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COMMISSION STAFF WORKING DOCUMENT

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COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE EUROPEAN COUNCIL, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

Mid-term revision of the multiannual financial framework 2021-2027

{COM(2023) 336 final}

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EXECUTIVE SUMMARY

Since the adoption of the Multiannual Financial Framework (MFF) 2021-2027, the Union has faced a series of unexpected challenges. Barely out of the pandemic, the Union was faced with Russia's brutal invasion of Ukraine with huge humanitarian, economic, social, budgetary and political consequences. The ensuing energy crisis was a yet another call to accelerate the clean-energy transition, and a red-alert to reduce the energy dependency from Russia. More broadly, geopolitical instability has brought further pressures to migration and to the Union's external action activities. The macro-economic environment has changed dramatically. Because of the energy crisis and supply chains bottlenecks from the post-COVID-19 pandemic, inflation increased sharply, and in turn pushed up interest rates, which made borrowing costs rise for all bond issuers, including the EU. As a consequence, NGEU borrowing costs will be substantially higher than foreseen at the time of adoption of the MFF.

The Commission has acted swiftly to address these challenges, by using all means at its disposal, including redeployments, reprogramming and budgetary flexibilities. The EU and its Member States have shown unwavering solidarity with people fleeing the war in Ukraine and immediately mobilised support to the Ukrainian people and the Ukrainian government. Cohesion policy funding provided support to refugees from Ukraine through the CARE and Fast-CARE initiatives, and addressed the energy crisis through the package of SAFE (Supporting Affordable Energy) measures. Remaining RRF loans (EUR 225 billion), additional grants (EUR 20 billion) and Brexit Adjustment Reserve transfers are mobilised under REPowerEU plan, to accelerate the energy transition and to diversify energy supply, reducing the energy dependency from Russia. Among other measures, substantial reprogramming of existing MFF funds took place under the Chips Act to secure the supply chain of semi-conductors. The proposed Act in Support of Ammunition Production (ASAP) to facilitate the ramp-up of ammunition production capacity within the EU is financed with redeployments from the European Defence Fund for 2024 and from resources initially foreseen for the European Defence Industry Reinforcement through common Procurement Act (EDIRPA) in 2023 – 2024.

As a result, the existing budgetary flexibility under the MFF is largely depleted. With the Draft Budget 2024, the annual allocation of the Flexibility Instrument is fully used to cover the sharp increase in NGEU borrowing costs. The annual amounts of the Solidarity and Emergency Reserve in 2021 and 2022 were fully used as well to tackle needs from the war in Ukraine, as well as natural disasters, and could not cover all the requests. Almost three quarters of the 2021-27 budgetary margins have been either used or planned, and the NDICI Cushion for emerging challenges and priorities by around 80%, notably to support Ukraine, but also for vaccines and the Syrian refugees package, *inter alia*. The loss of flexibility poses constraints for the remainder of the MFF horizon.

The Union's budget needs to provide sustainable support to its key priorities. The European Union is committed to firmly and fully stand with Ukraine and to continue to provide strong political, economic, military, financial and humanitarian support to Ukraine and its people. Financing is required for Ukraine's immediate needs, short-term recovery and for long-term reconstruction. The Macro-Financial Assistance Plus instrument only covers 2023 and can only finance the most urgent immediate budgetary needs. It can neither cover all the areas that the Union committed to support, nor provide long-term support for fast recovery. Migration has picked up after the pandemic, putting strains on Member States' reception and integration capacities. Addressing the root causes of migration, improving border management, and maintaining effective migration partnerships with third countries – whether countries of origin and transit, or those hosting large numbers of refugees – will need additional financial support. Targeted investment in strategic technologies is needed to foster long-term competitiveness. Leveraging on existing instruments and governance frameworks will speed-up the implementation and allow to mobilise quicker higher amounts of financial support Finally, in the current context of high volatility in financial markets the EU budget should have the necessary flexibility to cater for higher borrowing costs, which is a legal obligation.

New emergencies and increasing priorities have put a strain on the resources of the EU administration Many additional tasks have been given to the Union since 2020 without a corresponding increase in staff. Severe measures of reprioritisation and cost savings operations have been applied. However, the situation has reached a critical point where these additional tasks cannot be delivered without additional resources. In addition, the high inflation affects the Union's legal obligations related to indexed contracts.

A targeted MFF revision is therefore necessary to address urgent needs. The revision shall equip the MFF with the means to ensure that the Union can meet its legal obligations and address the most urgent priorities.

This Staff Working Document builds on the information available at the time of the presentation of the Draft Budget 2024, the Annual Budget and Performance Report for 2022, and the 2023 Long-Term Forecast of Inflows and outflows of the EU budget.[1]

[1] Statement of estimates of the European Commission for the financial year 2024, SEC(2023) 250 – June 2023; COM(2023)406 Annual Management and Performance Report for the EU Budget – Financial Year 2022; COM(2023)390 Report from the European Commission to the European

1. INTRODUCTION

The multiannual financial framework (MFF) 2021-2027 and NextGenerationEU, adopted in December 2020 during the COVID-19 crisis, marked a watershed moment in the history of the EU budget. It came with an unprecedented size of EUR 2 trillion,[2] a new instrument to support recovery and resilience funded by EU borrowing on financial markets and, after more than three decades, a new own resource and a roadmap to propose additional new own resources. Moreover, it was adopted with a new genral regime of conditionality, as respect for the rule of law is key for the sound financial management of the Union budget and the effective use of the Union funding.

The MFF and NextGenerationEU provide a well-designed support to the EU economy for its recovery from COVID-19, while minimizing the risks of lasting socio-economic divergences or scarring effects of the pandemic. In addition, they aim at fostering the EU's recovery and resilience by accelerating the green and digital transitions. Thanks to strong and coordinated EU action, the EU reached its pre- crisis GDP in less than 2 years, while it took 7 years for the EU to go back to its pre-crisis GDP after the global financial crisis.

However, the economic and geopolitical context has dramatically changed since the adoption of the MFF and NextGenerationEU. Russia's unprovoked and unjustified war of aggression against Ukraine and its fallout brought new challenges to the EU. The war is causing enormous suffering and destruction in Ukraine and has had significant economic reverberations in the rest of the world and the EU, with lower growth and record-high inflation that is only now starting to recede. The modest growth in the EU registered in the first quarter of 2023 dispelled fears of a winter recession, but inflation remains high, which might call on monetary authorities to act more forcefully to stem inflationary pressures.[3] The high inflation also has a negative impact on the real value of all budgets, including the EU budget.

The EU budget has been one of the main tools of response to these unforeseen challenges, requiring – as discussed in this Staff Working Document – significant reprogramming and use of flexibilities. However, the EU budget's overall flexibility, availabilities and possibilities for reprogramming are now reaching their limits, undermining the MFF's ability to address current and future challenges.

At the time of adoption of the MFF, the Commission committed to present a mid-term review by 1 January 2024. As per the Commission's declaration, the

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Parliament and the Council – Long-Term Forecast of future Inflows and Outflows of the EU budget (2024-2028)

[2] All figures in this document are in current prices, except when indicated otherwise.

[3] European Commission (2023) "European Economic Forecast – Spring 2023", *European Economy – Institutional Paper* 200

review ‘may, as appropriate, be accompanied by relevant proposals for the revision of the MFF Regulation’.

This Staff Working Document, together with the Communication COM (2023)336, presents the main elements and outcomes of the review and sets the ground for a necessary and targeted revision of the MFF. This analysis builds on the information available at the time of the presentation of the Draft Budget 2024, as well as the Annual Budget and Performance Report for 2022 and the 2023 Long-Term Forecast of Inflows and outflows of the EU budget[4] to assess the implementation of the MFF and evaluate the challenges for the remainder of the MFF in light of the evolving economic and geopolitical context.

2. IMPLEMENTATION: SPENDING PRIORITIES AND CHALLENGES

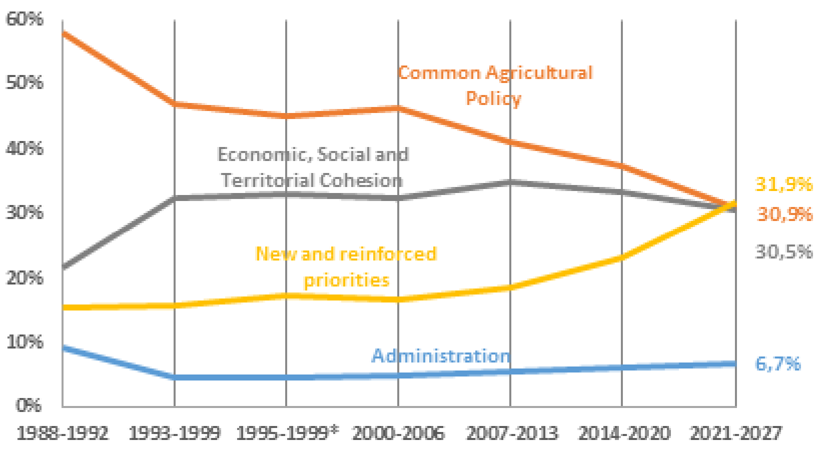
2.1. A transformative budget

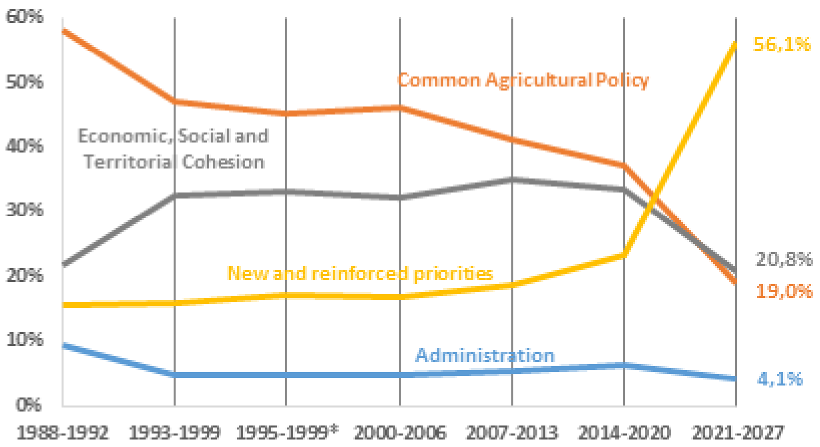
The MFF and NextGenerationEU were adopted at a time when the Union was confronted with several challenges that required common action. Not only Europe was facing the largest shock in modern history with the COVID-19 pandemic, but additional structural changes driven by technological, demographic and the climate crisis, and scarce resources posed significant challenges. New security threats as well as war in Europe's neighbourhood, and global geopolitical instability characterized already the external environment.

The composition of the current long-term budget responded to this wide array of challenges. The EU budget expenditure has been traditionally dominated by agriculture and cohesion policy, with other instruments and policies gradually gaining ground. For the period 2021-2027 about one third of the MFF is allocated to new and reinforced priorities. Research, defence, healthcare, migration, among others, represent 31.9% of the current multiannual framework, up from 23.2% in the MFF 2014-2020 (Graph 1). When NextGenerationEU - a temporary and exceptional instrument - is included, the share of these new policies and priorities is above 50%.

Graph 1. Share of the main policy areas in the multiannual financial frameworks excluding (upper chart) and including NextGenerationEU (lower chart)

[4] Statement of estimates of the European Commission for the financial year 2024, SEC(2023) 250 – June 2023; COM(2023)406 Annual Management and Performance Report for the EU Budget – Financial Year 2022; COM(2023)390 Report from the European Commission to the European Parliament and the Council – Long-Term Forecast of future Inflows and Outflows of the EU budget (2024-2028)





Source: European Commission.

NextGenerationEU is the most innovative element both from the point of view of its composition and its financing. Over the period 2021-2026, the recovery instrument will inject up to around EUR 807 billion to the EU economy to repair the economic and social damage caused by the COVID-19 pandemic and to support a greener, more digital, and more resilient EU, better fit for the current and forthcoming challenges. NextGenerationEU is financed via common Union borrowing on financial markets. Whereas the EU was already a well-established issuer on financial markets, with NextGenerationEU it becomes a major issuer and for the first time it is borrowing to finance spending programmes (Section 4.2).

The EU budget provides a substantial impulse to investment in Europe. The EU budget's impact on investment is compounded by Member States' co-financing and in many cases by the leverage effect of financial instruments crowding in funds from partnering institutions and private investors. Net investment had declined dramatically after the global financial crisis and struggled to recover in the run-up to the current MFF. The InvestEU programme,[5] building on the success of its

[5] Regulation (EU) 2021/523 of the European Parliament and of the Council of 24 March 2021 establishing the InvestEU Programme and amending Regulation (EU) 2015/1017.

predecessor, leverages on the budget and brings together different prior financial instruments, generating economies of scale, thus making a more efficient use of guarantees to crowd-in private investors (Box 1).

By providing financial support to key European policies and priorities, the long-term budget aims at accelerating Europe's economic structural transformation. The EU budget is not only supporting growth and investment on a durable manner, it also boosts the implementation of structural reforms that improve the functioning of the economy, bringing further EU added value. The focus is on the green and digital transitions and ensuring that these occur in an inclusive way.

Box 1. InvestEU two years on

The promotion of investment for recovery, green growth, employment, and well-being across Europe is one of the EU's top priorities. The InvestEU programme is endowed with an EU budgetary guarantee of EUR 26.2 billion. This is expected to mobilise more than EUR 372 billion over the period 2021-2027 to support investments in key EU policy priority areas, including the green and digital transitions, research and innovation, the European health sector, strategic technologies, and projects of common European interest.

InvestEU implementation is on track. As of June 2023, the Commission has signed guarantee agreements with 11 implementing partners, already allocating EUR 22.3 billion out of the total available guarantee. This alone should mobilise more than EUR 290 billion in private investment. The investment committee has approved 94 operations worth EUR 11.51 billion of the EU guarantee.

Member States can transfer additional resources to InvestEU, up to 5% of their shared management funds and up to 4% of the Recovery and Resilience Plan's total financial allocation under the Recovery and Resilience Facility. This additional EU guarantee will be implemented in accordance with InvestEU rules and will be used exclusively for the benefit of the Member State concerned ('Member State compartment'). This may bring benefits in terms of policy implementation and higher leverage. Member States can benefit from ready-made or tailor-made products, a single set of rules including in specific cases simplified state-aid rules. Up to date, there are EUR 1.7 billion additional guarantees mobilised through contributions by six Member States under their compartments.

EU support under InvestEU has been reinforced by EUR 1.4 billion additional EU guarantee through blending operations from nine sectoral programmes. This either increases the amount of the EU guarantee granted, provides a self-standing financial product or may provide a certain amount of grants to de-risk the investments. The most recent example is the Green Premium Agreement that provides to the EIB an indicative contribution from the EU Innovation Fund (EUR 220 million), and Horizon Europe (EUR 200 million) of up to EUR 420 million to be used to co-invest in projects selected by Breakthrough Energy Catalyst up to EUR 820 million between 2022-2026 to accelerate the deployment and rapidly commercialise innovative technologies that will help deliver European Green Deal ambitions and the EU's 2030 climate targets.

2.2. The Union budget response to the COVID-19 pandemic and energy crisis

In early 2020, the COVID-19 pandemic swept across the globe leading to loss of lives, a sudden exceptional economic contraction and a steep increase in uncertainty, prompting Member States and the EU to intervene at large scale. Lockdown measures to contain the virus severely affected economic activity. All Member States were impacted by this major shock although in a different way depending, *inter alia*, on the spread of the virus among the population, the type and severity of the containment measures and the sectoral composition of the economy. To counter these negative effects and underlying risks, the ECB provided large-scale liquidity, European state-aid rules were relaxed, and the general escape clause of the Stability and Growth Pact was activated for the first time to enable Member States to provide immediate budgetary support to their economies.

The EU budget also contributed to the immediate response, through substantial reprioritization and redeployments (Table 5.1.2). The Coronavirus Response Initiative (CRII) and the Coronavirus Response Investment Initiative Plus (CRII+) provided immediate liquidity to Member States' budgets and made possible the frontloading of cohesion policy funding within the 2014-2020 cohesion policy programmes. The CRII introduced a range of simplifications, liquidity measures and flexibilities designed to help Member States respond to urgent needs for the healthcare sector, small and medium-sized enterprises (SMEs) and labour markets. CRII+ provided the possibility to apply 100% EU co-financing to operations for one year[6] and facilitated the redirection of available funds from the 2020 allocation. As a result of these measures, Member States spent over 10% more of their cohesion policy funding in 2020 than they had planned before the pandemic and most of the available funds were mobilised by the end of 2021 (Graph 2).

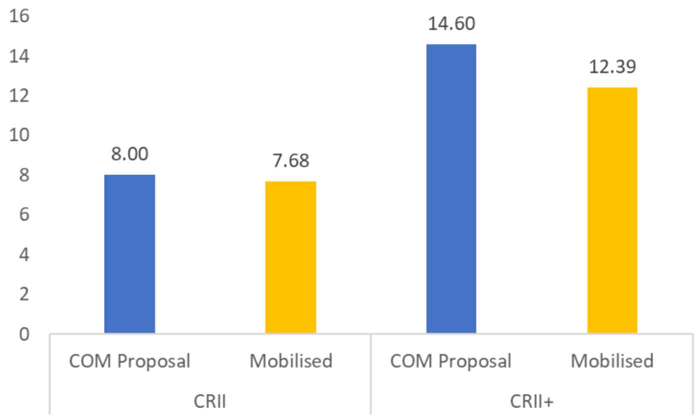
The EU budget also backed loans to fund short-time work schemes and similar measures to effectively safeguard employment and avoid scarring in the labour markets. The temporary Support to mitigate Unemployment Risks in an Emergency (SURE) instrument introduced in 2020 provided close to EUR 100 billion in loans to 19 Member States[7], financed by the issuance of social bonds. As a result of the measures taken at Member State and EU level, unemployment in the EU-27 went up by substantially less than what could have been expected given the fall in domestic production. Member States are estimated to have saved EUR 9 billion in

[6] The CARE package extended the 100% EU co-financing for relevant operations by one additional year.

[7] Belgium, Bulgaria, Cyprus, Estonia, Greece, Spain, Croatia, Hungary, Ireland, Italy, Lithuania, Latvia, Malta, Poland, Portugal, Romania, Slovenia, Slovakia, Czechia.

interest payments thanks to EU borrowing to finance SURE, which had lower rates than most of the EU Member States.[8]

Graph 2. The EU Budget's immediate response to COVID-19 through CRII and CRII+ (EUR billion)



Source: European Commission.

In May 2020, the Commission put forward a recovery plan that included a revised proposal for the 2021-2027 MFF and the recovery instrument NextGenerationEU. Despite the decisive actions to contain the immediate impact of the crisis, concerns remained that the crisis might trigger a situation of prolonged sluggish growth, high unemployment and a permanently weakened business sector. For the EU as a whole, the crisis entailed fundamental risks that the single market level-playing field could become permanently uneven and widen a gap in living standards. The process of economic integration and convergence could also be jeopardised**.**

At the centre of NextGenerationEU is the Recovery and Resilience Facility (RRF), which provides up to EUR 723.8 billion in grants and loans for reforms and investments. The RRF provides financial support to Member States for reforms and investments establishing for the first time a very strong link between Europe's must-do's for economic prosperity as defined in Member States' Country Specific Recommendations and EU financial support for investments. Payments are subject to the delivery of agreed milestones and targets. This set-up incentivises the implementation of major economic, social and environmental reforms, which, in turn, increase the effectiveness of the investments (Box 2). Member States have flexibility in designing and implementing the measures in a way that suits their national conditions, which increases their ownership of plans. Technical support for reforms is available to Member States under the Technical Support Instrument.

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[8] Report on the European instrument for Temporary Support to mitigate Unemployment Risks in an Emergency (SURE) following the COVID-19 outbreak pursuant to Article 14 of Council Regulation (EU) 2020/672,'SURE after its sunset: final bi-annual report' (June 2023).

NextGenerationEU also reinforces several EU programmes and policies with EUR 83.1 billion. These include cohesion policy, under the recovery assistance for cohesion and the territories of Europe (REACT-EU), the Just Transition Fund, the European Agricultural Fund for Rural Development (EAFRD), InvestEU, rescEU, and Horizon Europe. These can be used until end 2023, as was already the case for the original allocations. To provide the maximum possible assistance to the Member States, the implementing conditions are very generous and flexible, including no national co-financing and a high-level of prefinancing. As of end-2022 almost the full amount was programmed and committed (99.95%), with 36% paid-out to Member States.

The macroeconomic impact of NextGenerationEU is expected to be sizeable. European Commission simulations[9] suggest an impact of 1.2% of GDP by 2026. In particular, the synchronised fiscal stimulus leads to important positive spillovers across countries: on average, GDP effects are around one-third larger compared to a counterfactual of a fiscal impulse in one individual country. ECB analysis points to a somewhat larger growth impact (+1.5% of GDP by 2026)[10]. In particular, in Italy and Spain, two of the main beneficiaries, the public debt-to-GDP ratio may be substantially lower in a decade compared to what it would have been without NextGenerationEU.

Box 2. The Recovery and Resilience Facility two years on

All Member States have adopted national Recovery and Resilience Plans (RRPs). 22 RRPs were adopted in 2021 and 5 in 2022. The RRPs present a comprehensive set of measures with milestones and targets whose fulfilment is a condition to disbursements. The positive assessment by the Commission of the RRPs and endorsement by the Council depends on several criteria including their consistency with Country Specific Recommendations, the impact on growth and job creation and policy costing, in addition to quantitative requirements for their contribution to climate and digital objectives.[1]

A key innovative feature of the RRF is that it provides financial support to productivity-enhancing structural reforms in addition to investments. The RRF supports Member States in addressing relevant country-specific recommendations adopted by the Council as part of the European Semester. As such, the RRF provides political momentum and financial incentives for Member States to deliver on long-standing and newly emerging reform needs. Meeting such needs is essential to enhance the resilience and competitiveness of the European economy and to contribute to upward social and economic convergence. A breakdown by policy area shows that challenges in the areas of research and innovation, education, skills and

[9] Pfeiffer, P., Varga, J. & in' t Veld J. (2022). Quantifying spillovers of coordinated investment stimulus in the EU. *Macroeconomic Dynamics*, 1-23.
[10] Bańkowski (et al), "The economic impact of Next Generation EU: a euro area perspective", *ECB Occasional Paper Series,* No 291, April 2022 (link).

life-long learning, energy and climate change as well as transport and the business environment are well covered in the plans. Member States' plans are, in general, less ambitious in policy areas related to taxation or to the long-term sustainability of public finances.

The RRF helps Member States to deliver on jointly identified policy priorities, including the green and digital transitions and the European Pillar of Social Rights. About 40% of the total allocation of the RRPs (EUR 230 billion) contributes to measures aimed at reducing net greenhouse gas emissions by at least 55% by 2030, and 26% (EUR 131 billion) to measures of digital transformation of the European society and economy. The RRF's contribution to the green transition is further reflected in the mandatory respect of the "do no significant harm" principle, which is essential to ensure the compatibility of the Facility with the EU's environmental objectives. Moreover, the Facility also supports measures that are contributing to the implementation of the European Pillar of Social Rights, the Union of Equality, and the achievement of the 2030 targets in terms of employment, skills and poverty reduction - with almost 30% (EUR 138 billion) of the RRPs' allocation dedicated to social expenditure.

As of May 2023, EUR 153.4 billion have been disbursed (EUR 106.3 billion in grants and EUR 47.1 billion in loans) out of around EUR 500 billion committed. This includes EUR 56 billion in pre-financing, which was quickly disbursed to provide liquidity in response to the crisis. The level of disbursements is commensurate to the progress in the achievement of milestones and targets.

There are still some EUR 225 billion of loan support available for Member States for commitment in 2023. Ten Member States have expressed an interest in (additional) RRF loans for a total of around EUR 145 billion for REPowerEU objectives or other [2]. Member States have until 31 August 2023 to request loan support.

[1] Recovery and Resilience Scoreboard (europa.eu)
[2] Overview of Member States' intentions to request RRF loan support.pdf (europa.eu)

The EU economy has largely recovered from the COVID-19 induced shock halfway through NextGenerationEU implementation. In almost all Member States, GDP levels and unemployment rates have returned to pre-pandemic levels by the end of 2022. This strong recovery contrasts with the experience after the global financial crisis. This can be explained by both the nature of the shock as well as the coordinated policy response.

However, Russia's war of aggression against Ukraine massively disrupted the global energy system and halted the recovery. The war is causing enormous suffering in Ukraine (section 2.7) and Russia's weaponization of energy supply caused economic hardship on EU households and firms as it pushed energy prices at historical highs and heightened energy security concerns. It also brought to the fore the EU's over-dependence on fossil fuel imports from Russia (gas, oil and coal).

As a result, in March 2022, EU leaders agreed in the European Council to phase out Europe's dependency on Russian energy imports as soon as possible and the Commission presented the REPowerEU plan in May 2022.

REPowerEU, as a new chapter in RRF plans, strengthens the joint effort to end Europe's dependence on Russian fossil fuels and to accelerating the green transition and is mainly financed through redeployments. REPowerEU entered into force in March 2023. In addition to the remaining RRF loans, the financial envelope is increased by EUR 20 billion in grants from the sale of EU Emission Trading System allowances. It allows for voluntary transfers from the Brexit Adjustment Reserve and higher pre-financing for a faster impact. Member States are to prepare dedicated REPowerEU chapters complementing their existing RRPs with a massive scaling-up and speeding-up of renewable energy in power generation, industry, buildings, and transport accelerating energy independence and the green transition. It is a further step forward under the European Green Deal - the EU's long-term growth plan to make Europe climate neutral by 2050.[11]

2.3. Digital transition

The digital transformation has been affecting the economy, security and society, further accelerated by the COVID-19 pandemic. One of the side effects of the pandemic has been a boost to internet-based ways of doing things, in particular e-commerce and teleworking but also e-government and e-health services, the development of new business models, home-work arrangements, and teleworking at a larger scale. This underscores the critical importance of digital infrastructure and connectivity. As a result, it has led to a greater recognition of the need to invest in digital technologies and skills to ensure Europe's competitiveness and resilience in the digital age. **Several investment programmes in the MFF are supporting digitisation efforts.** A stock-taking exercise conducted in 2023 shows that in 2021-2022, the EU budget contributed to the digital transition by EUR 28.6 billion[12] (EUR 131.9 billion including the RRF) (Graph 3). The EU budget is supporting all key dimensions of the Digital Compass for the EU's Digital Decade[13] (Graph 4).

Digital transformation is one of the key investment areas of the 2021-2027 MFF and NextGenerationEU. The Digital Europe programme's (DEP) has financed the

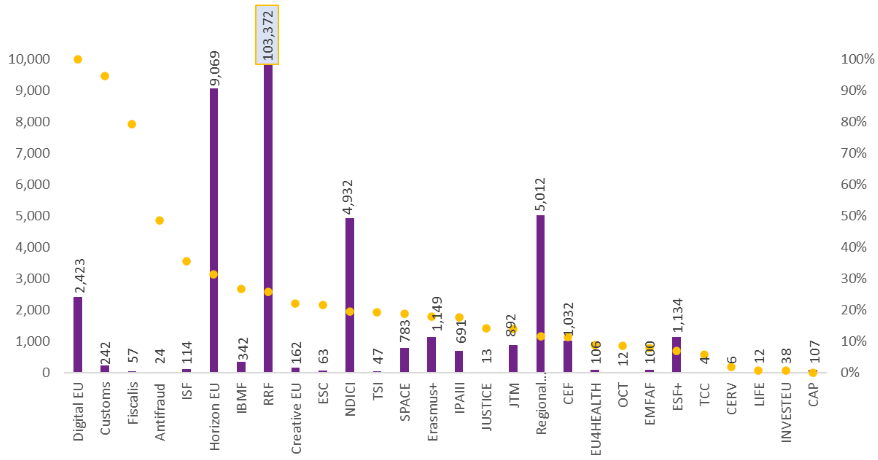
[11] For more on the European Green Deal and Fit for 55: https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/delivering-european-green-deal_en

[12] The exercise aggregates the contributions of the EU budget programmes using different tracking methodologies. A fully-fledged digital tracking methodology will be put in place in the coming years. The contributions are based on the annual voted budget, contributions from partners and third countries and NextGenerationEU. The overall amount may be larger as due to methodological limitations some programmes' contributions are underestimated (i.e. InvestEU, CAP).

[13] https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/europe-fit-digital-age/europes-digital-decade-digital-targets-2030_en

deployment of common data spaces built on innovative, secure and energy efficient cloud-to-edge capabilities. It also promoted the testing and adoption of trustful artificial intelligence technologies and invested in cybersecurity, including by deploying a secure quantum communication infrastructure (EuroQCI). 31% of Horizon Europe's budget is dedicated to the digital transformation, under the ‘Digital, industry and space’ cluster. The digital strand of the Connecting Europe Facility (CEF Digital), in its first programme call, is supporting 38 selected projects to receive EU funding to support safe, secure and sustainable high-performance infrastructure, totalling EUR 150 million. CEF Digital also contributes to the increased capacity and resilience of digital backbone infrastructures in all EU territories. The second round of CEF-Digital calls, worth EUR 240 million, attracted 69 proposals that are currently being evaluated. The Transport strand of the CEF is also making a key contribution by supporting the digitisation of transport in particular the European Rail Traffic Management System (ERTMS). As a result of the first Transport calls for proposals for ‘Actions related to smart and interoperable mobility’, 31 actions with programme co-funding of more than EUR 500 million have been awarded.

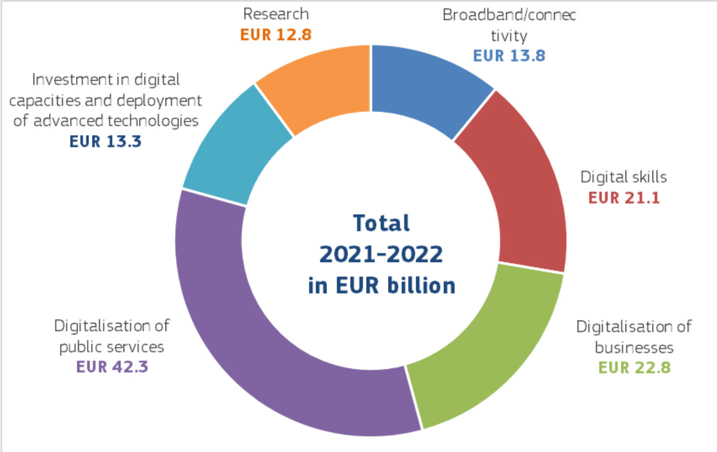
Graph 3. Estimated contributions to the digital transition of the MFF and NextGenerationEU in 2021 and 2022 in EUR million (left scale) and in percentages of their total implementation (right scale)



Source: European Commission based on the first stock-taking exercise.

The execution rate of the programmes supporting the digital transformation has been high, which reflects their strong demand. The execution rate is currently nearly 99% of the voted commitment appropriations, and implementation in these programmes is expected to gain cruising speed in 2023. This is despite the late adoption of the relevant legal bases, which required postponing by several months actions initially planned to start in late 2021 and in 2022.

Graph 4. Estimated contributions of the MFF and NextGenerationEU to the digital transition in 2021 and 2022 by key digital dimensions (EUR billion)



Source: European Commission based on the first stock-taking exercise.

The Commission has proposed several initiatives to develop secure and resilient supply chains in strategic sectors as a response to the evolving geopolitical landscape, including in the digital area with the European Chips Act. The Chips Act will mobilise over EUR 43 billion of public and private investments to ensure that the EU has the tools, skills and technological capabilities to become a global leader in semiconductor technologies and applications, to secure its supply of semiconductors and to reduce its dependencies. Given the very limited financial availabilities within the MFF, achieving a budget of EUR 3.3 billion has been extremely complex and necessitated a combination of multiple funding sources: the original Commission proposal's redeployments from Horizon Europe and the Digital Europe Programme for EUR 2.9 billion[14]; EUR 100 million from the 2023 margin of Heading 1; EUR 125 million through redeployment of the pre-existing strands of the Digital Europe Programme to the new Semiconductor objective; EUR 50 million through redeployment from ITER in 2024; EUR 50 million of future margins to be allocated to Digital Europe during the annual budgetary procedure and EUR 75 million from decommitments.

To address the emerging challenges in the digital sector, there have been significant redeployments and extensive utilisation of margins, which are by now depleted. For the remainder of the MFF, margins under heading 1 stand at EUR 215 million in total over 2024-2027 (ranging from EUR 10 million in 2026 to EUR 167 million in 2024), i.e. one fifth of the amounts in the adopted MFF[15] (Table 5.2.2 and section 3.1). In combination with the momentum gained in programme implementation, these limited margins render it unfeasible to rely on further redeployments or margins to finance new future requirements.

[14] Excluding the EUR 400 million of redeployment from Horizon Europe to Digital Europe to be compensated by re-commitments.

[15] The margin in Heading 1 for 2021-2027 at the beginning of the MFF was equal to EUR 1.06 billion (see Table 5.2.1).

2.4. Cohesion policy and the green and digital transition

EU cohesion policy aims at strengthening social, economic and territorial cohesion across EU regions, mostly through investments and creating employment opportunities. For the 2021-2027 MFF, the total funding under Cohesion policy amounts to EUR 392 billion[16], roughly a third of the EU budget. Cohesion policy programmes are delivered through the European Regional Development Fund (ERDF), the European Social Fund Plus (ESF+), the Cohesion Fund (CF) and the Just Transition Fund (JTF). In addition, REACT-EU aims to foster crisis repair capacities in the context of the COVID-19 pandemic, by completing resources available under the 2014-2022 programmes as discussed in Section 2.2. Due to their size, cohesion policy funds have played a key role in addressing the fallout of COVID-19 and the war in Ukraine, through increased flexibility and unprecedented reprogramming of 2021-2020 programmes,[17] and are supporting the Green Deal Industrial Plan.[18] The new Cohesion funds are tuned towards a record contribution on climate objectives, increasing their climate contribution from 20% in 2014-2020 to 31% in 2021-2027 (see section 3.4).

Cohesion policy funds present flexibilities that allow to adjust the programming to specific needs, while reflecting EU key priorities. Member States can transfer up to 25% of the respective initial allocations between the three funds (ERDF, CF and ESF+). In the Partnership Agreements adopted before the end of 2022, only a limited number of Member States opted for transfers to funds and instruments outside of cohesion policy (Bulgaria, Czechia, Germany, Greece, Finland, Malta and Portugal) for a total of EUR 918 million (i.e. 0.25% of the total cohesion envelope), while almost all used the possibility of transfers between the three Cohesion policy funds. Moreover, Member States can transfer up to 5% to other funds implemented in shared management, and to several funds and instruments implemented in direct management.[19] In addition, to respond quickly to future exceptional or unusual circumstances, a flexibility mechanism has been inbuilt into the Cohesion policy funds regulations to allow temporary measures as an emergency response.

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[16] Includes the full allocation for the ERDF, ESF+, Cohesion fund (includng CEF) and the Just Transition Fund. The amounts presented in table 5.1.1 are net of the transfers to other funds as presented in the Draft Budget 2024.

[17] As discussed in Section 2.2 concerning COVID-19 and 2.7 on the war in Ukraine.

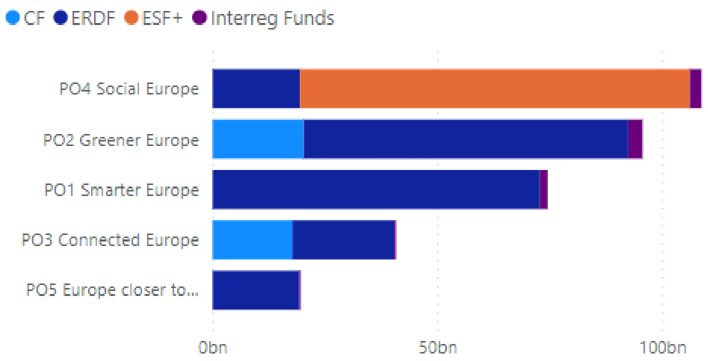
[18] Communication from the Commission to the European Parliament, the European Council, the Council, the Economic and Social Committee and the Committee of the Regions "A Green Deal Industrial Plan for the Net-Zero Age", COM(2023)62 final.

[19] Regulation (EU) 2021/1060 of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy.

The framework governing the 2021-27 Cohesion Funds has been simplified compared to previous programming period. In addition to the above-mentioned flexibilities, the number of objectives has been reduced from eleven in 2014-2020 to five (Graph 5). Other simplifications aim at a faster and better implementation, and higher legal certainty for managing authorities and beneficiaries. Member States are encouraged to use Simplified Cost Options in the form of unit costs, lump sums and flat rates, as well as financing not linked to the costs based on the achievement objectives. Furthermore, the number of verifications follow a proportionate risk-based approach, instead of covering 100% of operations, reducing control burden and total administrative costs by 2-3% . Enabling conditions, ensuring that Member States put in place strategies and mechanisms for the efficient and effective implementation of the specific objectives, have also been streamlined and reduced compared to the previous programming period.

Graph 5. Cohesion policy budget (EU amount, EUR billion)

By Policy Objective, 2021-2027 period



Source: European Commission, cohesion open data platform.

The late adoption of the MFF and the sectoral legal bases is weighing on implementation. None of the 2021-2027 programmes under the Common Provisions Regulation were adopted in the first year and most of them were adopted only towards the end of 2022, with 9 programmes adopted in carry-over at the beginning of 2023. As a result, in line with Article 7 of the MFF Regulation, the Commission adopted an adjustment of the MFF, reprogramming commitment appropriations of EUR 49 billion from 2021 from shared management funds[20], that could not be used in 2021 nor carried over to 2022.

Furthermore, the implementation of the new generation of cohesion policy lags behind compared to the previous MFF . The implementation of the 2021-

[20] European Regional Development Fund, the European Social Fund, the Cohesion Fund, the Just Transition Fund, the European Agricultural Fund for Rural Development, the European Maritime and Fisheries Fund, the Asylum and Migration Fund, the Internal Security Fund and the Border Management and Visa Instrument under the Integrated Border Management Fund.

2027 cohesion programmes started in 2022 with the disbursement of part of the pre-financing. In 2023 and 2024, additional pre-financing and first interim payments will be disbursed, though at slower pace than in the previous programming period. Several factors explain such delayed implementation. First, the late adoption of the legal bases mentioned above. Second, the prioritisation of re-programming under the 2014-20 framework , crises related measures under CRII, CRII+, REACT-EU, the Recovery and Resilience Facility, with shorter timeframes for programming and implementation. Given these delays, cohesion programmes for the period 2021-2027 are forecast to face important risks of de-commitments from 2025 unless Member States undertake additional efforts to catch up with the one-year implementation gap.[21]

Delivering on the green transition should leave no-one behind. The implementation of the Just Transition Fund, a brand-new instrument financed by both MFF and NGEU resources to support climate transition in those regions mostly affected by the transition towards climate neutrality, is delayed. A total of EUR 10.9 billion (55% of the total allocation of the Just Transition Fund) will need to be paid within the next three years given the 2026 deadline for payments under NextGenerationEU. Furthermore, almost no payments under the MFF ceilings are planned in the budget 2023 and in the draft budget 2024, which increases the risk of decommitments unless Member States substantially accelerate the implementation in years 2025 and 2026.[22] The Social Climate Fund (SCF) will provide EUR 65 billion to Member States over the period 2026-2032 to support policies to address the social effects for the introduction of the emissions trading system for buildings and road transport on vulnerable households, vulnerable micro-enterprises and vulnerable transport users. The fund will exceptionally and temporarily be financed from the revenues generated from the new ETS for buildings and road transport.

2.5. Common Agricultural Policy

The total allocation for the Common Agricultural Policy (CAP) under the 2021-2027 MFF including NextGenerationEU amounts to EUR 386.6 billion, about one third of the MFF. Its first pillar, the European agricultural guarantee fund (EAGF) has an allocation of EUR 291 billion. Up to EUR 270 billion will be provided for income support schemes, with the remainder dedicated to other measures supporting agricultural markets. The total allocation for the 'second pillar', the European agricultural fund for rural development (EAFRD), amounts to EUR 95.5 billion. This includes EUR 8.1 billion from NextGenerationEU.

[21] COM(2023)390 Report from the European Commission to the European Parliament and the Council – Long-Term Forecast of future Inflows and Outflows of the EU budget (2024-2028)
[22] COM(2023)390 Report from the European Commission to the European Parliament and the Council – Long-Term Forecast of future Inflows and Outflows of the EU budget (2024-2028)

The CAP 2023-2027 increased flexibilities for the Member States under their national CAP Strategic Plans. Member States have used possibility to transfer a maximum of 25% of their national envelopes between the two CAP pillars: the transfers between pillars of the CAP communicated by Member States will result in a net transfer of EUR 4.8 billion from pillar I (EAGF) to pillar II (EAFRD) for the years 2024-2027.[23] Member States can also apply additional flexibilities for certain purposes, such as supporting environment and climate objectives, supporting young farmers and where countries have below-average direct payments. Moreover, the CAP includes a reserve amounting to at least EUR 450 million a year that has been already mobilised to provide exceptional market support for eggs and poultry as well as emergency support for cereal and oilseeds (see also Section 2.7.2).

Member States have more ambitious environment and climate actions than in the previous programming period in their strategic plans. They had to take into account European legislation on climate change, energy, water, air, biodiversity and pesticides including the European Green Deal targets. Three out of ten of the CAP's specific objectives directly concern the environment and climate – covering climate change, management of natural resources, and biodiversity. CAP's contribution to the climate objective is on track, but a more substantive contribution to biodiversity would be necessary to meet the MFF biodiversity targets (see section 3.4).

By the end of 2022, all the strategic plans for the CAP 2023-2027 were approved and implementation started in January 2023. The transitional provisions extending the 2014-2020 programmes allowed the continuation of the implementation in 2021 and 2022.[24] As for the EAFRD, implementation accelerated on NextGenerationEU financing, while the implementation of the EAFRD-supported projects presented some under-execution in 2021 and 2022. The 100% co-financing rate of the NextGenerationEU part may explain that. With the 2014-2022 EAFRD programmes continuing their course and the implementation of the new CAP plans starting, the payments are projected to run steadily in the coming years.

2.6. Protecting EU citizens: responding to emergencies

From the onset of the COVID-19 pandemic, the EU took measures to protect its citizens and tackle the health crisis. As soon as April 2020, all availabilities remaining in the 2014-2020 MFF were mobilised to provide EU emergency support for the coronavirus health response, e.g. medicines, vaccines and protective equipment, as discussed in Section 2.2. The updated proposal for the 2021-2027 MFF presented by the Commission in May 2020, together with NextGenerationEU,

[23] In the 2014-2022 period, the net transfer from the EAGF to the EAFRD amounted to EUR 5.9 billion, on average EUR 0.65 billion per year.

24 As set out in the transitional regulation adopted on 23 December 2020.

included a new programme, “EU4Health, significant reinforcements of the Union Civil Protection Mechanism (UCPM)/rescEU and a scale-up of the Union’s budgetary capacity to address future health crises or major disasters, which clearly represent cross-border challenges.

EU4Health significantly strengthens EU financial support in the health area, with a budget of more than EUR 5.5 billion in 2021-2027. In comparison, budget related to health had a budget of around EUR 450 million in the previous MFF. The COVID-19 pandemic spotlighted the fragility of the national and local health systems and the need for a coordinated strong action at Union level: EU4Health thus contributes to building strong foundations for a European Health Union. In addition, the Commission’s Health Emergency Preparedness and Response Authority (HERA) started operating in October 2021 aiming at anticipating threats and potential health crises, through intelligence gathering and building the necessary response capacities.

The Union Civil Protection Mechanism/rescEU has an overall budget of EUR 3.3 billion from the MFF and NextGenerationEU, five times larger than in the previous MFF. The reinforcements under NextGenerationEU contribute exclusively to build EU preparedness and response capacity to health and chemical, biological, radiological and nuclear (CBRN) threats. As the number and intensity of forest fires increased in recent years, EUR 195 million of the UCPM envelope was frontloaded to 2021-2023 from to 2024-2027 to accelerate the procurement of Canadairs and helicopters and to accelerate the availability of forest fire-fighting ground assets. The UCPM has been under strong pressure to respond rapidly to major emergencies like the consequences of the war in Ukraine. For instance, the transport of in-kind assistance from Member States and third countries to Ukraine, the medical evacuations of patients, as well as the establishment and operability of 3 UCPM hubs in Poland, Romania and Slovakia required a budgetary reinforcement of EUR 124.5 million.

EU response to emergencies has been reinforced with the Solidarity and Emergency Aid Reserve (SEAR). This thematic special instrument with a maximum annual financial envelope of EUR 1.2 billion (in 2018 prices) mobilises financial resources over and above the ceilings of the MFF 2021-2027 to act for emergency situations provoked by major natural disasters or public health crises in Member States and accession countries. Moreover, it can also support non-EU countries suffering from conflicts, refugee crisis or natural disasters.

The MFF Regulation establishes three periods of the year for the utilisation of the SEAR: During the first period, from 1st January to 31st August, 75% of the annual SEAR allocation can be mobilised, which is equally split between the Union Solidarity Fund (EUSF) and the Emergency Aid Reserve (EAR). The remaining 25% is held in reserve until 1st October. During the second period, from 1st September to 30th September, any unspent amounts from the first period for any of the SEAR components can be used. The third period, from 1st October to 31st December, enables the utilisation by any of the SEAR components of the unspent amounts from the first and second periods and the reserved 25%. All these rules resulted in complicated decision-making, increased the ompetition between the different strands and challenged the planning.

The SEAR amounts are rapidly used and seem insufficient to cover all needs. The requests from major emergencies under the EUSF (COVID-19, earthquakes, floods in Germany, Belgium, the Netherlands, Luxembourg, Austria and Italy, and recently the earthquake in Türkyie)[25] and for emergency response (e.g. Humanitarian Aid in Ukraine and Moldova and impact of the food crisis worldwide, support to Member States in the reception of refugees and civil protection following the Russian war of aggression against Ukraine) have been much higher than available resources. The aid granted to the 20 applications by Member States and candidate countries for COVID-19 represented 53% of the potential aid amounts. The aid granted to Germany, Belgium, Luxembourg, the Netherlands, and Austria following the 2021 summer floods, to Greece for the earthquake in Crete and to Spain for the volcanic eruption in La Palma had to be reduced by 63% compared to the potential aid amounts.

2.7. The fallout of Russia's war against Ukraine

2.7.1. Support to Ukraine and Ukrainians

The unprovoked and unjustified Russian war of aggression against Ukraine has caused terrible human suffering and massive destruction of towns and communities. Lives and livelihoods are being lost, with millions of people forced from their home countries in search of safety. Such dramatic events have also changed the level and type of approach initially planned from the EU budget to Ukraine before the invasion. Before the start of the invasion in February 2022, the estimated EU budget support to Ukraine was around EUR 160 million per year (or EUR 1.1 billion for 2021-2027).

The EU and its Member States have shown unwavering solidarity with people fleeing the war in Ukraine and immediately mobilised support to the Ukrainian government to maintain its basic functions. The planned programmes for Ukraine have been redesigned and adapted to respond to the needs generated by the war, through budgetary top-ups, frontloading, redeployments and using available flexibilities. For example, of the EUR 1 billion originally programmed for provisioning of MFA loans under the Neighbourhood, Development and International Cooperation Instrument – Global Europe (NDICI – Global Europe) for 2021-2027, EUR 648 million have been used for Ukraine (EUR 7.2 billion in loans) and EUR 20 million for Moldova (EUR 220 million in loans). EUR 2.6 billion from NDICI cushion over 2021-

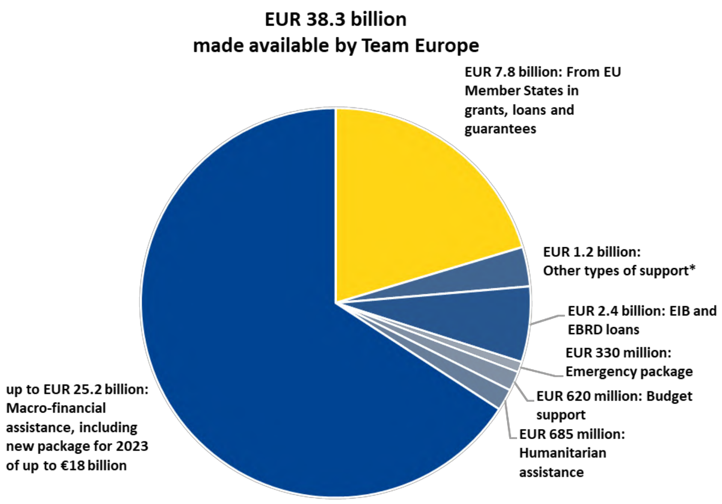
[25] Candidate Countries are eligible for support of the EUSF.

2027 have been planned to finance support to Ukraine, including the provisioning of the EIB repurposed loans and the interest rate subsidy on the MFA1 and MFA2 loans in 2022.

All in all, since the beginning of the Russian invasion, the EU, its Member States and the European Financial Institutions have mobilised EUR 38.3 billion in financial assistance to Ukraine, under a Team Europe approach (Graph 6). This includes EU budget support of EUR 30.5 billion and bilateral support from EU Member States of EUR 7.8 billion. The military assistance to Ukrainian Armed Forces from EU Member States amounts to around EUR 15 billion, including the support from the European Peace Facility and a military training mission for Ukrainian soldiers. The total Team Europe support to Ukraine therefore amounts to EUR 53 billion. Together with EUR 17 billion mobilised by the EU and its Member States to support people fleeing Ukraine, this brings the total support to Ukraine and its people to EUR 70 billion.

For 2023, the backbone of the EU support to Ukraine is the EUR 18 billion Macro Financial Assistance Plus (MFA+) Instrument that will help the functioning of the Ukrainian State and its vital services. EUR 7.5 billion were already disbursed as of May 2023. This highly concessional instrument offers flexibility and very favourable terms for Ukraine, catering to the country's current situation and ensuring swift action to support the Ukrainian people. To secure the funds for the loans, the Commission borrows on capital markets through its unified funding approach. The borrowing for Ukraine for MFA+ is guaranteed by the headroom of the EU budget, which provides the most robust financial safeguard. This is a change as the headroom was previously used only to guarantee the borrowing for financial assistance programmes to Member States.

Graph 6. Team Europe's financial assistance to Ukraine since 2022



The EU budget gave decisive support to the millions of people that have fled the war, seeking refuge in EU countries and in the Republic of Moldova. The Temporary Protection Directive[26], which had been adopted following the conflicts in former Yugoslavia, was triggered for the first time by the Council on 24 February 2022 to offer quick and effective assistance to people fleeing the war in Ukraine. 4 million refugees from Ukraine registered for temporary protection or similar schemes in the EU. EU Home Affairs Funds were granted more flexibility to facilitate the use of unspent 2014-2020 funds. EUR 400 million were made available through Emergency Assistance under the Asylum Management and Integration Fund (AMIF) and Border Management and Visa Instrument (BMVI) Thematic Facilities for frontline Member States, to assist with the first reception and early integration of Ukrainians entering the EU. The AMIF Regulation was also amended to provide additional flexibility and funding from contributions made by Member States and by other public or private donors. [27]

Humanitarian needs increased dramatically during the past years, because of a multitude of crises and natural disasters worldwide. According to the 2022 Global Humanitarian Overview (published before the start of the war in Ukraine), the number of people in need of humanitarian assistance and protection globally has reached 274 million, a significant increase compared to 235 million in 2021 and 168 in 2020. This has been further aggravated by the Russian invasion of Ukraine, which triggered the fastest-growing refugee crisis in the world. Over 8 million people have left Ukraine according to OHCHR and about 5 million moved within the country according to the International Organization for Migration (IOM), most of them women and children. Meanwhile, many others are still stranded in affected areas, either unwilling or unable to leave as a consequence of military action.

Humanitarian aid remains one of the most pressured instruments under the EU external action spending policy. It continuously relies on ad-hoc budgetary reinforcements from other funding sources, i.e. margins, redeployments, Solidarity and Emergency Aid Reserve (SEAR), recommitments from European Development Fund, to provide support given several emergencies such as Syrian refugees, COVAX, famine, fighting hunger in Afghanistan, crises in West and Central Africa, etc. This trend is unlikely to slow down, also due to the impact of the war in Ukraine on worldwide food security and the recent Türkiye and Syria earthquakes. Since February 2022 the European Commission has allocated EUR 733 million for humanitarian aid programmes to help civilians affected by the war in Ukraine. For Ukraine, the EU has mobilised EUR 485 million for 2022 (EUR 685 million including the first half of 2023), that is 2.5 times higher than in the previous years (2014-2021).

[26] Council Directive 2001/55/EC of 20 July 2001 on minimum standards for giving temporary protection in the event of a mass influx of displaced persons and on measures promoting a balance of efforts between Member States in receiving such persons and bearing the consequences thereof.
[27] OJ L 112, 11.4.2022, p. 1–5

Cohesion policy funds have been mobilised extensively to support Ukrainian refugees and hosting Member States. Amendments concerning 2014-2020 and 2021-2027 programmes were adopted, in the Cohesion's Action for Refugees in Europe Packages (CARE and FAST CARE), with a view of alleviating the budgetary pressure on Member States and allowing faster and more flexible use of available funding to provide emergency support to people fleeing Ukraine and arriving to their territory. This includes investments in education, employment, housing, health, and childcare services, including basic material assistance like food and clothing. Moreover, cohesion policy funds have also been provided flexibility through the Supporting Affordable Energy (SAFE) initiative – enabling support for SMEs most exposed to the negative effects of the energy crisis as well as for vulnerable households.

In total, Member States received EUR 7 billion of additional pre-financing, equally split in 2022 and 2023 between REACT-EU and 2021-2027 programmes, and EUR 6.7 billion of payments were frontloaded due to the 100% co-financing ending on 30 June 2022. Easier re-programming and cross eligibility between ERDF, ESF and CF for the 2014-20 programmes were also available. Under the 2014-2020 programmes, Member States can also declare expenditure based on unit cost at a rate of EUR 100 per week per registered refugee for a maximum of 26 weeks. Based on the information from Member States, the uptake of this simplification amounts to around EUR 489 million as of 30 April 2023. Furthermore, Member States can also programme resources under a dedicated priority benefitting from the possibility of 100% co-financing to support the socioeconomic integration of refugees. As of end-April 2023, such measures dedicated EUR 1 095 million and EUR 721 million for the programmes under the 2014-2020 and 2021-2027 periods.

To provide emergency assistance to Ukrainians, the European Commission is coordinating the largest ever operation under the Union Civil Protection Mechanism (UCPM). Also, thanks to the EU budget, all 27 EU countries, plus Norway, Türkiye, North Macedonia, Iceland, and Serbia, have offered in-kind assistance ranging from medical supplies and shelter items to vehicles and energy equipment. The EU has established logistical hubs in Poland, Romania, and Slovakia to channel suppliest to Ukraine more efficiently. To date, more than 88,0500 tonnes of aid have been delivered. Given the immense need for emergency equipment in Ukraine, the EU has deployed assistance from its rescEU medical stockpiles, including power generators, medical equipment, temporary shelter units, specialised equipment for public health risks such as chemical, biological, radiological and nuclear threats. Furthermore, the EU is coordinating medical evacuations of Ukrainian patients in urgent need of treatment, transferring them to hospitals across Europe to receive specialised care.

The Erasmus+ programme is also supporting the education of the many children and young people fleeing Ukraine following the Russian invasion. As set out in the Commission Communication on 'Welcoming those fleeing war in Ukraine: readying Europe to meet the needs'[5], Erasmus+ will play a key role to help the education and training systems by supporting learners and teachers, schools, vocational education and training institutes, higher education institutions, as well as youth organisations and NGOs. In 2023, the programme has been reinforced by EUR 100 million to pursue these objectives.

2.7.2. The fallout of the war in the EU and third countries

The war provoked a massive shock to the global and EU economy, especially to energy and food markets, affecting vulnerable economies and pushing up prices. This has especially affected the grain and oilseeds markets for which both Russia and Ukraine are major exporters. Support under NDICI and Humanitarian Aid has been provided to deal with the global repercussions on the food markets, often thanks to the mobilisation of special instruments. In addition, EUR 600 million were made available again by the EDF to promote food security in Africa, Caribbean and Pacific (ACP).

Increased input costs and food inflation resulting from the war continue weighing on agricultural markets and consumers' purchasing decisions in the EU. Farm income increased on average, though with significant sectoral and regional disparities, as high commodity prices counter for the rising input costs[28] As part of its Communication "Safeguarding food security and reinforcing the resilience of food systems" of 23 March 2022, the Commission adopted exceptional EU budget support measures of EUR 500 million to farmers that could be topped up with national resources up to EUR 1.5 billion. This measure has been taken up well by Member States with an implementation of EUR 492,2 million (98,4%). Private storage aid for pig meat was also activated for a total amount of EUR 17 million over 2022 and 2023. In addition, the Commission has granted an exceptional and temporary derogation to allow the production of crops on land set aside within the EU, while maintaining full greening payments for farmers.

Market access granted to Ukraine and the EU Solidarity Lanes are crucial for Ukraine's resilience and to ensure that exports reach markets around the world. However, the unexpected surge in imports in neighbouring countries risks disrupting the markets for some agricultural goods. As of April 2023, the Commission has proposed two support packages to the affected countries using the resources of the crisis reserve under the CAP. The first package providing emergency support for cereal and oilseed sectors in Bulgaria, Romania and Poland amounted to EUR 56.3 million from the agricultural reserve, with the possibility for Member States to top it up with national contributions of up to 100%. The second package amounts to EUR 100 million in support also from this reserve to Bulgaria,

[28] Short-term outlook report: war in Ukraine continues to impact EU farmers (europa.eu)

Romania, Poland, Hungary, and Slovakia. Member States can complement it with national contributions of up to 200%.

Exceptional temporary aid under the EAFRD was introduced in May 2022 to support farmers and SMEs affected by the consequences of Russia's invasion of Ukraine. This measure allows Member States to amend their rural development programmes up to 5% of their 2021-2022 EAFRD allocation to provide liquidity support in the form of one-off lump sums to farmers and agri-food businesses affected by significant increases in input costs. The measure has been activated in 26 rural development programmes in 10 Member States for a total planned amount of some EUR 409 million, representing an uptake of 30% of the maximum possible allocation.

The EU also provides substantial support to Moldova, an EU candidate country since June 2022. EUR 782 million of financial assistance have already been pledged, including EUR 250 million to help Moldova to overcome the energy crisis. Russia's war of aggression against Ukraine has particularly affected Moldova with over 600,000 refugees entering the country and around 80,000 still on Moldovan territory. Relative to its population of just over 2.5 million, Moldova is the country hosting most refugees per inhabitant. During these times of heightened vulnerability, the EU has been standing firmly with Moldova, an associated country with the EU and key partner in the Eastern Partnership.

Since May 2022, the European Commission has implemented, hand in hand with Ukraine, Moldova and bordering EU Member States, several actions under the 'Solidarity Lanes' initiative to help Ukraine export its agricultural production. This helps counter the threat to global food security following Russia's invasion and its blockade of Ukrainian ports. The Solidarity Lanes initiative benefits from substantial EU budget support. The European Commission, EU Member States and International Financial Institutions have pledged to mobilise EUR 1 billion for Solidarity Lanes to increase global food security and provide a lifeline for Ukraine's economy. By end 2023, the Commission together with Member States will dedicate EUR 250 million in grants through the EU budget and EUR 50 million to support the infrastructure developments needed to increase further the capacity of the Solidarity Lanes, financed by NDICI-Global Europe and Connecting Europe Facility. In addition, the European Investment Bank and the European Bank for Reconstruction and Development intend to invest up to EUR 300 million each on projects that respond to the Solidarity Lanes objectives and USD 100 billion from World Bank Group.

The urgency for the EU budget to respond to Russia's invasion of Ukraine has significantly depleted the availabilities, margins and flexibilities of the EU budget for external policy. This reduces the capacity of the Union to support react on other fronts requiring external action funding. Whereas Heading 6 is larger in the

MFF 2021-2027 compared to the previous period (+17% in current prices), most of this reinforcement is the result of the budgetisation of the European Development Fund (EDF). Moreover, NDICI has a decreasing profile over the period, which implies that the geographic lines (especially for Neighbourhood) will be reduced.

The most evident example of the depleting flexibilities is represented by the use and planning of the NDICI-Global Europe cushion. The emerging challenges and priorities cushion caters for unforeseen needs and priorities. It can be used to top-up the three pillars of the instrument (geographic, thematic and rapid response pillars)**.** The cushion, which built on the previous experience under the European Development Fund, has increased the Union's ability to respond to unforeseen needs. However, this ability has now been greatly diminished early in the multiannual cycle. The overall financial envelope of the cushion was EUR 9.5 billion. In 2021-2023, the cushion has been fully used, and 61% is already planned in 2024-27. Hence, at mid-term, almost 80% has been used or planned (Table 5.2.4 in the annex). One third of the cushion expenditure was used or programmed for Ukraine, EUR 2.6 billion. A high amount has also been used or programmed for global support for vaccines (EUR 1.3 billion) and the Syrian refugees package (EUR 1.2 billion).

Besides the global humanitarian needs described above, the other main (non-exhaustive) challenges and sources of pressure on Heading 6 of the MFF can be summarised below.

- **Syrian refugees:** the needs regarding refugees in Türkiye on the ground are not decreasing. It is unlikely that Turkish authorities will be able take over the costs for the refugees any time soon, also given the expected reconstruction needs related to the recent earthquakes affecting Türkiye and Syria. The needs of Syrian refugees might increase even further considering the massive number of displaced people following such natural disaster and will not only affect refugees in Türkiye itself but also Syria, Jordan, Lebanon, Iraq**.** The needs for 2024-2027 are largely uncovered. Given the significant pressure on all headings of the budget and the depleted flexibilities, including in the NDICI cushion, it would be very difficult to cover these needs with the current availabilities.
- **The financial impact of Moldova and Georgia as EU accession countries, which is still under assessment.** The European Council in its conclusions of 23 March 2023 stressed that '[…] The European Union will continue to provide all relevant support to the Republic of Moldova, including to strengthen the country's resilience, security, stability, economy and energy supply in the face of destabilising activities by external actors, as well as support on its accession path to the European Union. The European Council invites the Commission to present a support package ahead of its next meeting.
- **External aspects of migration:** indicatively 10% of NDICI will support management and governance of migration and forced displacement, as well as

address the root causes of irregular migration and forced displacement when they directly target specific migration challenges. However, following the closure of the Trust fund for Africa, there is growing expectations on preserving at least the same levels of funding for the Southern Mediterranean route (EUR 208 million per year), to which the Commission had also committed. This creates a gap of around EUR 100 million/year (including for 2024) in the Neighbourhood South line of NDICI. This is a point of further attention following the EUCO of 9 February 2023, which put an accent on the need to increase returns by intensifying cooperation with countries of origin and transit covering all migratory routes, 'also with adequate resources', including under NDICI.

- **Provisioning for guarantees:** the geographic lines of NDICI and IPA cover the additional needs for provisioning of the former External Lending Mandate, Euratom legacy and Macro-Financial Assistance legacy loans, which come on top of the provisioning of the External Action Guarantee under the current MFF. Since NDICI has a decreasing financial profile in the MFF, this means that the geographic lines (especially for Neighbourhood) will be affected by these increased needs. More generally, MFA has proved an effective tool for supporting neighbouring countries experiencing balance of payments difficulties. However, limited remaining availabilities in the Common Provisioning Fund to provision for additional Macro-Financial Assistance loans imply that there will be little to no room for more measures of this type under the current MFF, in particular given the proposal of a EUR 900 million MFA loan to Tunisia.

Box 3. Future EU support to Ukraine

The Ukrainian economy contracted in 2022 by around 35%, according to the World Bank. Over one year since the start of the Russian invasion, no sector in Ukraine has remained untouched by the war. If the war continues through 2024, Ukraine will still need budgetary support for its functioning and immediate needs. The IMF estimates Ukraine's financing gap at USD 81.6 billion in 2024-2027 (assuming the war winds down in the first half of 2024). Fully fledged reconstruction will be possible only when the war is over, but some early reconstruction and fast recovery operations are already starting. The overall needs for the reconstruction of Ukraine are not yet known and the distinction between immediate and long-term needs is increasingly blurred. Nevertheless, it is important to design the main building blocks of this international effort already at this stage.

A major global financial effort will be required to rebuild Ukraine once the war is over. A second joint assessment, Rapid Damage and Needs Assessment (RDNA2[29]), released in March 2023 by the Government of Ukraine, the World Bank

[29] World Bank; Government of Ukraine; European Union; United Nations. Ukraine - Rapid Damage and Needs Assessment: February 2022 – 2023 (English). Washington, D.C. : World Bank Group.

Group, the European Commission, and the United Nations, estimates that the cost of reconstruction and recovery in Ukraine has grown to USD 411 billion (equivalent of EUR 383 billion). The estimate covers the one-year period since the start of Russia's invasion of Ukraine on 24 February 2022. The cost of reconstruction and recovery is expected to stretch over 10 years and combines needs for both public and private funds. The EU is already contributing substantially to boost the country's ongoing resilience, but more support will be needed in the medium to long-term: to re-establish the foundations of a free and prosperous country, anchored in European values and well-integrated into the European and global economy, and to support it on its European path. Given the scale of the challenge, the recovery efforts need to be an inclusive multi-stakeholder process, involving both public and private sectors, as well as international organisations and international financial institutions (IFI).

In this regard, the Multi-agency Donor Coordination Platform to support Ukraine's repair, recovery and reconstruction process, launched on 26 January 2023, is a key forum. The Platform allows for close coordination among international donors and financial organisations and ensures coherent, transparent, and accountable support. It aims to ensure enhanced coordination amongst all key players providing short-term financial support but also longer-term assistance for the reconstruction phase. In this way, it builds on the results of the Conferences in Lugano, Berlin and Paris, to help bridge the gap between needs and resources as well as on the May 2022 Commission's communication on 'Ukraine relief and reconstruction'[30].

A structural solution is needed to support Ukraine for the remainder of the current MFF. The solution will need to strike the right balance between the flexibility to adapt to the evolving situation on the ground and predictability of financing. As a candidate country Ukraine needs to pursue further significant reforms on its EU path. This will likely work as an essential leverage for Ukraine to attract support and investments for its reconstruction. It will also ensure that investments do not create stranded assets but are converging towards climate, environmental and digital EU policies and standards, which will help Ukraine emerge stronger and more resilient from the devastation of the Russian invasion. Therefore, the reconstruction of Ukraine is to be guided and framed by the EU enlargement process. This means investments need to go hand in hand with the reforms supporting Ukraine in pursuing its European path. They should also be implemented in line with the EU acquis framework, including continuing on rule of law reforms and fight against corruption as well as core standards and principles, based on the European Green Deal and supporting the digital transformation.

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http://documents.worldbank.org/curated/en/099184503212328877/P1801740d1177f03c0ab180057556615497

[30] COM/2022/233 final

2.8. An EU budget for long-term competitiveness

Strengthening the competitiveness and resilience of the European economy through the green and digital transformations has been the EU compass over the last years. With NextGenerationEU, the EU has closed the gap with pre-pandemic output levels already in the summer of 2021. The funds directed to the twin green and digital transformation are making the economy more competitive and sustainable. The unprecedented efforts by the Member States to implement crucial reforms are making the EU more resilient.

Together with a strong European Single Market, further efforts in this direction can enable the EU to be at the frontier on key technologies. The European Green Deal has set the EU green transition ambitions, including the climate targets towards net-zero by 2050. The Fit for 55 package provides a concrete plan to put the European economy firmly on track. This requires massive investments both from the private and public sectors and a strong industrial base to support this transition. The EU industry has also proven its inbuilt resilience but is being challenged from high inflation, labour shortages, post-COVID supply chains disruptions, rising interest rates, and spikes in energy costs and input prices. This is paired with strong competition on the fragmented global market.

The Green Deal Industrial Plan seeks to enhance the competitiveness of Europe's net-zero industry, support the fast transition to climate neutrality and create quality jobs. To do so, it aims to provide a more supportive environment for the scaling up of the EU's manufacturing capacity. The plan is based on four pillars: a predictable and simplified regulatory environment, speeding up access to finance, enhancing skills, and open trade for resilient supply chains. In March 2023, the Commission adopted a new Temporary State aid Crisis and Transition Framework. Member States have more flexibility to design and directly implement support measures in sectors that are key for the transition to climate neutrality. Member States are also currently amending their RRPs to include REPowerEU chapters to finance companies and boost their competitiveness.

New initiatives such as the Chips Act, the Critical Raw Materials Act and the European Hydrogen Bank, aim at making our economies more digital and greener without creating new dependencies. The EU Chips Act builds on Europe's strengths – world-leading research and technology organisations and networks as well as host of pioneering equipment manufacturers – and address outstanding weaknesses (section 2.3). The Critical Raw Materials Act aims to ensure the EU's access to a secure, diversified, affordable and sustainable supply of critical raw materials. Raw materials are vital for manufacturing key technologies for our twin transition – like wind power generation, hydrogen storage or batteries. The objective is to strengthen cooperation with reliable trading partners globally and reduce the EU's current dependencies on just one or a few countries.

A quicker deployment of financial support is needed. This could be achieved via a leveraging and reinforcement of existing EU instruments under a new Strategic Technologies for Europe (STEP) platform. The EU has several funds and programmes on- and off-budget to provide support to deep and digital technologies, clean technologies, and biotechnologies. The European Council

recommended to "ensure full mobilisation of available funding and existing financial instruments and deploy them in a more flexible manner, so as to provide timely and targeted support in strategic sectors".[31] Leveraging on existing instruments and governance frameworks would speed-up the implementation and allow to mobilise quicker higher amounts of financial support. The goal should be to preserve a European edge on critical and emerging technologies relevant to the green and digital transitions, from computing-related technologies, including microelectronics, quantum computing, and artificial intelligence; to biotechnology and biomanufacturing, and net-zero technologies.

Box 4. Boosting technological competitiveness: the Strategic Technologies for Europe (STEP) platform

STEP would cover critical and emerging technologies (deep and digital technologies, clean technologies, and biotechnologies) to advance the green and digital transitions, supporting both the manufacturing side and the relevant value chains, including the skills shortages in these areas.

Deep and digital technologies - Innovation, and in particular its new wave of deep-tech innovation, is the European reply to bring down greenhouse gas emissions, to make our economies more digital and to guarantee Europe's food, energy and raw materials security. The New European Innovation Agenda, adopted on 5 July 2022, aims to position Europe at the forefront of the new wave of deep tech innovation and start-ups.

Clean technologies - EU's competitiveness in the clean energy sector entails the capacity to produce and use affordable, reliable and accessible clean energy and compete in the global clean energy markets, with the overall aim of bringing benefits to the EU economy and people. The EU is currently facing technological and non-technological challenges, such as high energy prices, critical raw materials supply chain disruptions and skills shortages. According to the 2022 Competitiveness Progress Report – which the Commission published in the context of the Governance of the Energy Union framework - "The rapid development and deployment of home-grown clean energy technologies in the EU is key to a cost-effective, climate friendly and socially fair response to the current energy crisis." Considering that half of the greenhouse gas emissions reductions expected by 2050 require technologies that are not yet ready for the market, research and innovation activities are crucial. More public and private investments in clean energy research and innovation, scale-up and affordable deployment are of pivotal importance. The EU's regulatory and financial frameworks have a crucial role to play here. Together

[31] European Council conclusions, 23 March 2023.

with the implementation of the New European Innovation Agenda, EU funding programmes, enhanced cooperation between Member States, and a continuous monitoring of national R&I activities, are crucial to design an impactful EU R&I ecosystem, and to bridge the gap between research and innovation and market uptake, thus reinforcing EU competitiveness.

Biotechnologies - Biotechnology and life sciences are key for the modernisation of the European industry. They are used in a variety of industrial sectors such as healthcare and pharmaceuticals, agriculture, materials, and bioeconomy. Reaping the full benefits of biotechnology can help the EU economy grow and provide new jobs, while also supporting sustainable development, public health, and environmental protection. Vaccine manufacturers have played a key role in reversing the course of the COVID-19 pandemic. And while Europe continues to be a leader in life science innovation, its biotech industry remains approximately a quarter of the size of the US in terms of both the number of companies and the value of venture financing. In addition, financing – both at the earliest stages and later on – is more limited in Europe than in the US. This constrains companies' ability to invest in larger diversified pipelines and leaves them reliant on their initial investors.

2.9. Security and defence

Financing from the EU budget focuses on the defence industry's competitiveness, given limitations in the Treaties to finance defence more broadly[32]. There is significant added value of EU action in defence industry investments, as persistent underinvestment over the years has had a negative impact on the European defence industry. Furthermore, defence spending in the EU suffers from inefficiencies due to duplications, lack of interoperability and technological gaps between the EU and other global spenders, though the aggregated spending is among the highest in the world. With the MFF 2021-2027, the importance of defence and security in the EU budget has been strengthened. The European Defence Fund started operating in 2021 with a budget of EUR 7.95 billion, allocated in two windows: a research window (EUR 2.7 billion) and a capability window (EUR 5.3 billion). The MFF also allocated EUR 1.69 billion to dual (civilian and military)-use transport infrastructure to enable military mobility within the EU.

Heading 5, dedicated to Security and Defence, is the smallest of all MFF headings. This heading was a novelty of the 2021-2027 MFF, and Russia's war of aggression against Ukraine has clearly demonstrated the added value of increased

[32] Article 41.2 of the Treaty on European Union (TEU) states that 'Operating expenditure [on Common Foreign and Security Policy] shall (…) be charged to the Union budget, except for such expenditure arising from operations having military or defence implications and cases where the Council acting unanimously decides otherwise. (…) As for expenditure arising from operations having military or defence implications, Member States whose representatives in the Council have made a formal declaration [of abstention] shall not be obliged to contribute to the financing thereof.'

EU efforts in this policy area. The initial margin of EUR 680 million has been mostly depleted for the new needs that were also covered a with redeployments, as discussed in this section.

In response to Russia's aggression, Member States have announced increases in their national defence budgets, which can be more effectively used with EU coordination and cooperation. In its absence, these additional investments could deepen the existing fragmentation of the European defence sector. As a result, the European Commission and the High Representative of the Union for Foreign Affairs and Security Policy put forward several options for improving defence capability supply.[33] This is consistent with the call for stronger EU action in defence at the Conference on the Future of Europe.

The conflict in Ukraine has also presented a new set of challenges for the European Union's cybersecurity efforts. The proliferation of cyber-attacks targeting both military and civilian have caused widespread disruption and, in some cases, have even endangered lives.. With its new cyber defence policy, the EU will enhance cooperation and investments in cyber defence to better protect, detect, deter, and defend against the increasing risks of cyber-attacks. The conflict has also exacerbated the challenge of the spread of disinformation campaigns and propaganda to influence public opinion and destabilize the EU. The Union tackles to the issue through legislation like the Digital services act, that will foster a co-regulatory framework for online harms, or through support to media and information awareness programmes, that will help to counter the disinformation spread through a long-term structured approach.

The EU has put forward an ambitious plan to develop the new space-based Secure Connectivity System IRIS². A large part of the IRIS² budget comes from redeployments from other programmes under Headings 1, 5 and 6: the Space Programme, CEF-Digital, Digital Europe Programme, European Defence Fund and NDICI-Global Europe for a total of EUR 1.2 billion. Margins of Heading 1 and Heading 5 are used on top to complete the IRIS² budget.

The Commission proposed a Regulation establishing the European defence industry reinforcement through common procurement act (EDIRPA). EDIRPA would set up a dedicated short-term instrument through the EU budget to incentivise common procurement in the field of defence. This would support the reinforcement of Member States' defence capacities in the emergency situation caused by Russia's war of aggression against Ukraine. The Commission tabled its proposal on EDIRPA on 19 July 2022, with the objective to establish the legal act swiftly. Taking into

[33] Joint Communication to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions on the Defence Investment Gaps Analysis and Way Forward, JOIN(2022) 24 final.

account the implications of the Act in Support of Ammunition Production (ASAP) proposal, EDIRPA will be financed fully through the flexibility instrument in 2024.

On 3 May 2023, the Commission proposed a Regulation on establishing the Act in Support of Ammunition Production (ASAP) to facilitate the ramp-up of ammunition production capacity in the EU. The financial envelope for ASAP amounts to EUR 500 million in current prices for the period from 2023 to 30 June 2025, financed from redeployments of EUR 260 million from the European Defence Fund programming for 2024 and of EUR 240 million initially foreseen for the European Defence Industry Reinforcement through common Procurement Act (EDIRPA) in 2023-2024. The proposed ASAP initiative has been designed to complement the already planned EDIRPA and the EDF programme and to create synergies with defence-related initiatives, such as Permanent Structured Cooperation (PESCO). The Union contribution would provide an appropriate incentive for economic operators, leveraging additional funding that is expected to bring the total investment to EUR 1 billion.

Implementation of the defence programmes is proceeding fast. In 2021, the budget execution was 100%, with 23 calls launched for 15 out of 17 European Defence Fund categories such as air, ground and naval combat, energy resilience and environmental transition, cyber, space. Grant agreements were signed in 2022. The European Defence Fund work programme 2022 funded 8 calls for proposals among 33 R&D topics with an envelope of EUR 924 million.

The envelope for Military Mobility under CEF (EUR 1.69 billion at the beginning of the MFF) was frontloaded and supported recent crises-related packages. The calls launched for military mobility in 2021-2022 for a total of EUR 955 million were fully subscribed. Calls address dual-use infrastructure projects, mostly on the railway and roads infrastructures across Europe (e.g. infrastructure for 740m trains on the North Sea – Baltic and Orient/East-Med corridors, design and reconstruction of road A5 Kaunas – Marijampolė – Suwalki). The second call was advanced from September 2022 to May 2022 due to the war in Ukraine. As a result of the accelerated procedures used to respond to the crises, 56% of the funds (EUR 949 million) have already been allocated during the first two calls in 2021 and 2022. The next third call of 2023 is expected to exhaust the available budget .

In the future, it will be challenging to finance any additional initiative under Heading 5. The main reasons are that (i) the IRIS² budget will be almost fully mobilised upfront; (ii) CEF-Military Mobility expenditure is frontloaded; and (iii) the potential for redeployments between programmes in Heading 5 is almost non-existent. The increasing number of emergency requests for projects and the inflationary pressure also contribute to this challenging context. Furthermore, no reserves are available, and the margins are exhausted: as of 2023, the remaining margin is just EUR 81 million for 2025-2027, and a negative margin of EUR 311 million in 2024 had to be covered via special instruments.

2.10. Migration and border management

Migration and border management remain a challenge for the Union and require a European response supported by adequate European funding. Unforeseen crises have put additional significant pressure on the European funding for migration and border management. This was the case with the events in Afghanistan and Belarus and then with the war in Ukraine, which led to an unprecedented triggering of the temporary protection directive and to the need to take immediate action for the millions of Ukrainians fleeing the conflict.

The Pact on Migration and Asylum, currently in the interinstitutional phase, will provide a new and durable EU framework for migration management. Based on the current state of the discussions on the Pact and of the emerging balance between responsibility and solidarity, its successful implementation will require substantial additional funding.

In February 2023, the European Council underscored its aim to develop a comprehensive approach to migration and, in that context, called on the Commission to mobilise substantial funds for the control of external borders.

Therefore, pressure on EU funding for migration, asylum and border management continues to be high. Although expenditure available to Member States under Heading 4 for the EU-27 is higher compared to the programming period 2014-2020, the Commission has already had to reinforce the Asylum Management and Integration Fund (AMIF) and the Border Management and Visa Instrument (BMVI) programmes of several Member States to allow them to address the challenges linked to the events in Afghanistan, Belarus and Ukraine as well as to meet more structural needs reflecting the increase in migrant flows.

Around 70% of the budget for AMIF and BMVI is implemented through national programmes under shared management. The national programmes of the EU Member States for 2021-2027 have been adopted in the second half of 2022. Pursuant to Article 7 of the MFF Regulation, the total amounts corresponding to the allocations not used in 2021 (EUR 676 million)[34] were transferred in equal proportions to each of the years 2022 to 2025, and the corresponding MFF ceilings were adjusted accordingly. A new and comprehensive performance framework allows for a stronger monitoring of achieved results and outcomes.

The AMIF and BMVI will undergo their own respective mid-term reviews in 2024, which will adjust automatically Member States allocations for 2025-2027. The MFF 2021-2027 foresees that 15% of the budget under AMIF (EUR 1 billion) and 13% under BMVI (EUR 0.6 billion) will be allocated to Member States as an in-built reserve for the mid-term review. The amounts will be allocated to all Member States based on updated statistics for pre-determined criteria concerning *inter alia*

[34] Respectively EUR 397 million of the AMIF (8% of total 2021-2027 allocation to the Member States) and EUR 279 million of the BMVI (9% of total 2021-2027 allocation to the Member States)

asylum seekers, persons under temporary protection, legal migrants, returns, border crossings, consular offices.

As a novelty in the 2021-2027 MFF, 30% of the funds is implemented under the Thematic Facilities. The Thematic Facility under each fund increases the flexibility to respond to evolving needs in this area and can be implemented by the Commission directly, indirectly or granted as a top-up to national programmes of Member States in need. The AMIF Thematic Facility also finances top-ups to national programmes in case of resettlement of refugees from third countries and relocation of migrants between Member States.

The flexibility within the AMIF and BMVI Thematic Facilities has been extensively used in the first part of the MFF programming period. Almost three quarters of the funds available under the AMIF and BMVI Thematic Facilities for 2021-2025 are either spent or allocated to actions which are in an advanced stage of preparation. Significant redeployment was done to the meet the challenges of the unforeseen crises, and the in-built flexibility was used *inter alia* to support Member States with reception, asylum and return systems under pressure. Emergency assistance was also provided to the Member States most affected by the arrival of people from Ukraine.

For 2026-2027, EUR 2.1 billion under AMIF and EUR 1.7 billion under BMVI remain to be programmed and will be used to deal with the continued and increasing pressure on migration and border management, to actions linked to the Pact implementation, while a substantial buffer will need to be kept to deal with unforeseeable crises.

The Home Affairs Agencies will also be called to increasingly contribute to support Member States and the Commission in dealing with such increased migration pressure and in enhancing border protection. In particular, the European Union Agency for Asylum (EUAA) will be required to have an increasingly key role in supporting Member States' asylum and reception systems, particularly at the border.

2.11. The economic context: inflation and interest rates

2.11.1. Inflation

In the course of 2022, inflation in Europe has reached levels unseen in the last 40 years. These developments result from spiralling energy prices, due to the war in Ukraine, coupled with strong demand as the global economy recovered from the COVID-19 crisis and supply bottlenecks. With energy being a key input to much of economic activity, energy price increases gradually passed through to other inflation components. Headline inflation started declining in the first quarter of 2023 amid sharp deceleration of energy prices; however, core inflation (i.e. headline inflation excluding energy and food) continued to rise in early 2023, reaching 6.6% in March, and only slightly declined to 6.5% in April.

The high inflation might reduce the purchasing power of the MFF by EUR 74 billion for the seven-year period. The ceilings of the Multiannual Financial Framework (MFF) for 2021-2027 are expressed in 2018 prices. As stipulated in article 4(2) of the MFF Regulation[35], the adjustment to current prices is done on the basis of a fixed annual deflator of 2%. This long-standing adjustment mechanism in use since 2007 has the advantage of providing predictability for the Union programme resources over the duration of the MFF. This is important for regional authorities, partners and beneficiaries for mid- to long-term investments supported by the Union programmes and policies. For Member States, this also gives predictability for the planning of their national budget contributions. For the EU budget, the fixed deflator gives predictability to future margins, which can then be used in the event of additional needs related to existing or new initiatives. However, because of the unprecedented gap between actual and forecast inflation up to 2027[36] and the fixed 2% deflator, the real value of the MFF for the whole 7-year period would be substantially lower based on the current forecasts.[37] This is an important difference between the EU budget and Member States' budgets: in the case of the EU, only the own resources ceiling adjusts to inflation. The revenues called from Member States instead depend on the actual expenditures, and these are limited by the MFF expenditure ceilings which adjust based on the fixed deflator.[38] In the case of national budgets, inflation affects the nominal value of both revenues and expenditures.

The high inflation leads to higher implementing costs for EU budget programmes, an erosion of the purchasing power of the operational budgets as their real value is reduced, and higher administrative expenditures in all EU bodies. For programmes distributing grants,[39] the high inflation means that less activities can be financed, thus reducing the ambition of EU activities. Similarly, programmes with pre-allocated envelopes per Member State the national and regional authorities will be able to finance less projects and to provide less direct support. For the few programmes that procure a given infrastructure or service (e.g. Space programme, ITER, civil protection), the costs sought by the developers and operators are likely to increase, such that the Commission may not be able to procure the full infrastructure or service. For the European Public Administration, it is particularly problematic due to the already very tight ceilings and contractual

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[35] Council Regulation (EU, Euratom) 2020/2093 of 17 December 2020 laying down the multiannual financial framework for the years 2021 to 2027, OJ L 433I , 22.12.2020, p. 11

[36] As measured by EU GDP deflator

[37] When actual inflation is below 2% (which has been the case until 2020), the MFF ceilings as adjusted can potentially result in a stronger purchasing power of the EU budget, but it is ultimately up to the budgetary authority (European Parliament and Council) to act upon it.

[38] The Own Resources Decision instead determines gross reductions to the GNI-based EU-budget contributions of Denmark, Germany, the Netherlands, Austria, and Sweden in 2020 prices, which are converted every year into current prices based on the most recent Union GDP deflator.

[39] For instance, Horizon Europe, European Defence Fund, Erasmus, Creative Europe, EU4Health, CEF, LIFE, external action programmes.

obligation and the inflation indexation of most expenditure in host countries. This is creating a strong pressure on Heading 7 of the MFF, despite the exceptional efforts made for savings (see Box 5).

Box 5. Pressures on Heading 7 – European Public Administration

The fixed deflator of 2% for adjusting MFF expenditure ceilings is currently far below the actual EU inflation rate, which reached 9.2% in 2022 and is forecasted to be 6.7% in 2023.[1] This divergence affects the EU budget as a whole, but is particularly difficult for inflation-indexed areas, notably administrative expenditure.

Most non-salary expenditures are indexed to inflation. This includes *inter alia* rents, legally indexed to inflation. When contracts, for example for IT services, security, cleaning personnel are indexed there is a legal and financial obligation to pay the increases, and when new contracts are launched the costs reflect the indexation of wages and other costs encountered by the service provider. Efficiency gains are constantly sought, for instance through pooling resources, an example being the CERT-EU, an interinstitutional body dealing with cybersecurity, as well as through constantly identifying opportunities for synergies and efficiencies across services and functions, but there is a minimum which must be maintained for the proper functioning of the Institutions.

As per legal requirement, the remuneration of European staff, as well as the pensions of retired employees, is automatically linked to that of Member States. As defined in the Staff Regulations [2], it takes account of inflation in Belgium and Luxembourg and the purchasing power development of government officials in 10 Member States [3]. When the purchasing power of the salaries of Member States officials increases or decreases, this has a corresponding impact on the salaries of the EU staff and pension beneficiaries. The exceptional inflationary situation in 2022, and the subsequent salary increases applied in several Member States, has reduced the margins under the annual ceiling and sub-ceiling for the institutions' expenditure to the point that the expenses can no longer be covered.

Staffing Issues

Increasing priorities and demands put an enormous strain on the resources of the EU administration, in a context of stable staffing. The agreement between the co-legislators on new initiatives with responsibilities mainly for the Commission result in significant additional staff needs. They are related to the Green Deal, Single Market, Cross Border Adjustment Mechanism, Health, Digital Agenda, Inter-operability, Cybersecurity, Secure Connectivity, Schengen evaluation and monitoring mechanism, European Peace Facility among others. These new initiatives, as shown in the Legislative Financial Statements accompanying the agreed legal proposals, should translate into 600 establishment posts until 2027. In the absence of staff reinforcements until now, some very severe measures of reprioritisation have been applied. For instance, more than 900 posts have already been redeployed to support the new emerging priorities, such as Fitfor55 package, Digital Services Act and the Digital Markets Act, the war in Ukraine, the COVID-19 pandemic, leaving no space to further adjustments. This situation has reached a critical point where **these additional tasks** on top of the MFF (for which the stable staffing principle was agreed), **cannot be taken on board without additional resources.**

The Commission is not the only institution facing the challenge of addressing new tasks with stable staffing. This is clearly illustrated by the requests of the other Institutions expressed in the context of the annual budgetary procedures. Taking a proportional approach, based on the 600 posts agreed in the context of the Legislative Financial Statements for the Commission, the other institutions would need some 411 additional posts. However, unlike the Commission, most of the other institutions have received some staff reinforcement in the course of the annual budget procedures 2021-2023. When these allocated posts are taken into account, some 113 would remain as outstanding needs.

Furthermore, as per the preliminary outcome of the assessment of the cybersecurity-related needs conducted by the Commission as part of the follow-up of the Draft Budget 2023 negotiations, the institutions' total needs until the end of MFF 2021-2027 are at the level of 172 additional posts.

Taken all these elements together, the overall deficit in the number of posts in all the EU institutions covered by Heading 7, necessary to enable them to effectively fulfil the new tasks, equals 885 posts.

Further Savings Efforts

The Commission has made exceptional efforts for savings and intends to continue applying structural changes. Drastic cuts have also been introduced in case of missions, meetings and representation costs, cumulatively above 30% compared to 2019. Moreover, for all other administrative expenditures, a new building policy, covering the 2022-2030 period, has been developed to optimise surface used which aims at reducing office space from 788.000 m² in 2021 to 722.000 m² by 2024 and to 575.000 m² by 2030. For the period between August 2022 and March 2023, the total energy consumption was reduced by 17% compared with the average for the same period in the last 5 years (113.000 MWh).

These examples illustrate the Commission's determination to keep the annual increase of the non-salary expenditures within the limit of 2% - despite the soaring inflation. Other institutions are exposed to the same constraints. While preparing the Draft Budget 2024 the Commission has applied a rigorous approach and not accepted any request going beyond the 2% limit, which led to the total of EUR 164,4 million cuts applied to all the EU institutions altogether. In addition, with a view to ensure stable staffing at the 2023 level, the Commission reduced the requests of the other Institutions by 260 FTE with a related reduction in budget of EUR 16,3 million.

Future developments

Despite the above efforts, in the long-term scenario built on the macroeconomic assumptions used for Draft Budget 2024 and the Commission's long-term projections for the period 2025-2027, the total underbudgeting of Heading 7 would amount to over EUR 1,9 billion.

(EUR million)	*2024*	*2025*	*2026*	*2027*	*2024-2027*
Sub-ceiling margin	*- 123*	*- 327*	*- 544*	*- 564*	*- 1,558*
Ceiling margin	*- 148*	*- 382*	*- 652*	*- 718*	*- 1,900*

This simulation is based on the following assumptions:

- For non-salary expenditures, the financial programming provided for DB 2024 is included.
- Salary updates rates of 3,7% in 2023 (average of DB 2024 assumption for 2023 (+4,4%) and ECFIN Spring 2023 forecast (+3,0%)), +3,4% in 2024 (DB 2024 assumption), +3,8% in 2025 and 3% in both 2026 and 2027 (derived from ECFIN Spring 2023 forecast).
- the number of staff in the institutions is increased in total by 885 posts (phased-in: 25% in every year from 2024 to 2027); the related cost is estimated at EUR 346 million.

While simulating any potential long-term scenario, it is crucial to underline the volatility of the macroeconomic data and an objective difficulty in their appropriate predictions. This, coupled with the lasting impact of any variation over subsequent years, effectively hampers the precision in any long-term planning for Heading 7. For instance, if the annual inflation rate taken into account for the salary update, or the salary evolution of the Member States' government officials for the period 2025-2027, led to a salary update rate higher of 0,5% compared to the assumptions taken in the table above, the total gap in Heading 7 would increase further up by EUR 233 million.

In conclusion, even according to the most conservative available forecasts, it is evident that the level of appropriations as agreed in MFF 2021-27, which was based on 2% annual deflator, will turn out not sufficient and will require reinforcement.

[1] European Commission (2023) European Economic Forecast – Spring 2023. European Economy - Institutional Paper 200, May 2023.

[2] Regulation No 31 (EEC), 11 (EAEC), laying down the Staff Regulations of Officials and the Conditions of Employment of Other Servants of the European Economic Community and the European Atomic Energy Community.

[3] Belgium, Germany, Spain, France, Italy, Luxembourg, Netherlands, Austria, Poland, Sweden.

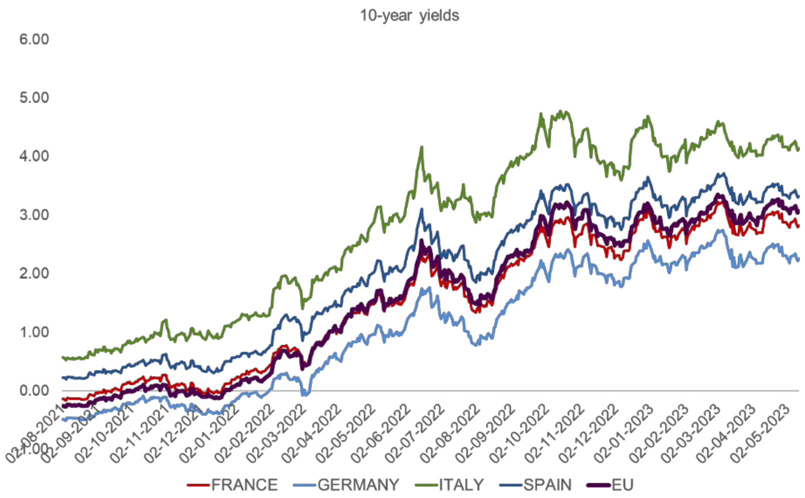
2.11.2. Interest rates

After the launch of the NextGenerationEU bond issuances in 2021, the EU enjoyed favourable financing conditions, thanks to low global bond market rates, its high credit rating and the markets' demand for euro-denominated "safe" assets. EU transactions have attracted very high investor demand, anchored by the EU's strong credit rating. Since June 2021, syndicated transactions have been between 3 to 16 times oversubscribed. High investor demand has helped the Commission achieve a competitive interest cost for the Member States seeking support under the programme.

However, since the beginning of 2022, due to increasing uncertainty in financial markets and monetary policy tightening to respond to high inflation, bond market rates in the EU and beyond have increased substantially. As inflation increased in 2022, market interest rates increased across the board also as a result of successive monetary policy rate increases. Changing interest rates have important budgetary implications: interest rates in 2021 (and related budgetary costs) were substantially lower than what had been foreseen at the time of the adoption of the MFF, but the situation quickly reversed in 2022. The interest rate risk is felt most acutely under the current MFF since all new net issuances will take place before the end of 2026, and the cost of issuance is determined by the path and conditions of issuance which is unknown in advance.

The pace of the increase in interest rates for all issuers including the EU has been one of the steepest witnessed in financial markets in the past decades. Interest and debt management costs have increased substantially alongside generally worsening market conditions since the start of NextGenerationEU. Average cost of funding increased from 0.14% in the period from June to December 2021 to 2.6% for the period July to December 2022. Interest rates on 10-year EU-Bonds have increased from 0.09% at the time of the inaugural 10-year NextGenerationEU bond in June 2021 to 1.53% in May 2022, and to 3.09% in the most recent issuance in April 2023. Comparable increases have been observed for highly rated euro area sovereign issuers. For example, interest rates on 10-year German government bonds increased from around -0.20% in June 2021 to close to 1.0% in May 2022, were over 2.50% in the first quarter of 2023 and stood around 2.30% in early May (Graph 7).

Graph 7. Yields on 10-year bonds of EU and selected Member States, 2021-2023



Source: Bloomberg, European Commission

The increase in interest rates has substantial budgetary implications. For the MFF 2021-2027, an amount of EUR 14.9 billion (in current prices) under Heading 2b is planned for covering the interest payments for NextGenerationEU non-repayable support. This amount was defined based on an historical mean reversal assumption. The envelope for interest payments was therefore based on the assumption that average yields would gradually increase from 0.55% in 2021 to 1.15% in 2027.

At current market conditions, the initially planned amount for 2024 will not be sufficient for the annual payments of NextGenerationEU related interests. The final amount necessary in 2024 will depend on the interest rates of the borrowings undertaken until the end of 2023 and the volume of the operations.

3. IMPLEMENTATION: HORIZONTAL ELEMENTS

3.1. MFF state of play: current availabilities and past usages

Chapter 2 has shown that the EU budget has been at the forefront of the EU's recovery efforts from the COVID-19 crisis and of the response to the fallout of Russia's war of aggression against Ukraine as well as other unforeseen events. The need to provide urgent financing to face unexpected events and crises has resulted in increased re-programming and redeployments within programmes, in particular for cohesion policy, given its ability to deploy substantial means at regional and local level. Redeployments also played an important role in addressing other unforeseen events, in particular the energy crisis: for instance, due to the scale of the challenge and the comparatively very limited free space in the EU budget, the financing support for REPowerEU came mostly from redeployment and repurposing of other funds within and outside the EU budget.

To respond to unexpected challenges, the flexibilities included in this MFF are being used to the fullest, but they are small overall. Total flexibility at the time of adoption of the MFF ranges from 0.45% to 3.5% of the commitment ceiling, depending on the definition of flexibility used. If we consider only 'pure' MFF-relevant budgetary flexibility, i.e. the flexibility instrument and the unallocated margins, then this amounts to only 1.05% of the commitments ceiling, i.e. on average EUR 1.82 billion per year (Table 3.1.1).[40] In particular, unallocated margins, which provide flexibility within each heading of the MFF, were equal to only EUR 5.5 billion or 0.45% of the expenditure ceilings at the beginning of the MFF. The amount is far lower than the Commission proposal of May 2020 (EUR 28.2 billion) (Table 5.1.4 in the Annex).

Table 3.1.1 – Comparison of different types of flexibilities and availabilities and the ceilings for commitments in the adopted MFF[41]

Commitment appropriations, in EUR million, in current prices, rounded to the nearest whole number

Name[42]	Amount	As % of ceilings
Total Ceilings	1 210 894	
Unallocated margins	5 489	0.45%
Flexibility Instrument	7 219	0.60%
Thematic special instruments	16 453	1.36%
Other flexibilities[43]	15 074	1.24%
Total for:		
Unallocated margins and Flexibility Instrument	12 707	1.05%
Unallocated margins and special instruments (thematic and non-thematic)	29 160	2.41%
Unallocated margins, special instruments (thematic and non-thematic), and other flexibilities	44 234	3.65%

The sustainability of most headings of the MFF is challenged by the need to address unforeseen events and the evolving geopolitical context. Almost 78% of margins initially available in the MFF for 2023-2027 have already been allocated

40 Thematic special instruments can only top up only specific expenditures and programmes, and the other flexibilities (i.e. the emerging challenges and priorities cushion under NDICI-GE and the thematic facilities under AMIF, ISF, and BMVI) are bound to their respective instruments.
41 Sections 5.1 and 5.2 provide additional information about the adopted, current, and mobilised/used availabilities, flexibilities, and ceilings.
42 Special instruments and other flexibilities have either annual envelopes or otherwise specific, legal condition of application.
43 The other flexibilities considered are the emerging challenges and priorities cushion under NDICI-GE and the thematic facility under AMIF, ISF, and BMVI.

or pre-empted to date. The quick depletion of margins is especially relevant for Heading 1 (Single Market, Innovation and Digital), Heading 6 (Neighbourhood and the world) and Heading 5 (Security and Defence). In the case of Heading 1, this is due to in particular to the Secure Connectivity Programme and the Chips Act (Sections 2.9 and 2.3), which have almost completely used the margins between 2024 and 2027. In the case of Heading 6, the mobilisation of available flexibility was necessary to address the humanitarian fallout of Russia's war on Ukraine, both in Ukraine itself and in developing countries. A similar situation concerns Heading 5 (Security and Defence), where margins for the remainder of the MFF have already been almost completely pre-empted (by 84% on average between 2023 and 2027). The sub-ceiling of Heading 2b is under very strong pressure due to the increase in the financing costs of NextGenerationEU, where the margin has been fully depleted up to and including 2024. The margin under Heading 7 is expected to be negative until the end of the MFF (see tables in Box 5).

The resulting negative margins have been covered by mobilising special instruments over and above the ceilings of the MFF. Budgetary data from the first two years of the MFF (2021-2022) and the adopted budget for 2023 show that special instruments are being used at high pace in the current MFF (Table 5.2.2 in the Annex). The Flexibility Instrument is fully mobilised in 2021-2024. Over 90% of maximum amounts for special instruments[44] in 2021 have been committed, and almost 80% of the amounts for 2022. Concerning 2023, the adopted annual budget has already allocated almost 78% of the maximum resources for special instruments. The only instrument that is showing lower mobilisation is the EGF, which however is also the smallest. Quick depletion of the availabilities for special instruments can be a constraint for the remainder of the MFF, given that there would be limited carry-over amounts.

The depletion of budgetary margins in the early years of the MFF poses a serious constraint for the remainder of the MFF. The Single Margin Instrument, which allows entering new commitments and/or payments over and above the ceilings by using commitment and payment appropriations that are left unused below the expenditure ceilings from previous years as from 2021 and, as a last resort, commitment and payment appropriations from the current or future financial years, is also being used at a high pace, which will imply that availabilities in later years of the MFF will be very limited.

An additional constraint for the remainder of the MFF is given by the payments ceiling, given the forecast pattern of payments. The long-term forecast on future inflows and outflows describes in detail the forecast evolution of payments, its determinants as well as implications for decomitments and outstanding payments

[44] Thematic and non-thematic special instruments, excluding the Single Margin Instrument.

(reste-à liquider).[45] Payments from the EU budget are not uniformly distributed across the years, and unspent amounts in a year then increase the annual ceilings in future years.[46] In the current programming period, the forecast payments for cohesion programmes are expected to accelerate towards the end of the MFF, and the EAFRD will peak in 2026. This pattern was observed in previous MFFs, but it is more accentuated in this MFF given more important delays at the start of implementation (as described also in Section 2.3).

The MFF payments ceiling appears sufficient to cover the projected payments, except in 2026 where the forecast points to an overrun even considering all the flexibilities due to the "capping" mechanism. The total payment margin for 2024-2027[47] is estimated at EUR 11 billion. However, this is not uniformly distributed: in 2024 and 2025, the annual margin is projected at EUR 31 billion and EUR 9 billion respectively, while the forecast margins for 2026 and 2027 are negative, with the payments exceeding the ceiling by an estimated amount of EUR 16 billion and EUR 12 billion. The positive margin in 2024 and 2025 will allow transferring unused amounts within certain limits towards the end of the period. However, under the current assumptions, the estimated payment needs will exceed the MFF payment ceiling in 2026 by EUR 0.8 billion even taking the maximum cap of EUR 13 billion under the Single Margin Instrument. In fact, due to the capping mechanism, it would not be possible to fully use in the second half of the MFF the estimated margin under the payment ceiling for 2024 and 2025 and part of the margin might remain unused. An acceleration in payments of cohesion programmes beyond the projected central forecast scenario could lead to a larger breach of the maximum payment ceiling in that year.

3.2. Borrowing and lending

One of the main novelties of the 2021-2027 long-term budget is the credit financing of NextGenerationEU. The Own Resources Decision[48] empowered the Commission to act on behalf of the Union and borrow up to EUR 806.9 billion on financial markets until 2026. In addition, to ensure sufficient headroom for the NextGenerationEU borrowing, the permanent 1.4% Own Resources Ceiling of the EU budget was increased by 0.6 percentage points of the EU's Gross National Income (GNI). This increase provides a sufficiently high ceiling to allow the Union to

[45] COM(2023)390 Report from the European Commission to the European Parliament and the Council – Long-Term Forecast of future Inflows and Outflows of the EU budget (2024-2028).
[46] Article 11(1)(b) of the MFF Regulation.
[47] The payments margin is the difference between the forecast payments under the MFF ceiling and the payment ceiling set in the annual technical adjustment (TAJU 2024)
[48] Council Decision (EU, Euratom) 2020/2053 of 14 December 2020 on the system of own resources of the European Union and repealing Decision 2014/335/EU, Euratom.

cover all of its financial obligations and contingent liabilities falling due under this programme in a given year.

The Commission is an established actor in debt securities markets, with a track record of bond issuances over the past 40 years. However, before the start of NextGenerationEU the Commission was a relatively small issuer. Moreover, for all programmes prior to NextGenerationEU, the Commission issued bonds and transferred the proceeds directly to beneficiary countries on the same terms (i.e. interest rate and maturity) that it received, known as a ‘back-to-back’ funding approach. This method was sufficient in addressing small funding needs, but it reached its limits with the SURE programme, under which 19 Member States had to be served by a single funding programme of up to EUR 100 billion.

To address the scale of funding needs under NextGenerationEU the Commission put in place a pooled funding approach similar to that employed by sovereign issuers. This funding approach – named “diversified funding strategy” – enabled the Commission to cope with multiple disbursements of loans and grants to Member States at high speed and frequency and with uncertain timing given their dependence on the implementation of related plans.

In December 2022, the European Parliament and the Council adopted an amendment of the Financial Regulation[49] to allow the Commission to broaden the diversified funding strategy to other EU borrowing programmes. Under this ‘unified funding approach’, the Commission is now issuing single-branded ‘EU-Bonds’, rather than separately denominated bonds for individual programmes such as NextGenerationEU, SURE, and MFA. This single EU-Bond label allows the Commission to plan, execute and communicate all its issuances in an agile and coherent way. The funding plan and annual borrowing decision covers all programmes financed through the unified funding approach, giving the European Parliament, the Council and investors a comprehensive overview of the EU’s upcoming borrowing.

The unified funding approach enables the Commission to use the full range of its funding instruments (EU-Bonds and EU-Bills) and funding techniques (syndications and auctions) developed for NextGenerationEU to cover its funding needs for other lending programmes. In this way, the Commission can obtain more attractive conditions, which will be passed on to the beneficiaries of its funding programmes, while also having greater flexibility on the timing of disbursements to better address beneficiaries’ needs. The Commission collects all proceeds of EU-Bonds in a central funding pool and internally allocates them to

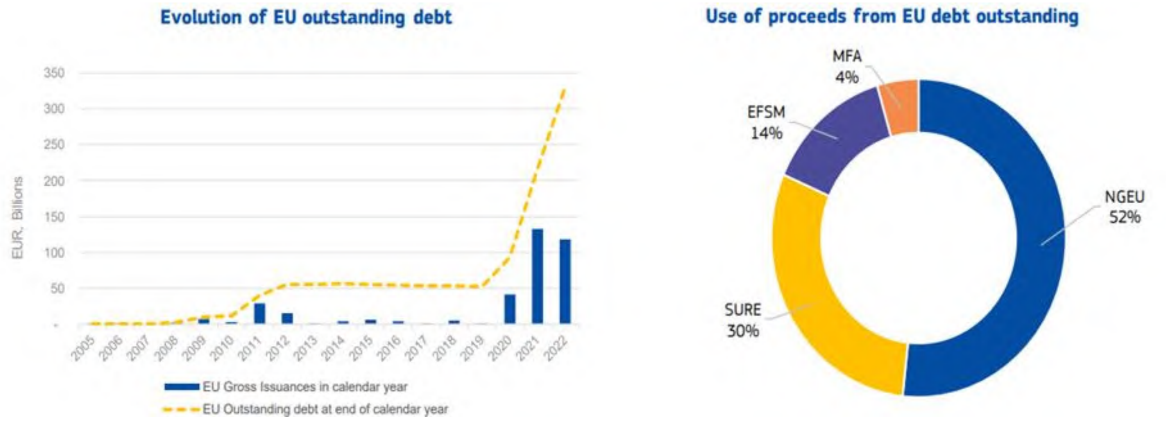
[49] Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018

various policy programmes.[50] The appropriateness of EU's funding method in meeting the NextGenerationEU needs was confirmed by ECA's special report on NextGenerationEU debt management (published on 12 June 2023) which noted that the Commission's debt management procedures enabled borrowing of the required funds on time, in compliance with regulatory limits and at costs corresponding to its market position.[51]

As a result of these developments, the EU has become one of the largest issuers in euro right after France, Germany, Italy and Spain. The EU has issued EUR 132.6 billion in 2021 and EUR 118.3 billion in 2022, up from an annual average of EUR 6.1 billion in 2010-2019. As of end May 2023, the EU has EUR 394 billion of bonds outstanding, with the majority of bond proceeds allocated to NextGenerationEU. The steep increase in annual issuance volume has been met by strong demand from the markets for EU Bonds, with EU's investor base including more than 100 different investors from 70 different countries.

Beyond providing funds to support the EU's policy priorities, EU issuances can also have a broader impact on the European capital market. First, they boost the supply of highly rated euro-denominated assets, thus potentially strengthening the international role of the euro. Second, they enable the establishment of new EU securities, such as the EU Social Bonds linked to SURE and the NextGenerationEU Green Bonds, based on dedicated frameworks that ensure coherence with the Commission's overall ESG strategy.

Graph 8. EU outstanding debt as of end 2022



Source: European Commission.

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[50] For financial assistance programmes for which the basic acts enter into force on or after 9 November 2022, back-to-back funding will remain an option on an exceptional basis when warranted by specific transaction needs.

[51] ECA (2023), "NGEU debt management at the Commission - An encouraging start, but further alignment with best practice needed„ , *Special Report* n. 16.

Financing EU programmes through joint EU issuances requires continuous expansion of the Commission's debt management architecture. To further boost secondary market liquidity of EU debt and improve the efficiency of EU issuances, the Commission is putting in place mechanisms to facilitate trading of EU-Bonds in the secondary market, and price discovery through appropriate platforms. Both enhancements will help markets to adapt to the strong credit and large-scale characteristics of the EU's issuance programme. In addition, the Commission will continue to further increase the share of issuances via auctions to favour the liquidity of EU Bonds and support the performance of EU bonds.

3.3. Rule of Law

Since 2021, with the entry into force of the regulation on a general regime of conditionality ('conditionality regulation'), the EU budget has an additional layer of protection in cases when breaches of the rule of law principles affect or risk affecting the EU financial interests. The new conditionality regime allows the EU to take measures to protect the EU budget, such as suspension of payments or financial corrections. The instrument complements other tools and procedures to protect the EU budget, for example checks and audits or financial corrections, or investigations by the EU's anti-fraud office OLAF. The Commission can only recur to the regulation if the other Union budget protection tools cannot be used more effectively.

The general regime of conditionality applies to all EU funds and Member States. The conditionality includes a set of clear and objective criteria for assessing whether the Union budget is affected or at risk of being affected due to breaches of the principles of the rule of law in a Member State. These criteria link to situations that may be indicative of breaches, such as endangering the independence of the judiciary, failing to prevent, correct, or sanction arbitrary or unlawful decisions by public authorities ensuring the absence of conflict of interests and limiting prosecution.[52]

If the conditions provided to initiate the general regime of conditionality are fulfilled, the European Commission proposes to the Council the adoption of measures to protect the EU budget. The final decision is taken by the Council of the EU. Following a proposal by the Commission, measures adopted by the Council can be adapted or lifted if the Member State concerned submits further remedial measures that effectively address the relevant concerns.

[52] Communication from the Commission - Guidelines on the application of the Regulation (EU, EURATOM) 2020/2092 on a general regime of conditionality for the protection of the Union budget, COM(2022)1382 final.

In 2022, the Commission continued to implement the regulation on the general regime of conditionality. It opened the procedure to protect the EU budget against rule of law breaches in Hungary, concerning public procurement related to the use of Union funds by public interest trusts, the effectiveness of prosecutorial action and the fight against corruption. On 15 December 2022, based on a proposal from the Commission, the Council adopted measures to protect the Union budget from breaches of the principles of the rule of law in Hungary. The Council decided to suspend 55% of the commitments for three operational programmes in Cohesion Policy, which corresponds to an amount of approximately EUR 6.3 billion in total for the period 2021-2027. The Council also prohibited entering new legal commitments with public interest trusts or entities maintained by them (many of which are universities), under any Union programme directly or indirectly managed by the Commission. Pursuant to the Conditionality Regulation, Hungary can submit further remedial measures to demonstrate that the conditions for budgetary measures are no longer fulfilled. The Commission will continue to lead the implementation and enforcement of the Regulation, to identify possible breaches of the rule of law that affect or seriously risk affecting the EU budget in a sufficiently direct way and assess whether the conditions to launch the procedure set out in the Regulation are fulfilled.

3.4. Performance and Mainstreaming

The EU budget requires a modern, transparent, accountable, and solid performance framework, linking expenditure to objectives, and allowing for the measurement of both expenditure and achieved results. The Commission communication of June 2021 'The performance framework for the EU budget under the 2021-2027 multiannual financial framework.'[53] described the features and functions of the performance framework for the current MFF, based on better defined objectives, more focused and meaningful indicators, and high-quality data. The principles of "mainstreaming" which allow to dedicate funds to a specific priority from a multiangle perspective, mobilizing the synergies and leveraging the entire EU budget are also described in the Communication. Despite being in the early stages of implementation, there are already some performance results available for the current MFF (Table 3.4.1).[54]

Table 3.4.1. Results achieved exclusively with appropriations from 2021-2027

[53] SWD(2021) 133 final.
[54] More detailed information on the performance of each programme and their alignment with political priorities for both the 2014-2020 and 2021-2027 MFF can be found on https://commission.europa.eu/strategy-and-policy/eu-budget/performance-and-reporting_en.

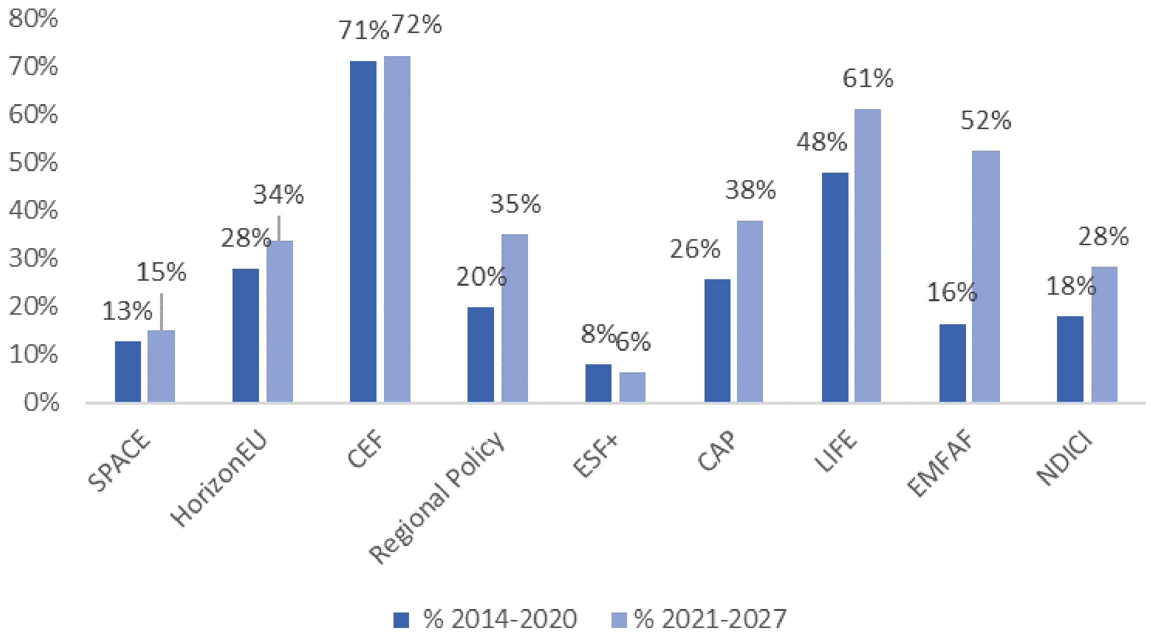
5.8 million farmers benefited from direct payments of the **Common Agricultural Policy** in the 2021 calendar year.	142 countries participated in **Horizon Europe** in 2021-2022, with 44 832 applications evaluated from 14 182 organisations.	2 million of Palestine refugees were supported by the **Neighbourhood Development and Cooperation Instrument (Global Europe)** contribution in 2022	17 electoral processes and democratic cycles were supported, observed and monitored by means of electoral missions in 2022 thanks to **Neighbourhood Development and Cooperation Instrument (Global Europe)**
60 **EU humanitarian air bridge flights were organised in 2022, delivering 842 tonnes of humanitarian materials thanks to Humanitarian Aid.**	125 million **Is the population that the European Union Solidarity Fund helped to support in 2022**	30% **Is the share of recipients of the European Defence Programme that did not carry out research activities with defence applications before the entry into force of the fund**	1.5 million **Was the number of participants in 2021 and 2022 in learning mobility activities (learners and staff) thanks to Erasmus+**

Source: Programme Performance Statements Draft Budget 2024 and Annual Management and Performance Report 2022: https://commission.europa.eu/strategy-and-policy/eu-budget/performance-and-reporting/programme-performance-statements_en

With the inter-institutional agreement (IIA) accompanying the 2021-2027 MFF, the European Parliament, the Council and the Commission committed towards the integration of crosscutting objectives into the EU budget. A key commitment is to spend at least 30% of all resources available under the 2021-2027 MFF and NextGenerationEU for addressing climate objectives. Furthermore, the IIA supports biodiversity objectives with 7.5% of annual spending in 2024 and 10% in 2026 and 2027. It also commits to the development of a new gender equality expenditure tracking methodology and the pilot mainstreaming of those objectives as of 2023. In addition to these mainstreaming and tracking commitments, the IIA provides for an annual reporting on the implementation of the United Nations Sustainable Development Goals in all relevant programmes.

The projections for climate spending over the period 2021-2027 are above the 30% target, with the estimated figures for the Draft Budget 2024 at 32.6% for the overall period. In absolute terms, the amounts devoted to climate objectives for the total of the 2021-2027 MFF and NextGenerationEU of EUR 578 billion will more than double the climate expenditures in the 2014-2020 period (EUR 220.8 billion--which represented 20.6 % of the 2014-2020 MFF envelope) (Graph 9).

Graph 9. Climate contribution comparison in relative terms in selected funds



Source: European Commission.

The climate architecture also supports the achievement of the EU climate ambitions. Starting from the experience of MFF 2014-2020, the Commission set targets at programme level to underpin the horizontal 30% target, with the "climate adjustment mechanism" proposing corrective actions if targets were not achieved. Furthermore, elements of the Taxonomy for Sustainable Finance have been put in place to track nominal expenditure together with the application of the "do no (significant) harm" principle. In the period 2021-2027 almost all the programmes have increased their contribution to climate compared to the previous period (Graph 9).

Several programmes contribute to the achievement of the climate target (Graph 10). Cohesion programmes and CAP together with NextGenerationEU, in particular the Recovery and Resilience Facility, as well as the additional financing for the Just Transition Fund, will contribute to achieving the climate transition. Furthermore, the new REPowerEU chapters in the RRF could raise the ambition of this climate financing.

Graph 10. Selected programmes contributing to the achievement of the climate target in 2021-2027 in EUR million (left scale) and in percentages of their total implementation (right scale)

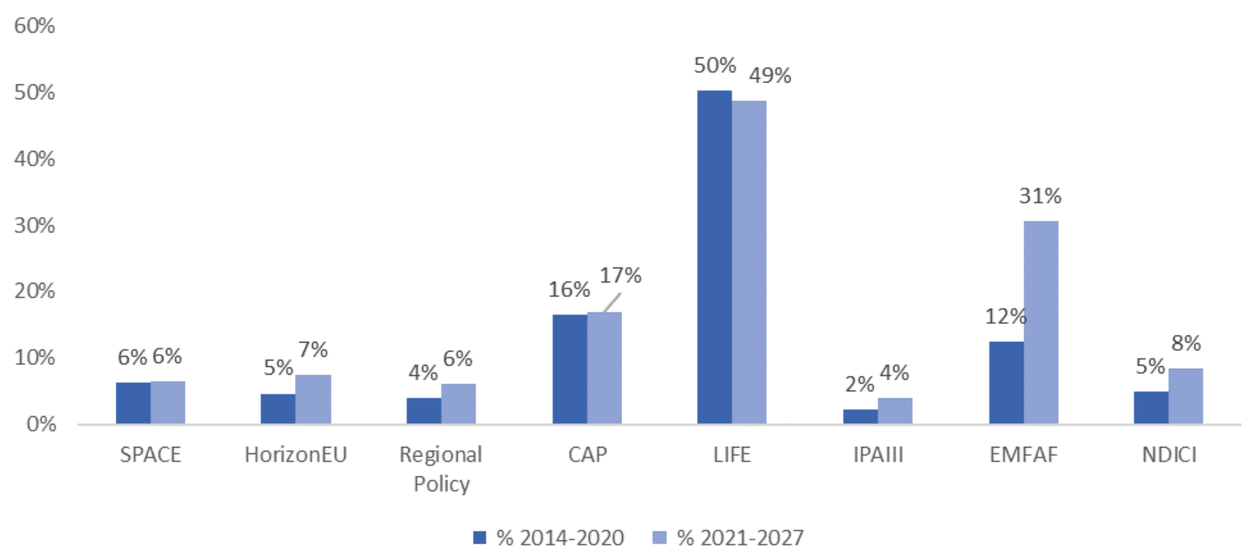
Source: European Commission.

Data available for the 2021-2027 period suggest that the financing for biodiversity has increased and is on track to devote 7.5% of the budget in 2024, but the targets for the end tail of the MFF might be missed. The methodology put forward by the Commission provides a solid base to measure biodiversity financing in all the EU budget programmes for mainstreaming biodiversity objectives into the EU budget, including the steering to dedicate more resources, going beyond the simple tracking of relevant expenditure.[55] In line with the mainstreaming principles, the EU budget has increased the relative and absolute amounts dedicated to biodiversity (graph 11). While the budget is on track to achieve 7.5% of its resources to biodiversity in 2024, it is forecast to allocate some 8.6% and 8.4% respectively in 2026 and in 2027, against the target of 10% in both years. Supported by other stakeholders, the Commission is seeking for ways to ensure that Member States will dedicate sufficient funding to biodiversity in the context of cohesion policy funds and the CAP. More detailed information on the implementation of the biodiversity ambition in the 2021-2027 MFF, in compliance with article 16 of the IIA, is provided in the Programme Performance Statement.[56]

Graph 11. Biodiversity contribution comparison in relative terms in selected funds

[55] Biodiversity Financing and Tracking, May 2022 study and biodiversity methodology as published by the Commission.

[56] More info available at https://commission.europa.eu/strategy-and-policy/eu-budget/performance-and-reporting/horizontal-priorities/green-budgeting_en



Source: European Commission.

In March 2020, the Commission presented its gender equality strategy 2020-2025.[57] The implementation of the strategy is based on the dual approach of (1) key actions to achieve gender equality combined with (2) strengthening the integration of a gender perspective in all EU policies and major initiatives. In this context, the Commission committed to analyse the impact of its activities on gender equality, and at how to measure expenditures related to gender equality at the programme level in the MFF 2021-2027. To that effect the Commission is developing a methodology and has implemented it on a pilot basis. As shown in the Draft Budget for 2024 performance statements, the total of the EU budget's 2022 interventions that are relevant for the promotion of gender equality or that have the potential to contribute to it represent 83% of the budget.

4. CONCLUSIONS

This Staff Working Document provided a thorough mid-term review of the 2021-2027 MFF. It has shown the progress with implementation and the challenges that the EU budget has been facing since its adoption.

The 2021-2027 MFF and NextGenerationEU adopted in December 2020 aimed at fostering the recovery of the EU from the COVID-19 pandemic and ensuring its resilience, supporting the green and digital transition. They were not designed to respond to a succession of crises. Nevertheless, the EU budget has

[57] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - A Union of Equality: Gender Equality Strategy 2020-2025, COM(2020) 152.

been successfully and extensively mobilised to address the fallout of Russia’s war of aggression against Ukraine, the energy crisis, as well as other unexpected events and natural disasters, on top of its predefined priorities. Significant pressures on the EU budget is also coming from the increase in interest rates. The limited flexibilities that were available at the beginning of the MFF have been used to the maximum. Redeployments have been used to an unprecedented extent and extremely little room for manoeuvre is left for the reminder of the MFF.

A targeted revision of the MFF is therefore necessary. The revision shall equip the MFF with the means to ensure that the Union can meet its legal obligations and address the most urgent priorities. The elements of this targeted revision are outlined in the Communication COM(2023)336.

5. ANNEXES

5.1. Overview of MFF 2021 – 2027

Table 5.1.1 – Comparison between the adopted and the current multiannual financial framework ceilings for commitments and payment appropriations[58]

In EUR million, in current prices, rounded to the nearest whole number

Name	Description	2021	2022	2023	2024	2025	2026	2027	Total
1. Single Market, Innovation and Digital	adopted	20 919	21 288	21 125	20 984	21 272	21 847	22 077	149 512
	current	20 919	21 878	21 727	21 598	21 272	21 847	22 077	151 318
	difference, of which:		590	602	614				1 806
	Article 5 MFFR		*590*	*602*	*614*				*1 806*
2. Cohesion and Values	adopted	52 786	55 314	57 627	60 761	63 387	66 536	70 283	426 694
	current	6 364	67 806	70 137	73 289	74 993	66 536	70 283	429 408
	difference, of which:	- 46 422	12 492	12 510	12 528	11 606			2 714
	Article 5 MFFR		*886*	*904*	*922*				*2 712*
	Article 7 MFFR	*- 46 422*	*11 606*	*11 606*	*11 606*	*11 606*			*2*
2a. Economic, social and territorial cohesion	adopted	48 191	49 739	51 333	53 077	54 873	56 725	58 639	372 577
	current	1 769	61 345	62 939	64 683	66 479	56 725	58 639	372 579
	difference, of which:	- 46 422	11 606	11 606	11 606	11 606			2
	Article 7 MFFR	*- 46 422*	*11 606*	*11 606*	*11 606*	*11 606*			*2*

58 The main ceiling differences for commitments are accounted for by the annual programme-specific adjustments under Article 5 MFFR and the re-programming of shared management programmes carried out in January 2022 under Article 7 MFFR. In the case of the sub-ceiling for market related expenditure and direct payments, the differences comes from transfers between EAGF and EAFRD, reflected in the annual technical adjustments in accordance with article 2(1) of the MFF Regulation.

Name	Description	2021	2022	2023	2024	2025	2026	2027	Total
2b. Resilience and values	adopted	4 595	5 575	6 294	7 684	8 514	9 811	11 644	54 117
	current	4 595	6 461	7 198	8 606	8 514	9 811	11 644	56 829
	difference, of which:		886	904	922				2 712
	Article 5 MFFR		*886*	*904*	*922*				*2 712*
3. Natural Resources and Environment	adopted	58 624	56 519	56 849	57 003	57 112	57 332	57 557	400 996
	current	56 841	56 965	57 295	57 449	57 558	57 332	57 557	400 997
	difference, of which:	- 1 783	446	446	446	446			1
	Article 7 MFFR	*- 1 783*	*446*	*446*	*446*	*446*			*1*
Of which: Market related expenditure and direct payments	adopted	40 925	41 257	41 518	41 649	41 782	41 913	42 047	291 091
	current	40 368	40 639	40 693	40 603	40 665	40 691	40 651	284 310
	difference, of which:	557	618	825	1 046	1 117	1 222	1 396	6 781
	Transfers	557	618	825	1 046	1 117	1 222	1 396	6 781
4. Migration and Border Management	adopted	2 467	3 043	3 494	3 697	4 218	4 315	4 465	25 699
	current	1 791	3 360	3 814	4 020	4 387	4 315	4 465	26 152
	difference, of which:	- 676	317	320	323	169			453
	Article 5 MFFR		*148*	*151*	*154*				*453*
	Article 7 MFFR	*- 676*	*169*	*169*	*169*	*169*			
5. Security and Defence	adopted	1 805	1 868	1 918	1 976	2 215	2 435	2 705	14 922
	current	1 696	1 896	1 946	2 004	2 243	2 435	2 705	14 925
	difference, of which:	- 109	28	28	28	28			3
	Article 7 MFFR	*- 109*	*28*	*28*	*28*	*28*			*3*
6. Neighbourhood and the World	adopted	16 247	16 802	16 329	15 830	15 304	14 754	15 331	110 597
	current	16 247	16 802	16 329	15 830	15 304	14 754	15 331	110 597

Name	Description	2021	2022	2023	2024	2025	2026	2027	Total
	difference								
7. European Public Administration	adopted	10 635	11 058	11 419	11 773	12 124	12 506	12 959	82 474
	current	10 635	11 058	11 419	11 773	12 124	12 506	12 959	82 474
	difference								
Of which: Administrative expenditure of the institutions	adopted	8 216	8 528	8 772	9 006	9 219	9 464	9 786	62 991
	current	8 216	8 528	8 772	9 006	9 219	9 464	9 786	62 991
	difference								
Total commitments	adopted	163 483	165 892	168 761	172 024	175 632	179 725	185 377	1 210 894
	current	114 493	179 765	182 667	185 963	187 881	179 725	185 377	1 215 871
	difference, of which:	- 48 990	13 873	13 906	13 939	12 249			4 977
	Article 5 MFFR		*1 624*	*1 657*	*1 690*				*4 971*
	Article 7 MFFR	*- 48 990*	*12 249*	*12 249*	*12 249*	*12 249*			*6*
Total payments	adopted	166 140	167 585	165 542	168 853	172 230	175 674	179 187	1 195 211
	current	163 496	166 534	168 575	170 543	173 654	177 126	180 668	1 200 596
	difference	- 2 644	- 1 051	3 033	1 690	1 424	1 452	1 481	- 5 385

Table 5.1.2 Redeployments and flexibilities implemented since 2020

Proposal	Flexibility-redeployment	Period- Financed	Total Commission proposal
CRII - EU 2020/460	Non-recovery of unspent pre-financing	2014-2020	8.0
CRII Plus - EU 2020/558	100% co-financing - accounting year 2020-2021	2014-2020	14.6
CARE - EU 2022/562	100% co-financing - accounting year 2021-2022	2014-2020	10.0
	Amounts re-programmed to address the migration challenges stemming from Russia's military aggression	2014-2020	1.1*
CARE 2 - EU 2022/613	REACT-EU increased pre-financing	NextGenerationEU	3.5
FAST-CARE - EU 2022/2039	Cohesion programmes increased pre-financing	2021-2027	3.5
	Amounts programmed to address the migration challenges stemming from Russia's military aggression	2021-2027	15.7
SAFE 2023/435	Amounts that can re-programmed to address the energy crisis	2014-2020	40.0
ASAP COM(2023) 237 final	Redeployments from EDIRPA	2021-2027	0.2
	Redeployments from European Defence Fund	2021-2027	0.3
Chips Act COM(2022) 46 final. Political agreement reached on 18/04/2023	Redeployments and reallocations from Horizon Europe and Digital Europe	2021-2027	2.9
	Redeployments from ITER	2021-2027	0.05
	Margin	2021-2027	0.35
	De-commitments	2021-2027	0.08
Union Secure Connectivity COM(2023)588	Redeployments, earmarking and reallocations from Space Programme, Horizon Europe, CEF-Digital, Digital Europe Programme, NDICI-Global Europe and European Defence Fund	2021-2027	1.93

REPowerEU	Loans	NextGenerationEU	225**
	Grants	2022-2026	20.0***
	BAR	2021-2027	5.4
	CPR transfers - existing transfer possibility from cohesion policy funds	2021-2027	17.9
Decentralised agencies	Redeployments from programmes for additional tasks in decentralised agencies	2021-2027	1.1

* Actual re-programming

** from remaining loans

*** ETS resources (12bn from Innovation Fund and 8 bn from Member States allowances)

Figure 5.1.1 – Expenditure ceiling for commitment appropriations 2021-2027 as a proportion, by heading and sub-heading

In EUR billion, in current prices, rounded to the nearest billion

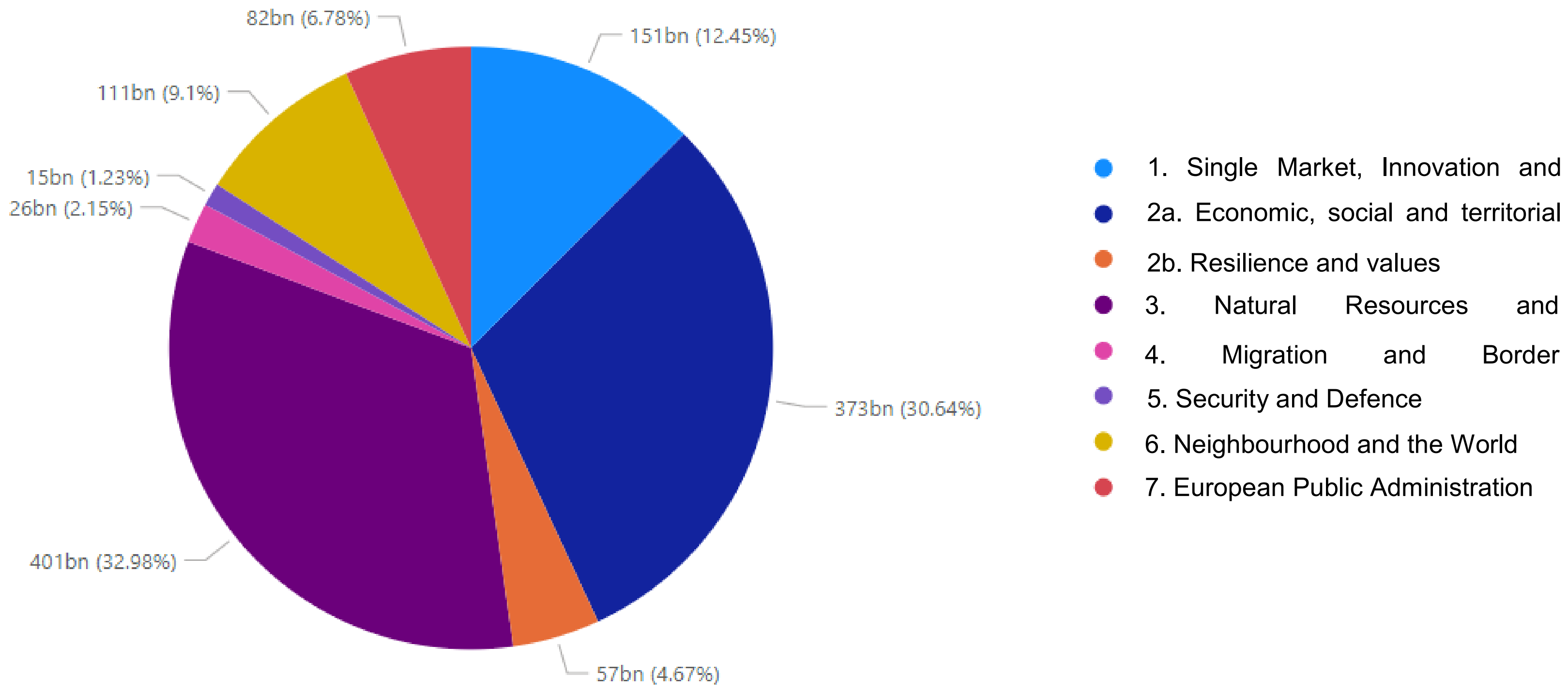


Figure 5.1.2 – Expenditure ceilings for commitment appropriations and MFF top-ups

The MFF top-ups considered are commitments made available again under Article 15(3) FR, Article 5 MFFR, and NextGenerationEU. On Article 5 – legend: Article 5 MFFR 2025-2027 not yet included in technical adjustments.

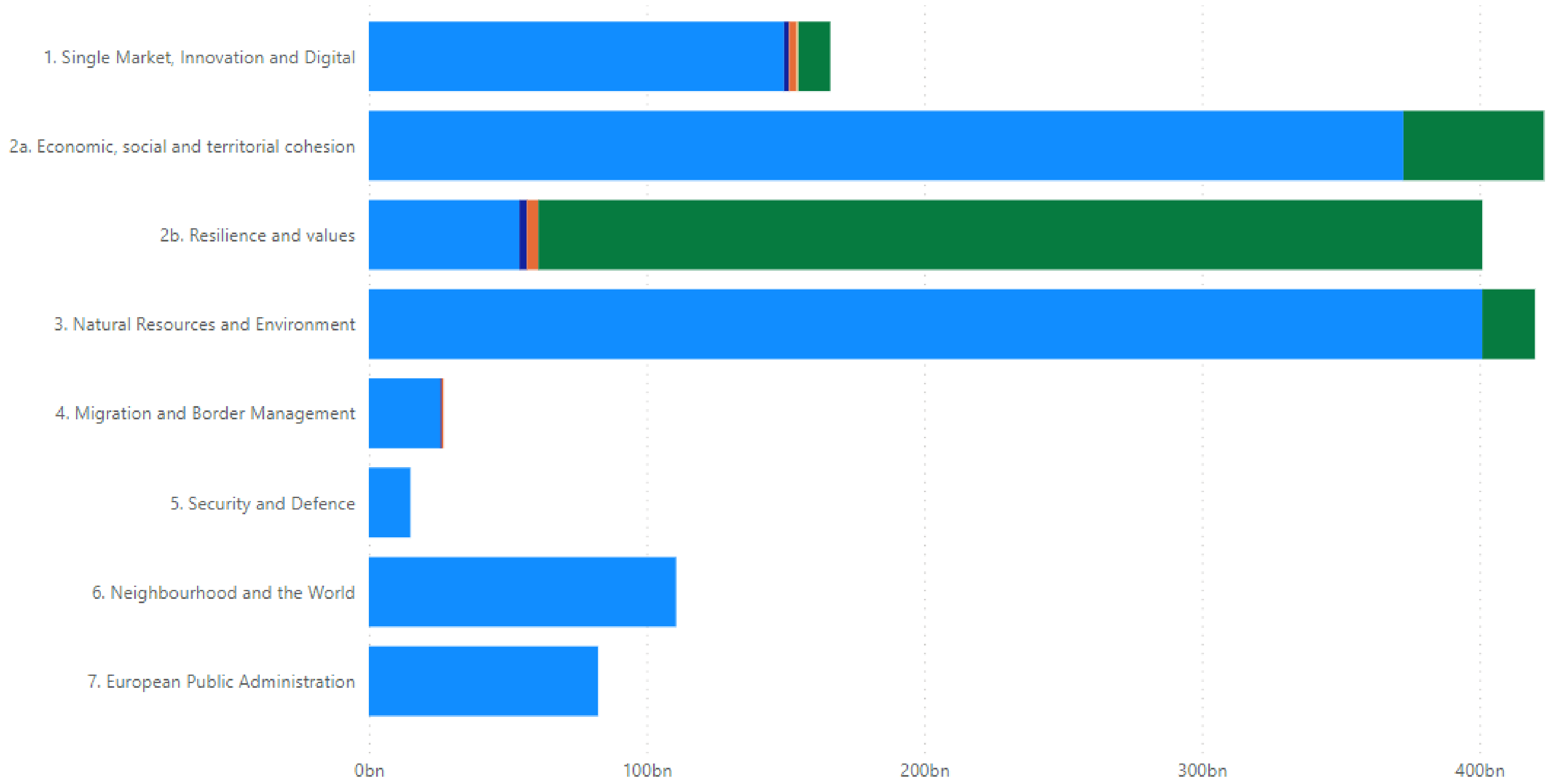


Table 5.1.3 – Sustainability of the ceilings for commitment appropriations (EUR million, current prices)

In EUR million, current prices, rounded to one decimal place

Name	2021	2022	2023	2024	2025	2026	2027
1. Single Market, Innovation and Digital	101.7	32.9	147.6	166.6	13.9	10.0	24.1
2a. Economic, social and territorial cohesion	- 1.6	30.8	12.5	17.8	1.0	0.3	0.6
2b. Resilience and values	- 432.3	- 30.0	- 517.2	- 1 708.2	55.9	90.1	183.2
3. Natural Resources and Environment	49.9	283.9	35.7	60.1	47.4	49.4	54.0
4. Migration and Border Management	164.0	- 52.2	86.7	123.3	37.4	51.5	46.5
5. Security and Defence	97.7	83.0	- 170.6	- 300.2	30.0	26.7	24.1
6. Neighbourhood and the World	- 784.0	- 907.4	- 1 230.7	0.0	108.7	108.5	113.1
7. European Public Administration	192.2	274.8	107.7	- 176.6	- 299.7	- 392.8	- 306.3
Total	**- 612.4**	**- 284.2**	**- 1 528.3**	**- 1 817.1**	**- 5.5**	**- 56.3**	**139.4**

If the figures are negative, it means that the authorised appropriations exceed the ceilings. For the years up to 2024, it means that the mobilisation of special instruments was required.

If the figures are positive, it means that the authorised appropriations are below the ceilings.

Years 2021 and 2022 correspond to the final approved budget, year 2023 corresponds to the latest draft amending budget, and years 2024-2027 correspond to the draft budget proposal for 2024.

Table 5.1.4 – Adopted MFF ceilings and other elements of the December 2020 MFF agreement

In EUR million, in current prices, rounded to the nearest whole number

Name	Description	2021	2022	2023	2024	2025	2026	2027	Total
1. Single Market, Innovation and Digital	Article 5 MFFR		723	738	753	767	782	796	4 559
	Article 15.3 FR	76	77	79	80	82	84	86	564
	NGEU	3 587	3 604	4 295					11 486
	Ceiling, of which:	20 919	21 288	21 125	20 984	21 272	21 847	22 077	149 512
	Re-allocated from the margin				*141*	*144*	*146*	*149*	*580*
2. Cohesion and Values	Article 5 MFFR		1 083	1 105	1 126	1 149	1 172	1 203	6 838
	NGEU grant allocation	156 551	129 894	104 200					390 645
	NGEU loan allocation	191 017	194 838						385 855
	Ceiling, of which:	52 786	55 314	57 627	60 761	63 387	66 536	70 283	426 694
	Re-allocated from the margin	*249*	*138*	*141*	*144*	*146*	*149*	*152*	*1 120*
2a. Economic, social and territorial cohesion	NGEU	39 795	10 824						50 620
	Ceiling, of which:	48 191	49 739	51 333	53 077	54 873	56 725	58 639	372 577
2b. Resilience and values	Article 5 MFFR		1 083	1 105	1 126	1 149	1 172	1 203	6 838
	NGEU	116 756	119 070	104 200					340 025
	Ceiling, of which:	4 595	5 575	6 294	7 684	8 514	9 811	11 644	54 117
	Re-allocated from the margin	*249*	*138*	*141*	*144*	*146*	*149*	*152*	*1 120*
3. Natural Resources and Environment	NGEU	4 510	10 012	4 416					18 939
	Ceiling	58 624	56 519	56 849	57 003	57 112	57 332	57 557	400 996
4. Migration and Border Management	Article 5 MFFR		181	185	189	192	196	198	1 141
	Ceiling, of which:	2 467	3 043	3 494	3 697	4 218	4 315	4 465	25 699

Name	Description	2021	2022	2023	2024	2025	2026	2027	Total
	Re-allocated from the margin		*90*	*92*	*94*	*96*	*98*	*100*	*569*
5. Security and Defence	Ceiling	1 805	1 868	1 918	1 976	2 215	2 435	2 705	14 922
6. Neighbourhood and the World	Ceiling	16 247	16 802	16 329	15 830	15 304	14 754	15 331	110 597
	Re-allocated from the margin		90	92	94	96	98	100	569
Total commitments	Article 5 MFFR		1 987	2 028	2 068	2 108	2 150	2 197	12 538
	Article 15.3 FR	76	77	79	80	82	84	86	564
	NGEU grant allocation	164 648	143 511	112 912					421 070
	NGEU loan allocation	191 017	194 838						385 855
	Ceiling, of which:	163 483	165 892	168 761	172 024	175 632	179 725	185 377	*1 210 894*
	Re-allocated from the margin	*249*	*318*	*325*	*472*	*481*	*491*	*501*	*2 838*

Table 5.1.5 – Evolution of the payment ceilings

Payment appropriations, in EUR million, in current prices (unless otherwise specified), rounded to the nearest whole number

Name	2021	2022	2023	2024	2025	2026	2027	Total[59]
Ceiling in the adopted MFF and technical adjustments								
Adopted MFF ceiling (in 2018 prices)[60]	156 557	154 822	149 936	149 936	149 936	149 936	149 936	1 061 058
MFF technical adjustment 2021[61]	166 140	167 585	165 542	168 853	172 230	175 674	179 187	1 195 211
MFF technical adjustment 2022[62], of which:	166 140	169 209	165 542	168 853	172 230	175 674	179 187	1 196 835
Article 5 MFFR top-up		*1 624*						*1 624*
MFF technical adjustment 2023[63], of which:	163 496	170 558	168 575	168 853	172 230	175 674	179 187	1 198 573
Article 5 MFFR top-up			*1 657*					*1 657*
Adjustment	*- 2 644*	*1 349*	*1 376*					*81*
MFF technical adjustment 2024[64]	163 496	166 534	168 575	170 543	173 654	177 126	180 668	1 200 596
Article 5 MFFR top-up				*1 690*				*1 690*
Adjustment		*- 4 024*			*1 424*	*1 452*	*1 481*	*333*
Remaining under cap[65] (current prices)					7 766	13 779	16 445	37 990

[59] Totals may not tally due to rounding.

[60] Council Regulation (EU, Euratom) 2020/2093 of 17 December 2020 laying down the multiannual financial framework for the years 2021 to 2027 (OJ L 433I, 22 December 2020, p. 11-22)

[61] Communication from the Commission to the European Parliament and the Council, Technical adjustment of the multiannual financial framework for 2021 in accordance with Article 4 of Council Regulation (EU, Euratom) 2020/2093 of 17 December 2020 laying down the multiannual financial framework for the years 2021 to 2027 (COM(2020) 848 final, 18 December 2020)

[62] Communication from the Commission to the European Parliament and the Council, Technical adjustment of the multiannual financial framework for 2022 in accordance with Article 4 of Council Regulation (EU, Euratom) 2020/2093 of 17 December 2020 laying down the multiannual financial framework for the years 2021 to 2027 (COM(2021) 365 final, 7 June 2021)

[63] Communication from the Commission to the European Parliament and the Council, Technical adjustment of the multiannual financial framework for 2023 in accordance with Article 4 of Council Regulation (EU, Euratom) 2020/2093 of 17 December 2020 laying down the multiannual financial framework for the years 2021 to 2027 (COM(2022) 266 final, 7 June 2022)

[64] Communication from the Commission to the European Parliament and the Council, Technical adjustment of the multiannual financial framework for 2024 in accordance with Article 4 of Council Regulation (EU, Euratom) 2020/2093 of 17 December 2020 laying down the multiannual financial framework for the years 2021 to 2027 (COM(2023) 320 final, 6 June 2023)

[65] The cap is enshrined in 11(3) MFFR and updated annually, if applicable, in the technical adjustment of the MFFR.

Name	2021	2022	2023	2024	2025	2026	2027	Total[59]
Ceiling in the adopted MFF and technical adjustments								
Remaining under cap (in 2018 prices)					6 761	11 760	13 760	32 281

5.2. Overview of availabilities and flexibilities

Table 5.2.1 – Adopted availabilities and flexibilities in the MFF 2021-2027

Adopted availabilities focus on a specific set of flexibilities, namely unallocated margins, special instruments, and the emerging challenges and priorities cushion under NDICI-GE. Other programmes or instruments may have elements of flexibility that are not included in this table.

Commitment appropriations, in EUR million, in current prices, rounded to the nearest whole number

Name[66]	2021	2022	2023	2024	2025	2026	2027	Total
Unallocated margins								
1. Single Market, Innovation and Digital	221	226	229	94	96	97	96	1 059
2. Cohesion and Values	- 57	57	59	60	61	62	63	305
2a. Economic, social and territorial cohesion								
2b. Resilience and values	*- 57*	*57*	*59*	*60*	*61*	*62*	*63*	*305*
3. Natural Resources and Environment	101	102	105	107	109	111	114	748
4. Migration and Border Management	106	17	19	21	21	22	19	226
5. Security and Defence	93	94	96	99	100	102	97	681
6. Neighbourhood and the World	168	81	84	85	86	88	91	684
7. European Public Administration[67]	257	256	256	255	254	252	256	1 786
Total commitment margin	**890**	**834**	**848**	**719**	**727**	**735**	**736**	**5 489**
Non-thematic special instruments[68]								
Flexibility instrument	**971**	**990**	**1 010**	**1 030**	**1 051**	**1 072**	**1 094**	**7 219**

66 The degree of flexibility varies depending on the instrument, and depends on the provisions of the applicable legislation.
67 The margin for heading 7 has been calibrated based on the adopted MFF and the technical update of the financial programming of February 2021.
68 The Single Margin Instrument (parts 11(1)(a) and 11(1)(c)) has specific provisions that depend on the margins available during the programming period, hence no initial programming can be provided.

Name[66]	2021	2022	2023	2024	2025	2026	2027	Total
Thematic special instruments								
European Globalisation Adjustment Fund (EGF)	**197**	**201**	**205**	**209**	**214**	**218**	**222**	**1 467**
Solidarity and Emergency Aid Reserve (SEAR)[69]	**1 321**	**1 299**	**1 325**	**1 351**	**1 378**	**1 406**	**1 434**	**9 515**
Carry-over from the past	*48*	*0*	*0*	*0*	*0*	*0*	*0*	*48*
Internal strand	*143*	*146*	*149*	*152*	*155*	*158*	*161*	*1 065*
EUSF	*478*	*487*	*497*	*507*	*517*	*527*	*538*	*3 550*
External strand	*334*	*341*	*348*	*355*	*362*	*369*	*376*	*2 485*
End-of-Year Cushion	*318*	*325*	*331*	*338*	*345*	*351*	*359*	*2 367*
Brexit Adjustment Reserve (BAR)	**1 698**	**1 299**	**1 325**	**0**	**1 149**	**0**	**0**	**5 470**
Other								
Emerging challenges and priorities cushion under NDICI-GE	**1 408**	**1 538**	**1 395**	**1 324**	**1 249**	**1 170**	**1 226**	**9 310**

[69] Carry-overs are not included in the adopted availabilities for years 2022-2027.

Table 5.2.2 – Remaining availabilities and flexibilities in the MFF 2021-2027

Current availabilities focus on a specific set of flexibilities, namely unallocated margins, special instruments, and the emerging challenges and priorities cushion under NDICI-GE. Other programmes or instruments may have elements of flexibility that are not included in this table.

Commitment appropriations, in EUR million, in current prices, rounded to the nearest whole number

Name[70]	2021	2022	2023	2024	2025	2026	2027	Total[71]
Unallocated margins								
1. Single Market, Innovation and Digital	102	33	132	167	14	10	24	347
2. Cohesion and Values		31	13	18	56	90	183	361
2a. Economic, social and territorial cohesion		*31*	*13*	*18*	*1*		*1*	*32*
2b. Resilience and values					*56*	*90*	*183*	*329*
3. Natural Resources and Environment	50	284	32	60	47	49	54	243
4. Migration and Border Management	186		87	123	37	51	47	345
5. Security and Defence	98	83			30	27	24	81
6. Neighbourhood and the World					109	109	113	330
7. European Public Administration	192	275	106		- 300	- 393	- 306	- 893
of which: Administrative expenditure of the institutions	*186*	*164*	*26*		*- 248*	*- 336*	*- 243*	*- 801*
Total commitment margin[72]	**627**	**705**	**369**	**368**	**- 6**	**- 56**	**139**	**814**
Non-thematic special instruments								
Flexibility instrument					**1 051**	**1 072**	**1 094**	**3 217**
Single Margin Instrument 11(1)(a)[73]			1 094	**566**				

[70] The degree of flexibility varies depending on the instrument, and depends on the provisions of the applicable legislation.

[71] The values for 2021 and 2022 for the remaining unallocated margin are not included in the calculation so as not to overlap with the presentation of the Single Margin Instrument 11(1)(a).

[72] The residual margins for 2021 and 2022 are already considered in the EUR 1 094 million available for the Single Margin Instrument 11(1)(a) in 2023.

[73] The Single Margin Instrument 11(1)(a) has specific regulatory provisions that prevent showing a reliable forecast. The margins from 2021 and 2022 are as of 2023 included in the Single Margin Instrument. Hence, only the availabilities for 2023 and 2024 are shown, where the availability in 2024 assumes that no further use of the Single Margin Instrument 11(1)(a) is done in 2023. The value for 2024 does not include the margin for 2023 to avoid double counting.

Name[70]	2021	2022	2023	2024	2025	2026	2027	Total[71]
Thematic special instruments								
European Globalisation Adjustment Fund (EGF)[74]			**200**	**209**	**214**	**218**	**222**	**1 063**
Solidarity and Emergency Aid Reserve (SEAR)[75]			**891**	**1 351**	**1 378**	**1 406**	**1 434**	**6 461**
Internal strand			*63*	*152*	*155*	*158*	*161*	*690*
EUSF			*497*	*507*	*517*	*527*	*538*	*2 586*
External strand			*0*	*355*	*362*	*369*	*376*	*1 462*
End-of-Year Cushion			*331*	*338*	*345*	*351*	*359*	*1 724*
Brexit Adjustment Reserve (BAR)[76]					**1 149**			**1 149**
Other								
Emerging challenges and priorities cushion under NDICI-GE				**732**	**452**	**373**	**365**	**1 922**

74 The unused amounts of 2021 (EUR 173.4 million) and 2022 (EUR 173.3 million) have lapsed.
75 The unused amount of 2023 would be carried over to 2024. For the purpose of an accurate multiannual perspective, this amount is presented only in 2023.
76 Resources under the Brexit Adjustment Reserve can be transferred by Member States to REPowerEU.

Table 5.2.3 – Availabilities and flexibilities mobilised, used or planned in the MFF 2021-2027

Current availabilities focus on a specific set of flexibilities, namely unallocated margins, special instruments, and the emerging challenges and priorities cushion under NDICI-GE. Other programmes or instruments may have elements of flexibility that are not included in this table.

Commitment appropriations, in EUR million, in current prices, rounded to the nearest whole number

Name[77]	2021	2022	2023	2024	2025	2026	2027	Total
Unallocated margins (current - adopted)[78]								
1. Single Market, Innovation and Digital	- 119	- 193	- 97	73	- 82	- 87	- 72	- 578
2. Cohesion and Values	57	- 27	- 47	- 42	- 5	28	120	85
2a. Economic, social and territorial cohesion	*0*	*31*	*13*	*18*	*1*	*0*	*1*	*63*
2b. Resilience and values	*58*	*- 57*	*- 59*	*- 60*	*- 5*	*28*	*120*	*24*
3. Natural Resources and Environment	- 51	182	- 73	- 47	- 61	- 61	- 60	- 171
4. Migration and Border Management	79	- 17	67	103	17	29	27	306
5. Security and Defence	5	- 11	- 96	- 99	- 70	- 75	- 73	- 420
6. Neighbourhood and the World	- 168	- 81	- 84	- 85	22	20	22	- 354
7. European Public Administration	- 65	19	- 150	- 255	- 554	- 645	- 562	-2 212
Total commitment margin	**- 262**	**- 129**	**- 480**	**- 351**	**- 732**	**- 791**	**- 597**	**-3 342**
Non-thematic special instruments								
Flexibility instrument	**762**	**368**	**1 236**	**1 636**				**4 002**
Single Margin Instrument 11(1)(a)			**280**	**549**				**829**
Thematic special instruments								
European Globalisation Adjustment Fund (EGF)[79]	**24**	**28**	**6**					**58**
Solidarity and Emergency Aid Reserve (SEAR)	**1 281**	**1 340**	**434**					**3 054**
Internal strand	*143*	*152*	*86*					*382*
EUSF	*803*	*718*	*0*					*1 522*

77 The degree of flexibility varies depending on the instrument, and depends on the provisions of the applicable legislation.
78 The unallocated margin for 2021 and 2022 has become part of the Single Margin Instrument.
79 The unused amounts of 2021 (EUR 173.4 million) and 2022 (EUR 173.3 million) have lapsed.

Name[77]	2021	2022	2023	2024	2025	2026	2027	Total
External strand	*334*	*469*	*348*					*1 151*
Brexit Adjustment Reserve (BAR)[80]	**1 698**	**1 299**	**1 325**					**4 322**
Other								
Emerging challenges and priorities cushion under NDICI-GE	**1 408**	**1 538**	**1 395**	**592**	**797**	**797**	**861**	**7 388**

80 The unused allocations for the Brexit Adjustment Reserve are assumed to be fully used.

Table 5.2.4 – Summary presentation of adopted, current, and mobilised or used availabilities

The amounts for the Flexibility Instrument, the EGF, and SEAR are available annually, subject to the specific legal provisions for each instrument. The amount for the Single Margin Instrument is established each year with the technical adjustment of the MFF. This overview presents an illustrative view.

Evolution and availability of the margin for commitment appropriations

In order to account for the use of the Single Margin Instrument 11(1)(a) in 2023 and 2024, all margin allocations and uses of the Single Margin Instrument 11(1)(a) presented in previous tables have been converted to 2018 prices for comparison purposes.

In EUR million, in 2018 prices, rounded to the nearest whole number

Name	Amount	Percentage use or programmed
Margin in the adopted 2021-2027 MFF	4 891	
Without considering the Single Margin Instrument 11(1)(a)		
Available 2021 - 2027 margin	1 969	
Use 2021-2027 margin	**2 922**	**60%**
Considering the Single Margin Instrument 11(1)(a)		
Margin allocated to the Single Margin Instrument 11(1)(a)	1 245	
Use of Single Margin Instrument 11(1)(a)	741	
2023	*254*	
2024	*488*	
Remaining under Single Margin Instrument 11(1)(a)	503	
Use 2021-2027 margin	**3 664**	**75%**
Available 2021 - 2027 margin	1 228	
Under Single Margin Instrument 11(1)(a)	*503*	
Unallocated margin 2023-2027	*724*	

Adopted, current, and mobilised or used availability other than the unallocated margin for commitments

Commitment appropriations, in EUR million, in current prices, rounded to the nearest whole number

Name	Initial	Used/Mobilised[81]	Available	Percentage difference
Non-thematic special instruments				
Flexibility instrument	**7 219**	**4 002**	**3 217**	**55.4%**
Single Margin Instrument 11(1)(a)[82]		**829**	**566**	
Thematic special instruments				
European Globalisation Adjustment Fund (EGF)	**1 467**	**404**	**1 063**	**27.6%**
Solidarity and Emergency Aid Reserve (SEAR)[83]	**9 515**	**3 054**	**6 461**	**32.1%**
Brexit Adjustment Reserve (BAR)	**5 470**	**4 322**	**1 149**	**79.0%**
Other				
Emerging challenges and priorities cushion under NDICI-GE[84]	**9 310**	**7 388**	**1 922**	**79.4%**

[81] Includes the draft budget proposal for 2024, voted budget 2023 including draft amending budget 1/2023, and proposals for transfers for special instruments.
[82] The comparison is not relevant as the Single Margin Instrument 11(1)(a) is linked to the unallocated margins. The amount is inflated to 2024 prices.
[83] Fully mobilised in 2021 and 2022.
[84] Fully mobilised in 2021, 2022, and 2023.