

REFLECTION PAPER ON THE FUTURE OF EU FINANCES

FACTS & FIGURES

EU budget: multiannual financial framework

The EU agrees long-term spending plans - the “multiannual financial framework” (MFF) - that provide a stable basis for implementing its programmes throughout a period of at least 5 years. The current MFF covers 2014-2020 and allows the European Union to invest around EUR 1 trillion over that period.

Where does the money go?

From the first major common policy – agriculture – in the 1960s until today, the EU budget has changed. The scope of EU competences has since been broadened. The graph below provides a detailed breakdown of where the money goes.

Areas financed by the EU budget (2014-2020) in billion EUR

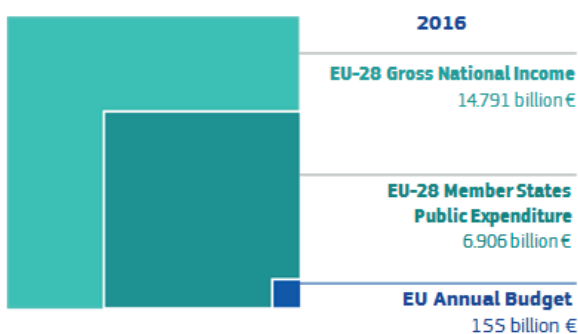


Note: Commitments; adjusted for 2018

What is the size of the EU budget?

Over the years the EU budget has remained a small part of total public expenditure in the EU, accounting for less than 1% of EU income and only around 2% of EU public expenditure. This share has declined over time. This increases pressure on the EU budget to be more efficient, to focus on the areas where its impact is greatest and to ensure that rules and procedures do not get in the way of results.

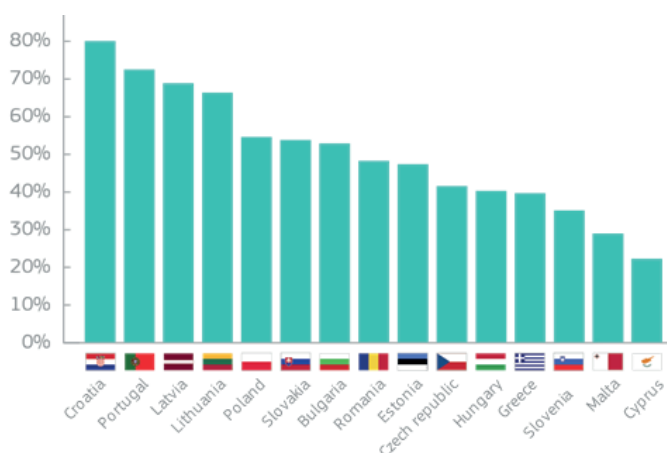
The EU budget compared to overall EU income and public spending



Why does the EU budget matter?

The EU budget supports European agriculture, economic, social and territorial cohesion. It plays a role in areas such as transport, space, health, education and culture, consumer protection, environment, research, justice cooperation and foreign policy. It has also accompanied the growing role of the Union in the international arena, as a leader in the fight against climate change and as the largest donor of humanitarian and development aid in the world. During the economic and financial crisis, the EU budget proved to be a powerful instrument to support investment. With national budgets in many Member States under severe strain, the EU budget and the structural funds in particular emerged since 2008 as a major source of stable growth-supporting investment. In some Member States it even proved to be the only such source. The European Fund for Strategic Investments has also played a major role in catalysing private investments throughout Europe. Most recently the EU budget has also underpinned the European response to the refugee crisis and to the threat of organised crime and terrorism.

Share of European Structural and Investment Funds in public investment 2015-2017 in %



EU budget: revenue

By pooling resources at European level, Member States can achieve more than they could by acting alone. The amount of revenue – “own resources” - flowing into the EU budget matches exactly the amount of expenditure financed by it, as decided by all Member States together. The Union can neither borrow money, nor can the EU budget run a deficit.

What are those “own resources” that finance the EU budget?

There are essentially three main types of own resources today: contributions from Member States based on their income level measured by Gross National Income (GNI), contributions based on Value Added Tax (VAT), and customs duties collected at the external borders of the Union.



Customs duties are levied on economic operators and go directly to the EU budget. Member States retain 20% as collection costs.



The VAT bases of all Member States are harmonised. A uniform rate of 0.3 % is levied on each Member State with some exceptions.



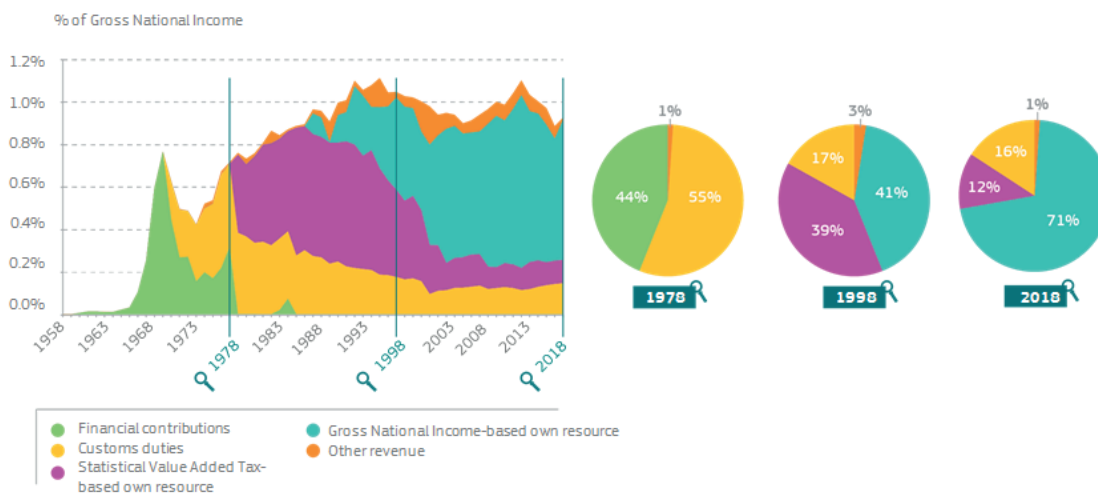
The GNI own resource finances the part of the budget not covered by other revenues. The same percentage is levied on each Member State’s GNI. The rate is fixed as part of the annual budgetary procedure. Some Member States benefit from a reduction.

The maximum annual amount of own resources that the EU may raise during a year is limited to **1.20 % of the EU GNI**.

How has EU revenue developed over the years?

Just as the spending side of the budget has evolved (see further below), so has the way in which the EU budget is financed:

Sources of financing of the EU budget



What are the shortcomings of the current system?

Over the years, some Member States have negotiated adjustments and “rebates”, making the current financing arrangement increasingly complex and opaque.

About 80% of the EU budget is financed from national contributions based on VAT and GNI. That way of collecting revenues has made Member States focus on how much they are paying into the EU budget and how much they are “getting back” from it. This narrow perspective ignores, however, the added value that comes precisely from pooling resources and delivering results that uncoordinated national spending could not. It also ignores the benefits of belonging to the largest economic area and trading power in the world.

There are many possible sources of revenue which can be used to finance the EU budget – the chart below lists the ones most frequently mentioned in the public debate.

