PRAGUE
european summit

PRAGUE EUROPEAN SUMMIT 2018 STUDY

THE FUTURE EU MULTIANNUAL FINANCIAL FRAMEWORK:

A COMPREHENSIVE ECONOMIC POLICY VEHICLE TO SUPPORT A REAL EU ADDED VALUE

Contents

1. THE MFF VEHICLE AND ITS TRACK RECORD

1.1 A short description and where it is quite unique

The Multiannual Financial Framework (MFF) represents an exclusive instrument to finance activities in favour of EU public interest that substantially differs from any other similar tool on the national state level. It represents (only) 1% of the EU GDP, or 2% of average public expenditures, but for many EU Member States the utilisation of its expenditures is much more significant in terms of its contribution to their GDP growth as well as their total public investments.

The specific character of the EU budget consists especially in the fact that most of the expenditures have a supportive and investment substance. The volume of sources allocated for administrative purpose is very small; the same is valid for coverage of non-productive expenditures, which is typical for many national budgets where social aspects are very important. The EU budget is simply a strongly pro-investment tool which is complementary to the overall reality of national budgetary priorities, where the active financial policy focused on development and growth is rather marginal. And all this is mostly financed by the Member States depending on their size and the level of their economic development, which anticipates a certain level of solidarity with the other EU members on one hand, and, in parallel, a certain level of obligation to be responsible for the effective utilisation of funds redistributed according to this principle.

A collective solidarity and a collective responsibility, however, remain the general principles on which the concept of EU budgetary redistribution is to be based in the future. What is, however, not recyclable is the current model of redistribution: its structure, its instrumentarium, and perhaps also its quantitative size, which is too limited to accommodate the common needs that the EU currently has and is expected to have in the future.

It would be, of course, difficult to imagine in a modern economy or (in a broader sense) society that a kind of reasonable (though in reality sometimes excessive) redistribution does not exist. Especially in Europe, it would be even more difficult. The core of fiscal redistribution historically stands on national budgetary structures that still fulfil the main role in this respect, and this tendency escalated especially in the 70s and 80s, i.e. in the welfare state era. If the EU integration process is taken seriously, a level of fiscal redistribution has to be provided as well to supplement national systems and to concentrate on areas reflecting priorities that exist beyond the scope of purely national policies. With the increasing mutual interdependence of the actors within the EU, some of the so far national priorities consequently become European ones, and vice versa. It seems to be therefore appropriate and reasonable to create a fiscal vehicle to accommodate them and adjust them over time.

1.2 Lessons to be learned from its recent as well as longer-term performance

If the EU economic integration is to function well and effectively, a precondition for all its areas and territories has to be created so that they could participate in the Single Market and the four economic freedoms. The Economic and Monetary Union (EMU) has even accelerated this need. And one of the few measures for this is the EU budget, or the MFF, which addresses in different periods of the EU integration the varied configurations of added values that are crucial for particular periods. To illustrate this more visibly, it is suitable to provide a short historical retrospective so that we would have evidence of their importance and contributions in particular periods. Only recently the term "EU added value" (e.g. European Commission, 2011) has been explicitly accented and become fashionable, but in fact it always represented a guiding principle for financial support from commonly redistributed European financial sources to accommodate the existing priorities. As we might, however, see, those priorities have been changing over time, depending not only on the process of integration and its intensity and development, but mostly also on the development of the European society and economy. It is reflected in the changing economic structure in the last several decades, as the change involved an unbelievable technological progress that created new industries and activities with an impact on social, environmental and economic systems. Simply put, the EU budget and the MFF have to reflect these trends and adjust to them; otherwise they would become old-fashioned, and the redistribution process would start to be ineffective.

As we are now in the year of the 60th anniversary of the EU integration process, let's briefly look back to 1958, where some pre-natal signs of European budgetary policy can be identified. At the very start of the integration process, the European Social Fund was created to support employment and labour mobility within the Community, which was an added value at that time. In parallel, the European Investment Bank started to function as well; for the whole period of time, it was a firm and reliable partner that provided a market test for financing projects, mostly big pan-European investment projects that had a public interest. The labour market priorities as the added value of the beginning of the integration process were also accompanied by the priority of economic reconstruction and recovery. With only a four-year delay, in 1962, a dominant element of the EU financing was introduced – the Common Agricultural Policy; its priorities were connected with providing self-sufficiency in terms of agricultural commodities and sufficient food for the Member States after the drastic war experience. Another key part of the EU financing was established at the end of the 60s - the DG for Regional Policy; also, the roots of the Cohesion Policy became more fundamental since 1975, when the

European Fund for Regional Development started to function. The need for a more explicit regional policy was caused not only by the revitalisation of industrial regions in the UK (shortly after its accession), but especially by the EC's enlargement to include Greece, Spain and Portugal, which were countries whose level of development was visibly well below the EC average at the time. Regional inequality and the need to solve it became a priority, and subsequently statements about the need to solve it were repeated several times during the first two decades of the new millennium. But even before the mass wave of newcomers to the EU in this period, mostly from Central and Eastern Europe, two big events in the EU economic paradigm and policy occurred: the creation of the Single Market (1993) and the creation of the eurozone (1999), both of which were undoubtedly long anticipated and justifiable reasons for the EU financing support.

Yet still before these events, the same process led to an appropriate institutional development of the eurozone - the Single European Act of 1986 (which for the first time offered legal coverage of economic and social cohesion). Then in 1987 the idea of a MFF was proposed for the first time, and it was approved a year later (in June 1988), leading to the first MFF for the period of 1989 to 1993. This concept brought substantial progress in the creation of a full-blooded EC budgetary policy, and it was based on principles that mostly remained unchanged and valid until the present like:

- multi-annual planning (for the first MFF period it was for five years, for the second one it was for six years and since 2000 it was for seven years);
- respect for the principle of additionality;
- partnership in proposing and implementation of the programmes based on the sharing of competences between EU and national authorities;
- a focus on a limited number of targets based on identified priorities.

The 1989 – 1993 period simply confirmed that the right path consisted in the functioning of a real multiannual, strategic, and programme- and common rules-based system. This practice replaced the previous practice of an annual selection of projects on the level of Member States, which was very isolated and autonomous. In that period of time, some principally new elements were introduced such as common programming, strategic analysis, procedures for fund management, and a monitoring and controlling system. All this contributed to a continuous creation of a European budgetary future, in which the element of solidarity has been extraordinarily important. In the first period, the biggest portion of solidarity was addressed to Spain, Italy, Portugal and Greece. The end of the first MFF is connected also with the ratification of the Maastricht Treaty. It made the economic and social cohesion one of the top EU priorities. By defining the rules for economic and fiscal convergence related to the preparation for the eurozone, especially Spain, Greece, Ireland and Portugal represented the main reason behind the creation of the Cohesion Fund (Ireland utilised the fund maximally, and over the course of only one financial period (1994 – 1999), it moved from being a less developed country to being the third most developed economy in the EU).

In that period of time, the principle of subsidiarity started to be used for the purpose of the EU budget as well. The EU budgetary period for the end of the 80s and all of the 90s was framed by the two Delors Plans, which made the budgetary policy, and mainly cohesion, compatible with the key achievements of that time – the Single Market and the eurozone.

The next period, which began with the start of the new millennium, can be characterised by one dominant parameter – the enlargement, to which the adjective "massive" is often applied. Especially in this period, the importance of cohesion policy in its most traditional sense as an instrument to narrow the difference between the developed and less developed regions reached its peak, as did the intensity of solidarity with the accessing countries at that time. Also in this period, the ideas of starting to simplify the budgetary procedures and focusing on performance and results started to be understood, but were not explicitly supported yet. The plan for the preparation for the enlargement was provided well in advance within the document Agenda 2000. It described in detail all the horizontal issues, including a set of important, but still parametrical changes in the Common Agricultural Policy, the Cohesion Policy, and the quantification of the financial framework. The approval of Agenda 2000 in Berlin in March 1999 led to a stronger concentration of funds on defined targets. The long-term development strategy, the Lisbon Strategy, served as a guide for financing at the time as well.

During this period, in relation to which we are talking about an implicit and consequently also an explicit EU budgetary policy, it has not been true that the vehicle would remain unchanged. It has been quite flexibly adjusted to the change in the economic and social reality of the EU, but especially in the last decade of 2010s, it started to be more and more evident that the changes in the paradigm of the integration go further and more rapidly beyond the existing frame of the EU budget.

The following two tables illustrate how the economic structure has changed in the last five decades and how the global EU economic position deteriorated in the last 15 years.

Table 1: Shares of the key economic sectors of the EU GDP (%)

	1960s	1980s	2006	2016
Industry	50	30	20.2	19.3
Construction	10	8	6.1	5.3
Services	25	55	71.8	73.9
Agriculture	15	7	1.9	1.5

Source: Eurostat, European Commission

Table 2: Shares of the world GDP (%)

	2004	2014
EU-28	31.4	23.8
USA	28.1	22.2
Japan	10.7	13.4
China	4.5	5.9
Canada	2.3	3.0
Mexico	1.8	2.6
Other G-20 countries	10.9	14.3
Rest of the world	10.3	14.8

Source: Eurostat, European Commission

Besides the key structural changes, additionally, it is also quite illustrative to point out the impact of the economic crisis, the migration flows into Europe that led to higher security risks, and also the technological progress leading to a visible change in the set and content of megatrends.

And how has the MFF reacted to the set and series of changes in the past? Again, we cannot say that the EU budget remained rigid since its establishment at the end of the 80s, as we illustrate through the development of its key headings within the following table.

Table 3: The current overall trends in the main EU budget headings in contrast to the end of the 80s (% of the total)

	The end of the 80s	Now
Common agricultural policy:	60	39
Cohesion policy:	20	34
Centrally managed programmes:	10	21
Administration:	10	6

Source: European Commission, DG Budget

And despite the changes in the MFF structures and headings in between the last two financial periods, the future needs and expects much more. For the 2014 – 2020 MFF, the main headings, in principle remained unchanged, but their financial allocations have been highly adjusted.

Table 4: A comparison of the main headings of the 2007 – 2013 and 2014 – 2020 MFFs (bn. EUR; %; in real terms)

	2007 - 2013	2014 - 2020	Percentage change
Intelligent growth supporting inclusion	446.788	450.763	+0.9%
– Competitiveness for growth and employment	91.541	125.614	+37.2%
– Economic, social and territorial cohesion	355.248	325.149	-8.5%
Sustainable growth	420.682	373.179	-11.3%
– Spending connected with market and direct payments	318.820	277.851	-12.9%
Security and citizenship	12.396	15.686	+26.5%
Global Europe	56.815	58.704	+3.3%
Administration	56.503	61.629	+9.1%
Total	994.101	959.988	-3.4
% of GDP	1.12%	1.00%	

Source: European Commission, DG Regio

The main changes that were provided before the start of the current MFF:

- Within the first heading, whose total change was quite marginal, a restructuring of sources between the central programmes supporting competitiveness and the shared management of cohesion policy was done. Under the heading of competitiveness, the biggest percentage increase among all the headings was registered. In absolute terms, the increase was quite comparable with the reduction of the cohesion policy framework (+EUR 34 bn. versus -EUR 30 bn.), which decreased by 8.5%. The increase in the competitiveness heading was mostly visible in the creation of the biggest world programme to finance research, development and innovation (Horizon 2020). However, despite the strong increase in financial volume of central programmes to support competitiveness, in absolute terms this particular sub-heading has still remained more than 2.5 times smaller in comparison with the volume allocated for cohesion policy. The division of shares between the cohesion and non-cohesion headings to support growth for 2014 – 2020 seems to be fair, and the next period (after 2020) is expected to continue with this trend. In the very long run, however, it is even possible to imagine a gradual merger of these two sub-headings into one when the level of economic development in terms of convergence within the whole EU is going to be narrowed substantially. In this case, the current cohesion projects that prefer the convergence target are going to be combined with an orientation toward those with a higher level of growth and an added value element.

- A very substantial reduction (which, at that time, was perhaps surprising, especially from the political point of view) was provided in the case of the long-term flagship of the EU budget – the Common Agricultural Policy. The heading as a whole faced a cut of almost EUR 41 bn. (which is by far the biggest reduction for any item in the history of the EU budget). Also, the percentage cut (-13%) was a very radical one. But it is true, on the other hand, that the strong intensity of agricultural support has been much bigger than the real importance of the sector for the EU GDP (even now almost 40% of the EU spending goes to agriculture while it provides less than 2% of the EU GDP). A similar step was already recommended and expected at least two decades before the measure was passed. And this rather robust cut was provided without any serious resistance against it.

- We can also observe an important increase of sources for headings like security and citizenship, or Global Europe. The absolute volume of funds for this purpose are quite small and it is generally accepted that especially in these areas the common EU needs have recently substantially increased. Before the real start of the current financial perspective, some other types of changes have been incorporated as well. These are related to more flexibility, or the creation of some financial reserves (for highly specified purposes).

As was shown and explained, some changes, which were mostly quantitative, have already occurred in the past, but they were rather parametrical and not systemic.

1.3 An instrumental adjustment

Most recently, for the period 2014 – 2020, some new elements aimed at improving the EU budgetary instrumentarium have been incorporated into practical functioning. Among the most important ones are:

- Thematic concentration: Support from EU funds should go only to priority areas and should not be focused on just anything at all; the priorities must be clearly defined and supported by quantitative analyses and feasibility plans; the amount of priorities must be strictly limited; the justified priorities must be covered by sufficient financing so that real results and benefits can be achieved;

- An integrated and place-based approach and synergies: Programmes and projects should not only yield results and benefits in themselves, but these results and benefits should mesh with those of other programmes and projects through synergies; synergies should be achieved within territorial units defined on the basis of the subsidiarity principle; for this system to work, it is important to create a management matrix to ensure appropriate conditions for integrated projects;

- Conditionalities and performance reserves: The principles of sound financial management assume that EU funding is carried out under appropriate national, macroeconomic and institutional conditions that constitute a prerequisite for carrying out allocation as such; on the other hand, a performance reserve is introduced as a bonus for those that perform well;

- Simplification: The EU funding system is extremely complex in all manner of ways, which makes it difficult to manage it effectively and to measure its real results and benefits;

- Better quantified results: It is very important to properly measure the results actually achieved and to be able to draw clear and accurate lessons from the findings with a view to setting and adapting fiscal policy; to this end, it is essential to improve the data analysis system and its management and how indicators are used.

1.4 Effects and benefits of the policies and actions supported by the MFF

If we say that the current face of the EU budget is already old-fashioned (despite the changes provided in the past), it certainly does not mean that its benefits and contributions that were reached so far are small and negligible. The contrary is true. With the very limited volume of funds available for this purpose, it has achieved a lot not only in terms of the results of the direct actions, but also in the sense that the EU budget serves as a trigger for consequent processes and a symbol of unity and cohesion as well.

In the first periods of its functioning, it strongly contributed to strengthening the intensity of the common European idea among particular Member States, especially those in the Western and Southern parts of the EC. Already around 2000, the EU budget was prepared for the unprecedented EU enlargement in the Eastern direction and had the highest level of responsibility in this matter, and principally contributed through its focus on convergence to the inclusion into the EU of countries that were still different from the EU mainstream at that time in many aspects. The inclusion of a high number of new members into the EU eventually proved to be beneficial for the older members as well, especially through the enlargement of the Single Market environment.

The contribution to the Single Market

The main explicit effect of the EU budget is to be viewed in connection with its contribution to the Single Market. We can distinguish in this regard several areas where the EU budget supports the Single Market and its effective functioning. The first area is that of convergence. Despite some divergent period during the crisis, in a longer run the convergence is simply reality. In 2005, the GDP per capita indicator for the group of the EU-13 (the newcomers from 2004, 2007 and 2013) amounted to 62.3% of the EU average, and for the EU-11, which consists of only the CEE countries without Cyprus and Malta, it was 57.1%; in 2016, for the same groups the figures were 71.2% and 69.5% respectively. On the other hand, especially after the crisis, other Member States have recorded divergent developments; this was mostly the case for Cyprus, Greece, Italy, and the UK.

The overall picture is illustrated by the following table.

Table 5: The convergence track-record for the EU Member States
(EU average = 100; ranked within the EU chart)

	Convergence track-record for 2005 - 2016	GDP per capita (2005) and ranking within the EU	GDP per capita (2016) and ranking within the EU
Ireland	+36	147 (2)	183 (2)
Romania	+23	25 (28)	58 (27)
Lithuania	+22	53 (24)	75 (19)
Poland	+18	50 (25)	68 (21)
Slovakia	+17	60 (21)	77 (17)
Estonia	+15	60 (21)	75 (19)
Latvia	+15	50 (25)	65 (24)
Malta	+15	81 (18)	96 (13)
Bulgaria	+12	37 (27)	49 (28)
Luxembourg	+11	247 (1)	258 (1)
Czechia	+9	79 (19)	88 (15)
Germany	+6	117 (9)	123 (6)
Croatia	+5	55 (23)	60 (26)
Hungary	+5	62 (20)	67 (23)
Austria	+1	127 (4)	128 (3)
Sweden	0	123 (6)	123 (6)
Denmark	0	124 (5)	124 (5)
Belgium	-3	121 (7)	118 (8)
Slovenia	-4	87 (16)	83 (16)
Portugal	-5	82 (17)	77 (17)
Netherlands	-7	135 (3)	128 (3)
France	-7	111 (11)	104 (11)
Finland	-7	116 (10)	109 (9)
Spain	-8	100 (14)	92 (14)
UK	-11	118 (8)	107 (10)
Italy	-12	109 (12)	97 (12)
Greece	-25	93 (15)	68 (21)
Cyprus	-36	101 (13)	65 (24)

Source: Eurostat, own calculation

In the case of the CEE countries, the positive impact of the EU budget for their convergence track-record is estimated to account for as much as 3% of their annual GDP. This robust impact could, however, be divided into two parts: the demand stimulus and the supply-side factor. In the short and medium run, the demand stimulus is the dominant factor (perhaps accounting for some 70% of the total EU budgetary contribution), but in the long run the supply-side effect prevails and fulfils the function of a snowball effect, triggering the other activities and having effects on a spontaneous and market-based platform without additional support in the future. The intention is to maximise the supply-side impact.

However, the redistribution of the EU budget brings advantages not only for the net recipients (beneficiaries), but also for the non-cohesion countries, especially through the direct and indirect impacts. an example of a direct impact is when a company from a non-cohesion country acts as a supplier for a project (as a producer of some equipment, machines, software solutions, etc.); an indirect impact is connected with an upgrade of supported areas (territories) in terms of competitiveness that opens new business opportunities for firms and companies, including those from non-cohesion countries (in terms of trade, investments, common projects in research, development and innovation). The direct impact for non-cohesion countries is estimated at 0.1% of the average GDP in a non-cohesion country. In this respect, Austria and Germany are especially dominant, with benefits much higher than the average, but what is substantially higher is the indirect impact through the new business opportunities that would not happen without the EU budgetary intervention.

The EU budget contribution to the Single Market goes also via the competitiveness channel. Especially here it is possible to find the aforementioned concept of EU added value (EAV), because it is strongly focused on excellent joint projects related to research, development and innovation, trans-European mobility, climate issues, education and skills. The EU budget especially supports small and medium-sized enterprises via modernisation of their machinery equipment, implementation of new management systems, automatisation of production, marketing and improvement of business conditions, improvement of long-life personal skills and education of workers. Additionally, the EU budget intensifies its support of excellent research, development and innovative efforts that are applicable in business, among other areas. All this contributes to creating equal preconditions for firms that enable them to participate fairly on the Single Market.

The EU budgetary contribution to better public administration, public investments and EMU ...

Moreover, the EU budget also helps to improve the functioning of public administration and governance that consequently influences the institutional conditions not only for business, but more generally for balanced sustainable development, respecting equally the importance of economic performance, and social and environmental matters. In this way, the EU budget contributes to discipline and responsibility for the effective utilisation of common funds.

The EU budgetary redistribution for public investments is particularly important for the EU-13 countries as well as for some other less developed countries whose positions worsened recently as a consequence of the economic crisis. As was already mentioned, the EU budget itself represents some 1% of the EU GDP, but this amount is equal to about 20% of the total government investments provided on the level of Member States. For the most developed ones, the role of the EU budget is quite negligible (it accounts for less than 5% of their domestic public investments), but for others it represents a crucial investment tool, as it provides 40% and sometimes even visibly more of the total volume of public capital investments in some particular Member States.

With the creation of the eurozone and the recent effort to deepen and complete EMU, the role of the EU budget increases so that it becomes an appropriate fiscal redistribution tool to accommodate the specific needs of the EMU that are undoubtedly stronger than those connected "only" with the Single Market. The main rationale behind this stands on a "convergence" between the current state of the game of the eurozone and the concept of an optimum currency area with respect to its main features, including an appropriate (minimum) level of fiscal transfers and redistribution that is needed for this advanced form of economic integration. A very important innovation in this sense is brought by the recent progress reflected in the European Commission's activities since December 2017, which are represented by the special budgetary instrument for the eurozone. More details on these activities are given in Chapters 3 and 4.

... as well as to the other areas

It is not difficult to find some other areas where the EU budget positively contributes and supports the EAV. The most important are those connected with the strengthening of the global position of Europe. On the economic field, however, the EU budget's contributions have unfortunately deteriorated in the last two decades. The potential of the EU budget here remains enormous as the topic becomes an increasingly important priority with a quite understandable added value for the whole of Europe, and any individual Member State has only limited possibilities to improve the situation on its own.

The same is valid for the strengthening of solidarity related to the new security policy and the need to cover new security risks connected with the very dangerous political situation in territories not far away from Europe that is also related to the huge migration flows from those countries to Europe and the moral obligation of Europe to show humanitarian solidarity and take responsibility for helping to ameliorate the situation.

And last, but not least, the EU budget, perhaps along with the common currency, could be one of the visible symbols representing an EU value for ordinary citizens, which is a very important intangible asset. We are to save such symbols, especially in this period of some destructive signals and attempts to erode the European unity. In this field, the EU budget can play the role of a cohesive tool that would remind people of the principle of a European identity.

2. THE MAIN CHALLENGES WHEN LOOKING AHEAD

The previous chapter was trying to underline the very specific and unique position of the EU budget among all the comparable instruments and also the fact that during its existence it has been able to adjust to many new circumstances brought by the real EU development, which reflected new economic, social, and environmental inputs, and as such it was able to achieve valuable results.

However, the aim of this part of the paper is to briefly state that the EU reality and the EU's expectations for the third decade of the 21st century will represent an unprecedented challenge for the EU budget, as will the budget's maintaining of its ability to address real EU priorities and needs. It will most probably require not only a set of parametrical changes, but also some steps that would change the substance of the EU budget in terms of its main instruments, procedures and supported topics and areas.

2.1 Why do we need the systemic transition or upgrade of the MFF?

We are able to identify several sorts of reasons for why only a face-lift for the MFF is not enough now. The first group of these reasons is still connected with the structural impacts of the recent economic crisis. At that time, mostly in 2009 and 2010, Europe urgently needed a sufficient tool to soften not only the avalanche of the recession, but also to provide some structural macroeconomic actions. The EU budget as approved for that time period could be engaged only to a very limited extent. And therefore, some other tools were invented then, and sometimes under very stressful circumstances they were introduced into practical life. It cannot be said that all these functions, which are currently fulfilled by the European Stability Mechanism (and which will be fulfilled by the European Monetary Fund in the future), or its temporary counterparts (the comprehensive cycle of the European Semester and the redefinition of the Stability and Growth Pact, the whole effort to create expansive monetary conditions via quantitative easing, and the creation of tailor-made packages of rescue plans for transferring funds to support the most affected economies), were to be accommodated by the EU budget. But it should be said that the EU budget as a trigger could play a very substantial role here. It is also related to the need for financial sector stability and efficiency, in which the Banking Union and the Capital Markets Union play a key role.

The economic crisis was very soon followed by the migration movements, which were accompanied by increased security risks in some areas outside and consequently inside the EU. Strengthening security conditions, adjusting the asylum and migration policies and helping to achieve the inclusion of millions of people into the EU societies in connection with this matter constitute another new element, which is simultaneously also a new common priority for the EU as a whole, because in this matter, any action provided individually by a single Member State without coordination with the others is not sufficiently fruitful.

But the EU as such must also react to the new development trends caused by recent technological and financial achievements, progress and innovations. These trends are permanently subject to change as research and science progress so fast; some of them are quite new, but others have been around for some time and only receive new content. The current megatrends include, among others, the following, which also have relevance for the EU budget:

- Growth and investments; sustainable development: The sustainable development concept that relies on a balance among economic, social and environmental elements in the long run further remains an acceptable principle for EU development measures, including the EU budget. However, the current situation, which surely does not represent the only short-term cyclical fluctuation, but is deeply structurally influenced, expresses well the negative impacts of economic crisis; the EU is trying to mobilise growth factors through a fundamental recovery in investment activity, which is still considered insufficient, fragile and uncertain. In the EU, a very strong emphasis is placed on identifying needed investment activities that have not only a national, but also a pan-European impact, and, in parallel, on the allocation of sources that are able to accommodate those investments. From the economic policy point of view, models combining public and private financial sources are looked for. The very offensive pro-investment climate is simultaneously accompanied by the effort toward structural reforms that are projected mainly in the context of the whole EU.

- Jobs and labour skills: Within this factor, there is currently a big risk of mixing cyclical factors with structural ones, because in most of the EU countries, the labour markets are facing a situation in which there is an insufficient labour supply, or an excessively high demand for labour. However, just this situation has helped to unveil the practical non-functionality of the free movement of workers within the EU, and identified the structural disruptions between the supply of and demand for labour. The solution to this problem consists not only of the creation of a really homogenous EU labour market defined by common basic principles, but also of more effective long-life training and improvement of labour skills to adjust them to the labour market requirements. an absorption of soft skills, including work-life balance, personal responsibility, and especially financial and digital literacy, is also a part of the problem.

- The digital society and the Digital Single Market (DSM): The structure of a modern economy is experiencing a fundamental change in terms of virtualisation of economic activities. Thanks to the recent technological progress, many routine and manual activities with a high labour intensity in the whole spectrum of labour skills are to be replaced by the work of machines, ICT equipment and solutions, or other digital achievements. This trend influences the whole industrial/business cycle with an impact on production and consumption. The virtualisation of economic activities is so fast that the legislative framework and the economic policy instruments are not able to react adequately to developments in this area. On one hand, it is necessary to allow a sufficient space for invention in this industry, but on the other hand some general basic rules of the game for it are suitable, too. The aims of the rules are to create a sufficiently liberal environment for producers, investors and consumers, to achieve for the EU a long-term competitive advantage in this field and to define the rules for digital and cyber security and safety to allow the free movement of data to fully function.

- The Energy Union and climate issues: In the last two decades, the energy market has experienced a robust changeover from centralised, monopolistic and obviously state-governed production and distribution, where the consumers had practically no choice to satisfy their own specific client needs, to strengthened competition regarding production and distribution sizes and liberalisation of the energy trade. The whole system is going through a large diversification and decentralisation. Maximisation of production ceased to be the only target. A strong emphasis is put on the carbon footprint; activities with a negative impact on the environment are dampened. Renewable energy sources and the behaviour leading to energy savings are strongly supported. The whole change in this paradigm is framed by focusing on climate targets in connection with the principal task of safeguarding the existence of the planet.

- Research and innovation: From the EU budgetary perspective, this area is considered as the top priority. The subject of the future support of research and innovation is to be excellent research whose output allows for providing innovations through which the EU would be able to achieve a long-term competitive advantage. Frequently talked about issues in this area include the energy respecting climate requirements, electric mobility, and biotechnology.

- Effective allocation of financial sources: Up until now, the allocation of financial resources has not been considered too effective, because it is, among other things, subject to closure within the framework of individual segments – the private sector is financed from private sources, the public one mostly from public redistribution, and the non-profit sector depends on the level of solidarity in society. Additionally, each of these segments usually used a rather stereotypical manner of financial allocation – especially in Continental Europe, the private sector finds its sources in banks, the public sector is looking for subsidies, and the non-profit sector is dependent on voluntary contributions. The future of financing consists also in a changeover among those segments and the creation of tailor-made instruments prepared for the specific purpose of a transition. The European Fund for Strategic Investment (EFSI) can serve as an intellectual basis for this; the public sources in this case mostly play the role of a guarantee-based tool. The interest of private capital in investing into the aforementioned areas strongly depends on the correct settings. Furthermore, besides the traditional forms of financial intermediation, crowdfunding and peer-to-peer concepts are rapidly booming. Another quite new impulse is provided by the package for sustainable financing, and more generally also by the whole effort to complete the basic pillars of the Capital Markets Union.

- The strengthened EU role in global trade and investments: The relative position of the EU within the global competition has quite steeply deteriorated in roughly the last 15 years in terms of many of the observed parameters and indicators (especially due to the hard increase of the Chinese economic position, but also due to the other large and well performing developing economies). The EU loss in economic weight is also indicated in the declining importance of the EU in global economic organisations. It is consequently visible in more complicated transfers of the European economic and social model into the other global territories. The EU should make a targeted effort to regain its lost positions as well as to adopt selected restrictions (capital control in strategic areas).

- The social pillar: For the current EU, the social pillar is one of the top priorities, and it is used in trying to exactly and explicitly define the European social model, which was so far perceived rather intuitively. The definition of a new level of social standards is its basis with a variety of implications for living standards.

- Subsidiarity and local activities: The topic of subsidiarity seems to be one of the key points for the future EU budgetary policy, as it represents a principal competence criterion for identifying and effectively distinguishing among the EU, national, regional and local levels. This criterion is to be taken into account when a decision about an optimal level of solving a problem and its financing is made. In the context of the EAV concept, it is suitable to redefine some areas for the EU budgetary support to contribute to the effective allocation of sources.

- The Single Market and free and fair competition: The Single Market represents the biggest economic achievement of the European integration process so far. In the context of Brexit, a risk of an escalation of its fragmentation could come, or perhaps there could be some suspension of activities leading to its strengthening. Brexit itself will be representing a kind of asymmetric shock that could consequently inspire the other Member States as well. The current status of the Single Market is not optimal and perfect yet; some of its parts are still far away from the preconditions for a free space without barriers, mostly in terms of movement of workers and services. Especially here, one can still observe an invisible iron curtain dividing Europe into its Western and Eastern part. The conditions of free competition are created not just by the business environment, but also by the tax rules; an effort to find effective instruments to eliminate tax avoidance and frauds and to implement a common methodology for the corporate tax base also belongs among the steps contributing to the Single Market's improvement.

- Circular and sharing economies: A symbiosis of the economies based on a maximal utilisation of resources and their sharing represents a qualitative transformation of economic organisation in terms of achieving huge savings and also possibly influencing relations to property and their structure. This change is partly natural and partly determined by life attitudes and priorities (e.g. no waste, the lower attractiveness of private ownership for the young generation). Potentially, it could consequently influence the whole range of economic and social organisation and lead to a new development concept.

- A deeper and more effective EMU: In the period of crisis and immediately after it, the eurozone was fighting for its bare life. After its construction mechanisms (the EMS, the European Semester, the upgraded Stability and Growth Pact, the Banking Union) were created, it was strongly supported in terms of the responsibility and discipline of its members, and the creation of many rescue brakes and stabilisers made it less prone to problems and vulnerable. Currently, the eurozone is undoubtedly a much stronger and more resistant group than it was some 10 years ago. The effort to keep the eurozone alive was replaced by the ambitions to deepen and complete the EMU. A part of the related activity consists in the creation of a strong eurozone budgetary line focused on stabilisation, reform efforts, and the eurozone enlargement, in line with the optimum currency area requirements.

- Governance: In the most recent period of time, a strong emphasis was put on the quality of governance in all relevant aspects of the management and provision of public policies and services. This means an increasing demand for an efficient and transparent execution of public investments, public interventions in a supported area, savings of public sources, and management of public property and assets. an impact assessment of the steps taken by the public authorities is also a part of it.

- The new industrial strategy: The weight of industrial production on the EU GDP in the last 40 years has persistently and convincingly declined. Only in the last autumn, the European Commission came forth with its strategy to recover the enormous industrial tradition in Europe. In connection with Industry 4.0, Europe can again become attractive for investors in manufacturing, especially in industries and branches intended to be the pillars of the long-term supported competitiveness.

In regard to the autonomous set of new topics contributing to the current and future megatrends relevant for the EU, one has to take into account the whole range of security risks and issues connected with the new requirements for a defence strategy. This is undoubtedly one of the new subjects of common interest that has to be reflected in the future MFF for 2021 – 2027.

Based on this background and taking into account that the real problems are developing faster than the budgetary rules and architecture, Europe and its budget need to:

- Recover investments more sustainably and support allocation of financial resources via more innovative instruments, including a new form of partnership between the public and private sectors;

- Prevent higher and increasing risks and be able to flexibly react to and soften the shocks;

- Address the serious structural impacts of crises on many territories (namely the diverging regions in the south-west part of the EU);

- Be active participants in development of new trends and a trigger for their support;

- Play a more important EU role in the global context;

- Be able to solve the EU's structural obstacles and imbalances, and be optimally coordinated with the process of the European Semester and other instruments to improve economic discipline within the EU;

- Eliminate the still existing obstacles in the Single Market and stop any creation of other ones; in parallel, Europe and its budget should actively assist the EMU deepening process, including its stability and possible enlargement;

- Continue with convergence in a more visible way;

- Absorb into one comprehensive system the other areas of the EU economic, fiscal, structural and financial market policies, including the Banking Union, the Capital Market Union, and the new forms of the EIB's involvement.

2.2 A partial conclusion

The EU has a unique opportunity for a fresh (re)start in regard to its finances after 2020. This is relevant to all EU Member States, regardless of whether they are net payers or net recipients. Additionally, if the fresh start happened, the perspective of a division of the EU members into net payers and net recipients would be outweighed by a sensitive implementation of the EAV concept and principle.

We are entering a period when fundamental changes to EU financing are not only expected, but also urgently needed to accelerate investment activity, contribute to sustainable development, and support the EU position and role in the global context.

The EU budget, from all these perspectives, is outdated. The relevant question here is whether parametrical changes are enough for its adjustment, or whether a deep systemic change is required. This study rather tends to vote for a more fundamental change in many of its aspects. The EU budget has limited flexibility for reacting to asymmetric shocks and their long-lasting consequences, and new development opportunities as well. Its overreliance on subsidies for its financing model is also increasingly obsolete. Likewise, the structure of its most important headings does not reflect the current or, more pressingly, the future economic, social, environmental, regional, or overall strategic needs. Another significant issue concerns its size, or rather its volume. It seems that in order to fully accommodate the concept of EAV, the roughly one per cent of the EU GDP currently allocated is insufficient.

The EU economy performed well in 2017, but investment activity remains a burden for more sustainable and healthy growth in the future. Therefore, in the future, EU financing could focus more on modern and effective ways of accelerating investment activity.

There is a huge potential for understanding and solving the topic of structural reforms, not only at national level, but across the EU as a whole. This could open up a space for focusing on projects relating to business, infrastructure, research and development and other relevant areas that are cross-border in nature and make a stronger contribution to EAV.

This study endorses the approach taken in the Reflection Paper on EU finances until 2025 (European Commission, 2017a), according to which the basic aim of the EU budget must be to deliver EAV, and achieve thus better outcomes than would be possible for uncoordinated member states acting individually. But a common understanding of this term is urgently needed as some understand it as a consequence of convergence, while others prefer the view of subsidiarity. The time has come to abandon the logic of a "fair return", or dividing member states into net contributors and beneficiaries, and also the logic of ad hoc rebates for individual EU countries.

The EU must first identify its political priority goals with a high EAV and only then determine the resources needed to achieve them and reform the EU budget. The reform must aim at improving the budget, overhauling its structure as regards areas of expenditure and revenues - in terms of the EU's own resources as well. The EU budget must also be able to provide the resources needed to achieve the strategic priority goals, while using suitable rationalisation, efficiency and effectiveness criteria in accordance with its structure and how it is evaluated and updated.

At the same time, it should also be taking account of the improvement of the general public understanding of the issues connected with the EU budget's development and maintaining direct, transparent channels of communication with the public.

3. HOW IS THE BUDGETARY INSTRUMENTARIUM TO RESPOND TO THESE CHALLENGES?

The EU budget can constitute an essential tool in dealing with the EU's existing challenges and structural changes. However, there needs to be a thorough analysis and evaluation of **where** its funds are spent, how they are spent, **how** the performance of the funds thus spent is **evaluated** and how the results achieved are **communicated**.[1] If this is done, the EU budget can take on the EU's key challenges and help to restore the European population's faith in the EU, while reducing its own volume in both absolute and relative terms.

At the same time, a prerequisite for boosting the EU budget's performance is the establishment of **clearly defined priority objectives for the benefit of EU citizens, corresponding aggregated indicators and a robust reporting system** with regard to the actual activities financed by the EU budget, which would maximise value for money. Some options in this respect could be, for example, ex-ante conditionalities, financial instruments, and flexibility and a capacity to cope with unexpected challenges. First and foremost, the quantitative aspect of the EU budget must be complemented by its qualitative dimension.

Not only must EU budget expenditures comply with the rules of legality and regularity, but there must also be a targeted and systematic focus on the results and performance the budget delivers in addressing the EU's priority areas. Adopting performance culture rules in relation to the EU budget requires maintaining a close linkage between the scope and nature of the expenditures, on the one hand, and a comprehensive set of aggregate performance indicators for measuring results and performance, on the other.

The previous chapter was trying to illustrate the range and scope of the changes and new factors influencing the EU budget in both directions. First, they represent a challenge the budget is to actively react to. Second, the circumstances have also an impact on the budget itself, its revenue as well as its expenditure side.

What kind of an active reaction is therefore needed? The needs in this case are multiple:

- It is substantial to re-define the sense (substance) of the budget and the target for its intervention (this function could be performed by EAV and a continuous thematic concentration as well as conditionalities when the principle of subsidiarity is respected and therefore a subsidiarity test is needed);
- It is also crucial to strengthen the view on the budget as a tool bringing some real results which are based on a performance (this is especially about the result and performance approach combined with an assessment of the regulatory impact and effort to limit goldplating);
- The budget has to strengthen its ability to perform an action (this is a case of increased flexibility);
- The budget would need to change its structure as well (and not only the weight of its main headings in reaction to changing priorities); it would also need to change its structure so that the division of central programmes and those governed by shared management would be clearer; budgetary restructuring could also help to minimise some overlaps;
- The other recommendable potential EU budgetary changes include, for example, a more specific division between subsidies and financial instruments; a more explicit connection to the new economic policy coordination instruments, especially the European Semester; a greater focus on the process of EMU deepening as an additional fiscal transfer support is reasonable for this purpose, and a comprehensive effort to simplify the processes surrounding and accompanying the EU budget. A specific part of these fundamental changes could be an updated understanding of the market failure/imperfection issue and related risk management.

Let's now discuss these issues more explicitly and in more detail.

3.1 EAV, or how to support the common needs and priorities more

There was always implicitly an EAV, even when it was not explicitly defined. The Common Agricultural Policy in the 60s and 70s represented a strong EAV for the European Communities at that time. But the intensity of EAV is changing over time. Currently, it seems to be reasonable to define the EAV explicitly and precisely, as the common European needs generally represent projects and activities having an impact in a cross-border context rather than in a purely local one.

EAV itself represents a frequently debated principle that could help to guide the EU in the right direction as regards specific widespread needs, not only in terms of efficiency, but also as regards the types of projects and programmes supported by the EU budget.

A clear and commonly understood definition of EAV that would be applicable to practical implementation and be more than a textbook conclusion, should be the next step towards a new type of EU financing. According to the generally held belief that the most

1 This has been also the Commission's message in the "EU Budget Focused on Results" (BFOR) initiative which was promoted by Georgieva Kristalina during her term of office as the European Commission Vice-President for the Budget and Human Resources. See the BFOR initiative website: http://ec.europa.eu/budget/budget4results/index_en.cfm

common EU financial sources should be exclusively or predominantly allocated for a common purpose (cross-border rather than merely national or regional), Member States still differ in their understandings of the specific parameters. Therefore, a pragmatic definition of EAV based on objectively quantified thematic criteria is needed.

To apply EAV in the EU budgetary practice in fact means a mental revolution in its understanding so far. As such, it is a substantially redefined sense of the EU budget, which is adjusted to the next period, and it leads to a maximisation of its future benefits. Its spending should be focused (at first mostly and then purely) on programmes and projects where the benefit for the level of a Member State (national, regional, or local) is to be accompanied by a visible and non-trivial impact on the EU as a whole (it is, of course, possible to identify several vertical levels of the impact, but in any case, there will always be a cross-border level; those levels can be reached on a cross-border regional or even a local level as well as in the macro-context that is important for the whole EU).

This redefinition of the sense of the EU Budget, currently represented by the concept of EAV, could be also understood as an extension and supplementation of the approach of the application of conditionalities as well as the thematic concentration. In that case, the typology of projects and programmes would not be connected only with domestic requirements and needs of the Member States, but it would be focused at least on a partial cross-border impact. We could understand this also as a contribution to the approach where the final and reasonable vision for using the EU budget primarily consists in bringing an output that has a pan-European extent and content (perhaps, in parallel, this is perhaps also a new argument in hands of the current net payers; but if this principle were applied, the division of the Member States into net payers and net beneficiaries would be substantially eliminated, or at least modified).

Among the aspects with the greatest EAV, the measures already identified with regard to the MFF reflect (Palmieri and Zahradník, 2017):

- a coordinated European industrial policy to boost employment and foster competitiveness in a social market economy, the facilitation of a dialogue between all stakeholders, and investment and support for small and medium-sized enterprises (SMEs);
- upward social convergence in parallel with economic convergence in terms of employment and social outcomes through the implementation of the European Pillar of Social Rights and the extension of the European Social Fund (ESF);
- a migration policy that affords refugees protection under international law and enables them to integrate into the EU, a common asylum system, action to combat illegal migration and human trafficking, and the promotion of legal paths of access;
- action to combat climate change on the basis of the Paris Agreement and ecological transition, and the promotion of the 2030 Agenda for Sustainable Development across all EU policies;
- a reformed common agricultural policy (CAP) with a view to meeting objectives in terms of environmental quality, rural development, food security and support for farmers' incomes;
- a reformed cohesion policy with clearly identified outcomes, systematic verification during implementation and ex-post impact assessment, which promotes transparency and mobilises partnerships;
- financing of major investments in infrastructure, trans-European networks, and research and innovation, beginning with the EFSI and Horizon 2020;
- a strong eurozone stability and a strong structural reform line able to provide a temporary but significant transfer of resources in the event of regional shocks, counteract severe recessions in the area as a whole and ensure the necessary financial stability (European Economic and Social Committee, 2016a) with a macroeconomic stabilisation function to safeguard investments and prevent unemployment and insecurity.

3.2 Flexibility

An extraordinary important element of the EU budget to be improved is its flexibility, which should be bigger: the need to improve it is underlined in connection with the necessity of the EU budget being able to react to priorities during the whole period of the MMF. Such an improvement suitable for preventing situations in which the originally approved priorities would tend to diverge from immediate needs and thus fade out. A bigger flexibility is to be applied to both the revenue and the expenditure side.

An effort to increase the flexibility of the EU budget would have several potential levels. It could start with the possibility to more easily and smoothly transfer funds among and inside the headings; it could also be about the possibility to include quite new areas into the budget, if it is urgently needed during the financial period (based on a precise evaluation and analysis). And it could also be about having a sufficient budgetary reserve source that could be used immediately (of course, under strictly defined rules for its use).

The possible measures to strengthen flexibility could consist also in some steps on the revenue side – we could start with an effort to make the budgetary sources more autonomous via an increasing role of the EU's own sources. For achieving this, it is substantial to reach a consensus on an EU tax; a huge scope of issues is connected with the determination of the most appropriate size (volume) of the EU budget, or an authentic answer to the question of whether the revenues are adequate to accommodate the modified needs. We could rather intuitively say that they are not, and for a long-term success of the EU economic integration project and its completion, the current volume of the EU budget is rather insufficient in terms of its GDP ratio. A long-term ambition could be to have the budget's volume converge to the levels around 5% of the EU GDP in connection with the principle of tax neutrality as well as that of subsidiarity.

3.3 Performance and results

Such a performance culture is not acquired in a single step, but through a process of development that presupposes both the appropriate legal environment and the selection of tools for encouraging key actors to adopt the desired behaviour. The forthcoming discussions and implementation of a performance-based EU budget must also specify in greater detail its substance.

A budget conceived in these terms is able to guarantee the delivery of real results and impacts in EU priority areas that bring a clearly quantifiable added value. This means that any discussion of a performance-based EU budget is also a discussion of EU political priorities capable of bringing about the necessary structural changes.

It is believed that the post-2020 MFF should act together with a new competitiveness and development strategy (perhaps the document 2030 – Sustainable Development Goals, which is currently being prepared and intended to be published in the second half of this year) as the principal strategic platform.

The EU budget and how it is used should adhere to the following priorities:

- adopting an improved, performance-based and result-oriented approach balancing the traditional view of compliance with rules (legality and regularity) with the adoption of new elements reflecting the current and future needs (see below) of EU finances;
- a sharper focus on performance and results, which presupposes improvements in working with data, and the accessibility and availability of data in the form needed for assessing the real benefits – the assumption being that the impact of this outweighs the additional costs;
- evaluating the quality of the regulatory framework for allocating the EU budget;
- given what kinds of things the EU budget supports, it is essential to view its development not from the perspective of a single isolated year, but as a continuous medium-term process in which individual years represent a development trajectory that is required to secure the expected results;
- respecting the very close link between the EU budget, the new model of EU economic policy[2] and the EU's current economic performance in the medium term;
- the need for continuity in EU budget policy and the implementation and evaluation of its goals.

It is precisely the application of macroeconomic conditionalities that should ensure that the EU budget expenditures are allocated to Member States in an adequately sound macroeconomic environment, so that those that do not make efforts to remedy their macroeconomic problems are unable to make full use of these funds. The existence of the performance reserve should also adequately motivate Member States to work towards fulfilling the EU's strategic objectives while being supported by the EU budget. The EU budget should also be more connected with the key tools

2 The new model includes the Europe 2020 strategy, the European Semester, the six-pack, the two-pack and the country-specific recommendations (CSRs), among other measures; one approach might be to use close links to the country-specific recommendations as a benchmark for an efficient allocation of the EU budget

of the EU economic policy – attention should be paid, for instance, to the country-specific recommendations (CSRs) and their consistency with indicators based on the implementation of the European Semester.

The practical procedures involved in EU budget expenditures are highly complex. The efforts currently being made to simplify all activities associated with the EU budget, which apply both to procedural matters and to matters of substance, also help to satisfy the requirement of sound financial management; these simplification efforts should bring about a reduction in the excessive administrative burden and limit the practice of gold-plating in individual Member States.

3.4 Old topics versus new topics: the re-shaping of the main budgetary headings

The inclusion of the main topics that reflect the described challenges is considered as a substantial systemic change in the EU budget; they include not only the economic and business issues and some other traditional subjects of interventions, like research and development, education, the environment, and regional development, but also quite new areas that are the results of technology development as well as some global trends; they are reflected in the needed support of the digital market and society, and also of issues connected with migration, security, a strengthened EU role in the global context, and a stronger accent on horizontal topics of pan-European importance where a high potential of synergies is identified. The new budget therefore needs to find a balance between the incorporation of these issues into it and a continuity in support of traditional topics, though the traditional topics should be supported in a new manner. For further discussion on the new topics and their sense, please see Section 3.1.

A re-shaping of the main headings and their adjustment to the current and future EU needs can be expected as a result of the new balance between the old and new topics. From this point of view, we can expect the increased expenditures supporting research and development, the digital world, security, efforts to solve migration and asylum issues, competitiveness, mobility, and/or a stronger Europe in the world; the opposite can be anticipated in the case of agricultural support as well as traditional cohesion.

But a space for EU budgetary re-shaping exists also in some other perspectives. For example, there is such a space when we distinguish between the centrally managed and shared managed programmes and activities. The other divider is for subsidies, or financial instruments. A part of this issue is connected with simplification and involves the elimination of overlaps among several headings where separate funds for the same purpose or similar purposes are allocated according to different rules. This leads to an arbitrary behaviour on the part of the beneficiary, as he or she prefers the easiest way to get money.

3.5 Financial instruments

The process of financial innovations creates a space for fresh air in the financing of common EU needs. an orientation toward the return of the money lost through EU budgetary spending belongs to it; this includes an expansion of the space (everywhere where it is reasonable) for financial instruments to contribute to the situation in which the EU budgetary spending is no longer automatically understood as a subsidy. This idea has two levels: the first one is based on a continuous development of the already existing financial instruments on the principle that the EU funds serve as an initial capital for them (a capital-based model) that can be further supplemented by other sources (mostly private or national public ones). The second one can be inspired by the positive experience of the EFSI, where the EU money mostly plays the role of a guarantee instrument able to modify the risk and its management (see the next paragraph) and make these areas of investment acceptably attractive for private capital (a guarantee-based model). Both levels require the adoption of a new attitude to cases of market failure (imperfection). It is quite possible that for some types of support, other instruments than financial instruments will no longer be at the EU budget's disposal. This could be a start of a path at whose end the EU budget will not be a direct source of financing, but rather a capital or guarantee tool allowing private and national public sources to be allocated.

As the experience with the EFSI evidences, this challenge and its fulfilment could lead to a substantially new model of financing based on engagement of the other stakeholders in the game, which could eventually develop into a robust increase in disposable financial sources to accommodate the common EU needs, but on a totally different basis and totally different principles than those we have been used to so far.

When considering the way that the EU budget operates, it is consequently recommended that consideration be given to the notion of market failure, the eradication of which should be a target for EU budgetary resources; signs of market imperfections or failures can include, for example, information asymmetry or financial institutions making a commercial evaluation of return on investment that discourages financing for certain types of projects because it ignores positive externalities and wider social benefits since these are not relevant to the commercial case in question, though they are important in terms of the support given through EU funding.

3.6 The EU budget as a macroeconomic stabiliser

The future EU budget/financing is to reflect more the real economic performance of the EU economy as well as other steps in the strengthened EU economic policy coordination/governance.

The main role of the EU budget in terms of macroeconomic stabilisation is to create such conditions under which the EU's vulnerability to an economic crisis/recession would be minimised/limited. For that reason, the EU budget is especially expected to be a preventive tool used as an ex-ante instrument. On the other hand, as an ex-post instrument (to solve the main consequences of the crisis), the EU budget is the key instrument of the European Stability Mechanism (ESM).

There is a two-way relation here; first, EU budget expenditures are to be allocated to the priorities defined/specified by the European Semester (especially based on the Country Specific Recommendations and the tests of macroeconomic and fiscal imbalances); the second, opposite way is that the results and performances on the European Semester indicators could represent an incentive; good performers could receive a bonus/premium in the form of additional funding; in turn, bad performers could face a risk of a reduction of the EU funds allocated to them.

The European Semester process newly defined the prudential rules for the national budgets (the Six-Pack, the Two-Pack, the Fiscal Compact). But unlike the national budgets, the EU budget is obligatorily balanced; however, there are no other requirements for its performance and results.

The Reflection Paper on the Future of EU Finances (European Commission, 2017a) stated that the EU budget is expected to play a new role in macroeconomic stabilisation. It is necessary to define a space for it as some other new instruments have been created in the meantime for this specific purpose (especially the ESM). Regarding the **macroeconomic stabilisation**, the EU budget is especially expected to be a preventive tool for making the EU economy stronger and less vulnerable to some shocks. On the other hand, the ESM serves predominantly as an instrument to solve the direct costs and consequences of a crisis, or a shock. As a last resort, the EU budget could serve as a potential financial source for the ESM in extraordinary emergency cases according to the European Commission's latest roadmap to complete EMU (European Commission, 2017b).

3.7 A partial conclusion

The EU budget must be able to provide the resources needed to achieve the strategic priority goals while using suitable rationalisation, efficiency and effectiveness criteria for its structure and for the way in which it is evaluated and updated (European Economic and Social Committee, 2016b). Its tasks in this regard are the following:

- the adoption of a more decidedly performance- and results-oriented approach;
- evaluating the quality of the regulatory framework for allocating the EU budget;
- analysing developments in expenditure as a continuous medium-term process in which individual years represent a specific development trajectory that is required to secure the relevant results;
- taking account of the very close links between the EU budget, economic policy governance and current European economy dynamics;
- maintaining continuity in EU budget policy and the implementation and evaluation of its goals.

Brexit will inevitably have an impact on the post-2020 EU budget. While the actual figure for the resulting budget deficit has not yet been officially established by any EU institution[3], the following three options set out potential ways to offset it: i) an increase in the contributions by EU Member States; ii) a cut in EU spending; iii) a combination of the previous two options. It is here that Brexit is revealed as both a threat and an opportunity for the EU budget.

At the same time, Brexit is an important opportunity to both reform the EU budget and improve it in terms of quantity and quality by overhauling its spending mechanisms, and - accepting the proposal made in the Monti report (High Level Group on Own Resources, 2016) – establish a key system of the EU's own resources. an exemplary, efficient, effective and transparent EU budget can then be shaped, which would gain credibility in the eyes of Europeans and make the advantages of Europe and the costs of non-Europe more visible to them.

The EU budget or, more broadly, EU financing should also respect the need for a strengthened role of the **EU in the world** (as a more active actor) to a greater extent.

3 Various research institutes made estimates of the UK's net average annual contribution to the EU budget. According to them (Browne, Johnson and Phillips, 2016; Núñez Ferrer and Rinaldi, 2016; Chomicz, 2017), it could be EUR 8 billion (Institute for Fiscal Studies; Centre for European Policy Studies), EUR 10 billion (J. Delors Institute Berlin – Bertelsman Stiftung) or EUR 20-27 billion (European Policy Centre).

4. CONCLUSIONS:

A SHORT ANALYTICAL COMMENT ON THE EUROPEAN COMMISSION'S PROPOSAL ON THE NEW MFF – THE SHOW MUST GO ON

And finally, against the background of the previous chapters and their conclusions and achievements, let us now set the mirror and show to what extent the expected requirements for the next EU budget were presented in the recent European Commission's Proposal on the 2021 – 2027 MFF Regulation (European Commission, 2018).

The proposal has confirmed the expectations in many aspects. It really builds on a substantially changed basis in which almost all the elements that were recommended for following the future challenges have been included. On the other hand, a strong line of continuity has been kept there as well. Therefore, it will be necessary to sensitively incorporate the new elements into the adjusted budgetary façade. This could lead to a feeling of some kind of realistic optimism combined with many subsequent expectations regarding the content of other legislative proposals and especially the attitudes of Member States and the European Parliament. To reach a consensus will be feasible, but it will be very difficult. There will surely be a resistance against the changes as well as the implementation of the new elements in the system. On the other hand, it is possible to predict that for some players the changes and new elements could seem to be too soft.

But all the key elements recommended in the previous chapter and the reactions to the circumstances outlined in the introductory chapters of this text were taken into account. The structure of the EU budget is proposed to change as a reflection of the new priorities, new sources for it are recommended, there should be more flexibility in it, including a reserve source, and the EAV concept is to play a substantial role in it. A more visible part of the financial instruments is also prepared for practical implementation. It is estimated that there will be a closer relation between the EU budget and the European Semester process, and a more specific connection of both with the EMU deepening. There should also be a stronger respect for the EU position within the global context. And finally, the EU budget is to be reasonably simplified.

The proposal is to be characterised as the way:

- from guaranteed national envelopes to pan-European projects;
- from formal to performance- and result-based criteria;
- from subsidies to more innovative financial instruments;
- from traditional to new topics;
- from rigidity to flexibility.

All these expectations are to be fulfilled under simplified rules and an appropriate responsibility of the key actors to not only push demand up, but also create a tool to support mainly the supply side of the EU economy.

The European Commission's Proposal means an authoritative contribution to finding the right way from the current crossroads of the EU financing. But we are still at the beginning. It will be necessary to make many other contributions to make sure that the way is firm and right. The show certainly must go on.

BIBLIOGRAPHY

Browne J., P. Johnson and D. Phillips (2016), The Budget of the EU: a Guide, IFS Briefing Note BN 181, London: Institute for Fiscal Studies.

Chomicz, E. (2017), EU Budget Post-Brexit – Confronting Reality, Exploring Viable Solutions, Discussion Paper, Brussels: European Policy Centre.

European Economic and Social Committee (2016a), Opinion of the European Economic and Social Committee on the Recommendation for a Council Recommendation on the Economic Policy of the Euro Area, Brussels: European Economic and Social Committee.

European Economic and Social Committee (2016b), Mid-term review of the Multiannual Financial Framework 2014-2020, Brussels: European Economic and Social Committee.

European Commission (2011), The Added Value of the EU Budget (Commission Staff Working Paper), Brussels: European Commission.

European Commission (2017a), Reflection Paper on the Future of EU Finances, Brussels: European Commission.

European Commission (2017b), Further Steps towards Completing Europe´s Economic and Monetary Union: A Roadmap, Brussels: European Commission.

European Commission (2018), A Modern Budget for a Union that Protects, Empowers and Defends The Multiannual Financial Framework for 2021-2027, Brussels: European Commission.

Haas J. and E. Rubio (2017), Brexit and the EU Budget: Threat or Opportunity?, Policy Paper 183, Berlin: Jacques Delors Institute Berlin – Bertelmans Stiftung.

High Level Group on Own Resources (2016), Future Financing of the EU - Final report and Recommendations of the High Level Group on Own Resources, Brussels: High Level Group on Own Resources, Brussels.

Núñez Ferrer J. and D. Rinaldi (2016), The Impact of Brexit on the EU Budget: A Non-Catastrophic Event, Policy Brief 347, Brussels: Centre for European Policy Studies.

Palmieri, S. and P. Zahradník (2017), Reflection Paper on EU Finances by 2025, Brussels: European Economic and Social Committee.

STUDY WORKING GROUP

Author of the Study

Petr Zahradník is a Member of the European Economic and Social Committee where he represents the Czech Chamber of Commerce. He is also a Member of the Scientific Council at the Faculty of Finance and Accounting at the University of Economics in Prague and from 2001 to 2013 he was lecturing the economy of transformation and integration at New York University. Moreover, he is also a member of the Economic and Strategic Analysis Team in Česká spořitelna (Erste Group).

Coordinator of the Working Group

Daniel Šitera is a Coordinator of the Centre for Political Economy of the Institute of International Relations and a Lecturer at the Charles University in Prague. He was a Policy Officer at the Ministry of Industry and Trade of the Czech Republic and served simultaneously as a National Expert in the Council of the EU (Competitiveness and Growth). He has been also a Ph.D. Candidate in Global Studies at the University of Leipzig.

Special Thanks

The author and coordinator would like to express their thanks for the helpful comments provided by the representatives of the Ministry of Foreign Affairs of the Czech Republic and the Office of the Government of the Czech Republic during the meetings of the coordination group.

EUROPEUM
INSTITUT PRO EVROPSKOU POLITIKU
INSTITUTE FOR EUROPEAN POLICY

INSTITUTE OF INTERNATIONAL RELATIONS PRAGUE

ORGANIZERS

Ministry of Foreign Affairs of the Czech Republic

1918 100 2018

STRATEGIC PARTNER

Visegrad Fund

MAIN INSTITUTIONAL PARTNER

European Commission

MAIN INSTITUTIONAL PARTNER

Office of the Government of the Czech Republic

INSTITUTIONAL PARTNER

OPEN SOCIETY FOUNDATIONS

MAIN PARTNER

STRATOS AUTO

MAIN PARTNER

PRAHA PRAGUE PRAGA PRAG

MAIN PARTNER

Hanns Seidel Stiftung

PARTNER

Lobkowicz Events Management

PARTNER

SAVOY HOTEL PRAGUE

SUPPORTER

PRECIOSA

SUPPORTER

TEPSA

SUPPORTER

INSTITUT FRANÇAIS Prague

SUPPORTER

FRIEDRICH EBERT STIFTUNG

PRAGUE TALKS PARTNER

Co-funded by the Europe for Citizens Programme of the European Union

PRAGUE
european summit