

Member States' financial relationships with the EU budget and the NextGenerationEU off-budget entity in 2022

Last year, the EU budget amounted to €168 billion, or just over 1% of the European Union's gross national income (EU GNI). Dedicated grants made up the bulk of this amount. For a time, the NextGenerationEU (NGEU) off-budget entity is also providing grants to Member States. These amounted to €62 billion, or just under ½% of EU GNI, in 2022.

The EU budget and NGEU fund a variety of expenditure items, the result being that financial resources are redistributed to lower-performing Member States (in terms of per capita GNI), which receive relatively large grants. At the same time, all Member States fund the EU roughly in proportion to the size of their economies, with each making regular national contributions of just under 1% of their GNI to the EU budget. The NGEU grants, by contrast, are funded initially using loans taken out jointly. The plan is for these debts to be repaid out of the EU budget starting in 2028, which is why the Member States are also financing NGEU roughly in line with their GNI shares.

Counting the EU budget and NGEU together, nine of the 27 Member States were net contributors in 2022, meaning that they paid in more than they received in grants. Relative to its GNI, Germany's net contribution was the highest, at just under 1%, followed by the net contributions made by the Netherlands and Sweden. Croatia (4% of national GNI) and Bulgaria (3½%) received the highest net grants. NGEU played a considerable part in the redistribution of financial resources. Excluding NGEU, the net contribution of Germany, say, would be just ½% of GNI.

The funds of the Recovery and Resilience Facility (RRF), which forms part of NGEU, are flowing to Member States at different speeds. Across all countries, the European Commission disbursed just over one-quarter of the RRF grants planned up to 2026 in the first two years (2021 and 2022). While some countries have not yet requested any RRF funds, Spain, Croatia and Italy, for example, have already received 40% of the grants intended for them. Germany requested 8%, but no funds in 2022.

Article outlines financial relationships between Member States and EU

■ Introduction

A regular overview of the financial relationships between Member States and the EU forms part of the Bundesbank's reporting on public finances.¹ The European Commission usually reports on the financial flows of the previous year in the second half of each year. In addition to the EU budget, these include the financial flows of the temporary NGEU off-budget entity. Amongst other things, this article presents the Member States' resulting net contributions last year.²

Net contributions show redistribution within the EU

■ Net contributions resulting from Member States' financial relationships with the EU budget and NGEU

Each Member State's net contribution is determined by the EU budget and NGEU. A positive net contribution means that the Member State is a net recipient – that is, it gets more out of the budget than it pays in. A negative one means that the Member State is a net contributor.

Lower-performing countries generally receive more funds out of the EU budget

EU budget

Annual expenditure under the EU budget is agreed by Member States in a multiannual financial framework (MFF) covering a period of seven years. The current MFF runs from 2021 to 2027, with the bulk of the expenditure going to Member States. Countries with a lower economic performance (in terms of their per capita GNI) generally receive disproportionately high grants out of the EU budget. In addition, the EU budget covers administrative expenditure as well as grants to non-EU countries for development or humanitarian aid, for example. Administrative expenditure is not included in the calculation of net contributions.

Alongside customs duties, national contributions by Member States, also known as GNI-

based own resources, are by far the largest revenue source for the EU budget. In addition, a smaller share comes from receipts collected by the European competition authority in the form of antitrust penalties or fines paid by Member States. Only Member States' national contributions feed into the calculation of net contributions. Overall, they are very much based on the strength of each country's economy, meaning that Member States pay roughly the same, relative to their GNI, into the EU budget.

Strength of economy determines size of payments into EU budget

NGEU

Member States agreed in 2020 to establish NGEU, an off-budget entity, as a response to the economic challenges presented by the coronavirus pandemic. It will see grants totalling approximately €420 billion being disbursed to Member States between 2021 and 2026,³ and also comprises loans of up to €390 billion to Member States. Unlike the EU budget, NGEU is initially being financed through joint borrowing, rather than via national contributions. The borrowing Member States themselves are servicing the debt taken out for NGEU loans (interest and principal payments). The debt taken out for the grants will have to be jointly repaid over time by all the Member States via the regular EU budget between 2028 and 2058. Member States have committed to making sufficient funds available to the EU budget for this purpose. It is currently envisaged that Member States will continue to finance the EU budget largely in line with their GNI shares. For this reason, it makes sense to estimate Member States' NGEU financing burdens and net contributions based on their respective GNI shares, too. The net contribution calculated in this way

NGEU grants financed by borrowing initially and later via EU budget

¹ The reporting focuses on grants paid out of the EU budget and the NGEU off-budget entity. The EU's lending programmes, such as its macro-financial assistance or NGEU loans, are disregarded.

² The Bundesbank first reported in October 2022 on financial relationships between Member States and the EU budget, including NGEU. A detailed description of the methodology can be found in Deutsche Bundesbank (2022).

³ All NGEU figures are shown in current prices.

is the amount that would be payable if Member States were already financing NGEU grants today out of national contributions to the regular EU budget.

The next section presents the net contributions to the EU budget and to NGEU calculated in this manner for 2022.

■ Developments in 2022

Total net contributions

Nine countries net contributors, 18 net recipients

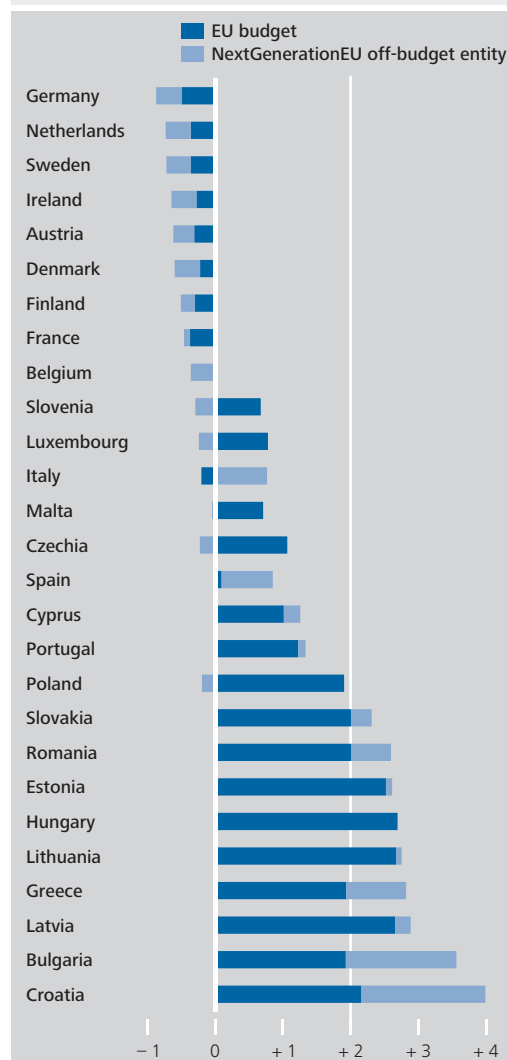
Just like the EU budget, NGEU benefits lower-performing Member States. However, Member States do not request the funds allocated to them evenly over the years, which is why, at times, the NGEU net contributions fluctuate considerably from one year to the next. Looking at the EU budget and NGEU together, nine of the 27 EU Member States were net contributors in 2022 (see the adjacent chart).⁴ Germany paid the most in net terms, at just under 1% of national GNI, followed by the Netherlands, Sweden, Ireland, Austria, Denmark, Finland, France and Belgium. In all these countries, NGEU added significantly to net payments. In most of the net contributor Member States (including Germany), NGEU made up around half of the net contribution, even though NGEU was only half the size of the EU budget. This is because two large Member States – Italy and Spain – requested a particularly large portion of their allocated NGEU funds. In France, the increase in the net contribution due to NGEU was less sizeable, while Belgium only became a net contributor as a result of NGEU.

Impact of NGEU on net contribution particularly large in Spain and Italy

The other 18 Member States were net recipients. Croatia and Bulgaria received the highest net grants relative to their national GNI, at 4% and just over 3½%, respectively. They were followed by Latvia, Greece, Lithuania, Hungary, Estonia, Romania and Slovakia, which each received more than 2% of GNI. In the large economies of Italy and Spain, NGEU accounted for a particularly large share of net grants. Italy

Net contributions in 2022

As a percentage of each country's gross national income



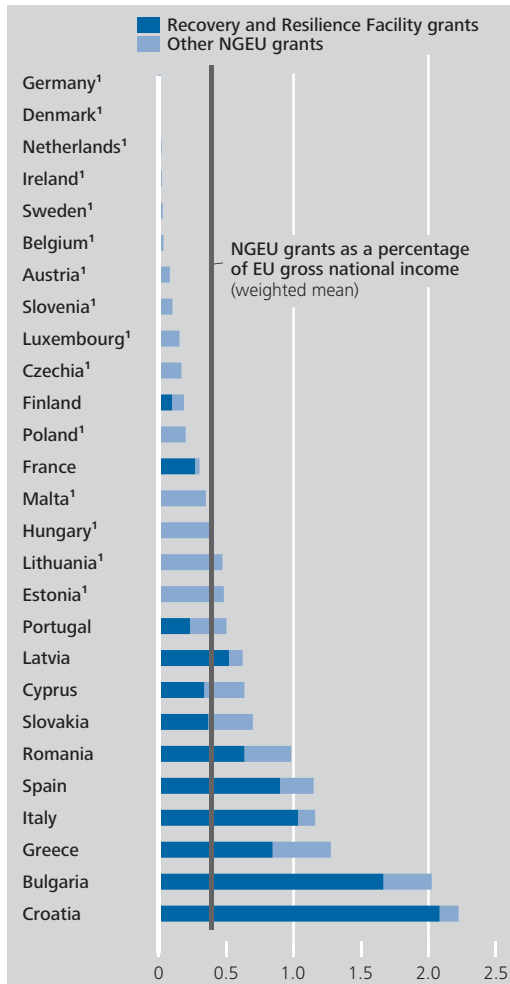
Sources: European Commission and Bundesbank calculations. Deutsche Bundesbank

would have been a net contributor were it not for NGEU, while Spain received significantly higher net grants from NGEU than from the EU budget. In Slovenia, Luxembourg, Malta, Czechia, Poland and Hungary, net inflows from the EU budget contrasted with a (significantly smaller) net burden from NGEU.

⁴ Figures are based on payment flows into the EU budget, which the European Commission publishes on its website. See https://commission.europa.eu/strategy-and-policy/eu-budget/long-term-eu-budget/2021-2027/spending-and-revenue_en. Current data from the AMECO database were used for GNI.

NextGenerationEU (NGEU) grants to Member States in 2022

As a percentage of each country's gross national income



Sources: European Commission and Bundesbank calculations.
¹ No Recovery and Resilience Facility grants went to these countries in 2022.
 Deutsche Bundesbank

tional Recovery and Resilience Plans (RRPs) with the European Commission, which set out the milestones each country has to achieve. Countries can request up to 13% of their allocated grants and loans as pre-financing without monitoring to begin with. If a Member State requests additional funds, it must demonstrate that it has achieved the agreed milestones. Only then can the European Commission disburse the funds.

The year 2022 saw NGEU grants worth €62 billion in total being disbursed to Member States (€47 billion thereof out of the RRF). That equates to just under ½% of EU GNI and was €8 billion up on the previous year. NGEU grants differed significantly across Member States (see the adjacent chart). Only 12 of the 27 Member States received RRF grants, with Croatia and Bulgaria obtaining the most, in relative terms, at 2% and 1.7% of GNI, respectively. They were followed by Italy, Spain and Greece at between 0.8% and 1.0% of GNI. Finland requested only the pre-financing, at 0.1% of GNI.

European Commission paid out €62bn in NGEU grants in 2022

Cross-country divergences in the disbursement of RRF grants widened again in 2022 (see the left-hand chart on p. 83). In total, the European Commission disbursed 28% of the total funds in the first two years of the six-year RRF term. Romania, France, Spain, Croatia and Italy have already had between 30% and just over 40% of their funds disbursed to them. With the exception of France, these countries are entitled to a disproportionately large share of RRF funds relative to GNI. To date, five countries have received no RRF grants whatsoever, including Hungary and Poland, which have likewise been assigned a disproportionately large volume of RRF funds. Hitherto, payment of their funds has been suspended by the European Commission owing to breaches of the principles of the rule of law. By the end of 2022, four countries, including Germany, had only requested the pre-financing.

RRF grants being disbursed at different speeds

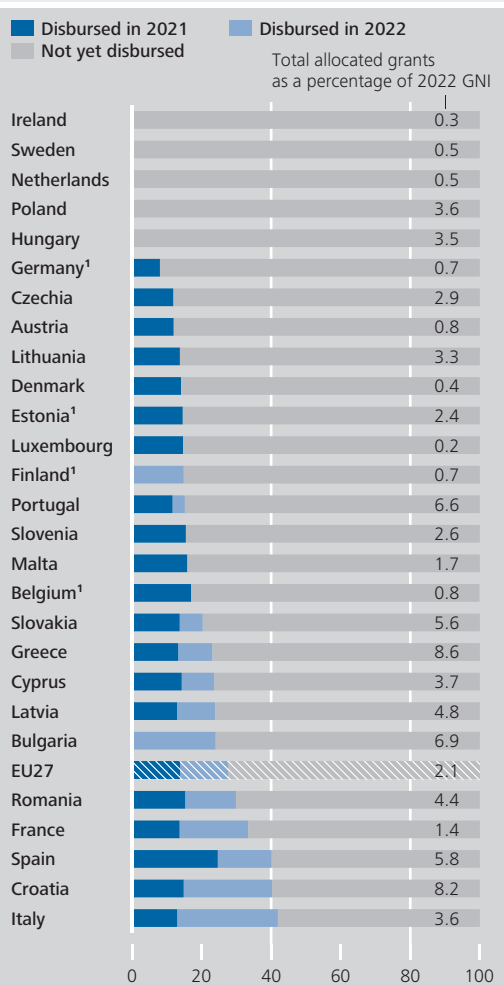
NGEU: grants disbursed at different speeds

The Recovery and Resilience Facility is the centrepiece of NGEU, accounting for 80% of total grants. The remaining 20% of NGEU grants are being used to reinforce existing programmes funded by the EU budget. Viewed cumulatively over the entire horizon, RRF funds are disproportionately allocated, by agreement, to lower-performing Member States. However, Member States need to satisfy certain requirements to obtain the RRF funds allocated to them. To this end, they have each agreed na-

RRF subject to special requirements

Recovery and Resilience Facility grants to Member States

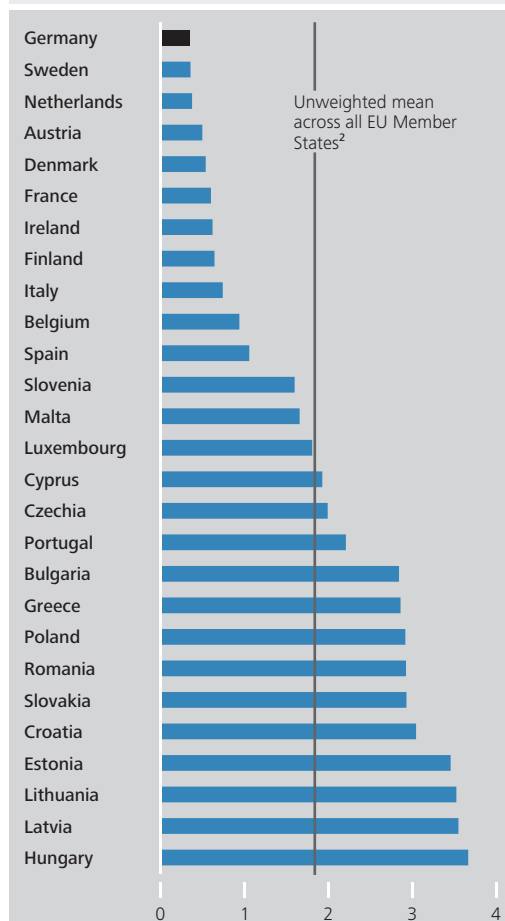
As a percentage of each country's gross national income



Sources: European Commission and Bundesbank calculations.
¹ By the end of 2022, these countries had only received the pre-financing.
 Deutsche Bundesbank

Grants from the EU budget to Member States in 2022

As a percentage of each country's gross national income, operating expenditure¹



Sources: European Commission and Bundesbank calculations.
¹ Expenditure excluding administrative spending and debt service for the NextGenerationEU off-budget entity. ² Factoring in the different sizes of the Member States, the weighted mean was just under 0.9% of EU GNI.
 Deutsche Bundesbank

EU budget: development steady

EU budget of €168bn in 2022

The EU budget for 2022 comprised expenditure of around €168 billion,⁵ which equates to just over 1% of EU GNI. Of this, just over €10 billion was accounted for by administrative expenditure, which is not factored into the calculation of net contributions. This item's share remained unchanged at 6% of total expenditure. Another item that is disregarded is expenditure on servicing NGEU debt. This has only comprised interest payments to date and was still negligible, at €47 million. Expenditure of €24 billion was covered by customs revenue,

which is likewise excluded from the calculation of net contributions. The recovery in the economy meant that this item was €3 billion higher than in 2021.

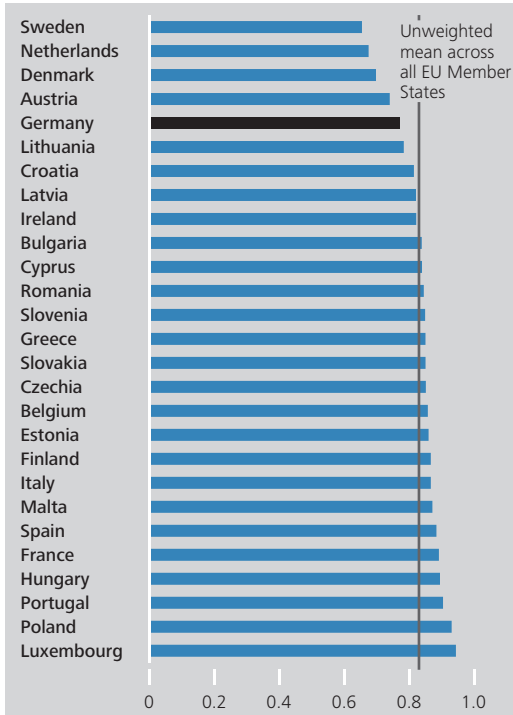
Operating expenditure (expenditure net of administration and NGEU debt service) came to €157 billion in 2022. As usual, cohesion policy expenditure made up the largest share, followed by agricultural policy expenditure. These two categories combined accounted for more than two-thirds of expenditure. The remaining €38 billion was distributed across the areas of

Broad variation in grants out of the EU budget

⁵ See European Commission (2023).

Member States' payments into the EU budget in 2022

As a percentage of each country's gross national income



Sources: European Commission and Bundesbank calculations.
 Deutsche Bundesbank

Redistribution via EU budget and NGEU following similar pattern

Via the EU budget, Member States typically redistribute financial resources from higher-performing countries to lower-performing ones. This tendency is also evident in the current MFF and in the total assigned NGEU grants (see the charts on p. 85). On average over the first two years, all net contributors to the EU budget, with the exception of Italy, had a higher per capita GNI than the EU average. Conversely, the per capita GNI of the net recipients, with the exception of Luxembourg,⁶ was below the EU average in the same period.

Net contributions still correlate with economic performance

Conclusion

The EU budget redistributes financial resources from higher-performing EU Member States to lower-performing ones primarily on the expenditure side. That is also the declared objective of the EU's cohesion policy, for example. NGEU follows the same principle of redistribution and increases its scale.

NGEU increases scale of redistribution

Because Member States are funding NGEU grants by borrowing via an off-budget entity, they are shifting their respective financing burdens into the future. Neither their deficits nor their general government debt levels (as defined by Maastricht in each case) reflect these burdens. However, any analysis of public finances should already take these future burdens into account today – for example, when calculating fiscal sustainability. It would be logical to also give timely consideration to these financing burdens as part of the reform of the

Also consider NGEU grants in fiscal analysis and fiscal rules

research and infrastructure, external action, and security and citizenship. As in previous years, there was significant variation in the level of grants paid to Member States out of the EU budget (see the right-hand chart on p. 83). Hungary received the highest relative amount, at just over 3½% of GNI, while Germany, Sweden and the Netherlands had the lowest, at just under ½%.

Much less variation in payments by Member States

As usual, Member States' payments into the EU budget, measured in terms of 2022 GNI, were much closer to each other than the grants they received (see the above chart). These payments covered €130 billion of expenditure. Expressed as an (unweighted) average, Member States paid just over 0.8% of their GNI into the EU budget. The range between the countries with the lowest and highest payments (relative to GNI) was 0.3 percentage point.

⁶ Luxembourg receives comparatively high payments, relative to the strength of its economy, as part of the Horizon Europe research programme. In 2022, payments under this programme amounted to just under 1% of GNI, which was almost as high as Luxembourg's total payments into the EU budget. In 2021, the inflow came to 0.5% of Luxembourg's GNI, which was likewise well above the European average. By comparison, the other Member States receive less than 0.1% of their GNI on average under this programme.

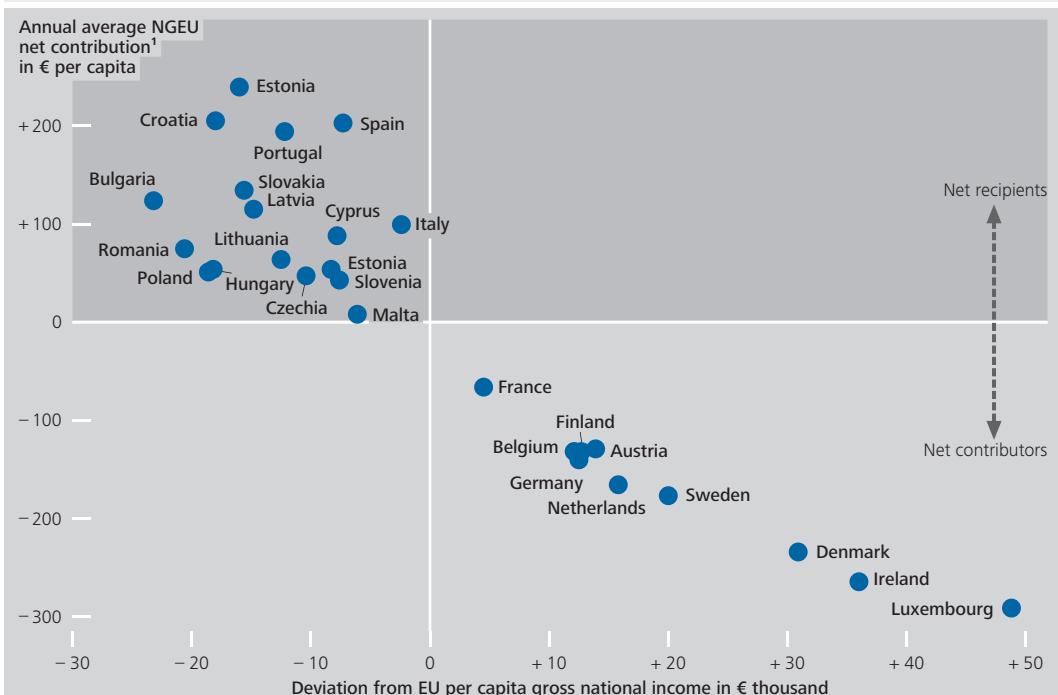
Net contributions to the EU budget and economic performance of the EU Member States

Average 2021-22



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

Planned grants from the NextGenerationEU (NGEU) off-budget entity and economic performance



Sources: European Commission and Bundesbank calculations. **1** One-sixth of the difference between the total NGEU grants pre-allocated to a Member State and that Member State's share in financing the total pre-allocated NGEU grants.
 Deutsche Bundesbank

European fiscal rules. Under national budgetary rules like Germany's debt brake, it would make sense to count annual NGEU borrowing on a pro rata basis towards the Federal Government's scope for borrowing.

■ List of references

Deutsche Bundesbank (2022), Member States' financial relationships with the EU budget and the Next Generation EU off-budget entity in 2021, Monthly Report, October 2022, pp. 35-46.

European Commission (2023), European Commission, Directorate-General for Budget, Consolidated annual accounts of the European Union: Integrated financial and accountability reporting 2022, Publications Office of the European Union, 2023.