

# Options for a stronger and more agile EU budget

## Background

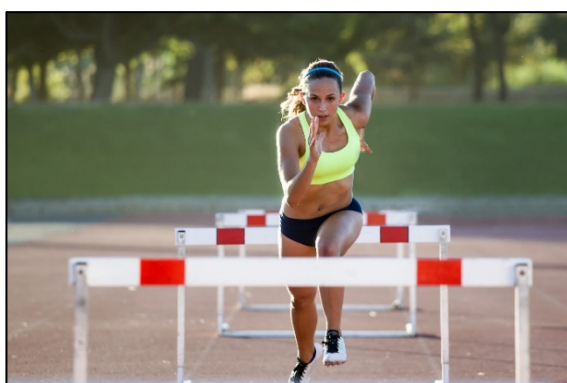
The EU has had to face a succession of crises and other challenges in recent years, many of which have called for budgetary responses. Yet as presently structured, the EU budget lacks the flexibility to adjust in a sufficiently agile manner. Instead, there has been increasing resort to mechanisms outside the core budget to provide the funding required, resulting in a complex ‘galaxy’ of funding mechanisms.

Starting from these observations, the study first examines conceptual models for analysing the attributes of public goods and services, as well as fiscal and budgetary relations between different tiers of government. Their applicability to the distinctive nature of the EU’s finances can be limited. In particular, what constitutes an EU public good and clarity about what is meant by the term ‘European added value’ are tricky questions.

Nevertheless, drawing on insights from the economics of public finance, the study develops three main scenarios for possible trajectories for reform of the EU budget, together with three more specific ones. Their purpose is to explore different ways of making the Budget more ‘flexible and responsive’, while reducing the resort to ‘extra-budgetary constructions’.

## Key findings

Two of the main scenarios explore opposed, and mutually exclusive, options for the EU’s finances. The first is to restore the primacy of the Multi-annual Financial Framework (MFF) and the annual budget by better integration of off-budget mechanisms. For the second, the reverse is assumed, as it depicts a more formal separation of the borrowing and lending components of EU finances.



The first scenario appears to be most conducive to fulfilling the objectives: Simply put, doing more through the Ordinary Legislative Procedure and thus the Budgetary Authority is attractive, especially from the standpoint of legitimation. A challenge will, however, be to retain sufficient flexibility in adopting new mechanisms.

The second scenario would both simplify the EU budget and raise new complications in the EU’s broader finances. It would make it easier to preserve the integrity of the income and expenditure side of the budget in fulfilling its

established functions, insulating the EU budget against borrowing costs. Instead, dealing with several off-budget mechanisms would become a matter for Member States.

Scenario 3 is about tweaking the status quo to deal with known problems and anomalies, but without radical change, very much in the tradition of ‘muddling-through’. Several of the proposals put forward for the mid-term review of the MFF can be seen through the lens of tweaking, but the notion can also be extended to

Check out the  
[original full study](#)  
by scanning this  
QR code!



encompass the furthering of other recent trends. Precisely because it would be a tweaking of established features of the EU budget, scenario 3 can be considered the least difficult of the three to implement.

The three specific scenarios look, respectively, at retrenchment of the budget consistent with one of the scenarios in the 2017 White Paper on the Future of Europe, having a macroeconomic stabilisation mechanism at EU level, and options for external action. Of these, it should be stressed that retrenchment is highly implausible, but is included to show what the White Paper option would imply. By contrast, having a macroeconomic stabilisation capacity has long been debated and would be consistent with theoretical analysis which suggests having such a function at the highest level of governance. Likely demands associated with supporting Ukraine, as well as other geo-political developments, can be expected to require better funded mechanisms for external action.

## Recommendations

The current system of EU finances, of which the budget remains the largest part, is still capable of meeting most expectations of it, but is under increasing strain, with the corollary that the time is ripe for more far-reaching changes than have been attainable since 1988. The prospect of a further enlargement sooner than previously foreseen adds urgency to this conclusion.

A related conclusion is that the EU needs to develop its own fiscal framework and it is proposed that it comprise five main elements. These are expenditure, revenue, risks associated notably with the growth of borrowing, governance considerations, and legitimation. These components of the framework affect one another: for example, interest charges and debt repayments require either more revenue or cuts in existing expenditure. Several recommendations are put forward for how the different components of the EU fiscal framework might be recast.

In relation to expenditure the study contends that a fresh look is needed at how European public goods to be funded by the budget are selected, taking account of messages from economic theory. In parallel, more attention needs to be paid to European added value, even though reaching agreement on how to interpret the term is difficult.

The Own Resources Ceiling plays a crucial role in enabling the EU to borrow on favourable terms, because the margin ('headroom') between it and the revenue the EU needs to fund regular MFF expenditure offers an implicit guarantee to financial markets. However, if more borrowing mechanisms are introduced, the headroom can be squeezed.

Servicing debt through the EU budget and, over time, amortising the debt will be first calls on future EU budgets. Meanwhile, agreement on new own resources to protect current budget lines is proving elusive. The study therefore suggests first setting a target for substantially raising the share of 'genuine' own resources (as opposed to national contributions) and a deadline for doing so. New own resources, ideally linked to EU policies, should then be chosen.

The case for trying to consolidate the diverse borrowing mechanisms is persuasive and, although the Commission management of the borrowing has been effective, it would be worth considering having a separate EU debt agency. Bringing the European Stability Mechanism inside the EU legal order could pave the way for it to fulfil this function. In addition, a permanent macroeconomic stabilisation capability should be on the agenda of reform of EU finances.

Many aspects of the governance of EU finances also deserve attention. Article 122 TFEU has been the preferred legal base for new mechanisms and can be justified where urgent action is needed, but using it allows the Parliament only limited influence and it is not the only option. To assure enhanced legitimation, the study advocates an obligation to use the ordinary legislative procedure other than in exceptional and clearly defined circumstances.

**Disclaimer and copyright.** The opinions expressed in this document are the sole responsibility of the authors and do not necessarily represent the official position of the European Parliament. Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the European Parliament is given prior notice and sent a copy. © European Union, 2023.

© Image on page 1 used under licence from Adobe Stock

IP/D/ALL/FWC/2020-001/C5/SC6; Manuscript completed: October 2023; Date of publication: October 2023

Administrator responsible: Stefan SCHULZ

Editorial assistant: Adrienn BORKA

Contact: [poldep-budg@europarl.europa.eu](mailto:poldep-budg@europarl.europa.eu)

This document is available on the internet at: [www.europarl.europa.eu/supporting-analyses](http://www.europarl.europa.eu/supporting-analyses)

Print ISBN 978-92-848-1189-2 | doi:10.2861/544712 | QA-04-23-985-EN-C

PDF ISBN 978-92-848-1190-8 | doi:10.2861/537788 | QA-04-23-985-EN-N