EUROPEAN POLICY ON INCREASING THE COMPETITIVENESS OF THE FINANCIAL INDUSTRY, A KEY FACTOR FOR JOB CREATION

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Abstract

More and more in the field of research are papers on the relationship between competitiveness, job creation and sustainability. This is also in line with the Global Economic Forum's Global Competitiveness Report 2017-2018, a report that appears at a time when the global economy is facing big challenges and "has begun to show signs of recovery and yet the factors decision makers and business leaders are concerned about prospects for future economic growth. Governments, businesses and individuals face a high level of uncertainty as technological and geopolitical forces reshape the economic and political order that has sustained international relations and economic policy over the past 25 years. At the same time, the perception that current economic approaches do not serve people and societies sufficiently well gains ground, triggering appeals for new models of human economic progress. "Moreover, in sectors such as the agro-food industry, the phenomenon of increased competitiveness is growing, economies such as the national economy being subject to competitiveness mechanisms with a direct impact on the external balance of payments. In many advanced economies, the big challenges are due to the increasing inequalities between resource-poor and the impacts of technological change and climate change on the economy, "the complex impact of globalization - including those related to commodity trade, services and data, and the movement of people and capital. In emerging economies, the sharp decline in poverty and an increase in the middle class have fuelled higher aspirations and demands for better public goods; these requirements are now facing a slower growth and a tightening of government budgets. "

Key words: competitiveness of the financial industry, jobs, financial technology

JEL classification: G23, O16

Introduction

Globalization is a phenomenon that is intensifying globally, especially in the economic, technological and social fields (business development and job creation), being affected by many factors directly affecting both the phenomenon and each national economy in its specificity. Globalization as a topic is debated at the scientific level at both academic and higher decision levels. The process of globalization is directly related to current global concepts such as migration, interstate trade development, new financial technologies, and so on.

The phenomenon of globalization is also influenced by the numerous crises that have occurred in the past 10 years, and the one that had the biggest impact on world economies was the global financial crisis. At present, the world economy as a result of GDP growth accelerating to 3.5% in 2017 and nationwide to more than 5.7% shows signs of recovery, but with elements that can ever influence this growth. As a result of this positive development, we are witnessing ever more questionable economic policy decisions at the global level, namely deepening policies between those who have resources (rich) and those in need (poor), and the uneven distribution of the benefits of economic progress, even if there is economic growth, of the generations' present divisions with an impact on future generations, the inequality of global income with a direct impact on major distribution in advanced economies and the negative impact on the environment. In order for this economic growth to have a positive impact on all social classes, our great challenge to economics researchers is to develop economic models that respond to this state of affairs and reduce major technological dysfunctions in the economic and political order overall. Globalization adds a greater uncertainty about the types of policies that will make savings not show the future.

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Together, all these factors cause decision-makers to find new approaches and policies for advancing economic progress.

Methodology of Scientific Research

In order to substantiate the research of comatose in the context of globalization, we have used observation and examination tools, research methods based on the basic principles of scientific research, and we have also created procedures based on factual analysis, following a significant practical experience and intensive documentation at the level of domestic and international literature with direct analysis of the global competitiveness index and other indicators with a direct impact on competitiveness at national, European and international level.

Research Results

The growing consensus is that economic growth must again focus more on human well-being. Such human economic progress is multidimensional in nature - it is broadly based on the fact that the vast majority of people benefit ecologically and fairly in terms of creating opportunities for all and not disadvantaging future generations. In this new context, competitiveness remains an important contribution to the broader goal of human economic progress by creating the resources needed to increase welfare, including better education, health and safety and a higher per capita income .

The Global Competitiveness Report (GCI), which tracks the performance of nearly 140 countries on 12 pillars of competitiveness, is presented in the Global Competitiveness Report 2017-2018. It assesses the factors and institutions identified by empirical and theoretical research to determine productivity improvements, which in turn are the main determinants of long-term growth and an essential factor in economic growth and prosperity. In this paper, we have selected relevant information from the Global Competitiveness Report, which aims to help policy makers understand the complex and multifaceted nature of the development challenge; to develop better policies based on public-private collaboration; and take steps to restore confidence in the possibilities for further economic progress.

Improving the competitiveness drivers identified in the 12 pillars of the GCI requires the coordinated action of the state, the business community and civil society. All actors in the society must be engaged to make progress alongside all the competitiveness factors, which is necessary to achieve long-term results. This year, GCI highlights three main challenges and lessons that are relevant to economic progress, public-private collaboration and political action: firstly, financial vulnerabilities pose a threat to competitiveness and the ability of economies to finance innovation and technological adoption; secondly, emerging economies are becoming better at innovation, but more can be done to spread the benefits; thirdly, labour market flexibility and workers' protection are necessary for common competitiveness and prosperity in the context of the fourth industrial revolution.

The report begins by establishing the current landscape of economic progress and key future challenges. Global Competitiveness Index 2017-2018, ranking 137 economies, Global Competitiveness Index 2017-2018 measures national competitiveness - defined as a set of institutions, policies and factors that determine productivity levels.

Table 1

Global Competitiveness Index 2017-2018

Rank	Economy	Score[1]	Prev.[2]	Trend[3]
1	Switzerland	5.86	1	
2	United States	5.85	3	
3	Singapore	5.71	2	
4	Netherlands	5.66	4	
5	Germany	5.65	5	
6	Hong Kong SAR	5.53	9	
7	Sweden	5.52	6	
8	United Kingdom	5.51	7	
9	Japan	5.49	8	
10	Finland	5.49	10	
11	Norway	5.40	11	
12	Denmark	5.39	12	
13	New Zealand	5.37	13	
14	Canada	5.35	15	
15	Taiwan, China	5.33	14	
16	Israel	5.31	24	
17	United Arab Emirates	5.30	16	
18	Austria	5.25	19	
19	Luxembourg	5.23	20	
20	Belgium	5.23	17	
21	Australia	5.19	22	
22	France	5.18	21	
23	Malaysia	5.17	25	
24	Ireland	5.16	23	
25	Qatar	5.11	18	
26	Korea, Rep.	5.07	26	
27	China	5.00	28	
28	Iceland	4.99	27	
29	Estonia	4.85	30	
30	Saudi Arabia	4.83	29	
31	Czech Republic	4.77	31	
32	Thailand	4.72	34	
33	Chile	4.71	33	
34	Spain	4.70	32	
35	Azerbaijan	4.69	37	
36	Indonesia	4.68	41	
37	Malta	4.65	40	
38	Russian Federation	4.64	43	
39	Poland	4.59	36	
40	India	4.59	39	
41	Lithuania	4.58	35	
42	Portugal	4.57	46	
43	Italy	4.54	44	
44	Bahrain	4.54	48	
45	Mauritius	4.52	45	
46	Brunei Darussalam	4.52	58	
47	Costa Rica	4.50	54	
48	Slovenia	4.48	56	
49	Bulgaria	4.46	50	
50	Panama	4.44	42	
51	Mexico	4.44	51	
52	Kuwait	4.43	38	
53	Turkey	4.42	55	
54	Latvia	4.40	49	
55	Viet Nam	4.36	60	
56	Philippines	4.35	57	
57	Kazakhstan	4.35	53	
58	Rwanda	4.35	52	
59	Slovak Republic	4.33	65	
60	Hungary	4.33	69	
61	South Africa	4.32	47	
62	Oman	4.31	66	
63	Botswana	4.30	64	
64	Cyprus	4.30	83	
65	Jordan	4.30	63	
66	Colombia	4.29	61	
67	Georgia	4.28	59	
68	Romania	4.28	62	
69	Iran, Islamic Rep.	4.27	76	
70	Jamaica	4.25	75	
71	Morocco	4.24	70	
72	Peru	4.22	67	
73	Armenia	4.19	79	
74	Croatia	4.19	74	
75	Albania	4.18	80	
76	Uruguay	4.15	73	
77	Montenegro	4.15	82	
78	Serbia	4.14	90	
79	Tajikistan	4.14	77	
80	Brazil	4.14	81	
81	Ukraine	4.11	85	
82	Bhutan	4.10	97	
83	Trinidad and Tobago	4.09	94	
84	Guatemala	4.08	78	
85	Sri Lanka	4.08	71	
86	Algeria	4.07	87	
87	Greece	4.02	86	
88	Nepal	4.02	98	
89	Moldova	3.99	100	
90	Namibia	3.99	84	
91	Kenya	3.98	96	
92	Argentina	3.95	104	
93	Nicaragua	3.95	103	
94	Cambodia	3.93	89	
95	Tunisia	3.93	95	
96	Honduras	3.92	88	
97	Ecuador	3.91	91	
98	Lao PDR	3.91	93	
99	Bangladesh	3.91	106	
100	Egypt	3.90	115	
101	Mongolia	3.90	102	
102	Kyrgyz Republic	3.90	111	
103	Bosnia and Herzegovina	3.87	107	
104	Dominican Republic	3.87	92	
105	Lebanon	3.84	101	
106	Senegal	3.81	112	
107	Seychelles	3.80	n/a	
108	Ethiopia	3.78	109	
109	El Salvador	3.77	105	
110	Cape Verde	3.76	110	
111	Ghana	3.72	114	
112	Paraguay	3.71	117	
113	Tanzania	3.71	116	
114	Uganda	3.70	113	
115	Pakistan	3.67	122	
116	Cameroon	3.65	119	
117	Gambia, The	3.61	123	
118	Zambia	3.52	118	
119	Guinea	3.47	n/a	
120	Benin	3.47	124	
121	Madagascar	3.40	128	
122	Swaziland	3.35	n/a	
123	Mali	3.33	125	
124	Zimbabwe	3.32	126	
125	Nigeria	3.30	127	
126	Congo, Democratic Rep.	3.27	129	
127	Venezuela	3.23	130	
128	Haiti	3.22	n/a	
129	Burundi	3.21	135	
130	Sierra Leone	3.20	132	
131	Lesotho	3.20	120	
132	Malawi	3.11	134	
133	Mauritania	3.09	137	
134	Liberia	3.08	131	
135	Chad	2.99	136	
136	Mozambique	2.89	133	
137	Yemen	2.87	138	

East Asia and Pacific · Eurasia · Europe and North America · Latin America and the Caribbean · Middle East and North Africa · South Asia · Sub-Saharan Africa

Note: The Global Competitiveness Index captures the determinants of long-term growth. Recent developments are reflected only in-so-far as they have an impact on data measuring these determinants. Results should be interpreted in this context.

1 Scale ranges from 1 to 7.

2 2016-2017 rank out of 138 economies.

3 Evolution in percentile rank since 2007 or earliest edition available.

Source: The Global Competitiveness Report 2017-2018

The *Global Competitiveness Index* has measured the factors that drive long-term growth and prosperity for more than four decades, helping policy-makers identify the challenges that need to be addressed and the strengths to build on their country's economic growth strategies. While the notion of competitiveness and the economic environment in which economic and investment policy decisions have evolved continuously, the last decade has seen an increase in significant changes that fundamentally transform the context in which policy decisions are made to stimulate growth economic.

After a long period of low growth as a result of the global financial crisis, the world economy seems to have brought pace.1 this is welcome news. However, despite this gradual improvement, decision-makers in many countries are concerned about the prospects for long-term economic development. This is partly due to the fact that the current expansion seems to be cyclical, supported by very low interest rates, rather than by the fundamental factors of structural growth. Productivity improvements seem to be slow and are not expected to return to the levels experienced over the past decades.

In a similar challenge, dominant growth strategies and economic growth patterns are increasingly under question. In advanced economies, distribution issues have shifted to the forefront, occasionally with political consequences. In emerging markets, such a query could be fuelled by the unfulfilled aspirations of an extended middle class.

The evolution of the world economy has been largely motivated and justified by the enormous contribution to economic growth in the last decades. To the extent that large-scale social inclusion has been taken into account in this process, it was primarily limited to an ex-post redistribution of any economic gains. With the global evolutionary political context and the emergence of the fourth industrial revolution, this approach will have to change - not only to make globalization work for more people than it has benefited so far, but also to ensure globalization has a large constituency to allow it to continue to lead economic growth in the first place. We need to change the debate and interventions in the field of economic policy in order to unlock productivity and to offer widespread prosperity by simultaneously solving economic growth and social inclusion before doing so, not afterwards. This has to happen even if it results in a substantially modified form of globalization with a potentially damp growth but with more buy-in and inclusion. To succeed, we also need to establish modern venues and deliberations about the impact of future policy efforts that include a larger set of stakeholders than is currently playing a role in driving change.

Four interdependent themes have been identified within the World Economic Forum on Economic Progress:

1. Transforming globalization into globalization, including proposals for improving qualifications, retraining and eliminating jobs; taxing, social protection and addressing inequalities; financial markets that work for everyone; competition and avoidance of capture; and encouraging a new era of international cooperation.

2. Destruction of productivity and economic potential in the context of the Fourth Industrial Revolution, which fundamentally changes constructions and limits productivity growth and raises questions about the future potential for improving welfare and how to capture and share the best rewards for new efficiencies, especially in light of the evolving nature of jobs and jobs.

3. Promote and achieve multidimensional inclusion, in particular through the development of a multidimensional instrument, which is informed through aggregated indicators of inclusive growth and welfare and can be used to assess the extent to which countries and communities are inclusive at the household.

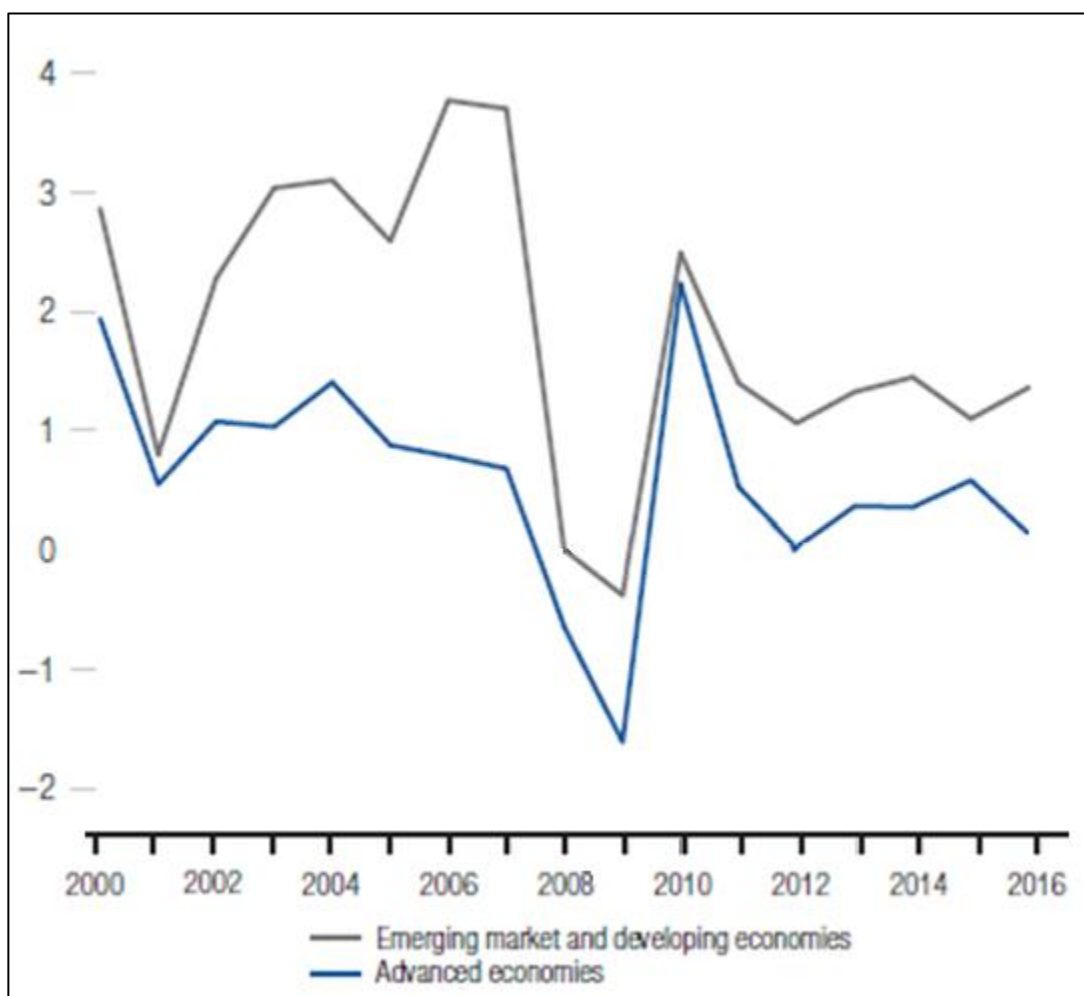
4. Develop communications, connectivity, and organizations to incorporate new developments into social media, counteract echo chambers that reinforce and increase polarization of ideas, thus expanding the set of channels and messages that resonate with people whose lives are affected, relying on commitments and ensuring the buy-in for choosing a solid policy.

According to Ms Diana Farrell, Co-Chairman of the World Economic Forum World Council "An additional explanation behind the slowdown in productivity is that traditional GDP measurement is not a big part of the value created in recent years. Recently, the share of goods and services offered to consumers without direct costs increases. For example, web-based search engines or online information or value created through social media channels are not valued at the value they

create for the consumer, but in the amount of advertising they generate for the companies that manage these services. Moreover, as technological progress is accelerating, we fail to take proper account of integrated product quality improvements - such as smartphones. Ultimately, services are inherently more difficult to measure than goods physical, and the share of services in the economy has been rising. Given that total factor productivity is calculated on the basis of GDP data, resulting measurement errors could lead to an underestimation of productivity growth. With these multiple sources of measurement uncertainty, the error of productivity measures could be substantial. "

Reinvigorating growth in a sustainable way will require reforms to strengthen human and physical capital and exploit new technologies. A possible contribution to recent declines in aggregate productivity was a reallocation of resources to less productive sectors; to reverse this trend, decision-makers need to eliminate the rigidities of regulation that hinder structural adjustments. Recent evidence also shows a dispersion of high productivity across enterprises across industries, including border technologies and older technologies; policies and institutions that help businesses in transition to more productive areas will also generate growth.

Figure 1 – Total factors productivity 2000 – 2016 PPP, GDP weighted



Source: IMF 2017

The rhythm and the disruption of technological change create unprecedented opportunities and challenges to be amplified by the convergence of digital, physical and biological technologies that characterize the industrial revolution.

These emerging technologies have a tremendous potential to be a source of growth, but their future evolution is uncertain. An essential challenge is how to unlock their potential in a way that benefits society as a whole, given that they can profoundly restructure the national and global distributions of incomes and opportunities and can lead to significant structural changes. The effects of future technologies are unknown, but political challenges related to current technologies illustrate the magnitude of change. Job losses are expected because technology transforms production and services over the coming years, raising questions about how quickly new jobs will

be created and the future of economic development models based on the export of labour-intensive products. At the same time, technological advances create significant value for consumers, more than is currently reflected in national statistics.

The technological frontier expands rapidly, with recent advances in artificial intelligence of self-learning, powered by the increase in the amount of data generated by mobile phones and sensors on machines and equipment. Small and remote players can disrupt the status quo, increasingly interconnectedness.

Efficient markets and macroeconomic stability is the key of the economic growth. But how well the growth of society as a whole depends on the framework of rules, incentives and institutional capacities that shape the quality and equity of human capital formation: the level and patience of the real economy, the pace and scale of innovation, the efficiency and flexibility of worker protection, the coverage and suitability of the social security, quality and quality the breadth of access to infrastructure and basic services, probable business and political ethics, and the breadth and depth of households' household management.

The Competitiveness Agenda at the heart of the Global Competitiveness Index (GCI) is an important starting point and not only because productivity and long-term growth generate resources for wider society goals. The Agenda for Competitiveness, as part of the wider economic development agenda, has an intrinsic and instrumental value for human development and well-being: for example, health and education are among the 12 pillars of the ICC.

In Economic and Budgetary Outlook for the European Union 2018 published on January 15, 2018 was publishing the indicators which have direct influence to the competitiveness economies in Europe. In 2017, the EU and euro-area economies continued their moderate growth (slightly over 2 %) in a context of global improvement (3.5 %) underpinned by a strong rebound in world trade, continuing growth in China and a return to growth in countries such as Brazil and Russia. This growth, which should continue in the next two years, was shared by all euro-area Member States for the first time since the crisis, and was accompanied by the creation of jobs – unemployment is at a post-crisis low – and strong investment, which reached pre-crisis levels.

With regard to public finances, the general government deficit for both the EU and the euro area has declined and is projected to decline further in the following years, to below 1 %. The general government debt-to-GDP ratio is projected to follow a similar path, decreasing to 85.2 % and 79.8 %, for the euro-area and the EU-28 respectively, a trend that, while positive, means levels are still a long way from the expected 60 %.

After significant fluctuations in 2016, inflation rose closer to the target, of around 2 %, by the fourth quarter of 2017, helped by the recovery in oil prices, but is not expected to reach the target until 2019, due to a negative base effect in energy prices and the increase of the euro's nominal effective exchange rate. In this context, the European Central Bank continued with its unconventional monetary policy in 2017 and decided to keep it for 2018, albeit moderating its purchases as of January 2018, due to the improving economic outlook and the need to reduce the risk of financial imbalances.

The aforementioned positive trends concerning the euro-area economy, as well as the results of the various elections held in 2017 in the EU, have likely outweighed the negative developments such as the deteriorating geopolitical context, the uncertainty concerning the Brexit negotiations and the policy-mix outlook in the US. This has helped to strengthen the common currency against its major counterparts since spring 2017. As a result, the euro has appreciated against most of its major trading partners' currencies. While these trends are projected to continue over the next two years, their strength is expected to subside, on account of the phasing out of temporary supportive fiscal measures in Member States and the tapering of accommodative monetary measures.

The 2018 EU Budget amounts to €160.1 billion, representing only some 2 % of total public spending in the European Union – approximately 1 % of gross national income (GNI). Despite its volume, the overall impact of the EU Budget is amplified by a number features, including: a higher share of resources devoted to investment than in national budgets; the capacity to leverage additional funding from other sources; and attention to policy areas where the pooling of resources can provide the EU as a whole with added value (e.g. research, innovation and development cooperation).

Agreed by the European Parliament and the Council of the European Union, the 2018 budget focuses on priorities such as promoting sustainable growth, creating employment, especially for young people, and addressing migration and security challenges. In recent years, these persistent policy challenges have almost exhausted the flexibility provisions available under the EU's 2014-2020 multiannual financial framework (MFF). However, the 2017 adoption of the mid-term revision of the MFF has strengthened a number of flexibility tools, proving instrumental in reinforcing the resources devoted to key policy areas in 2018.

With the 2014-2020 MFF in the second half of its programming period, the debate on its successor and further streamlining of the EU Budget has already gained momentum, with a reflection paper on the future of EU finances published by the European Commission. Taking into account difficulties that the current MFF has experienced, one objective is to increase capacity to respond to the concerns of EU citizens and to the unprecedented challenges the Union is facing. In May 2018, following a broad consultation of stakeholders, the Commission is expected to present its proposals for the post-2020 MFF and a possible reform of the EU's financing system.

Many instruments in the EU Budget directly or indirectly address the objectives of industrial policy, against the backdrop of a quickly evolving sector. The importance of the sector to the EU, in both economic and political terms, as well as the changing nature and scope of industry and industrial policy, made it the subject of this year's economic focus. This examines industry in the EU from four perspectives (production, gross value added, employment and the regional perspective), its evolution over the past decade and the impact of the crisis, and presents the EU-level initiatives designed to rekindle industrial activity.

As for the expenditure side of the budget, the 2014-2020 MFF sets the maximum level of resources (‘ceiling’) for each major category (‘heading’) of EU spending for a period of seven years. Negotiated between 2011 and 2013 against the backdrop of the economic crisis and fiscal consolidation in Member States, the current MFF is the first to have lower resources in comparison with the previous programming period (2007-2013). The share of EU GNI devoted to the MFF was set at 1 % for commitments and 0.95 % for payments (down from 1.12 % and 1.06 % for the 2007 to 2013 period).

The MFF resources for commitments over the entire 2014 to 2020 periods have amount to €1 087.1 billion in current prices (or €963.5 billion in 2011 prices). The MFF details the annual ceilings for new commitments in each spending category and an overall ceiling for annual payments. In addition, it contains some special instruments outside the MFF ceilings (e.g. the Emergency Aid Reserve, the European Globalisation Adjustment Fund and the European Union Solidarity Fund) and flexibility provisions, to give some room for manoeuvre in the case of unexpected events. The challenge is to strike the right balance between predictability of investments and the capacity to address the unforeseen events and new priorities that can emerge during a rather long programming period.

As in previous years, the mobilisation of the flexibility tools of the MFF proved necessary to finance budgetary priorities and reinforcements, already at the initial stage of adoption. The conciliation agreement for the 2018 budget included the mobilisation of two such instruments: the Global Margin for Commitments and the Flexibility Instrument (table 1). In the resolution accompanying the mobilisation of the latter, the European Parliament reiterated its longstanding view that the flexibility of the EU Budget should be increased.

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In the course of 2017, the European Parliament and the Council reached agreement on and adopted the legislative or budgetary measures related to the following proposals of the MFF review package: bringing forward the offsetting of the contingency margin; establishing the European Fund for Sustainable Development (EFSD), the EFSD Guarantee and the EFSD Guarantee Fund; creating an initiative to promote the availability of internet connectivity in local communities;

extending the duration of the European Fund for Strategic Investments (EFSI) and increasing its means; and revising the provisions applicable to agricultural expenditure.

Since mid-2003 industrial output in the EU has been growing in a relatively stable way. This growth ended with the onset of the crisis in May 2008 when the month-on-month rate of change for the EU industrial production index turned negative. The pre-crisis peak of April 2008 was followed by steep decline (-22%) and marked by the trough recorded in April 2009 when industrial output was the lowest since September 1997. This abrupt fall lasted one year, and rebounded only in May 2009. At this early stage in the crisis, more developed financial markets in the euro area helped to some extent to mitigate the impact of the crisis on growth in industrial sectors dependent on external finance. However, this effect weakened in later stages of the crisis, particularly on well-developed markets for bank loans.

In 2016, from the perspective of gross value added (GVA), industry accounted for approximately 20 % of total GVA for the EU, while services accounted for almost 75 %. These shares have been on more or less opposing paths since the beginning of the millennium: in 2000, industry corresponded to 22 % of the total GVA for the EU, dropping to 20 % by 2008 and to 19 % by 2016. In contrast, services have been slowly gaining in importance in terms of value creation, from 70 % in 2000, to 72 % in 2008 and 74% in 2016.

Comparing globally with other industrially developed countries, it can be observed that the USA and Japan followed similar paths: in the USA, industry accounted for 19 % in 2000, diminishing to 16 % in 2015, while in Japan, industry declined from 26 % in 2000 to 23 % in 2015. A last point concerning the comparison between industry and services is that it seems that services weathered the financial and economic crises with less turbulence than industry: in the EU, the GVA created by services dropped by 3 % in 2009, as opposed to 12 % for industry. Similarly, the year after, the GVA generated by services increased by 3 %, while industry-created GVA increased by 8 %.

In the European Union, the relative importance of industry in total employment, as measured by its share, has also declined since the millennium, from 19.3 % to 15.3 %. Furthermore, despite a generally declining trend identified above, it is still visible that industry is much more important in the Member States that joined the EU during and after the 2004 enlargement than in the other Member States. In 2016, the highest share of persons employed in industry relative to total employment in the country's economy was recorded in the Czech Republic (29.1 %), Poland (23.5 %), Slovenia (22.5 %), Slovakia (22.3 %), Romania (21.4 %), Estonia and Bulgaria (both at around 20.2 %). Despite this relative importance, however, only Poland and Romania have kept the percentage of their population occupied in industry virtually unchanged. The rest of the countries have followed a (slower or faster) declining trend, attributed by Falkowski both to structural changes implemented under the EU's industrial policy and to the economic crisis of 2009, which had a considerable impact on those countries' industries.

On the other side of the spectrum, the EU Member States occupying the least people in industry (relative to their total population in employment) in 2016 were the United Kingdom (9 %), Greece (9.3 %), the Netherlands (9.5 %) and France (10.5 %).

Many other stakeholders are involved in the debate, and some have already expressed their views. There is general agreement that the EU Budget needs reform. Focus on results, leverage, synergies, conditionality and European added value is often mentioned among the principles that should underpin any changes. Stakeholders from academic, expert and political circles underline that in a rapidly evolving world, the design of the EU Budget has to ensure the right balance between predictability of investments and capacity to respond to new challenges and priorities. The problems that the current MFF faces demonstrate how difficult the task is, and the weaknesses of the EU financing system. In summary, the main issues highlighted by the EU institutions and stakeholders are the following:

- Reform of the financing side of the budget – the current system of EU own resources is widely criticised and there is a growing consensus on the need for reform. It is expected that the HLG's recommendations on own resources will make a significant contribution to the Commission's concrete proposals for change, which should be tabled together with the post-2020 MFF proposal.

- Duration of the MFF – the current, seven-year MFF is not synchronised with the five-year political cycle determined by the political terms of the European Commission and the European Parliament. Proposals that could fix the problem include a five-year MFF aligned to the political mandates of the main EU institutions; five + five years with a compulsory mid-term review; ten years with compulsory mid-term revision for programmes requiring long-term programming and five years for other elements of the MFF. According to others, the seven-year MFF has its advantages and should not be changed.
- MFF priorities and structure – some analyses consider the current structure of the MFF outdates, too focused on past priorities and insufficiently supportive of initiatives with high European added value. From this perspective, aligning the budget to a new and evolving set of EU strategic priorities appears to be a crucial aspect of the reform. New areas frequently identified as requiring stronger financial EU intervention include border management, migration and refugees, security challenges and defence, and a reinforced investment policy.
- Flexibility – experience of the implementation of the current MFF appears to show that the capacity to respond swiftly to new challenges requires that more flexibility and reserve capacity be built into the MFF. There is considerable demand for greater possibilities to shift resources within and between MFF headings; for creation of a special crisis reserve; for the re-use of de-committed amounts and fines; and action to secure bigger margins under annual ceilings. At the same time, however, the question of ensuring the MFF's predictability is also raised.
- Unity of the budget – the proliferation of new instruments for financing EU actions, especially in external policy, and partially outside the EU Budget (e.g. the EFSI; EU trust funds for external action; and the Facility for Refugees in Turkey), raise questions about the principle of the unity of the budget and democratic accountability. The creation of instruments with a stabilisation function for the euro area – such instruments could be developed outside or within the EU Budget. The European Commission has already expressed its intention to put forward proposals within the EU framework in the context of the next MFF.
- Financial instruments – the use of innovative financial instruments has become an important feature of the current MFF. While these can be advantageous to the budget's effectiveness, some aspects of their functioning in the EU Budget will have to be reconsidered, for instance their interplay with grants, capacity to leverage public and private investments, simplification of delivery, etc.
- European Development Fund (EDF) budget – the €30.5 billion EDF, an intergovernmental tool for development cooperation with the African, Caribbean and Pacific Group of States (ACP), is not currently included in the EU Budget. In the 2013 inter institutional agreement on budgetary matters, the Commission declared its intention to propose the EDF's inclusion in the EU Budget as of 2021.
- Role of the budget in EU economic governance and respect of rule of law – there are proposals to strengthen and extend existing links between the EU Budget and the EU's economic governance framework (for example, macro-conditionality of the ESI funds and links with country-specific recommendations). The idea of creating stronger links between the disbursement of EU funds and respect for the rule of law has also been mentioned.
- Changes to the decision-making process – the current procedure leading to agreement on the MFF with a unanimity vote in the Council are seen as one of the main obstacles to budget reform. Stakeholders are calling for greater transparency in the process and the involvement of EU citizens. Some proposals emphasise the need to shift towards qualified majority voting in the Council or to give more power to the European Parliament.

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