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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

Long-term forecast of future inflows and outflows of the EU budget (2024-2028)

{COM(2023) 390 final}

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1. Introduction

This document accompanies the report from the Commission on the long-term forecast of future inflows and outflows of the EU budget over 2024-2028 and provides additional technical information on the assumptions used for establishing the forecast results.

2. Forecast assumptions by main spending elements

2.1. 2014-2020 European Structural and Investment (ESI) Funds and 2021-2027 cohesion policy funds

The completion of the legislative process for the Common Provisions Regulation and all linked sectoral legal bases, and the priority given by Member States to the implementation of the RRF (for which the timespan for commitments and payments is shorter than for cohesion policy) delayed the adoption of 2021-2027 operational programmes. In 2021, the first year of implementation, not a single national programme was adopted and 100% of the commitment appropriations allocated for cohesion policy were reprogrammed in equal proportions to the years 2022 to 2025 under the provisions of Article 7 of the MFF Regulation.

The forecast for the 2021-2027 cohesion policy funds follows the profile of submission of interim payment claims as a share of the overall envelope observed in 2014-2020 with certain adjustments. Firstly, the re-programming under Article 7 of the MFF would lead to a full year delay compared to the previous period implementation pace. Furthermore, the payments planned in the budget 2023 and the draft budget 2024 are considered in the forecast, confirming the delay in implementation compared to the programmes 2014-2020. According to the central scenario considered in this forecast, in 2025 Member States submit payment claims following the acceleration observed in 2018 compared to the 2017 (3rd and 4th years of the programming cycle). In 2026 and 2027 the submission of payment claims speed to reach the historical profile of the 2014-2020 programming period. In 2028 the full cruising speed is reached until programme closure.

Given the high level of uncertainty and the absence of a relevant comparable historical base, two alternative scenarios are also presented in this forecast. The upside-optimistic scenario assumes that over 2025-2027 the implementation is projected in line with 2018-2019 - the 4th and 5th years of the programming cycle implying a partial catching-up of the Article 7 re-programming. From 2028 until closure a constant annual implementation at full cruising speed is projected. A downside scenario considers that Member States do not catch up with the delay. In this case, the observed implementation profile in 2014-2020 is shifted by one year until 2028 to project a scenario in the delay persists. The full cruising speed is only reached afterwards.

Under the three scenarios it is assumed that Member States will use all the available administrative possibilities to avoid decommitments given the more elevated risks than in the past. Therefore, it is assumed that from 2025 Member States will submit payment claims by the end of the year that would reduce the amount of decommitments to one fifth of the projected results following each of the scenarios. The remaining amounts representing four fifths of the projected decommitments would be give rise to recoveries as internal assigned revenue in the following year and used as payment appropriations equally in this same year and the following one. Excluding this administrative possibility of over-submitting payment claims would multiply the de-commitments by five.

The forecast for payments in relation to the 2014-2020 programming period is based on the information provided by Member States in January 2023 forecasts. The payments in 2024 reflect the Draft Budget proposal. For the subsequent years, a key determining factor for implementation are the proposed measures accelerating implementation and facilitating full absorption, under the CARE, FAST-CARE and SAFE initiatives as well as the earlier Coronavirus Response Investment Initiatives (CRII and CRII+). The end of the last accounting year is on 30 June 2024 and the last payment claims should be submitted by 31 July 2024. Closure payments are expected to be limited after 2024.

2.2. Rural Development

The submission of payment claims of the European Agricultural Fund for Rural Development under the new CAP starts in 2023, the first year of implementation, one year earlier than the historical implementation profile of the 2014-2022 period. The EAFRD pre-financing under the new CAP applied to 2023-2027 envelopes starts in 2023. The payment pattern for the period 2025-2028 is based on the historical data adapted to a shorter period compared to the previous programmes and to the N+2 automatic de-commitment rule.

As regards the forecast for the completion of the 2014-2022 programmes, in 2025 the same implementation as last year's forecast is assumed with most of the remaining interim payments. Closure and a small share of interim payments are expected in 2026, respecting the applicable N+3 de-commitment rule.

Even if all EAFRD commitments over 2014-2022 correspond to the previous programming period, this forecast splits the payments related to commitments prior to and after 2020 to differentiate payments according to the relevant MFF periods and ceilings. To that end, the forecast assumes that as of 2024 all payments would be counted against budgetary commitments made in 2021-2022.

2.3. Direct payments and market measures under the Common Agricultural Policy

Most of the appropriations for the European Agricultural Guarantee Fund (EAGF) are non-differentiated, i.e., both commitments and payments match in the same annual budget. The bulk of appropriations are direct payments to farmers, which are usually reimbursed to Member States during the first months of the following budget year. The commitments on which the payment forecast is based aligns with the financial programming accompanying the Draft Budget 2024. Member States communicated[i] the transfers between pillars of the Common Agricultural policy, which resulted in a net transfer of EUR 4 783 million from pillar I (EAGF) to pillar II (EAFRD) in the period 2024-2027, was considered for the payment estimations.

2.4. Other programmes and funds

For all other spending items (e.g., research and innovation, large scale infrastructure projects, internal and external policies), the forecasts for payments on the commitments authorised in the current financial framework are based on the Draft Budget 2024 and the accompanying payment schedules of the individual budget lines, as provided in Working Document XIII accompanying the Draft Budget. The expected average pattern of implementation for the next two commitment tranches (2023 and 2024) is extrapolated to the commitments for the years 2025 to 2028.

These commitments are expected to follow the financial programming accompanying the 2024 Draft Budget including, where relevant, the additional top-ups stemming from the programme specific adjustment mechanism of Article 5 of the MFF Regulation. For Horizon Europe, the European Parliament and the Council agreed to make available again over the MFF period an amount of EUR 500 million in 2018 prices in appropriations resulting from total or partial non-implementation of research programmes, in accordance with Article 15(3) of the Financial Regulation.

As for Heading 6 - Neighbourhood and the World, the war in Ukraine is associated with a greater level of uncertainty, which will likely require EU budget support to respond to the increasing volatile circumstances. In 2021 and 2022, there has been positive progress on the programming of the external action instruments and the kick-off of implementation. Yet, it is still premature to assess fully the long-term budgetary effects of the novel architecture of the instruments (mostly the Neighbourhood, Development and International Cooperation Instrument - Global Europe) in respect of the potential re-use of de-commitments, carry-over provisions and of the mobilisation of the emerging challenges and priorities cushion post-2024. At this stage, no de-commitments for the programmes having the possibility to re-use them are forecast since the effect over time would be neutral.

The forecast for payments completing activities before 2021 is based on the experience from past MFF periods and the latest project information.

2.5. Administration

Administrative expenditure (Heading 7) is implemented as non-differentiated appropriations, i.e., commitments match payments in the same annual budget. The forecast translates the financial programming of commitment appropriations into payments.

Most of the EU-funded decentralised agencies (all of which are outside Heading 7) follows the same approach.

All administrative expenditure, and in particular under Heading 7, is and will be under pressure in 2023-2024 and going forward due to the high levels of inflation and rising energy prices, even with strict reprioritisation.

2.6. Special Instruments

Special instruments fall under two categories:

- Thematic instruments –providing support in unforeseen events such as natural disasters, mass redundancies, humanitarian, and other crises. Due to their nature, forecasting over a longer time horizon is not possible, with the exception of the Brexit Adjustment Reserve for which expenditure is programmed over 2021-2023 and in 2025, in line with the relevant legal act[ii]. The present report thus includes the expenditure planned in the Draft Budget 2024.
- Non-thematic instruments – allocating additional amounts for specific MFF programmes subject to specific conditions. Their mobilisation and the subsequent payment needs cannot be forecast. For the Flexibility Instrument, the payments stemming from past mobilisations are included in the overall payment as provided in the Communication on the technical adjustment of the MFF for 2024.

The expenditure covered by the mobilisation of special instruments is counted in addition to the MFF ceilings and is excluded for the purpose of establishing the margins for commitments and payments

3. Assumptions for forecasting revenue

3.1. Applicable legislation

The revenue forecast presented in this report is based on the parameters of the Own Resources Decision 2020[iii], effective since 1 January 2021, for all years of the reporting period (2024-2027).

3.2. Traditional own resources

Customs duties are projected to grow over the period 2025-2027 at the same rate as nominal Gross National Income of each Member State starting from the level of gross customs duties projected for the Draft Budget 2024. 25% of the customs duties will be retained by Member States as collection costs.

3.3. National contributions

National contributions fill the gap between traditional own resources and other revenue on the one hand and forecast expenditure on the other. They have for a long time included the Gross National Income-based own resource and the Value Added Tax-based own resource. The Own Resources Decision 2020 introduced a new own resource based on non-recycled plastic packaging waste. The parameters for the own resources specified in the Own Resources Decision determine the Member States' share in the total amount of national contributions that is needed to balance the EU budget.

3.4. Other revenue

Other revenue of the EU budget traditionally includes staff contributions, revenue accruing from the administrative operation of the institutions, contributions and refunds in connection with Union agreements and programmes, interest on late payments and fines, revenue from borrowing and lending operations, and miscellaneous revenue – as well as surpluses from previous years. Given their inherent volatility, most of those components are difficult to forecast. Therefore, the amount included in the Draft Budget 2024 (i.e., EUR 2 billion) is assumed to remain nominally constant over the forecast period.

Since 2021, in addition to the above-mentioned items, other revenue of the EU budget includes the United Kingdom's contribution related to outstanding commitments (RAL) for which the United Kingdom is liable, pension obligations and other components of the financial settlement, as laid down in the Withdrawal Agreement[iv]. This is also reflected in the proposed financing of the Draft Budget 2024.

The contribution of the United Kingdom related to outstanding commitments on 31 December 2020 is determined by applying the United Kingdom's financing share to the forecast RAL payments for each year of the 2024-2027 period. The resulting annual contribution takes into account the payment modalities set out in Article 148 of the Withdrawal Agreement.

The forecast of other revenue includes the United Kingdom's contribution to pension liabilities for Members and EU high-level public office holders as specified in Article 142(5) of the Withdrawal Agreement. The United Kingdom contribution to staff pensions (an estimated EUR 282 million in the Draft Budget 2024) enters the EU budget as external assigned revenue and is therefore not part of the long-term forecast of other revenue.

[i] Member States decided to transfer funds between direct payments and rural development. The result was set out in Commission Delegated Regulation 2023/813 of 8 February 2023

[ii] Regulation (EU) 2021/1755 of the European Parliament and of the Council of 6 October 2021 establishing the Brexit Adjustment Reserve, OJ L 357, 8.10.2021, p. 1–26.

[iii] Council Decision (EU, Euratom) 2020/2053 of 14 December 2020 on the system of own resources of the European Union, OJ L 424/1, 15.12.2020.

[iv] All components of the United Kingdom contribution are laid down in Article 148 of the Withdrawal Agreement. The forecast only includes components which are quantifiable at this stage, namely the provisional United Kingdom contribution to the financing of payments resulting from outstanding commitments prior to 2021 for which the United Kingdom is liable under Article 140 and pension liabilities specified under Article 142.5 of the Withdrawal Agreement as well as the amounts the Union owes to the United Kingdom under Article 145 (European Coal and Steel Community) and Article 146 (Union investment in the EIF).