

Bridging the Gap

Matching Europe's budget with its strategic transformation needs

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The EU's next long-term budget will be a defining test of its strategic direction. This policy brief makes the case for a bold new European Multiannual Financial Framework (MFF) that reflects the scale of today's intertwined climate, social, and geopolitical challenges. It argues that without significantly increased and better-targeted public investment, the EU risks deepening divides, falling behind in global competitiveness, and losing public trust. The upcoming budget negotiations offer a rare opportunity to align Europe's resources with its priorities: a green and inclusive economy and democratic resilience. With political momentum shifting and economic realities evolving, the moment to act is now. The brief lays out key principles and choices needed to deliver a budget fit for Europe's future.

Introduction

Europe finds itself facing a convergence of structural challenges. From rising geopolitical tensions and intensifying climate risks, to digital disruption and eroding global competitiveness - the European project is entering a landscape unlike any it has previously navigated. And while the EU has succeeded in making historic strides in the wake of recent crises ([Axios, 2020](#); [European Commission, 2022](#)), it has not yet fully equipped itself with the tools it needs to meet the newly compounding set of demands.

The bloc's share in global markets and industrial output is in decline ([ERT, 2024](#)), leadership in innovation is eroding ([Wong Leung et al., 2023](#)), and productivity growth is stalling ([CEPR, 2025](#)). The EU also struggles to meet its commitments on climate action ([ECNO, 2025](#)), social equity, and poverty eradication ([EAPN, 2025](#)). Taken together, these challenges threaten long-term prosperity, sustainability, and the EU's capacity to promote a positive new international order. Continuing business as usual in this context ultimately harms trust in the European project, and further increases social unrest and the rise of undemocratic forces ([LSE, 2024](#)).

At the root of these challenges lies a deep structural gap: the mismatch between the EU's political and strategic ambitions and the resources it mobilises to realise them. This is a fact that has recently garnered widespread visibility: Europe's funding shortfall was, for example, a central tenet of Mario Draghi's influential report on competitiveness ([Draghi, 2024](#)). Yet a new direction is both necessary and, given the timing of upcoming negotiations, attainable. EU leaders now have an opportunity to agree on a plan that aligns investment, vision and governance, and ensures that Europe not only weathers a historic transition, but also emerges more cohesive, sovereign, and resilient.

The decisions EU leaders make in the coming years will determine whether the EU is capable of navigating a volatile and fragmented world or whether it cedes ground economically, politically, and strategically.

The challenge: systemic transformation requires systemic investment

The defining feature of the EU's challenges - from climate to innovation, from social cohesion to strategic autonomy - is their cross-border, interlinked nature. Isolated national strategies cannot suffice. Whether the issue is energy security, technological sovereignty, cohesion or defence, the most effective, often the only, response is a coordinated European one. This has become even more evident amid a volatile geopolitical landscape that has forced the EU to begin revising its long-held post-war assumptions and practices.

Key among the needed transformations is the shift to a net-zero, inclusive, and future-ready economy. The green transition is not a single policy priority among others, it is the strategic roadmap that unlocks Europe's capacity to compete, collaborate, protect, and prosper. Not only does it deliver long-term sustainability; if done well, the green transition also strengthens equality and social stability by generating co-benefits, fairer opportunities and democratic engagement. Moreover, accelerated decarbonisation increases energy independence, fosters industrial leadership in clean technologies and reduces long-term costs. While GDP in itself is no comprehensive indicator of societal wellbeing, the transition is already proving the most viable pathway for productive development, with 30% of EU economic growth coming from the clean economy in 2023 ([IEA, 2024](#)).

However, such a transformation is capital-intensive and cannot be financed by the private sector alone ([Finance Watch, 2024](#)). The Draghi report calls for an additional €800 billion annually to modernise the EU economy - with at least a third of that being public, and other estimates pointing to even higher figures ([Draghi, 2024](#); [Politico, 2024](#); [Finance Watch, 2024](#)). This implies that, just to keep up with evolving needs, the EU will have to significantly increase its yearly public investment. Without the Recovery and Resilience Facility - which is set to expire in 2026 - the EU budget remains stuck at around 1% of EU GNI, a figure that has barely changed since the 1980s. Member States, constrained by differing economic capacities ([NEF, 2023](#)) and strict fiscal rules that are “unfit for the geopolitical age” ([FT, 2025](#)), cannot close the gap alone.

Without an ambitious and well-designed EU budget, Europe risks fragmentation: between geographies, between communities, and between generations. What is needed is a supranational financial approach that reflects the real scale of the transformation underway and ensures a fair distribution of effort and benefit across the Union.

The opportunity: a budget that matches Europe's needs

The post-2027 Multiannual Financial Framework (MFF) represents a rare opportunity to equip the EU with a financial envelope and architecture fit for its ambitions. A transformative EU budget must:

- Substantially increase in size, commensurate with the Union's strategic goals. This will require expanding financing tools, through a combination of higher Member State contributions, new own resources (NORs) and joint borrowing;
- Embed priority-based allocation, ensuring the green and digital transitions - and their social dimensions - are central and protected as key elements of Europe's economic roadmap.

Europe's fiscal framework is currently ill-suited to deliver such a leap. It is economically incoherent to expect Member States to simultaneously meet fiscal consolidation goals, significantly increase public investment, and avoid expanding EU-level funding.

The Commission's recent 'Roadmap to the next MFF' and proposals for a new NOR package signal an understanding of this dilemma, but greater political will is needed to move from diagnosis to action. The choice is stark: either we equip the EU to be proactive, or we limit its future to reactive crisis management.

A more strategic architecture: balancing flexibility with focus

A more capable EU budget must also be governed with clarity, discipline, and democratic legitimacy. Calls for increased flexibility, especially in the wake of recent crises, are valid. But flexibility must not undermine long-term objectives or dilute political commitments.

To ensure effectiveness and accountability, the following principles should be applied:

1. **Policy mainstreaming and earmarking:** Critical priorities such as climate action, biodiversity, the SDGs, and social equity should be fully mainstreamed across budget instruments. Earmarked funding guarantees that politically sensitive and long-horizon investments are protected from short-term reallocations.
2. **Emphasising social justice:** A socially just transition cannot be treated as a secondary goal. Prioritising "social" aspects alongside climate and digital ones within mainstreamed areas strengthens public legitimacy and mitigates inequality between and within Member States.
3. **Avoiding zero-sum trade-offs:** Defence and security investments are essential but must not come at the expense of green or social policies. Repurposing cohesion funds to cover military spending may yield some short-term relief, but it risks eroding political cohesion and regional trust. Ultimately, it lays a dangerous groundwork for long-term political unsustainability.
4. **Strengthening conditionalities:** Green "do no significant harm" (DNSH) principles should be applied more systematically across funding instruments. Social conditionalities - such as minimum labour standards, fair taxation, and responsible corporate behaviour - can help ensure that investments genuinely support a fair and future-proof economy.

By applying these principles, the EU and Member States can effectively target investments while retaining the public trust needed to use that power effectively.

The political domino that has to fall

Despite the seemingly clear links outlined above, there are long-running orthodoxies, disagreements, and economic concerns that need to be overcome before Member States can come to an agreement on an EU budget fit for the historic challenges the bloc faces. For one, a traditional bloc of frugal Member States - among them Germany, the Netherlands, Denmark, Sweden and Austria - have long tended to emphasise fiscal responsibility, budget discipline and greater efficiency in using existing funds. This position naturally appeals to the EU budget's net contributors, who prefer to maintain national control over spending decisions rather than defer to Brussels.

Yet cracks are beginning to form in this alignment. Germany, the biggest contributor to the EU budget, recently executed a historic U-turn on its own public spending, reforming its debt brake and agreeing plans to use newly rising debt on defence, infrastructure and climate ([Politico, 2025](#)).

This decision, which runs contrary to years of fiscal orthodoxy and clashes with the stringent EU fiscal rules that Berlin itself has long advocated for, comes in direct acknowledgement of the geopolitical challenges that Germany - and the EU - are now having to grapple with ([NEF, 2025](#)). In a similar vein, other frugals such as Denmark have also signalled a loosening in their stance ([DRDK, 2024](#)).

The EU has done it before: the agreement on the COVID-19 Recovery Fund was propelled by the common perception of a near-existential crisis. Yet the plan's temporary nature was embedded precisely to overcome the long-running deadlock described above. The challenge now will be for Member States to recognise that the context Europe faces today is no less urgent, and requires a structural and unified response.

Conclusion

As EU policymakers have ramped up their efforts to define Europe's position in a volatile geopolitical setting, it is no surprise that security and defence are top of mind. However, in order to be able to move beyond short-term action towards a coherent plan for long-term resilience, the EU will have to connect these discussions to the fundamentally interlinked topic of the bloc's socio-economic future. On this front, accelerated decarbonisation remains the structural shift with the greatest potential to move Europe towards a competitive and secure future. Europe's strategic autonomy - the prerequisite for stability and building a more cooperative international fabric - likewise hinges on a technologically advanced clean economy free of fossil fuel-linked vulnerabilities. Social values sit at the foundation of the European project, and as such, they too must feature as a consistent priority. As discussions on the next European budget accelerate, it will thus be imperative for policymakers to reprioritise the importance of green and social goals to Europe's strategy and signal the weight they deserve in the upcoming budget.

Europe has the facts and data, the institutions, and the public support to lead through transformation. But it lacks a budget that matches its ambition. A forward-looking, adequately resourced, and strategically governed EU financial framework is essential; not only to navigate today's crises but to shape a stable, green, and inclusive future. The upcoming MFF negotiations are more than a technical budget discussion. They are a test of whether the EU is willing to make the strategic choices required to secure its relevance and legitimacy.



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About GEF's Policy Hub

The Green European Foundation (GEF) is a European-level political foundation whose mission is to contribute to a lively European sphere of debate and to foster greater citizen involvement in European politics. GEF strives to mainstream discussions on European policies and politics both within and beyond the Green political family. The foundation acts as a laboratory for new ideas and offers cross-border political education and a platform for cooperation and exchange at the European level.

GEF's Policy Hub is centred on a Knowledge Communities methodology, fostering networks for knowledge production, exchange, and dissemination. It tackles key European issues, particularly related to the intersecting domains of energy, climate, social, and economic affairs. Ultimately, it aims to deliver ideas and proposals that can inform and incentivise policies for an equitable and systemic green transition.

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