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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND
THE COUNCIL**

Long-term forecast of future inflows and outflows of the EU budget (2019-2023)

1. INTRODUCTION

This report provides a long-term forecast of future inflows and outflows covering the next five years (2019-2023) as required by Article 247(1)(c) of the Financial Regulation¹. The analysis takes into account the principles and terms set out in the draft Withdrawal Agreement² between the EU and the United Kingdom. It does not assess the impact on the long-term forecast of a failure to conclude or ratify the Withdrawal Agreement.

The scope of the forecast captures the elements of the current and the next financial frameworks. It is based on the level of commitment appropriations for 2019 and 2020 as included in the Draft Budget 2019 and the accompanying financial programming for 2020. For the years 2021-2023 the commitments presented in the Commission's proposal for the next Multiannual Financial Framework (MFF)³ are taken into account.

New information, following the MFF proposal of 2 May 2018, is also reflected as follows: the Member States' updated forecasts for the implementation of the 2014-2020 European Structural and Investment Funds⁴ (ESI Funds) provided by 31st July 2018; amendments to the 2018 budget (i.e. the Draft Amending Budget N°5⁵ and the results of the global transfer exercise) and the Amending Letter No.1 to the Draft Budget 2019. The initiatives announced on 12 September 2018⁶ to further strengthen the European Border and Coast Guard Agency and the European Asylum Agency have been taken into consideration, as well.

2. RESULTS OF THE FORECAST

2.1. Payments

2.1.1. Payments until the end of the current MFF (2019-2020)

For the year 2019, the forecast payments follow the levels proposed in the Draft Budget 2019, (including the Amending Letter No.1). The payments for 2020 have been assessed taking into account the implementation in 2014-2017 and the first half of 2018, the information made available at the time of the Draft Budget 2019 preparation, as well as the Member States' updated forecasts for the implementation of the 2014-2020 ESI Funds. For the final year of the current MFF, it is expected that all spending programmes will reach cruising speed. The bulk of the 2007-2013 programmes under the cohesion policy is expected to be closed by the end of 2019.

2.1.2. Payments in the next MFF (2021-2023)

The forecast payments in 2021-2022 ensure compatibility with the Own Resources ceiling of 1.20% of EU GNI. While the Commission has proposed to increase the Own Resources ceiling to

¹ Financial Regulation applicable to the general budget of the Union and its rules of application, Regulation (EU, Euratom) 2018/1046 of 30 July 2018.

² TF50(2018)33 – Commission to EU 27, 28 February 2018

³ COM(2018)321 to 328 of 02.05.2018

⁴ European Regional Development Fund (ERDF), European Social Fund (ESF), Cohesion Fund (CF), European Agricultural Fund for Rural Development (EAFRD) and European Maritime and Fisheries Fund (EMFF).

⁵ COM(2018) 537 of 10 July 2018

⁶ COM(2018)631 final of 12.09.2018 and COM(633) final of 12.09.2018

take account of the GNI base for 27 Member States, the current level may still be applicable due to the lengthy ratification process of the new Own Resources Decision.

At the start of the next programming period (2021-2022) half of all payments (51%) would cover the outstanding commitments of the previous financial frameworks (RAL for '*Reste à liquider*'). Further 35% of the payments would cover non-differentiated appropriations where payments immediately follow commitments (i.e. the 1st Pillar of the Common Agricultural Policy, expenditure under Heading 7 "European Public Administration", the subsidy to decentralised agencies). The remaining 14% would result from the launch of the new generation of spending programmes.

As of 2023, more than half of the outstanding commitments of the period pre-2021 would be paid out and thus the share of payments on pre-2021 commitments will decrease. In parallel, the implementation of the 2021-2027 programmes is expected to enter into cruising speed with a substantial increase in payment levels in 2023 compared to the first two starting years (68% of the total payments up from 45% in 2021).

2.1.3. De-commitments

The overall amount of de-commitments forecast for 2019-2023 is EUR 6.4 billion. Around two thirds of the de-commitments relate to the programmes of the 2014-2020 period (EUR 4.3 billion) while the de-commitments of the RAL originating before 2014 are gradually phasing out as is the case for the payments on that RAL. No de-commitments are anticipated for the commitments of the 2021-2027 MFF proposal.

The de-commitment levels vary across headings as the forecast is built taking into account de-commitments already made and de-commitments identified at the time of the Draft Budget 2019 preparation. In principle, de-commitments are forecast for the entire duration of the programming period. Since for most programmes and actions no automatic de-commitment rules exist, any annual breakdown of de-commitments would be highly approximate. To estimate the size of the de-commitments up until 2023 only, the de-commitments on the end-2018 RAL were broken down proportionally to the related annual payments. Potential de-commitments for the 2019 and 2020 commitments would mostly take place after 2023, in line with the general closure cycle of programmes.

A specific forecast is made for the 2014-2020 ESI funds – it takes account of the experience with the 2007-2013 programmes' closure and also the expected de-commitment timing. As the actual year of de-commitment depends on the specific closure dates for each Member State and given the n+3 de-commitment rules in place, the de-commitments are likely to be spread over 2024-2026. Therefore, there is no impact on the forecasting period of this report.

2.1.4. Evolution of the level of outstanding commitments (RAL)

The RAL at the start of the reporting period is expected to stand at around EUR 276 billion and to reach EUR 295 billion at the end of the current financial framework. By the end of 2023 it is projected at around 314 billion, which results in a 14% increase in nominal value over the 5 analysed years. However, the annual evolution of the RAL volume is not even as the RAL develops in function of the ratio of the annual payment to the annual commitments. This ratio is 90% for the year 2019 and increases to 99% in 2023. Payments come close to the commitments in 2023 mostly

due to the combination of the first automatic de-commitment target for the new programmes under the Common Provision Regulation and the n+3 de-commitment target for the last tranche of the 2014-2020 ESI Funds and the closure of these programmes. As a result, the growth of the RAL volume in 2023 compared to the previous year would be limited to below 1%.

2.2. Revenue

The EU budget is financed by own resources and other revenue. The overall amount of own resources needed to finance the budget is determined by total expenditure less other revenue. Accordingly, the forecast of the EU budget revenue for 2019-2023 is based on the principle that expenditure must be matched by revenue; therefore total revenue must equal total expenditure.

3. FORECAST ASSUMPTIONS

3.1. Specific assumptions by main spending elements

3.1.1. 2014-2020 ESI funds and cohesion policy funds 2021-2027

The payments forecast for the 2014-2020 ESI funds is based on the past experience of interim payment claims submitted as a percentage of the overall envelope. The performance review will take place in 2019 and the related commitments set aside since 2014 would only lead to first payments in 2020. Specific payment profiles are used for each of the funds. Some acceleration in the implementation speed compared to the current levels is still assumed for the last year of the 2014-2020 MFF as the cruising speed is achieved.

For the 2021-2027 cohesion policy funds, all the relevant provisions of the Common Provisions Regulation have been taken into account (pre-financing, clearance, no performance reserve). The interim payment claims' profiles were estimated on the basis of statistics on the amounts claimed per year in the 2007-2013 programmes with n+2 de-commitment rules.

3.1.2. Direct payments and market measures under the Common Agricultural Policy

As regards the appropriations for the European Agricultural Guarantee Fund, they are mostly non-differentiated and the bulk related to direct payments to farmers is usually reimbursed to Member States during the first months of the budget year.

3.1.3. Other programmes and funds

For all other spending items (e.g. research and innovation, large scale infrastructure projects, internal and external policies) the forecasts for the payments on the commitments authorised in the current financial framework are based on the Draft Budget 2019 and the accompanying schedules of payments by individual budget lines (as presented in Working document Part XII⁷).

For the new generation of spending programmes, the annual payment needs have been calculated using statistical data for the actual implementation over the last 10 years (from 2007 until 2017) of the corresponding current programmes and their related 2007-2013 legacy. For programmes with

⁷ COM(2018)600 – May 2018.

no legacy, the payment estimate is established on the implementation experience of similar type of activities adjusted for the specific elements of the new programme.

3.1.4. Administration

Administrative expenditure (2014-2020 Heading 5, 2021-2027 Heading 7) is based on non-differentiated appropriations; the amounts for commitments as presented in the Draft Budget 2019, the 2020 financial programming and the proposed expenditure ceilings for Heading 7 in 2021-2023 are fully transformed into payments.

The same applies also for the subsidy to the decentralised agencies, funded outside the administrative heading.

3.2. Assumptions for forecasting revenue

3.2.1. Traditional own resources and national contributions

From 2018, traditional own resources include only customs duties as the collection of the sugar production charge ended in 2017. Starting from the level included in the Draft Budget 2019, customs duties are projected to grow over the period 2020-2023 at the same rate as nominal GNI of each Member State.

National contributions (in the form of the Gross National Income-based own resource, the VAT-based own resource and new own resources included in the Commission proposal for the MFF 2021-2027) fill the gap to balance revenue and forecasted expenditure.

3.2.2. Other revenue

Most of the components of 'other revenue' – including staff contributions, revenue accruing from the administrative operation of the institutions, contributions and refunds in connection with Union agreements and programmes, interest on late payments and fines, revenue from EU borrowing and lending operations, and miscellaneous revenue – as well as surpluses from previous years are difficult to project, given their inherent volatility. Therefore, the amount budgeted for other revenue in the Draft Budget 2019 is assumed to remain nominally constant over the period 2020-2023.

4. CONCLUSIONS

The present forecast shows that the payment ceilings in 2019-2020 as well as in the MFF proposal for the years 2021-2023 are compatible with the expected payment needs for the 2014-2020 programmes on the one hand, and the smooth phasing in of the 2021-2027 spending programmes on the other hand.

The main driver influencing the forecast of budget payments is the pace of implementation of the 2014-2020 ESI funds. Even if the implementation is expected to be at a cruising speed in 2020, the delays accumulated since the start of the current programming period have an impact on the level of outstanding commitments (the so-called *reste à liquider* or RAL) at the start of the new period.

Therefore, the implementation of the ESI Fund in 2019-2020 will continue to be carefully monitored as any further delays may increase the payment needs post-2020, to be covered within the proposed ceilings for payments, which have to cover also the payment requirements of the new generation of spending programmes at the start of the next financial framework.

Table 1 – Long-term forecast of future inflows and outflows of the EU budget over 2019-2023

In EUR billion, current prices	MFF 2014-2020	
	DB 2019	
OUTFLOWS		
Commitments ceiling		164,1
Payments ceiling		166,7
Commitment appropriations		164,9
Payment appropriations		148,1
of which payments pre-2021 commitments		148,1
1a. Competitiveness for growth and jobs		20,5
1b. Economic, social and territorial cohesion		47,0
2. Sustainable Growth: Natural Resources		57,6
3. Security and citizenship		3,5
4. Global Europe		9,5
5. Administration		10,0
of which payments on 2021-2023 commitments*		
1. Single Market, Innovation and Digital		
2. Cohesion and Values		
3. Natural Resources and Environment		
4. Migration and Border Management		
5. Security and Defence		
6. Neighbourhood and the World		
7. European Public Administration		
Other special instruments**		0,4
Total payment appropriations including special instruments		148,5
INFLOWS		
Total own resources:		146,6
of which net amount of traditional own resources		21,5
of which national contributions***		125,1
Other revenue		1,9
Total revenue		148,5

* Payments for the potential use of margins and also for the Union Reserve (corresponding to the assumed de-commitments) have been added in the total for each heading, tentatively distributed in proportion to the headings' margins.

** The following amounts correspond to the payments foreseen in the Draft Budget 2019 for the European Globalisation Adjustment Fund, the European Union Solidarity Fund and the Emergency Aid Reserve. Due to their specific nature, the use of those instruments beyond 2019 cannot be forecast.

The appropriations for those instruments are considered outside the Multiannual Financial Framework ceilings for the purposes of the calculation of the corresponding margins. This is also the case for the appropriations related to the Flexibility Instrument.

*** National contributions include the Gross National Income-based own resource, the VAT-based own resource and new own resources included in the Commission proposal for the MFF 2021-2027. Any United Kingdom contribution for outstanding obligations at the end of 2020 would constitute other revenue and hence reduce national contributions, accordingly.

Table 2 - De-commitments forecast over 2019-2023

in EUR billion, current prices

Decommitments*	On pre-2014 commitments	On 2014-2020 commitments	TOTAL 2018-2023
	(a)	(b)	(a+b)
1a. Competitiveness for growth and jobs	-1,0	-1,0	-1,9
1b. Economic, social and territorial cohesion	-0,1	-0,2	-0,3
2. Sustainable Growth: Natural Resources	-0,4	-0,1	-0,5
3. Security and citizenship	-0,2	-2,1	-2,3
4. Global Europe	-0,4	-0,9	-1,3
5. Administration	0,0	0,0	0,0
TOTAL	-2,1	-4,3	-6,4

* No de-commitments are anticipated in relation to the commitments proposed for the 2021-2027 financial framework

Table 3 – Change in the total outstanding commitments from 2019 to 2023

in EUR billion, current prices

RAL end-2018*	Commitments 2018-2023	Payments 2018-2023	De-commitments**	RAL end-2023
(a)	(b)	(c)	(d)	(a+b-c-d)
276,3	852,6	809,0	-6,0	313,8

Of which on:

2014-2020 MFF			Total de-commitments and amount paid by other fund sources	
276,3	332,8	529,1	-7,9	72,1
2021-2027 MFF			De-commitments, subsequently re-used	
n/a	519,8	279,9	1,9	241,8

* The performance reserve set aside during 2014-2018 is included in the RAL, but no payments are foreseen against those commitments before 2020

** This is the net result of the de-commitments expected up until 2020 (which reduce the RAL) and the de-commitments post-2020 (which via the Union Reserve mechanism may lead to new commitments); the figure also includes amounts to be covered by other fund sources (i.e. recoveries)