The Multiannual Financial Framework

The long-term budget of the European Union is known as the multiannual financial framework. But what exactly is its purpose? Well, the framework allows the EU to plan and invest in long-term projects and sets the limit on how much money the EU can invest in different policy areas. This budget not only helps cities, regions and businesses, but also millions of students, thousands of researchers, as well as NGOs. It contributes to healthier and safer food, new and better roads, railways and airports, a cleaner environment and better security at the EU's external borders.

You are listening to 'Raising the Game: Better Legislation', and in this episode, we will be discussing the multiannual financial framework.

The multiannual financial framework, or MFF, is essentially the European Union's long-term budget plan. It sets the spending priorities and limits for the EU for several years, currently seven, ensuring that the EU's financial resources are in line with its political and economic goals. The MFF sets out the structure for annual budgets and helps balance the competing interests of EU countries.

The long-term budget allocates financial resources across a variety of areas, including funding for less developed regions, subsidies and rural development, humanitarian aid and investments in the green and digital transitions, and in EU foreign policy.

Let's start with a bit of history. The European Economic Community and the European Atomic Energy Community were both established in 1957 by the Treaties of Rome. They were financed through contributions from the Member States. In 1970, the Own Resources Decision provided the European Economic Community with its own resources. The concept of the MFF was developed in response to a series of budget crises in the 1980s, when the Council and the European Parliament were not able to agree in time on the budget for the following year. The first interinstitutional agreement on a multiannual financial plan was concluded in 1988. But it was only the Treaty of Lisbon, which came into force in 2009, which transformed the interinstitutional agreement into the multiannual financial framework, a legally binding act.

The current MFF runs from 2021 to 2027, setting the EU's budget at over 1.2 trillion euro. This budget supports the EU's priorities, such as the green transformation, digital innovation and post-pandemic recovery.

Creating the current long-term budget was a complex process. When negotiations began in 2018, the EU was facing several major challenges such as the UK's withdrawal from the EU and the need to fund new priorities like climate action and digital infrastructure.

Then the COVID-19 pandemic broke out. After intense negotiations, the MFF was agreed upon at the end of 2020. It was coupled with the NextGenerationEU recovery fund, which amounted to 750 billion euro at the time, to rebuild the EU economies hit hardest by the pandemic. NextGenerationEU was a game-changer, introducing a mix of grants and loans to support EU countries.

The current MFF sets out the EU's spending priorities for 2021 to 2027. The main areas of focus include the green and digital transitions. Significant funding is earmarked for climate initiatives, and the EU aims for at least 30 % of funds from the budget and NextGenerationEU to finance climate-related objectives.

Not only does the EU support the green and digital transitions, it also provides financing to ensure that all EU regions benefit from growth, through mechanisms such as the Recovery and Resilience Facility, which is the centrepiece of NextGenerationEU, as well as the Cohesion and European Regional Development funds.

Research and innovation are also at the heart of the long-term budget, with the EU aiming to strengthen programmes such as Horizon Europe. Part of the funding is also allocated to defence and external relations, boosting the EU's capacity in terms of security and international cooperation.

The MFF has remained adaptable and flexible as new challenges like inflation, energy crises, and geopolitical tensions have arisen.

In February 2024, the multiannual financial framework was revised in response to evolving political and economic circumstances. The changes were driven by the need to adjust for inflation, and also by the war in Ukraine, which put new pressure on EU resources. Energy crises and increased defence spending also meant that changes to the budget were needed. The EU decided to allocate additional resources to strengthen EU defence and support Ukraine amid the ongoing conflict.

Costs in various sectors, especially energy and infrastructure, have been rising. To account for this, the EU made inflation adjustments. It also reaffirmed its commitment to the green transition and technology investments, with more funds directed towards renewable energy and digital infrastructure.

The multiannual financial framework is not decided upon solely by EU countries. It is subject to a rigorous approval process in which the European Parliament plays a crucial role. Here's how it works.

The MFF is adopted under a special legislative procedure. Parliament must give its consent before the Council acts. As one of the three main EU budgetary institutions, Parliament must also ensure that expenditure in the EU's annual budgets complies with the ceilings set out in the MFF.

Furthermore, Parliament reviews each section of the budget to make sure that funding is in line with EU goals like climate action, innovation and social cohesion. Parliament also has a decisive role to play in any mid-term reviews or revisions of the framework, such as the changes made in February 2024, ensuring that the EU's spending continues to reflect its evolving priorities.

In short, while EU countries often dominate MFF discussions, the European Parliament has substantial influence in shaping the outcome, ensuring that it reflects the needs of the public and the EU's long-term goals.

As the EU continues to face new challenges, from geopolitical tensions to economic pressures, the multiannual financial framework will remain key to finding the way forward. The recent 2024 revision shows how the framework must adapt to ensure stability and growth for all EU countries while addressing global crises.

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