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The development of the EU budget and its impact on Austria, Finland and Sweden[1]

The EU budget shows the EU's financial relationship with the individual Member States and the EU's political priorities. The priorities have changed significantly in the past few decades. This is particularly evident in the falling share of spending on agricultural policies in the EU's total expenditure. The revenue structure has also shifted over time and is complex because various Member States receive rebates on their membership contributions. Since joining the European Union in 1995, Austria and Sweden have always been substantial net contributors to the EU budget, while Finland joined the ranks of the latter only in 2006. As two of the biggest net contributors, Austria and Sweden have both long benefited from rebates on their membership contributions. At the same time, Austria and Finland get comparatively more back from agricultural policy funds than many other EU Member States with high gross national income (GNI) per capita. However, the proposal submitted by the European Council for the EU's multiannual financial framework (MFF) for the period 2021–2027 includes, inter alia, a debt-financed fund to help EU Member States cope with the economic crisis caused by COVID-19, which entails an increase in the actual net contributions of high-income Member States.

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Austria joined the EU on January 1, 1995 – the same time as Finland and Sweden. For each of the three countries, integration into the EU and the single market in particular meant far-reaching changes to the framework of their economies. The adjustments to the EU's institutional framework covered a wide range of areas, ranging from the legal system through to competition, tax and budget policy, and the labor market. The opening of the borders and the liberalization of the product and factor markets resulted in an increasing mobility of tax bases and, hence, impacted on national tax policies. In addition, all three countries committed themselves to developing their budget policy in line with the EU's fiscal framework, i.e. the requirements of the Maastricht Treaty and the Stability and Growth Pact adopted in 1997.

Joining the EU brought about an extensive financial relationship with the EU budget. Every EU Member State is obliged to pay membership contributions, as well as certain taxes to the EU budget (mainly customs duties). At the same time, however, every EU Member State receives transfers from the EU budget in the form of e.g. support for businesses, farmers and rural/regional development, Erasmus scholarships and cofinancing of cross-border infrastructure projects. Thanks to their relative economic strength, Austria and Sweden joined the ranks of net contributors right in 1995. Finland became a substantial net contributor (i.e. with an average net contribution above 0.1% of GNI) only in 2006. All three economies have

[1] *Opinions expressed by the authors of studies do not necessarily reflect the official viewpoint of the OeNB or the Eurosystem.* *The authors would like to thank Maria Auböck, Fritz Breuss, Ernest Gnan and Robert Stehrer for helpful comments and valuable suggestions.* *This article builds on a previous contribution on the same topic (Köhler-Töglhofer and Reiss, 2020), differing from the latter, however, in that it includes a cross-country comparison between Austria, Finland and Sweden as well as additional information on the EU's next multiannual financial framework (MFF) for the period 2021–2027.*

benefited significantly from being part of the EU's single market, currently the most economically important single market in the world (Mion and Ponattu, 2019), judging from GDP/level of income gains evidently attributable to EU membership. This is shown by various empirical studies that have been conducted in recent years,[2] as well as articles in this publication (Breuss, 2020; Anttonen and Vihriälä, 2020).

Membership of the EU provides a financial relationship through the EU's wider financial architecture, as well as through the EU budget specifically. The EU's wider financial architecture comprises a number of entities outside the EU budget which are connected to it through guarantees and/or transfers, such as the European Fund for Strategic Investments (EFSI) and various credit facilities secured by the EU budget. The latter include the Balance of Payments Facility and the European Financial Stabilisation Mechanism (EFSM), which granted loans to Ireland and Portugal as part of their adjustment programs following the economic and financial crisis. The European Investment Bank (EIB) is also part of this wider financial architecture. It raises additional funds to meet various EU objectives (e.g. financing SMEs, infrastructure projects, EU climate change policy and the EIB's external mandate). However, the EIB's nominal capital is not financed from the EU budget, but by the Member States directly. Funds are also raised based on specific agreements between the EU and Member States, such as the EU Facility for Refugees in Turkey and the European Development Fund (EDF). The wider financial architecture also includes a number of institutions serving European Monetary Union (EMU) (primarily), such as the European Central Bank (ECB), the European Stability Mechanism (ESM) and the Single Resolution Fund (SRF). The new budgetary instrument for convergence and competitiveness (BICC) for the euro area, which is essentially to be financed from the EU budget, would also be part of the wider financial architecture through the share of its financing that could be based on a voluntary agreement with Member States. The same is true for the newly established substantial recovery funds to cope with the negative impact of COVID-19.

This article discusses the specific features of the EU budget in the narrower sense and its relationship with Austria since 1995, comparing the resulting findings with those of Finland and Sweden. The first section gives an overview of some of the specific features of the EU budget. The article will then highlight the interdependencies between the EU budget and the three countries under review since their accession to the EU in 1995. The third section briefly discusses the EU's future MFF for the period 2021–2027 and the realignment of economic priorities that it is intended to bring about, taking into account the fact that the U.K. is leaving the EU. Some brief conclusions will then be drawn.

1 EU budget: areas of focus, specific features and transfers

The EU budget reflects the EU's political priorities on the one hand and its financial relationship with the individual Member States on the other. It provides information on the origin of the funds allocated to the EU, as well as on the use of funds in the form of support/cofinancing (monetary backflows to the Member States) in line with the EU's objectives and political priorities. These are mainly reflected in the EU's MFF.

[2] *Beer et al. (2017), Mion and Ponattu (2019), Breuss (2015 and 2016), Felbermayer et al. (2018) and Oberhofer (2019).*

The EU does not have financial autonomy, i.e. it has no right to collect its own taxes, nor is it allowed to finance its spending through borrowing, i.e. in principle, the EU budget has to be balanced.[3]

The EU budget is approved annually after being agreed by the European Parliament and European Council (unanimously) based on a proposal by the European Commission. However, it has to respect the upper limits on spending defined in the MFF for each of the EU's different areas of expenditure. The EU normally sets its annual budget plan at a level below the upper limits in order to be able to meet any unforeseen spending needs if necessary. To ensure spending discipline, the Own Resources Decision, which governs the EU's income described in section 1.2, sets binding upper limits that may not be exceeded. This spending limit currently amounts to 1.20%[4] of the EU's GNI[5].

1.1 EU spending is focused on agricultural policy, as well as regional and cohesion policy

EU spending is based on the EU's MFF (which currently runs for seven years). It sets the spending priorities and limits for the whole period. Each MFF is based on a regulation establishing the MFF, which is to be passed unanimously by the European Council – once it has been approved by the European Parliament.

The MFF stipulates annual ceilings both for EU spending as a whole and for the main individual areas of spending. These have to be taken into consideration by the European Commission in the respective proposals for the next annual budget – as well as by the European Parliament and European Council. The annual ceilings determine both the maximum total amount for commitment appropriations (legally binding promises on spending that does not necessarily have to take place in the same year, but may stretch over several financial years) in the individual spending areas and an overall ceiling for payment appropriations (the actual amounts authorized for disbursement in a given year).[6] The MFF is a seven-year framework for the policies that the EU has set out in figures, as it specifies the maximum amounts of funding allocated to the different policy areas. Chart 1 shows how the EU budget increased until the mid-1990s and has since been comparatively stable in relation to GNI – slightly fluctuating around 1% of GNI. It also

[3] *However, within the framework of the new MFF for 2021–2027, the European Council (2020) agreed on Next Generation EU, a temporary scheme outside the EU budget financed by joint debt issuance.*

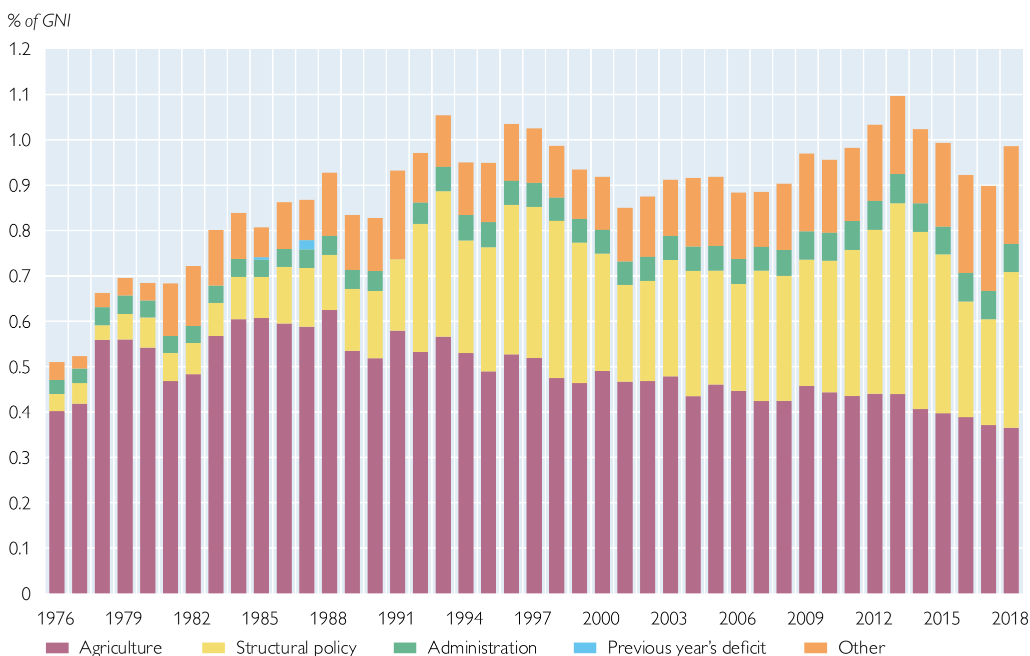
[4] *See European Commission (2018, page 13). The last Own Resources Decision was adopted in 2014 based on ESA 95 and set a ceiling of 1.23% of the EU's GNI. The switch to ESA 2010 was tough, with the rate being reduced to 1.20% of the EU's GNI (the nominal amount of funding made available to the EU was retained). According to the European Council's (2020) proposal for the 2021–2027 MFF, the ceiling allocated to the EU to cover annual appropriations for payments is fixed at 1.40% of the GNI of all the Member States and the total annual amount of appropriations for commitments is limited to 1.46% of the GNI of all the Member States.*

[5] *Conceptually, GNI is identical with the previously used gross national product (GNP). According to Eurostat (2020), GNI is "the sum of incomes of residents of an economy in a given period". It is equal to gross domestic product (GDP) minus primary income payable by resident units to nonresident units, plus primary income receivable from the rest of the world (from nonresident units to resident units). For most Member States, GNI and GDP differ by less than 3%. In Luxembourg and Ireland, however, GNI is considerably lower than GDP (more than 35% and more than 20%, respectively); it has also tended to be lower than GDP in the Member States that have joined since 2004 (albeit less than 10% in each case).*

[6] *The upper limit for commitment appropriations is higher than the one for payment appropriations, as not all legal obligations that the European Commission enters into are accompanied by payments in the same year. This applies in particular to payments within the framework of the Structural and Regional Funds, which are sometimes spread over several years.*

Chart 1

EU budget expenditure



Sources: European Commission, OeNB.

Note: The administrative costs were shown as part of other expenditure in 1991. This chart excludes collection payments, which were shown in the EU budget as expenditure until 1987.

shows the relative shifts in the areas of spending and thus the change in the EU's economic policy priorities since 1976.

The Common Agricultural Policy (CAP) has always been the biggest individual item of expenditure. It was set up in 1962 and has since undergone numerous reforms.[7] Essentially, the goal of the CAP is to maintain an independent agricultural sector in Europe, i.e. to achieve a high degree of self-sufficiency or independence in the EU in terms of food supply.[8] At the same time, it is supposed to promote rural regions, as well as taking account of environmental policy goals such as the sustainable use of natural resources and the fight against climate change. Since 1985, shortly before the first multiannual budget came into force (Delors I package for the period 1988–1992), the share of spending on agricultural policy in total expenditure has been falling continuously. Around EUR 420 billion is being paid through the CAP in the current seven-year budgetary period, of which the majority (around three-quarters) is being paid to farmers in the form of direct subsidies for market-related measures (first pillar of the CAP).[9] Just

[7] *From 1992, the system of agricultural aid included unlimited purchase guarantees at set prices. These were replaced by a system of compensatory income support consisting of single farm payments following the fundamental reform of 2003 in order to decouple aid from production. Furthermore, all measures to control supply were abolished, for example the quota system for sugar in 2017. Milk quotas had already been abolished in 2015.*

[8] *As the European agricultural sector is characterized by comparatively small or family-owned farms, the production costs are higher than in other regions of the world. Because of this, subsidies were regarded as essential when import barriers and customs duties for agricultural products were being abolished.*

[9] *See Austrian Federal Ministry of Finance (2018, page 11).*

under a quarter of CAP funds are available for the second pillar, which comprises rural development measures (the European Agricultural Fund for Rural Development, EAFRD) – cofinanced by Member States.

In the past few decades, there has been a rise in spending on structural policy, which mainly comprises the cohesion, regional and social funds. The structural and cohesion funds[10] in particular aim to permanently close the considerable economic and social gaps between the Member States and between the regions, as well as to increase their own development potential. For example, the European Regional Development Fund (ERDF) supports regions with structural problems and whose development is lagging behind; it provides transfers to create jobs in SMEs, boost energy efficiency and support research and technological development. The focus of the ERDF is therefore on projects that are important for the competitiveness of regions as globalization continues. The cohesion fund supports projects concerning the environment and Trans-European transport networks. It is only available to Member States with GDP per capita of below 90% of the EU average and is one of the multiannual investment programs managed on a decentralized basis, as is the ERDF. The main beneficiaries of the regional and cohesion funds are the least-developed regions, especially the Member States in central and eastern Europe (where approximately 70% of the funds are concentrated), but also a number of EMU countries on the southern periphery. The European Social Fund (ESF) is the EU's most important social policy financing instrument and is aimed at helping to re-integrate the unemployed into the labor market. It promotes training and qualification measures, as well as social integration. The structural funds and the EAFRD follow the cofinancing principle, i.e. the Member States have to take on a share of a project's financing, which rises according to the income level of the relevant Member State or region.

The strong focus on agricultural and regional policy has been controversial ever since. The economic theory of federalism supports European financing for those policy fields for which pan-European responsibility either results in economies of scale or cost benefits, or those that cannot be provided efficiently at the national level because of externalities – whether they be positive or negative. This is particularly the case when the preferences of Member States with regard to individual policy areas differ only marginally. However, politicians representing Member States in negotiations have an eye on the potential monetary backflows from the EU budget. This is an example of common pool resource theory. According to Heinemann (2018), this states that a pan-European budget funded by the Member States collectively creates more of an incentive for financing than having lots of local/national budgets.[11]

There has been an increased focus on other policy areas in the past two decades, which can be seen in the current MFF (2014–2020). This includes various programs for research, development and infrastructure, which comprise

[10] *The EAFRD was set up in the course of the reform of the structural funds with the MFF for the period 1993–1999. The priorities of this MFF were determined by the Maastricht Treaty of 1992 with a view to EU enlargement.*

[11] *For an up-to-date evaluation of the effectiveness of the cohesion fund, see Darvas et al. (2019).*

around EUR 142 billion of funding,[12] amounting to a fifth of the EU budget.[13] As part of the mid-term review of the current MFF in mid-2016, more importance was placed on pursuing an investment drive, as well as dealing with youth unemployment and migration.

1.2 Rebates on EU contributions limit net payments of EU Member States with high income

In accordance with Art. 311 of the Treaty on the Functioning of the European Union, the EU budget is essentially financed by the EU's own resources, which consist of the taxes collected by the Member States for the EU budget (traditional own resources) and national contributions. The Own Resources Decision governs this financing. It has to be agreed unanimously by the European Council and comes into force after being ratified by the Member States. In principle, it then applies indefinitely.[14] This means that the EU has the necessary funds to pay for the annual budget without requiring the prior consent of Member States.

Chart 2 illustrates the change in the level of revenue (in line with the rising expenditure) and in the revenue structure of the EU budget since 1976. Traditional own resources were a relatively large source of revenue until the early 2000s. These comprise taxes that are collected by the Member States,[15] but transferred to the EU. The vast majority of these taxes are customs duties. There are also sugar levies at present. However, these duties have become less important as a source of revenue for the EU budget following the liberalization of trade. National contributions, which are paid out of Member States' individual budgets, have become increasingly important over the years.

Since 1979, the national contributions have included the VAT-based own resources, for which Member States have to pay a fixed percentage of a notional harmonized VAT assessment base to the EU budget (currently 0.3% for most Member States). Since the late 1980s, they have also had to make payments based on their respective GNI – initially just as a supplement. The percentage of GNI to be transferred to the EU budget is determined in such a way that it meets the requirement for the EU budget to be balanced. As a result of concerns about the harmonized VAT assessment base (such as measurement problems and a higher relative burden on a number of lower-income Member States), GNI-based resources have become much more important as a source of funding in the course of the last 30 years. In addition, any budget surpluses from previous years are carried over to the next financial year and are therefore also shown as revenue in the EU budget. Other revenue, which is becoming more important, includes fines imposed on Member States.

The fact that there are various rebates makes the system of national contributions complex. This explains why there are considerable differences in the

[12] *See Austrian Federal Ministry of Finance (2018, page 11).*

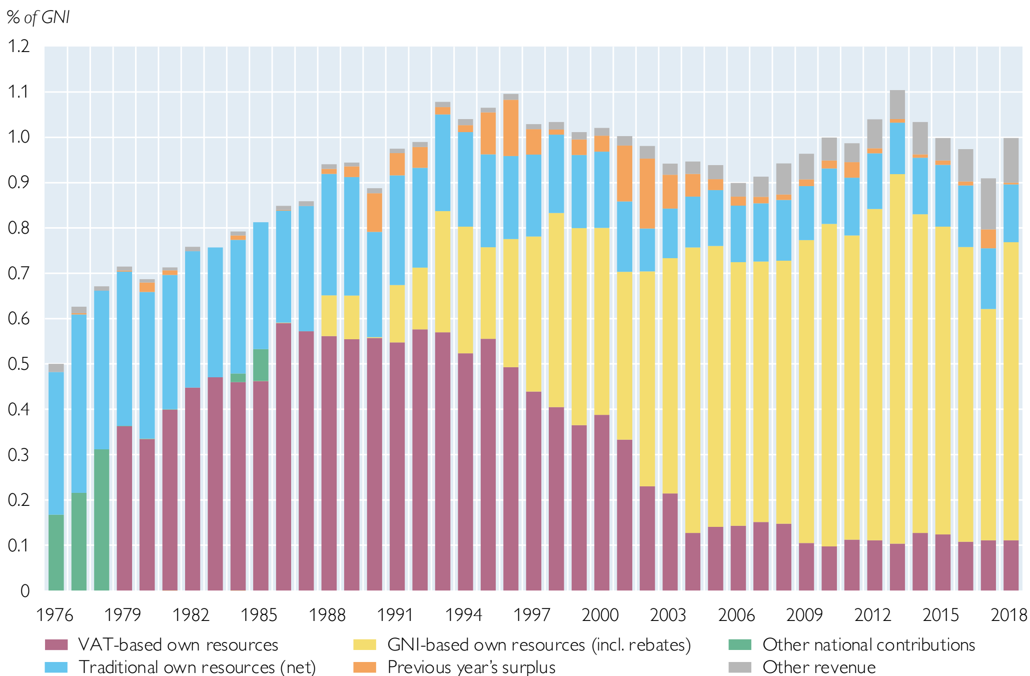
[13] *These include the Horizon 2020 program to promote cutting-edge research and innovation; the Connecting Europe facility to promote pan-European infrastructure projects in the areas of transport, energy, and information and communication technologies; the Erasmus programme; the COSME programme; Galileo; and Copernicus.*

[14] *Once the European Parliament has been consulted, each change to the Own Resources Decision has to be unanimously agreed by the European Council and ratified by all EU Member States. The Own Resources Decision was last changed in 2014 in line with the new MFF.*

[15] *As compensation for collecting sugar levies and import duties, Member States retain a portion; in the next MFF (2021–2027), the percentage of collection costs retained will be 25% of the amount collected, compared to 20% in the current MFF (2014–2020).*

Chart 2

EU budget revenue



Sources: European Commission, OeNB.

Note: Until 1987, traditional own resources were shown in the EU budget in gross terms and collection payments recorded as expenditure. For the purpose of consistency with the years from 1988 onward, these two items are offset for this chart.

relationship between national contributions and GNI within EU Member States (see chart 3). Denmark, Germany, the Netherlands, Austria and Sweden receive rebates, as did the U.K. The Netherlands in particular benefit greatly.

If it were not for rebates, the percentage contributions of GNI between Member States would be almost identical (blue bars in chart 3).[16] There are three different types of rebates:

- rebates on VAT-based own resources for Germany, the Netherlands and Sweden (a rate of 0.15% instead of 0.3%; purple bars in chart 3);[17]
- U.K. rebate[18] (yellow bars in chart 3; Germany, the Netherlands, Austria and Sweden receive a rebate when the U.K. rebate is distributed to Member States); and
- rebates on GNI-based own resources in the form of lump sums for Denmark, the Netherlands, Austria[19] and Sweden (green bars in chart 3).

These rebates, or budgetary correction mechanisms, are designed to avert

[16] *Minor differences may result from revisions to the GNI data. Differences may also result from the national harmonized VAT assessment base compared with GNI.*

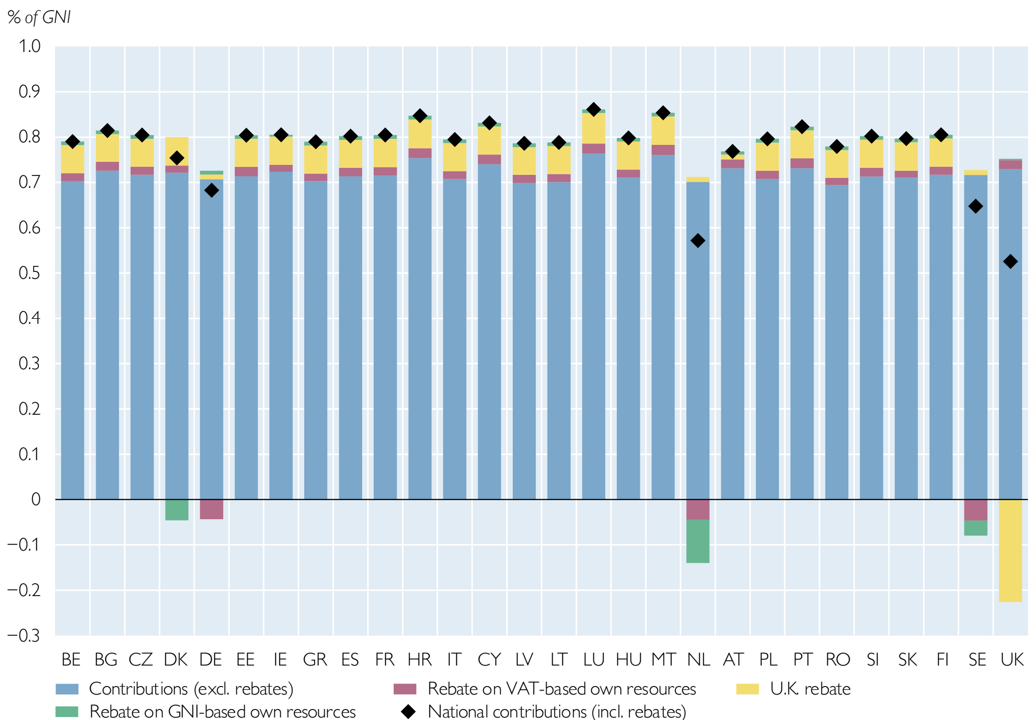
[17] *The U.K. rebate and the rebate on GNI-based own resources are shown in the EU budget as zero-sum games, with the other Member States financing these rebates for Denmark, the Netherlands, Austria, Sweden and the U.K. The rebates on VAT-based own resources are also shown this way for chart 2 – in contrast to the way they are presented in the EU budget.*

[18] *The U.K. rebate is calculated in such a way that the country's net contribution is reduced by two-thirds compared with a scenario without a rebate (excluding certain spending associated with EU enlargement from 2004).*

[19] *In the 2014–2020 MFF, the rebate for Austria amounted to EUR 30 million for 2014, EUR 20 million for 2015 and EUR 10 million for 2016. It is not visible in chart 2 because the amount is so small.*

Chart 3

National contributions to the EU budget from 2016–2018



Sources: European Commission, OeNB.

"excessive" net contributions by certain Member States.

1.3 Significant redistribution in EU budget even though amount is small

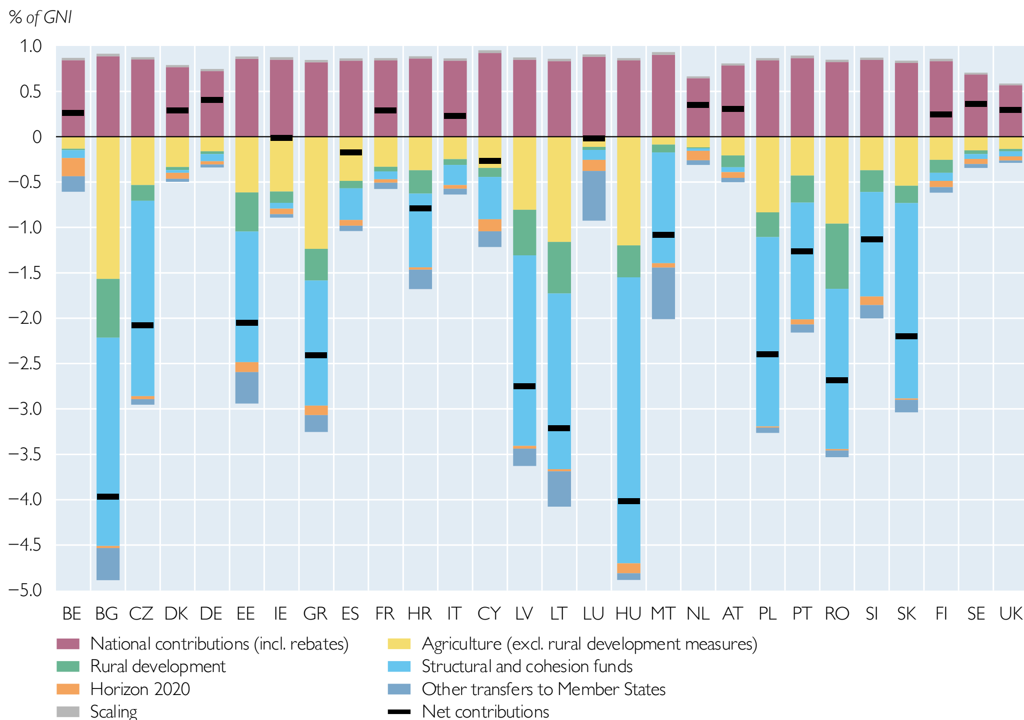
Germany, the Netherlands, Sweden and the U.K. – the four net beneficiaries of the complex system of rebates – are Member States with very high GDP per capita that get comparatively little back from the EU budget (chart 3 shows that the contributions (excluding rebates) exceed the national contributions actually paid by these Member States). This is mainly because they receive significantly less agricultural subsidies than, say, France, Austria, or Finland. That explains why those countries come first, second, third and fifth in the net contributor[20] rankings from 2014 to 2018 (Austria ranks fourth and Denmark sixth) despite their reduced national contributions (see chart 4).

Thanks to the rebates, none of the net contributors have to pay a net amount of more than 0.5% of their GNI. At the same time, however, lower-income EU Member States have net inflows of more than 2% of GNI (some even have considerably more). This strong redistribution effect comes about because most of the transfers coming from structural funds goes to the lower-income Member States (by definition in the case of the cohesion fund). In addition, many of the transfers coming from regional funds go to

[20] *The European Commission calculates the net contributions by offsetting spending from the EU budget (without administration) in the individual Member States against their respective national contributions. The national contributions are scaled so that these estimated net contributions total zero (this minor scaling effect is also shown in charts 4 and 5).*

Chart 4

Net contributions to the EU budget from 2014–2018



Sources: European Commission, OeNB.

regions in lower-income Member States.[21] It is primarily funds flowing back under agricultural programs that go to higher-income Member States. Hence, agricultural policy is also an important factor determining the relative net contributions of the higher-income Member States. For example, France does not receive any rebate at all, even though its GNI per capita is similar to that of the U.K. Despite this, it is a somewhat lower net contributor because it receives higher transfers from agricultural policy funds. The same applies when comparing Austria with the Netherlands or Sweden. It is also largely the higher-income Member States that avail themselves of the various programs for research, development and infrastructure that are managed at the European level. The European Council's proposal for the new MFF envisages that rebates on national contributions will be maintained for Denmark, Germany, the Netherlands, Austria and Sweden for the period 2021–2027.

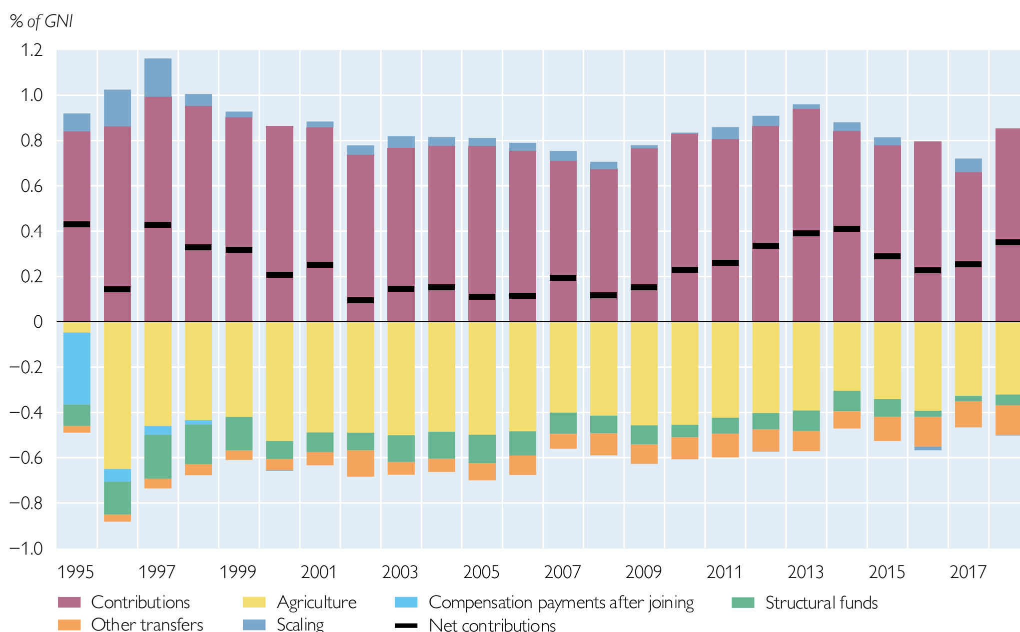
2 Austria's, Finland's and Sweden's relationship with the EU budget

Since joining the EU in 1995, Austria has always been a net contributor to the EU budget (see chart 5). However, various rebates on national contributions have reduced the extent of the net payments slightly. Ever since 2002, Austria has received a rebate on its share when the U.K. rebate has been distributed. From 2009–2013, there was also a rebate on the VAT to be paid (which saved

[21] *However, the monetary backflows from the cohesion fund that go to lower-income Member States also have a positive impact on Member States that do not receive transfers from the fund, as well as on third countries. This is as a result of macroeconomic spillover or feedback effects (increase in foreign trade, etc.). See Naldini et al. (2019).*

Chart 5

Austria's financial relationship with the EU budget from 1995–2018



Sources: European Commission, OeNB.

Austria approximately EUR 0.1 billion per year). From 2014–2016, there were smaller, lump-sum rebates as compensation for the withdrawal of this rebate (of EUR 30/EUR 20/EUR 10 million).

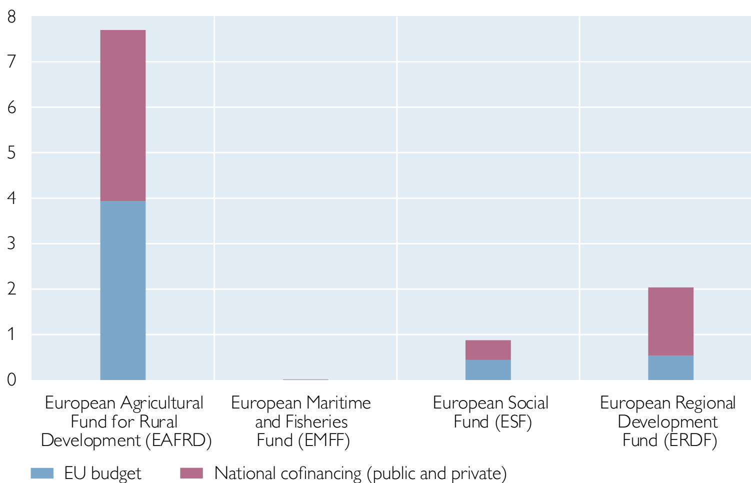
2.1 Austria's EU budget returns mainly come from agricultural policy funds

Most of the monetary backflows that Austria receives from the EU budget come from agricultural policy funds, which have amounted to approximately 0.3% of GNI in the last few years. Monetary backflows to Austria are increasing at a slower pace than GNI in this sector. This is in line with the diminishing role of agricultural policy in the EU budget that was outlined in section 1. The fact that Austria's GDP per capita went up at a faster pace than that of the EU as a whole also contributed to the slight fall in the share of transfers coming from structural funds over time (see chart 5). The faster increase can be attributed to the comparatively minor impact of the global economic and financial crisis in Austria on the one hand and the EU's eastern enlargement on the other. These transfers include regional aid to Burgenland, which was initially an Objective 1 area owing to its low regional GDP per capita and became a transition region with a higher share of cofinancing following the EU's first wave of eastern enlargement. The rising share of spending outside the traditional areas of the EU budget (i.e. agricultural and structural funds) can also be seen in Austria through an increase in budget returns in other areas, such as for research as part of the Horizon 2020 program, Erasmus scholarships or the financing of the cross-border Brenner base tunnel project.

Around 60% of the agricultural transfers are direct payments to farmers, which are financed exclusively by the EU budget (single farm payments and expenditure related to market regulations from the first pillar of the CAP).

Chart 6

Cofinanced spending envisaged for Austria from 2014–2020



Source: European Commission, OeNB.

The second pillar of the CAP – rural development measures (EAFRD) – accounts for the remainder (approximately 40%). In order to make use of these funds, cofinancing by Member States is compulsory, with the extent of the cofinancing being determined primarily by the income level of the respective Member State or region in relation to the average income level in the EU. This is also the case for structural funds (i.e. regional funds, cohesion fund, social fund).[22] The EAFRD is the most important cofinanced EU funding pool by a distance from an Austrian perspective. The cofinancing share for Austria is 50% (see chart 6).

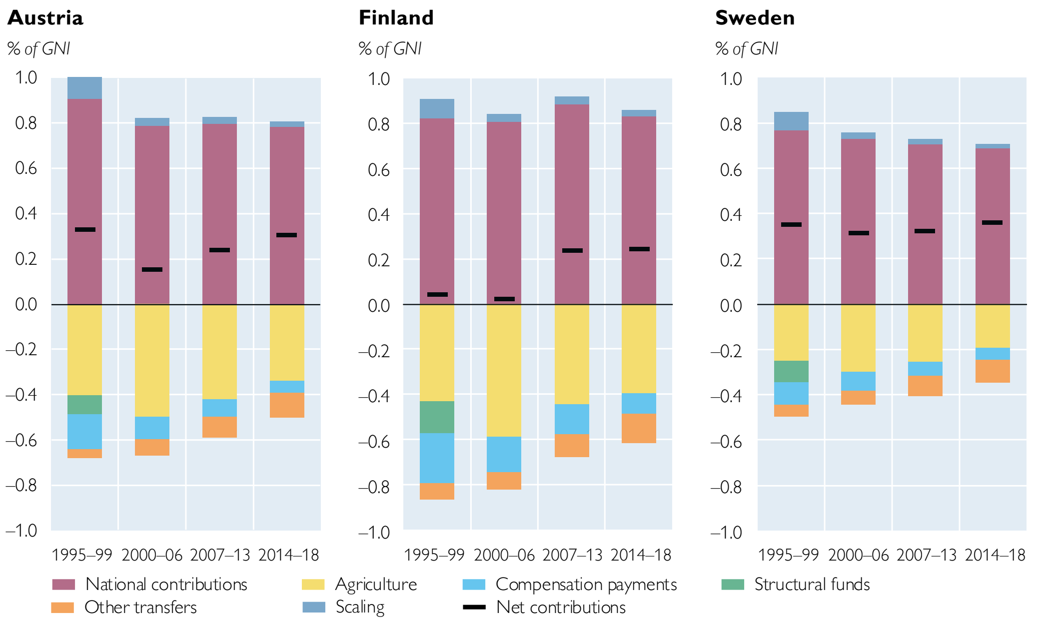
2.2 Finland's and Sweden's financial links to the EU budget are similar to those of Austria

Finland and Sweden joined the European Union in 1995, alongside Austria. While Austria and Sweden have been substantial net payers into the EU budget since their accession in 1995, Finland joined the ranks of the latter only in 2006 (see chart 7).

[22] *The EAFRD, European Maritime and Fisheries Fund (EMFF) and the structural funds are brought together under the term "European Structural and Investment Funds" (ESIF).*

Chart 7

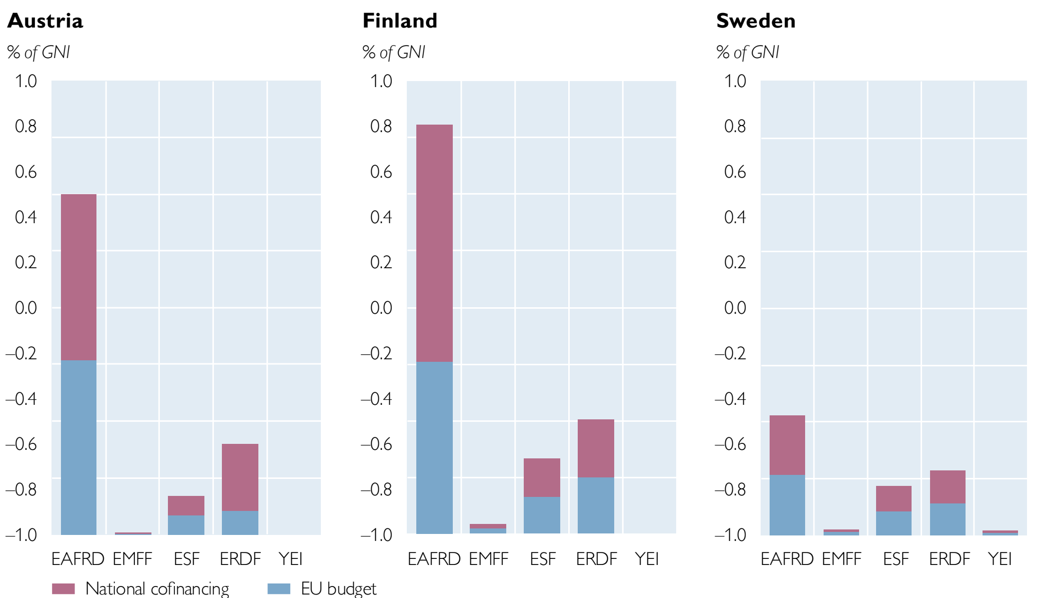
Austria's, Finland's and Sweden's financial relationship with the EU budget



Source: European Commission.

Chart 8

Cofinanced spending envisaged for Austria, Finland and Sweden from 2014–2020



Source: European Commission.

Note: EAFRD = rural development; EMFF = fishery; ESF = social fund; ERDF = regional fund; YEI = youth employment

As in the case of Austria, most of the monetary backflows to Finland from the EU budget come from agricultural policy funds, which have amounted to approximately 0.4% of GNI in the last few years (see chart 7). Compared to Austria and Sweden, Finland has received higher transfers (in % of GNI)

from structural funds (see chart 8). Sweden, in contrast, has benefited somewhat less from both agricultural funds and structural funds. Nevertheless, the net positions of these three countries in the current MFF are very similar, given that Sweden gets a higher rebate on its contributions than Austria and Finland does not get any rebate (see section 1.2).

3 Outlook for the 2021–2027 MFF

Negotiations over the next MFF for the period 2021–2027 began back in 2018, with tough negotiations having taken place between the European Commission, European Parliament and, in particular, between the individual Member States as well as within the European Council. The negotiations were complicated by Brexit (despite its large rebate, the U.K.'s net contributions came to around EUR 7 billion per year) and by the question of how to deal with the economic crisis caused by COVID-19.

On July 21, 2020, the European Council (EU heads of state or government) eventually reached a political agreement on the future design of EU finances (European Council, 2020), i.e. on a package worth EUR 1,824.3 billion which combines the new MFF (EUR 1,074.3 billion) with the Next Generation EU (NGEU) recovery instrument (EUR 750 billion). NGEU encompasses both grants and loans to Member States and is primarily targeted at Member States with GDP per capita below the EU average. It thus facilitates redistribution between the Member States and implies significant net contributions from countries like Austria, Finland and Sweden. As much as 30% of the total amount of resources available under the MFF and NGEU are earmarked for spending on tackling climate change. The own resources ceiling, the maximum level of resources that can be called from the Member States annually, will rise permanently from 1.20% to 1.40% of the EU's GNI to take account of developments such as the smaller total GNI of the post-Brexit EU and the uncertain economic outlook owing to the pandemic. In addition, a temporary increase in the ceiling, worth a further 0.60% of the EU's GNI, will be devoted exclusively to borrowing operations for NGEU and apply until December 2058 at the latest. This temporary increase enables the European Commission to borrow on a much larger scale than in the past (e.g. for the EFSM) and aims to preserve the EU's AAA credit rating.

As a first step in a broader reform, a new own resource based on non-recycled plastic waste will be introduced as of 2021. Moreover, EU leaders paved the way for further proposals by the European Commission for other new own resources, such as a border carbon adjustment mechanism and a digital levy, and for a revised proposal linked to the EU's Emissions Trading System (ETS). EU leaders also agreed on lump-sum corrections that reduce the contributions of five Member States (Austria, Denmark, Germany, the Netherlands and Sweden) to the EU budget, increasing the total amount of rebates for these countries in the next MFF. Finally, the share of customs duties that Member States can retain as compensation for collection costs, was increased from 20% to 25%. Once again, rebates and compensations for collection costs were used as a means to achieve unanimity for the approval of the 2021–2027 MFF in the Council. Due to the significant rebates granted to Austria and Sweden, their net contributions to the EU budget in the narrower sense (i.e. excluding the highly redistributive elements of NGEU) should broadly match those paid in the 2014–2020 MFF. The net contributions of Finland, in contrast, are set to increase somewhat.

4 Conclusions

Austria, Finland and Sweden are net contributors to the EU budget. As two of the biggest net contributors (in % of their GNI), Austria and Sweden benefit from rebates on their membership contributions. Compared to Sweden and most other high-income Member States, Austria and Finland tend to get higher budget returns from agricultural policy funds, which is why Sweden's net payments into the EU budget are even larger despite the relatively higher rebate on its national contributions. With the next MFF, the actual net contributions (i.e. including the distributive effects of NGEU) of high-income Member States like Austria, Finland and Sweden (despite the rebates for Austria and Sweden) are set to increase, as the extrabudgetary NGEU funds are primarily targeted at low-income Member States and the net contributor U.K. has left the EU.

However, the narrow focus of the negotiations on contributions from, and monetary backflows to, Member States should be questioned – the advantages of the single market should also be considered. Moreover, there are also positive spillover effects to net contributors resulting from payments to lower-income Member States. This holds true for Austria in particular, as it belongs to those countries that tend to benefit most from these spillover effects thanks to their close trading relationship with the Member States that, in turn, benefit from the cohesion fund (see European Commission, 2017b and Naldini et al., 2019).

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