The EU Budget: Reflections on the local scenario

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A key event in the 2020 calendar of the European Union (EU) was the heads of government meeting held last July in Brussels to discuss and approve the multiannual financial framework (MFF) for the seven years 2021 – 2027. A total of €1.8 trillion have been allocated to be spent over this seven-year period. With the COVID-19 outbreak another item on the agenda of funding was the financial aid to help member states recover from the economic downturn caused by the pandemic. Dubbed 'Next Generation EU' (NGEU) a total of €750 billion have been allocated for this purpose, an amount which is roughly equivalent to 5% of the EU's annual budget. Table 1.1 below depicts what share of these funds will be allocated to us a member of the EU.

Table 1.1 – Malta's share of funds

	MFF 2021 – 2027	NGEU
EU-wide budget	**€1.8 trillion**	**€750 billion**
Funds Allocated to Malta	**€2.25 billion**	**€992 million**

Given the economic success in recent years it stands to reason that Malta's contribution to the EU's budget will rise substantially over the 2021-2027 period when compared to the previous seven years. However, despite Malta being set to contribute roughly €1.2 billion to the EU's coffers, the country has not been penalised for managing well the economy so much so that Malta will remain a net beneficiary of EU funding, with a net balance of just over €1 billion in the black.
This important summit has been hailed to be 'historic' not only for having throttled over 5 days of intense wrangling but in addressing the NGEU mentioned above, the EU as a bloc will for the first time issue bonds on an enormous scale to back the much needed stimulus, spreading that same fiscal risk among all existing member states.

On a political note (an issue which cannot be side-lined) this summit has demonstrated the significant north-south divide as well as the east-west divide. Referring to EU Leaders, commentators have suggested that the EU is too divided to handle the pandemic! It is evident that the pandemic has effected the diverse EU economies differently. Wealthy countries such as Germany and the Netherlands characterised by low government debt and fewer COVID-19 infections can cope on their own. However, a few of the heavily indebted and COVID-19 infected member states such as Italy and Spain, cannot simply fend on their own. Without fiscal aid, their economies would run into a recession so deep that it would be enough to bring down the whole of the EU.

Instrumental during the summit was Angela Merkel, Germany's Chancellor. Without any inhibitions she can be considered to be the lynchpin of the EU. Her acerbic leadership backed by French President Emmanuel Macron defied sceptics during the summit and, indeed, managed to broker a deal. Just as much as Angela Merkel is referred to as 'mutti' in Germany time will reveal that she has been instrumental in radiating the love of a mother even to the EU at its most difficult of times.

Such a scenario proves right the importance of a single market – together as a bloc, member states can weather whatever storm comes along. Such was the case when in 2008, the financial crisis triggered in the US had its ripple effects here across the Atlantic and this time round with the COVID-19 outbreak, the same has happened given that individual European economies, through the single market, are highly integrated. Last year, the EU Commission estimated that the EU's GDP is 8 to 9 percent higher than if the single market did not exist, thanks to the removal of all forms of barriers to trade. Drawing on a survey conducted last year as well by the Malta Business Survey, 89% of Maltese businesses indicated they were better off since Malta became a full member of the EU and consequently being part of the single market.[1]

The initiatives which will be launched under the NGEU funds will in the main be in the form of debt and although that debt will be backed by bonds maturing in 2058, as with all other forms of debt, it has to be paid back. Prior to the outbreak of COVID-19 and the economic havoc it has created, the looming financial crisis was indeed that of the increased world debt which continued to accumulate since 2008. Moreover, when one considers that 30% of the MFF and NGEU allocations have to be spent on climate action, the repayment of the debt created will have to be financed by further forms of taxation in the medium to the long term. Would this be the prelude to the introduction of a financial transaction tax? If so, not only would local government have to embrace itself for some major changes but also the local profession.

Dr Ivan Grixti is a member of the Malta Institute of Accountants Council. He wrote this article as part of his contribution to the Financial Reporting Committee which he is a member of.

[1] https://mbb.org.mt/media/studies/the-impact-of-the-european-single-market-on-maltese-businesses-full-report/

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