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# THE FUTURE OF THE EU BUDGET AFTER 2027

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## Abstract

The paper examines the future of the multiannual financial framework (MFF) of the European Union after 2027, with a particular focus on the implications for the Republic of Croatia. The current budgetary framework for 2021-2027 was marked by the introduction of the Next Generation EU (NGEU) instrument, financed by joint borrowing to mitigate the consequences of the COVID-19 crisis and strengthen economic resilience. Future budgetary challenges include the need to secure funds to start repaying the NGEU debt, growing demands in the areas of defence, migration, and the green transition, and the need to reform the EU's own resources system to increase the EU's budgetary autonomy. Announced changes to the future budget include simplifying the structure by consolidating programmes, increasing flexibility, and focusing more on results. The introduction of new revenue sources, such as the Carbon Border Adjustment Mechanism (CBAM) and the EU budget's share of the revenues from the sale of emission allowances, is essential for the sustainability of the EU budget.

The Republic of Croatia stands out as one of the largest (relatively speaking) net recipients of funds from the EU budget, with a ratio of funds received to payments exceeding 4:1 in 2014-2023, while this ratio is further increasing after the introduction of the NGEU. However, due to the imminent end of the NGEU and the possible reduction of funds for the cohesion and common

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agricultural policies, its favourable position in the future MFF is expected to weaken. The Republic of Croatia also faces the challenge of strengthening its participation in programmes under the direct management of the European Commission (EC), in order to compensate for a possible decrease in funds from the cohesion and common agricultural policies.

## Introduction to the EU budget

The multiannual financial framework (MFF) is the name given to the multiannual budget of the European Union (EU). The MFF is adopted for a period of seven years, which is directly linked to long-term planning and stability in the implementation of EU priorities. The MFF contains broadly defined budget categories that serve as a framework for establishing the detailed annual EU budgets. The MFF finances the implementation of common EU policies such as cohesion and common agricultural policies (CAP). The EU budget also often serves as a source of funds for crisis response, as was most evident in the COVID-19 pandemic and, most recently, in the crisis caused by the war in Ukraine.

The European Commission, as the only EU institution authorised to propose new laws, proposes a new MFF, which includes an MFF regulation and a decision on own resources. After the European Parliament has given its opinion on the European Commission's proposal, the European Council, as one of the key institutions alongside the Council of the EU in establishing the MFF, prepares the negotiating framework. The negotiations are led by the country holding the EU presidency, whose main task is to consider the Member States' different opinions, reconcile them, and propose compromise solutions accordingly. Once the European Council has approved the MFF proposal, the Council of the EU and the European Parliament adopt the MFF Regulation through a special legislative procedure. The adoption of the MFF is one of the few areas for which the EU Council makes a decision unanimously, i.e. with the consent of all Member States, and this method of decision-making is used for particularly sensitive issues such as the common foreign and security policy or the membership of a particular country in the EU.

The EU budget is relatively small compared to national budgets. For example, in 2014-2020, the average annual EU budget amounted to around 2% of the value of the budgets of all Member States. Regarding the budget's share in gross domestic product (GDP), the EU budget represents only 0.9% of the European Union's GDP. In comparison, general government expenditure in the GDP of Member States in 2019 amounted to around 47% of GDP on average. The difference in the relative size of the national and EU budget partly reflects differences in the expenditure structure. While the EU budget is primarily focused on financing investments, national budgets are mainly focused on financing public services and social security funds.

Although relatively small compared to national budgets, the adoption of the MFF is one of the most complex issues on which Member States have to reach an agreement. The positions of Member States and the EU Parliament regarding the size and structure of the EU budget are often quite different, which is why negotiations between the stakeholders involved take a very long time. This overview presents the key points that will be the subject of intensive discussions and negotiations on the new MFF for the period after 2027. The outcomes of these negotiations are of utmost importance for the Republic of Croatia, given that the EU budget is a key source of public investment and plays a vital role in stimulating private sector investment.

## The MFF structure

According to Council Regulation (EU, Euratom) 2020/2093, the planned MFF for 2021-2027 amounted to EUR 2,018 billion, of which EUR 1,211 billion is the "standard" VFO financed through regular budget revenues, while EUR 807 billion is set aside for the New Generation EU (NGEU) instrument, which is funded through borrowing (Council of the European Union, 2020b). After the revision in February 2024, the MFF was increased by an additional EUR 64.6 billion, to provide additional funding for: aid to Ukraine, investments in the European Defense Fund, increased costs of the Next Generation EU instrument, and for EU migration policy (Consilium, 2024).

The MFF for the financial period 2021-2027 is divided into seven large budget units, or budget headings, which are sometimes divided into subheadings. Each heading, or subheading, has fixed expenditure limits or "ceilings" of permitted expenditure. The main objective of these limits is, on the one hand, to improve the management of the EU budget by strengthening budgetary discipline, and on the other hand, to ensure adequate financial resources for areas that have been identified as priorities. However, the consequence of such an approach is less flexibility in the EU budget if the need to finance new, or previously unplanned, expenditures arises over the next seven years. The following table shows the structure of EU budget expenditure with and without the NGEU.

*Table 1: MFF structure for 2021-2027*

| | Without the NGEU | Share in total expenses | With the NGEU | Share in total expenses |
|---|---|---|---|---|
| 1. Single Market, Innovation and Digital | 149,5 | 12,3% | 161 | 8,0% |
| 2. Cohesion, Resilience and Values | 426,7 | 35,2% | 1.203,2 | 59,6% |
| 3. Natural Resources and Environment | 401 | 33,1% | 419,9 | 20,8% |
| 4. Migration and Border Management | 25,7 | 2,1% | 25,7 | 1,3% |
| 5. Security and Defence | 14,9 | 1,2% | 14,9 | 0,7% |
| 6. Neighbourhood and the World | 110,6 | 9,1% | 110,6 | 5,5% |
| 7. European Public Administration | 82,5 | 6,8% | 82,5 | 4,1% |
| | **1.211** | **100,0%** | **2.018** | **100,0%** |

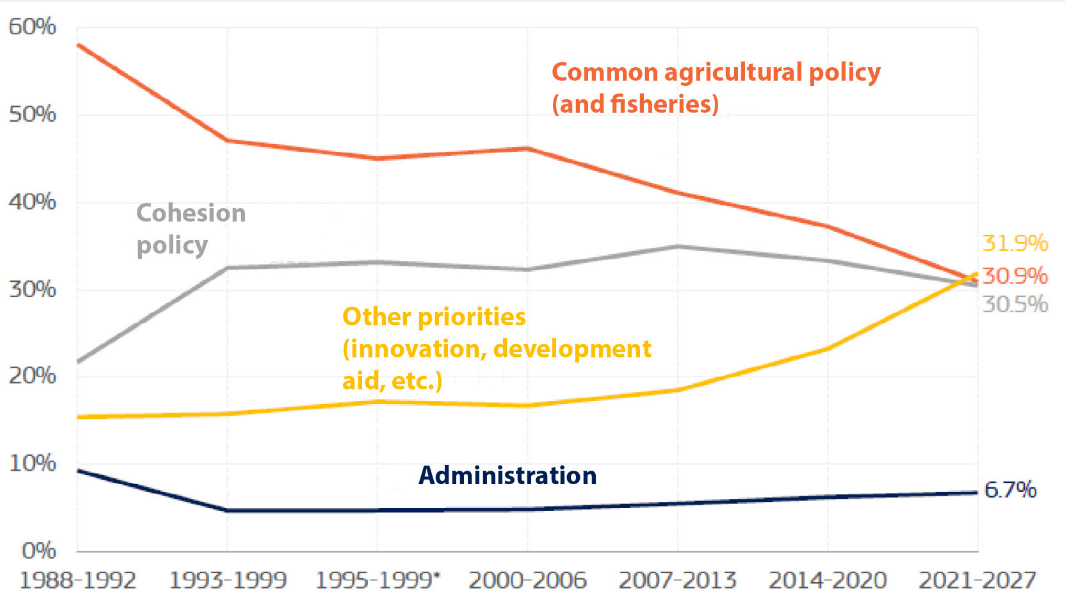
Source: author's processing based on EC data

The largest amount available is for the heading "**Cohesion, resilience and values**", which mainly refers to investments related to the cohesion policy. The next heading in terms of importance is "**Natural resources and environment**", which relates primarily to the common agricultural policy (CAP) and the common fisheries policy. This part of the budget supports farmers through direct payments and the so-called market measures, as well as investments in rural development. In addition, investments in the development of fisheries are financed, with special emphasis on the sustainability of fishing. Also, a part of the funds is allocated for the implementation of the LIFE program, which finances investments in projects that contribute to the preservation of the environment and the fight against climate change, and to the Just Transition Fund, whose goal is to mitigate the adverse socio-economic effects of the transition to EU climate neutrality on individual regions. These two headings account for almost 70% of the budget, not counting funds from the NGEU, that is, over 80% of the budget when the NGEU is added.

The third most important budget heading is the "**Single Market, Innovation and Digital**", which finances budget programmes intended to stimulate research and innovation ("Horizon Europe"), programmes for better transport, energy and digital connectivity of the Member States ("Connecting Europe Facility"), programmes to stimulate investment through financial instruments ("InvestEU Fund"), programmes intended to strengthen the single market (customs, taxation, consumer rights, etc.), and other programmes. A significant share of the total budget is also held by the "**Neighbourhood and the World**" heading, used for financing humanitarian and development assistance provided by the EU to third countries, as well as pre-accession assistance to candidate and potential candidate countries for EU accession.

**If NGEU funds are added to total expenditure, then there is a significant change in the structure of spending in the sense that the share of the heading "Cohesion, Resilience and Values" increases from 35.2% to 59.6%**, while the share of all other headings in total expenditure drops significantly. Given the high similarity of projects financed under the cohesion policy and through the NGEU, this way of structuring expenditure is logical and indicates an exceptionally strengthened investment power of the EU budget, thanks to the NGEU. The structure of the EU budget is not static, and certain changes are recorded over time, reflecting changes in the political priorities of the Union. The movement of the share of key budget categories can be seen in the following figure.

*Figure 1. Key MFF categories across budget periods (excluding the NGEU)*



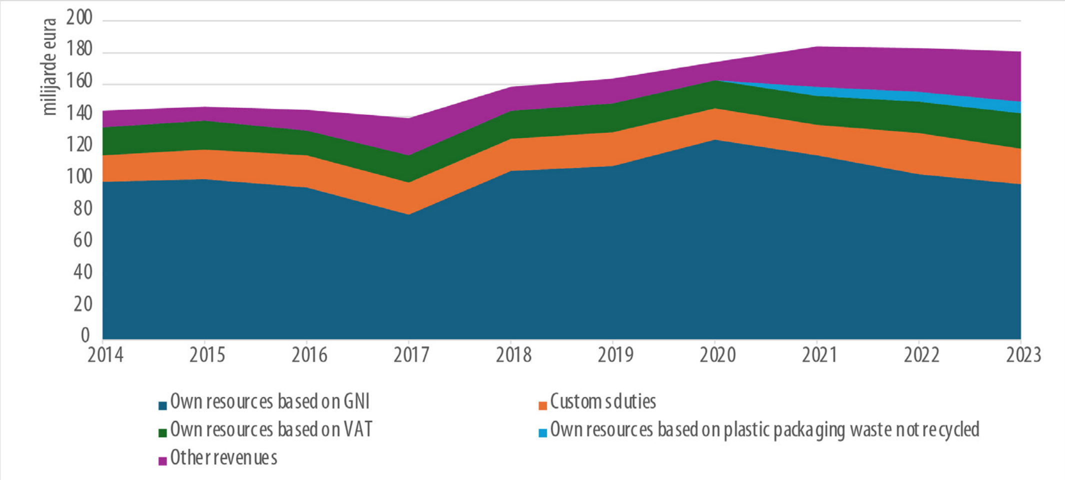

Source: European Commission & Directorate-General for Budget (2021)

The most significant changes relate to the decline in the share of the common agricultural policy, which has been reduced from almost 60% to around 30% of the budget. Another important change relates to the growing share of other priorities, which include research and development, humanitarian and development aid, migration policy and others. As for the cohesion policy, its share has been relatively stable and around a third of the total budget since the 1990s.

The revenue side of the EU budget is mostly made up of so-called own resources. Own resources are divided into four categories: revenue from customs duties (1); value added tax (VAT) revenue (2); payments by Member States calculated on the basis of gross national income (GNI) (3);

and a national contribution based on the amount of unrecycled plastic packaging waste in a Member State, which was introduced as a source of revenue on 1 January 2021 by Council Decision (EU, Euratom) 2020/2053 (4). Other revenue consists of various specific sources such as surpluses carried over from the previous year, contributions from non-EU countries (e.g., the United Kingdom), refunds from various EU programmes, fines for breaches of EU regulations, etc. The dynamics of the budget revenue structure are shown in the following figure.

*Figure 2. EU budget revenues, 2014-2023*




*Source: authors' processing based on EC data (https://commission.europa.eu/strategy-and-policy/eu-budget/long-term-eu-budget/2021-2027/spending-and-revenue_en)*

The EU budget's revenue largely depends on payments from Member States based on GNI, which accounted for an average share of 63.8% of total revenue from 2014 to 2023. Revenues from customs duties, VAT, and other revenues have similar average shares, amounting to 12.6%, 11.3%, and 11.2%. The newly introduced contribution based on the amount of unrecycled plastic packaging waste recorded the smallest share, accounting for around 4% of total revenue in 2023.

The high dependence of the EU budget on Member States' payments is highlighted as an important shortcoming, due to which Member States primarily act by looking at the net position of their budget in relation to the EU budget during MFF negotiations, which slows down the process and makes it more difficult to reach an agreement (Begg, 2017; Monti et al., 2016). On the other hand, GNI-based payments directly link the amount of payments to the economic strength of an individual Member State, which reflects a certain level of solidarity between more and less developed

Member States.[1]

Likewise, it is often emphasised that the existing revenue structure does not sufficiently reflect the dedication to achieving key EU goals, i.e. it is emphasised that revenues should have a greater impact on activities that contribute to common European goals, such as those in the field of combating climate change (e.g. through special payments for failure to meet climate goals) or creating as similar business conditions as possible in the common market (e.g. harmonising tax practices among Member States). The insufficient flexibility of the VFO to respond to crisis situations that require significant additional expenditures, as was the case with the need to increase investments through the EU budget after the economic crisis in 2009, or to mitigate the consequences of the migrant crisis, is also recognised as one of the aggravating features of the budget (Becker, 2019).

## Position of Member States regarding the EU budget

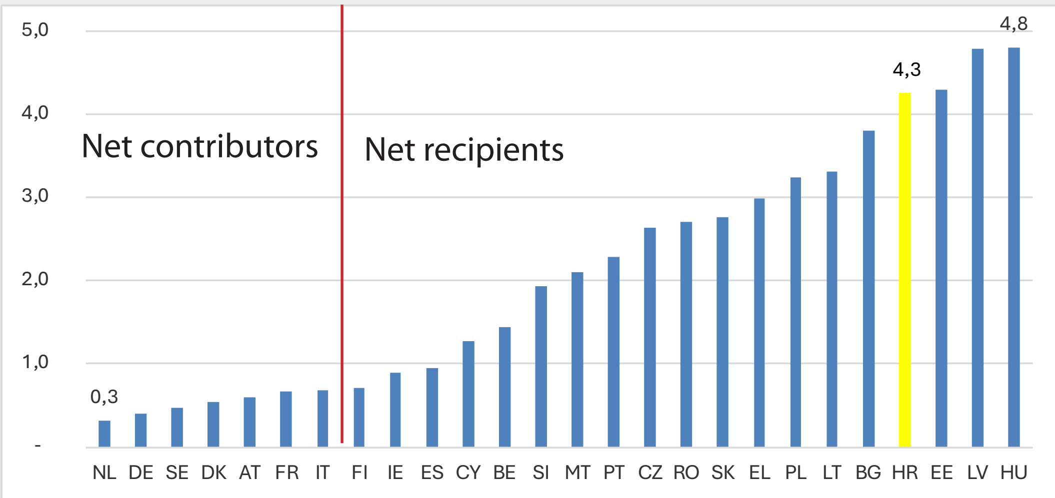
Although the Union budget is relatively modest compared to national budgets, Member States have difficulty agreeing on its size. The differences in the countries' positions are primarily related to the ratio of payments from national budgets to the EU budget and payments from the EU budget to national budgets. When discussing the future of the MFF, Member States are often grouped into two blocs. One brings together the so-called net contributor countries, i.e., Member States that allocate more to the EU budget than they receive from it. In contrast, the other bloc brings together the so-called net recipient countries, meaning Member States that receive more funds than they pay into the EU budget. The first group of countries includes the most developed Member States such as Germany, Sweden, the Netherlands, and Denmark, which, due to their high GNI, also have relatively high amounts of payments. At the same time, due to their high level of development, they benefit less from European policies such as the cohesion policy, which is aimed at less developed Member States. The second group includes mostly less developed Member States, that is, Member States that obtain significant financial benefits from the cohesion policy, and these are mostly the countries that joined the EU after 2004.

1 Solidarity has been partly reduced due to the so-called correction mechanisms, thanks to which some Member States have managed to obtain reduced payment obligations to the EU budget. Although the EC has proposed the complete abolition of correction mechanisms in its legislative proposals for the budget 2021-2027, they are still in force. The mechanism for the period 2021-2027 continues to apply to Denmark, Germany, the Netherlands, Austria and Sweden, and the estimated value of reduced payments on an annual basis is around EUR 7.6 billion.

The following figure shows the extent to which Member States differ in terms of payments from national budgets to the EU and payments from the EU budget to beneficiaries in a particular Member State territory. The differences between Member States are indeed significant. For example, in 2019, almost five times more funds were paid from the EU budget to beneficiaries in Hungary than Hungary paid into the EU budget. On the other hand, three times less funds were paid from the EU budget to beneficiaries in the Netherlands than the Netherlands paid into the EU budget. Croatia is among the countries that receive significantly more funds than they pay into the EU budget (for 2019, this ratio was 4.3 to 1).

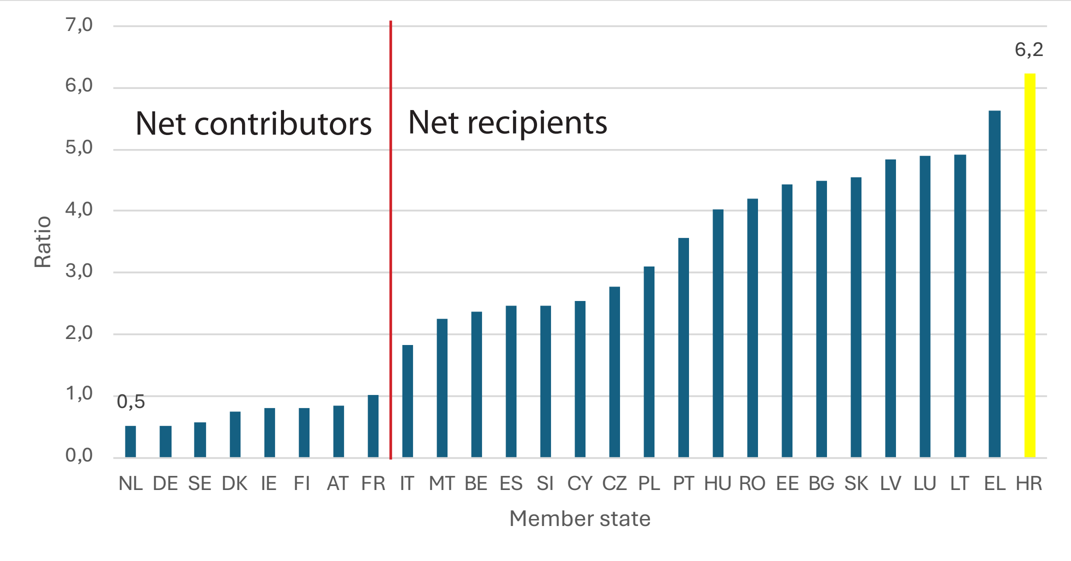
*Figure 3. Ratio of payments received from the EU budget to contributions of Member States to the EU budget in 2019*

Source: author's processing based on EC data (https://commission.europa.eu/strategy-and-policy/eu-budget/long-term-eu-budget/2021-2027/spending-and-revenue_en)




Data for the financial period 2021-2027 indicate certain changes in the financial position of individual Member States, which can mainly be linked to the impact of the NGEU. For example, thanks to the NGEU funds, Italy, France, and Spain became net recipients of funds from the EU budget in the period up to 2023. On the other hand, Member States that were previously in a very favourable financial position, such as Member States of Central and Eastern Europe, improved their position even further thanks to the additional financing achieved through the NGEU. The Republic of Croatia recorded the most significant financial benefits in 2021-2023, receiving as much as EUR 6.2 for every euro paid into the EU budget.

*Figure 4. Ratio of payments received from the EU budget to contributions of Member States to the EU budget from 2021 to 2023*




Source: author's processing based on EC data (https://commission.europa.eu/strategy-and-policy/eu-budget/long-term-eu-budget/2021-2027/spending-and-revenue_en)

The financial position of the Member States in relation to the EU budget is directly linked to the financial management of individual EU programmes. EU budget programmes are implemented through three possible management modes: i) direct management, where the budget funds are managed directly by the European Commission, together with other EU bodies such as executive agencies; ii) indirect management, where the budget funds are managed by international organisations, the European Investment Bank, non-member countries or other bodies listed in the Financial Regulation; and iii) shared management with the Member States, where the EC delegates the management of the programmes to the Member States (i.e. to managing authorities established in the Member States).[2] The largest part of the Union budget is implemented through shared management. According to EC data, from 2014 to 2018, 74% of the total budget was implemented through shared management, 18% through direct management, and 8% through indirect management (European Commission, 2019).[3]

Programmes implemented under the so-called shared management between the Member State and the EC imply the existence of a previously determined financial envelope for the Member State. This is, for example,

2 The complexity of implementing EU programmes is further illustrated by the fact that some programmes apply all three forms of management (see, for example, the management of the Integrated Border Management Fund).

3 European Commission (2019) EU Budget 2018 – Financial Report. EU: Brussels. Available at: https://ec.europa.eu/info/publications/eu-budget-2018-financial-report_en

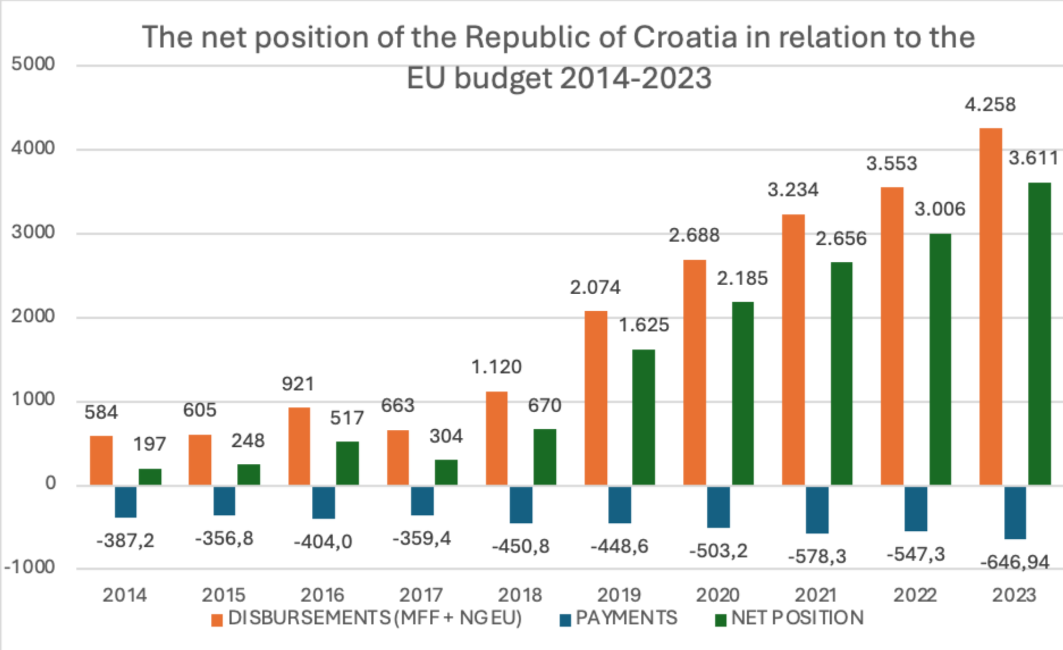
the case with the cohesion policy and the common agricultural policy programmes, where each Member State knows in advance the amount it has at its disposal over the seven-year period of the EU budget. On the other hand, budgetary programmes directly managed by the EC, such as the Horizon Europe programme, generally do not have a pre-allocated national envelope. Instead, funds are allocated through calls for proposals open to applicants from all Member States. Such programmes have a significantly lower budgetary importance for less developed Member States such as the Republic of Croatia, which is mainly related to lower absorption capacities for participation in such demanding programmes and lower motivation of potential beneficiaries to apply, given the generous national envelopes that offer easier access to funds. Therefore, for countries such as the Republic of Croatia, preserving funds within the EU budget for the cohesion policy is a fundamental issue affecting the level of financial benefits.

Data concerning payments to the EU budget and amounts received from the EU budget should not be equated with the total benefits that individual Member States derive from EU membership. Namely, the latter includes a broader concept of benefits from direct budgetary transactions. Among the net contributor countries, there are countries that enjoy very significant benefits from integration, primarily through the export of their products and services to net recipient countries. Empirical research has confirmed that highly developed Member States located in the central part of the EU enjoy the greatest benefits from European integration, while countries on the periphery record significantly fewer benefits (Mion & Ponattu, 2019; Felbermayr et al., 2018). However, the significance of the financial relations between a Member State and the EU budget should not be underestimated, precisely because it continues to be an extremely important factor in the negotiations on the new MFF.

## Position of the Republic of Croatia regarding the EU budget

As previously stated, the Republic of Croatia belongs to the group of net-receiving Member States. According to EC data, from 2014 to 2023, the Republic of Croatia paid a total of EUR 4.68 billion into the EU budget, while it received EUR 19.7 billion from the EU budget, or 4.2 times more than it contributed. The following figure shows the ratio of payments and disbursements for the Republic of Croatia from its first year of membership until 2023.

*Figure 5. Overview of payments and disbursements of the Republic of Croatia in relation to the EU budget for the period 2014-2023*

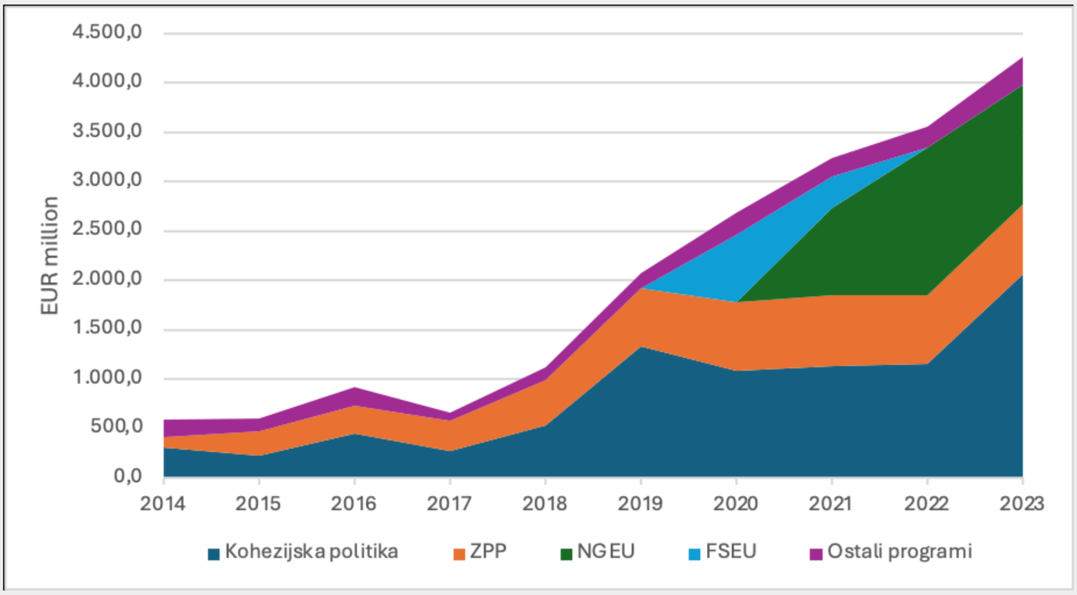



Source: author's processing based on EC data (https://commission.europa.eu/strategy-and-policy/eu-budget/long-term-eu-budget/2021-2027/spending-and-revenue_en)

It is visible that the net position has improved steadily throughout the years, except for a temporary decrease in 2017. Most of the net benefit was achieved in 2019-2023, when the implementation of cohesion policy projects was accelerated and the first NGEU payments were made to implement the National Recovery and Resilience Plan.

As seen in Figure 6, the cohesion and common agricultural policies were key to achieving the Republic of Croatia's favourable financial position in relation to the EU budget. From 2021, payments related to the implementation of the NGEU have played an important role.

*Figure 6. Overview of payment trends for cohesion policy, CAP, and other EU policies*




Source: author's processing based on EC data (https://commission.europa.eu/strategy-and-policy/eu-budget/long-term-eu-budget/2021-2027/spending-and-revenue_en)

Almost 80% of all payments in the 2014-2020 period were related to cohesion and common agricultural policies. In the 2021-2023 period, the share of these two policies in total payments dropped to 58.6% due to significant payments made from the NGEU instrument, which accounted for 32.5% of all the payments in that period. This means that the three aforementioned sources of funding account for as much as 91.1% of all the payments from the EU budget in the 2021-2023 period. Such a high level of dependence on cohesion and agricultural policies, as well as on the NGEU, can be found in several other Member States, such as Bulgaria (92.3%), Romania (96%), Slovakia (95.8%), and Poland (93.8%).

On the other hand, other EU programmes implemented entirely or mainly through direct management, such as Horizon Europe, Erasmus+, the Connecting Europe Facility (CEF), or Creative Europe, have a relatively small financial impact on the Republic of Croatia. For example, in the period 2014-2023, a total of EUR 277.8 million was paid out under the Erasmus or Erasmus+ programme, EUR 187.1 million from the CEF programme, and a total of EUR 156.1 million from the Horizon Europe or Horizon 2020 programme[4]. The Republic of Croatia's participation in the above programmes is significant given that Croatian applicants ought to compete with applicants from across the EU, and the availability of such

4 Horizon Europe is the name of the programme for the period 2021-2027, while for the period 2014-2020 the same programme was called Horizon 2020. For the sake of simplicity, only the name Horizon Europe will be used in the text.

funds is therefore significantly lower[5]. It is imperative to ensure the greatest possible involvement of applicants in the Horizon Europe programme, as it is the largest single programme implemented through direct management and a programme that encourages investment in research, development and innovation, which is of particular importance both for the Republic of Croatia and for the EU as a whole.[6]

## Future of the EU budget

**Reaching an agreement on the new MFF is one of the biggest challenges** for the Member States, the European Commission, and the European Parliament as key stakeholders in the process. It is therefore not surprising that the negotiations take an exceptionally long time, which for the current period 2021-2027 amounted to a record 30 months. The current budget period was marked by the fact that, for the first time since its inception, the EU opted for an extensive borrowing spree to boost investment, especially in Member States facing a lower level of development and the most significant economic downturn during the COVID-19 crisis. Finding a budgetary solution for the new budget period will be particularly challenging: it is necessary to increase investment in priority areas, secure funds for the repayment of the debt incurred by the NGEU which is planned to begin in 2028, and at the same time ensure that the new budgetary expenditure does not (overly) burden the national contribution of the Member States, which would undoubtedly cause great resistance from net contributing countries. An additional burden arises from the rising debt servicing cost due to increased market interest rates in recent years. Estimates of the cost of repaying the NGEU in the period 2028-2034 range between EUR 25 and 30 billion per year (European Commission, 2025). Additional needs for financing through the EU budget arise from several documents published in 2024 and 2025, in particular the report by Mario Draghi on strengthening the competitiveness of the EU and the report prepared by Sauli Niinistö on strengthening the EU's defence and security capabilities (European Commission, 2024a; European Commission, 2024b).

**As a solution to finance new budgetary needs, the European Commission**

5 The mechanism is applied for selected goods in the case no similar system exists where producers need to pay compensation for greenhouse gas emissions released during production in the country of origin.

6 As an illustration of the capacity to participate in the Horizon Europe programme, the Republic of Croatia received a total of EUR 15.4 per capita in payments in the period 2021-2023, while Slovenia received EUR 80.6 per capita. In other words, Slovenia has a 5.2 times higher absorption capacity than the Republic of Croatia when it comes to the Horizon Europe programme.

**proposes the introduction of new sources of own resources**, which it proposed in December 2021 and updated in June 2023. The proposals are:

4. Introduction of a carbon border adjustment mechanism,
5. Allocation of 30% of revenues from greenhouse gas emissions trading (ETS) to the EU budget,
6. Contribution of Member States based on companies' gross operating profit (0.5% of gross operating profit).

Of the proposed new revenues, Regulation 2023/956 (CBAM Regulation) introduced the EU Carbon Border Adjustment Mechanism (CBAM) from 1 October 2023, which should fully enter into force in January 2026. This mechanism should provide additional revenue to the EU budget by collecting a fee (through the purchase of so-called CBAM certificates) for products imported from third countries that are recognised as carbon-intensive, with 75% of the revenue collected being directed towards the EU budget.[7] This new revenue is expected to provide around EUR 1.5 billion per year for the EU budget, which covers only a small part of the new needs (Kowald & Pari, 2025).

A much greater budgetary impact would be left with the adoption of the EC proposal to share the revenues generated by the greenhouse gas emissions trading (ETS) in such a way that the Member State keeps 70% and the EU budget 30% of the revenues, in contrast to the current situation where all the revenues go to the Member State. This could provide up to EUR 19 billion annually (European Commission, 2023).[8] The EC estimates that the contribution of Member States based on gross operating profit could provide an additional EUR 16 billion per year (ibid). However, apart from the CBAM, there is still no agreement on new revenues for the EU budget related to the ETS or on an additional contribution of Member States based on company profits.

**If a solution to expand the sources of budget revenue is not provided soon, the EU will be forced to increase the national contributions of the Member States based on GNI.** Alternatively, the EC could borrow again on international markets on behalf of the Member States to repay the NGEU debt, thus applying the practice of national states (new borrowing to repay old debts). However, this will be a difficult option to accept for individual

7 The mechanism is applied in the event that the country of production does not have a compensation system similar to the one that already exists in the EU, through which producers pay compensation for greenhouse gas emissions during production.

8 The so-called ETS 2 system will start in 2027. It will include new sectors (road transport, etc.) in greenhouse gas emissions trading, thus further increasing budget revenues based on the ETS.

Member States that have historically insisted on budgetary discipline, such as Germany or the Scandinavian countries.

The European Commission has already started work on the new MFF for 2028-2034, and the first proposal is expected to be presented before the summer of 2025. The proposal is expected to be primarily based on the Political Guidelines for the next European Commission 2024-2029, which were presented in July 2024, and the recently published Commission Communication – **The road to the next multiannual financial framework** of February 2025. Both documents emphasise that **the next EU budget should be more focused, simpler and more effective** (European Commission et al., 2024; European Commission, 2025).

One way to achieve this is to **reduce the number of programmes within the budget**.[9] The number of programmes would be reduced, among other things, by adopting **a single national plan encompassing all EU funds allocated in advance to a Member State**. In the case of Croatia, this would mean that the four programmes currently planned for the use of the European Structural and Investment Funds would be replaced by a single national programme. The single national programme would also include planning for relevant structural reforms, as is currently the case with national recovery and resilience plans. The reduction in the number of programmes would be contributed to by a **new European Competitiveness Fund**, which would be under direct management of the EC and would unify a number of existing programmes that aim to strengthen the EU's competitiveness from various aspects. Greater simplicity is also planned to be achieved through simpler rules for the use of funds, which is again linked to the reduction in the number of budgetary programmes.

As for the thematic focus, it is certain that, in addition to strengthening investment in industrial development in general, investment in the military industry in the area of research and development would be given special focus. It is to be expected that **the new budget will continue to strongly support the fundamental goal of the European Green Deal**, creating a carbon-neutral economy, but, following the recommendations of Mario Draghi's report on EU competitiveness, the importance of developing and implementing EU technological solutions for achieving the aforementioned goal will be much more emphasised, in which the European Competitiveness Fund will play a key role (European Commission, 2024a). One of the biggest questions regarding thematic focus is the **level of future allocations for**

9 In the period 2021-2027, the EU budget includes 44 different budget programmes.

**cohesion and common agricultural policies**. The EC proposal will likely go in the direction of reducing funds for these two policies. However, it is also certain that significant reductions in funding would lead to great resistance from many Member States, which is why it is difficult to expect significant changes in this area in the final agreement on the MFF.

It can also be expected that the new MFF will partly apply the payment model currently used to finance Member States' recovery and resilience plans. This is the 'payment for results' model, where funds are disbursed if pre-defined key objectives are achieved. In comparison, under the cohesion policy, payments to Member States are made based on actual and previously verified expenditure on contracted projects. While the former seems more appropriate in terms of focusing on results rather than spending, recent conclusions from the European Court of Auditors have raised a number of concerns about the way progress in achieving results in the case of recovery and resilience plans is measured, and the link between payments and progress (European Court of Auditors, 2023; European Court of Auditors, 2024).

With the negotiations on the new future MFF, **the issue of correction mechanisms and their importance for the EU budget** is also being raised. As a reminder, correction mechanisms are special provisions that reduce the payment obligations of individual Member States to the common budget for various reasons. The countries that benefit from correction mechanisms for the period 2021-2027 are Denmark, Germany, the Netherlands, Austria and Sweden. Interestingly, four out of five of these Member States also belong to the group called 'frugal five'[10]. Although the EC previously proposed the complete abolition of correction mechanisms for the 2021-2027 budget, they are still in force. It remains to be seen whether they will be abolished in the new budgetary period or whether they will remain as one of the compromises necessary to reach an overall agreement.

Furthermore, **the current trade conflict between the European Union and the United States could also affect the future shaping of the EU budget**. On the one hand, increasing tariffs could increase the EU budget's revenues. However, if economic activity decreases, the EU budget's revenues will inevitably decrease due to lower national contributions and VAT revenue. Also, the spread of the adverse effects of the introduction of tariffs on the competitiveness of European industries could create additional pressures and increase the need for compensation mechanisms

10 'Frugal Five' is the name for a group of countries that often oppose increasing the EU budget.

within the EU, especially in Member States that are more exposed to foreign trade shocks.

## Implications of the new EU budget for Croatia

In the 2021-2027 budget period, the Republic of Croatia is in a highly favourable position regarding the possibilities of financing development needs through the EU budget. The generous financing possibilities under the regular MFF (primarily under the cohesion and common agricultural policies) have been further strengthened by financing under the NGEU. Croatia has become one of the largest relative beneficiaries of funds from the EU budget.

**However, the NGEU ends at the end of 2026, and it is unlikely that the EU will continue with a similar funding mechanism for now**. Regarding the cohesion policy, it is very likely that its envelope will be reduced in the next budgetary period.[11] The absence of a mechanism like the NGEU and the reduced envelope for cohesion, as well as the possible reduction of the envelope for the common agricultural policy in the part related to rural development, will reduce the positive financial impact of the EU budget in the period after 2027. The transition to the new reality will be facilitated by the fact that the end of 2030 is the deadline for using cohesion and common agricultural policy funds (in the part relating to investments in rural development), from the period 2021-2027, due to the application of the so-called n+3 rule.[12] For this reason, the change will be felt in full after 2030.

**Another challenge for Croatia lies in the expected increase in the importance of budget programmes directly managed by the European Commission, such as the announced Competitiveness Fund.** Applicants from Croatia have so far been relatively poorly represented in such programmes, with certain exceptions, such as the Erasmus+ programme. Therefore, in the next budgetary period, it will be necessary to focus domestic capacities as much as possible on inclusion in the new Competitiveness

11 However, it is unlikely that there will be a radical reduction in funding, given the large number of Member States that receive very significant funding through cohesion policy funds and will not be willing to support such a proposal.

12 According to the n+3 rule, the national envelope is distributed through annual quotas. The Member State has a usage deadline of the next three years. Otherwise, it will lose the unused part of the funds. For example, the funds allocated from the annual allocation for 2027 can be used until the end of 2030.

Fund and other directly managed funds that will be available (Horizon Europe will probably remain a separate programme).

If the Member States do not reach an agreement on new revenues for the EU budget based on payments from third parties (multinational companies or importers of goods from third countries), the **Member States will likely have to increase their payments to the common budget**. Such a change would further reduce the favourable financial position of the Republic of Croatia concerning the EU budget. The impact on the position of the Republic of Croatia would be even greater if the EU were to expand to include Ukraine in the period up to 2034. However, such a scenario is currently unlikely.

In order to mitigate the negative impact of weaker financing through the EU budget on primarily public, but also private investments, **it is necessary to strengthen domestic financing mechanisms and thus ensure easier adaptation to new circumstances for investment holders**, the construction sector and other related sectors. Securing additional fiscal space in the domestic budget after 2030 will be a challenge for policy holders of fiscal and overall development, which **needs to be responded to in a timely manner, to avoid a repeat of the situation from the economic crisis of 2009, when the decline in public investments directly influenced the deepening and prolongation of the economic crisis.**

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