

Italian non-Paper on the need for a MFF Mid-Term Review

The pandemic and the Ukraine crises brought about new challenges while reinforcing the existing ones: in particular: high inflation, higher interest rates, geo-political instability, the need for open strategic autonomy, the relief and reconstruction of Ukraine. Presenting the review of the Multiannual Financial Framework as the solution to all these challenges may seem overambitious. However, it is undeniable that it offers a window of opportunity to make available some of the necessary resources, with the necessary engagement of all public and private stakeholders.

A revision of the MFF would be desirable this year, to face challenges that were unexpected at the time of the negotiations of the MFF: war in Ukraine and higher interest rates, above all. The current international situation requires adequate funding to face all the consequences of the Ukrainian conflict. More, the rising interest rates make debt servicing more burdensome: in this respect the reinforcement of the EURI line, related to interest on NGEU debt, will be imperative.

On the other hand, we must stay realistic. We shall carefully balance the revision of the MFF, considering the fact that it would require a burdensome negotiation between Member States and EU institutions. More, we shall use existing resources in the most flexible and sustainable way, ensuring the possibility of adjusting funding allocation in case of economic unforeseeable shocks, at the same time, we should streamline administrative procedures and rationalize expenditures, enhancing transparency and accountability in EU spending. This can free further financial means to secure necessary financing.

To unravel this conundrum a clear choice of priorities is essential:

- **We need to continue to invest in our open strategic autonomy and long term competitiveness, while ensuring the level playing field.** While preserving fiscal sustainability, the EU needs new funding to support strategic investments, such those for the green and digital transitions, semiconductors EU supply chain and critical raw materials, production of green energy, including through the Projects of Common Interest (IPCEI) and the increase of defense capabilities, all areas recognized as key European priorities in recent European Council conclusions. In this respect, increased investment in research and innovation can also directly support EU's competitiveness in the global market.
- In order to avoid fragmenting the Single Market, the swift establishment of a **sovereignty Fund** to fill the funding gap for strategic investments, including in infrastructures, is crucial and will respond to the urgent call made several times **by the European Council**. The Fund could leverage on existing EU scheme such as InvestEU (both EU and national compartments). Its financial resources could be provided by

achieving more flexibility in the use of existing resources either mobilizing those made available by the EU budget or within the existing instruments. The Fund should address market failures and suboptimal investment conditions through sustainable projects, at the same time crowding in private funds, also through financial instruments. To cope with the daunting challenges the EU is facing, its resources' magnitude should be scalable to exploit all possible synergies with other European financial institutions. A smart and efficient combination of EU and national schemes for financial instruments is utmost necessary.

- **We need to ensure that EU external relations instruments are up to the task. This implies higher funding.** The conflict in Ukraine is bringing about severe difficulties in securing adequate resources to Kiev under macro-financial assistance programs. So far, the impelling need to respond to the brutal Russian aggression on our Eastern Neighbor has led to an increase of funding in order to address immediate needs.

We shall keep the high level of support we are now providing to the Government of Kiev. At the same time, the EU cannot disengage from other equally strategic regions, who suffered the consequences of this war. There are many factors of uncertainty, especially in the Southern Neighborhood. Since February 2022, North African countries have faced unprecedented challenges in terms of mass migration, food and energy security; endogenous issues of instability in the area exacerbate the situation. The MFF must take into account those factors: the **adequate allocation of funds to the Southern Neighborhood** shall be guaranteed, as safeguarded in the past.

- **We need to make sure that EU institutions and bodies continue to deliver in the most cost-efficient way**, while staying competitive employers. In this respect, together with the European Parliament, we should review the automatic application of the salary-adjusting mechanism (*la méthode*), whose design was elaborated in a very different economic environment than today. Otherwise, it would be a signal contrary to what Member States have committed to in their economies, and our public opinions would not understand.
- The necessary funding brings us to **the issue of new Own Resources**, in the perspective of the debt repayment of the NextGenerationEU. Italy supports a thorough consideration of their introduction, but we understand the difficulties of implementation in the short term. The debate on own resources must be separated from the debate on the MFF review if agreement is to be reached on the mid-term review by the end of the year.