extraordinary crisis response tool will be backed by a dedicated compartment in the headroom. Should such extraordinary crisis response tool be activated by the Council, its implementation will be determined in the basic act most relevant to the circumstances related to severe crises, severe hardship or serious threat thereof at stake. The implementation of this crisis response tool ensures the involvement of the European Parliament in line with its institutional prerogatives.

3.2 Simplification

The Commission proposes to substantially streamline the EU budget structure. As mentioned in Section 3.1, the number of headings will be reduced to 4. In the same vein, from the current 52 programmes within and outside the MFF, the MFF proposal includes 16 programmes. This reduces overlaps, maximises synergies and economies of scale and reduces administrative burden.

Instruments financed via external assigned revenue or outside the EU budget are embedded in a coherent manner in the architecture. Currently, revenues from the Emissions Trading Schemes (ETS) allowances fund EU action through several programmes outside the MFF: the Modernisation Fund (outside the EU budget), the Innovation Fund and the Social Climate Fund. The contribution of these instruments to fostering a clean transition and helping mitigate the unintended social impacts of the transition will be enhanced by aligning them with other instruments. The Innovation Fund will be interconnected with the ECF architecture and governance, while the Social Climate Fund will be integrated into the national and regional partnership plans, allowing national authorities to use a single framework and consistent processes to access all the funding available to them.

Delivery models are modernised. An increased focus on objectives-based delivery will integrate the best practices and lessons learned from the current MFF. Milestones and targets, ex-ante costing and Financing Not Linked to Cost (FNLC) will be used in shared management to further increase objective-based funding. Under direct management, there will be increased use of FNLC and Simplified Cost Options to reduce administrative burden. This significantly reduces the reporting obligations on recipients of funds by focusing checks and controls on the deliverables of the project rather than on the costs. Recipients also no longer need to maintain detailed financial records to prove what costs were incurred. Simplification is not an end in itself but is a means to support faster implementation and increase the impact of the EU budget (see also section 3.3 below).

Across the MFF, a single Portal will consolidate information on funding opportunities and provide a single gateway to EU project promoters for simplified access to information, building on the experiences of the Funding and Tenders Portal and the STEP Portal. Advisory and business support services will be streamlined and targeted to mitigate today's overlaps and focus on where EU support can make a difference.

Finally, a simpler and coherent framework for monitoring and evaluation will be applicable to the entire EU budget through a dedicated horizontal regulation. This regulation lays down the elements for a streamlined expenditure tracking and performance framework for the whole budget, including rules on the monitoring of budget spending, monitoring and reporting on the performance of Union programmes and activities, rules for establishing a single online portal for information about Union funding opportunities, and rules for the evaluation of the programmes. It also establishes provisions on applying horizontal principles such as 'do no significant harm' and gender equality, as well as other horizontal provisions applicable to all Union programmes.

3.3 Efficiency and impact

Expanded use of financial instruments and budgetary guarantees will further leverage the EU budget to unlock private capital and to maximise the impact of the Union budget.

Private partners and private sector investment are increasingly relevant for a wide range of policies and programmes. At the same time, uncertainty, challenging financing conditions and slowing economic growth are expected to negatively affect private investments in particular for investment in areas of common European interest. The EU budget must thus play a stronger role in de-risking private investments. Budgetary guarantees, financial instruments and blending operations combining repayable support with a grant component and financial instruments will be used in situations where market failures require some level of public support for the project to materialise. Union funding will only de-risk projects to the degree necessary for the private sector to take over and for the project to be successfully delivered.

EU budget programmes will provide the most appropriate form of funding depending on the objective and recipient, to ensure sound financial management and maximise the impact of every euro**.** Budgetary guarantees, financial instruments and blending operations will become an integral part of the funding toolbox. The MFF will have one EU budgetary guarantee for internal policies, established in the basic act for the ECF and one EU budgetary guarantee for external policies, established in the basic act of the Global Europe Instrument. They will become the delivery vehicle to serve respectively internal policy programmes and the external policy programme. The size of each budgetary guarantee will be defined in the basic acts of the ECF and the Global Europe Instrument. This approach builds on the experience of InvestEU for internal policies, which streamlined the management of budgetary guarantees and financial instruments, as well as on the experience of NDICI-GE for external policies, which brough different forms of EU support under one single programme. Furthermore, it allows to pool technical expertise across the Commission.

The horizontal toolbox of the EU budget will be expanded with a harmonised set of technical rules ('instruction manual') for budgetary guarantees, financial instruments, and blending operations to foster simplification and coherence across the budget implementation. Harmonised technical rules will create a stable framework across the budget and reduce the administrative burden for implementing partners by aligning technical rules for internal and external programmes. Moreover, the manual will contain options for the use of pre-agreed off-the-shelf risk sharing structures to facilitate the roll-out of new financial products (e.g. for equity, guarantees and other risk sharing products), while still allowing for the necessary flexibility to create new innovative products. The open architecture (allowing different implementing partners such as the European Investment Bank Group, the European bank for reconstruction and development, national promotional banks and national development finance institutions) will remain a key aspect of the set-up as it has broadened collaboration and expertise under the current MFF.

Additional incentives will speed up the impact of the EU budget on the ground. Every euro spent from the EU budget should matter. The speed of implementation needs to be increased, reducing outstanding commitments (*Reste à liquider*), which have increased under the current MFF. As such, the proposed MFF Regulation does not include a provision for automatic recommitment of the first tranche of commitments for shared management programmes in case of late adoption, to provide clear incentives to finalise the implementation of the national and regional partnership plans in a timely manner.[67] With objective-based delivery, funding will be

[67] Article 7 of the 2021-2027 MFF Regulation allowed to reprogramme one full year of commitments (about EUR 50 billion) to the following years.

disbursed to authorities implementing the plans for the completion of pre-agreed concrete steps (milestones and targets). Such gradual disbursement incentivises faster implementation every step of the way. Similarly, faster implementation will be supported with a combination of reforms and investments under the plans, with reforms guaranteeing more optimal investment conditions fostering further impact of the EU budget. Within the Connecting Europe Facility, the "use it or lose it" principle, where delays in implementation may lead to project promoters losing funding of future years, will continue to guarantee an efficient use of the EU budget, along with strong incentives for fast implementation. This in turn increases the performance of the EU budget and maximises its impact. For budgetary guarantees, following the example of the Ukraine Facility, gradual granting of the guarantee will be applied across the board to foster flexibility to choose the relevant policy tools (grants, budgetary guarantees, financial instruments or a combination of those) and to create clear incentives for the implementing partners.

Co-financing can provide a substantial leverage of EU funds. This will be particularly relevant in the national and regional partnership plans and the Connecting Europe Facility. For the ECF and other programmes, the applicable co-financing rules will be set at the level of programme or work programme taking the degree of market failures or sub-optimal investment situations into account in a proportionate manner and ensuring clear EU value added, to maximise flexibility during the programme's implementation and ensure co- financing is tailored to the needs of the projects.

The recent reform of EU fiscal governance provides an opportunity to increase coherence between EU spending, EU priorities and national spending. The revised fiscal governance framework excludes expenditures on national co-financing from the calculation of the growth in net expenditure. This provides an opportunity to decouple EU funds' implementation from Member States' fiscal consolidation and improve the coherence between national and Union cofinancing on investments of common interest.

The future national and regional partnership plans will allow the European Commission, Member States and regions to align investment and reform priorities. Ensuring consistency between EU and national and regional investment priorities is crucial to maximize the impact of funding. The national and regional partnership plans will help aligning policy priorities, regulatory frameworks and implementation processes, in order to crowd in additional resources from national and regional governments as well as the private sector. The plans will integrate a place-based, multi-governance approach, putting regions at the centre.

3.4 Coherence and synergies among programmes

To enhance coherence, create synergies, and allow the funding to be delivered where it can have the most impact, the rules of EU instruments will be aligned from the start. For example, cumulative funding will also allow to combine different sources of EU funding where it is warranted, for instance for large projects where a single instrument will not be able to mobilise amounts commensurate to the needs. Moreover, Member States will be able to include via milestones and targets, contributions to the ECF investment guarantee (Member State compartment).

A new steering mechanism will reinforce the link between overall policy coordination and the whole EU budget. It will facilitate the identification and political discussion on key priorities to be financed for the following financial years. The steering mechanism will develop along the annual budget procedure and will allow the EU budget to be more flexible and to respond to a fast-changing reality and new Union priorities. On that basis, the Commission will engage in a dialogue with the European Parliament and the Council, in accordance with their respective internal procedures, on political priorities for the upcoming annual budgetary procedure. Such strengthened cooperation is necessary especially given the greater flexibility to address evolving needs proposed in the MFF. It will lead to a more substantial and meaningful budgetary procedure as compared to the current MFF where around 90 % of funds were pre-allocated from the outset.

3.5 Protection of the Union budget

Building on the lessons learned from the implementation of EU funds, the management, control and audit framework of the national and regional partnership plans will aim at providing the Commission with strong assurance that the funds have been used for their intended purpose, in line with applicable law, sound financial management principles and the Commission's overall responsibility for the management of the EU budget (article 317 TFEU).

Key requirements of the management and control systems of the Member States, including on the prevention, detection and correction of cases of fraud, corruption and conflicts of interests as well as on compliance with public procurement and State aid rules, will be clearly defined ex ante and will have to be met throughout implementation. These requirements will reflect the expected key components of the national control system and should enable a maximum use of existing structures already in place for the management of EU funds, with possible adaptations of their procedures to ensure adequate assurance. Before approving each plan, the Commission will assess whether Member States have adequate arrangements in place to comply with these requirements and ensure the protection of the Union's financial interests. In case serious deficiencies are identified, Member States will have to take corrective action before payments can be undertaken.

Similar to the approach applied so far, the level and intensity of controls will be tailored to the delivery model of the instrument and based on clear sequencing and division of duties between the Commission and Member States. In line with the single audit principle, Commission audits will first and foremost consist of systems audits to avoid duplications of controls and audits and reduce the administrative burden, thereby addressing demands for simplification and predictability. These audits will verify that the systems in place in the Member States are appropriate, reliable and function effectively. The system will allow that each layer will be able to build its assurance on the layer below, if the lower layer meets certain pre-conditions. The Commission will however retain the possibility to conduct more targeted checks, for instance in case of a specific risk or suspicion of fraud, corruption or conflicts of interest or a serious breach by the Member State of its obligations, and act in a timely and proportionate manner if deficiencies have not been properly addressed by Member States.

Respect for the rule of law will continue to be a must for EU funds. Compliance with the principles of the rule of law and the Charter of Fundamental Rights of the European Union will therefore be ensured throughout the implementation of the national and regional partnership plans with a view to ensuring both continuity with current practices and greater coherence in the EU action. Building on features of the CPR and the RRF, this will allow to address issues before resorting, if needed, to the Conditionality Regulation, which will continue to apply to the entire EU budget. There will be a possibility to block part or all payments at any time during implementation and in line with the principle of proportionality, considering the nature, duration, gravity and scope of the identified breach.

The Plans will also seek to support reforms that strengthen the rule of law in Member States and measures protecting Europe's democracy by building, in particular, a closer link between the recommendations in the annual Rule of Law Report and financial support for related reforms under the EU budget.

Regarding direct and indirect management, since the implementation modalities will remain very similar to those under the MFF 2021-2027, the management, audit and control framework will be a continuation. The Commission will nevertheless pursue its simplification objectives here as well, namely by reducing the number of rules, clarifying and harmonising. In parallel, it will continue adjusting its control and audit approach so that, while ensuring the sound financial management and protection of the EU budget, the weight of controls remains limited.

3.6 Inflation

Against the background of more uncertain geopolitical and geoeconomic developments, and to remove rigidities that have a negative impact on the EU budget in case of a volatile economic environment, it is proposed to introduce a novel price adjustment method. MFF ceilings will be defined in 2025 prices, and the annual adjustment is based on a fixed but adjustable deflator. In practical terms, the annual price adjustment will be equal to 2% whenever EU inflation is between 1% and 3%, and equal to the actual inflation rate whenever actual inflation is lower than 1% or higher than 3%. The inflation rate of reference will be the EU-27 GDP deflator. This is preferrable to the harmonised index of consumer prices (HICP) since (i) conceptually, the GDP deflator refers to the full set of goods and services produced by the economy, whereas the HICP is based on a (theoretical) basket of goods and services consumed by the average consumer and (ii) the GDP deflator is less volatile than the HICP. Had this system been in place in 2014-2027, the MFF adjustment would have been lower in 2 years, higher in 3 years and the same for the remaining 9 years (Figure 3.2).

Figure 3.2. Counterfactual analysis: the fixed-but-adjustable deflator in 2014-2027

Source: AMECO and European Commission calculations

3.7 Revenues

To support an ambitious MFF that responds effectively to the Union's strategic priorities, new own resources are essential. They should have a significant revenue potential, not create excessive burden for compliance and administration, and be in sync with the Union's objectives and policies. In addition, it should be possible to mobilise them quickly. New own resources will reduce the burden on Member States, and ensure the sustainability of common policies, in particular the repayment of NextGenerationEU debt without reducing the ambition when it comes to financing both new challenges and traditional policies and priorities. The Commission put forward proposals in 2021 and 2023 to introduce new own resources, but so far with limited success. These proposals were in line with the Interinstitutional Agreement of 2020, negotiated with the current MFF. According to this agreement, the expenditure from the Union budget related to the repayment of NextGenerationEU should not lead to an undue reduction in programme expenditure or investment instruments while mitigating the increases in the GNI-based own resource for the Member States.

Existing own resources and other revenue could also help reduce the need for national contributions from Member States. The removal of the *de minimis* exemption for customs duties on small shipments will contribute to this objective. In addition, for traditional own resources, the amount retained by Member States to cover the collection costs of customs duties should be reduced, in view of the improvements brought by the customs package. Additional other revenue could be generated by adjusting existing fees such as for the European Travel Information and Authorisation System (ETIAS) or introducing new ones related to Union policies, where appropriate, such as the e-commerce handling fee.

4. A policy-based Multiannual Financial Framework

The proposal for the next MFF establishes the future long-term budget for a period of 7 years, in line with the requirement of Art. 312 of the Treaty on the Functioning of the European Union of a duration of at least 5 years. Confirming the 7-year duration, in line with all previous long-term budgets since 1993, ensures stability and predictability of Union financing, especially concerning long-term investments. At the same time, the increased flexibility provisions, also discussed in Section 3, provide for the necessary adaptability of the EU budget within such long duration.

This section briefly discusses the architecture of the sectoral programmes in the proposed MFF 2028-2034. Detailed analysis supporting the sectoral proposals is provided in the respective Impact Assessments and ex-ante evaluations accompanying the proposals.

4.1 National and regional partnership plans for investments and reforms[68]

Reinforcing Europe's economic, territorial and social cohesion and investing in people will remain key priorities as Europe is only as strong as its citizens are empowered. European integration has contributed to upward convergence in living standards throughout the decades. However, significant territorial disparities persist**:** 29% of EU citizens live in regions with a GDP per capita below 75% of the EU average. About 135 million people live in places which, in the last two decades, have slowly fallen behind.[69]

[68] Further detail is provided in the Impact Assessment accompanying the proposal for the National and Regional Partnership Plans.
[69] Letta, E. (2023), Much more than a market – Speed, security, solidarity. Empowering the Single Market to deliver a sustainable future and prosperity for all EU Citizens.

At the same time, food security and nature protection sustain Europe's quality of life with the Common Agricultural Policy (CAP) able to guarantee that 450 million Europeans have access to safe, high quality and diversified food products at affordable prices, while contributing to preserve vibrant rural areas and make significant progress towards sustainability. Yet, long-term risks for food security and the effects of climate change and environmental degradation put the agricultural sector under increasing pressure. In addition, farmers, fishers and rural areas are increasingly affected by unfair global competition, higher energy prices, a lack of younger farmers and fishers and difficulties in accessing capital. For example, despite the substantial support from the CAP, the agricultural income per worker remains volatile and significantly below the average wage in the EU economy (60% in 2023).

War, insecurity, poverty and a lack of opportunities have strengthened migration flows, and the weaponisation of migration at the EU borders has illustrated new forms of threats. At the same time, the global political and economic landscape poses challenges of unprecedented magnitude, with war still raging on the European continent and also in the neighbourhood. The national and regional partnership plans will ensure that the EU's support to migration, border management and security challenges is tailored to the needs of each Member State and its regions. At the same time, they are an opportunity to build stronger synergies between migration and cohesion policy, to better equip regions to integrate migrants in the labour market while protecting their borders. The legal specificities of migration, border management and security policies, as reflected in the Treaties with variable geometry is safeguarded through separate Regulations setting out the objectives for Union support, which will be delivered through the plans.

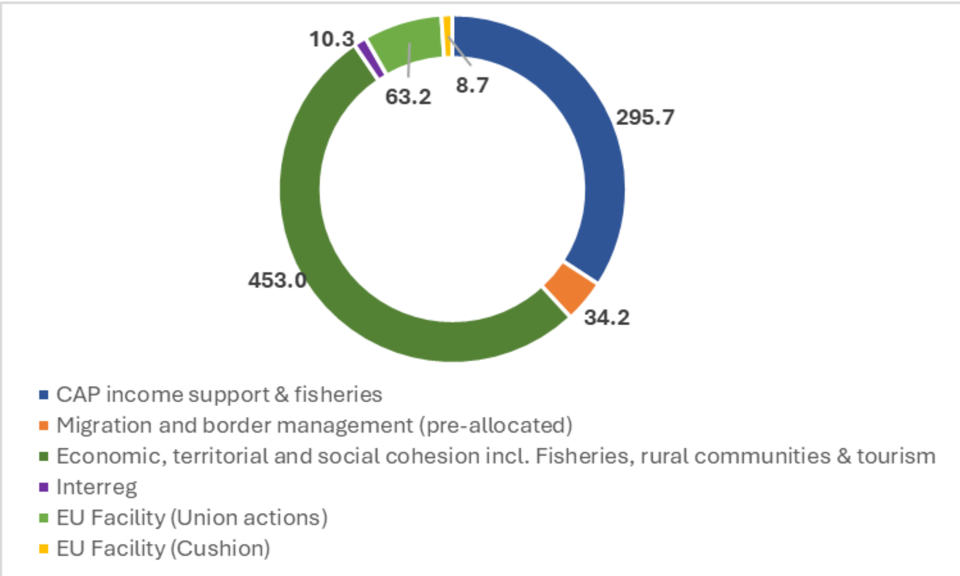
Priorities ranging across social, agriculture, fisheries, climate, environment, migration, security will be delivered through national and regional partnership plans. Each Member State, with close involvement of regional and local authorities and other relevant stakeholders, will be responsible for drawing up their plan and proposing the relevant key investments, reforms and other interventions. This integrated programming will allow for better coordination across policy areas. It will also provide a more tailored approach, reflecting the national and regional needs of each Member State, while ensuring coherent support to all EU policy objectives.

The current several hundreds of programmes adopted within the cohesion policy framework will be subsumed into one national and regional partnership plan per Member State and one Interreg plan. The plan will integrate the dimensions currently covered in the partnership agreement and the programmes, enhancing policy coherence through a single programming exercise and maximising synergies. A single framework will set out the rules governing the plans' funding for pre-allocated envelopes, reducing risks of overlap between frameworks, and massively cutting administrative costs for Member States' authorities and beneficiaries alike. Each Member State, with close involvement of regional and local authorities and other relevant stakeholders such as social partners and civil society organisations, will be responsible for drawing up their plan and for proposing the relevant key investments, reforms and other interventions, which could be organised in thematic/sectoral and/or regional chapters.

The preparation of the plans will take into account the findings of the steering mechanism (as discussed in Section 3.4), which will link EU priorities with the EU budget. The main challenges that Member States face in all relevant policy areas will be identified in country-specific recommendations, as well as other relevant documents for the concerned policy areas. This will contribute to ensuring that the reforms, investments and other interventions supported in the plans address common priorities and hence have a strong EU added value – while, at the same time, ensuring these are tailored to each Member States' national and, where relevant, regional needs. A social target of 14% will apply to National and Regional Partnership Plans.

In line with the partnership principle and multi-level governance arrangements, regions and other territorial and local actors, including civil society, and specific sectors will remain at the centre of the plans. Like in cohesion policy today, Member States could choose to have regional/territorial chapters, similar to an operational programme, in accordance with their constitutional, legal and administrative setting or preference, as well as thematic/sectoral chapters. The plan should also specify how responsibilities, including the delivery model and following payments, are shared among different levels of government. Hence, while there would be one coordinating authority in each Member State, other authorities, such as regional and other relevant managing authorities, implementing bodies, would be in charge of the implementation of specific regional or thematic/sectoral chapters. Monitoring committees will be established to examine progress in implementation, approve amendments to the relevant chapters of the Plan, identify issues affecting performance, monitor compliance with overarching principles, the administrative capacity and the effectiveness of the partnership set-up. Managing authorities will not be affected by possible delays or incomplete implementation of reforms at national level, as the Plan will set out the amount which is due to them, for every milestone and target, regardless of how implementation progresses on national reforms. This ensures that no entity is penalised for something that they are not in control of.

Figure 4.1. National and regional partnership plans: pre-allocated amounts and EU Facility



The experience gained over the years with EU funds with nationally pre-allocated envelopes has shown that there is a need to complement national and regional programming with funding at EU level (Figure 4.1). This is important both to deliver on areas of high EU added-value, that are not necessarily prioritised by Member States (e.g. cross-border or multi-country projects, such as Important Projects of European Common Interest, with higher coordination efforts) as well as to cater for uncertainty, with a number of new needs and priorities likely to arise during the programming period. To combine the predictability of planned investments in the plans, with the flexibility and agility needed to respond to new issues, an EU Facility will complement funding at national and regional level. Through the "Union actions" strand, the Facility will support projects with a high EU added-value to be implemented throughout the programming period and provide additional support to Member States in the event of e.g. natural or man-made disasters, market disturbance in the agricultural sector or increased migration flows. An "emerging challenges and priorities" cushion will provide additional room of manoeuvre to respond to new crises and priorities that may emerge during the programming period.

Building on the positive experience of the thematic facilities of the home affairs funds, it will be possibly to rely on all three management modes depending on the needs. From a budgetary standpoint, the EU Facility will simplify the current budgetary landscape, by consolidating the tools and instruments used to achieve these objectives and reducing the number of instruments "over and above" the MFF ceilings.

4.2 Competitiveness, Defence and Single Market

4.2.1 The European Competitiveness Fund and Horizon Europe supporting strategic investments[70]

A European Competitiveness Fund (ECF) is proposed to pool capacity at EU level for investment in strategic technology sectors. The fund will merge 11 programmes[71] in an investment facility under direct and indirect management into a single governance framework. This investment impulse should benefit the entire Single Market – from AI to space, from clean tech to biotech. The Fund will be structured into four vertically integrated sectoral windows: clean transition and decarbonisation; resilience, defence industry and space; digital leadership; health and bioeconomy. Each window could support project needs along the entire investment journey – from applied research to innovation and manufacturing, through a tight connection with **Horizon Europe**.

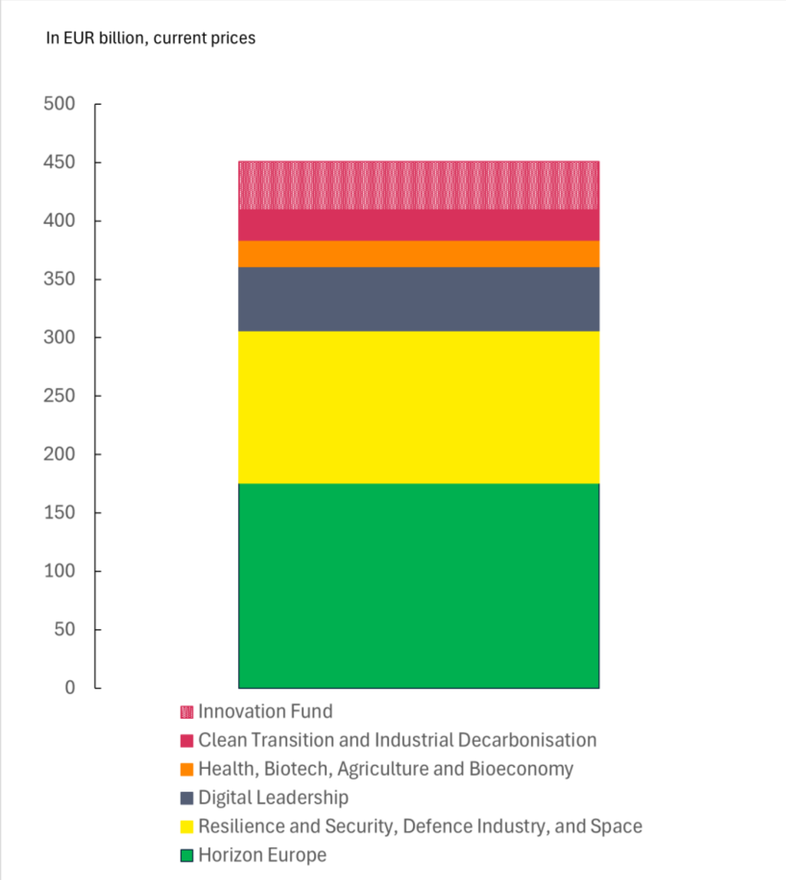
The Fund will select the best cutting-edge projects. The identification of funding priorities and projects will be underpinned by: (i) a robust methodology to assess EU needs and areas where EU action adds value to national action, l; (ii) a consultation with a stakeholder advisory board attached to the Fund and composed of investors and research/start- up/industry experts to gather input from the private and research sector, as well as the use of independent experts in selection processes to ensure excellence is a core selection criteria. Project selection under both the ECF and Horizon Europe will be driven by excellence with a view to select the best projects across the EU to improve overall competitiveness in terms of research, innovation and reduction of strategic dependencies of the EU as a whole. This will boost the

[70] Further detail on Horizon Europe and the European Competitiveness Fund is provided in the Impact Assessment accompanying the Regulation.

[71] Digital Europe Programme, Connecting Europe Facility – Digital, European Defence Fund, ASAP, EDIRPA, European Defence Industrial Programme, European Space Programme, Union Secure Connectivity-IRIS²·, parts of the LIFE programme and of EU4Health, InvestEU.

innovation and competitiveness profile of the EU, benefit value chains across the EU and scale up the Union's standing as an industrial leader.

Figure 4.2. European Competitiveness Fund: distribution among policy windows



Note: amounts for the ECF four policy windows include the ECF InvestEU instrument

To explore all possible venues to improve European competitiveness, the ECF will provide a structured framework for targeted experimentation by the Commission in the award and implementation of Union funding, in particular to better target and accelerate Union award procedures and simplify and accelerate their implementation. This should allow, within a concretely defined frame, to specify on a case-by-case basis certain actions or categories of actions to benefit from certain additions, derogations and exceptions from other Union law and tests the impact in a real-world environment for the limited period of the duration of the ECF and ensuring that appropriate safeguards, in particular a common European interest, are in place.

The ECF and Horizon Europe will be tightly connected ensuring a seamless flow from fundamental research to applied research, scale-up, manufacturing and deployment. Common rules would cover timelines and tools offering the best support to project promoters – while allowing specific measures to be taken, if necessary, under certain windows (e.g., restricting eligibility or procurement rules for security reasons). The common architecture under the ECF and Horizon Europe will allow the setting policy priorities around common policy clusters to effectively target support from early research to manufacturing and deployment, including infrastructure and specific skills. This will be done via the development of integrated work programmes for each policy window covering the entire investment journey per sector, from applied research to deployment, allowing a more strategic support.

The European Innovation Council within Horizon Europe, will support innovative start-ups and SMEs, with a focus on promoting disruptive innovation both in a bottom-up and top-down manner, and will be strongly interlinked with the ECF with priority funding areas stemming from the policy windows of the European Competitiveness Fund. The ECF and Horizon Europe will thus offer a seamless investment journey for project promoters.

Research will continue to be at the heart of Horizon Europe. It will continue to rely on a successful bottom-up approach and thereby preparing the future engines of growth and of technological leadership Horizon Europe will be simplified and refocused to strengthen the EU's scientific and technological bases, with reinforced financing for excellence-driven disruptive research and innovation, e.g. via the European Research Council (ERC) and Marie-Sklodowska-Curie Actions (MSCA).

The ECF will feature a standardised toolbox of financing tools to tailor the best funding solution to each beneficiary, the ECF Investment Instrument. The ECF investment instrument will bring together all funding instruments include grants, financial services such as equity, guarantees, loans, and procurement and be open as a horizontal service to all policy windows of the Fund. Synergies with other programmes will be ensured, thanks to a more integrated approach at strategic level and at operational level, under which the ECF will serve as delivery tool for all internal policy programmes using financial instruments and budgetary guarantees. A Competitiveness Hub would support cross cutting activities enhancing investment opportunities, identification and development and bankability of projects made in Europe across strategic areas (e.g. advisory services, dedicated support to SMEs). As such, the Fund will become a catalyst to crowd in private investment, so that each public euro spent makes a difference in de-risking investments in strategic value chains or strategic technologies. The Fund will also provide support to public-private partnerships including Important Projects of Common European Interest (IPCEIs).

Cross-border infrastructure projects related to energy, transport and military mobility are essential to improve EU competitiveness, security and to reduce strategic dependencies. Investment needs in EU's energy infrastructure are expected to grow: total needs in energy infrastructure for electricity[72], hydrogen and CO2 amount to EUR 570.57 billion from 2028 to 2034.[73] The expansion and upgrade of energy infrastructure is an essential condition for the uptake of the generation and consumption of renewable energy and thus avoid congestion and disruption problems with negative consequences for energy prices and for economic activity. Within investment needs, those related to electricity distribution are the largest. In the area of transport (both civilian and dual-use), the investment needs associated to the realisation of the TEN-T core network by 2030 are estimated at around EUR 515 billion.[74] Implementing the new TEN-T

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[72] This category includes national electricity transmission, electricity transmission lines with a significant cross-border impact, transmission lines related to offshore generation, distribution networks and electricity storage.
[73] European Commission: Directorate-General for Energy, Artelys, LBST, Trinomics, Finesso, A. et al., *Investment needs of European energy infrastructure to enable a decarbonised economy – Final report*, Publications Office of the European Union, 2025, **https://data.europa.eu/doi/10.2833/8232521**.
[74] TEN-T Coordinator's position paper | Mobility and Transport (europa.eu).

requirements for the core network and completing the extended core network will require up to EUR 330 billion until 2040. Investments in military mobility have become even more urgent with Russia's war of aggression against Ukraine, and urgent to fast-forward capacity increases. Overall, investments in cross-border infrastructure also have an important external dimension as EU security corridors related to energy, transports and raw materials should not stop at the EU border.

A re-focused Connecting Europe Facility (CEF) will cover energy, transport and military mobility projects with a strong cross-border dimension. Its scope will be focused on those essential projects with a strong cross-border impact which are absolute top priority in the coming years for the completion of the TEN-T and TEN-E networks, as well as seamless military mobility, and which require due to their complexity a dedicated intervention logic.

Synergies will be better exploited with other EU funds. For example, to complement CEF investments, Member States could use their national and regional partnership plans to invest in the completion of all parts of the TEN-T and TEN-E networks, in particular national TEN-T sections which connect to the cross-border links, as well as national energy grid infrastructure and generation. Synergies with transport and energy projects in Horizon Europe and the ECF will also be ensured. The CEF, ECF as well as National and Regional Partnership Plans and the new UCPM will further contribute to the resilience of critical EU infrastructure – for energy, transport, digital and space in particular.

The EU will remain at the forefront of research for the nuclear energy of the future, in particular fusion. The new Euratom Research and Training programme will provide the EU's contribution to ITER, support nuclear research, innovation and safety, and maintain and further develop expertise and competence in the nuclear field. The programme further confirms the EU's commitment as a lead contributor to the ITER project.

4.2.2 Defence

The increase in global instability and Russia's war of aggression against Ukraine require large investments to reinforce defence in EU Member States. Decades of underinvestment, combined with the structural cost escalation characteristic of the defence sector, have exerted a profound negative impact on the European Defence Technological and Industrial Base (EDTIB). The defence spending of the EU and its Member States has increased by only 40% between 1999 and 2023, against 68% in the US, 523% in Russia and 651% in China.[75] While EU Member States that are also NATO members have committed to spending at least 2% of GDP on defence, some have not yet reached this target, leading to a cumulative defence spending gap by EU Member States of approx. EUR 1 250 billion over 2006-2022.[76] The cuts in defence investment spending were even more important. In addition, cooperative defence R&D among EU Member States is still well below the target: only 18% of defence equipment spending in 2021[77] was devoted to EU collaborative procurement, well below the 35% collective benchmark[78] set by the Member States. The EU Member States' demand for

[75] Source : SIPRI.
[76] Calculations based on EDA defence data.
[77] European Commission, A new European Defence Industrial Strategy: Achieving EU readiness through a responsive and resilient European Defence Industry, JOIN/2024/10 final, 2024.
[78] Established by the EDA Ministerial Steering Board in 2007.

defence equipment, despite recent growth, remains thus fundamentally fragmented, depriving the EDTIB of the benefits of a truly functioning EU defence market.

As global security threats are on the rise amid growing geopolitical tensions, support to defence is one of the priorities of this MFF proposal. Strengthening defence in the EU requires an effort both on the demand side (Member States' buildup of their defence and military capabilities) and the supply side (EU defence industry competitiveness). On the demand side, the ReArm Europe plan is providing a boost to Member States' defence expenditure through (i) activation of the national escape clause of the Stability and Growth pact and (ii) loans backed by the EU budget with the Security Action for Europe (SAFE) instrument. The next MFF can provide a significant boost on the supply side, fostering the competitiveness of EU defence industry while ensuring strategic autonomy, in particular through the European Competitiveness Fund and the national and regional partnership plans.

The Union support to defence industry under the next EU budget will come mainly from the ECF. Financing for defence in the 2021-2027 MFF increased substantially compared to the past but remained very limited (EUR 11.4 billion for the overall MFF). Moreover, funding remained fragmented. The ECF will provide support to strategic technologies in defence throughout the investment journey, from research to development, manufacturing and deployment, in its defence and space window. The ECF will provide a combination of different forms of support on the supply and demand side (grants, guarantees, financial instruments, etc.), also contributing to de-risk common defence projects and defence innovation, thus facilitating access to private finance for the defence industry, particularly SMEs. In this respect, the ECF might also support Defence Projects of Common European Interest.

Member States will also be able to support defence-related projects via their national and regional partnership plans. The projects will need to contribute, for instance, to one of the following objectives: (i) the competitiveness of the European defence and technological industrial base; (ii) cooperative projects involving several Member States (in synergy with what done under the ECF); or (iii) dual-use (civilian-military) infrastructure investments, in particular in trans-European Transport Networks (TEN-T) sections within national borders. Member States will also have the possibility to finance Important Projects of Common European Interest (including those in the defence area) via their plans.

The support to the supply and demand side of defence will be complemented by infrastructure investments for military mobility under the Connecting Europe Facility (CEF). The CEF will continue supporting dual-use infrastructure investments in the TEN-T, to support the transport of troops and equipment via railways, roads, airports, maritime ports, inland waterways and multimodal terminals. Unlike the 2021-2027 MFF, where military mobility was placed in a separate MFF heading with limited possibilities for redeployment and reinforcements, the simplified design of the 2028-2034 MFF will increase possibilities to redeploy funds across CEF strands in case of need.

Finally, the European Peace Facility (EPF) will remain as an off-budget instrument, in line with the requirement of the Treaties. The EPF has shown its value in the current period in numerous areas, but especially in supporting Ukraine against Russia's war of aggression. The initial budget of EUR 5.7 billion for 2021-2027 in March 2021 was gradually increased to its current envelope of EUR 17 billion.

4.2.3 Single Market[79]

Completing the Single Market requires investments to implement and enforce EU legislation, fostering cooperation among national administrations and going forward with the EU Customs reform. The future SMP will support the Customs Union and customs authorities, and provide the necessary financing for the customs reform, including the EU customs data hub.[80] In addition, there is a need to improve the Union taxation systems to protect the Union's and its Member States' economic and financial interest from fraud; and to improve tax collection.

To enhance synergies, efficiency and flexibility while reducing the overall administrative burden, programmes supporting the completion and implementation of the single market will be bundled. A modernised Single Market Programme+ (SMP+) will expand its current scope, by merging with the Fiscalis, Customs, Customs Control Equipment Instrument and Union Anti-Fraud Programmes. The expanded programme will thus support: (i) flanking measures necessary to the correct functioning of the Single Market (e.g. standardisation measures; European Statistics); (ii) EU-wide investments to support cross-border administrative cooperation (such as common IT tools for custom and tax authorities); (iii) Anti- Fraud measures. As such, Internal market, market surveillance, standardisation, competition, consumer protection, company law, custom, taxation and anti-fraud initiatives supported by the EU budget will be covered by a single regulation, with one set of legal and institutional requirements for all activities. This approach aims at reducing the fragmentation observed in the current legal framework ranging from diverse rulebooks to overlapping programmes, which can lead to EU funding not reaching the right beneficiaries at the right time.

Consumers, businesses and administrations will benefit from simpler access to better information with funding channeled via the new Single Market Programme+. This will include central (EU-level) digital solutions, interoperable EU-wide digital portals and tools. The flexibility offered by a single rulebook allows to better address in an agile manner complex and emerging challenges affecting the production and dissemination of information.

Cooperation between national administrations and with the Commission will be enhanced via the SMP+. Supporting capacity-building will reduce administrative burden on national administrations and stakeholders, inter alia by simplifying procedures (faster and digitalised procedures). The SMP+ will focus on simplified rulemaking and uniform interpretation, harmonised EU and international standards in order to develop an effective enforcement at EU level.

To improve policy synergies, some of the actions currently covered by the Single Market Programme will be moved under the umbrella of other programmes. The SME competitiveness strand of the 2021-2027, which focuses on facilitating access to markets, promoting entrepreneurship and entrepreneurial skills as well as the modernisation of

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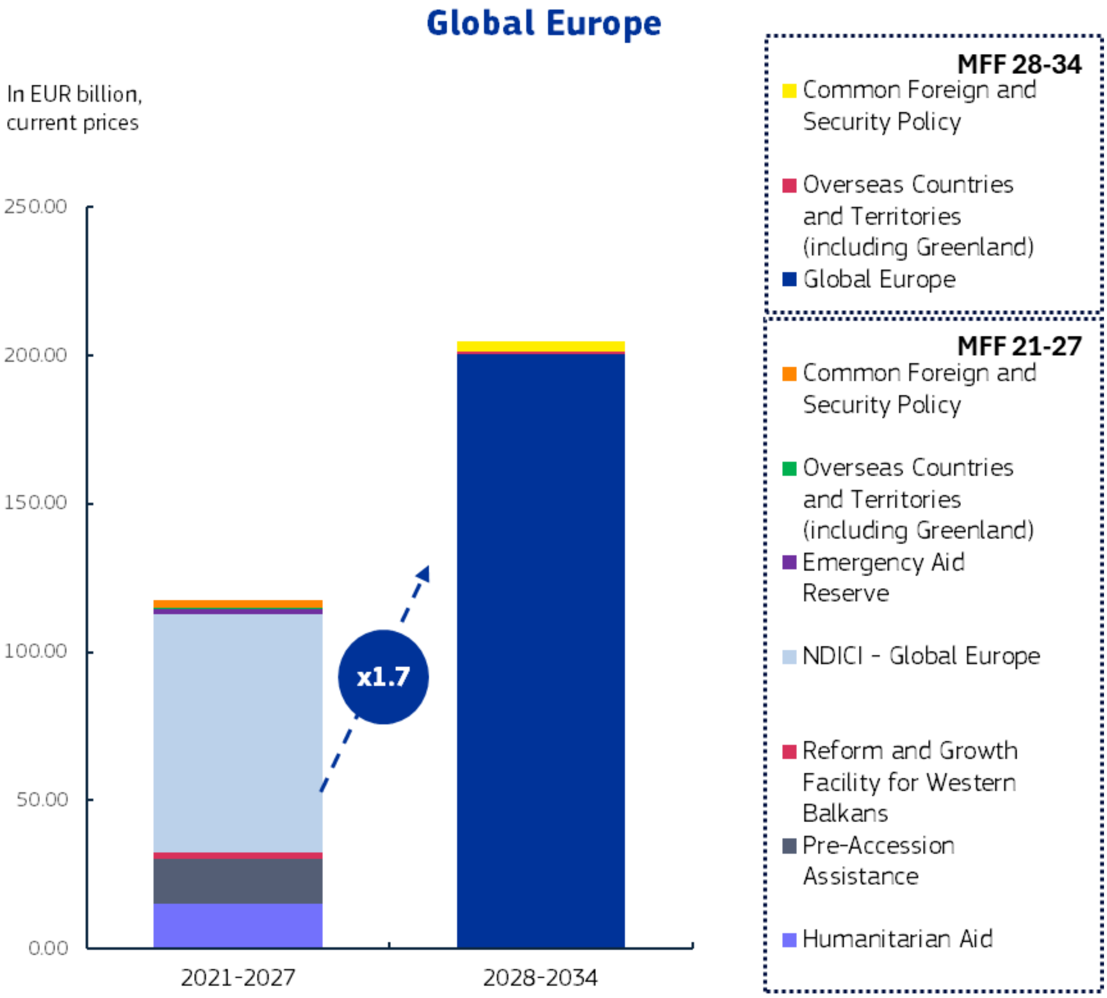
[79] Further detail on the Single Market Programme+ will be provided in the Impact Assessment accompanying the Regulation.

[80] Proposal for a Regulation of the European Parliament and of the Council establishing the Union Customs Code and the European Union Customs Authority, and repealing Regulation (EU) No 952/2013.

industry, is covered by the ECF. Given the synergies between the food safety strand and actions supported by the CAP, actions relating to food safety will be addressed through the EU Facility of the national and regional partnership fund.

4.3 Stronger financing for a global Europe

4.3.1 Global Europe [81]



In light of unprecedented instability at global, continental and regional level, the stakes for the EU's geopolitical ambition are higher than ever. In its external action, the EU operates in a highly volatile and unpredictable environment, characterised by geopolitical rivalry, armed conflicts, humanitarian emergencies, geoeconomic competition, strategic dependencies, competitiveness challenges, the worsening triple planetary crisis of climate change, biodiversity loss, and pollution, and increasing global fragility.

New global realities call for the EU to revamp its framework of international cooperation by shaping a new EU economic foreign policy. The EU should move away from programme- based financing to a policy-based approach through tailor-made partnership

[81] Further detail on the Global Europe Instrument is provided in the Impact Assessment accompanying the Regulation.

offers that are based on mutual interests. The EU needs external action financing instruments that effectively advance the EU's strategic interests and needs of EU's partners, while being responsive to evolving priorities and crisis situations.

To pursue its economic foreign policy agenda and to address the increasingly uncertain geopolitical environment, Global Europe aims at:

(1) increasing efficiency and impact by creating a common policy toolbox with tools to be deployed depending on objectives and circumstances,
(2) striking the right balance between flexibility and predictability mobilising both structural and crisis policy tools,
(3) better targeting external action financing to our partners, with integrated tailor-made partnership packages,
(4) advancing policy coherence and the EU's strategic interests by linking internal priorities with external action objectives.

Global Europe will optimise, consolidate, and streamline EU external action financing. To this end, the current standalone external financing instruments[82] will be merged into one instrument removing the financial and operational barriers between them. Global Europe will incorporate indicative allocations into the following pillars: i) Europe; ii) Middle East, North Africa, and the Gulf; iii) Sub-Saharan Africa; iv) Asia and the Pacific; and v) Americas and the Caribbean, as well as a Global Pillar for actions that are inherently global in reach.

All external action policy tools will be at the EU's disposal to target our support to each macro-region. Global Europe will enable the EU to deploy the right combination of policy tools designed to respond most effectively to evolving foreign policy objectives and specific needs of EU's partners.

To ensure predictability for implementing partners and beneficiaries, the instrument will include structural policy tools to continue multiannual cooperation programmes with partners, the development of investment strategies under Global Gateway, engagement on socio-economic, migration, security interests and, where applicable, technical assistance for pre-accession. Global Europe will also embed crisis policy tools[83] that can swiftly respond to crises and urgencies on the ground.

Global Europe will enable EU external action funding to be channelled flexibly, effectively, and swiftly. The EU will be able to reallocate funding between policy tools and geographies when needs on the ground emerge or political priorities evolve. Unprogrammable resilience actions should enable the Union to step up its cooperation where needed in light of the volatility of the external context to flexibly respond and reinforce actions addressing multitude of challenges. Competitiveness non-programmable actions will enable the Union to respond to economic challenges and swiftly seize opportunities to support Union competitiveness. Allocations for an overall cushion would be retained allowing to boost funding in case of emerging needs or new priorities across Global Europe and the toolbox.

[82] Instruments: NDICI-Global Europe, IPA III, various Facilities (Ukraine, Western Balkans, Moldova), macro-financial assistance, as well as humanitarian aid funding.
[83] Such as Humanitarian Aid, macro-financial assistance, and crisis, peace and foreign policy needs.

To advance EU strategic interests and target external action better, the EU will offer comprehensive mutually beneficial partnership packages. The packages will be tailor-made for partners, mobilising the appropriate set of policy tools to maximise EU impact on the ground and improve visibility and understanding of EU external action.

At the same time, Global Europe aims to optimise the alignment between internal priorities and external action. It will advance a new European Economic Foreign Policy, strengthening the alignment with EU internal priorities, such as economic security and competitiveness, energy security, migration, climate, connectivity, and access to critical raw materials[84]. It will also crowd in more support from International Financing Institutions and the private sector.[85]

4.3.2 Enlargement

Enlargement is a geostrategic investment in peace, security, stability, and prosperity,[86] as well as an economic and geopolitical imperative. Accession to the EU will always be a merit- based process and each candidate will be assessed on its own progress towards meeting all criteria.

Enlargement candidates will be able to benefit from the entire toolbox of Global Europe, in particular technical pre-accession assistance and policy-based assistance to help them progress on their respective reform agendas.[87] This will strengthen the coherence of EU support to enlargement candidates, substantiate the EU's commitment to welcome new members, and leverage the EU financial firepower to foster reforms in the region.

4.3.3 Ukraine

Ukraine's medium and long-term needs remain a top priority for the Commission and a constitutive element of the next MFF proposal. From support in the accession process to longer-term reconstruction, the EU will provide support to Ukraine for as long as it takes. The support will be implemented under the geographic pillar of Global Europe and sourced from a special dedicated Ukraine Reserve over and above the MFF ceilings. This will anchor Ukraine into the pre-accession policy framework supported by the instrument while ensuring sufficient resources to deal with the unpredictable and extraordinary needs of a country at war.

The Ukraine Reserve will have a capacity of up to EUR 100 billion, to be provided to Ukraine over the 7-year period in grants and loans. The construction of the Ukraine Facility allows for full flexibility in the split between loans and grants, given the uncertainty in terms of needs on the ground.

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[84] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions 'A secure and sustainable supply of critical raw materials in support of the twin transition', COM(2023) 165 final.
[85] Over half of the respondents to the open public consultation on the MFF funding for external action also thought that loans, grants and guarantees would produce better results in the beneficiary countries compared to the use of grants alone.
[86] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, '2023 Communication on EU Enlargement Policy', COM (2023) 690 final
[87] Policy tools include technical pre-accession assistance, policy-based assistance, humanitarian aid, investments under Global Gateway, MFA, and crisis response actions.

4.3.4 Other programmes in external action

The future EU budget will continue supporting the Common Foreign and Security Policy (CFSP). CFSP finances (i) various types of civilian Common Security and Defence Policy (CSDP) missions; (ii) EU special representatives around the world; and (iii) actions related to non-proliferation and disarmament, implemented through agreements with international organisations. Civilian CSDP missions and EU special representatives are often deployed in the same regions where international cooperation programmes are active, ensuring strong synergies in external action.

Support to Overseas Countries and Territories (OCTs) will continue to be covered by a separate instrument under the next MFF. The OCTs, with special attention to Greenland, are of high political and strategic importance to the EU as a whole. Despite being small in either size or population, they play a vital role as strategic outposts of the Union in their geographical areas.

4.4 Cross-border education and skills, culture, media and values[88]

EU funding in the area of cross-border education, solidarity, culture, media and values contributes to strengthen societal resilience and support a vibrant, value-based Union also by fostering mutual understanding within our societies. The impact of EU funding in this area is tangible: despite the negative impact of the COVID-19 pandemic, Erasmus+ supported learning mobility abroad of around 1.6 million in 2021-2023, helping to increase their skills and competences. The European Solidarity Corps programme involved over 63,000 participants over the same period. Seven out of ten tickets sold for non-national European films in the EU is directly attributable to support from the MEDIA strand of Creative Europe.[89] The Citizens, Equality, Rights and Values programme occupies a space in the funding landscape for Civil Society Organisations that would otherwise be vacant.

However, limited flexibility, the multiplication of instruments, and differences in the legal provisions have prevented synergies among EU programmes in this area. Coordination within and across programmes is hampered by a lack of common operational frameworks - with aligned criteria, funding rules, and implementing tools (e.g. work programmes[90], consistent third country participation, monitoring and reporting indicators). Different programme committee structures, each governed by their own rules and procedures, adds to the complications of coordination[91]. For cross-border education and skills, fragmented EU support limits impact, coordination, and scalability. In specific cases, a more coordinated funding approach is needed between European and national funds. The next MFF provides for an opportunity to structurally improve synergies.

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[88] Further detail on the proposal for this policy area is provided in the Impact Assessment accompanying the Regulation.

[89] Admissions for non-national European films in Europe and in largest ten non-European markets: The targets of 71 million tickets in Europe and 85 million outside were each exceeded (95 and 88 million); SWD Interim evaluation of the Creative Europe programme 2021-27.

[90] Mandatory Annual Work Programmes for Creative Europe and multiannual Work Programmes for the CERV programme.

[91] Lack of alignment in funding rules and criteria as well as the absence of a common operational framework is also a barrier to mainstreaming horizontal provisions for equality and inclusion.

The Commission proposes an objective-based consolidation of the existing programmes in this policy area, to ensure at the same time simplification for beneficiaries and strong, continued support in this policy area. Erasmus+ in the next MFF will merge and streamline the actions currently funded under Erasmus+ and the European solidarity corps, enhancing the Union's support to cross-border education and training, youth, sport and solidarity. Support for the media sector, culture, democracy and values will be strengthened in the AgoraEU programme merging the current Creative Europe and Citizens, Equality, Rights and Values. The Justice programme will remain a standalone programme for legal reasons.[92]

The consolidation will simplify access to EU funding while maintaining policy focus and accessibility. It will enhance synergies between the EU programmes financing this policy cluster while maintaining thematic clarity and focus on specific policy areas. Moreover, it aligns with stakeholders' calls for simplification, flexibility, and common rules, and reduces overlaps. In the open public consultation ahead of this MFF proposal, administrative burden and different or complex fund-specific rules were by far the two main obstacles that beneficiaries of EU funds identified as preventing the EU budget from fully delivering on its objectives in these policy areas.[93]

The new Erasmus+ will be the key instrument addressing structural, horizontal, sectoral, and cross-border challenges related to skills in the EU. It will advance the priorities established by the Union of Skills with a focus on long-term skills development connected to competitiveness. This will reinforce the Union's contribution to labour market resilience by offering a more comprehensive approach and a coherent landscape of opportunities for young people, aiming to boost skills and social cohesion.

AgoraEU will support a viable, competitive and pluralistic media and audiovisual space, safeguard cultural and linguistic diversity and heritage and the EU's fundamental rights policy, the rule of law, equality and EU values. Being a single-entry point to all stakeholders active in these policy fields, it will streamline the current architecture and ensure a robust EU response to emerging priorities such as democratic resilience, support to news media or the fight against disinformation. To enhance synergies and improve the transparency of EU funding in this area, the new programme will also incorporate the multimedia actions (currently funded under a prerogative budget line).

4.5 Preparedness

The European Union has been increasingly confronted by different crises, ranging from climate-related disasters to health crises and security threats. These crises have a strong

[92] The legal bases of the Regulation establishing the 2021-2027 Justice programme are article 81(1) and (2) and article 82 TFEU. These articles are part of Title V TFEU, which covers the Area of Freedom, Security and Justice. Denmark has an 'opt out' on decisions made under Title V in line with Protocol No 22 and Ireland can choose to take part in certain measures ('opt-in'), in line with Protocol No 21.

[93] In particular, "administrative burden for beneficiaries" was an obstacle "to a large extent" for 53% of respondents, and "somewhat" for 28.7%. "Different and complex fund-specific rules" were identified as an obstacle "to a large extent" by 50.2% of respondents, and "somewhat" by 29.7%. The full results of the open public consultation are reported in the Impact Assessment accompanying the MFF proposal in the area of Cross-border education, media, culture and values.

transnational and transboundary dimension as they have political, social, and economic effects all over the Union. As a result, they must be managed by means of an integrated, all-hazards approach to crisis prevention, preparedness and response.

The EU's risk landscape is becoming structurally more adverse. Continued environmental degradation, the increasing severity and frequency of extreme weather events and associated economic impacts and emergencies driven by climate change, geological hazards (e.g. earthquakes) and slower- moving phenomena (e.g. sea-level rise, sea temperature rise, glacier melt, desertification) will continue to impact the EU risk landscape. Climate-related disasters drive up economic losses: the average annual cost of disasters has doubled from EUR 8 billion in the 1980s to EUR 16 billion in the last decade. Recent years have seen particularly high spikes, with EUR 59 billion in damages recorded in 2021 and EUR 52 billion in 2022.[94] While climate change affects all Member States, the specific impacts and severity vary widely, contributing to regional disparities between and within countries. Other risks are also on the rise, for instance hybrid attacks, including foreign information manipulation and interference and electronic warfare. Cyberattacks on EU institutions and Member States have surged, doubling in 2024 compared to previous years, as have physical acts of sabotage targeting critical assets.

Strengthening resilience, prevention and preparedness in such volatile risk landscape provides significant benefits. Benefits in cost-efficiency, knowledge-exchange, pooling of resources and improved coordination at EU level from the existing instruments financed by the EU budget are tangible and clear for all countries involved, whether on the receiving or giving end, in civil protection activities.[95] The World Bank recently provided a review of more than 70 investments across Europe, showing that investing in climate resilience, disaster prevention and preparedness provides a benefit typically ranging between 2-10 EUR for every Euro spent. Importantly, many benefits materialise regardless of whether a disaster happens or not.[96]

The 2028-2034 MFF proposal builds on the Preparedness Union Strategy by embedding the "preparedness by design" principle. According to this principle, preparedness and security considerations should be mainstreamed across EU legislation, policies and future programmes. As a result, different dimensions of preparedness and security are covered in different programmes in line with the appropriate policies and implementation modes.

First, a strengthened instrument combining the Union Civil Protection Mechanism and support for health emergency preparedness and response (Union Mechanism) will provide EU-level prevention, preparedness and response across different areas, with increased synergy with health preparedness actions.[97] The anticipation, strategic foresight, and early warning activities that are currently undertaken by different actors at the EU level in a largely disconnected way, will be streamlined under a single programme supporting the Union's action in response to crisis of different nature from the risk assessment to the

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[94] Economic losses from weather- and climate-related extremes in Europe. EEA, Oct 2024.
[95] Independent support study, UCPM Evaluation 2017-2022, ICF
[96] World Bank and European Commission (2021): Economics for Disaster Prevention and Preparedness: Financial Risk and Opportunities to Build Resilience in Europe - Investing in Disaster Risk Management
[97] Further detail on the proposal for the future "UCPM+" is provided in the Impact Assessment accompanying the Regulation.

deployment of response capacities. The Union Mechanism will be characterised by two working modalities: a regular emergency working modality and an exceptional crisis working modality hence ensuring the right balance between the need to have a sufficient margin of manoeuvre to respond to unexpected external shocks - from large-scale natural hazards to complex cross-sectoral threats - and the need to invest in prevention and preparedness including a sufficient stockpiling. It will maximise the EU added value by coordinating the use of European and Member States' capacities resulting in substantial economic benefits. Furthermore, it will optimise the health crisis management by removing the current overlaps existing between UCPM and EU4Health preparedness activities.

Second, prevention, preparedness and response will be supported in the national and regional partnership plans through dedicated reforms and investments. Such reforms and investments will be tailored to each territory's specific challenges and needs. The incorporation of the European Union Solidarity Fund (EUSF), currently a special instrument over and above the MFF ceilings, within the Union actions strand of the EU Facility under the National and Regional Partnerships Fund will maximise synergies with the implementation of the national and regional partnership plans, providing a top-up to national allocations in case of natural or man-made disasters.

The reasons for integrating the EUSF with the national and regional partnership plans are threefold:

- **The EUSF is a medium-term crisis response instrument that complements cohesion policy.** Funding can be used for e.g., repairing non-insurable damaged infrastructure, reconstruction, restoring public facilities, cleaning up of disaster-stricken areas, rescue services, etc. In this respect, the interventions it finances present significant synergies with investments supported in the area of cohesion policy.
- **Support is already implemented in shared management.** The top-up to national envelopes granted via the "Union actions" strand will be channelled to the specific objectives of response/reconstruction.
- **It will maximise the consistency between support for response and investments/reforms aimed at prevention and preparedness.** Currently, when submitting an application, countries have to include a short description of the implementation of EU legislation on disaster risk management related to the nature of the disaster. If there are ongoing infringement procedures in this field, the support may be rejected or reduced. The top-up granted to the national envelopes will be linked to relevant objectives in the national and regional partnership plans.

Third, the European Competitiveness Fund will play a key role in enhancing the EU's preparedness, strategic autonomy and economic security in key areas. These are in particular digital infrastructure and cybersecurity, energy, defence, space and health. In the area of health, the European Competitiveness Fund will complement the future Union Mechanism with regards to scale-up and manufacturing capacity, and in the field of **health security** through support to health promotion and disease prevention, access to medical products, digital transformation of the healthcare systems, health data reinforcement etcetera.

Fourth, actions for preparedness with a global dimension will be supported by the future Global Europe. In third countries, crisis preparedness and response will continue to benefit from humanitarian aid and other tools (e.g. macro-financial assistance).

This new cross-cutting architecture will strongly reinforce the Union's preparedness and will ensure the EU ability to react swiftly, decisively, and collectively to future crises.

Lastly, the next MFF will continue to support the process of nuclear decommissioning and nuclear safety, including via cooperation with third countries. After the completion of the decommissioning of the Kozloduy and Bohunice power plants in 2027, decommissioning of the Ignalina power plant in Lithuania will continue, as well as the decommissioning and radioactive waste management of obsolete Joint Research Centre nuclear research installations. The integration of the current "Nuclear Safety and Decommissioning" programme[98] with the "Instrument for Nuclear Safety and Cooperation"[99] will maximise the synergies between internal and external action in the field.

4.6 Repayment of NextGenerationEU

Under the next MFF, the repayment of NextGenerationEU will start. The Own Resources Decision provides that the NGEU repayments lead to 'steady and predictable reduction of liabilities' in accordance with the principle of sound financial management, with no new net borrowing as of 2027, and no outstanding debt after 2058[100]. A stable repayment profile will provide predictability.

The MFF proposal includes a fixed annual amount (in current prices) for repayment of NextGenerationEU principal and interest. This annuity payment is based on a best effort forecast of borrowing costs and a 100 basis point safety buffer, leading to full repayment within the timeframe set by the Own Resource Decision through a steady and predictable reduction in liabilities. NGEU repayment will be kept under the MFF ceilings. Since interest rate risk will be very limited as of 2028, given that there will not be new net issuances after the end of 2026, the EURI instrument currently placed 'over and above the ceilings' becomes obsolete and is proposed to be discontinued. The separate ceiling of 0.6% of EU GNI under the Own Resources Decision providing guarantee for the repayment of NextGenerationEU remains in place.

The Commission has assessed alternative scenarios for repayment, and the selected option presents several advantages. As the amount is fixed each year (in current prices), it contributes to providing Member States and the Parliament with clear and stable budget planning. The annuity structure implies a natural hedge: if interest rates are higher in a given year than forecasted at the time of adoption of the MFF, the actual repayment in that year will be somewhat lower, whereas if borrowing costs are lower than expected the actual repayment will increase. This option also reduces the expected NGEU reimbursement-related costs under the next MFF (EUR 168 billion) compared to an alternative option of linear repayment[101] of

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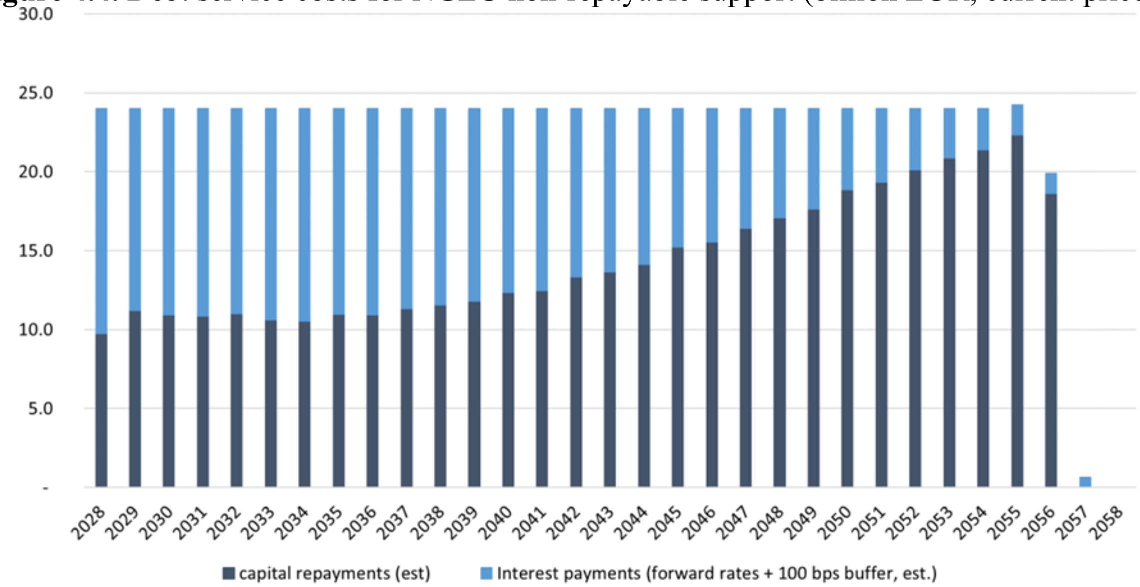
[98] Council Regulation (Euratom) 2021/100 of 25 January 2021 establishing a dedicated financial programme for the decommissioning of nuclear facilities and the management of radioactive waste, and repealing Regulation (Euratom) No 1368/2013.
[99] Council Regulation (Euratom) 2021/948 of 27 May 2021 establishing a European Instrument for International Nuclear Safety Cooperation complementing the Neighbourhood, Development and International Cooperation Instrument – Global Europe on the basis of the Treaty establishing the European Atomic Energy Community, and repealing Regulation (Euratom) No 237/2014.
[100] Article 5 and 6 of Council Decision (EU, Euratom) 2020/2053 of 14 December 2020 on the system of own resources of the European Union and repealing Decision 2014/335/EU, Euratom.
[101] EUR 15 billion per year.

the principal (EUR 195 billion, based on forecasts as of May 2025), as the latter would provide a more frontloaded repayment. On the downside, over the full repayment period, this option leads to higher interest costs.[102] Further backloading the repayment of the principal would reduce the annual amounts needed from the EU budget in the next years, but at the cost of shifting the burden to future MFFs as well as a higher overall envelope for interest costs from NGEU. Finally, the proposed solution ensures market confidence through predictable repayments, aligning with rating agency expectations.

Figure 4.4. Debt service costs for NGEU non-repayable support (billion EUR, current prices)



4.7 European Administration

The EU budget should be an enabler for the European Administration to promptly react to new challenges by providing an adequate level of staff and resources. The experience of the last years has shown how important it is for the Commission to be able to react quickly to unforeseen situations. To do so, the European Institutions must be equipped with the right level of staff, having the right profiles. This also implies that they need to remain attractive as an employer, which is particularly important to attract the best talents and improve the geographical balance of EU staff.

Already before the entry into force of the current MFF, the Commission had been facing a gap in its human resourcing needs. A 5% reduction in staff, followed by a prolonged period of stable staffing has severely reduced the capacity to act in the face of urgent needs. During the current MFF, the drastically changed geo-political and -economic landscape (e.g. responding to the pandemic, war, cyber security) has created substantial new, additional tasks, which often required specialised profiles that cannot be found through redeployment alone. These tasks have remained.

Given this large gap, 'business as usual' is not an option. The proposal for the next MFF builds on the methodology used for the proposal of the MFF mid-term revision, to ensure adequate staff resources for the Commission, and the other institutions, as well as a critical

[102] Approximately EUR 3.3bn in interest expenses post-2034.

mass of cybersecurity experts for all institutions. By phasing in an adequate number of staff over the first years of the next period, the Commission will have the necessary resources to ensure the proper implementation and closure of the current programmes, as well as accelerating the start- up of the new generation of programmes.

The MFF mid-term revision proposal had put forward a request for 885 additional posts. These included 600 posts for the Commission, based on the needs set out in legislative proposals. Since the MFF mid-term revision proposal was presented, the number of legislative proposals has again increased. There has been no meaningful reinforcement for cybersecurity, despite the increased number and severity of attacks, and the other institutions have also been faced with new challenges, not least in relation to security, AI and new regulatory obligations which is stretching their capacities. It is therefore proposed to factor in an increase of 2500 FTE for all EU institutions in the administrative heading over the first three years of the new period, covering the established needs, and potential developments until 2027. Furthermore, the proposed level of expenditure for salaries and pensions in the next MFF is calibrated on preliminary estimates of Eurostat that point to lower needs for the annual salary update of 2025, compared to the figures known at the time of the Commission's proposal for the 2026 draft budget. These estimates will be confirmed in the autumn this year.

Looking forward, the Commission's simplification efforts, including the measures proposed for the next MFF, together with the significant reduction in the number of programmes, will ultimately reduce overlapping tasks and lead to efficiency gains. This, combined with the upcoming large-scale review of the Commission's organisation and operations, should lead to a situation in which the institution is ready to meet future challenges head on, with the best possible staff structure and flexibility to act.

With respect to non-salary related expenditure, an annual increase of 2% remains feasible, provided that the starting point takes account of the real needs, and the major works planned over the next years by several institutions. Both the European Parliament and the Council have clearly signalled the need for considerable investment in building infrastructure, while the Commission will need to renovate its flagship buildings (Berlaymont, Charlemagne) too. The European External Action Service must also be in a position to ensure the security of the delegations.

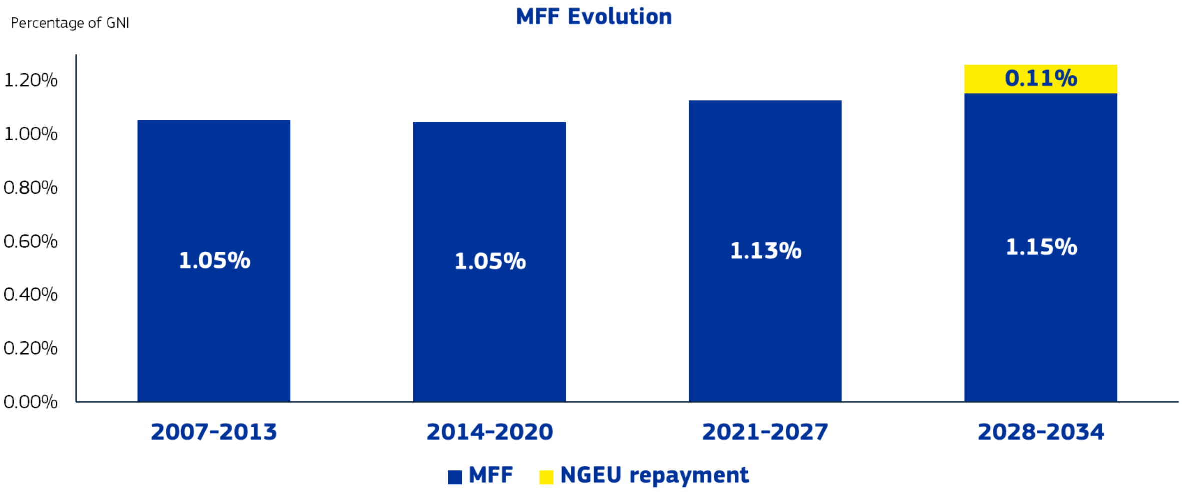
Appropriate and timely investments in IT, including AI tools, are paramount to help to rationalise other costs going forward. This does not only concern cybersecurity, but also investment in IT systems and infrastructure which will in turn bring new efficiencies and allow the European public service to face new challenges head on, rather than constantly seeking to make-do and by.

A dynamic European administration will attract an enthusiastic workforce from across the EU, ensuring a geographical balance and the implementation of European policies and values.

5. A tailored Multiannual Financial Framework

The scale of the challenges ahead calls for an ambitious long-term budget. Well-designed policies must be equipped with adequate resources. As discussed in the Communication "The road to the next MFF", there cannot be an EU budget fit for our ambitions and notably ensuring the reimbursement of NextGenerationEU, and, at the same time, stable national financial contributions without introducing new own resources.[103]

Figure 5.1 Current and previous MFFs (% GNI)

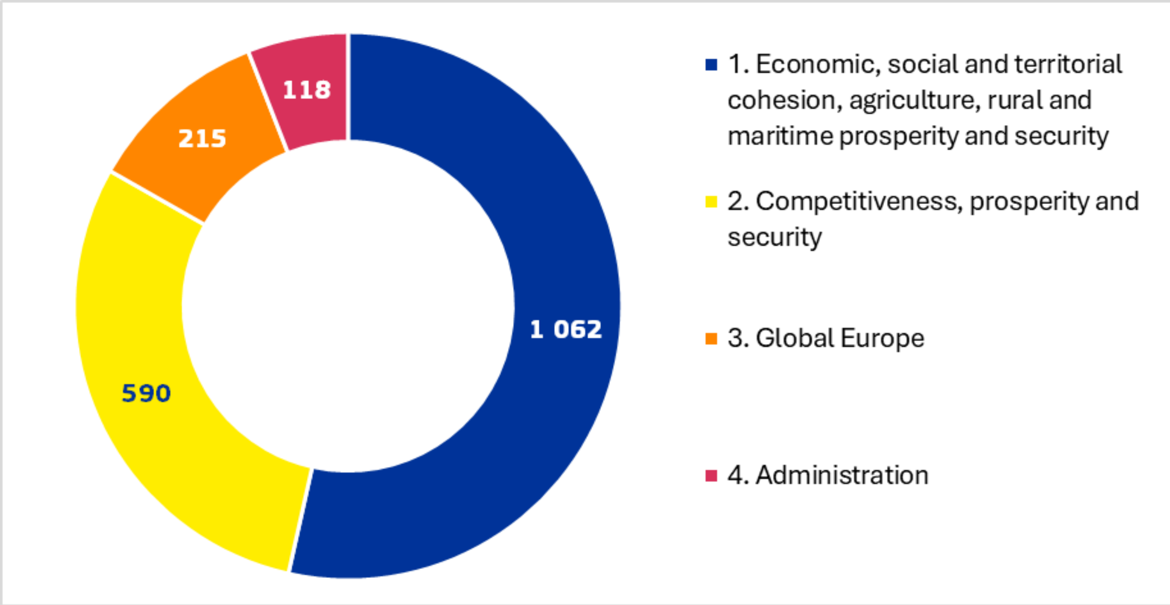


The MFF proposal squares the circle. First, it provides an ambitious response to the challenges faced by the Union, reinforcing the EU budget to address new policy needs while starting the repayment of NextGenerationEU. Second, it stabilises national contributions at the level of 2027, in constant prices. This takes into account the fact that the policy objectives of some thematic special instruments (EU Solidarity Fund, Emergency Aid Reserve) in the 2021-2027 MFF are now embedded in the spending programmes below the ceilings (in particular, the national and regional partnership plans and Global Europe. Third, it matches the increased ambition with a solid proposal for new own resources (detailed in Section 6). Figure 5.2 presents the MFF proposal for the period 2028-2034.

Many of the needs that were present at the time of adoption of the 2021-2027 MFF remain and require a modern approach for a more efficient delivery. The introduction of national and regional partnership plans, covering the common agricultural policy and cohesion policy, will allow these policies to better deliver on their core objectives, by combining investments and reforms. Bringing several funds that are pre-allocated to member states and region under a single envelope will allow Member States for a more tailored allocation of resources, while focusing on EU priorities. The reduction in the number of programmes under direct and indirect management, exploiting synergies related to their policy focus, also aims at maximising efficiency in the implementation within the European Commission.

Figure 5.2 Headings of the 2028-2034 MFF

[103] Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions, "The road to the next multiannual financial framework", COM(2025) 46 final.



The proposed budget ceiling for payments reflects the completion of the 2021-2027 MFF and in particular the outstanding commitments that are forecasted to remain by the end of 2027. By the end of 2027, there will still be outstanding commitments to be paid in the course of the next MFF, to implement the current and future spending programmes until 2034.[104]

6. Revenue and new own resources

In respect of the 2020 Interinstitutional Agreement and to give new impetus to the negotiations in the Council, the Commission enhances its proposal for new own resources. This includes adjustments to the 2023 proposal on new own resources and additional, new candidates. The proposed package is in line with the EU's political priorities and would generate sizeable revenue. The own resources are based on existing legislation or the Own Resources Decision itself and can be implemented with a reasonable administrative burden.

EU budget revenue should also be increased through targeted adjustments to existing own resources and other revenue. This includes a reduction in the amounts retained by the Member States to cover the collection costs of traditional own resources as well as an adjustment to inflation of the call rate for the own resource based on non-recycled plastic packaging waste. Higher revenue from traditional own resources would also help reduce the need for national contributions from Member States. Finally, while outside of the Own Resources Decision, other revenue such as fees also contributes to the EU budget. To the extent that this revenue is not assigned to specific expenditure, it also reduces the need for national contributions.

[104] Long-term forecast of inflows and outflows of the EU budget (2026-2034)

6.1 New own resources

6.1.1 ETS-based own resource

The ETS-based own resource remains an important element of the Commission's own resources proposals, as it is closely linked to the Union's climate targets. In its 2021 and 2023 own resources packages, the Commission proposed that part of the revenue from the Emissions Trading System (ETS) would be transferred to the EU budget. The EU's decarbonisation efforts – which aim to achieve climate neutrality by 2050 – require continued efforts in the next MFF, both on the revenue and the expenditure side. This proposal is closely linked with the EU's policy objective to reduce greenhouse gas emissions further by 2030 and the newly proposed target for 2040. The Commission decided to focus solely on revenues from the emissions trading system that is already in place, ETS1.

An ETS-based own resource has significant revenue potential. The Commission proposed in 2023 to increase the call rate from 25% proposed in 2021 to 30%, which is still considered appropriate. Based on the assumed carbon price[105], revenue for the EU budget is estimated at around EUR 9.6 billion[106] on average per year over the period 2028-2034.

6.1.2 Own resource based on the Carbon Border Adjustment Mechanism

The Carbon Border Adjustment Mechanism (CBAM) can be considered as the 'external dimension' of the ETS, and the related own resource therefore remains an integral element of the package. The mechanism aims to reduce the risk of carbon leakage and to encourage producers in third countries to abate carbon emissions. Imported goods would need to be covered by sufficient certificates to ensure that the same carbon price applies to imports as to products manufactured in the EU. Member States would be responsible for collecting revenue from the sale of the certificates. Before the end of 2025, the Commission will assess a possible extension of the mechanism's scope to additional ETS sectors and make a first legislative proposal to include certain downstream products, starting with steel and aluminium-intensive products as announced in the Steel and Metals Action Plan[107].

The CBAM has moderate revenue potential, which could increase somewhat with its planned extension. The Commission proposes to maintain the call rate of 75%. With this call rate, the mechanism is expected to generate revenue for the EU budget of up to EUR 1.2 billion on average per year over the period 2028-2034. A possible extension of the mechanism's scope to certain CBAM downstream products may generate additional revenue of up to EUR 0.2 billion on average per year over the period 2028-2034. In contrast, the envisaged solution to address carbon leakage for CBAM goods exported from the EU to third countries announced in the Communication on 'Delivering on the clean industrial deal I'[108] would lower the EU budget revenue from CBAM.

[105] The revenue estimates are based on an assumed carbon price of EUR 88.33 in 2025 prices.

[106] All estimates of revenue from new own resources or changes to existing own resources are expressed in 2025 prices.

[107] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, A European Steel and Metals Action Plan (COM(2025)125 final).

[108] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions (COM(2025) 378 final).

6.1.3 Own resource based on e-waste

The growing amounts of waste of electrical and electronic equipment (WEEE) represent a concern, but they are also, given their significant content of critical raw materials, of key importance for the Union's strategic autonomy. WEEE represents one of the fastest growing waste streams. Critical raw materials such as copper, platinum, and rare earth elements can be recycled when waste is managed effectively. At the same time, e-waste contains hazardous materials such as heavy metals and chemical substances, which pose severe environmental and health risks, if not properly collected and treated. However, Member States are lagging behind binding collection targets as set out in the WEEE Directive[109]. Whereas – once collected – the recycling rates across Member States are high, the EU aggregated collection rate for e-waste in 2022 amounted to just 40%. Following the own resource based on non-recycled plastic packaging waste, an own resource based on e-waste would provide incentives for Member States to increase e-waste collection and at the same time foster the Union's competitiveness and strategic autonomy.

The own resource contribution would result from a uniform call rate applied to the weight of non-collected waste of electrical and electronic equipment. Non-collected WEEE in a Member State for a given year would be calculated by subtracting the WEEE collected in that year from the average weight of electrical and electronic equipment that was placed on the market over the three previous years. Using the electrical and electronic equipment (EEE) placed on the market methodology provides more stable estimates than using the WEEE generated methodology assessed in 2023[110] but for which reporting remains optional for Member States. Collected WEEE and EEE placed on the market are statistical indicators that are mandatorily reported to the Commission and are expected to continue to serve as the basis for any improved collection methodology resulting from a revision of the WEEE Directive. The WEEE Directive has been transposed by all Member States. Its applicable reporting obligations provide all elements that are necessary to introduce the own resource based on non-collected WEEE. Although the data reported by Member States have improved in recent years, there is still room to improve the comparability of the reported data before the implementation of the own resource. To this end, the Commission will provide the option of supplementary technical assistance, already during the current MFF, for the improvement of the quality of WEEE statistics in view of the possible introduction of the own resource.

An own resource based on e-waste would generate significant and stable revenue for the EU budget. In 2022, the EU-wide non-collected WEEE amounted to around 7.5 million tonnes. While electrical and electronic equipment placed on the market is expected to continue to rise over the coming years, albeit at a slower pace, Member States should gradually approach the 65% collection target. Therefore, with a proposed initial call rate of 2 EUR/kg and dynamic inflation adjustments, a relatively stable revenue stream from non-collected e-waste of around EUR 15.0 billion per year is expected for the period 2028-2034.

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[109] Directive 2012/19/EU of the European Parliament and of the Council of 4 July 2012 on waste electrical and electronic equipment (WEEE) (recast).

[110] Staff Working Document accompanying the 2023 Proposal on New Own Resources (SWD/2023/331 final).

6.1.4 Tobacco Excise Duty Own Resource (TEDOR)

Despite differences between Member States, smoking remains an EU-wide health policy challenge. Around 24% of the EU population (over 15 years old) smokes, with substantial differences between countries and population groups. In some Member States smokers still account for more than 35% of the population, while in others, prevalence has fallen below 15%. In 2020, tobacco excise duties at EU level accounted for around 2% of tax revenue and 0.93% of GDP. The Commission proposal for a recast of the Tobacco Excise Duty Directive[111] includes a revision of the EU minimum excise duty levels and certain categories for traditional tobacco products as well as an extension of the scope of the Directive to new products and raw tobacco. The application of the minimum rates under the updated Directive will ensure greater fairness between Member States by creating a level playing field and generate additional revenue for several Member States.

Differences in taxation and thus also in retail prices for tobacco products between Member States continue to be a major driver of cross-border shopping. Cross-border shopping driven by differentials in taxation distorts competition and market functioning by incentivising businesses to cluster in countries with lower tax rates. Excessive cross-border flows of tobacco products undermine national efforts to deter tobacco consumption through taxation and they have a distributional impact on Member States' tax revenues.

The TEDOR would be directly related to the consumption of tobacco products in the individual Member States. The contribution of a Member State would be calculated by multiplying the quantity released for consumption across all categories of manufactured tobacco and tobacco-related products for a given year by the minimum rate applicable to that Member State. Revenue from a tax rate higher than the Member State's minimum rate would accrue entirely to the Member State's budget. The TEDOR's base would be adjusted to reflect the scope and rate of the updated Tobacco Excise Duty Directive, in line with the timeline for its entry into force. With a call rate of 15%, EU budget revenue from the TEDOR is estimated to amount to EUR 11.2 billion on average per year for the period 2028-2034.

6.1.5 Corporate Resource for Europe (CORE)

Companies benefit in many ways from doing business in the European Union. In today's interconnected and global economy, predictability, stability and long-term perspectives are pre-conditions for investment, growth and innovation. Common rules on competition, intellectual property, and environmental standards ensure fair practices and lower compliance costs. The EU plays a unique role in safeguarding these conditions – not just through laws and regulations, but through supporting long-term investments in infrastructure, climate resilience, education, digital transformation, research and innovation and cross-border security. The EU budget has a major role in building a strong economic European home market, supporting companies to modernise, expand, innovate and compete. Funding programmes like Horizon Europe and the Single Market Programme boosted industrial competitiveness and economic growth. The RRF and SURE stabilised the European economy and enhanced its growth potential during the pandemic. The next MFF will continue to support innovation and competitiveness in the corporate sector, especially through the new European Competitiveness Fund.

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[111] Council Directive (EU) 2011/64/EU on the structure and rates of excise duty applied to manufactured tobacco (codification).

A Corporate Resource for Europe (CORE) own resource would ensure that large businesses contribute to the financing of the EU budget. The CORE would generate significant and sustainable revenue, supporting EU initiatives to strengthen a competitive business environment. It would be established as an annual lump-sum contribution of all companies operating and selling in the EU. The CORE would be differentiated per companies' net turnover and applied at the entity level. Companies with an annual net turnover at or below EUR 100 million would be excluded. Therefore, in principle, small and medium-sized companies (SMEs) would not be in the scope of the CORE. Governmental entities, international organisations and non-profit organisations would also be excluded. The CORE has been designed with a view to mitigating the impact on individual companies (such that the lump-sum payments to be made represent only a very small fraction of net turnover), while enabling it to achieve its objectives. In principle, as a new revenue source, it would not reduce existing national tax revenue. EU budget revenue from the CORE is estimated to amount to EUR 6.8 billion on average per year for the period 2028-2034.

The CORE annual lump-sum contribution would be differentiated per company's turnover as follows:

Annual net-turnover of the company	**Annual amount of the CORE contribution**
Not exceeding EUR 100 million	Excluded
Above EUR 100 million and below EUR 250 million	EUR 100,000
Between EUR 250 million and below EUR 500 million	EUR 250,000
Between EUR 500 million and below EUR 750 million	EUR 500,000
EUR 750 million or more	EUR 750,000

Member States would collect the CORE revenue from the companies on behalf of the Union. The companies subject to the CORE would make their payment in the Member State where they are resident for tax purposes. Likewise, the CORE would apply to permanent establishments of third country entities located in a Member State. It would rely on basic corporate data, using net turnover as a basis, the reporting of which is sufficiently standardised at EU and even at global level. Hence, it would not require new data collection, limiting the administrative burden for Member States and companies. The CORE would be introduced through Article 311 TFEU serving as the sole legal basis for creating this new own resource. It does not require any underlying sectoral legislation, as all relevant rules would be laid out in the Own Resources Decision as well as in the Making Available Regulation (MAR) and in the Regulation as regards implementing measures for new own resources (IMSOR).

6.2 Adjustments to existing own resources

A reduction in Member States' retention and the abolition of de minimis exemptions for customs duties would increase traditional own resources (TOR). TOR consist primarily of customs duties and are collected by the Member States on behalf of the Union. The current level of 25% of customs duties that Member States retain appears higher than what would be needed to cover collection costs and provide effective incentives for diligent collection and control. The retained amount is not assigned to national customs administrations nor linked to the actual costs of collection and control. A large part of customs duties is paid without significant intervention by customs authorities, financial risks such as fraud are not proportionate to regular imports and customs duties, and most controls target non-financial aspects like product safety or health. The continued digitisation of customs administrations has significantly reduced administrative costs, which will be further reduced by the customs reform. Therefore, the collection costs should be lowered to their traditional level of 10%. This would generate additional revenue for the EU budget of on average around EUR 4.5 billion per year in 2028-2034. Moreover, the abolition of the minimum customs value of EUR 150 up to which no customs duties are levied, as proposed together with the reform of the Union Customs Code (UCC),[112] should generate an additional EUR 2.3 billion per year in revenue. Revenue related to the handling fee for goods sold in distance sales (e-commerce) as proposed under the UCC reform also falls under the definition of TOR. This could generate a further EUR 4.6 billion per year in customs revenue.

Given the high inflation in recent years, an adjustment of the call rate for the plastic-based own resource is appropriate. The call rate for the own resource based on non-recycled plastic packaging waste, which was introduced at the start of the current MFF, was set at a fixed amount of EUR 0.8 per kg. However, the relatively high inflation that has occurred in the meantime has reduced the real value of the revenue from this own resource, which might also reduce incentives for Member States to intensify their efforts to achieve the EU recycling target. To account for this, it is proposed to increase the call rate to EUR 1/kg in 2028 and, from that point on, to adjust it to inflation. This would mean an increase to on average EUR 1.07/kg over the period 2028-2034. This would increase revenue from the plastics-based own resource by on average EUR 2.2 billion over the period 2028-2034.

To ensure a transparent own resources system, there will be no own resource-specific adjustments. Thus, the capping of the VAT base at 50% of the Member States' GNI, as well as the lump sum reductions applied to the non-recycled plastic packaging waste own resource and the GNI own resource will be discontinued[113]. At the same time, the Solidarity Adjustment Mechanism to the ETS own resource will not be proposed again.

6.3 Other revenue

Additional other revenue – to the extent that it is not earmarked for specific expenditure – reduces the need for national contributions from Member States. Other revenue supplements own resources, flows directly into the EU budget and may stem from a wide range of sources. It is established as an integral part of one or several EU policies and supports the implementation of the basic act. It includes revenue such as the budgetary surplus (from the previous year), contributions from third parties for the participation in certain programmes or income stemming from interests and fines or penalties due to infringement of EU law. Additional other revenue could be generated, for example, by adjusting existing fees, such as the European Travel Information and Authorisation System (ETIAS) fee, or introduce new ones related to Union policies.

[112] Proposal for a Council Regulation amending Regulation (EEC) No 2658/87 as regards the introduction of a simplified tariff treatment for the distance sales of goods and Regulation (EC) No 1186/2009 as regards the elimination of the customs duty relief threshold (COM(2023)259 final).

[113] In 2025, 7 Member States are forecast to benefit from the capping of their VAT base. 17 Member States have been granted fixed annual lump-sum reductions to their own resource contribution based on non-recycled plastic packaging waste and 5 Member States to their GNI-based own resource contribution.

Annex. Supporting tables

Assessment of the 2021-2027 MFF

A.1.1 Redeployments under the 2021-2027 MFF

Proposal	Flexibility-redeployment	Total
FAST-CARE - EU 2022/2039	Cohesion programmes increased pre-financing	3.5
	Amounts that can be programmed to address the migration challenges stemming from Russia's military aggression	15.7
SAFE 2023/435	Amounts that could have been re-programmed to address the energy crisis	40.0
ASAP COM(2023) 237 final	Redeployments from EDIRPA	0.2
	Redeployments from European Defence Fund	0.3
Chips Act COM(2022) 46 final. Political agreement reached on 18/04/2023	Redeployments and reallocations from Horizon Europe and Digital Europe Programme	2.9
	Redeployments from ITER	0.05
	Margin	0.35
	Decommitments	0.08
Union Secure Connectivity (EU) 2023/588	Redeployments and reallocations from Space Programme, CEF- Digital, Digital Europe Programme, NDICI, European Defence Fund	2.40
REPowerEU	Loans	40.5**
	Grants	19.5
	BAR	2.1
	CPR transfers - existing transfer possibility from cohesion policy funds	0.0
Decentralised agencies	Redeployments from programmes for additional tasks in decentralised agencies	1.1
STEP	29 cohesion policy programme amendments were adopted by the end of December 2024 corresponding to EUR 5.9 billion (ERDF, JTF, ESF+). 9 programme amendments were adopted by the end of March 2025 corresponding to EUR 0.4 billion.	6.3
	Innovation Fund	7.4
	European Defence Fund	0.8
	European Innovation Council	0.6
	Horizon Europe (excl. EiC)	0.4
	Digital Europe Programme	0.3
	EU4Health	0.1
RESTORE - COM/2024/496 final	Frontloading	10.0
Cohesion mid-term review - COM(2025) 123 final	Frontloading	4.1

Total includes redeployed, frontloaded or reprogrammed for a mix of commitment and payments.
** Actual re-programming*
*** From remaining RRF loans*
**** ETS resources (12bn from Innovation Fund and 8 bn from Member States allowances)*
***** Amount equivalent to decommitments established on an annual basis.*

A.1.2 Sustainability of the ceilings of the 2021-2027 MFF

In EUR million, in current prices, rounded to the nearest whole number

Name	2021	2022	2023	2024	2025	2026	2027
1. Single Market, Innovation and Digital	101.7	32.9	280.9	105.8	115.9	155.6	178.7
2a. Economic, social and territorial cohesion	- 1.6	30.8	12.5	17.8	- 4.7	0.5	0.6
2b. Resilience and values	- 432.3	- 30.0	- 527.2	- 1 311.4	- 2 278.4	- 4 204.0	444.5
3. Natural Resources and Environment	49.9	283.9	76.9	142.3	604.7	128.0	45.1
4. Migration and Border Management	164.0	- 52.2	86.7	126.5	79.9	93.0	57.6
5. Security and Defence	97.7	83.0	- 170.6	- 319.3	- 15.6	6.5	5.2
6. Neighbourhood and the World	- 784.0	- 907.4	- 1 462.2	- 972.1	- 355.2	109.0	112.7
7. European Public Administration	192.2	274.8	73.3	- 283.5	- 721.0	- 969.2	- 962.9
Total	**- 612.4**	**- 284.2**	**- 1 629.7**	**- 2 493.9**	**- 2 574.4**	**- 4 680.6**	**- 118.5**

Negative figures mean authorized appropriations (including special instruments) exceed the ceilings

Positive figures mean authorized appropriations (including special instruments) are below the ceilings

Years 2021, 2022, 2023 and 2024 correspond to the final approved budget, year 2025 corresponds to the latest draft amending budget, and years 2026-2027 correspond to the draft budget proposal for 2026.

A.1.3 Different types of flexibilities and the ceiling for commitments in the 2021-2027 MFF

In EUR million, commitment appropriations, 2025 constant prices

Name	MFF 2021-27 (2020 proposal)	Share of ceiling	MFF 2021-27 (adopted)	Share of ceiling	MFF 2021-27 (current)	Share of ceiling
Total	**1 263 554**		**1 246 696**		**1 246 558**	
Ceiling for commitments	1 263 554		1 234 060		1 234 889	
Article 5 MFFR			12 636		11 669	
Special instruments and margins						
Unallocated margins	12 831	1.01%	5 619	0.45%	5 619	0.45%
Flexibility Instrument	8 041	0.63%	7 357	0.59%	9 338	0.75%
Solidarity and Emergency Aid Reserve	32 163	2.53%	9 701	0.78%	11 138	0.89%
European Globalisation Adjustment Fund for Displaced Workers (EGF)	3 104	0.24%	1 496	0.12%	779	0.06%
Brexit Adjustment Reserve			5 743	0.46%	5 159	0.41%
EURI Instrument						0.00%
Ukraine Reserve					*16 863*	*1.35%*
Other flexibilities						
Agricultural reserve	2 858	0.22%	3 306	0.27%	3 306	0.27%
Thematic facilities	8 547	0.67%	5 884	0.47%	5 884	0.47%
Emerging challenges and priorities cushion under NDICI-GE	10 412	0.82%	9 532	0.76%	9 532	0.76%
Totals						
Unallocated margins and Flexibility Instrument	20 872	1.64%	12 976	1.04%	14 956	1.20%
Unallocated margins, special instruments (thematic and non-thematic), and other flexibilities (emergencies and priorities cushion, thematic facilities, agricultural reserve) (excl. Ukraine Reserve)	77 956	6.17%	48 639	3.90%	50 755	4.07%