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Assessing the economic consequences of EU enlargement

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Abstract

The potential enlargement of the European Union towards the Western Balkans and Eastern Europe may lead to a profound reconfiguration of the EU project, shifting from a process of internal consolidation to a strategy of external transformation. This transition carries significant implications for the EU's fiscal architecture. While the integration of the Western Balkans would primarily formalise economic ties within a region already closely integrated geographically and economically with the European Union, Ukraine's accession carries the potential to recalibrate both the EU's financial foundations and its geopolitical centre of gravity. At the heart of this transformation lies the risk of increased pressure on the EU's redistributive frameworks, most notably the Common Agricultural Policy (CAP) and Cohesion Policy.

Integrating low-income markets necessitates a rethinking of resource allocation to ensure both the convergence of new members and the stability of existing ones. In this regard, the proposed 2028–2034 Multiannual Financial Framework (MFF) introduces a major innovation: a performance-linked funding model. By tying resource disbursement to rule-of-law compliance and structural reform milestones, this framework could fundamentally alter the logic of redistribution of EU funds across old and new member states. Moreover, the application of rigorous transitional provisions for sensitive sectors could mitigate the risk of short-term market disruptions following the accession of multiple new members. Viewed in this perspective, enlargement can be seen not as a fiscal burden but as an opportunity. Leveraging the resource endowments of new members and the reconstruction needs of Ukraine, an enlarged EU could both enhance its long-term global competitiveness and reinforce its collective economic sovereignty.

Introduction

This brief examines how a new wave of EU enlargement would reshape the economic geography and redistributive frameworks of the Union itself. It distinguishes between a “consolidation” scenario, involving only the Western Balkans, and a “global transformation” scenario encompassing Ukraine (alongside Moldova and Georgia). While the former would amount to a relatively low-friction integration of a small region already deeply influenced by the EU's economic orbit, the latter would offer a far more profound shift in the Union's strategic posture. Ukraine's accession – given the scale of its agricultural sector and the economic implications of post-war reconstruction – would not only reorient Europe's centre of gravity eastwards but also enhance its strategic autonomy.

At the same time, the magnitude of such an expansion would place unprecedented pressure on the EU's redistributive mechanisms, particularly Cohesion Policy and the Common Agricultural Policy (CAP). By analysing the fiscal implications through the lenses of net budgetary contributions and sectoral adjustment shocks, this study assesses whether the costs of enlargement can be reframed as a long-term capital investment under both scenarios. It ultimately argues that, through robust transitional provisions, the EU can turn the profit potential arising from Ukraine's reconstruction and its natural resources into a mechanism for offsetting the direct fiscal costs of enlargement, thereby laying the foundations for a more resilient and competitive Europe.

Consolidation or global transformation?

When assessing the economic impact of EU enlargement, it can be useful to distinguish between a scenario in which only the Western Balkans countries (WB6) – Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia – join the Union, and one that also includes Ukraine, alongside Moldova and Georgia. Türkiye has been excluded from the scope of this study, as its EU accession talks have been effectively frozen since 2018¹.

In a scenario where only the Western Balkans join the Union – given their small scale in terms of population and GDP – the economic discourse is primarily one of internalising six countries that are already geographically enveloped by the EU but remain outside the formal regulatory and customs framework. The trade relationship between the two regions stood at €83.6 billion in 2024², with the Union serving as the Western Balkans’ dominant trading partner – accounting for €49.1 billion in imports from the EU and €34.5 billion in exports. Germany is the leading source of imports (primarily machinery and vehicles), followed by Italy, Austria and Hungary, which have significantly expanded their presence in the region’s banking and energy sectors³. At the same time, the Western Balkans rely on the EU as their primary export destination, with Serbia alone accounting for 50% of the region’s total commodity exports to the Union⁴.

Currently, administrative delays at the borders between the WB6 and the EU increase logistics costs significantly compared with intra-EU trade. The primary strength of this scenario is the immediate elimination of these frictional costs, providing a boost to the GDP of both the region and its immediate EU neighbours⁵. Currently, administrative delays at the borders between the WB6 and the EU increase logistics costs significantly compared with intra-EU trade. The primary strength of this scenario is the immediate elimination of these frictional costs, providing a boost to the GDP of both the region and its immediate EU neighbours⁶.

Moreover, the integration of the Western Balkans would offer opportunities for near-shoring, as highlighted by a joint study by the Vienna Institute for International Economic Studies and the Western Balkans 6 Chamber Investment Forum⁷. In the post-pandemic global economy, characterised by wars and tariffs that threaten trade, EU companies are seeking to move supply chains closer to home in order to mitigate the risks of global disruption. Within the Western Balkans region, Serbia remains the dominant destination, attracting over 60% of all regional FDI with major automotive and manufacturing projects; North Macedonia follows closely in terms of FDI-to-GDP ratio, while Bosnia and Herzegovina and Kosovo have also shown significant near-shoring momentum⁸.

By integrating the Western Balkans, with their proximity to Central European industrial hubs, the EU would effectively create an internal industrial hinterland fully aligned with its environmental and social standards. At the same time, this transition would also provide the region with a strong incentive for industrial modernisation and economic convergence. The integration into the EU Single

¹ <https://newunionpost.eu/2025/11/04/eu-2025-enlargement-package/>

² https://webgate.ec.europa.eu/isdb_results/factsheets/region/details_western-balkans-6_en.pdf

³ <https://cadmus.eui.eu/entities/publication/f459a1e6-678e-57eb-861c-da1703b9879a>

⁴ <https://longbrief.com/the-true-nature-of-the-eus-investments-in-the-western-balkans/>

⁵ <https://www.imf.org/en/news/articles/2025/11/11/sp111125-ak-making-the-most-of-eu-accession>

⁶ <https://www.imf.org/en/news/articles/2025/11/11/sp111125-ak-making-the-most-of-eu-accession>

⁷ <https://wiiw.ac.at/transforming-the-western-balkans-through-near-shoring-and-decarbonisation-p-6999.html>

⁸ <https://wiiw.ac.at/transforming-the-western-balkans-through-near-shoring-and-decarbonisation-dlp-6999.pdf>

Market would generate substantial technology spillovers, transforming local firms into embedded partners within European high-tech value chains and strengthening both regional GDP and the EU's long-term industrial resilience⁹.

The inclusion of Ukraine radically alters the discourse on EU enlargement from consolidation to global transformation. For both political and economic reasons, Ukraine is a systemic actor whose accession would fundamentally shift the EU's centre of balance eastwards¹⁰. The primary strength of this scenario is the substantial enhancement of the EU's strategic autonomy in the production of batteries, semiconductors and renewable energy infrastructure, as Ukraine holds 20 of the 30 critical raw materials identified by the EU as essential for the green and digital transitions¹¹. Moreover, the post-war reconstruction of Ukraine – estimated by the World Bank to cost over €400 billion¹² – could act as a growth engine for the entire European continent. Demand for steel, cement, engineering services and digital infrastructure would provide a multi-decadal stimulus for firms across the EU-27. In this sense, the cost to the EU budget of admitting Ukraine can be better framed as a capital investment with high long-term returns.

At the same time, the economic impact of Ukraine joining the EU must also be considered from the perspective of the unprecedented scale of asymmetry. With a population of around 40 million, Ukraine's GDP per capita is currently about 15 % of the EU average¹³. The sudden integration of such a large, low-income country poses risks to several EU policies – notably the substantial redistribution of funding under the Cohesion Policy and the Common Agricultural Policy (CAP) – meaning that any resulting market distortions would be felt across the entire Union.

Towards a new Multiannual Financial Framework

Analysing the potential economic impact of EU enlargement, this study examines its implications for the 2021–2027 Multiannual Financial Framework (MFF), the EU's current long-term budget, with total allocations of €1.2 trillion¹⁴. It should be noted, however, that it is unlikely that any candidate country – or indeed multiple candidates – will complete accession before the end of the current multiannual budgetary period.

The European Commission presented its proposal for the 2028–2034 MFF on 16 July 2025¹⁵. The proposal envisages a significant transformation, not only in the financial architecture of external funding¹⁶ – which encompasses all countries involved in the enlargement process – but also in the structure of the EU's main policy instruments. Under the new design, Cohesion Policy and the Common Agricultural Policy would be integrated within a single funding envelope through National

⁹ <https://www.atlanticcouncil.org/wp-content/uploads/2025/05/Zeneli-et-al-Growth-Plan-for-the-Western-Balkans-H.pdf>

¹⁰ <https://www.bruegel.org/system/files/2024-04/Report%2002.pdf>

¹¹ https://enlargement.ec.europa.eu/news/eu-ukraine-strategic-partnership-raw-materials-european-bank-reconstruction-and-development-will-2022-11-17_en

¹² <https://www.worldbank.org/en/news/press-release/2025/02/25/updated-ukraine-recovery-and-reconstruction-needs-assessment-released>

¹³ https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEO_WORLD

¹⁴ https://commission.europa.eu/strategy-and-policy/eu-budget/long-term-eu-budget/2021-2027/documents_en

¹⁵ https://commission.europa.eu/strategy-and-policy/eu-budget/long-term-eu-budget/eu-budget-2028-2034_en

¹⁶ <https://feps-europe.eu/wp-content/uploads/2026/01/FINANCING-ENLARGEMENT-VIA-THE-2028-2034-MFF.pdf>

and Regional Partnership Plans (NRPPs), linking the disbursement of funds to the fulfilment of agreed reform commitments¹⁷. The proposal is still under negotiation, and the final outcome – in terms of allocations, financial structure, rules and provisions – remains uncertain.

Given this uncertainty, this study first focuses on what can be predicted under the existing 2021–2027 budgetary rules and allocations. It also considers potential innovations in the 2028–2034 MFF, based on the Commission’s proposal, which, if adopted, could significantly reshape the policy and economic landscape, particularly as several candidate countries approach the final stages of the accession process¹⁸.

Redistributing the EU budget

If we consider only the six Western Balkans countries (WB6), they would be beneficiaries of the EU budget, but only to a limited extent. With a population of around 17 million and a combined GDP of roughly €140 billion – less than 1% of the EU’s GDP¹⁹ – the region encompassing Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia is relatively small in terms of economic power. In the long run, the six countries combined would receive relatively limited funding and would not divert significant resources from current member states. The region’s total GDP is comparable to that of Slovakia, meaning that its integration does not threaten the fundamental solvency of the EU’s distributive policies.

A recent analysis by Strahinja Subotić and Ana Milinković (European Policy Centre – Belgrade, 2025)²⁰ confirms this “low-friction” reality. A hypothetical simultaneous accession of all Western Balkans countries would require total additional EU budgetary commitments of €46.6 billion over a seven-year period. On average, the net annual per capita cost would amount to €3.92. In practical terms, the fiscal impact on a single citizen would be “comparable to the price of a cup of coffee – in some countries perhaps accompanied by a small pastry – per year”. This scenario suggests that enlargement to a region that has been waiting for more than two decades to join the Union²¹ would already be feasible under the current Multiannual Financial Framework (MFF), without requiring a radical overhaul of national contributions from the EU-27.

When Ukraine is also taken into consideration – given its size, with a population roughly twice that of the Western Balkans countries combined, and its extensive agricultural sector – a different scenario emerges. Under the 2021–2027 EU budgetary rules, the net cost to member states of admitting all nine new candidates (the WB6, Ukraine, Moldova and Georgia) would amount to approximately €170 billion, equivalent to around 0.17% of EU GDP according to Zsolt Darvas and Juan Mejino-López (Bruegel, 2024)²². On average, the net annual per capita cost would rise to €50, making the fiscal impact comparable to the price of a cup of coffee – in some countries perhaps accompanied by a small pastry – per citizen per month.

¹⁷ [https://www.europarl.europa.eu/RegData/etudes/BRIE/2026/782606/EPRS_BRI\(2026\)782606_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2026/782606/EPRS_BRI(2026)782606_EN.pdf)

¹⁸ <https://newunionpost.eu/2025/08/12/eu-accession-negotiations-all-chapters/>

¹⁹ https://www.oecd.org/en/publications/multi-dimensional-review-of-the-western-balkans_4d5cbc2a-en.html

²⁰ <https://cep.org.rs/wp-content/uploads/2025/12/What-does-the-Western-Balkans-cost-me.pdf>

²¹ <https://www.balkanfund.org/publib/biepag/Unfulfilled-Promise-Completing-the-EU-Enlargement-to-the-Balkans.pdf>

²² <https://www.bruegel.org/analysis/what-enlargement-could-imply-european-unions-budget>

Against the backdrop of the €1,211 billion EU 2021–2027 multiannual budget, a “big bang” enlargement would expand the current overall envelope to €1,356 billion. This expansion would increase funding for Cohesion Policy from €393 billion to €422 billion. However, a significant redistribution would take place: current member states would see their allocations fall to €361 billion, while the nine new members would receive €61 billion. Similarly, expenditure under the Common Agricultural Policy (CAP) would rise from €379 billion to €491 billion.

In this scenario, CAP spending would remain unchanged for existing members, with the additional €113 billion allocated entirely to the new members in order to accommodate Ukraine’s vast agricultural output. Spending on neighbourhood programmes would fall by €15 billion – from €111 billion to €96 billion – as the new members would transition from external partners to internal stakeholders and would therefore no longer be eligible for neighbourhood-specific funding.

The resulting costs would have only a modest impact on the net positions of current member states. For several net beneficiaries – including Bulgaria, Czechia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Romania and Slovenia – any reduction in EU budget transfers would be relatively minor compared with the cuts already experienced during the transition from the 2014–2020 MFF to the current framework. Meanwhile, most net contributors – Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands and Sweden – would need to increase their contributions to the EU budget by around 0.13% of GDP.

The future of Cohesion Policy

The redistribution of Cohesion Policy funds represents one of the most significant administrative challenges of the next enlargement. Designed to reduce disparities between levels of development across regions, this policy currently accounts for roughly one third of the EU budget. Potential tensions may arise between maintaining support for current “less developed” regions and providing the necessary catch-up capital for new members.

Regional GDP per capita relative to the EU average is the core indicator underpinning Cohesion Policy²³. “Less developed” regions fall below 75% of the EU average; “transition” regions lie between 75% and 100%; and “more developed” regions are above 100% of the EU average. Admitting new members whose GDP per capita levels are all significantly below the EU average risks lowering the EU-wide mean used to calculate cohesion allocations, thereby triggering a reclassification of existing EU regions: some “less developed” regions would move into the “transition” category, while some “transition” regions would be reclassified as “more developed”.

In a scenario limited to the Western Balkans, the fiscal impact on Cohesion Policy would be relatively modest, owing to the region’s small population and GDP, with no significant repercussions for the reclassification of EU regions. However, for the six Western Balkans countries, the challenge would shift from the volume of funds to institutional absorption²⁴ – namely, the administrative and governance capacity to plan, spend and account for large inflows of EU structural funds. Currently, the region receives assistance through the Instrument for Pre-accession Assistance (IPA III), which

²³ <https://ec.europa.eu/eurostat/statistics-explained/SEPDF/cache/130610.pdf>

²⁴ <https://cep.org.rs/wp-content/uploads/2025/12/What-does-the-Western-Balkans-cost-me.pdf>

for the 2021–2027 period is capped at roughly €14.16 billion for all candidate countries combined. Once full membership is achieved, however, the allocation of structural funds to the six Western Balkans countries would rise to approximately €46.6 billion over a seven-year cycle. This would imply an increase from around €500 to €3,500 per capita – a level comparable to that received by neighbouring member states such as Bulgaria or Croatia.

Such an increase would place pressure on national and regional administrations, making institutional capacity and governance reforms critical to translating EU funds into concrete outcomes. If administrations in the Western Balkans are unable to plan and implement projects that meet EU standards, there is a risk that part of the cohesion funding may remain unspent. For this reason, a staged cohesion model should be introduced, under which funds are released in proportion to the administrative capacity and rule-of-law benchmarks achieved by new Member States.

By contrast, the inclusion of Ukraine would have a substantial impact on Cohesion Policy. As Ukraine’s income level is significantly below the current EU average, its accession – alongside the Western Balkans, Moldova and Georgia – would mechanically lower the EU-wide mean GDP per capita. Competition for Cohesion Policy funding among less developed regions would therefore intensify. This statistical effect would lead to the reclassification of many regions across the EU-27 as “transition” or “more developed”²⁵, potentially reducing cohesion support despite local economic conditions remaining unchanged. Italy and Spain would experience the largest losses, each facing reductions of nearly €9 billion, followed by Portugal (around €4 billion) and Hungary and Romania (approximately €2 billion each)²⁶.

If enlargement were to result in the abrupt defunding of current beneficiaries, it could undermine the internal cohesion of the Union. To address this risk, a study by Elisabetta Cornago (Centre for European Reform, 2025)²⁷ proposes a discursive and conceptual shift away from cohesion allocations based solely on GDP per capita thresholds towards a more performance-based model. Such an approach would complement traditional income metrics with indicators related to institutional capacity, reform progress and policy outcomes. In doing so, it could help preserve funding for existing member states while ensuring that new members receive sufficient resources to support economic convergence and structural adjustment.

In line with this policy debate, a major political and technical variable must also be considered. Under the 2028–2034 Multiannual Financial Framework (MFF), currently under negotiation by the EU co-legislators, Cohesion Policy rules are likely to undergo a substantial change. According to the European Commission’s proposal²⁸, earmarked cohesion funding would be restricted to “less developed” regions, effectively excluding both “transition” and “more developed” regions from guaranteed allocations.

Nevertheless, the draft regulation would still require all member states to identify the specific challenges faced by all categories of regions in their National and Regional Partnership Plans (NRPPs) and to allocate resources accordingly. This would shift greater responsibility for intra-national allocation decisions to the member states themselves. Irrespective of further EU enlargement

²⁵ [https://www.europarl.europa.eu/RegData/etudes/STUD/2025/769193/BUDG_STU\(2025\)769193_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2025/769193/BUDG_STU(2025)769193_EN.pdf)

²⁶ <https://www.bruegel.org/analysis/what-enlargement-could-imply-european-unions-budget>

²⁷ https://www.cer.eu/sites/default/files/EC_budget_26.3.25.pdf

²⁸ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52025PC0552&qid=1753798380292>

– though potentially accentuated by the accession of new members – such a framework would expand the scope for political discretion at the national level, making cohesion funding more explicitly a matter of domestic prioritisation and trade-offs between regions within each member state.

The Common Agricultural Policy, a sensitive issue

Funding under the Common Agricultural Policy (CAP) remains one of the most politically sensitive issues in EU politics, not only in economic terms. Since early 2024, farmers from all member states have strongly protested against EU institutions in Brussels on several occasions, all linked either to potential cuts in EU agricultural funding under the next MFF – from almost one third of the allocations under the current EU budget²⁹ – or to trade agreements that could allegedly penalise European producers. Agriculture has emerged not merely as a sector of the economy, but as a pillar of national identity and rural stability.

CAP is designed to support farmers' incomes, enhance agricultural productivity, and ensure a stable and affordable food supply across the EU. It consists of two pillars³⁰. Pillar I (€291.1 billion under the current MFF) is fully financed from the EU budget and primarily delivers income support through direct payments to farmers. Pillar II (€95.5 billion) is co-financed by the EU and national budgets and focuses on the sustainable development of rural areas.

In this context, the accession of new members is viewed with extreme scepticism by farmers, particularly in the case of an agricultural powerhouse like Ukraine. Recent examples demonstrate that such friction is already present in neighbouring countries. Following the outbreak of the Russian war in Ukraine, several EU members introduced (Bulgaria, Hungary, Romania, Slovakia, and even Poland, one of the most supportive countries with Kyiv) or threatened to introduce (Romania) temporary restrictive measures to ban the sale of Ukrainian grain and other agricultural products on their domestic markets, effectively translating farmers' protests into trade barriers within the Single Market³¹.

CAP funding is not allocated according to a single uniform formula. In particular, direct payments under Pillar I are largely determined by the size of a country's agricultural land area. This has important implications for EU enlargement, as the agricultural sectors of several candidate countries are extensive and economically significant. Agriculture accounts for more than 10% of GDP in countries such as Albania, Moldova, and Ukraine, compared with just 1.6% in the EU as a whole³². Despite CAP spending remaining unchanged for current EU members (€379 billion), while total allocations increase to €491 billion – as noted previously – under the current system, the accession of these new countries would make them net beneficiaries, meaning that the funds they receive from the EU budget would exceed their financial contributions.

Considering only the Western Balkans countries, this would not fundamentally threaten the structural integrity of CAP³³. The region's agricultural sector is characterised by small-scale, often subsistence-

²⁹ https://agriculture.ec.europa.eu/common-agricultural-policy/financing-cap/cap-funds_en

³⁰ <https://www.consilium.europa.eu/en/policies/the-common-agricultural-policy-explained/>

³¹ <https://www.epc.eu/publication/Ukraine-EU-neighbours-grain-dispute-update-3-Joint-control-system-to-54676c/>

³² https://www.cer.eu/sites/default/files/EC_budget_26.3.25.pdf

³³ <https://cep.org.rs/wp-content/uploads/2025/12/What-does-the-Western-Balkans-cost-me.pdf>

level farming with relatively low productivity. In this scenario, the redistribution of CAP funds would focus primarily on rural development (Pillar II) rather than direct production subsidies (Pillar I). The strength of this approach lies in modernising Balkan agriculture, bringing it in line with EU food safety, phytosanitary, and environmental standards. The fiscal cost is marginal – estimated at between €4 and €11 billion by several studies³⁴ – and current EU farmers would face little or no reduction in their direct payments.

Ukraine’s accession changes the calculus entirely. With 41 million hectares of fertile land, Ukraine possesses agricultural capacity that dwarfs most current member states. Under current CAP rules, Ukraine could claim almost all the additional €113 billion allocated over a seven-year cycle – between €10 and €12 billion per year in CAP funding, according to a report by Bruegel³⁵. Such a scenario would not only strain the budget but would likely intensify domestic competition to a breaking point, potentially triggering farmer protests and political reactions from several EU governments.

Despite these immediate tensions, the long-term outlook offers a more nuanced perspective. Given that EU agriculture is generally profitable and highly competitive in export markets, Ukraine is unlikely to have a major negative impact in the long term³⁶. Rather than a catastrophic disruption, a more probable outcome is the inclusion of rigorous transitional provisions in any future Accession Treaty. These provisions would set out how and when Ukrainian agricultural products gain full access to the EU’s single agricultural market, likely through a graduated phasing-in of both market access and direct payments over a ten-year period.

Moreover, as suggested by Elsa Régnier and Aurélie Catallo (Institut du Développement Durable et des Relations Internationales, 2024)³⁷, Ukraine’s potential EU accession could trigger substantial reform in the overall functioning of CAP, “over and above its budget.” The same urgency is echoed by a 2025 study commissioned by the Committee on Budgets (BUDG) of the European Parliament³⁸, which advocates a structural shift in the financial architecture of agricultural funding – decoupling EU subsidies from land area. To accommodate Ukraine without destabilising the system, CAP must transition towards a model that rewards “public goods” – such as carbon sequestration, biodiversity protection, and sustainable water management – rather than simply the number of hectares farmed. In this way, Ukrainian “mega-farms” would be prevented from absorbing the lion’s share of the budget, while providing a sustainable income stream for small-scale family farms in the current EU-27 through sustainability-linked incentives.

As with Cohesion Policy, CAP is no longer a standalone envelope under the proposed 2028–2034 Multiannual Financial Framework (MFF) but is instead merged into a single National and Regional Partnership Plan (NRPP) for each member state. While the Commission has proposed a minimum spending target of 10% for CAP income support and at least 25% dedicated to climate, environmental, and animal welfare objectives within each plan³⁹, the sector will have to compete with other priorities within the same national allocation and will no longer benefit from a pre-established EU funding

³⁴ <https://capreform.eu/future-enlargement-and-its-impact-on-the-cap-budget/>

³⁵ <https://www.bruegel.org/system/files/2024-04/Report%2002.pdf>

³⁶ <https://newunionpost.eu/2026/01/29/cost-eu-enlargement-economic-impact/>

³⁷ <https://www.iddri.org/sites/default/files/PDF/Publications/Catalogue%20Iddri/Etude/202406-ST0324-ukraine%20EU.pdf>

³⁸ [https://www.europarl.europa.eu/RegData/etudes/STUD/2025/769193/BUDG_STU\(2025\)769193_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2025/769193/BUDG_STU(2025)769193_EN.pdf)

³⁹ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52025PC0560&qid=1753798247771>

amount per member state. Instead, each member state will enjoy significant freedom in decisions on intra-national allocation, while disbursements under the NRPP will be strictly conditional on the achievement of pre-agreed reforms and milestones for each policy. If Ukraine were to join, domestic competition within the EU would likely intensify, but the challenge for a new member state would be the same as for all others: ensuring that its NRPP includes robust “territorial chapters” and complies with rule-of-law benchmarks and specific sectoral modernisation requirements.

The prospect of a new “Big Bang” enlargement may alter the political calculus of the principal beneficiaries of the CAP. EU Member States such as Spain, Romania, Hungary and Slovakia could experience a reduction in national allocations of between 15% and 22%⁴⁰. Poland, in particular, has shifted from being a vocal proponent of enlargement to a more cautious negotiator, emphasising that the process must not come at the expense of its own farmers or the structural integrity of the Single Market⁴¹. At the same time, major net contributors such as Germany and France – while strategically supportive of enlargement on geopolitical grounds – are increasingly resistant to the associated fiscal burden. Germany, which already contributes significantly more than it receives, could see its net contribution rise by approximately 0.1% of GDP to finance an expanded budget⁴².

As the EU’s second-largest net contributor and a leading agricultural producer, France is projected to see its net contribution increase by approximately 0.12% to 0.15% of GDP, while estimates suggest a potential reduction of between 10% and 15% in direct payments to French farmers if current rules remain unchanged. For this reason, while cautioning that reductions in agricultural support would be politically explosive, the EU’s main contributors advocate strict institutional reforms in the candidate countries, alongside extended transition periods and a cap on total EU spending⁴³.

Stability and opportunities for EU members

The prospective integration of the Western Balkans and Ukraine into the European Single Market would constitute the most profound reconfiguration of the EU’s economic geography since the 2004 “Big Bang” enlargement. This transition promises to substantially enhance the global competitiveness and long-term stability of a Union of more than thirty members.

Across both enlargement trajectories – the consolidation scenario involving only the Western Balkans and the transformation scenario encompassing Ukraine – the principal strength of market integration lies in the gravitational pull of the EU *acquis* itself. By requiring candidate countries to adopt the full body of EU law as a precondition for accession, the Union effectively exports its regulatory stability, legal predictability and standards-based competition beyond its current borders. This process significantly reduces transaction costs and creates a more level playing field for firms operating across borders, thereby progressively absorbing external domestic and regional markets into the Single

⁴⁰ https://www.cer.eu/sites/default/files/EC_budget_26.3.25.pdf

⁴¹ <https://www.gov.pl/web/agriculture/cap-trade-and-enlargement-of-the-eu--common-priorities-of-poland-and-france>

⁴² <https://www.bruegel.org/analysis/what-enlargement-could-imply-european-unions-budget>

⁴³ <https://www.iddri.org/sites/default/files/PDF/Publications/Catalogue%20Iddri/Etude/202404-ST0124-CAP%20MFF.pdf>

Market. From the perspective outlined by Zsolt Darvas, Senior Fellow at Bruegel, “investment opportunities for existing EU companies represent a significant advantage.”⁴⁴

Experience from previous enlargements demonstrates that EU funding tends to crowd in substantial volumes of private capital, particularly from geographically proximate member states. The primary beneficiaries of a further enlargement – whether limited to the Western Balkans or extended to include Ukraine – are likely to be industry, manufacturing, banking and investment-related sectors, closely mirroring the trajectory observed following the 2004 eastern enlargement. EU institutional funding functions as a powerful signal to private markets, encouraging investment from EU countries that benefit from the expansion of regional value chains across both manufacturing and services⁴⁵. As candidate countries align with the EU acquis, they increasingly provide a safe harbour for capital, characterised by lower political risk and enhanced legal certainty.

In a scenario limited to the Western Balkans, the degree of economic integration with the EU is already substantial and market disruption is therefore expected to be limited. As Peter Tabak, former Regional Lead Economist for the Western Balkans at the European Bank for Reconstruction and Development (EBRD), notes, “the level of integration is already very high, and markets are unlikely to be disrupted.”⁴⁶ While certain sectoral issues remain to be addressed – most notably in the steel industry and in electricity exports, given the region’s heavy reliance on coal-based power generation that is not fully aligned with EU environmental standards – these challenges are not expected to pose major obstacles to the integration of the Western Balkans into the EU Single Market.

In the case of Ukraine, the investment argument is reinforced by the country’s role as a major resource endowment economy, with “Western European companies likely to assume a significant presence in the Ukrainian market,” Bruegel’s Zolt Darvas notes. With extensive deposits of steel, aluminium and critical raw materials, Ukraine is well placed to become a central pillar of the European Green Deal. Its integration would enable the EU to reduce its dependence on volatile external actors for key inputs in the production of semiconductors, electric vehicle batteries and wind turbines. Moreover, Ukraine possesses the largest underground gas storage facilities in Europe, alongside substantial pre-existing hydropower and nuclear generation capacity.

The full synchronisation of the Ukrainian electricity grid with the European Network of Transmission System Operators for Electricity (ENTSO-E) would therefore contribute to a more resilient, secure and low-carbon European energy system. Beyond the civilian economy, Ukraine’s industrial base could also emerge as a strategic asset for the EU’s defence policy. Long-standing expertise in steel and aluminium production, combined with recent innovations in drone technology and decentralised defence manufacturing developed under wartime conditions, offers EU firms a potential pathway to scale up Europe’s military-industrial capacity within a unified regulatory framework.

Moreover, considering the extensive reconstruction needs that will arise once the Russian invasion ends, Ukraine represents a vast landscape of investment opportunities for EU firms across a wide range of sectors. As noted by Zsolt Darvas, companies from current EU member states involved in rebuilding the country would generate “significant profits.” Crucially, as these firms expand

⁴⁴ Interview with Zsolt Darvas, Senior Fellow at Bruegel, 19/01/2026

⁴⁵ <https://newunionpost.eu/2026/01/29/cost-eu-enlargement-economic-impact/>

⁴⁶ Interview with Peter Tabak, former Regional Lead Economist for the Western Balkans at the European Bank for Reconstruction and Development (EBRD), 21/01/2026

production and employment, a substantial share of their earnings would be taxed in their respective home countries, thereby strengthening national fiscal revenues. Consequently, the “national budgets of EU member states would therefore also benefit from Ukraine’s accession,” as the resulting increase in domestic tax receipts would partially offset the fiscal contributions and direct costs incurred through the central EU budget.

Managing potential asymmetries

Traditionally, the integration of new, lower-income markets does not generate uniform gains. Rather, it produces concentrated benefits alongside sectoral and regional disruptions and carries the risk of deepening internal asymmetries if underlying structural and institutional divergences are not adequately addressed.

Within the current European Union, the gains from enlargement are unlikely to be distributed evenly among member states, as geography remains a key determinant of trade and investment intensity. Countries that already maintain deep-rooted value chain linkages with candidate states – such as Austria, Germany and Italy in relation to the Western Balkans, and Poland in relation to Ukraine – are likely to “engage more intensively in trade and financial investment”, as Darvas observes. That said, the so-called proximity rule is not absolute.

French and Dutch firms have historically demonstrated that strong sectoral specialisation – particularly in financial services, retail and energy – can offset geographical distance. Nonetheless, from a political economy perspective, EU institutions must remain attentive to the distributional effects of enlargement. If the economic benefits accrue disproportionately to ‘frontline’ member states, this could generate political friction with more peripheral countries, such as Portugal or Ireland, which may perceive fewer direct commercial gains from further eastward enlargement.

As previously discussed, agriculture remains the most politically sensitive sector, and one in which resistance is likely to emerge among several member states. The EU is already a major net agricultural exporter, with production significantly exceeding internal consumption. While the integration of the Western Balkans’ agricultural sector would have only a marginal impact, Ukraine’s 41 million hectares of fertile chernozem would expand the EU’s agricultural land base by approximately 25%⁴⁷. Although such an expansion would strengthen the Union’s food security and enhance its competitiveness on global markets, it would also intensify internal competition within the Single Market. Nevertheless, given that EU agriculture is generally profitable and highly competitive in export markets, Ukraine’s accession is unlikely to generate significant negative effects in the long term⁴⁸.

To mitigate opposition from the most sceptical member states, and from those concerned about the disruptive potential of Ukrainian agriculture, stability could be managed through carefully designed transitional provisions in the Accession Treaty. These would specify how and when Ukrainian agricultural products would gain full access to the EU’s single agricultural market. In this regard,

⁴⁷ <https://epthinktank.eu/2024/04/15/ukrainian-agriculture-from-russian-invasion-to-eu-integration/>

⁴⁸ <https://newunionpost.eu/2026/01/29/cost-eu-enlargement-economic-impact/>

Ukraine's Ministry of Economy has already indicated support for transition periods of up to ten years for particularly complex regulatory areas, such as pesticide standards⁴⁹.

Labour mobility in the context of enlargement represents another complex dynamic that fundamentally challenges the model of "Social Europe". The EU-27 is expected to benefit significantly from an influx of a well-qualified and mobile workforce, particularly as Western European economies face acute labour shortages in sectors ranging from high-tech engineering to healthcare and seasonal agriculture.

While this trend constitutes a major strength for the EU's internal market, in the short term it could prove profoundly detrimental to the new member states, including both the Western Balkans and Ukraine. The so-called 'hollowing-out' of domestic industrial and administrative capacity would likely slow these countries' ability to achieve economic convergence with the EU-27. The joint study by the Vienna Institute for International Economic Studies and the Western Balkans 6 Chamber Investment Forum⁵⁰ published in 2024, warns that without front-loaded investment in local human capital and high-value infrastructure, Western Balkan countries risk becoming permanent labour reservoirs for the rest of Europe rather than developing into independent industrial hubs.

Moreover, labour-market competition would intensify in specific segments, such as construction and transport⁵¹, with concerns over "social dumping" and downward pressure on wages often dominating public and political discourse in existing member states. However, historical experience from the 2004 "Big Bang" enlargement suggests that these fears are largely unsupported by empirical evidence. As noted by Bruegel's Zsolt Darvas, migrant workers from new member states tend to fill lower-skilled or essential roles that domestic workers are increasingly unwilling to undertake. Rather than depressing wages, such mobility facilitates a structural upgrading of the local workforce, enabling domestic employees to transition into more complex and higher-paid administrative or technical positions.

Policy recommendations

A new wave of EU enlargement, with the potential to reshape the Union's financial framework, must be considered not only in the context of uncertainty surrounding different accession scenarios – one limited to the Western Balkans and another including Ukraine – but also in light of the EU budget, which is currently undergoing substantial revision for the next Multiannual Financial Framework (MFF). These potential innovations may significantly affect the current 27 Member States, irrespective of further enlargement, while also offering an opportunity to reconsider how allocations are redistributed and reform commitments structured in an enlarged Union.

First, a multi-layered policy approach that balances fiscal discipline with long-term capital investment may enable the European Union to capitalise on the strategic shifts outlined in this analysis and ensure an effective enlargement process. In the Western Balkans, the primary objective should be to facilitate near-shoring through the development of strategic industrial corridors. By streamlining customs

⁴⁹ <https://kyivindependent.com/ukraine-must-meet-eu-agricultural-standards-by-2028-says-minister/>

⁵⁰ <https://wiiw.ac.at/transforming-the-western-balkans-through-near-shoring-and-decarbonisation-p-6999.html>

⁵¹ [https://www.europarl.europa.eu/RegData/etudes/STUD/2025/769193/BUDG_STU\(2025\)769193_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2025/769193/BUDG_STU(2025)769193_EN.pdf)

procedures and advancing regulatory alignment within the existing framework, the EU can incentivise firms to shorten supply chains and strengthen industrial cooperation with the region. Such a shift not only mitigates the risks associated with global trade disruptions but also ensures that regional development remains fully aligned with EU environmental and social standards, both before and after full membership.

The fiscal cost of admitting new members, particularly Ukraine, should be reframed as a high-return capital investment. To manage this effectively, the Union ought to treat budgetary allocations as “seed capital” designed to crowd in private investment in high-growth sectors such as green energy, manufacturing and banking. Given Ukraine’s resource endowments – including the critical raw materials essential to the green transition and the defence industry – the integration of these assets into the European industrial base should be prioritised. Moreover, by ensuring that EU-based firms lead post-war reconstruction, corporate profits – taxed in their respective home EU countries – could be generated, thereby creating a domestic fiscal revenue stream that offsets direct budgetary contributions.

To address the administrative challenges of the Cohesion Policy, the Union should seize the opportunity to introduce a staged and performance-linked model – as outlined in the Commission’s proposal for the 2028–2034 MFF – in order to tackle the most pressing concerns among current EU members regarding the redistribution of funds to new members. In the Western Balkans, the graduated release of funds should be strictly tied to rule-of-law benchmarks and demonstrated institutional capacity to meet EU standards. In the case of a larger enlargement involving Ukraine, the model should evolve beyond traditional income-based metrics to incorporate indicators of reform progress and policy outcomes. This approach protects the budget from unspent allocations and administrative bottlenecks, while safeguarding the funding stability of existing Member States by preventing a purely statistical drain on resources.

To ensure the stability of the European Single Market, reform of the Common Agricultural Policy (CAP) must move beyond simple redistribution and adopt a differentiated strategy. In the Western Balkans, given the prevalence of small-scale subsistence farming, the CAP should prioritise structural modernisation and targeted upgrading of food safety, phytosanitary standards and environmental compliance, without triggering the market frictions associated with uncompetitive produce.

In Ukraine’s case, integration into the EU’s agricultural policy necessitates a shift from land-based subsidies to a “public goods” model – with payments tied to carbon sequestration, biodiversity and sustainable water management – in order to prevent large agro-industrial “mega-farms” from disproportionately absorbing the budget and to protect the incomes of small-scale family farms across the EU-27. Future Accession Treaties should include rigorous transitional provisions and a graduated phasing-in period for both market access and direct payments. Moreover, by incorporating both regions into a performance-linked framework, the EU can ensure that the disbursement of funds is strictly tied to the achievement of institutional milestones and regulatory alignment in the agricultural sector.

Finally, the EU should leverage its institutional funding to mobilise private capital. Historically, enlargement has served as a strong signal to private markets, particularly in banking, manufacturing and green energy infrastructure. By framing the substantial demands of the post-war reconstruction of Ukraine as a continent-wide growth engine, the European Union can ensure that the economic

benefits – ranging from corporate profits to increased domestic tax revenues for current Member States – offset the direct fiscal costs of enlargement to the EU budget. By approaching these budgetary commitments as strategic investment in the Single Market, the Union can catalyse the expansion of European value chains, thereby strengthening its resilience and global competitiveness.

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