

Member States' financial relationships with the EU budget and the Next Generation EU off-budget entity in 2021

Last year, the regular EU budget amounted to €165 billion, or just over 1% of the European Union's gross national income (EU GNI). As usual, this was financed by the EU Member States roughly in proportion to the sizes of their economies, with each contributing around 1% of their respective GNI. Cohesion and agricultural policy once again accounted for more than two-thirds of expenditure. The vast majority of EU budget expenditure takes the form of earmarked transfers to individual Member States. Relative to their GNI, Member States with weaker economies tend to receive more transfers than those with stronger economies. In 2021, ten Member States were net contributors; these included Germany, which contributed 0.6% of its GNI. The other 17 countries were net recipients.

The EU budget generally redistributes financial resources from higher-performing Member States to lower-performing ones (as measured by per capita GNI). With few exceptions, the per capita incomes of net contributors are above the EU average, while those of net recipients are below it. Furthermore, within the two groups, the amounts of per capita net contributions are roughly contingent on economic performance.

In addition to the regular EU budget, 2021 saw the inaugural year of the Next Generation EU (NGEU) off-budget entity, which is set to operate for a total of six years. Initially, EU Member States are not paying contributions for NGEU, as it is being financed by joint borrowing. These debts are to be repaid out of the EU budget between 2028 and 2058. During that period, Member States will make commensurately higher contributions or assign revenue from other sources to the EU. In 2021, the first year of NGEU disbursements, the transfers paid out of the off-budget entity amounted to €54 billion, or just under ½% of EU GNI. This represents around one-eighth of the total allocated NGEU transfers.

The final, net contributions to NGEU will only be known for certain once the loans taken to finance the package have been repaid. Nevertheless, it is possible to estimate these at present, so as to give a more comprehensive picture of the Member States' financial relationships with the EU. As things stand today, it is to be assumed that Member States will continue to finance future EU budgets roughly in line with their shares of GNI. It therefore makes sense to take the current GNI shares as a funding key for NGEU transfers. When viewed in those terms, the net contributors in the EU budget generally prove to be similarly positioned when it comes to NGEU. For instance, Germany's net payments to NGEU amounted to 0.3% of its GNI in 2021. Italy was the only Member State that turned from a net contributor to a net recipient on balance as a result of NGEU. For most of the 17 countries that were net recipients of the EU budget in 2021, NGEU increased the net payments received. The allocated NGEU transfers are thus set to echo the redistribution pattern seen with the EU budget.

Member States' net contributions reveal financial relationships with the EU

Aim of the article

Article outlines the financial relationships between the EU and its Member States

This article looks at the financial relationships between the EU and its Member States. To this end, Member States' net contributions to the EU budget and NGEU in 2021 are calculated.

Net contributions reveal financial redistribution

The net contributions to the EU budget and NGEU reveal whether a given Member State's financial relationship with the EU relieves or burdens its finances on balance. In this way, they shed light on the extent to which financial resources are redistributed between the countries of the EU. The degree of reallocation and the instruments used to achieve it are the subject of mutual agreement between the Member States. The net contributions are the result of these agreements.

Net contributions not an indicator of benefits of EU membership

The figures on net contributions should be interpreted with caution. In particular, they do not provide a measure of the benefits that EU membership brings to a country, as these are far more multi-faceted than the financial relationship alone. For example, enterprises and households in all Member States benefit from the single market and its four freedoms (free movement of persons, goods, services and capital). In addition, payments that flow to individual Member States can also have positive spillover effects on other countries. This article does not discuss such effects, nor does it cover other, non-economic ones. Instead, its goal is to provide a transparent picture of the payment flows associated with the EU's common budgets. Using the data available from the European Commission, the article depicts the payment flows relevant for net contributions in 2021 (see the adjacent box). In addition, it compares the 2021 net contributions with those of previous years.

Information available about financial links within EU

Up to and including 2018, Member States' net contributions could be taken from the European Commission's annual Financial Reports. The Financial Report contained Member States' operating budgetary balances,¹ which are a suitable measure of net contributions and are also used as such in this article (see the box on p. 38).

For 2019 and subsequent years, the European Commission replaced the Financial Report with the Integrated Financial and Accountability Reporting,² which no longer shows operating budgetary balances. However, operating budgetary balances were still initially included in the figures published on the European Commission's website.³

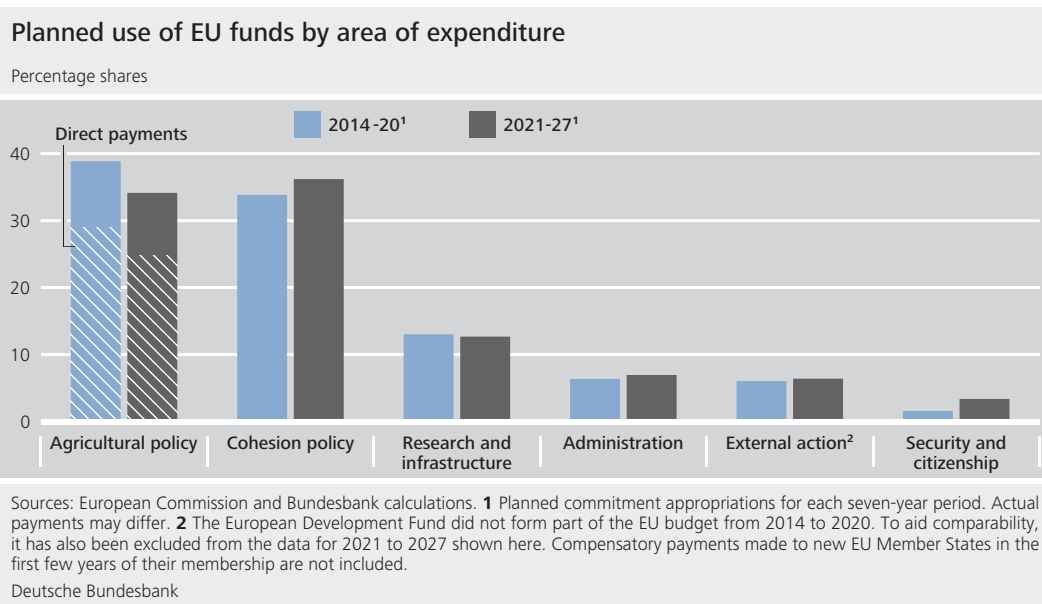
For 2020 and 2021, information on the Member States' net contributions is no longer provided. However, the net contributions can be derived from the EU budget's annual spending and revenue figures, which were last published by the European Commission on 28 September 2022.⁴ For 2021, these figures also contain a breakdown of expenditure and revenue by country for the Next Generation EU (NGEU) instrument.

¹ See, for example, European Commission (2019).

² See European Commission (2020).

³ See https://ec.europa.eu/info/strategy/eu-budget/long-term-eu-budget/2014-2020/spending-and-revenue_en

⁴ See https://ec.europa.eu/info/strategy/eu-budget/long-term-eu-budget/2021-2027/spending-and-revenue_en



Overview of the EU budget and NGEU

EU budgetary framework for 2021 to 2027 similar in scale to that of 2014 to 2020

The EU budget is used by the Member States to finance joint spending. They determine the nature and volume of expenditure in advance, drawing up a seven-year financial framework. The current financial framework covers the period from 2021 to 2027 and provides for annual revenue and expenditure equivalent to around 1% of EU GNI.¹ These are roughly the same as the amounts involved in the 2014 to 2020 financial framework. Expenditure priorities have also shifted only minimally (see the chart above). Owing to Brexit in 2020, EU Member States drew up the financial framework without the United Kingdom.

EU budget always balanced

Most of the EU's budgetary expenditure flows to the Member States in the form of earmarked transfers. Within the Member States, it finances projects and spending in the pre-agreed areas. Own resources are the dominant source of revenue for the EU budget. These include customs duties (traditional own resources) and payments from Member States (also known as contributions). Member States' payments are determined on the basis of various national metrics: gross national income (GNI-based own resource), (standardised) value added tax revenue (VAT-based own resource) and, more re-

cently, also the amount of non-recycled plastic packaging waste (plastics own resource). Alongside the own resources, a smaller role is played by other EU budget revenue sources such as antitrust penalties or fines paid by Member States. The EU budget is balanced every year. In principle, there is no provision for debt financing. GNI-based own resources are therefore calculated in such a way as to ensure that EU budget expenditure is always covered.

Calculating net contributions

Individual Member States' financial relationships with the EU budget are generally not balanced, resulting in either a positive or negative net contribution. In broad terms, this is represented by the difference between a Member State's payments received from the EU budget and its payments made to the EU budget. If the balance is positive, the country receives net payments from the EU budget and is thus a net

Net contributions determined at the national level

¹ GNI was selected as the reference variable for the EU budget. Gross national income and gross domestic product (GDP) differ in the extent to which household income is included. GNI encompasses the entire income of all residents, regardless of whether it was generated domestically or abroad. GDP, on the other hand, only incorporates total income generated domestically. The difference between a country's GNI and GDP is typically small; in the cases of Ireland and Luxembourg, however, GDP is significantly higher than GNI.

Operating budgetary balances as a measure of net contributions to the EU budget

Net contributions to the EU budget should show whether a country is a net contributor or a net recipient in terms of the EU budget. To this end, this article uses the concept of the European Commission's operating budgetary balances.¹ This box describes how the operating balances are calculated.

First, certain categories are excluded from the total revenue and expenditure of the EU budget:

- Only the GNI own resource, the VAT own resource and the plastics own resource are included on the revenue side of the EU budget. Customs duties, on the other hand, are not taken into account because Member States collect tariffs at the EU's external borders on behalf of the EU and pass them on to the EU budget. Owing to the single market and the tariff-free trade within the EU, these cannot be assigned to individual countries in any meaningful way. This is illustrated particularly clearly by the Netherlands and Belgium, which collected a large share of the customs revenue because of the major ports located in Rotterdam and Antwerp. However, the tariffs primarily apply to products destined for other EU countries. As a result, the two countries' financial burden would be overstated if the customs duties transferred were to be included in the payments to the EU.
- On the expenditure side, of the expenditure that flows to the Member States, only the operating expenditure is taken into account. To do so, administrative expenditure is factored out. This is because it is used to finance services that benefit the EU as a whole, such as to pay the salaries of those working for EU institu-

tions. A disproportionately large share of the administrative expenditure flows to Belgium and Luxembourg, where the major EU institutions and their staff are based. If administrative expenditure were to be taken into account, the share of the payments from the EU budget to these countries would be too high. From 2021 onwards, the debt servicing costs (interest and repayments) for transfers from the Next Generation EU (NGEU) off-budget entity will also be disregarded. NGEU debt servicing costs are paid from the current EU budget. This article reports the net contribution for NGEU separately, thus preventing double counting. (For details on the calculation of net contributions in connection with NGEU, see p. 39.) In 2021, however, debt servicing costs were still negligible at €3 million.

Second, a correction is made to ensure that payments to the EU budget correspond to payments from the EU budget, despite the adjustments to revenue and expenditure.

- Member States' payments to the EU budget are adjusted proportionally so that their sum corresponds to the total operating expenditure. In technical terms, the balance of customs duties on the one hand and administrative expenditure and NGEU debt servicing costs on the other is allocated proportionally to the Member States. The share that a country contributes to the financing of the EU budget remains unchanged. The difference between operating expenditure and the adjusted payments to the EU budget yields the reported net contributions to the EU budget.

¹ See, for example, European Commission (2019).

recipient. If the balance is negative, the country makes net payments to the EU budget and is thus a net contributor. A more detailed explanation of how net contributions are calculated can be found on p. 38 of this report.

Additional net contributions on account of NGEU off-budget entity from 2021 to 2026

The EU budget was accompanied by the NGEU off-budget entity for the first time in 2021. Set to run until 2026, NGEU is intended to disburse transfers totalling approximately €420 billion and loans of up to €390 billion to Member States over its lifetime.² Although this off-budget entity is being financed through borrowing rather than by contemporaneous contributions from Member States, it is possible to calculate net contributions for NGEU, too (see the adjacent box). This allows the financial relationships between the EU and its Member States to be depicted more accurately in economic terms.

■ The EU budget in 2021

2021 EU budget amounted to around €165 billion

The 2021 EU budget comprised expenditure of around €165 billion.³ This equates to just over 1% of EU GNI. Roughly €10 billion of this was allocated to administrative expenditure, which has been disregarded for the purposes of calculating the net contributions discussed in this article (see the box on p. 38). At 6%, the share of total expenditure accounted for by administrative expenditure remained unchanged compared with the 2014 to 2020 financial framework.⁴ Around €20 billion of expenditure was covered by EU customs revenue, which has likewise been excluded from the calculations of net contributions.

Share of customs revenue down

At 12%, the share of customs duties in total own resources was somewhat lower than in the 2014 to 2020 financial framework, in which it averaged just under 15% annually. This was partly due to the fact that Member States are

Calculating net contributions in connection with NGEU

The Next Generation EU (NGEU) off-budget entity has a number of differences compared with the EU budget. These need to be taken into consideration when calculating net contributions.

- Ultimately, NGEU is also financed through contributions from Member States. However, unlike the regular contribution-funded EU budget, these payments will only become due in later years. This is because, initially, the EU will borrow in order to finance NGEU. For 2021 to 2027, the current EU financial framework allows only for interest payments on NGEU loans. For the period thereafter, Member States are obligated to provide the EU budget with sufficient funds to repay the loans. In this way, it is planned that the debts incurred for NGEU transfers will be successively repaid out of the regular EU budget from 2028 to 2058.

At present, Member States finance the EU budget largely in accordance with their GNI shares. It seems plausible that this will continue to be the case in the future, even if additional own resources are used to fund the EU budget. As things stand today, the contribution burdens of NGEU transfers may therefore be allocated to the Member States according to their GNI shares in the respective years in which the transfers are disbursed. This results in the same net contributions as would be paid if the Member States were to fund NGEU via the regular EU budget instead of through borrowing. This is because additional expenditure in the EU budget is financed by the Member States through higher GNI-based own resources and thus in accordance with their GNI shares.

- This box takes account only of NGEU transfers to Member States. NGEU loans are not included, as the borrower Member States are expected to service the associated debts in full themselves. As a result of their interest rate conditions being more favourable than those prevailing on the market, the loans in fact contain a transfer component as well. However, this is not taken into consideration in this report.

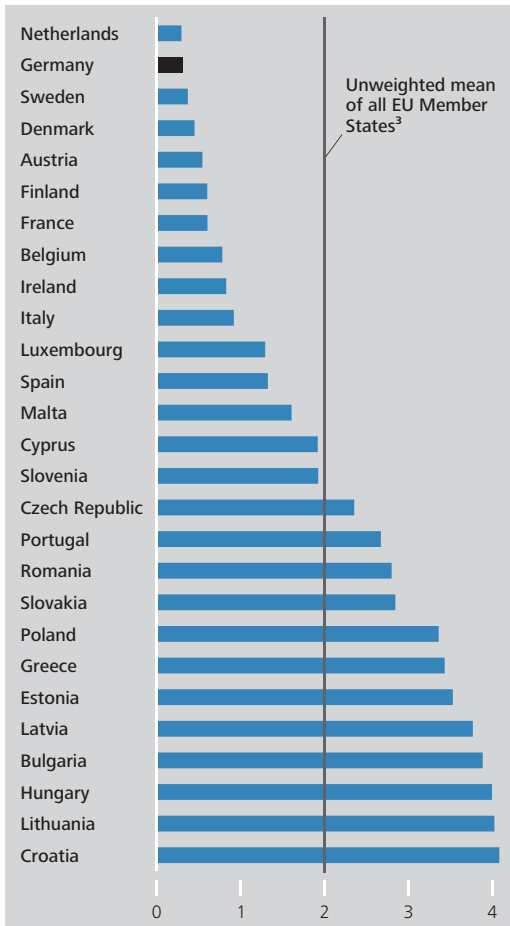
² All NGEU figures are shown in current prices.

³ See European Commission (2022).

⁴ A similar analysis for the 2014 to 2020 financial framework can be found in Deutsche Bundesbank (2020).

Payments from the EU budget to the Member States

As a percentage of GNI,¹ operating expenditure² in 2021



Sources: European Commission and Bundesbank calculations.
1 Gross national income. **2** Expenditure excluding administrative expenditure and debt service for the Next Generation EU off-budget entity. **3** Factoring in the different sizes of the Member States, the weighted mean was just under 1% of EU GNI.

Deutsche Bundesbank

now entitled to retain a larger share of customs revenue as flat-rate compensation for the collection costs that they incur (25% instead of the previous 20%). The Netherlands and Belgium are the main beneficiaries of this increase. This is because they account for a disproportionately large share of customs receipts, while their actual collection costs are likely to be significantly lower. Consequently, the flat-rate compensation arrangement for collection costs is sometimes also seen as a hidden rebate for those countries. No further consideration is given to this in the following discussion, however.

Operating expenditure in the EU budget

Operating expenditure totalled around €155 billion in 2021. That year, cohesion policy accounted for the largest share (approximately €68 billion), followed by agricultural policy (approximately €56 billion). The remaining €31 billion was allocated across the spending areas of research and infrastructure, external action and security and citizenship. The payments from the EU budget received by Member States differ significantly in relation to the sizes of their economies (see the adjacent chart). In 2021, the (unweighted) average ratio stood at 2% of each Member State's GNI. Croatia had the highest ratio of 4% of GNI, while the Netherlands had the lowest at 0.3% of GNI.

High degree of disparity across inflows of included expenditure in relation to economic size

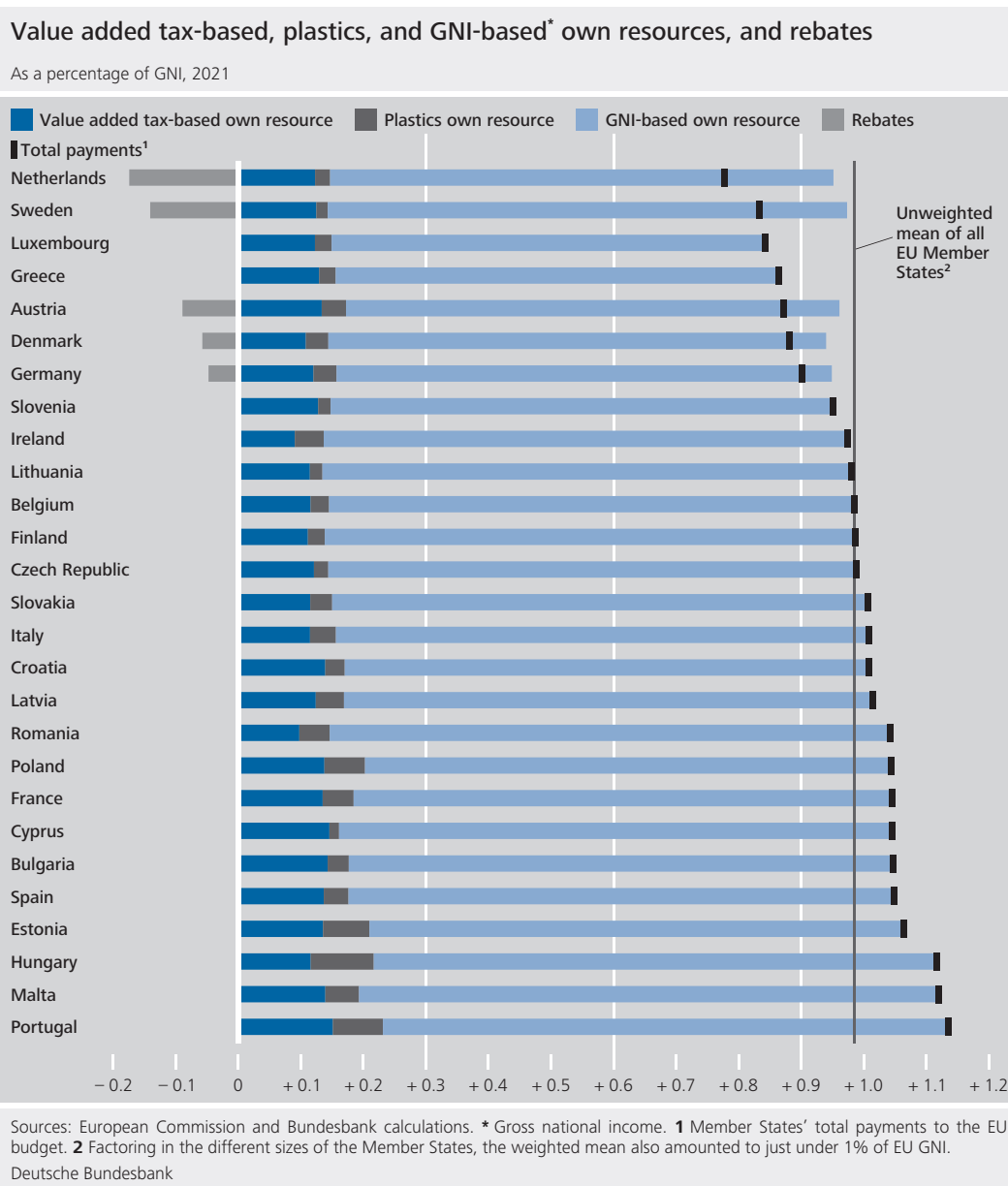
Member States' payments to the EU budget

Member States' payments to the EU budget covered around €140 billion of expenditure in 2021. By far the largest part of this was attributable to GNI-based own resources, which accounted for 73% of total own resources (unchanged from the annual average from 2014 to 2020). The share of the VAT-based own resource, which is now calculated using a new method, stood at 11% in 2021 (13% on average from 2014 to 2020).

Virtually no change in shares of GNI-based and VAT-based own resources

In 2021, Member States also contributed the plastics own resource to the EU budget for the first time. This comprised 4% of total own resources. The relative burden among the countries shifted only slightly as a consequence of the plastics own resource (see the chart on p. 41), which was mainly due to its small size. In addition, Member States agreed on different flat-rate cuts for many countries. As a result, there is less variation between Member States with regard to the ratio of the plastics own resource to economy size.

New plastics own resource accounted for 4% of own resources



Economy size continues to determine absolute level of Member States' financing contributions

All in all, Member States financed the 2021 EU budget roughly in line with the sizes of their economies: as in the past, payments did not differ significantly in relation to GNI (see the chart above). The chart also includes the rebates for Austria, Denmark, Germany, the Netherlands and Sweden. The Netherlands received the largest rebate, at just under 0.2% of its GNI, while Germany received the smallest, at less than 0.1% of GNI. The (unweighted) average of own resources excluding customs duties across all EU Member States stood at just under 1.0% of each country's GNI in 2021. The contributions of individual countries ranged

from just under 0.8% of GNI in the Netherlands to just over 1.1% of GNI in Portugal.

The Next Generation EU off-budget entity in 2021

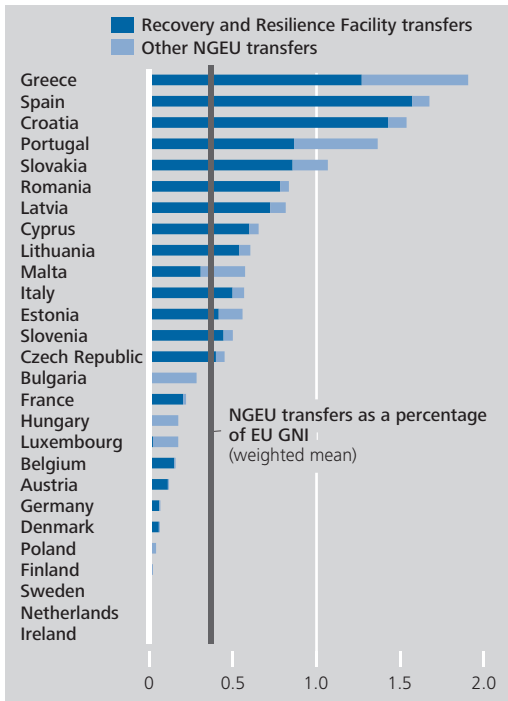
NGEU transfer payments

Last year, Member States received a total of €54 billion in NGEU transfers. More than four-fifths of these were transfers from the new Recovery and Resilience Facility (RRF). The remaining NGEU transfers topped up existing EU

In 2021, just under 0.4% of EU GNI was channelled to Member States as NGEU transfers

2021: Transfers from the NGEU* off-budget entity to the Member States

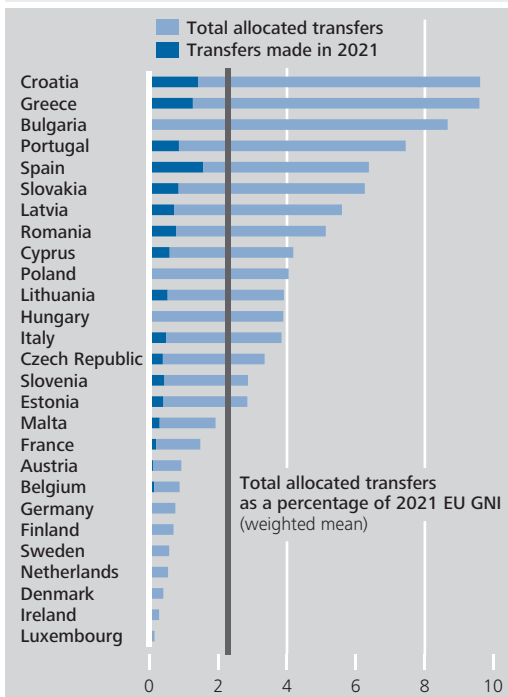
As a percentage of GNI¹



Sources: European Commission and Bundesbank calculations.
 * Next Generation EU. ¹ Gross national income.
 Deutsche Bundesbank

RRF* transfers: Total allocation and actual disbursements in 2021

As a percentage of GNI¹



Sources: European Commission and Bundesbank calculations.
 * Recovery and Resilience Facility. ¹ Gross national income.
 Deutsche Bundesbank

budget programmes without being recorded in the EU budget.

The adjacent chart shows the country-by-country distribution of NGEU funding over the past year in relation to each Member State's GNI. At just over 1.5% of their respective GNI, Greece, Spain and Croatia received the largest shares of funds, whilst Ireland, the Netherlands, Sweden, Finland, Poland, Denmark and Germany received the smallest payments, amounting to less than 0.1% of GNI. RRF funds, which are generally earmarked, flow to Member States at different speeds (see the chart below). In 2021, 14% of the total allocated funding was channelled to the Member States. Spain made the largest withdrawals, calling on 25% of its allocated funds. RRF funds are yet to be received by seven Member States, including Bulgaria, Hungary and Poland. Relatively large amounts of funding have been allocated to these countries. In the cases of Poland and Hungary, disbursement has been delayed owing to conflicts in connection with the "rule of law" clause.⁵ In addition, no RRF funds were channelled to Finland, Sweden, the Netherlands or Ireland in 2021.

RRF transfers flowing at different speeds

NGEU financing shares

In order to determine Member States' net contributions to NGEU, NGEU financing shares are compared with NGEU transfers received (see the box on p. 39). It is assumed that Member States will finance NGEU transfers according to their GNI shares in the respective year of disbursement. As NGEU transfers amounted to 0.4% of EU GNI in 2021, each Member State is deducted 0.4% of its GNI for NGEU transfers. Consequently, countries that received more than 0.4% of their GNI in NGEU funds in 2021 are recorded as net recipients and countries that received less are recorded as net contributors.

Financing of NGEU transfers in line with current GNI shares

⁵ See also Deutsche Bundesbank (2022).

Development of net contributions to the EU budget and NGEU

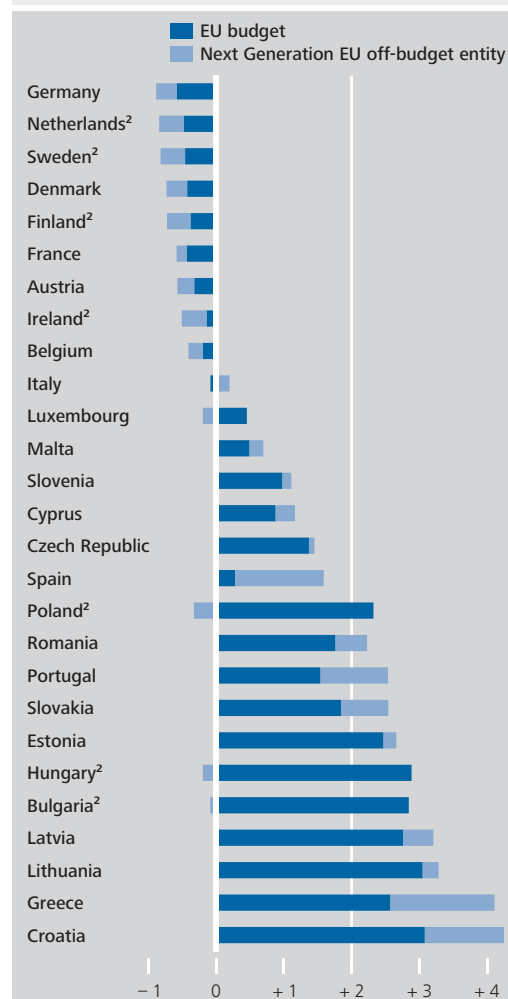
EU budget and NGEU taken together

In most Member States, net contributions from EU budget and NGEU point in the same direction

In 2021, Member States' net contributions consisted of two components for the first time: the net contribution from the EU budget and a net contribution from NGEU. On balance, nine of the 27 EU Member States were net contributors (see the adjacent chart). Germany's net payments were the highest relative to its GNI, at 0.9%, followed by the Netherlands, Sweden, Denmark, Finland, France, Austria, Ireland and Belgium. NGEU was a factor for all these countries being net contributors. For example, excluding NGEU would have lowered Germany's net contribution by 0.3 percentage point to 0.6% of GNI. The 18 remaining EU Member States were net recipients. Relative to their GNI, Croatia and Greece received the highest net payments, amounting to more than 4%. Lithuania and Latvia ranked third and fourth, with net payments of more than 3% of GNI. Most of these countries received net payments from both the EU budget and NGEU, though the net payments from the EU budget were generally considerably larger. Only in the case of Spain were the net payments from NGEU higher. This was due to the fact that Spain withdrew a particularly large share of its RRF funds in 2021. Hungary, Bulgaria and Poland are recorded as net contributors to NGEU in 2021, as no RRF funds have yet been channelled to these countries. However, this will change if they receive the RRF transfers that they have been allocated. Luxembourg is a net contributor to NGEU, but it receives larger net disbursements from the EU budget, making it a net recipient overall. Italy would have been a net contributor solely on the basis of the EU budget, but became a net recipient as a result of NGEU.

Net contributions in 2021

As a percentage of GNI¹



Sources: European Commission and Bundesbank calculations. ¹ Gross national income. ² There were no transfers from the Next Generation EU off-budget entity to these countries in 2021.

Deutsche Bundesbank

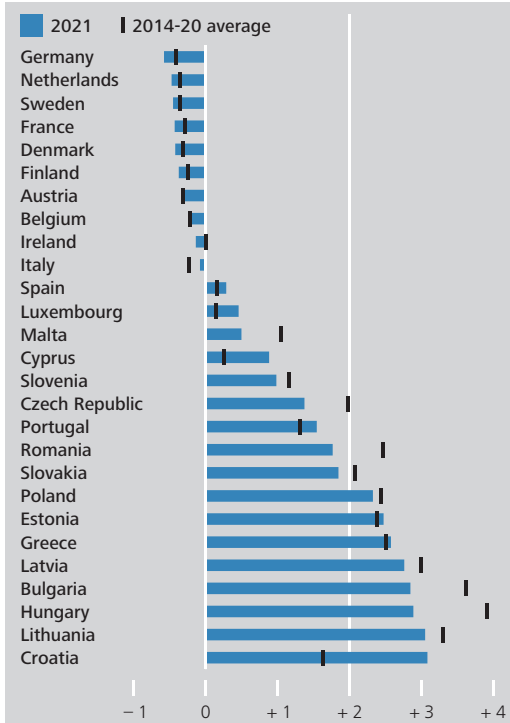
Comparison with average net contributions from 2014 to 2020

Both RRF and EU budget funds have been channelled unevenly to Member States over the years. This means that, even within a given financial framework, the level of net contributions can fluctuate from year to year and the ranking of countries in this respect can vary. Compared with the average of the 2014 to 2020 financial framework, however, the groups of net contributors and net recipients remained

Net contributors and net recipients virtually unchanged from the 2014 to 2020 financial framework

Net contributions to the EU budget

As a percentage of GNI¹



Sources: European Commission and Bundesbank calculations.
¹ Gross national income.
 Deutsche Bundesbank

virtually unchanged in 2021 (see the upper adjacent chart).

Compared with the average from 2014 to 2020, Germany's net contribution to the EU budget rose from 0.4% to just under 0.6% of its GNI. This was partly due to the fact that the United Kingdom was no longer a net contributor following its withdrawal from the EU. The German share of EU GNI increased from just under 22% to just over 25% as a result of Brexit. The German financing contribution to the EU budget rose accordingly. Among the net recipients, Croatia saw the steepest rise in its net payments, which amounted to around 1.5 percentage point. Bulgaria and Hungary, amongst others, received significantly less funding.

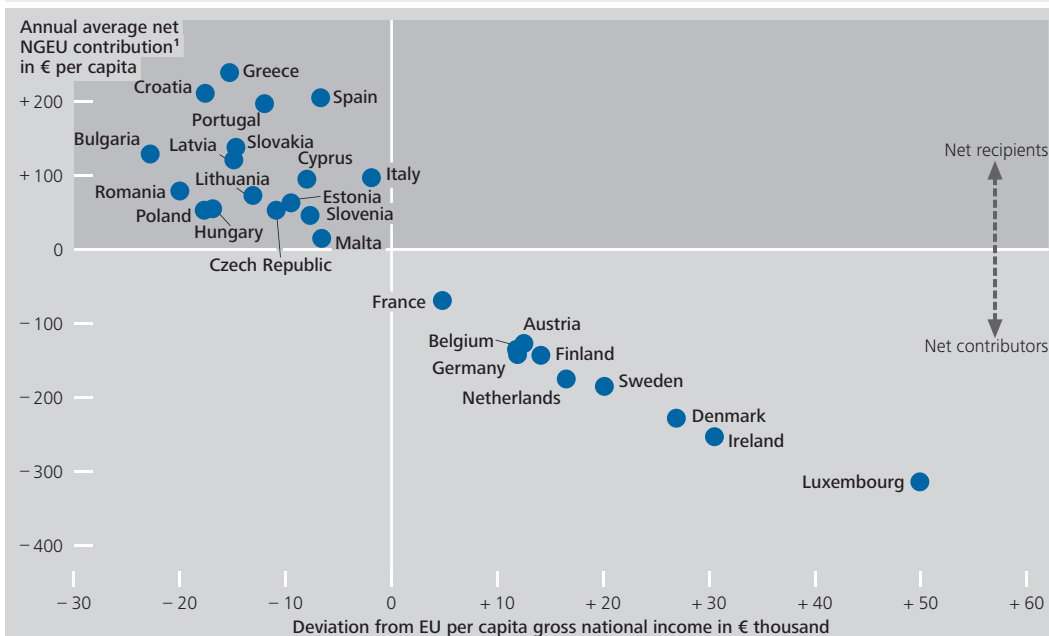
Germany's net contribution rose slightly as a result of Brexit

Net contributions to the EU budget and economic performance of the EU Member States in 2021



Sources: European Commission and Bundesbank calculations. ¹ Administration expenditure and customs duties are not included.
 Deutsche Bundesbank

Planned transfers in the Next Generation EU (NGEU) off-budget entity and economic performance



Sources: European Commission and Bundesbank calculations. **1** The annual average net NGEU contribution corresponds to one-sixth of the difference between the overall NGEU transfers pre-allocated to a Member State and that Member State's financing share in the total pre-allocated NGEU transfers. The share in the EU GNI in 2021 serves as the financing key. The following NGEU programmes have been pre-allocated: Recovery and Resilience Facility, React-EU, Just Transition Fund, and Rural Development. Not taken into account are NGEU programmes with no pre-allocation: Horizon Europe, InvestEU, and RescEU.

Deutsche Bundesbank

Net contributions and economic performance

Net contributions continue to correlate with economic performance

Member States decide jointly how to redistribute funds through the EU budget and NGEU. In this context, it appears reasonable to reallocate these funds from higher-performing Member States to lower-performing ones. This can be measured, for example, in terms of per capita GNI. With regard to the EU budget, all net contributors except Italy have a per capita GNI above the EU average and all net recipients except Luxembourg have a per capita GNI below the EU average. In addition, the amount of the net payments made or received is based on economic performance. While this does not apply in the case of every individual country, it

generally holds true. Per capita net contributions show a stronger response to differences in performance among net recipients than among net contributors. This pattern has been observed in the past and continued in the first year of the current financial framework (see the lower chart on p. 44).

NGEU transfers, as provided for in the allocation key, also tend to vary according to each Member State's economic performance (see the chart above). As the very uneven outflow of NGEU transfer payments would distort the picture, the chart for 2021 shows the annual average net contribution over the entire framework period of six years.

Link between level of transfers and economic performance in NGEU, too

List of references

Deutsche Bundesbank (2022), The central and eastern European EU Member States between the coronavirus crisis and the war in Ukraine, Monthly Report, August 2022, p. 20.

Deutsche Bundesbank (2020), The EU budget and its financing: looking back and ahead, Monthly Report, April 2020, pp. 45 ff.

European Commission (2022), European Commission, Directorate-General for Budget, Consolidated annual accounts of the European Union and financial statement: financial year 2021, Publications Office of the European Union, 2022.

European Commission (2020), European Commission, Directorate-General for Budget, Consolidated annual accounts of the European Union and financial statement: financial year 2019, Publications Office of the European Union, 2020.

European Commission (2019), EU Budget 2018, Financial Report, pp. 72 ff.