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BULLETIN

Debate on the EU Multiannual Budget 2028-2034 Heating Up

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In the draft EU Multiannual Financial Framework (MFF) 2028-2034, the European Commission (EC) has proposed an increase in funding for projects that strengthen the competitiveness of the European economy and Europe's military potential. It will be financed by cuts in agricultural and cohesion policies, on the one hand, and the adoption of a large package of new sources of revenue, on the other. The modalities of implementation will also be the subject of negotiations. The proposal to use the recovery fund model, in which the Member States receive funding once they have carried out reforms spelled out in individual national plans, is controversial.

On 16 July, the EC presented a draft MFF that amounts to €1.76 trillion. In current prices, with inflation taken into account, the budget could reach up to €1.98 trillion, equivalent to 1.26% of the EU's Gross National Income (GNI). About 8.5% of this sum is to cover the repayment of debt incurred for the Next Generation EU recovery fund (NGEU). The part for actual expenditure corresponds to 1.15% of EU GNI and is slightly higher than the current multiannual budget at 1.13% of GNI. The draft will be negotiated by the European Parliament (EP) and the Member States (for the previous MFF, the process took two years) and then must be approved by the EU Council (unanimously) and the EP (by absolute majority).

Budget Size and Sources of Funding. The Commission started from the premise that in view of the multitude of political and economic challenges to the EU, the need to repay the NGEU debt should not entail a decrease in spending. This demand was also made by the EP political groups that constitute the informal coalition backing the Commission—the Christian and Social Democrats, and the Liberals—as well as by some Member States. However, the EC has not asked the members to increase their contributions. A larger budget is to be created primarily thanks to new sources of EU revenue (referred to as "own resources"). Already in 2020, when the NGEU was being negotiated, the European Parliament, the Council, and the Commission jointly agreed on a timetable for their creation. Subsequently, the Commission presented its proposals in 2021 and 2023, which involved parts of the proceeds from the Carbon Border Adjustment Mechanism (CBAM) and the Emissions Trading Scheme (ETS), including the forthcoming extension to the road transport and buildings programme (ETS2).The latter, however, has been highly contentious as it would disproportionately burden less wealthy countries, such as Poland due to its energy mix, as they would be financially more affected than countries that generate energy from renewable sources. As a result, the Council did not reach an agreement on this issue. Alongside the draft MFF, the EC presented an updated package of new own resources that incorporates previous ideas—some of them in a modified form (exclusion of ETS2, levy on companies with a turnover of more than €100 million)—and supplements them with new ones such as a tax on non-recycled electronic waste, and parts of the proceeds from the tobacco excise duty. The new sources of revenue and the adjustments to existing ones (e.g., increase in the percentage of customs revenues that countries pay into the Community budget) are expected to generate around €58 billion per year—enough to repay the NGEU and allow for a slight rise in the overall budget.

The EC proposal has been criticised on various grounds, particularly by the net contributors to the common budget.

Dubbed the "frugal coalition", Sweden, Austria and the Netherlands question the need for a larger budget and new sources of revenue. They fear that some of the latter will *de facto* burden their budgets and believe that new spending needs can be met primarily through re-prioritisation. Convinced that fiscal discipline as an important element of the Union's economic stability, the "frugals" also oppose the idea of using joint debt again, even in the limited form proposed by the EC (i.e., in an emergency to provide loans to Member States). Germany, the largest contributor, while in principle favourable to new own resources, strongly opposed the introduction of a levy on major corporations.

Debate on Priorities and Structure. The EC proposal reflects the belief that the evolution of the EU's main objectives should translate into the structure of its spending. Economist and former European Central Bank Chairman Mario Draghi, in a report on the state of the EU economy, argued that Community spending is insufficiently focused on "strategic priorities" such as building an innovative and decarbonised economy, and strengthening the defence capabilities of the Member States. Many stakeholders, including the EP and the Commission itself, invoke the notion of "European/EU public goods" and claim that money from the common budget should be spent first and foremost in areas where collective action can produce better results than uncoordinated ventures by individual countries. Responding to these calls, the EC wants to allocate €397 billion (in 2025 prices over a seven-year period) to the Competitiveness Fund, which would support the development of key industries in accordance with the objectives of the green and digital transformations. It also wants to increase spending on cooperation on defence capability development (a fivefold increase to €115 billion), research, cross-border connections (for transport and energy infrastructure) and border protection. In parallel, the EC has proposed to cut funding for cohesion policy and the Common Agricultural Policy (CAP) funds for direct payments to farmers by around 15%.

In designing the implementation of the financial framework, the EC took inspiration from the NGEU model. The separate budgets of several programmes and policies (primarily the CAP and cohesion) would be merged into one large fund. Each Member State would be required to prepare a plan for the use of the fund ("National and Regional Partnership Plan") in consultation with the EC and regional authorities, and in line with the priorities defined at the Community level. Money would be disbursed to the states once the implementation of reforms spelled out in the plans has been established. The Commission argues that a reduction in the number of programmes will simplify the implementation of the budget, while the focus on specific indicators will increase the impact of investments. In addition, the approach centred on national plans will allow actions to be better tailored to the needs of individual Member States. However, that method has encountered criticism from several stakeholders: representatives of local authorities, the EP, some Member States (especially from Southern and Central Europe), and even some representatives of the EC itself. The Parliament and regions fear that it will limit their ability to decide on investments and control spending. Opponents of the NGEU approach also point out that implementing most spending on the basis of poorly coordinated national plans could weaken the common elements of key policies and disrupt the single market.

Conclusions and Outlook. The draft MFF is an attempt to act on the lessons of recent years and the guidelines formulated in the Strategic Agenda of the European Council. It reflects the conviction that, in view of increasing international tensions, the EU urgently needs to strengthen its economic potential and its resilience to external threats of different kinds (military attack, economic blackmail, propaganda, instrumentalisation of migration flows). In order to generate resources for these purposes, the EC must look for savings within the largest budget lines—cohesion policy and the CAP.

The Commission's plans hang on the adoption of new sources of revenue, which are to cover not only the NGEU debt but also an increase in community spending. Yet, on this matter, especially some form of a levy paid by corporations, it will be difficult to find a compromise. Initial reactions show that other elements of the proposal will also be contested. Net contributors will seek to reduce spending, beneficiaries and the agricultural lobby will protest against cuts to the CAP and cohesion policy, and the EP will demand an extension of its influence over the planning and control of spending in the framework of national and regional plans. If members do not accept a real increase of the Community budget (i.e., excluding funds earmarked for debt repayment), it will denote a gap between their declared ambitions and readiness to bear the costs of realising them.

Poland will remain a net beneficiary of the EU budget, especially the envelope allocated to the national partnership plans, it is therefore in its interest that the proposed expenditure is not reduced during the negotiations. To this end, it will be crucial to build a compromise around a package of new sources of revenue that will not excessively burden the less affluent members. An important objective for Poland will also be to configure the Competitiveness Fund in such a way that the circle of its beneficiaries is not limited to the most technologically advanced economic entities in Western European countries.

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