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

**Mid-term revision of the
Multiannual Financial Framework 2021 – 2027**

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1. INTRODUCTION

Since 2020, the Union has faced a series of unprecedented and unexpected challenges. The Multiannual Financial Framework 2021-2027 and NextGenerationEU have provided a forceful response to the COVID-19 pandemic and its economic and social fallout. They have allowed the Union to recover quickly from the crisis, and are making Europe greener, more digital, and more resilient, while addressing inequalities and promoting equal opportunities for all. However, just barely out of one of the deepest global economic crises in more than a century, the EU is facing another major crisis: with Russia's brutal invasion of Ukraine, additional new and unexpected challenges have emerged, such as the energy crisis. Within its limits, the EU budget has powered a strong EU response, by drawing from its limited built-in flexibilities. Addressing these multiple challenges has pushed the resources of the EU budget to the point of exhaustion.

Russia's illegal war of aggression against Ukraine has brought war back to European soil with a devastating effect. The Union will keep supporting Ukraine for as long as it takes and firmly help Ukraine on its European path. The war has had first and foremost a devastating effect on Ukraine and its people, but it also had major repercussion for Europe and for third countries, from people fleeing Ukraine to the energy and food crises. The war also required massive mobilisation of humanitarian assistance, which needs to be maintained, as well as support for agri-food production and civil protection in third countries. Ukraine will need sustainable support for short-term relief and recovery as well as long-term reconstruction.

Migration has picked up after the pandemic, putting strains on Member States' reception and integration capacities. Addressing the root causes of migration, improving border management, and maintaining effective migration partnerships with third countries – whether countries of origin and transit, or those hosting large numbers of refugees – will need additional financial support. In addition, regarding both the internal and external dimensions of migration, the General Approach agreed by the Council on 8 June 2023 on key elements of the New Pact on Migration and Asylum underlines the need to live up to the new responsibilities that the Union and the Member States will be taking on, and the costs these imply.

Increasing geopolitical instability, crises and natural disasters – beyond the fallout of the war in Ukraine, and exacerbated by climate change – are having a dramatic impact on countries in the EU's neighbourhood and on developing countries globally, increasing the need for emergency aid and humanitarian support.

Significant investment is needed to foster long-term competitiveness. Accelerating Europe's twin transition provides the opportunity for the Union to regain leadership in key sectors through smart public and private investment in strategic sectors, while preserving a level playing field in the single market and thereby cohesion. This is also important against the background of current strategic dependencies, the ongoing demographic change and to ensure affordable access to energy.

Since 2022, the EU and other major economies have witnessed a steep increase in inflation, the highest in over 40 years, exacerbated by the bottlenecks in the post-pandemic recovery phase and Russia's invasion of Ukraine. As a result, central banks across the world have tightened monetary policy. Interest rates on international capital markets have increased at an unprecedented pace. The 10-year EU-Bonds interest rate increased from about zero at the time of the adoption of the Multiannual Financial Framework to more than 3% in less than a year. This volatility directly and very heavily affects the EU budget.

The numerous additional tasks given to EU institutions since the start of the Multiannual Financial Framework, coupled with high inflation, are putting the EU administration

under strain. While making exceptional efforts to reprioritize and reduce administrative costs, the EU institutions now have difficulties to fulfil their legal obligations without a corresponding increase in staff.

This Communication proposes a way forward to provide the most essential funding to be able to deliver on the Union's shared priorities and needs. It by far does not address or suggest correcting the full impact the various crises have had on the EU budget, but focusses on the most pressing areas, where an adjustment is unavoidable to ensure that the Union can deliver on its common needs and objectives in a completely new global environment.

2. THE BUDGET UNDER PRESSURE

While the multiannual nature of the EU budget provides stability and predictability, it has limited capacity to respond to major unexpected events, and its flexibilities are being depleted. 90% of the EU budget and NextGenerationEU are already pre-allocated for specific purposes, programmes or national programmes. Already 75% of the initial unallocated margins for the period 2021 – 2027 (which were only EUR 5.5 billion, or 0.45% of the total expenditure) have already been used or earmarked to adapt to new needs and respond to unexpected crises. The Flexibility Instrument, which provides some limited additional flexibility over and above the ceilings of the Multiannual Financial Framework for approximately EUR 1 billion per year, has been fully used. This undermines the Union's ability to address the most urgent emergencies, to provide support to boost Europe's long-term competitiveness in critical areas, to maintain and strengthen the unique European social model, not to mention the ability to react to new challenges which are expected to arise in the next four years given the volatile geopolitical and economic context.

Extensive use of redeployments and reprogramming, on top of existing budgetary flexibilities, has been necessary to address the unforeseen challenges. Cohesion policy funds have been mobilised extensively to support people fleeing the war in Ukraine as well as host Member States with the Cohesion's Action for Refugees in Europe and Flexible Assistance for Territories (CARE and FAST-CARE) packages. Amendments to 2014 – 2020 and 2021 – 2027 programmes alleviated the budgetary pressure on Member States and allowed faster and more flexible use of available funding. REPowerEU, which aims at ending the EU's dependence on Russian fossil fuels and tackle the climate crisis, is financed by and large from redeployment and repurposing of other funds.¹ The Secure Connectivity Programme, which responds to increasing hybrid and cyber threats as well as natural disasters, received funding from several EU programmes that share similar objectives with this initiative² as well as unallocated budgetary margins. The proposed Act in Support of Ammunition Production (ASAP) to facilitate the ramp-up of ammunition production capacity within the EU is financed with redeployments of EUR 260 million from the European Defence Fund for 2024 and of EUR 240 million initially foreseen for the European Defence Industry Reinforcement through common Procurement Act (EDIRPA) in 2023 – 2024. The Chips Act is financed via the margin of Heading 1 and redeployments from other programmes or their strands. In addition, the Emerging challenges and priorities cushion of the Neighbourhood, Development and

¹ Remaining loans under the Recovery and Resilience Facility for up to EUR 225 billion, additional resources from the sale of EU Emissions Trading System (ETS) allowances (outside the EU budget) for up to EUR 20 billion; voluntary transfers from the Brexit Adjustment Reserve. Supporting Affordable Energy (SAFE) flexibility was introduced in the 2014 – 2020 Cohesion Policy funds to enable direct support to vulnerable families and small and medium-sized businesses (SMEs) facing increased energy costs.

² Horizon Europe, the Union Space Programme and the Neighbourhood, Development and International Cooperation Instrument.

International Cooperation Instrument has been used extensively – EUR 7.4 billion out of EUR 9.3 billion – to provide support for COVID-19 vaccines globally, Ukraine (including the provisioning of MFA loans), Syrian refugees in Türkiye, inter alia. Further redeployment or reprioritisation possibilities are thus extremely limited.

Faced with this situation, the Commission sees no alternative to ensure that the EU can deliver on all its objectives, urgent and traditional ones, until the end of 2027, but to propose a targeted revision of the Multiannual Financial Framework 2021 – 2027.

3. A TARGETED AND BALANCED ADJUSTMENT OF THE BUDGET TO RESPOND TO NEW CHALLENGES

Unwavering and long-term support to Ukraine via the new Ukraine Facility

The EU firmly stands by Ukraine’s side to support its resistance against Russia’s invasion and to build Ukraine’s European future together. The Multiannual Financial Framework 2021 – 2027 was not constructed to address the direct and indirect consequences of a war on Europe’s soil and these dramatic events and needs could not have been anticipated. Nevertheless, by June 2023, the EU budget had mobilised EUR 30.5 billion to support Ukraine. This includes the novel Macro-Financial Assistance Plus instrument which will provide up to EUR 18 billion in 2023 guaranteed by the EU budget.

In addition, several existing programmes have been repurposed to support Ukraine and address the fallout of the war. For instance, the Connecting Europe Facility, to which Ukraine is now associated, provides for the EU solidarity lanes – which are essential to keep Ukraine’s economy linked to the single market and the rest of the world – and military mobility. Regional funds were mobilised to help Member States support people fleeing from the war or address resulting high energy prices, by a total amount of EUR 17 billion. EU Home Affairs Funds were granted more flexibility to facilitate the use of unspent 2014 – 2020 funds. EUR 400 million was made available for frontline Member States through the Asylum Management and Integration Fund and Border Management and Visa Instrument, to assist with the first reception and early integration of Ukrainians entering the EU. The Erasmus+ programme is also contributing to support the Ukrainian people, including many children and young people, with a reinforcement of an additional EUR 100 million in 2023 to pursue these objectives.

Additional support is being provided outside the EU budget, with EUR 5.6 billion of military assistance under the newly set-up European Peace Facility (EPF). The EPF has been a key tool to support Ukraine’s self-defence.

Taken together, the entire support mobilised by the EU and its Member States to support Ukraine and its people amount to EUR 70 billion.

Since the start of the war, the Union has also imposed unprecedented sanctions against Russia, adding to those imposed by the EU following the illegal annexation of Crimea in March 2014. Work is ongoing on the possible use of frozen assets to support Ukraine’s recovery and reconstruction.

The European Union is committed to firmly and fully stand with Ukraine and to continue to provide strong political, economic, military, financial and humanitarian support to Ukraine and its people for as long as it takes. Financing is required for Ukraine’s immediate needs, recovery and for long-term reconstruction. The Macro-Financial Assistance Plus instrument only covers 2023 and can only finance the most urgent immediate budgetary needs. It can neither cover all the areas that the Union committed to support, nor provide long-term

support for fast recovery. The European Union needs to rise to the challenge by confirming support to Ukraine on a multiannual basis.

Support to Ukraine’s fast recovery should progress as the situation evolves. Sustaining economic activity and rebuilding basic infrastructure would generate employment and revenues, give refugees a perspective to return home and lower the volume of international assistance needed. According to the International Monetary Fund’s estimates³, the financing gap of Ukraine amounts to USD 81.6 billion for 2024 – 2027. Moreover, in March 2023, the World Bank together with the Ukrainian Government, the European Commission and the United Nations presented the updated assessment of damages covering a full year of the unprovoked Russian aggression against Ukraine. The assessment found that the estimated overall reconstruction needs of Ukraine over the next 10 years amount to EUR 384 billion, and to EUR 142 billion for the period 2023-2027. The International Monetary Fund programme concluded on 31 March will cover USD 10.2 billion of these needs alongside Norway’s 5-year support package of EUR 7 billion.

The Union is determined to provide a structured engagement with other international donors, notably through the Multi-Agency Donor Coordination Platform, and a multiannual partnership with Ukraine helping the country on its reform and EU accession path. This would allow Ukraine to cover its most immediate financing needs and to focus on public administration reform, good governance, the rule of law, gradual integration to the single market, and sound financial management (including anti-corruption and anti-fraud measures). It can provide Ukraine with a possibility to progress while rebuilding, fostering the transition to a resilient, climate-neutral, digital and inclusive economy, strengthening fundamental rights and equality in Ukraine.

A sustainable solution is needed to support Ukraine for the remainder of the current Multiannual Financial Framework. It will need to combine strong Union commitment and flexibility to adapt to the evolving situation. Financial support to Ukraine should thus include a flexible combination of loans and grants. Loans financed by borrowing and guaranteed by the EU budget, as for the Macro-Financial Assistance Plus instrument, will play a key role to ensure liquidity to the Ukrainian government. The EU can offer to cover the interest rates on these loans. At the same time, an appropriate share of grants will support Ukraine’s public finances sustainability and finance specific investment measures or technical assistance.

Continued EU support must also provide confidence to the European and Ukrainian private sector to invest in Ukraine and its reconstruction. Over time, as conditions for private sector engagement improve, support through guarantees, with additional contributions from International Financial Institutions, should be provided, to de-risk private sector investments and increase the leverage of EU funds. It should ensure integration of Ukraine in European supply chains and to the single market, to the mutual benefit of the EU’s and Ukraine’s citizens and businesses.

To cater for Ukraine’s immediate needs, recovery and modernisation, the Commission proposes the creation of an integrated and flexible instrument with an overall capacity of up to EUR 50 billion for 2024 – 2027. Support will be provided in the form of loans, grants and guarantees. This will ensure stable and predictable funding while providing an appropriate framework ensuring prioritisation of reforms and investments underpinned by a Ukraine Plan, the sustainability of Ukraine’s finances, as well as the protection of the EU budget. The non-repayable support will be financed under a Ukraine Reserve, providing resources to the Ukraine Facility on an annual basis over and above the expenditure ceilings. The loan

³ Source: <https://www.imf.org/-/media/Files/Publications/CR/2023/English/1UKREA2023001.ashx>

support will be financed by borrowing on financial markets and backed by the headroom between the own resources ceilings and EU budget expenditure. This flexible approach is needed for catering for the country's evolving needs until 2027.

Managing migration, strengthening partnerships with key third countries and addressing emergencies

The EU budget is contributing to a comprehensive approach, bringing together policy in the areas of migration, asylum, integration, return and border management, recognising the link of the internal and external dimensions of migration as well as needs arising from the global consequences of Russia's war of aggression in Ukraine, such as food security and hybrid threats. Concerning the external dimension of migration, the European Union will further deepen cooperation as part of comprehensive, balanced and tailor-made partnerships with key countries of origin and transit. While funding challenges are seen across the board, the situation is particularly challenging in the Southern Neighbourhood countries and Türkiye. The needs regarding Syrian refugees in Türkiye and in the broader region are not decreasing and might increase even further considering the additional challenges following the recent earthquakes. For 2024 – 2027, the needs across the region are largely uncovered. Additional needs will also arise following the closure of the Trust Fund for Africa, as there is a growing expectation on preserving at least the same levels of funding for the Southern Mediterranean route (EUR 208 million per year), to which the Commission had also committed. This is a point of further attention following the European Council of 9 February 2023, which put an accent on the need to increase returns by intensifying cooperation with countries of origin and transit covering all migratory routes, 'also with adequate resources', including under the Neighbourhood, Development and International Cooperation Instrument.

Concerning the internal dimension of managing migration as well as border management, helping Member States facing the increasing migratory pressure and implementing the New Pact on Migration and Asylum will require additional financing. This is in particular the case for the screening and border procedure, reception capacity, relocations and returns. As regards the Pact, good progress is being made, with the European Parliament and the Council aiming to adopt the legislative proposals by February 2024⁴ and a number of files already agreed. The changes proposed in the legislative process have increased the needs compared to original estimations. This is in particular the case for the establishment and maintenance of reception infrastructure, increased returns and relocations. Today, the amounts available for existing priorities and to host an increasing number of refugees are already earmarked. In that regard, 30% of the funds in the policy area of Migration⁵ is implemented under the Thematic Facilities, which in principle provides some flexibility. However, the Thematic Facilities are being used at a high pace to address emergencies and support Member States facing exceptional pressure, such as the crisis in Afghanistan or the crisis orchestrated by the Belarus regime, and most recently hosting the millions of people fleeing the Russian war in Ukraine. These funds can therefore not be earmarked for the implementation of the Pact.

Heightened global economic and political instability is increasing global needs, but the EU budget as it stands can no longer fully provide the necessary Union response to crises

⁴ Joint Roadmap of the European Parliament and Rotating Presidencies of the Council on the organisation, coordination, and implementation of the timeline for the negotiations between the co-legislators on the CEAS and the New European Pact on Migration and Asylum.

⁵ Asylum, Migration and Integration Fund (AMIF) and Border Management and Visa Instrument (BMVI).

in third countries. Beyond its impact on Ukraine, Russia's war of aggression also affects neighbouring countries such as Moldova, an EU candidate country that will require additional support.⁶ Moreover, major crises in Yemen, Sudan and Afghanistan, and the ensuing global food crisis and rising instability in Sub-Saharan Africa and other parts of the world have made the need for EU assistance and humanitarian aid even more acute than could have been foreseen.

The Humanitarian Aid programme had to rely on significant budgetary reinforcements from the Solidarity and Emergency Aid Reserve, after redeployments and recourse to the margins were fully exploited. In a number of crises in the Middle East and Africa in particular, humanitarian organisations are already applying cuts to rations and scaling down programmes. The remaining unallocated margin in Heading 6 (Neighbourhood and the world) is on average EUR 83 million per year in 2024 – 2027. Limited remaining availabilities in the Common Provisioning Fund to provision for additional Macro-Financial Assistance loans – in particular the recent announcement of a EUR 900 million Macro-Financial Assistance loan to Tunisia – imply that there will be very little room for further measures of this type under the current Multiannual Financial Framework, should the need arise. In addition, around 80% of the availability for 2021 – 2027 of the Emerging challenges and priorities cushion of the Neighbourhood, Development and International Cooperation Instrument has already been either used or allocated to provide support in response to a wide range of needs. This negates the rationale of the cushion which was meant to provide a flexible reserve to respond to unexpected needs.

In parallel, and in the light of the changed geopolitical landscape it is even more crucial to step up support to our Western Balkans partners, to accelerate convergence with EU Member States and aiming to support stable, prosperous and well-functioning democratic societies on their path towards EU membership.

The Solidarity and Emergency Aid Reserve is helping to tackle major natural disasters or public health crises both inside and outside the EU, but was by far not sufficient to meet all the requests since the beginning of the Multiannual Financial Framework. In 2021 and 2022 the allocation was completely exhausted to address major unforeseen events, including natural disasters (e.g., floods, forest fires, earthquakes) and the requests received were far above the budget availability of EUR 1.2 billion (in 2018 prices) per year. As a result, not all needs could be met. Halfway into 2023, the Solidarity and Emergency Aid Reserve is already expected to be fully used this year due to the earthquakes in Türkiye and Syria, leaving no more room for additional mobilisations until the end of the year.

In order to provide for sufficient funding to support Member States in managing urgent challenges related to migration and borders as well as for the implementation of the New Pact on Migration and Asylum once adopted, the Commission proposes to increase the ceiling of heading 4 by EUR 2 billion.

In order to allow the Union to provide the absolute necessities in a context of extraordinary geopolitical tension, the Commission proposes to increase the ceiling of Heading 6 by EUR 10.5 billion.

The Union's capacity to address crises and emergency situations needs to be reinforced. The Solidarity and Emergency Aid Reserve should be increased by EUR 2.5 billion.

⁶ The setting up of the Ukraine Facility will allow to redeploy resources from NDICI to other neighbourhood countries including Moldova.

Promoting long-term competitiveness on critical technologies via a Strategic Technologies for Europe Platform

Strengthening the competitiveness and reducing strategic dependencies of the European economy through the green and digital transformations has been the EU compass over the last years. With NextGenerationEU, the EU's flagship economic recovery programme, the EU has closed the gap with pre-pandemic output levels already in the summer of 2021. The funds directed to the twin green and digital transformation render the economy more competitive whilst leaving nobody behind. The unprecedented efforts by the EU Member States to implement crucial reforms are making the EU more resilient. Efforts in this direction should continue, to enable the EU to remain at the forefront to tackle existing and emerging challenges, including strategic dependencies in key sectors. Moreover, green and digital technologies have been at the heart of the Multiannual Financial Framework: 30% of the EUR 2 trillion 2021 – 2027 Multiannual Financial Framework and the NextGenerationEU recovery programme are being spent on climate policies and more than 20% of the Recovery and Resilience Facility is dedicated to digital policies. Cohesion policy contributes with EUR 110 billion to the climate transition and EUR 37 billion to the digital transition. Besides, the Digital Europe Programme supports bringing digital technology to businesses, citizens and public administrations. The EU budget is also the ultimate EU tool to underpin common action at EU level, preserving the integrity of the Single Market, securing economies of scale, effectiveness, convergence, solidarity and passing a clear political message that the EU stands together in the face of challenges.

The EU industry has also proven its inbuilt resilience but is being challenged by high inflation, labour shortages, supply chain disruptions, rising interest rates, and spikes in energy costs and input prices. This is paired with strong, but not always fair, competition on the fragmented global market. Whereas EU funding is often focussed on the deployment of clean-tech, biotech and digital and deep technologies, our global partners have more and more focussed on supporting the manufacturing of these technologies, such as in the US with the recent Inflation Reduction Act and since much longer in China.

The uptake and scaling up of the development and manufacturing of strategic technologies in the Union will be essential to seize the opportunities and meet the objectives of the green and digital transitions, therefore strengthening European sovereignty and economic security. Immediate action is thus required to support the development and manufacturing of strategic technologies in the Union, in particular of critical clean-tech, biotech and digital and deep technologies. Safeguarding, strengthening and developing new value chains and thereby reducing the Union's strategic dependencies should enjoy greater support. As shown by the COVID-19 pandemic, complex global value chains for production and distribution of products such as pharmaceuticals can result in shortages of essential goods. The Union also needs to address labour and skills shortages in those strategic sectors, attracting additional workers through quality jobs, trainings and apprenticeships.

The EU has already put forward several initiatives to support its industry. The Green Deal Industrial Plan seeks to enhance the competitiveness of Europe's net-zero industry, support the fast transition to climate neutrality and create quality jobs. It provides a more supportive environment for the scaling up of the EU's manufacturing capacity in clean-tech. The plan is based on four pillars: a predictable and simplified regulatory environment, speeding up access to finance, enhancing skills, and open trade for resilient supply chains. With the European Innovation Agenda, the EU has sought to position Europe at the forefront of the new wave of deep tech innovation and start-ups. At the same time, the EU Member States are also currently

amending their national recovery and resilience plans to include REPowerEU Chapters, which is a crucial opportunity to provide immediate support to companies and boost their competitiveness, while reducing dependencies.

While these bridging solutions provide fast and targeted support, the EU needs a more structural answer to the investment needs of its industries to preserve a European edge on critical and emerging technologies relevant to the green and digital transitions, from connectivity and computing-related technologies, including microelectronics, quantum computing, 6G, and artificial intelligence; to biotechnology and biomanufacturing, and net-zero technologies. The uptake of these investments in the EU will have a significant positive impact on the EU's open strategic autonomy, by reducing its strategic dependencies, while supporting the clean and digital transition.

As a next step, a new Strategic Technologies for Europe Platform (STEP) will reinforce and leverage existing EU instruments for a quick deployment of financial support. The EU has several funds and programmes on- and off-budget to provide support to clean-tech, bio-tech and digitalisation. These instruments include, in particular, the Innovation Fund, InvestEU, Horizon Europe, the European Defence Fund, the Recovery and Resilience Facility and cohesion policy funds. The European Council of 23 March asked to 'ensure a full mobilisation of available funding and existing financial instruments and deploy them in a more flexible manner, to provide timely and targeted support in strategic sectors without affecting cohesion policy objectives.' Leveraging on existing instruments and governance frameworks will speed up the implementation and allow to mobilise higher amounts of financial support.

The STEP will help to direct existing funding towards sovereignty projects and speed up implementation on a subset of areas which will be identified as crucial for Europe's leadership, while safeguarding cohesion and preserving the level playing field in the Single Market. This entails increasing the ceiling from 4% to 10% for using resources from the Recovery and Resilience Facility under InvestEU, which will have a new window dedicated to sovereignty investments. Concerning the cohesion policy funds, which represent the largest single EU policy financed through the EU budget, the Commission proposes a new STEP priority in across all major funds – the European Regional Development Fund, Cohesion Fund and the Just Transition Fund. In line with cohesion objectives and contributing to regions' competitiveness in the Single Market, the Commission proposes to support STEP investments in enterprises other than SMEs, which can make a significant contribution to the development of less developed and transition regions, as well as in more developed regions of Member States with a GDP per capita below the EU average. Under those funds, the Commission also proposes a 30% pre-financing in 2024 to incentivise uptake as well as an increase of the EU co-financing to 100% for European STEP projects. At the same time, managing authorities can take the opportunity to address labour shortages and promote attractive and accessible quality jobs.

The STEP should also be supported by reinforcements of selected programmes. In the case of InvestEU, this will enable the creation of a new policy area ('fifth window') aimed at supporting sovereignty investments. The resources will provide guarantees to **implementing partners** to enable investments in the sovereignty sectors through debt (including guarantees) and equity financial products for companies, including SMEs, and projects in the sectors supported by the STEP. InvestEU will leverage additional investment, particularly from the private sector, by addressing market failures and sub-optimal investment situations experienced in the sectors targeted by the STEP. Member States are encouraged to provide resources to InvestEU Member State compartments to support financial products in line with the STEP objectives.

The Innovation Fund is one of the key instruments at EU level that targets the demonstration of innovative low carbon technologies and the scaling up of clean tech manufacturing. It is therefore Europe's key instrument to gear up its green industrial strategy while preserving cohesion objectives. Increasing its fire power and creating synergies with other funding streams through the Seal of Sovereignty will be an essential part of the EU answer in the face of the global race for clean tech manufacturing and the climate neutral transition for industries. To accelerate the deployment of net-zero and innovative technologies throughout the Union, the Innovation Fund will be equipped with additional resources that will be earmarked for Member States whose GDP per capita is below the average of the European Union for the period 2015 – 2017.

A top-up for the European Innovation Council under Horizon Europe will support game-changing innovation, from the early-stage research to start-up and scale-up.

The European Innovation Council (EIC) Accelerator will provide equity-only support between EUR 15 and 50 million to non-bankable high-risk SMEs, including start-ups, and non-bankable high-risk small mid-caps, scaling up breakthrough innovation in the critical technologies supported by the STEP. Such investments, through a new STEP compartment of the EIC Fund will leverage private investments and may be supplemented with complementary financing provided by the EIB Group and/or Member States, using the ample possibilities to support risk finance under State aid rules. Complementarity between the EIC Fund and InvestEU will be ensured as the EIC Fund will only invest in companies with an investment risk profile complementary to InvestEU support. EIC Fund investments aim to leverage around five times in additional co-investments from other equity investors and be complemented by additional financing from the EIB Group. Furthermore, the Commission invites the EIB to continue to provide investment advice to the EIC Fund to ensure high quality deals and attract additional co-investment; and the Commission will consider expanding the current scope of this advice.

The global landscape has changed. Russia's unprovoked aggression shows that it poses and will continue to pose in the coming years a threat to the security of Europe. Therefore, the STEP will reinforce the European Defence Fund, which will boost the innovation capacity of the European defence technological and industrial base, thus contributing to the Union open strategic autonomy. The top-up of the European Defence Fund will be used for actions focused on deep and digital technologies that can significantly boost the performance of future capabilities throughout the Union, aiming to maximise innovation and introduce new defence products and technologies.

The STEP will also promote synergies amongst existing instruments. The additional flexibilities proposed under the STEP will enable Member States to finance projects from cohesion policy funds, either on a tand-alone basis or in combination with other EU funds, for instance by using the benefits of the proposed 'Sovereignty Seal'. In that respect, Member States will be able to directly grant support from the European Regional Development Fund and the European Social Fund+ to projects having been awarded a Sovereignty Seal.

The Commission is also working to maximise synergies between the rules of the Innovation Fund and the State aid rules to ensure a more streamlined process. The Commission will further align criteria and streamline processes to ensure that the decision on State aid is taken at the same time as the funding decision for the Innovation Fund, provided a complete notification by the Member State occurs in due time. Such synergies are also being assessed for other selected EU instruments, including the EIC Fund. The Commission will also consult Member States on a proposal to enable higher rates of aid via a bonus for projects within the scope of STEP in assisted regions to spur further economic development, while preserving cohesion

objectives. A new ‘One-Stop-Shop’ will be created to steer the new priorities at three levels: (i) within the Commission, it will prepare relevant guidance to provide strategic direction and coordinate the fulfilment of the STEP prioritisation in the Commission’s work programmes and investment decisions of the various instruments; (ii) as an entry point for project promoters seeking EU funds for investments, thereby centralising information on the funding opportunities and implementation of all relevant financial instruments at EU and national level; (iii) finally, it will assist the Member States by providing advice on regulatory issues and uphold two-way communication with the designated national authorities, ensuring adequate coordination and promotion of critical investments in EU countries.

While the STEP relies on the reprogramming and reinforcement of existing programmes for supporting strategic investments, it is also an important testing ground for further steps towards a European Sovereignty Fund.

The Commission proposes the creation of a new instrument (STEP Platform), leveraging on existing programmes such as InvestEU, Innovation Fund, Horizon Europe, European Defence Fund, Recovery and Resilience Facility, and cohesion policy funds.

To boost the investment capacity dedicated specifically to promoting STEP investments, the Commission further proposes to allocate EUR 10 billion to targeted programmes:

- EUR 3 billion for InvestEU, resulting in EUR 75 billion of investments given the 40% provisioning rate and an average multiplier of 10;
- EUR 0.5 billion to Horizon Europe, complemented with EUR 2.1 billion of redeployment and use of decommitted amounts, resulting in EUR 13 billion of investments with an average multiplier of 5;
- EUR 5 billion to the Innovation Fund, which implementation so far shows could result in some EUR 20 billion of investments;
- EUR 1.5 billion to the European Defence Fund, which could result in up to EUR 2 billion of investments.

On the basis of these funds alone, STEP could result in an estimated EUR 110 billion of new investments.

In addition, this Platform will allow to direct existing funding towards STEP sovereignty projects and speed up implementation on a subset of areas which will be identified as critical for Europe’s leadership. By providing financial incentives in cohesion policy funds in the form of higher pre-financing and co-financing, Member States are encouraged to reprioritise their programmes. Every 5% of reprogramming towards STEP priorities leads to EUR 18.9 billion of resources made available, in addition to EUR 6 billion to be paid out from the Just Transition Fund.

Across programmes, the Commission proposes a ‘Sovereignty Seal’ to be awarded to projects contributing to the objectives of the STEP Platform, provided that the project has been selected under Horizon Europe, the Digital Europe programme, the European Defence Fund, the EU4Health programme, or the Innovation Fund. The Seal will be used as a quality label to help attract investments and will also enable a project not receiving funding under one programme due to lack of funding to have better access to funding in other instruments. The increase of the ceiling under the RRF to use resources for InvestEU products via its national compartments represents an additional flexibility for Member States of EUR 30 billion potentially available for such sovereignty investments.

Altogether, the total estimated amount of new investments through STEP could reach up to EUR 160 billion.

To implement these changes, the Commission proposes to increase the ceiling of Heading 1 by EUR 3.5 billion, Heading 3 by EUR 5 billion and Heading 5 by EUR 1.5 billion.

Technical adjustments to the new economic realities

(i) *A sustainable solution for NextGenerationEU funding costs*

The Commission set up a solid borrowing and lending programme underpinned by a reliable payments, settlement, and accounting infrastructure in a short period of time. This infrastructure provides the capacity for managing the borrowing related to several current and any relevant future EU policy programmes in line with international best practices. Financing EU programmes through joint EU issuances required a significant upgrade of the Commission's debt management architecture. The appropriateness of EU's funding method in meeting the NextGenerationEU needs was confirmed by ECA's special report on NextGenerationEU debt management⁷ which noted that the Commission's debt management procedures enabled borrowing of the required funds on time, in compliance with regulatory limits and at costs corresponding to its market position. Under NextGenerationEU alone the Commission will borrow up to around EUR 800 billion by end of 2026, with further issuances after that date due to refinancing needs. Out of this amount, up to EUR 420 billion will be used for the provision of non-repayable support for which the budget will cover the debt servicing costs. The Commission continues to develop further its debt management capacity, with a particular focus on strengthening demand by developing the secondary market liquidity and infrastructure to ensure the best possible price for the benefit of the budget and all EU Member States.

The success of the EU funding programme to date is reflected in a strong investor confidence in the credit strength of the EU as an issuer and in investor interest in EU bonds, including green bonds. As of end May 2023, the EU has EUR 394 billion of bonds outstanding, with the majority of bond proceeds allocated to NextGenerationEU.

Since 2022, financial markets experienced a sharp rise in interest rates as a result of tighter monetary policies to curb inflation. Funding costs substantially increased for all bonds issuers, including for the EU. The 10-year EU bonds interest rate increased from about zero at the time of the first bond issuance for NextGenerationEU in 2021 to more than 3%. As a result, the full 2021 – 2027 envelope of EUR 14.9 billion to cover the financing costs is expected to be used by the summer of 2023. The volatility of interest rates is much higher than what could have been expected at the time of adoption of the Multiannual Financial Framework, which makes fixed multiannual ceilings ill-suited for expenditure related to borrowing costs.

In such a context of high volatility in financial markets, the EU budget should have the necessary flexibility to cater for increasing borrowing costs. While the existing legal framework provides for the necessary mechanisms to ensure that the Union will always cover its obligations towards bondholders in all circumstances, the EU budget should be equipped with the means and tools to pay its debt in the most efficient manner.

⁷ European Court of Auditors, 'Special report 16/2023: NGEU debt management at the Commission – An encouraging start, but further alignment with best practice needed', published 12 June 2023, available at <https://www.eca.europa.eu/en/publications/SR-2023-16> (accessed 15 June 2023)

A new special instrument is thus proposed for the sole purpose of covering the additional costs related to NextGenerationEU borrowing. NextGenerationEU financing will remain covered under the Multiannual Financial Framework ceilings. The budgetary technique to address the interest volatility would be a new special instrument, over and above the ceilings, to cover exclusively the cost overruns in relation to the planned amounts for NextGenerationEU borrowing. Its mobilisation would be activated during the budgetary procedure based on a best-effort forecast.

The Commission proposes a new special instrument, over and above the ceilings of the Multiannual Financial Framework, to cover the additional NextGenerationEU funding costs. The new special instrument will be limited to the NextGenerationEU funding costs in excess of the amounts initially programmed for 2021 – 2027. This will allow for a timely provision of additional budgetary appropriations in case of increases for covering the cost of interest expenditure.

- (ii) *Maintaining a functioning administration to deliver on the EU's political priorities*

The resources of the European administration (heading 7) are under severe pressure due to additional tasks given to the Union, rising energy prices and high inflation.

The numerous new initiatives introduced over the last two years have given substantial additional tasks to the Union since the start of this Multiannual Financial Framework without a corresponding increase in staff. The new geopolitical reality is adding to that. In addition to the coordination of financial, humanitarian and military support to Ukraine, examples include the Inter-operability, Cybersecurity, Secure Connectivity, Schengen evaluation and monitoring mechanism, European Peace Facility, Digital Markets Act und Digital Services Act, the Health Emergency Preparedness and Response Authority, Fit-for-55 package (including the Carbon Border Adjustment Mechanism), REPowerEU, or the EU Energy Platform. These new initiatives would translate, for the Commission, into 600 additional establishment posts until 2027, as shown in the Legislative Financial Statements accompanying the legal proposals. When considering also the other institutions and cybersecurity related needs, this would amount to 885 additional posts. This has pushed the resources of European administration to the limit. The European administration will not be able to continue delivering on an ever-increasing number of tasks with the current level of resources.

The Commission has made exceptional efforts to reduce administrative costs and intends to continue applying structural changes. The Commission redeployed more than 900 posts internally since 2019, including through a major effort to modernize existing services, making them leaner and more efficient, but possibilities for savings have been exhausted. New working methods have been introduced and a new building policy, covering the 2022 – 2030 period, has been developed around a smarter use of spaces, replacing the office standard settings to optimise surface used.

Even though the significant volatility of the macroeconomic data poses an objective difficulty in the appropriate predictions and effectively hampers any long-term planning for Heading 7, virtually all currently available forecasts indicate that the level of appropriations as agreed in December 2020, which was based on 2% annual deflator, are insufficient and require reinforcement.

To meet the Institutions' legal duties and to handle the additional responsibilities assigned by the co-legislators to the Commission, it is necessary to raise the ceiling of Heading 7 by EUR 1.9 billion.

(iii) *Equipping the EU budget with flexibility for unforeseen needs*

Three fourths of the 2021 – 2027 margins have been used. For the years 2024 – 2027, only about EUR 1.4 billion remain in total, including past margins in the Single Margin Instrument, and the situation in several headings is precarious. At this stage of the programming period and in a most volatile environment, the low level of margins is unprecedented which risks putting more pressure on the Flexibility Instrument than what was originally planned for. The Flexibility Instrument is in fact the only possibility to support any type of additional needs or crises irrespective of their nature. Fulfilling this objective, it will be fully used in 2021 – 2024 by EUR 4 billion, leaving no amounts to carry over to following years. Given the high pressures in the different headings, the Flexibility Instrument will play a crucial role to ensure that the EU budget can deliver.

The Union's budget needs to be equipped to respond to unforeseen needs that may arise. Since budgetary margins are very limited for the rest of the Multiannual Financial Framework, the Flexibility Instrument should be increased by EUR 3 billion.

(iv) *Sustainability of the payments ceiling*

Multiannual Financial Framework payments are expected to peak in 2026 and 2027 as in previous programming periods – albeit compounded by the delays given the late adoption of the relevant legal acts. In order to ensure that the proposed increases can be fully matched by payments availabilities, the relevant Multiannual Financial Framework ceiling should be increased.

The Union's budget needs to be able to honour its commitments with a sufficient level of payments. Hence, the payments ceiling for 2026 should be increased by EUR 7.7 billion in 2018 prices and for 2027 by EUR 2.8 billion in 2018 prices, equal to 50% of the proposal to increase the ceiling for commitments in 2018 prices.

4. CONCLUSIONS AND NEXT STEPS

The current availabilities in the EU budget are no longer sufficient to address the most urgent challenges that the EU is facing, let alone possible future needs in the coming years. Against this background, **this Communication proposes a limited, targeted and balanced revision of the 2021 – 2027 Multiannual Financial Framework** to ensure that the EU budget can deliver in the coming years.

This Communication is accompanied by the following documents:

- A Commission Staff Working Document providing a **detailed analysis of the implementation of the Multiannual Financial Framework 2021 – 2027** (SWD(2023)336);

- A proposal amending Council Regulation 2020/2093 laying down the **Multiannual Financial Framework** for the years 2021 to 2027, as amended by Council Regulation Council Regulation 2022/2496 of 15 December 2022⁸ (*COM(2023)337*);
- A proposal for a Regulation of the Council establishing the **Ukraine Facility** (*COM(2023)338*);
- A proposal for a Regulation of the European Parliament and of the Council establishing the **Strategic Technologies for Europe Platform (STEP)** (*COM(2023)335*);

Given the urgent budgetary constraints, which will already materialise in 2024, **the Commission calls on the European Parliament and Council to ensure that this package is in force on 1 January 2024**, in line with the procedures set in the Treaties. The Commission will do everything in its power to make a swift agreement possible.⁹

⁸ OJ L 433I, 22.12.2020, p. 11–22 and OJ L 325, 20.12.2022, p. 11–12.

⁹ Finally, the decision of the legislator as regards the Social Climate Fund as adopted on 10 May 2023, and the fact that the opportunity of setting up a mechanism for an early repayment of the principal of NextGenerationEU borrowing has waned in the light of the sharp rise of interest rates, make the proposals contained in COM(2021)569 obsolete. The Commission will thus withdraw its 2021 proposal in 2024.

Annex 1 – Overview table

<i>Political Priorities</i>	
Ukraine Facility (loans and grants)	50.0
Loans	33.0
Grants	17.0
<i>Migration and external challenges</i>	15.0
Migration	2.0
Syrian refugees (Syria, Jordan, Lebanon)	1.7
Southern migration route (Neighbourhood South line)	0.3
NDICI Cushion	3.0
Syrian refugees (Turkey)	3.5
Western Balkans	2.0
Solidarity and Emergency Aid Reserve	2.5
<i>Strategic Technologies for Europe Platform</i>	10.0
Innovation Fund	5.0
InvestEU	3.0
European Innovation Council under Horizon Europe (**)	0.5
European Defence Fund (EDF)	1.5
<i>Technical Adjustments</i>	
Total Administration	1.9
EURI Instrument	18.9 (***)
Flexibility Instrument	3.0

(*) In addition, EUR 0.6 billion of redeployments withing NDICI Eastern Neighborhood will contribute to increase support to Moldova and provision for MFAs

(**) In addition, EUR 2.1 billion of redeployments will increase the contribution within European Innovation Council: EUR 0.8 billion from transfer from pillar 2 to pillar 3 of EIC; EUR 1.2 billion of recycling and EUR 0.1 billion from use of reflows

(***) Indicative amount based on market forecasts of 16 June 2023. Based on the different assumptions for the evolution of the interest rates used by the largest European Debt Management Offices this amount could range from EUR 17 billion to EUR 27 billion.

Annex 2 – Financing Ukraine Facility- overview



Annex 3 – Strategic Technologies for Europe Platform (STEP)

