The EU Budgetary Package 2021-2027 Almost Finalised: An Assessment

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Opinions expressed do not necessarily reflect the official viewpoint of the OeNB or the Eurosystem.

Overview of the main legal elements of the budgetary package

Expenditures:

- Multi-annual Financial Framework (MFF) … ‘the financial framework’
- EU Recovery Instrument ‘Next Generation EU’ (EURI-NGEU) … ‘the recovery instrument’
- ‘Rule-of-law’ regulation: Regime of conditionality for EU budget protection

- Sectoral legislation for spending programmes (under MFF and EURI-NGEU)
  … still ongoing for some programmes!

Revenues:

- Own Resources (OR) decision by the Council
  - Without requirement of European Parliament (EP) consent
  - Ratification by national parliament of each MS required … still ongoing!

Inter-institutional agreement (IIA):

between European Parliament, Council and European Commission

Main multi-annual figures and spending structure

Commitment appropriations	Expenditures	Loans
EUR billion, in 2018 prices		
MFF 2021-2027	1,074	
EURI-NGEU 2021-2023 (paid until 2026)	390	360
Total	**1,464**	**360**
75% of total expenditures in 4 areas; 100% of loans in 1 area:		
1. Agriculture and Maritime Policy	24%	
2. Recovery & Resilience	23%	100%
3. Regional Development and Cohesion	20%	
4. Social Cohesion and Values	8%	
Note: Expenditures include grants and provisions for guarantees.		

Comment 1: The EU budgetary package 2021-2027 is a major step forward

EURI-NGEU enhances the MFF:

- Common EU response to COVID-19 impact
- To advance cohesion, growth potential, climate-related structural change

- Funded by common capital market borrowing
- Backed by (suite of) pro-rata guarantees by MS for net repayments due 2027 to 2058

- To fund repayment: Roadmap agreed for new OR

Stronger focus on climate policy:

- Raise overall climate target to 30% of total expenditures (MFF + EURI).
- Fund 30% of EURI via issuance of ‘green bonds’
- New climate-specific program ‘Just Transition Fund’
  (social support to exit climate-damaging production)

Comment 2: The EU budget remains tiny, even when including EURI-NGEU

Total expenditures (MFF + EURI-NGEU) amount to only 1.5% of EU GNI

- These are dwarfed by national public expenditures of 50% of GNI.

Compared to EU27 MFF 2014-2020 of 1.2% of GNI:

- MFF 2021-2027 smaller by 0.1 ppt at 1.1% of GNI
- But: EURI expenditures add 0.4% of GNI
- → Total expenditures increase by 0.3 ppts to 1.5% of GNI

However, two areas face decrease of expenditures:

- o Agriculture (Direct payments, Rural Development)
- o External action (Neighborhood, Development Coop., Humanitarian Aid)

Comment 3: The EU budgetary package is complementary to macro stabilization policies in place, including the EU central banks' QE

Macro stabilisation policy in response to the COVID-19 impact relies on national fiscal policy and national (EA: common) monetary policy

To be aware of the order of magnitude:

- EA national sovereigns' net issuance rose to 9.5% of annual GDP (2020 Q1-3),
- while ECB's net public sector purchases on secondary market rose to 6.5% of annual GDP (2020 Q1-3).

EURI-NGEU is not an early and bold common EU fiscal stabilization policy effort

→ The lack of such an approach implies national public debt levels which are far higher and more heterogeneous as a result of COVID-19.

Comment 4: EURI-NGEU will boost public investment and, in addition, it may help finance COVID-induced fiscal deficits

EURI has a focus on structural policy:

- However, it faces two challenges:
  - Short time stipulated for preparing high-quality investment projects
  - Achieve preparing additional climate / digitization investment project volumes

EURI may help finance COVID-induced fiscal deficits:

- However, two issues:
  - It may do so only to a small extent without raising national public debt.
  - The protracted approach until EURI funds are paid out
    limits their relevance for contributing to fiscal stabilization policy.

Comment 5: EURI-NGEU impact could be sizeable for the 17 EU Member States with below-average per-capita income

These MS are potentially particularly benefitting:

- They are assigned about <u>twice the average</u> EU-allocated max. expenditure in % GNI
- They can <u>share the available loan volume</u> among them
  (with a cap of 6.8% GNI 2019)
  (other MS, except for BE, are unlikely to draw a loan due to the available financial terms)

Among these MS, the assigned max. expenditure in % of GNI is largest for:

- Croatia, Bulgaria, Greece – followed by Romania, Portugal, Slovakia, Latvia, Spain

However: <u>absorption</u> and <u>governance</u> will be major challenges!

Comment 6: The European Council cut the Commission proposal for crucial programs

European Council decision on EURI-NGEU proposed by the Commission:

- It increased the share of loans to member states by € 110 bn and decreased total expenditures by € 110 bn, mainly by cuts in:
  - EU-wide strategic investments (incl. solvency support): by € 51 bn (to € 6 bn)
  - Climate action (Just Transition Fund): by € 20 bn (to € 10 bn)
  - External action (neighborh., developm., humanit. aid): by € 15 bn (to zero)

→ For 'External action': even decline compared to EU27 MFF 2014-2020, despite the rising gap in humanitarian funding in the midst of a global pandemic

… This funding gap is "grossly inadequate and that's dangerously shortsighted,"
(Mark Lowcock, UN OCHA)

Comment 7: The 30% climate-spending target is highly welcome but at quite a risk to be missed

European Council cuts to the proposed EURI-NGEU expenditures increase the risk to miss the 30% climate spending target

- The bottom-up sum of expected (minimum) contributions per programme is below 30%.

Moreover, doubts over assumed contribution from agriculture expenditures

- CAP 2023-27 is still under negotiation.
- The European Court of Auditors questions the contribution associated with certain direct payments.

Comment 8: Progress on the revenue side is still incomplete and further negotiations must follow soon

New Own Resources (OR) in 2021-2027:

- 2021: MS national contribution based on non-recycled plastic packaging waste quantity ((yet lump-sum reductions for MS with below-average per-capita income)
- 2023: Agreed plan to introduce:
  - Carbon border adjustment mechanism (CBAM),
  - Digital levy
  - Emissions-Trading-System (ETS)-based contribution (e.g. maritime, aviation)
- 2026: Agreed plan to introduce ‘additional new OR’, ‘which could include’:
  - Financial Transaction Tax (FTT)
  - Contribution linked to the corporate sector

But: Implementing this roadmap must still be negotiated!

→ **Question** whether ‘additional new OR’ could include taxes to address the sizeable inequalities that are rising further due to COVID-19, like e.g. net wealth taxes.

Comment 9: The European Council increased ‘rebates’ as privileges of a few member states

Modifications to the current Own Resources (OR) for 2021-2027:

- Customs duties (TOR) minus ‘collection costs’
- National VAT-based contributions:
- National GNI-based contributions
  - But privileged status of 5 out of 9 ‘net paying’ MS (AT, DE, DK, NL, SE): Enjoying gross reductions in their annual contribution! … This is not the case for FI, FR, IE, IT!
  - For 4 out of these 5 privileged MS (AT, DK, NL, SE, but not DE): European Council even increased these ‘rebates’ (to up to 0.25% GNI) for 2021-27 while European Parliament and Commission had demanded a phase-out.

→ Need for reform: EP consent to OR decision shall be required!

Thank you for your attention!