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The EU's 2028-2034 Multiannual Financial Framework and the future of joint borrowing

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1. Introduction

The adoption of the NextGenerationEU (NGEU) programme in 2021 is widely considered a transformative moment for the role of joint borrowing in European Union (EU) policymaking. Analysts were quick to pronounce that NGEU was path-breaking for the EU,¹ or — according to a significant number of political leaders and expert observers — even Europe’s ‘Hamiltonian moment’.² While such claims may be exaggerated — the EU has borrowed on capital markets since the 1950s — there can indeed be little doubt that NGEU has injected a new dynamic into EU fiscal politics.³ Since 2020, the EU’s borrowing has increased to over €600bn, making it the fifth-largest public issuer in the euro area, and the largest in terms of net issuance in 2025.⁴ The EU’s borrowing abilities have not just funded the recovery from the COVID-19 pandemic, but also enabled the Union to become the largest provider of financial assistance to Ukraine since 2022.⁵ The Draghi Report

in 2024 called for increased joint borrowing to finance public investments in European public goods,⁶ an idea recently endorsed by the International Monetary Fund (IMF).⁷ Joint borrowing, it seems, has opened wondrous new possibilities for what the EU can accomplish despite its limited budget.

Yet for all the calls for more joint debt, the question of what institutional impact NGEU has had on the role of joint borrowing in future EU policies has so far been difficult to answer, given how little time has passed since the programme’s launch. In July 2025, the European Commission published its proposal for the upcoming 2028-2034 Multiannual Financial Framework (MFF), which might be seen as a first indication of how the borrowing capacities and political agreements that allowed large-scale EU borrowing in the first place might be reflected in the Union’s fiscal architecture going forward.⁸ As we argue in this policy

¹ Schelkle, W. (2021) ‘Fiscal Integration in an Experimental Union: How Path-Breaking Was the EU’s Response to the COVID-19 Pandemic?’, *JCMS: Journal of Common Market Studies*, 59(S1), pp. 44–55. Available at: <https://doi.org/10.1111/jcms.13246>.

² Dausend, P. and Schieritz, M. (2020) ‘“Jemand muss vorangehen”, *Die Zeit*, 19 May. Available at: <https://www.zeit.de/2020/22/olaf-scholz-europaeische-union-reform-vereinigte-staaten>.

³ Hodson, D. *et al.* (2026) *Banking on Europe: Why the EU Became a Sovereign-Style Borrower and How It Should Be Held to Account*. Oxford: Oxford University Press.

⁴ European Commission (2025) *EU Investor Presentation INVESTING IN EU-Bonds & EU-Bills*. Available at: https://commission.europa.eu/document/download/9cbfa1da-2198-4ad7-9846-233eca7397a8_en?filename=EU%20Investor%20Presentation_Mar_2025_final.pdf (Accessed: November 11, 2025).

⁵ Hodson, D. and Howarth, D. (2024) ‘The EU’s Recovery and Resilience Facility: An Exceptional Borrowing Instrument?’, *Journal of European Integration*, 46(1), pp. 69–87. Available at: <https://doi.org/10.1080/07036337.2023.2243378>.

⁶ Draghi, M. (2024) *The future of European competitiveness*. Brussels. Available at: https://commission.europa.eu/document/download/ec1409c1-d4b4-4882-8bdd-3519f86bbb92_en?filename=The%20future%20of%20European%20competitiveness_%20In-depth%20analysis%20and%20recommendations_0.pdf (Accessed: October 11, 2024).

⁷ International Monetary Fund (2025) *Euro Area Policies: 2025 Annual Consultation*. Washington D.C. Available at: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

⁸ European Commission (2025) *The 2028-2034 EU budget for a stronger Europe*. Available at: <https://commission.europa.eu/strategy-and->

brief, the MFF proposal shows that Commission's borrowing facilities have indeed become a fixture thanks to the EU's reforms since 2021. However, their impact amounts only to a partial transformation and stops well short of any meaningful steps towards fiscal union.

2. Becoming a sovereign-style borrower

It took significant institutional reform to enable the EU to borrow hundreds of billions of euros in response to the COVID-19 pandemic. Until 2020, the EU's budget had been deployed to fund loans to both member states and third countries, but these loans used to be limited in size. Yet, the EU's first pandemic-related instrument — Support to mitigate Unemployment Risks in an Emergency (SURE) — proved a challenge to both the capacity of the EU budget to guarantee borrowings, and the European Commission's ability to manage a larger stock of debt.⁹ To run its successor, NextGenerationEU, major changes to the EU's budgetary structure and the Commission's debt management operations were implemented which significantly influenced the EU's approach to financial assistance under the current MFF.

The first significant change was to increase the EU's budgetary headroom, thereby allowing the EU to borrow much more than it had prior to 2020. The EU's budgetary headroom refers to the gap between its budgetary appropriations and the maximum amount of money that the Commission can legally call up from the member states under the Own Resources Decision (ORD). While this headroom had been increasing with each successive MFF, it was not enough to backstop the EU's pandemic borrowing instruments without potentially jeopardizing the EU's AAA credit rating. To fund the €100bn envelope of SURE, additional bilateral member state guarantees were necessary.¹⁰ In the 2020 Own Resources Decision, member states raised the Own Resources ceiling from 1.23% of EU Gross National Income (GNI) per year to 2 per cent (Council Decision 2020/2053) — bolstering the EU's capacity to guarantee borrowings against its budget even beyond the funding needs for NGEU.¹¹ Of this increase, 0.6% of GNI were earmarked for the sole purpose of repaying the unprecedented debt-funded grants disbursed under NGEU. Much of the remainder has since 2022 been used to guarantee the EU's long-term loans to Ukraine.¹² In short, a sizeable budgetary headroom has underpinned the EU's

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⁹ Cooper, I. (2024) 'Support to mitigate Unemployment Risks in an Emergency – SURE', in Fabbrini, F. and Petit, C. A., eds., *Research Handbook on Post-Pandemic EU Economic Governance and NGEU Law*, Edward Elgar, pp. 80-92. Available at: <https://doi.org/10.4337/9781035328161>

¹⁰ Article 11, 'Council Regulation (EU) 2020/672 of 19 May 2020 on the establishment of a European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak' (2020) *Official Journal/L* 159, 1-7. <http://data.europa.eu/eli/reg/2020/672/oj>

¹¹ Articles 5 and 6, 'Council Decision (EU, Euratom) 2020/2053 of 14 December 2020 on the system of own resources of the European Union and repealing Decision 2014/335/EU, Euratom' (2020) *Official Journal/L* 424, 1-10. <http://data.europa.eu/eli/dec/2020/2053/oj>

¹² European Commission (2024) *REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL on contingent liabilities arising from budgetary guarantees and financial assistance and the sustainability of those contingent liabilities Situation at 31 December 2023*. Brussels. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52024DC0507> (Accessed: November 13, 2025).

ability to create new borrowing facilities.

A second, more technical, change to the Commission's debt management operations, which was also introduced for NGEU, has made its debt-funded loan operations vastly more attractive. Until 2020, the EU borrowed under a back-to-back borrowing framework, where it passed on the conditions of its own borrowing — maturity and interest — to the loan recipient. After SURE showed the limits of this approach for larger amounts of borrowing and lending, the implementation of NGEU required an altogether more flexible approach. In 2021 the Commission instituted a diversified funding strategy, under which it could de-link loans and borrowing, and fund its debts through calendar-based issuance and short-term borrowing, similar to national debt management agencies. Since 2023, all Commission borrowing has been funded in this way.¹³ This reform extended the maturities that the Commission could offer to its recipients from 15 years under SURE to 40 years or more for its latest loans to Ukraine. Loans with such maturities are highly attractive for the recipients, given that repayments are stretched out over a long period. The EU's new debt management architecture has thus not just created a constituency of investors that demand continued issuance; it has also brought tangible benefits for countries that borrow from the EU.

¹³ Spielberger, L. *et al.* (2025) 'Building a European Union "Treasury": Explaining the European Commission's New Approach to Debt Issuance and Management', *JCMS: Journal of Common Market Studies*, 63(4), pp. 1197–1216. Available at: <https://doi.org/10.1111/jcms.13696>.

¹⁴ European Commission (2025) *Proposal for a COUNCIL DECISION on the system of own resources of the European Union and repealing Decision (EU, Euratom) 2020/2053*. Available at: <https://op.europa.eu/en/publication-detail/-/publication/eac3a0fe-62e4-11f0-bf4e-01aa75ed71a1/language-en>

3. Borrowing instruments under the next MFF

The Commission's proposal for the 2028-2034 MFF has clearly drawn inspiration from these reforms, but it has stopped short of simply proposing a rerun of NGEU. On the contrary, the proposal includes two entirely new borrowing instruments through which the Commission will seek to provide financial assistance to member states and provide concessional loans for national investment priorities. While these instruments highlight the Commission's continued appetite for joint debt, they also illustrate the tricky politics of further EU borrowing.

The first facility, a hitherto unnamed 'crisis mechanism', seeks to give the EU a standing facility to extend loans of up to €400bn in response to emergencies.¹⁴ In the words of Commission President Ursula von der Leyen, 'crises are no longer the exception, they are the norm',¹⁵ and accordingly, the EU should have a flexible capacity to support member state responses to emerging threats. The Commission's proposed crisis mechanism is supposed to reserve an increment of the EU budget to guarantee future crisis-related loans to member states; it would require the adoption of a Council Regulation to be activated.¹⁶ The idea of a permanent crisis mechanism may seem self-contradictory at first glance, but it is

¹⁵ European Commission (2025) *Statement by President von der Leyen on the next long-term EU budget*, Available at: https://ec.europa.eu/commission/presscorner/detail/en/statement_25_1851

¹⁶ Article 6, European Commission (2025) *Proposal for a COUNCIL DECISION on the system of own resources of the European Union and repealing Decision (EU, Euratom) 2020/2053*. Available at: <https://op.europa.eu/en/publication-detail/-/publication/eac3a0fe-62e4-11f0-bf4e-01aa75ed71a1/language-en>

worth noting that EU financial assistance since the Euro Area crisis has relied on ad hoc instruments.¹⁷ Consequently, the proposal can be understood as part of the Commission's attempt to streamline financial assistance and gain a structural borrowing capacity within the EU's budgetary framework.

Intriguingly, the proposed crisis mechanism relies on a new legal basis which, if adopted, would also address an institutional imbalance at the core of EU financial assistance. To date, EU assistance to member states has remained outside the EU budget and been funded under Art 122.2 TFEU — a rather general provision that allows the Council to adopt temporary financial assistance instruments.¹⁸ However, the resulting off budget-character of joint borrowing operations, and the exclusion of the European Parliament from deciding on most financing facilities have long been politically contested.¹⁹ This debate has resurfaced after the expansion of EU borrowing since 2020 (both the borrowing for SURE and for NGEU rely

on this provision) as joint borrowing has become more significant in the EU's public finances.²⁰ Reflecting this political pressure, both a 2020 joint declaration by the institutions²¹ and the current Commission's Political Priorities promised greater EP involvement in future uses of Art 122.2 TFEU.²² Rather than reform Art 122.2 TFEU, however, the new mechanism is to be created under Art 311.3 TFEU. This means that, to activate it, the EP would have to give its consent, which would grant it a substantive say over future debt-funded assistance programmes.

The Commission's proposal for a second financing facility, provisionally named 'Catalyst Europe', signals that it does not seek to prolong all elements of NGEU.²³ While the facility continues EU funding for national investments, the key innovation that made NGEU supposedly so path-breaking — the use of joint borrowing to provide outright grants — is no longer on the agenda. Quite the opposite: the Commission stresses that it no longer seeks to borrow for current expenditure and that debt-funded grants under

¹⁷ Chamon, M. (2023) *The use of Article 122 TFEU Institutional implications and impact on democratic accountability*. Brussels. Available at: [https://www.europarl.europa.eu/RegData/etudes/STUD/2023/753307/IPOL_STU\(2023\)753307_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2023/753307/IPOL_STU(2023)753307_EN.pdf) (Accessed: November 22, 2024).

¹⁸ Chamon, M. (2023) *The use of Article 122 TFEU Institutional implications and impact on democratic accountability*. Brussels. Available at: [https://www.europarl.europa.eu/RegData/etudes/STUD/2023/753307/IPOL_STU\(2023\)753307_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2023/753307/IPOL_STU(2023)753307_EN.pdf) (Accessed: November 22, 2024).

¹⁹ Vitsentzatos, M. (2014) "Loans and guarantees in the European Union budget," *ERA Forum*, 15(1), pp. 131–144. Available at: <https://doi.org/10.1007/s12027-014-0340-5>.

²⁰ "The revision of the Financial Regulation in view of the entry into force of the 2021-2027 multiannual financial framework European Parliament resolution of 24 November 2021 on the revision of the Financial Regulation in view of the entry into force of the 2021-2027 multiannual financial framework (2021/2162(INI))" (2022) *Official Journal C* 224, 37-46. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.C.2022.224.01.0037.01.ENG&toc=OJ%3AC%3A2022%3A224%3AATOC>

²¹ 'Joint declaration of the European Parliament, the Council and the Commission on budgetary scrutiny of new proposals based on Article 122 TFEU with potential appreciable implications for the Union budget 2020/C 444 I/05', (2020) *Official Journal C* 444, 5-5. Available at: [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020C1222\(05\)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020C1222(05))

²² Von der Leyen, U. (2024) *Europe's Choice – Political Guidelines for the Next European Commission 2024-2029*. Available at: https://commission.europa.eu/document/download/e6cd4328-673c-4e7a-8683-f63ffb2cf648_en?filename=Political%20Guidelines%202024-2029_EN.pdf p. 30

²³ European Commission (2025) *COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE EUROPEAN COUNCIL, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS A dynamic EU Budget for the priorities of the future - The Multiannual Financial Framework 2028-2034*, COM/2025/570 final. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52025DC0570&qid=1753978048542>

NGEU were a one-off.²⁴ Instead, Catalyst Europe is supposed to provide cheap loans to member states to allow them to fund investments in EU strategic objectives, replicating an approach established through the loan portion of NGEU and the more recent SAFE facility²⁵. Arguably, the EU's long loan maturities, and the Commission's low funding costs may still make such a facility attractive for most member states. But the proposed size of the instrument of €150bn is rather modest compared to the proposals floated by the IMF or the Draghi Report.

4. How to pay for all the debt

The Commission's proposal for a new Decision on the EU's Own Resources demonstrates that it is also seeking a clearer alignment between its borrowing instruments and the borrowing space available under the EU budget. In previous budgets, all Commission loans to member states — and more recently also those to Ukraine — were guaranteed under the general margin between the appropriations ceiling and the Own Resources ceiling;²⁶ the latest proposal follows the precedent set by NGEU of

earmarking compartments within the Own Resources to individual facilities.

The proposal foresees spending of up to 1.29% of EU GNI, against a ceiling of 1.75%.²⁷ The difference between these two — 0.46% of EU GNI — can be seen as the general headroom margin which could guarantee new loans under the EU's existing facilities, including a planned increase in the Ukraine Facility of 100bn, as well as SAFE and, probably, Catalyst Europe. However, the proposed Crisis Mechanism requires different budgetary underpinnings. The Crisis Mechanism, by virtue of its envisioned legal basis will be placed under a separate increment of 0.25% of EU GNI, on top of the existing ceiling,²⁸ which would bring the de facto spending limit under the Own Resources Decision to 2% of GNI.

The EU budget combines revenue from different sources to reach this amount. Most of the EU budget — about 64% — is funded from member state budget contributions under the GNI component.²⁹ Yet the Commission has long sought to increase the share coming from the Own Resources — that is, autonomous EU revenue, even though it is collected by national finance ministries akin to any national tax on EU citizens and businesses.

²⁴ Recital 26, European Commission (2025) *Proposal for a COUNCIL DECISION on the system of own resources of the European Union and repealing Decision (EU, Euratom) 2020/2053*. Available at: <https://op.europa.eu/en/publication-detail/-/publication/eac3a0fe-62e4-11f0-bf4e-01aa75ed71a1/language-en>

²⁵ 'Council Regulation (EU) 2025/1106 of 27 May 2025 establishing the Security Action for Europe (SAFE) through the Reinforcement of the European Defence Industry Instrument (Text with EEA relevance)' (2025) *Official Journal* L 1106, <http://data.europa.eu/eli/reg/2025/1106/oj>

²⁶ European Commission (2024) *REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL on contingent liabilities arising from budgetary guarantees and financial assistance and the sustainability of those contingent liabilities Situation at 31 December 2023*. Brussels. Available at: <https://eur-lex.europa.eu/legal->

<content/EN/TXT/PDF/?uri=CELEX:52024DC0507> (Accessed: November 13, 2025).

²⁷ Article 4.1, European Commission (2025) *Proposal for a COUNCIL DECISION on the system of own resources of the European Union and repealing Decision (EU, Euratom) 2020/2053*. Available at: <https://op.europa.eu/en/publication-detail/-/publication/eac3a0fe-62e4-11f0-bf4e-01aa75ed71a1/language-en>

²⁸ Article 8, European Commission (2025) *Proposal for a COUNCIL DECISION on the system of own resources of the European Union and repealing Decision (EU, Euratom) 2020/2053*. Available at: <https://op.europa.eu/en/publication-detail/-/publication/eac3a0fe-62e4-11f0-bf4e-01aa75ed71a1/language-en>

²⁹ European Commission (2025) *DRAFT The Union's budget for the financial year 2026*. Available at: <https://eur-lex.europa.eu/budget/data/DB/2026/en/SEC03.pdf>

5. Conclusion

When the EU adopted NGEU, with its grant component, the institutions reached an agreement to create new Own Resources to repay the grant-related borrowings.³⁰ However, to date, only one of the three planned resources, the Carbon Border Adjustment Mechanism (CBAM),³¹ has seen the light of day, and its revenue is far below what will be necessary to repay NGEU.

Given that net repayments on the principal for NGEU are set to begin under the next MFF, the Commission has proposed three new Own Resources,³² the proceeds of which are to be matched to the repayment of NGEU of about 58.5bn per year. However, the prospects of these new revenue sources being adopted remain slim. New Own Resources would not just shift the balance of budgetary contributions among member states; they would also create a direct political link between increased borrowing and revenue powers for the Commission. The Commission is able to service all its debts and continue to borrow with its AAA credit rating in their absence. This gives member states few reasons to agree to new EU Own Resources.

The Commission's July 2025 proposals for the MFF and the Own Resources Decision should be seen as the starting gun in a protracted negotiation over the future of the EU's long-term finances. While the draft legislation shows the Commission's eagerness to continue to take advantage of its new borrowing capabilities, it also reflects the need to tread carefully. The reforms implemented since the creation of NGEU have, doubtless, left a mark in terms of allowing the Commission to offer concessional long-term loans and of creating new budgetary headroom for borrowing. However, it is apparent that not all elements of the pandemic facility have stood the test of time. The Commission's reluctance to propose another round of debt-funded grants suggests that future joint borrowing will be confined to providing concessional loans. The Commission's efforts to find an alternative to Art 122.2 TFEU suggests that it aims to give the European Parliament a limited say over future crisis assistance. Finally, efforts to leverage joint borrowing to gain more autonomous revenue sources appear ill-fated. Without a doubt, NGEU had a profound impact on the EU's budgetary politics. However, we should not conclude that it has put the EU on an irreversible path towards fiscal union.

³⁰ 'Interinstitutional Agreement between the European Parliament, the Council of the European Union and the European Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management, as well as on new own resources, including a roadmap towards the introduction of new own resources' (2020) *Official Journal* L 433, 28-46. Available at: http://data.europa.eu/eli/agree_interinst/2020/122/2/oj

³¹ 'Regulation (EU) 2023/956 of the European Parliament and of the Council of 10 May 2023 establishing a carbon border adjustment

mechanism' (2023) *Official Journal* L 130,52-104. Available at: <http://data.europa.eu/eli/reg/2023/956/oj>

³² A tax on electronic waste, a tobacco excise duty, and a European corporate tax. See Article 8, European Commission (2025) *Proposal for a COUNCIL DECISION on the system of own resources of the European Union and repealing Decision (EU, Euratom) 2020/2053*. Available at: <https://op.europa.eu/en/publication-detail/-/publication/eac3a0fe-62e4-11f0-bf4e-01aa75ed71a1/language-en>



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