EU BUDGET
FOR THE FUTURE

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9 October 2019

EU BUDGET FINANCING

The financing of the next Multiannual Financial Framework must be reformed and modernised. Europe needs a less complex, more transparent and fairer system that is better aligned with the EU policy objectives. The Commission has proposed alternative sources of revenue – for example revenue from the Emissions Trading System, or the contributions based on non-recycled plastic. These are directly linked to the EU policy priorities and will make it possible to reduce the national contributions based on gross national income (GNI) – the primary source of revenue for the EU budget.

MEMBER STATES' CONTRIBUTIONS TO THE EU BUDGET: INCREASING IN LINE WITH ECONOMIC DEVELOPMENTS

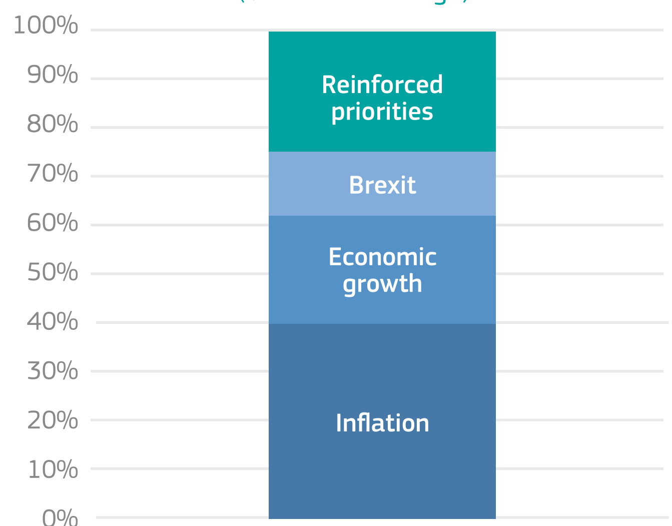
The Commission proposed that the Union budget will invest EUR 1 279 billion in 2021-2027 (1.114% of EU-27 GNI). The contribution from each Member State will be calculated based on how much the EU will have to pay to the beneficiaries of the EU budget each year, and after deducting revenue from other sources such as customs duties and fines, up to an overall maximum of EUR 1 246 billion (or 1.08% of EU27 GNI).

Compared across financial frameworks, national contributions increase with inflation and economic growth, just as national budgets do. In contrast to national budgets, however, the EU financial framework spans over 7 years and over the long term, these increases appear more pronounced.

When comparing the two financial framework, one needs to consider that combined they capture 14 years of inflation and economic growth. A direct comparison would therefore be distorted. If looking only at the end years of the two frameworks (2020 versus 2027), the **national contributions for all Member States combined would go up by a third:**

- **The biggest part of the increase is due to inflation and real growth** (as in national budgets' increases);
- **Around 1/8 is due to Brexit;**
- **And only about 25% of the increase is due to the proposed higher investment in research, digitalisation, climate, migration, defence and other key priority areas which get extra funding.**

Drivers of the changes in national contributions 2027 vs 2020
(% of total change)



**Illustrative visualisation based on estimates based on the Commission proposal for the 2021-2027 Multiannual Financial Framework, the 2020 Draft Budget and the 2019 Spring economic forecast*

NATIONAL CONTRIBUTIONS: VARIATIONS ACROSS MEMBER STATES

CURRENT SYSTEM: UNBALANCED DISTRIBUTION OF FINANCING SHARES ACROSS MEMBER STATES

In today's system, some Member States get discounts on their contributions – or rebates – for historical reasons. However, these rebates distort the current EU financing system as the Member States benefiting from rebates contribute a lower share of their income to the EU budget than the other Member States.

Currently, the five Member States with the lowest contribution measured as a percentage of their GNI (Denmark, Germany, Netherlands, Austria and Sweden) are among the top eight EU countries in terms of relative prosperity. The same five Member States are also currently benefitting from a rebate of their contribution to the EU budget.

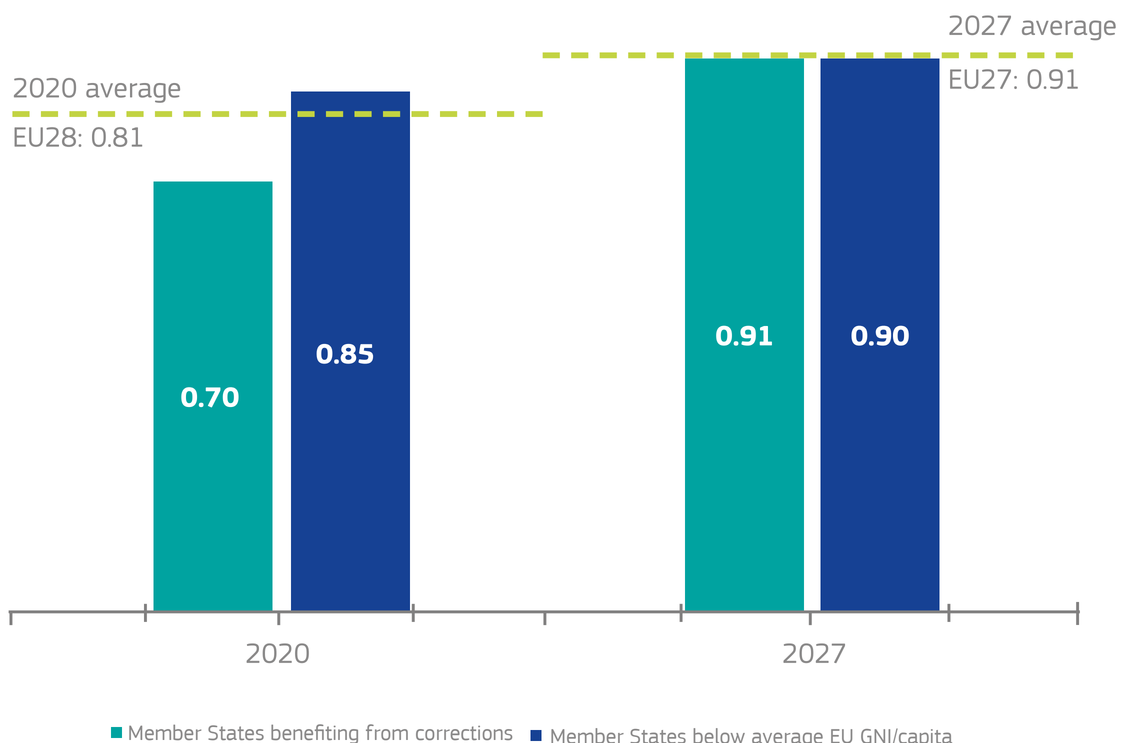
Conversely, all Member States with a below-average prosperity make an above-average contribution to the EU budget it terms of share of their GNI despite their lower capacity to contribute. To put it simply: The richest Member States pay the least while the poorest ones pay disproportionately high amounts.

MFF 2021-2027: SIMPLIFY AND REFORM THE REVENUE SYSTEM BY PHASING-OUT REBATES TO ENSURE MORE FAIRNESS FOR ALL

With the withdrawal of the United Kingdom, the associated rebate will end. All other corrections will automatically expire in 2020. This is a unique opportunity to simplify and reform the revenue system.

Eliminating all corrections on the revenue side should be part of a fair and balanced budget package. The national contributions in relation to Member States' wealth will gradually converge over the period – in line with the phasing out of the rebates – to arrive at a more balanced distribution by 2027.

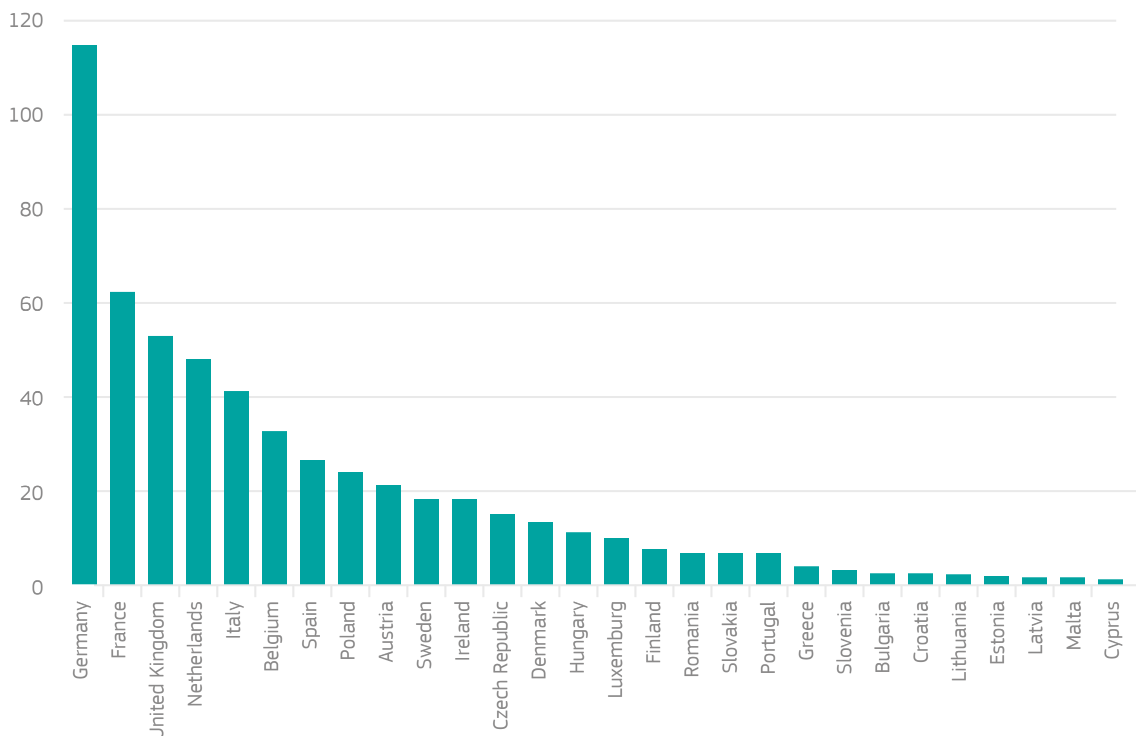
National contributions as a percentage of gross national income (GNI)



BUDGETARY BALANCES – AN OUTDATED CONCEPT

The benefits of Union membership extend well beyond budgetary receipts. This is why the narrow focus on 'net balances' is seriously flawed. Budgetary balances only show the difference between what a Member State contributes to the EU budget and the money that beneficiaries registered in that same country get, after a series of statistical adjustments. This statistical construct is not a relevant guide for determining national contributions, given the structure of the budget today in which an increased share of funds is allocated to European public goods. The budgetary balance concept cannot measure the benefits for the EU Member States from being part of the single market, addressing the challenge of migration and fighting terrorism and climate change together. Neither has it measured the business opportunities that cohesion policy – the EU's main investment policy – creates for businesses from across the Union. The EU contributes significantly to the economies of its Member States and this is completely ignored in these calculations.

For example, the single market has a significant and direct positive impact on jobs and growth – its benefits are estimated to be of the order of 10% of GNI; more than ten times the contribution Member States make to the budget.



Source: Gabriel Felbermayr, Jasmin Gröschl, Inga Heiland (2018), Undoing Europe in a New Quantitative Trade Model, ifo Working Paper No. 250. The chart shows the gains in income attributable, according to the model applied, to being part of the Single Market.

Today, not only will the UK rebate disappear, but the conditions which justified the creation of a rebate mechanism in 1984 and that benefit other Members States are no longer relevant:

- **The structure of EU spending has evolved** – in 1984 a correction was necessary to address the specific agricultural problem for the UK (around 70% of the EU budget funded one single policy – agriculture – from which the UK benefitted less than the others). Nowadays the EU budget supports many more policies **and no Member State is in a unique disadvantaged position.**

- **The gap in prosperity between the Member States that get a rebate** and the others has narrowed. Contrary to 1984 when the UK was at 92% of EU average GNI per capita, in 2018 the other five Member States that get rebates stood at 127% of the average EU prosperity level.

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