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Special analysis

Multiannual Financial Framework 2014-2020

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Introduction

On 2 December 2013, the Council of the EU at the meeting of the Council for Competitiveness approved the Multiannual Financial Framework of the EU for 2014-2020. The negotiations regarding the final form of the financial framework had been very intensive since June 2011, when the European Commission presented the proposed framework. The budget was originally supposed to reach 1,025 billion euros, which was more than 4.8% more than in the previous seven-year period of 2007-2013.

Following the publication of the proposal, the member states divided into two groups. One group known as the "Friends of Better Spending" proposed a more austere budget (according to some information even below 1% of GDP produced by the entire EU).

The countries in that group included the Czech Republic. Another group of countries known as the "Friends of Cohesion", which includes states that have received assistance from EU budget resources, has expressed opposition to reducing the volume of financial resources used for cohesion policy.

Following lengthy negotiations, in February of this year the European Council reached a compromise form of the financial framework, in which member states proposed that the total budget in current values of 2011 should not exceed 960 billion euros.

However, in March the proposal was rejected by the European Parliament, whose representatives demanded greater budget flexibility (the option of shifting unused financial resources to later years) and did not approve of reducing spending. Senior European Commission and European Parliament representatives agreed on the final form of the proposal only later in June 2013 together with the Irish EU presidency.

In July at a plenary session, the European Parliament confirmed the agreement, but that was only a political decision. All legislative texts were still being prepared and were to be approved in September. The proposal was eventually approved by MEPs at their meeting in Strasbourg on 19 November 2013.

Still before then, the Parliament had to agree with the Council on the final form of the corrected budget for 2013 and the budget for 2014. The Parliament demanded that outages in EU payments during that fiscal year be resolved, and that the resources in payments in the budget for 2014 be increased, which was achieved. The aim of that decision was to prevent the EU from beginning the first year of the new Multiannual Financial Framework in a deficit. The final say for the adoption of the Multiannual Financial Framework for 2014-2020 was issued by the Council of the EU, as has been stated above.

Multiannual Financial Framework (MFF) 2014-2020

The Multiannual Financial Framework for 2014-2020 is a tool of mid-term planning for financing the European budget. According to Article 312 of the Treaty on the Functioning of the EU, the 2014-2020 framework is governed by the regulation regarding the Multiannual Financial Framework. It sets the maximum annual limits that the EU can spend to finance various areas (policies) in the next seven years.

The financial framework also sets the general limit for overall expenditures, meaning that during subsequent approval of the annual budget, expenditures must not exceed the cap imposed by the financial framework.

The main purpose of the mechanism is to strengthen budget discipline, achieve easier and timely adoption of annual budgets by individual institutions and achieve predictability of EU expenditures for the subsequent period (ensuring of proper financial management).

The financial framework consists of three documents: The regulation regarding the Multiannual Financial Framework), the Inter-institutional Agreement and individual Declarations. The regulation is a set of rules and guidelines defining the structure and functioning of the entire mechanism of the Multiannual Financial Framework. The Inter-institutional Agreement was adopted in accordance with Article 295 of the Treaty on the Functioning of the EU.

Its purpose is budget discipline and perfection of the functioning of the yearly budget process and cooperation among individual institutions. The agreement also clears up certain provisions in the regulation.

The financial framework also includes several Declarations, for example about Own Resources, Increasing of the effectiveness of public spending in areas where EU performs its activities, Youth unemployment, Boosting research, etc.

Additionally, the Multiannual Financial Framework also includes a Decision about Own Resources (which constitute revenue from the EU budget) and legal foundations, most often in the form of regulations, for individual programmes and policies, which define the conditions and criteria for allocating financial resources for member states. So far, the new programmes have not been approved.

However, for most of them political agreements have been achieved in negotiations, which have been taking place since 2011. The final approval of individual spending programmes of member states will occur during 2014. Nonetheless, negotiations are still in progress regarding the decision about own resources. The decision is not expected to become valid until during 2014, since it must be ratified by all member states. As soon as the decision becomes valid, it will apply retroactively as of 1 January 2014.

In 2016, the European Commission will examine the approved financial framework. It will focus on the current economic situation and macroeconomic projections, and it will evaluate whether any changes are necessary and will resolve additional needs for financing in certain areas.

The Parliament and the European Commission at that time will already be comprised of different members, since the new elections to the European Parliament will take place in May 2014. Following the appointment of EP members, the members of the Commission will also be replaced. The new Commission is expected to be confirmed by the Parliament in October 2014.

EU budget expenditures

Within the budget, budget headings for obligation items and items for payment are always specified. Items (or expenditures) for obligations represent a legal pledge for investment of certain funds into specific areas. Within certain areas (such as structural funds) this can involve financing of multiannual projects.

Resources for it can be paid during the overall realisation of the project, but not all of them will necessarily be paid in the first year. However, the total amount that will be drawn during the years will be included in the item of obligations always in the first year of project realisation.

In the first year of project realisation, only the portion of financial resources that will actually be paid in that year will be included in the items for payments. In subsequent years, they will be included in items for payments of the remainder of the multiannual project, which will be paid.

Own resources – EU budget revenues

In February 2013, the European Council decided on certain changes in the system of own resources for the period of 2014-2020. However, until the new Decision by the Council regarding own resources, the current system will remain in effect.

The EU's own resources represent EU revenues. Annual expenditures must be fully covered by annual revenues, since the EU's budget is not allowed to have a deficit. Various types of own resources and methods of their calculation are set in the Council's decisions regarding own resources.

It also limits the maximum yearly amounts (ceilings) of own resources that the EU may increase during the year to a maximum of 1.23% of GDP.

Form of financial framework of the EU for 2014-2020

The Multiannual Financial Framework for 2014-2020 in resources for obligations is divided into six budget

EU's own resources

Traditional own resources
Traditional Own Resources consist mainly of import duties for countries outside of the EU and amounts related to sugar. EU member states keep 25% of the amount as costs for collection.
Own resources based on VAT
A uniform rate of 0.3% is imposed on individual member states' harmonised VAT bases.
Own resources based on GNI
Each member state contributes to the budget 1% of its GNI to the EU. Although this source is intended only to cover the portion of expenditures not covered by other own resources, it has become the largest source of EU budget revenues.
Other sources of revenue
Other budget revenues make up about 1% of the total EU budget and include taxes and other withholding from remuneration for EU staff, bank interest, contributions from non-EU countries to certain programmes, default interest and fines.

chapters or basic areas of expenditures. The first area is divided into two sub-areas. Individual areas (or sub-areas) contain a number of programmes and mechanisms. In total, during the seven-year period the EU will be able to invest in appropriations for commitments just under 960 billion euros in 2011 prices, and in appropriations for payments approximately 908 billion euros. The most important budget item (almost 50% of financial resources) consists of the first area "Smart and Inclusive Growth", which is further divided into Competitiveness for growth and jobs and Economic, social and territorial cohesion.

As part of Competitiveness for growth and jobs, in the subsequent period 10 specific programmes will function, which will be focused mainly on research, development and innovation, education and training, development of trans-European networks related to energy, transport and telecommunications, social policy and support for small and mid-sized enterprises.

With regard to cohesion policy, for which the EU has allocated 325 billion euros for the seven-year period, the financial resources are being directed mainly for regional development, assistance for the least developed countries and regions in the EU, boosting of the competitiveness of all regions and development of inter-regional cooperation. Approximately 40% of budget resources are intended for "Sustainable Growth".

A significant portion of money is focused on Common Agricultural Policy (direct payments to farmers and rural development), and the remaining resources are intended for Common Fisheries Policy, the environment and climate matters. Financial resources related to the third area "Security and citizenship" are intended to finance border protection, immigration and asylum policy, public health, consumer protection, culture, youth, information campaigns, etc.

The fourth spending area "Global Europe" includes financial resources for all measures related to internal policy (and foreign policy) of the EU, such as for development and humanitarian assistance. The fifth area "Administration" involves financing of administrative expenditures of European institutions. The last, sixth, area of the financial framework involves "Compensations". It is only a temporary mechanism of financial resources. The aim is to ensure that Croatia, which joined the European Union in July 2013, in the first year following its accession does not contribute more to the EU budget than it receives from it.

Financial perspective 2014-2020 (in mil. eur) – 2011 prices

COMMITMENT APPROPRIATIONS	2014	2015	2016	2017	2018	2019	2020	2014-20	2014-20 *
1. Smart and Inclusive Growth	60 283	61 725	62 771	64 238	65 528	67 214	69 004	450 763	508 921
Competitiveness for growth and jobs	*15 605*	*16 321*	*16 726*	*17 693*	*18 490*	*19 700*	*21 079*	*125 614*	*142 130*
Economic, social and territorial cohesion	*44 678*	*45 404*	*46 045*	*46 545*	*47 038*	*47 514*	*47 925*	*325 149*	*366 791*
2. Sustainable Growth: Natural Resources	55 883	55 060	54 261	53 448	52 466	51 503	50 558	373 179	420 034
of which: Market related expend. and direct paym.	*41 585*	*40 989*	*40 421*	*39 837*	*39 079*	*38 335*	*37 605*	*277 851*	*312 735*
3. Security and citizenship	2 053	2 075	2 154	2 232	2 312	2 391	2 469	15 686	17 725
4. Global Europe	7 854	8 083	8 281	8 375	8 553	8 764	8 794	58 704	66 262
5. Administration	8 218	8 385	8 589	8 807	9 007	9 206	9 417	61 629	69 584
of which: Administrative expenditure of the instit.	*6 649*	*6 791*	*6 955*	*7 110*	*7 278*	*7 425*	*7 590*	*49 798*	*56 224*
6. Compensations	27	0	0	0	0	0	0	27	29
TOTAL COMMITMENT APPROPRIATIONS	**134 318**	**135 328**	**136 056**	**137 100**	**137 866**	**139 078**	**140 242**	**959 988**	**1 082 555**
as a percentage of GNI	1.03%	1.02%	1.00%	1.00%	0.99%	0.98%	0.98%	1.00%	1.00%
TOTAL PAYMENT APPROPRIATIONS	**128 030**	**131 095**	**131 046**	**126 777**	**129 778**	**130 893**	**130 781**	**908 400**	**1 023 954**
As a percentage of GNI	0.98%	0.98%	0.97%	0.92%	0.93%	0.93%	0.91%	0.95%	0.95%
Margin available	0.25%	0.25%	0.26%	0.31%	0.30%	0.30%	0.32%	0.28%	0.28%
Own Resources Ceiling as a % of GNI	1.23%	1.23%	1.23%	1.23%	1.23%	1.23%	1.23%	1.23%	1.23%

*Source: European Commission, * current prices*

Comparison of MFF 2007-2013 with 2014-2020

For the seven-year period of 2014-2020, just under 960 billion euros in 2011 prices (1% of GDP) is reserved in total appropriations for commitments, which compared to the preceding budget period of 2007-2013, when 994 billion euros were reserved for commitments, is 3.4% less.

For overall appropriations for payments, the difference of both budget periods is 3.7%, and for the subsequent seven years it is expected to be 908 billion euros in current 2011 prices (0.95% if GDP), compared to 943 billion euros for the previous period (1.07% of GDP).

MFF 2014-2020/2007-2013 (in mil. eur), in 2011 prices

COMMITMENT APPROPRIATIONS	2007-2013	2014-2020	2014-2020 / 2007-2013	
			Δ in mil. eur	Δ in %
1. Smart and Inclusive Growth	446 788	450 763	3 975	0.9%
1a: Competitiveness for growth and jobs	*91 541*	*125 614*	*34 073*	*37.2%*
1b. Economic, social and territorial cohesion	*355 248*	*325 149*	*-30 099*	*-8.5%*
2. Sustainable Growth: Natural Resources	420 682	373 179	-47 503	-11.3%
of which: Market related expenditure and direct payments	*318 820*	*277 851*	*-40 969*	*-12.9%*
3. Security and citizenship	12 396	15 686	3 290	26.5%
4. Global Europe	56 815	58 704	1 889	3.3%
5. Administration	56 503	61 629	5 126	9.1%
6. Compensations	920	27	-893	
TOTAL COMMITMENT APPROPRIATIONS	**994 104**	**959 988**	**-34 116**	**-3.4%**
as a percentage of GNI	1.12%	1.00%	-0.12%	-
TOTAL PAYMENT APPROPRIATIONS	**943 137**	**908 400**	**-34 737**	**-3.7%**
As a percentage of GNI	1.07%	0.95%	-0.12%	-

Source: European Commission

Key non-financial characteristics of the MFF

A more transparent budget

The new financial framework enables more flexibility during reactions to occurring unexpected situations.

Flexibility for payments: This enables shifting of unused financial appropriations for payments or carrying over from one budget year to another. These adjustments must be compensated by a corresponding reduction of the ceiling of payment items for year n-1.

Flexibility for commitments in growth and employment: Commitments for obligations not used in 2014-2017 will create a reserve for additional expenditures in the period of 2016-2020 in the area of growth and employment.

Special flexibility for youth employment and research: So that a maximum of financial resources can be used where they are most needed, the EU will have at its disposal for 2014-2015 up to 2.1 billion euros as part of the Youth Employment Initiative and up to 400 million euros for supporting research, small and mid-sized businesses and the Erasmus programme.

Flexibility for aid for the most deprived: Member states may voluntarily increase the division of allocations for supporting their most impoverished persons to up to 1 billion euros.

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Contingency Margin: This is an instrument of final assistance, which makes it possible to react flexibly to unforeseen circumstances. Within this instrument it is possible to draw up to 0.03% of the EU's gross income. Besides the limits of the multi-year financial framework, special "flexibility mechanisms" will also function, which will enable drawing of additional financial resources, but only in certain specific cases.

Financial correction mechanisms

Certain member states contribute to the EU's joint budget, in comparison with their national wealth, through larger amounts. Therefore, over the years they have negotiated various advantages in the form of entitlement to financial correction. Also for the 2014-2020 period, compensation for the United Kingdom will be kept in the same amount as in the previous period.

The so-called "the UK rebate" is a discount from deductions to the joint budget, which for Britain is counted as 66% of the difference between the financial resources that Britain transfers to the joint budget and the financial resources that the country gets back as part of various policies. Denmark, the Netherlands and Sweden will within their annual contributions calculated based on gross national income contribute less to the EU's joint budget during the entire seven-year period.

For Denmark, this annual contribution to the EU budget is reduced to 130 million euros. The Netherlands will contribute 695 million euros, and Sweden will contribute 185 million euros annually. Austria will then contribute a reduced amount of 30 million euros in 2014, 20 million in 2015 and 10 million in 2016. Germany, the Netherlands and Sweden are also provided an advantage with a lower 0.15% rate for deductions from VAT.

Emergency Aid Reserve - maximum of 280 million € per year

This reserve is intended for financing humanitarian assistance, for financing rescue work (such as following the commencement of armed conflicts in any non-EU states) with the aim of reacting quickly to an unpredictable situation.

Solidarity Fund - maximum of 500 million € per year

The resources from this fund serve for providing assistance following major disasters (such as earthquakes and floods) in member states or candidate countries. The resources are for restoring basic infrastructure, handling direct health risks, ensuring temporary housing, etc.

Flexibility instrument – max. 471 million € per year

The resources are provided for clearly specified expenditures, which cannot be covered from the EU budget without exceeding the maximum annual amount for expenditures set by the Multiannual Financial Framework. In the past this instrument has been used for example for financing energy projects.

European Globalisation Fund – max. 150 million € per year

This fund is focused on assisting workers who have lost their jobs as a result of major changes in the structure of global trade and who are trying with the help of retraining to gain new employment and become reintegrated into the labour market.

The most important budget items and the impact on the Czech Republic

At the time when this issue of the Monthly was being finalised, the exact allocations of the key budget areas for individual states had not yet been made public:

- Cohesion Policy
- Common Agricultural Policy (1st and 2nd pillars)

However, unofficial preliminary simulations for the new programme period are already available.

According to them, the total package of resources within the cohesion policy directed to the CR was to equal an amount slightly exceeding 20.5 billion euros.

Resources for direct payments to farmers, which comprise the 1st pillar of the CAP, intended for Czech entrepreneurs, could reach up to 6.1 billion euros.

By volume, the least money is from the most important budget resources for rural development grants. For the Czech Republic, a financial package has been estimated in the amount of 2.2 billion euros. All of the figures specified in this chapter are expressed in current 2011 prices.

Conclusion

After two and a half years of negotiating, European institutions finally reached a definitive consensus regarding the form of the Multiannual Financial Framework budget for 2014-2020. The long-term budget sets in 2011 prices commitments totalling 960 billion euros, and 908 billion euros in resources are intended for actual payments.

Compared to the previous financial framework for 2007-2013, there is 3.4% less in commitments and 3.7% less in payments. However, for priority areas sufficient financial resources remain allocated. In the coming years, the EU wants to invest particularly into employment, education, research, development, innovation, support for small and mid-sized businesses, etc.

The largest amount of financial resources is being directed to the cohesion policy and being allocated for the joint agricultural policy. The approval of this document is of key importance for EU member states. It will enable them to begin preparing for optimum drawing of resources from the European budget.

Within the new financial framework, a few major changes are taking place, and the budget is more flexible and enables greater flexibility during reactions to unexpected situations. Besides the limits of the framework, there are also other mechanisms for unexpected circumstances.

From the budget for the Cohesion Policy, there is a newly reserved portion of resources known as the "performance reserve". It is intended to serve as a reserve for payment of rewards to member states and regions that manage to fulfil objectives set in advance. There will also be changes to regular drawing from individual structural and investment funds.

The drawing process will be simpler and less bureaucratic. We will encounter adjustment of the rules also in agricultural policy. The new rules will affect, for example, young and small farmers, with measures related to milk, sugar, wine, fruits and vegetables and also fairer division of direct payments.

As far as the Czech Republic is concerned, during the 2014-2020 period approximately 6 billion euros will be reserved for direct payments to farmers from the European budget, and over 2 billion euros will be reserved for rural development.

The largest piece of pie from our revenues from Brussels, however, will be in the form of financing from structural and investment funds. The allocation of financial assistance within the cohesion policy for the Czech Republic amounts to 20.5 billion euros. That is approximately a quarter less than the allocation in the current 2007-2013 programme period.

However, we do not have to consider that a tragedy. In an optimum case, the lower volume of grants will finally create desired pressure to bring about their more effective use.