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Financing Europe’s Future. Strategic Multiannual Financial Framework 2028–2034

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The history of the European budget demonstrates that traditionally the European Union has measured its ambitions and strategic goals against financial possibilities and the political will to shift activities from the national level to the level of common public goods. Over decades the 1% limit for the common budget has become a taboo and Europe failed to overcome the reluctance to engage national envelopes in cross border projects, to issue joint debt, to communitize public aid or build joint safe assets. The Union has not agreed on how to direct private capital to where investment is needed. In the meantime, it has been losing international competitiveness and not succeeding in exploiting its growth potential.

The new 2028-34 Multiannual Financial Framework (MFF), no matter how big it might be, it will not be big enough. The investment needs are humongous. That is why for some years efforts have been made to identify and exploit additional sources of funding and new financial models. There is now a chance to make the next MFF a permanent financial lever. We should be wary that there will be a difficult geopolitical environment for at least a couple of decades, so in its strategy of change the Union should move forward as a collective and not as individual 27 or 34 states functioning in an adverse environment. Europe's capability to establish new relations and alliances is being tested.

Strategic investment

It is legitimate to insist that Europe has a plan and also, a stronger than on average, political will to build defense capabilities and global competitiveness of its economy. The MFF is an important path in this direction.To enforce that plan, Europe must not wait for the new budget which covers a rather remote period compared to the urgency of new investment. It is essential and obvious to facilitate the use of European households' huge savings of more than 10 trillions euros in bank accounts. How to channel them to where investment is needed should be both a short term and longterm strategic priority.

We need a holistic look beyond the MFF, at all existing and new financial tools because what is at stake is a change of sources of economic growth. There is a need of institutional innovation in this area. Europe is approaching its last chance to reduce fragmentation of its capital markets. The Enrico Letta's idea of creating an ecosystem for European investment in the form of *Savings and Investment Union* is a major step forward, requiring efforts at both national and European levels.

There is a chance that the market integration package, to be presented by the Commission this month - in December, 2025 - and whose first part has been already leaked - will accelerate the process. There is another Letta's idea which matters for the MFF under which member states would allocate part of their national state aid to European public investment. Communitizing state aid would replace the Union's missing central fiscal capacity.

The New Own Resources system which should be decided before the end of 2026 would be another enabler of increased investment financing. The additional challenge related to the new Own Resources is their timeline and adoption procedure, as well as the interinstitutional agreement according to which the post-Covid debt will be paid back as of 2028. That implies finalising the negotiations by the end of 2026 and having at the Council's disposal sufficient funding.

The EU has been testing for a while other sources of investment funding, including the most politically controversial one which is the Eurobonds issuance and European guarantees for member states' loans. Growing pool of Eurobonds could facilitate the emergence of European safe assets, fundamental for European capital market. Another source of funding for competitiveness and innovation, and a meaningful lever, can be the increase in the scope of EIB's (European Investment Bank) competences for higher risk investment. In general, between the design of the next MFF and the efforts to create efficient financing beyond it there should be synergies.

Building competitiveness

The skyrocketing demand for EU investment is additionally boosted by intensifying global competition, trade tensions, security concerns and more frequent economic shocks. As there are many diversified impulses of change to the European economy, it is detrimental to include incentives for competitiveness within the system. Then, what the EU needs is a well functioning ecosystem where smart investment is driving competitiveness which fuels growth which expands capacity to meet current and future challenges.

Looking at both the US and China, the ecosystem in which the MFF is embedded must be based on European preferences, embracing as well innovative approach to institutions and legal structures, to regulatory model or to the way synergies are ensured and work. Regarding the defense sector, a good example of necessary element of the ecosystem in question is a continuously underestimated necessity to combine traditional companies which dominate European defense sector with innovative firms, usually start-ups.

When it comes to the ecosystem for digital sector sovereignty, in Europe one would aim at promoting both innovation and regulation. In Europe handling data and safeguarding democracy is crucial for people. Reflecting on how the MFF can boost Europe's digital sovereignty globally, a hard look should be given to the space where the US and China dominate, as well as other increasingly active actors (e.g. India or Brazil) do, and identify where Europe is needed in the globalized world.

Preconditions

If to achieve competitiveness Europe needs incentives within the system, then by definition legislation matters. There is a risk that in spite of *omnibus* methodology which is cleaning part of regulatory space important for the MFF, the EU might still face the risk of undiscovered elements of regulatory frameworks which are undermining competitiveness. Nevertheless, Europe is living its *simplification* moment. And it moves forward on it in the name of competitiveness raising.

What contributes to bad regulations and policies, and what can be of utmost importance for competitiveness and innovation, are certain habits in European regulatory process. Over decades the European system developed a legislative tradition of concentrating on the logic of bottom line, worse case scenarios, national interests, focus on risks and on what might go wrong. The focus has been on the latter while benefits have been overlooked. This legislatory political culture can be devastating for better law-making and should be seen as deserving to be left behind. All those deficiencies can undermine efficiency and effectiveness of MFF investment in competitiveness and lead to distortion of *synergy* needed between the national and European investment in specific areas. One of the challenges for the new Multiannual Financial Framework is reaching a momentum in identifying sustainability as a source of competitiveness or in overcoming mid-technology trap.

Synergies shouldn't be overlooked in particular when it comes to the innovation and competitiveness potential of cohesion policies and the role of regions and cities. Probably the *Scaleup European Fund* under preparation by the European Commission and to be created in partnership with private investors, could be seen as a role model for a public-private partnership for co-financing. Also, both *Connecting Europe Facility* *(CEF)* and the *European Competitiveness Fund* *(ECF)*, focused on growth, innovation and competitiveness, are tailored-made to promote new funding models.

When it comes to competitiveness, there is space for jointly financed European public type of investment within or outside the MFF, in particular on R&D. But there is as well a huge value in small programs and projects among small cross border companies.

The new budget comes at the time when pushing the EU tech development is fundamental for competitiveness. It goes without saying that in the first half of this century technology will be at the heart of geopolitical competition. That is why there is a need to see the link between funding and policy. The coherence between policy, regulation and financing matters strongly in the context of edge technology.

Future Architecture of the MFF

As we haven't seen yet the European policies review, promised by the European Commission in March 2024 and with several not fulfilled deadlines so far, there is still a chance that Europe will not stick to the tradition of converting the MFF into a corset, a restrictive framework for future policies. The new multiannual budget and its leveraging function should be like door opening toward XXI century.

This MFF invites to experiment on the best proportions between public spending at national and European level to deliver best results. This can matter in particular in the realm of research and development, where 90% of investment remains at national level. It might be not the best proportion from the perspective of efficiency in generating innovation.

The European Commission has incorporated many useful innovations into the MFF proposal but as we are at the beginning of the negotiations, it is probably too early to make any judgments on them. One of the most fundamental would be the implementing methodology regarding capabilities to crowd in private investment.

The new budget and financial innovations accompanying it should set the framework facilitating the full use of the potential embedded in the famous *28th regime of Letta's Report*. It is supposed to be presented by the Commission at the beginning of 2026 and offers a great potential in deepening the single market and becoming innovativeness and competitiveness multiplier. One of the uncertainties about the European longterm budget has been traditionally the timeline for its adoption. This MFF should enter into effect on January 1, 2028. Any delay would hinder European investment in competitiveness in these stormy and demanding times.

This Multiannual Financial Framework states very clearly that convergence can be based on competitiveness. That would require a good balance between efficiency and effectiveness of the process and the preference for political dimension, decentralization and local identity prerogatives. Of course, there are and will be challenges to the implementation of this MFF. IMF warns about explosive public debt in the EU which might reach by 2030 on average 130% of national GDPs. To cope with it, boosting tax revenues, curbing social spending, improving governance is recommended. Therefore, the 2028-34 Multiannual Financial Framework can be seen as a *constitutional moment* for the EU. The challenge is to spare no effort in ensuring that Europe is prepared for it.

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