

19th September 2026

The UK's Shadow Liabilities from EU membership, were the UK to rejoin for the start of the 2028-34 Multiannual Financial Framework

Introduction

'Rejoiners' appear to have the wind in their sails, with the UK's new Prime Minister expressing the desire to go as far as possible with his predecessor's 'EU Re-set' without explicitly breaching the commitments in Labour's 2024 General Election manifesto not to rejoin the Customs Union, or the Single Market, or the EU proper: these are the so-called Red Lines.

Andy Burnham's expressed desire to see the UK rejoin the UK within his lifetime could be accelerated, if he calls and wins an early General Election, and if his manifesto eliminated all the Red Lines. A victory on these terms could theoretically permit a re-joining of the EU by 2028, in time for the UK to pay in fully to the new EU Budget period, the Multiannual Financial Framework or MFF, for its next seven years: 2028 to 2034.

Were the UK to do that, it would be wise to consider the shadow liabilities that the UK would incur by being a member of the EU that go beyond the payments of cash.¹

The shadow liabilities are created through the EU's borrowings and guarantees, through the European Investment Bank Group, and through the interplay of the two.

The scale of these shadow liabilities has been increasing dramatically, and the first draft of the EU Budget for 2028-34 shows that this upwards trajectory will be sustained.

While the UK is not a member of the euro and of the schemes that go with it, it has proved in the past not to be possible to place a firewall between ourselves and problems in the Eurozone: the UK participated in the bailouts of Ireland and of Portugal.

Any other limitations on paper to the UK's liability are likewise susceptible to dissolution in a crisis situation: UK politicians and their advisers will raise the claim that it is in the UK's long-term strategic interests to ensure that neither the EU itself nor any of its associated institutions or schemes should default on their liabilities, and that the UK should therefore make a financial contribution.

This argument is usually supported with the further argument that not making a contribution would damage the credit standing of the UK itself if the UK was not seen to come good on its implicit liability to support an associated institution.

Readers will judge whether this aspect of EU membership supports the proposition of rejoining, or whether the UK would be better advised to stay removed from these proceedings.

¹ Cash payments materialise either as the member state cash contributions or as the proceeds of taxes and levies, which count as the EU's 'Own Resources', but which are collected by member states

‘Strawman’ amount of shadow liabilities for the UK upon Rejoin

Based on EU projections of its own debts issued on 24th June 2026, this is a reasonable picture of the shadow liabilities that the UK would take on by rejoining the EU at the start of 2028:

Category	Amount
Paid-in capital of the European Investment Bank (EIB)	€4 billion
EU outstanding bonds now	€793 billion
Issuance of EU bonds in the remainder of 2026 and in 2027 ²	€258 billion
Subscribed-but-not-called capital of the European Investment Bank	€43 billion
EIB loans guaranteed by the EU	€45 billion
InvestEU engagements of the EIB Group guaranteed by the EU	€42 billion
Total	€1,185 billion
Total as a percentage of a UK GDP of £3 trillion (£3.48 trillion at 1.16)	34%

The EU’s operations that create shadow liabilities

The EU borrows and lends, and it issues guarantees to the European Investment Bank Group to induce it to both borrow and lend, and to make investments.

Member states must also become shareholders in the European Investment Bank, paying in 1/10th of their subscribed capital in cash, and being liable to pay in the remainder – their subscribed-but-not-called capital – should the European Investment Bank require it to be paid in.

The EU’s borrowing and lending has grown as European politicians have required the EU to undertake more programmes. The European Commission has been only too happy to expand the remit of the EU to deliver those programmes. It is convenient financially for both sides: the EU borrows the requisite money and on-lends it, in the knowledge that its debts are underwritten by member states. The member states are delighted that more public money is spent without that money passing through their own accounts in a way that increases their annual fiscal deficit or their national debt. This enables member states to comply with (or at least to reduce the degree of their divergence from) the constraints of the Fiscal Stability Pact and of the Stability and Growth Pact, and to either avoid the application of or mitigate the degree of their punishment under the Excessive Deficit Procedure.³

2023 book on EU shadow liabilities based on December 2021 figures

This trend towards using EU-level institutions and schemes to have more money spent but with no effect on member states’ fiscal deficit or national debt is what prompted the writing of ‘The shadow liabilities of EU Member States, and the threat they pose to global financial stability’, by Bob Lyddon, published by The Bruges Group in 2023. This book (the ‘book’ hereinafter) qualified and quantified the different categories of financial liability of EU member states that fell outside the measure of member state debt governing compliance with the Fiscal Stability Pact – General Government Gross Debt.⁴

² €153 billion to fully draw Next Generation EU assuming the ceiling is €637 billion and not €750 billion; €45 billion of the Ukraine Support loan; €60 billion from the SAFE defence fund; none for the annual €40-50 billion of refinancing of existing debt because that does not increase the liability

³ This is invoked where the fiscal deficit exceeds a given percentage of GDP:

<https://www.consilium.europa.eu/en/policies/excessive-deficit-procedure/> accessed on 1 July 2026

⁴ ISBN 978-1-8380658-9-8

The results were startling.

As at 31st December 2021 the shadow debts amounted to €6.4 trillion, or 44.1% of EU GDP, and the shadow contingent liabilities amounted to €3.8 trillion or 26.4% of EU GDP.

In aggregate they amounted to a figure for shadow liabilities of €10.2 trillion or 70.4% of EU GDP.

Many were associated with membership of the euro but a major amount had been contracted through the vehicle of the European Union itself, and were thus the liability of all member states collectively, Eurozone ones or not.

Given that the average EU debt-to-GDP ratio at the time was 89.7%, these extra liabilities raised the true level of EU member state liabilities to 160.1% of their GDP.

Update in January 2025⁵

On 25th January 2025, a high-level update was published entitled 'EU shadow liabilities – real debts and contingent liabilities'.

At that point, the shadow debts amounted to €7.3 trillion or 48.2% of EU GDP, and the shadow contingent liabilities amounted to €2.7 trillion or 17.5% of EU GDP. In aggregate they amounted to shadow liabilities of €10.0 trillion or 65.7% of EU GDP.

The average EU debt-to-GDP ratio in the fourth quarter of 2024 was 81.6%, meaning that the true level of EU member state liabilities was 147.3% of their GDP.

This drop in the average EU member state debt-to-GDP ratio between year-end 2021 and year-end 2024 from 89.7% to 81.6% can be read, on the one hand, as a testament to the success of the approach of having EU institutions borrow under member state guarantee, rather than the member states borrowing themselves and increasing their General Government Gross Debt.

This policy firstly controls and reduces the numerator in the debt-to-GDP ratio.

At the same time the policy inflates the denominator – GDP. The money raised behind 'shadow liabilities' is spent at once in member state economies in a manner that raises their GDP.

This policy can be encapsulated as a bogus reduction in debt by moving it off the member state balance sheet, and a bogus boost to GDP as the money is spent. The upshot is a bogus reduction in member states' debt-to-GDP ratios.

That in turn enables compliance with – or at least a reduction in divergence from – the Fiscal Stability Pact.

The appearance of a reduction in member state debt-to-GDP ratios gives the impression that they were running strong fiscal surpluses in an economy exhibiting strong growth.

⁵ <https://www.lyddonconsulting.com/eu-shadow-borrowing-increases/> accessed on 1 July 2026

Neither was the case.

GDP growth was sluggish.

Many of the member states ran a fiscal deficit in all the years involved, and a number of them fell into the Excessive Deficit Procedure, the trigger for which is the size of the fiscal deficit as a percentage of GDP.

These factors would indicate that the amount of debt ought to have been shown as rising.

Constant fiscal deficits normally have to be funded with new debt. It was noted in the book, however, that there was a concerning disconnect in the EU member state figures whereby debt at the end of the year was not simply debt at the start of the year plus/minus the fiscal deficit/surplus.

Main changes between 2021 and 2024

There were three main changes during the period beneath the headline figure:

- The drawing by the EU of the Next Generation EU programme;
- The reduction of the European Central Bank's ('ECB') programmes;
- The continued expansion of the InvestEU programme.

The overall reduction of the 'shadow liabilities' is attributable to the ECB. The other two changes either increased the risk profile of a 'shadow liability' or increased its size. Indeed, the risk profile of what remained of the ECB programmes increased too.

So, despite the fact that the nominal amount of shadow liabilities fell from €10.2 trillion to €10.0 trillion between 2021 and 2025, the risk-of-loss within them increased.

The overall improvement referred to above of 12.8% of GDP becomes unimpressive when one considers these main changes sitting behind it.

First main change: major increase in the debt of the European Union

The debt of the European Union had risen to over €600 billion, reflecting the drawing of the Next Generation EU programme, with a corresponding reduction in the contingent liability associated with that programme.⁶

The programme had already been committed before 31st December 2021 so it was included as a contingent liability in the book. Now its funding is an on-balance-sheet liability, but with no change to the overall figures for member state shadow liabilities.

The risk-of-loss from this category of liability had become much greater between 2021 and 2025 because the programme has now become drawn, rather than its being committed but not yet drawn, although the size of the 'shadow liability' remained the same.

⁶ https://commission.europa.eu/strategy-and-policy/eu-budget/eu-borrower-investor-relations/nextgenerationeu_en accessed on 20 January 2025

Second main change: reduction by the ECB of its programmes

The bond-buying programmes of the ECB reduced by €2.8 trillion.⁷ The ECB Asset Purchase Programmes and the Pandemic Emergency Purchase Programme totalled €4.9 trillion at the end of 2021. The amount outstanding under the ECB's main lending facility to banks was €2.2 trillion.⁸ The grand total came to €7.1 trillion of Eurosystem assets, all being subject to Credit Risk, and €4.9 trillion of these assets also being subject to Market Risk.⁹

With the ECB Asset Purchase Programmes falling to €2.67 trillion, the Pandemic Emergency Purchase Programme to €1.67 trillion, and TLTRO III paid off, Eurosystem assets under these programmes had fallen by €2.8 trillion to €4.3 trillion by the end of 2024, all being subject to both Credit Risk and Market Risk (since TLTRO assets, not subject to Market Risk, had been completely wound down).

The Market Risk on the remaining portfolio at the end of 2024 worked out as being exactly the same as the Market Risk on the larger, original portfolio in 2021. However, the Credit Risk had reduced because of the run-off of TLTRO, by €551.4 billion.¹⁰

The Market Risk figure masked an important change: in 2021 it represented the loss the Eurosystem might make if interest rates were to rise and the Eurosystem were to sell the portfolio. In late 2024 interest rates had risen, and the figure represented the loss the Eurosystem would make if it sold the portfolio.

To counter incurring any loss at all the ECB decided that Eurosystem members would hold the portfolio to maturity, and would no longer pay interest on the funding for it – the Minimum Reserves that they demand Eurozone banks deposit with them.

This move saves the ECB from incurring losses but it creates other problems, as highlighted in the discussion as to whether the Bank of England should cease to pay interest on the Reserves that banks deposit with it and that fund the Asset Purchase Facility.¹¹

The risk-of-loss from this category of liability had become much greater between 2021 and 2025 because of the rise in interest rates: the loss would be a certainty, were the Eurosystem to sell the portfolio. Instead a current loss is being incurred by Eurozone banks: the difference between the 0% remuneration they now receive on their substantial Minimum Reserves and the interest they would receive if they were free to lend that money out at market rates. This loss is being passed on the banks' customers – Eurozone businesses and individuals – in the form of worse terms and conditions on loans, deposits, and banking services.

⁷ The risks to Eurozone member states were not taken to be the nominal amounts of these programmes. Some of the assets were subject to Market Risk, the risk of loss being assessed based on a 2% rise in interest rates. All of the assets were subject to Credit Risk, the risk of loss being assessed using a simplified Risk-Weighted Asset methodology as applied by banks

⁸ The facility is called Targeted Longer Term Refinancing Operation, or TLTRO, and the iteration in place at the end of 2021 was TLTRO Series III

⁹ Because TLTRO consisted of loans to Eurozone banks made by the borrowing bank's home national central bank, rather than of fixed-interest bonds, there was no Market Risk

¹⁰ Both the Market Risk and Credit Risk were quantified as a fractional amount of their nominal amount, as explained in the book

¹¹ <https://www.lyddonconsulting.com/richard-tice-of-reform-uk-is-wrong-the-bank-of-england-should-not-stop-paying-interest-on-financial-institutions-reserves/> accessed on 1 July 2026

Third main change: continued expansion of the InvestEU programme

The InvestEU programme has continued to expand, thanks to the new guarantee of €26.2 billion issued to the European Investment Bank Group by the EU on 26th March 2021 under legal instrument 2021/523 for the 2021-7 MFF.

This was on top of the original €16.0 billion guarantee issued to the European Investment Bank Group by the EU at the inception of the InvestEU programme and applying to the 2014-20 MFF.

These guarantees are on a first-loss basis: the EU will reimburse the European Investment Bank Group for losses it makes on any projects engaged in during the respective MFF, and whenever the loss is booked. The guarantee enables the European Investment Bank Group to take a high-risk positioning vis a vis the projects it supports, as explained in the book Chapter 4(ii) on pages 60-74.

The disclosure on the InvestEU programme is poor. The value and terms of the engagements of the European Investment Bank as lender and of its subsidiary the European Investment Fund as (i) guarantor of other lenders; and (ii) as issuer of undertakings to buy shares from existing shareholders, are not stated openly, nor are the total value of and the total debts of the projects in which the European Investment Bank Group has participated. These had to be estimated, and at €1.25 trillion at the end of 2021, rising to €1.75 trillion at the end of 2024.¹²

The working assumption is that there is next-to-no real equity in InvestEU projects, such that the total value of the projects and their debts are approximately the same. The logic behind this is explained in Chapter 4(ii) of the book: the projects were unfinanceable in private markets and they could only be launched if public financial institutions took on the risk that private markets would not. This is achieved by the European Investment Fund issuing undertakings to buy shares from existing shareholders (meaning that the shareholders are not taking genuine equity-style risk), and by its guaranteeing the providers of the highest-risk tranche of the project's debt.

The European Investment Bank then lends all or part of the second-highest-risk tranche of debt. The engagement of these public financial institutions into the higher-risk tranches of capitalization of the project 'unlocks' - to use the in-vogue phrase – a large block of senior debt from other lenders.

Given that InvestEU is the main channel for the realisation of projects to achieve Net Zero, and that the European Investment Bank now self-styles as the 'EU Climate Bank', it is reasonable to assume that the volume of business will continue to rise at its embedded pace - €100 billion per annum.

This would mean that its volume will have risen to €2.05 trillion by the end of the current MFF, and that a further EU first-loss guarantee will be issued for the 2028-34 MFF, enabling the volume to rise to €2.75 trillion by the end of it.

¹² InvestEU is the largest programme of this type, but not the only one. Again, the amounts at risk are opaque, but the projects all serve public policy objectives and the debt service is, one way or another, drawn from the same universe of businesses and individuals who pay for a member state's public debts, and who constitute the 'full faith and credit' backing for a member state's General Government Gross Debt i.e. the EU taxpayer is the ultimate source of repayment

The fact that an EU guarantee of €26.2 billion can give rise to an increase in financing volume of €700 billion – or rather to ‘unlock’ €700 billion – demonstrates how highly leveraged the projects are: there is next-to-no equity, and almost all of the funds are borrowed.

The risk-of-loss to the EU, and indeed to the European Investment Bank Group, from this category of liability had become much greater between 2021 and 2025 because of this increasing ratio in the InvestEU programme of the total of financing raised to the size of the tranches bearing the first-loss and second-loss risks.

The European Investment Bank Group supports the first-loss and second-loss tranches, so its risk-of-loss has increased. The European Investment Bank Group has a first-loss guarantee from the EU for InvestEU, so the EU’s risk-of-loss has increased as well. The initial losses would be passed back to the EU up to the point where the EU guarantee has been exhausted.

After that the European Investment Bank Group would absorb any further losses, thereby diminishing its capital to the point where its management decides it needs to call up further capital. That capital has been subscribed (i.e. committed) by the EU member states. This gives rise to a question as to whether all of the member states would be able to pay in their portion of the capital call in circumstances where a significant number of InvestEU projects had failed.

That failure would indicate problems in member state economies likely to impact their public finances, and their ability to meet calls for cash when shadow liabilities change into real ones.

What we must focus on if the UK rejoins for the 2028-34 MFF

The UK’s immediate risk position as a member as from the 2028-34 MFF is its liability for all of the debts and contingent liabilities of the European Union.

All EU member states are responsible, on a joint-and-several-liability basis, for making sure that the EU Budget is in balance. Each one is responsible in law for the entire amount, albeit that the initial call for extra money – should the EU Budget go into deficit – would be parcelled out in percentages whereby each member state is asked to pay that portion of the call which reflects its own Gross National Income as a proportion of the EU’s total Gross National Income.

If any member state is unable to pay its share, then that member state’s Gross National Income is deducted back from EU’s Gross National Income, and the calculation is run again. A member state initially responsible for 15% of EU Gross National Income would now find itself responsible for over 15% of the call, because its own Gross National Income as the numerator is now divided by a smaller denominator - EU Gross National Income less the defaulting member state’s Gross National Income.

If 27 out of 28 member states default, and the Gross National Income of each one is deducted back from EU Gross National Income in turn, with the ultimate calculation involving only the 28th member state: its Gross National Income is divided by itself, the product of which calculation is 100%. The 28th member state is the ‘last man standing’ who has to pay the entire call.

This is the meaning of the phrase commonly used now to assuage debt markets of the quality of the EU's debts with its current 27 member states: 'it all tracks back onto Germany'. Once the UK became the 28th member state again, and one that is both large and a net payer, this phrase could be altered to 'it all tracks back onto Germany and the UK'.

We should now concentrate more closely on:

1. The debts of the European Union, both now and how they are likely to develop during the 2028-34 MFF;
2. The contingent liabilities as guarantor of the European Union, both now and how they are likely to develop during the 2028-34 MFF, all of the main ones being towards the European Investment Bank Group:
 - a. Under the InvestEU programme;
 - b. For the European Investment Bank's loans outside the EU; and
 - c. For the new European Fund for Sustainable Development.

As a non-Eurozone member state initially we need not concern ourselves with the extra liabilities associated with adopting the euro, although we should note both their size and the difficulties of isolating the UK from them. When Ireland and Portugal required a bailout in 2009-10, the initial bailout facility was, like Next Generation EU, mounted through the EU: the European Financial Stabilisation Mechanism.

The UK was liable for the entire €46.8 billion borrowed on capital markets by the EU and lent to these two member states. The UK made a bilateral loan to Ireland of a further €3.8 billion.¹³ This was a Eurozone bailout, the UK was not in the Eurozone, and yet we became drawn into the bailout. UK politicians felt that it was in the UK's long-term strategic interests to support all of the EU, the Eurozone construction, Ireland, Portugal, and the other member states (who would otherwise have had to contribute more).

Information on the debts of the EU

For recent and reliable source information on the debts of the EU we have the EU Investor Presentation (with data as of 23rd June 2026) and we have the slide deck for the EU Global Investor Call on 24th June 2026.

As in the past with EU presentations and accounting, there is both a special language (using words like 'envelope' where 'facility' would be better), a failure to fully reconcile all the figures (such as not stating the amounts of each sub-programme under Next Generation EU and proving that their aggregated amount is the same as the amount of the entire programme), and a tendency to understate the amounts, and therefore the risk, by not giving the full picture wherever the full picture is needed.

An example of this is not mentioning the €400 billion 'Crisis Mechanism' or the €100 billion 'Ukrainian reserve' on page 35 of the EU Investor Presentation about the size of the 2028-34 MFF, presumably because it is not certain that money will be spent on either programme, even though the MFF proposes to create the right for the European Commission to create the respective fund, borrow the money and spend it if it is warranted – in the European Commission's opinion.

¹³ https://economy-finance.ec.europa.eu/eu-financial-assistance/euro-area-countries/financial-assistance-ireland_en accessed on 27 June 2026

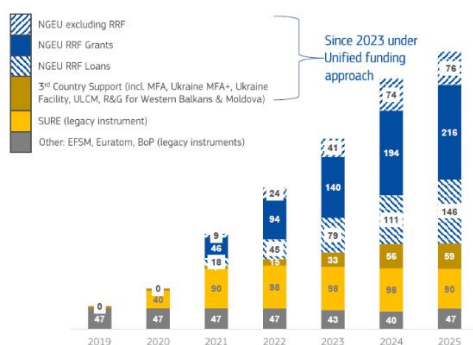
The purpose to which the EU's borrowings have been put during the 2021-7 MFF so far

Page 5 of the EU Investor Presentation shows the EU policy objectives that were supported with borrowed money as at the end of 2025:

THE EU AS AN ISSUER

EU issuances support EU policy objectives

EU financial assistance financed through borrowing over previous years
By category of EU programmes (based on outstanding disbursements in € bn)



5 Source: European Commission

Disclaimer: Under the Commission's unified funding approach amounts raised are not necessarily equal to amounts disbursed at a specific point of time.



- **NextGenerationEU (NGEU):** €637 bn (out of a maximum envelope of €806.9 bn, as set out in 2021) post Covid Instrument.
- **Support to Ukraine:** including under the Ukraine Facility and the Ukraine Loan Cooperation Mechanism (ULCM) in line with the G7 agreement.
- **Macro-Financial Assistance (MFA):** Financial aid programmes for countries outside of the EU.
- **Reform & Growth Facilities:** €6 bn (of which €4bn loans) for **Western Balkans** and €1.9 bn (of which €1.5bn loans) for **Moldova** of grants and loans based on fulfilment of reforms
- **SURE:** €98 bn (out of a maximum envelope of €100 bn) to preserve employment and incomes during Covid.
- **European Financial Stabilisation Mechanism (EFSM):** Up to €60 bn programme to support EU Member States threatened by severe financial difficulties.
- **Balance of Payments (BoP):** Assistance facility for EU countries outside the euro area experiencing or threatened by difficulties regarding their balance of payments.
- **Euratom:** Financing eligible projects on behalf of the European Atomic Energy Community

Key points here are:

- The significant portion of Next Generation EU that was still available to be drawn: the EU was permitted to disburse €806.9 billion under the programme until the end of 2026, but the presentation states that only €637 billion of that could be borrowed, which conflicts with Article 5.1.a of Council Decision 2020/2035 which established Next Generation EU;
- Article 5.1.a of Council Decision 2020/2035 states that 'the Commission shall be empowered to borrow funds on capital markets on behalf of the Union up to EUR 750 000 million [i.e. €750 billion] in 2018 prices';
- The bar chart figures for Next Generation EU add up to €438 billion as of the end of 2025, leaving €199 billion available in 2026 if the ceiling is €637 billion;
- If, as is stated elsewhere, 24% of the €637 billion borrowing envelope remained available as of 23rd June 2026, or €152.9 billion, it implies that €46.1 billion had been disbursed from the €199 billion available as of 1st January;
- It would take a considerable acceleration of disbursements for the remaining €152.9 billion to be used up by 31st December 2026, even if the unused capacity has to be committed to via umbrella agreements or 'envelopes';¹⁴
- There is a high degree of support for Ukraine and for countries in the Western Balkans, who aspire to EU membership;
- The size of the SURE programme, which is Covid-related but which is not part of the Coronavirus Recovery Fund (aka Next Generation EU) but which still stands at €90 billion.

¹⁴ The European Investment Bank has in the past shown a propensity for signing umbrella agreements with borrowers in December, to fill a lending quota for the year for a particular member state. Its loans often include a lengthy availability period after signature, and repayment over 15 years. The loan remains registered under the MFF during which the loan was committed. A loan committed in the December of the final year of the 2001-6 MFF may only just have been paid off. These are tried-and-tested techniques for not losing available capacity, and ones that may be used under Next Generation EU

What needs to be funded in 2026 and 2027 under the current MFF

Slide 13 of the Investor Call slide deck sets out the EU's need for funds during the remainder of the current MFF, and beyond it in the cases of the SAFE fund for defence, and the rolling-over of maturing bonds:

Funding needs remain high in the coming years



Borrowing needs driven by:

(i) **Ongoing programmes**, including:

- **NGEU**: €637 bn borrowing envelope until 2026 (around 24% still to be disbursed);
- **Ukraine Facility**: €33 bn between 2024 to 2027;
- **Reform and Growth Facilities**: Western Balkans €6 bn (€4 bn loans) and Moldova €1.9 bn (€1.5 bn loans);
- **Macro Financial Assistance programmes**: Such as support to Egypt & Jordan.

(ii) **New programmes** for which disbursements start in 2026:

- **SAFE** until 2030 for up to €150 bn;
- **Ukraine Support Loan**: €90 bn in 2026 – 2027.

(iii) **Roll-over of maturing issuances**: a minimum of €210 bn from 2026-2030 for Bonds, to be complemented by short-term funding rolled into long-term funding, of which, €33 bn. of maturing bonds in H2 2026.

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Notable points under this heading are:

- That the EU will require to borrow a lot of money still during this MFF, and that the need will be sustained into the next MFF;
- The needs equate to around €600 billion by the end of 2030, or about €150 billion per annum, including the rolling over of maturing debt;
- This includes raising the funding for the portion of Next Generation EU still available;
- The Ukraine Support Loan of €90 billion comes (i) on top of the drawings under the Ukraine Facility and the Ukraine Loan Cooperation Mechanism which are mentioned in the chart on page 5 of the EU Investor Presentation above of EU disbursements up to 31st December 2025; and (ii) on top of further disbursements from the Ukraine Facility after 1st January 2026 (the figure of €33 billion on this page embraces disbursements both before and after 31st December 2025);
- The period of the €150 billion SAFE fund runs into the 2028-34 MFF;
- The figure for debt rollovers runs into the 2028-30 MFF;
- The contents of this slide bear out the principle that money can be disbursed during a subsequent MFF but under the ceilings and limits applying to the MFF in which it was approved, as alluded to in the footnote relating to the possibility that disbursements under Next Generation EU may occur after 31st December 2026.

Expansion of needs under the 2028-35 MFF

Slide 17 of the Investor Call slide deck sets out how the EU's need for funds could expand during the 2028-34 MFF if new 'mandates' are added to the existing ones, as well as borrowing continuing to fulfil existing 'mandates':

Continued Capital Market presence of the EU beyond 2026



Mandates under the proposed MFF (under negotiations with the Council and the European Parliament)		Existing mandates in current MFF	Existing mandates for which issuance will continue in the next MFF	
<u>For EU Member States:</u> Up to €150 bn → policy loans under Catalyst Europe within the national and regional partnership plans Up to 0.25% EU GNI financial backing for loans up to €400 bn in a new Crisis Mechanism in the MFF – for large-scale crises	<u>For partner countries:</u> €100 bn Ukraine reserve → loans and grants to Ukraine. The size of the loans to be decided based on needs during the MFF Global Europe, with a total envelope €200 bn incl. €95bn for guarantees and loans → continues to provide policy loans and macro-financial assistance (amounts to be decided during implementation)	€90 bn Ukraine Support loan for the 2026 – 2027 period	€150 bn SAFE defence-related loans to Member States, based on current expectations – €30 bn/year over 2026 – 2030	€40-50 bn/year for rollover operations of outstanding debt

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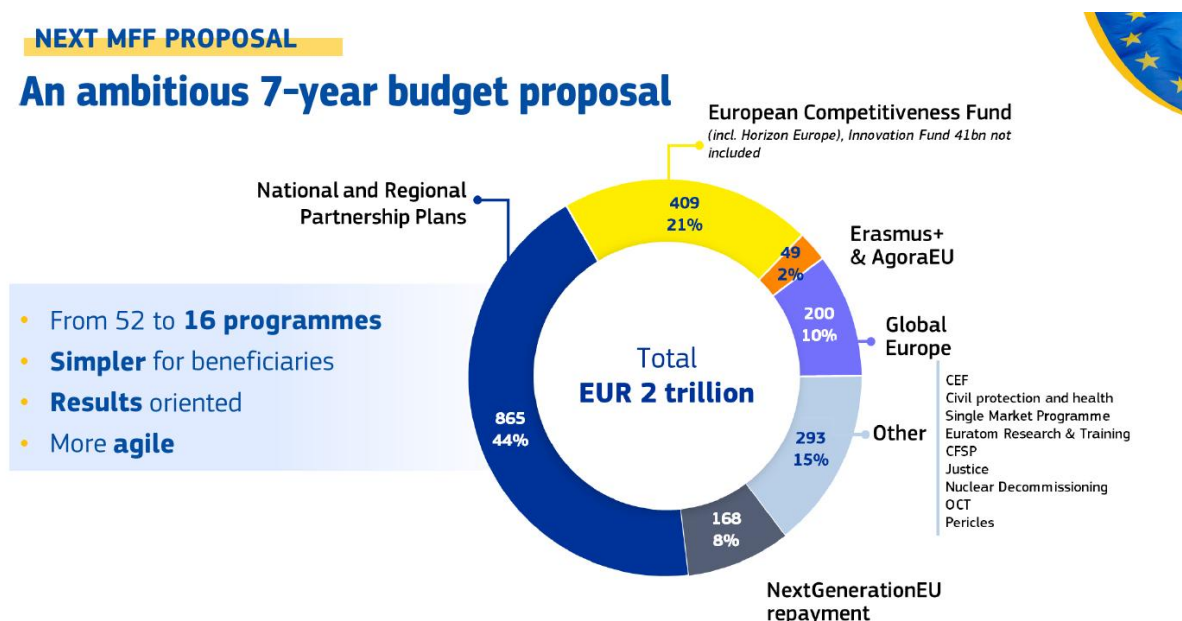
Key points are:

- The large size of new funds to be authorised;
- This does not mean that money will be borrowed for them or that money will be disbursed from them straight away;
- However, the existence of these authorisations will allow the European Commission to mobilise a specific action without having to go to the European Parliament or the European Council for a specific authorisation;
- The proposal thus strengthens the power of the European Commission, and reduces the control exercised by the member states;
- The 'Crisis Mechanism' and the 'Ukrainian reserve' appear to fall into this category of funds mobilizable at the European Commission's discretion, and to total €500 billion;
- The 'Crisis Mechanism' is described as consisting of 'financial backing for loans' but not of the loans themselves. This must therefore be considered as a new fund under EU guarantee, not as the EU borrowing itself and on-lending;
- 'Global Europe' appears to contain a ceiling for the issuance of guarantees – possibly to the European Investment Bank again – within the ceiling of €95 billion 'for guarantees and loans';
- The implication is that there could be both loans from the EU, and from the European Investment Bank under EU guarantee, totalling €95 billion, with the EU and the European Investment Bank each borrowing their respective portions on capital markets;
- Presumably the remaining €110 billion of 'Global Europe' will be disbursed via expenditure (which includes via grants);

- 'Global Europe' is for 'partner countries' - i.e. to be spent in countries that are not EU member states – but by implication not in Ukraine, as Ukraine is mentioned separately;
- 'Catalyst Europe' would raise the amounts of the cash disbursements to EU member states but, importantly, under the 'national and regional partnership plans';
- This is a new way of allocating funds from the EU Budget and one that is likely to further reduce the correlation between how much money a member state pays in, and what EU funds are spent in it;
- Net payers are likely to pay more, and to receive less;
- The proceeds from net payers will be spent both inside the EU (e.g. under 'Catalyst Europe') and outside it (e.g. under 'Global Europe').

NEXT MFF PROPOSAL

An ambitious 7-year budget proposal



Source: European Commission
35 Disclaimer: All amounts in EUR, current prices, adjusted with 2% deflator



Of particular note here are:

- That 44% of the expenditure will be directed towards the 'National and Regional Partnership plans', the new mechanism for the reduction referred to above in the correlation between how much money a member state pays in, and what EU funds are spent in it;
- 'Catalyst Europe' at €150 billion is included under this heading;
- The €200 billion for 'Global Europe' is specifically mentioned, but without noting here that the money is for 'partner countries' not currently in the EU;
- Neither the €400 billion 'Crisis Mechanism' nor the €100 billion 'Ukrainian reserve' are mentioned at all, whereas they are mentioned in the Investor Call slide deck;
- There is a 'European Competitiveness Fund' of €409 billion, not mentioned in the Investor Call slide deck, presumably because it does not require funding with debt;
- It seems unlikely that the €400 billion 'Crisis Mechanism' or the €100 billion 'Ukrainian reserve' could be included within the 'European Competitiveness Fund', so they need to be regarded as missing from this diagram, presumably because they are an authorisation to the European Commission to mobilise a new fund if the need arises in its opinion, not a firm plan to create a fund and to spend the money to be borrowed and put into it;
- €168 billion of Next Generation EU debt has to be repaid, and this comes about because of the large portion disbursed as grants: the portion disbursed as loans should, in principle, deliver incoming loan repayments that are then used in turn to repay the bonds issued;
- At any rate, the proposed MFF represents a major increase in spending and the raising of new debts, as well as the contracting of further contingent liabilities;
- The contents of this slide may not be the whole story, though, as mobilisations of either the €400 billion 'Crisis Mechanism' or the €100 billion 'Ukrainian reserve' or both would raise borrowing and expenditure.

The outstanding bonds of the EU now

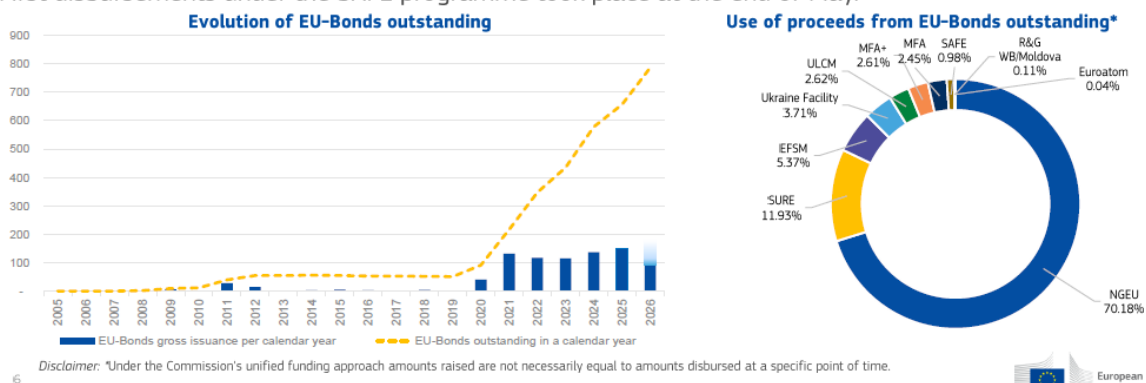
Slide 6 of the Investor Call slide deck shows the rapid escalation of the EU's debt during the 2021-7 MFF:

Increasing amounts of EU-Bonds outstanding

EU-Bonds outstanding amount is around **€793 bn**, of which **€84 bn** is in the form of the **NGEU Green Bonds**.

Majority of the EU-Bond proceeds have been disbursed to the **NGEU programme**: approximately **€485 bn** outstanding.

First disbursements under the SAFE programme took place at the end of May.



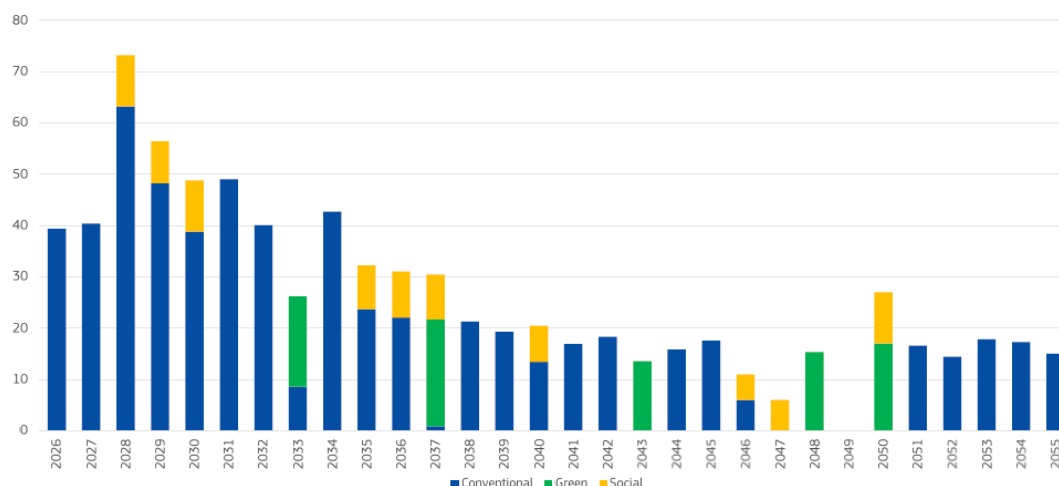
Noteworthy points here are:

- That the EU now has €793 billion of bonds in issue;
- That 70% of this relates to Next Generation EU;
- That further bonds will be issued in line with the undrawn portion of Next Generation EU;
- That €94.6 billion relates to the other Coronavirus programme – SURE;
- That disbursements under the €150 billion SAFE defence fund are only just starting;
- That the outstandings regarding Ukraine only total €29.4 billion at present but are also set to rise sharply, in the Ukraine Facility by €3.6 billion and in the Ukraine Support Loan by €90 billion (with the Ukraine reserve of €100 billion on standby as well).

Maturity profile of the EU's bonds currently in issuance

Slide 7 of the Investor Call slide deck shows the maturity profile of the EU's bonds currently in issuance:

A liquid curve of EU-Bonds benchmark € 793 bn



Source: European Commission

7



Of particular note here are:

- That the maturities are heavy during the 2028-34 MFF;
- The weight of maturities challenges the wording of Article 5.2 of the Council Decision 2020/2053 establishing Next Generation EU, which states that 'The amounts due by the Union in a given year for the repayment of the principal of the funds referred to in the first subparagraph of this paragraph shall not exceed 7,5 % of the maximum amount to be used for expenditure referred to in point (b) of the first subparagraph of paragraph 1';
- The 'maximum amount to be used for expenditure' is €390 billion;
- 'Expenditure' means the grants part of the Next Generation EU programme: the part for which there is no loan, and therefore no incoming loan repayments that are then used to repay the bonds issued to fund the respective loans;
- The maximum repayment of the Next Generation EU debt in any one year should be €29.25 billion: the total of bond maturities exceeds that figure in every year up to 2036 except 2033, and by quite some distance in 2028, 2029, and 2030;
- The slide does not shown what portion of each year's maturities are related to grants and therefore fall under Article 5.2 of the Council Decision 2020/2053, nor, in consequence whether compliance with Article 5.2 is challenged and, if so, to what degree;
- The stress on the EU's cashflow situation gives rise both to the need to roll over (as opposed to repaying) €210 billion of bonds maturing between 2026 and 2030 as referred to on slide 13 of the Investor Call slide deck, and to the need to find €168 billion of cash in the 2028-34 MFF to pay off the Next Generation EU debt;
- It is unclear whether the €168 billion of cash in the 2028-34 MFF allocated to paying off Next Generation EU debt includes an allowance for shortfalls in the repayment of loans;

- The EU's loans in the past were made directly to EU member states and 'partner countries', but, in the case of Next Generation EU, member states were permitted to exercise discretion as to who could borrow;
- If the UK's experience with the Coronavirus Business Interruption Loan Scheme acts as a guideline for how such schemes have performed in practice, there will be both fraud and default due to poor creditworthiness, both being attributable to inadequate due diligence, and a resulting shortfall of actual loan repayments compared to contracted ones;
- In the UK construction it was British Business Bank as scheme administrator that failed in its due diligence; in Next Generation EU it would be administrative offices within the government complex of each member state.

Summary of issues arising from the information on the debts of the EU

2026 looks like being the biggest ever year for the EU taking on new debt, what with such a large portion of Next Generation EU remaining to be disbursed before the program expires at the end of the year.

There is a heavy programme of bond maturities to be met all the way through until 2036, and the burden of this will increase if there has been no allocation to deal with a portion of Next Generation EU being lost to fraud and default, and fraud and default come to light.

€50 billion per annum from 2026-30 must be re-borrowed from bond markets in order to restrict to €168 billion the amount of cash needing to be diverted out of the 2028-34 MFF.

More money will be borrowed in order to both lend into and increase expenditure in non-EU member states. More will be drawn under the Ukraine Facility, and the Ukraine Support Loan of €90 billion will be drawn in 2026-7, and on top of that there is the proposed Ukraine reserve of €100 billion which will be set up and drawn at the European Commission's discretion.

There will be an increasing dislocation between member states that are providing funds and members states that receive them, exacerbated for the member states providing funds when they are not being spent in the EU at all.

This will in turn make it more difficult for member state governments to present a positive and convincing Cost/Benefit analysis of EU membership to their own voters.

Member state governments will be required to justify to their own voters that money is being spent by the EU apparatus – inside and outside the EU - on purposes that voters might not endorse their own government spending directly out of national budgets.

This task will be rendered all the more difficult where the spending takes place through funds that have been established for usage at the discretion of the European Commission, and where the control of member states has been reduced or even eliminated.

EU guarantees will increase, mainly to have the European Investment Bank do a portion of the EU's lending in its stead, and the European Commission will be empowered to bring new funds into being – for crises, for Ukraine – at its discretion, with money borrowed by the EU, for which the EU member states will be responsible.

Guarantees issued by the EU to the European Investment Bank

The EU's presentations to investors make it clear that the EU regards the European Investment Bank as a mainstream channel for the realisation of EU policy objectives, with the European Investment Bank making loans under EU guarantees. The European Investment Bank funds itself from the same sources as the EU, borrowing from capital markets in order to on-lend.

The European Investment Bank ('EIB') gives its loan volumes under EU guarantee in its annual report.¹⁵ It quotes the following programmes where it deems its loans to be secured with guarantees, either from the EU or from the member states:

- The External Lending Mandate ('ELM') to borrowers outside the EU, including to ones on the pathway to joining the EU;
- The European Fund for Sustainable Development ('EFSD');
- The Neighbourhood, Development and International Cooperation Instrument - Investment Window 1 ('NDICI IW1') and Investment Window 4 ('NDICI IW4');
- The European Fund for Sustainable Development Plus ('EFSD+');
- The Ukraine Facility – Public Sector Guarantee; and
- The Cotonou Agreement.¹⁶

The statements in S2.3.2 put the total secured by guarantees of the European Union or the Member States at €48.9 billion - €29.2 billion disbursed and €19.7 billion still to be disbursed.

Notwithstanding the statement that some amounts are directly guaranteed by member states, the related amounts are not stated, and it would therefore be wise to assume a guarantee amount through the EU of €45.0 billion at the end of the 2021-7 MFF under the above headings.

Over and above the direct member state guarantees under the above list of programmes, there is the European Guarantee Fund, set up in in 2020 and with a ceiling of €24.4 billion. Five member states did not participate in it. The guarantee beneficiary was the European Investment Bank Group. Its objective was to continue the expansion in InvestEU-style projects through 2020-22 as a bridging operation between when the initial EU guarantee of €16.0 billion for InvestEU was deemed to be used up, and the new one of €26.2 billion for the 2021-7 MFF was put in place.

There is then the InvestEU programme as well, not mentioned in the above headings. One can expect the total volume of business by the end of the current MFF to be €2.05 trillion, backed by EU first-loss guarantees of €42.2 billion, and by the European Guarantee Fund of €24.4 billion.

One can then expect that a further EU first-loss guarantee will be issued for the 2028-34 MFF, of around €26.0 billion again, enabling the volume to rise to €2.75 trillion by 2034.

Simply put, the UK would walk into the EU in 2028 with the EU having issued €42.2 billion of guarantees relating to InvestEU projects of €2.05 trillion.¹⁷ By the end of 2034, the EU would have issued €68.2 billion of guarantees relating to projects of €2.75 trillion.¹⁸

¹⁵ European Investment Bank 2025 Annual Report p. 267

¹⁶ <https://eur-lex.europa.eu/EN/legal-content/summary/cotonou-agreement.html> accessed on 1 July 2026

¹⁷ The volume of InvestEU business supported by the European Guarantee Fund rather than by the EU guarantees is opaque. However, even if the €2.05 trillion of business was supported by €24.4 billion of European Guarantee Fund as well as by €42.2 billion of EU guarantees, the resulting coverage of €66.6 billion would only represent 3.2% of the volume rather than 2.1%

¹⁸ The coverage would be slightly greater if the European Guarantee Fund is included

EU guarantees to the EIB would thus amount to around €87 billion (€45 billion outside of InvestEU and €42 billion within it) at the end of the 2021-7 MFF, and the UK would be ultimately responsible for all of that under the last-man-standing principle.

If the InvestEU amount goes up to €68 billion during the 2028-34 MFF, and the other list programmes expand beyond €45 billion, the amount at the end of that MFF could easily exceed €110 billion.

These financings are over very long periods: it is part of the inducement to other lenders into the related projects that the suppliers of mezzanine and subordinated debt should be paid back after the suppliers of senior debt: the EIB as lender is part of this lending group, and the EIF as guarantor of such loans is only released from its obligations when the respective loan is repaid. Indeed, where the EIF has issued an undertaking to buy shares, it may never be released from its obligation.

Since InvestEU only began during the 2014-20 MFF, there will be next-to-no run-off of the liabilities guaranteed by the EIF before the end of the 2028-34 MFF.

With the EIB/EIF sitting in a high-risk position in these projects, the projects only need to be losing 2.5% of their value for there to be a good chance that the entire guarantee will be called.¹⁹ InvestEU thus entails a significant risk-of-loss for the EU, and therefore for any EU member state.

UK would have to subscribe to the EIB's capital as well

In addition the UK, rejoining the EU, would have to re-invest in the capital of the EIB, and at the highest tier:

1. €46.75 billion of subscribed capital;²⁰
2. €4.25 billion to be paid in, as asset for the UK;
3. €42.5 billion to remain as subscribed-but-not-called, a contingent liability for the UK.

On top of that, footnote 3 on p. 267 of the EIB 2025 Annual Report confirms that the EIB has increased its gearing ratio: the multiple of its capital that it is permitted to borrow. It has been increased from 250% to 290%, indicating that the member states wish the EIB to do more business, meeting more public policy objectives, but without the member states injecting more capital.

This means that the UK's exposure to the EIB would represent a higher risk-of-loss than when the UK disengaged in 2020.

What can go wrong with InvestEU based on the UK's experience with Gigaclear

The phrase used above 'With the EIB sitting in a high-risk position in these projects' may seem esoteric as a concept, and therefore remote as a risk. The recent example of Gigaclear in the UK will dispel any such illusions because the UK's equivalent of the EIB Group – the National Wealth Fund ('NWF') – did what EIB Group has done in InvestEU through its subsidiary the European Investment Fund ('EIF'): issue a guarantee to other lenders into a project.

¹⁹ The percentage would be slightly higher if the European Guarantee Fund is included

²⁰ EIB 2025 Annual Report p. 10, which shows the relationship between called and subscribed capital as 10%, and Table 8.3 on p. 155 of the book, which shows the tiers of subscribed-but-not-called capital

Now the NWF finds itself in the position of shareholder. The Gigaclear project had a thin equity layer, like InvestEU projects. The greatest risk is taken by the providers of tranches of named as subordinated debt or mezzanine debt: they are providing large amounts of money, and, given the thinness of the equity layer, the value of the project need fall very little in percentage terms before the equity layer is burnt through and the project's assets are worth less than the project's liabilities.

The lenders of subordinated debt or mezzanine debt are the typical beneficiaries of guarantees issued by the EIF in the InvestEU model, and by the NWF in its UK counterpart. The NWF issued £240 million of guarantees to lenders into Gigaclear in 2023, as reported by ION Analytics.

Gigaclear ran into financial trouble and had to be bailed out. As part of that bailout the NWF first replaced the original lenders, once they had called the guarantees, and now finds itself to be a shareholder, as announced in Gigaclear's press release on its bailout.²¹

The step from becoming a guarantor to a lender is the meaning of the wording of a 'spokesperson for NWF', quoted in the ION Analytics article, who said that NWF 'opted to prepay the guaranteed lenders' debt, and in doing so became a lender to the transaction.'²²

The second step was for the NWF's debt claim to be converted into an ownership of shares, and not necessarily for the same value of £240 million or for 100% ownership. In such a situation Gigaclear's liabilities must be reduced so that the much-depleted value of its assets exceeds them. That can be achieved by a write-down of the claims of creditors, or by a conversion of creditors' claims into equity, or by a mixture of the two.

What the NWF's share is of the equity and what it is valued at will become public at the time of Gigaclear's next annual report. The NWF will record a loss: the difference between £240 million and the fair value for the shares it now owns. That is a loss for its owner: the UK taxpayer.

This is the same way in which the EIF would take a loss either on its guarantees or on its agreements to buy shares from existing shareholders in InvestEU projects: the EIF would end up holding an asset of impaired value, and with no-one other than the EU to pass the loss on to.

As a result, such schemes bear a significant risk-of-loss for the issuers of guarantees, and for whoever ultimately backs these issuers of guarantees. That is normally the EU or UK taxpayer, however many intermediary organisations are inserted in between.

Carve-outs and their ineffectiveness in practice

UK politicians who might propose that the UK rejoin the EU will be quick to dismiss the contents of this paper on a similar basis to how they would dismiss claims that InvestEU or the National Wealth Fund could be channels for incurring losses (confounding the implications of the scheme names that include 'invest' and 'wealth').

The dismissal of this paper will rest on the contention that the UK will be able to negotiate carve-outs from the liabilities which a member state commits to by being a member of the EU but which arose whilst the UK was not a member state.

²¹ <https://gigaclear.com/posts/gigaclear-concludes-financial-recapitalisation> accessed on 1 July 2026

²² <https://ionanalytics.com/insights/infralogic/national-wealth-fund-bails-out-gigaclear-lenders/> accessed on 1 July 2026

Firstly, any such carve-out will be unprecedented.

Secondly, some of the liabilities pre-date Brexit in 2020 and will have remained as residual liabilities of the UK under the Brexit Withdrawal Agreement. That could include the EU's guarantee liability to the European Investment Bank for loans registered against the 2007-2013 and 2014-20 MFFs. To deal with these instances a carve-out from the carve-out would have to be negotiated.

Thirdly, the governing law would not be English law, and the carve-out agreement would be subject to the exclusive jurisdiction of the European Court of Justice, meaning it would be disputable only in a forum where the interests of the European Union outrank the interests of other parties.

Fourthly and as happened in the case of the bailout of Ireland and Portugal, a carve-out would be susceptible to dissolution in a crisis situation on the recommendation of UK politicians themselves and their advisers, on the grounds that it was in the UK's long-term strategic interests to ensure that neither the EU itself nor any of its associated institutions or schemes should default on their liabilities, and that the UK should therefore make a financial contribution, even if not legally obliged to do so.

Finally, the customary follow-up to strengthen the argument above would be mobilised: that not making a contribution would damage the credit standing of the UK itself if the UK was not seen to come good on its implicit liability to support an institution with which it was associated.

Whilst it might seem unfair that the UK would have to contribute more cash and levy more taxes on its citizens and businesses to assist with the repayment of the Next Generation EU debt, and accept other liabilities relating to the period of the 2021-7 MFF, and particularly when none of the Next Generation EU money was spent in the UK, the feasibility of negotiating a legally-binding carve-out and the reliability of UK politicians in the future to insist on its application are both so low that it is not worth consideration as a possibility.

The other programmes are and have been ongoing for some time and there is no reason why, if the UK thinks that EU membership is of benefit to it, the UK should want any carve-outs from these obligations of membership.

This issue is part-and-parcel of the concept of a 'set menu' (table d'hôte) for UK membership as has been alluded to by Jean-Claude Juncker and Michel Barnier in the recent past, as opposed to the 'pick and choose menu' (à la carte) that the UK enjoyed before: the rebate on the member state cash contribution, no obligation to join the euro, and so on.

By extension, it seems far-fetched to imagine that a UK again in the EU would be able to erect a firewall between itself and the Eurozone, with all its other schemes and real and shadow liabilities.

Croatia and Bulgaria have joined the euro since the UK left the EU, and now Hungary is undertaking its examination of readiness for entry.²³ Denmark's currency is already in the Exchange Rate Mechanism. Sweden's monetary policies are aligned with those of the European Central Bank. The difference between the EU and the Eurozone has shrunk effectively to Poland, Czechia, and Romania.

²³ <https://www.lyddonconsulting.com/hungarys-election-result-celebrated-by-uk-rejoiners-the-euro-inflation-and-higher-eu-membership-dues-beckon-for-hungary-itself/> accessed on 1 July 2026

Conclusions

The financial liabilities associated with EU membership are the third leg on the stool of the financial cost of Rejoin.²⁴ The other legs are:

1. The size of the member state cash contribution, and of the other taxes and levies that the UK would raise and administer, but most of which would be paid away to the EU as they rank as its 'Own Resources';
2. What is spent by the EU in the UK under whatever programme and to whomever a grant is given or a loan extended, or for whomever an expenditure is met.

The UK, upon rejoining in 2028, would assume new financial liabilities under this leg of nearly €1.2 trillion, or 34% of the UK's current GDP.

The backdrop to this bald figure is as follows:

- The amount of the liabilities is rising as the EU launches more and more programmes;
- The risk profile of the EU's programmes is increasing and therefore also the risk-of-loss to member states, a loss which would materialise as additional member state cash contributions to keep the EU Budget in balance;
- The power and discretion of the European Commission is rising;
- The control of and accountability to the member states is reducing;
- More money is to be spent outside the EU and less inside the EU;
- There is a new mechanism for allocating funds from the EU which threatens that net payers into the EU Budget will see a reduction of the amount that is spent in their member states;
- The reduced power of a member state to control where EU funds are spent goes hand-in-hand with a reduced say in what it is spent on;
- These developments will make it harder for politicians in net payer member states first and foremost – but actually in all member states – to compile a convincing financial business case for EU membership for their voters, and to gain acceptance from their voters that the purposes to which EU funds are being put have relevance and benefit to them;
- The transparency about the EU's finances is no better than it was when the UK decided to leave the EU in 2016.

The strong recommendation deriving from an examination of this leg of the stool, made whilst acknowledging that the stool itself does not constitute the entire set of issues to be considered around EU membership, is that the UK should remain aloof from these proceedings, and not take any steps towards rejoining the EU, let alone actually rejoin it.

BL/19.9.26

²⁴ The cost of compliance with EU law giving and regulations is not considered here as part of the financial cost of Rejoin