BRIEFING

2021-2027 MFF

Next Generation EU

A European instrument to counter the impact of the coronavirus pandemic

SUMMARY

The socio-economic impact of the coronavirus pandemic across the European Union (EU) is posing significant challenges, not least to the good functioning of the single market and the euro area. This has led to a growing consensus on the need for a common recovery plan to complement national stimulus packages. The European Commission has put forward a proposal to establish a €750 billion European recovery instrument, Next Generation EU, to reinforce the EU's 2021-2027 multiannual financial framework (MFF). The instrument would be financed from funds borrowed on the markets by the Commission on behalf of the EU, while a mix of new and already planned instruments under the EU budget would channel expenditure, combining grants (€500 billion) and loans (€250 billion). The proposal, which aims to focus on the geographical areas and sectors hardest hit by the crisis, seeks to ensure an economic rebound that is also about quality, since expenditure is to be in line with jointly agreed EU objectives such as the green and digital transitions. National allocations under the largest instrument, a new Recovery and Resilience Facility, are to address challenges identified in the context of the European Semester. The recovery instrument includes various proposals in which the European Parliament is involved to varying extents, depending on the issue at stake. The channelling of resources through the EU budget means that Parliament would be co-legislator of relevant spending instruments, and exercise democratic scrutiny of expenditure through the discharge procedure. The budgetary authority would not however determine annual expenditure of Next Generation EU in the budgetary procedure since financing would be based on external assigned revenue. The Commission has called for an agreement to be reached in July 2020, in order for the recovery instrument to be operational as of 2021. A €11.5 billion bridging solution would address some objectives already in 2020. Elements expected to be at the heart of the complex negotiations, which are linked to those on the 2021-2027 MFF, are: the size of the instrument; the mix of grants and loans; the allocation of resources between Member States; reform of the financing system of the EU budget with new own resources; and the repayment of the borrowed resources.

In this Briefing

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Why the need for a European recovery instrument

The coronavirus pandemic is wreaking severe socio-economic damage around the world, including in the EU. In May 2020, the European Commission's Spring 2020 Economic Forecast pointed to a deep and uneven recession in the Union, noting the various uncertainties that surround both the estimates and future recovery. The EU and the euro area's economies are projected to contract by 7.5 % and 7.75 % in 2020, before partially rebounding the following year (by 6.1 % and 6.3 % respectively). The labour market is also expected to suffer, with the unemployment rate forecast to rise by 2 % in the euro area and by 2.3 % in the EU as a whole by the end of the year. In addition, government finances risk being permanently weakened by higher sovereign financing needs with public debts and deficits expected to rise markedly. This major economic shock, unprecedented since the Second World War, is symmetric given that it is hitting all Member States. However, the intensity of the impact and capacity to rebound vary quite significantly within the EU. For example, employment is expected to worsen more radically in Member States with a high proportion of workers on short-term contracts or dependent on tourism.

This situation poses challenges for the smooth functioning of the single market and the euro area. Stimulus packages at national level can help mitigate the impact of the crisis but take time to take effect. In addition, against the backdrop of EU State aid rules that have been relaxed in the wake of the pandemic, these measures can also distort competition in the single market and lead to growing divergence between Member States in the light of the differing levels of financial support available across the EU. Many analysts consider that, so far, a significant burden of policy responses has fallen on the European Central Bank (ECB) and its monetary policy, and stress the need for this to be coupled with a coordinated common fiscal response that complements fiscal policy efforts undertaken at national level.[1] An uneven recovery could be detrimental to all Member States, given the deep interlinkages of national economies within the EU and the euro area. In addition, the OECD has warned that the recovery will generally be weak for advanced economies.[2]

On 23 April 2020, the European Council agreed on the urgent need to establish a common recovery fund, commensurate with the challenge the EU is facing and targeted towards the sectors and geographical parts of Europe hit hardest by the crisis. Heads of State or Government tasked the Commission with analysing the needs and preparing a proposal. On 15 May 2020, the European Parliament demanded an ambitious recovery package worth €2 trillion, linked to the next EU multiannual financial framework (MFF), and built on the EU budget. Calling for a focus on the needs of those most affected by the crisis and a strong social dimension, Parliament stressed that the recovery fund must come on top of the MFF and be delivered as an EU instrument as opposed to an intergovernmental solution. In Parliament's view, the new fund must be financed by recovery bonds and disburse support, mostly in the form of grants, through programmes of the EU budget. Three days later a Franco-German initiative proposed the creation of a temporary European recovery instrument endowed with €500 billion.

Architecture and objectives of the proposal

On 27 May 2020, the European Commission put forward a set of proposals for the establishment of a European recovery instrument named Next Generation EU and coupled it with a revised proposal for the next MFF. The firepower of Next Generation EU would amount to €750 billion and reinforce a 2021-2027 MFF worth €1.1 trillion, bringing the total amount of resources channelled through EU budgetary instruments to €1.85 trillion over the entire programming period (all figures in this briefing are in constant 2018 prices, except where otherwise stated).

Traditionally, the EU budget is deemed unable to play a fiscal stabilisation function on account of its limited size (worth annually around 1 % of the Union's gross national income, GNI) and the rigidity of its multiannual planning. An instrument such as Next Generation EU, if agreed, would enable it to contribute to fiscal stabilisation in this unprecedented crisis, given that its resources would have macroeconomic significance (around 5.4 % of EU GNI, although spread over a number of years) and would be frontloaded in the first half of the next MFF (see below).

Complementing national efforts, the new instrument embedded in a reinforced EU budget would aim to promote a fair socio-economic recovery and support urgent investments necessary for more resilient economies across the EU. A Commission staff working document has identified huge needs in the light of investment gaps triggered by the crisis, weaknesses highlighted by the pandemic such as over-reliance on non-EU countries for strategic supply chains (e.g. of medical equipment), and additional resources required by common objectives linked to the green transition and the digital transformation.

For these reasons, it is the Commission's intention that Next Generation EU should not only favour an economic rebound but also ensure that the recovery path incorporates green and digital objectives, with a view to making the EU and national economies more sustainable, resilient and future-proof. Fiscal spending across the world in the wake of the 2008 financial crisis was, by and large, a lost opportunity in this respect, since most of it did not seek to increase the sustainability of the economic models.[3] The Commission is attempting to prevent the proposed fiscal stimulus package from supporting unsustainable patterns and locking them in for a longer timeframe. In addition, links are established to address challenges identified in the European Semester, in particular for expenditure under a new Recovery and Resilience Facility (see below). All these goals imply the need to strike a delicate balance between the speed and quality of the recovery.

The European recovery instrument would be financed through funds borrowed on the markets by the Commission on behalf of the EU. Expenditure would be channelled in the form of grants and loans through the establishment of new programmes under the EU budget and the reinforcement of a number of already planned EU instruments. Various legislative proposals put forward by the Commission would be the basis of the recovery instrument and of its links to the revenue and expenditure sides of the EU budget. The legislative procedures in place depend on the issues at stake, with the European Parliament involved to varying degrees.

Financing

The measures relating to the revenue side of the EU budget would require two key pieces of legislation: an amended Own Resources Decision to enable unprecedented levels of borrowing for the EU, and a Council regulation establishing the European recovery instrument, to activate this increased borrowing capacity. The latter would determine how the borrowed resources would be allocated to a number of spending programmes and areas within the EU budget. In addition, the Commission has announced its intention to put forward proposals for new EU own resources that would help to repay borrowed funds after 2028, but these proposals will be tabled at a later stage only.

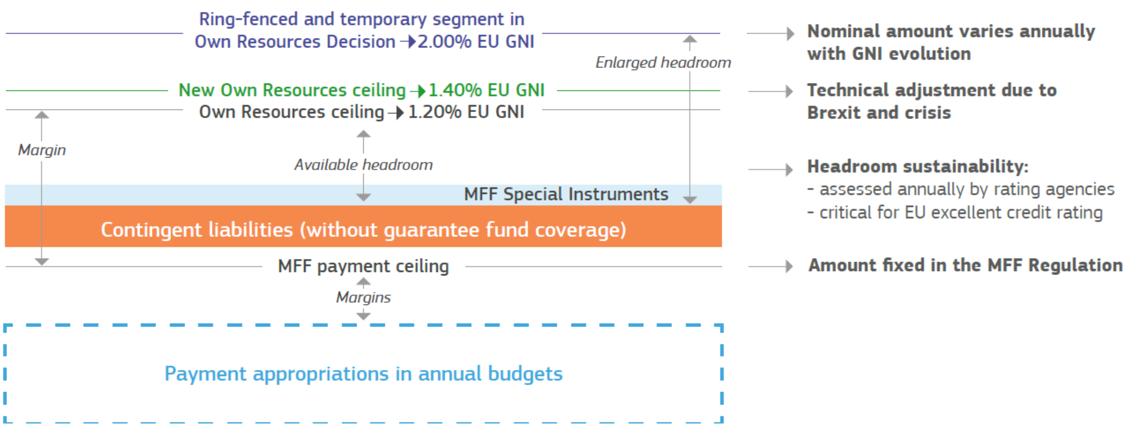
Own Resources Decision: Empowerment to borrow

The Own Resources Decision, which requires unanimity in the Council and ratification by all Member States, sets out the financing system for the EU budget. The European Parliament is consulted, except for the implementing measures on which it gives consent. In the framework of the package for the recovery plan and the revised MFF, the Commission has submitted an amended proposal for a new Own Resources Decision, which would endow the EU with extraordinary and temporary resources to address the coronavirus crisis, empowering the Commission to borrow up to €750 billion on the capital markets to this effect. In addition, the text sets out the breakdown in the use of borrowed funds between grants (of up to €500 billion), including subcategories relating to budgetary guarantees and financial instruments, and loans (of up to €250 billion).

The Own Resources Decision sets the maximum level of resources that can be called from Member States to finance EU expenditure on an annual basis. This is known as the 'own resources ceiling' and is expressed as a percentage of EU GNI. However, the level of annual expenditure that the EU budgetary authority (i.e. the European Parliament and the Council) can actually authorise through the budgetary procedure is lower than the own resources ceiling, being determined by the payment ceiling set in the MFF Regulation.

The difference between the two ceilings represents the margin, or headroom, that the EU has to finance special instruments, address unexpected events, cover contingent liabilities and buffer the impact of possible downturns (see Figure 1). This headroom plays an important role in rating agencies' assessments of the credit worthiness of the EU. It was instrumental in the EU's capacity to provide financial support for Portugal and Ireland (and bridge financing for Greece) under the European Financial Stabilisation Mechanism (EFSM) and for Hungary, Latvia and Romania under the balance of payments (BoP) assistance facility. The EU enjoys an AAA credit rating, which allows the Commission to borrow at very favourable interest rates on the capital markets on behalf of the Union.

Figure 1 – Own resources ceiling and headroom



Source: European Commission.

At present, the own resources ceiling is set at 1.20 % of EU GNI. In its 2018 reform proposal, the European Commission proposed to raise it to 1.29 %, with a view to preserving the headroom in the light of a number of factors, from the expected incorporation in the EU budget of currently off-budget instruments such as the European Development Fund (EDF) to the automatic reduction in EU GNI triggered by the withdrawal of the United Kingdom from the EU. In the amended proposal, the Commission is now asking for the own resources ceiling to be raised permanently to 1.40 % of EU GNI, taking into account the accrued uncertainties that the depth of the current crisis has brought about.

In addition, the Commission is proposing a temporary increase in the ceiling by a further 0.6 % of EU GNI (i.e. around €95 billion in 2018 prices) that would be used exclusively for the financing of the European recovery instrument. The exceptional and temporary empowerment to borrow is limited to addressing the socio-economic consequences of the coronavirus pandemic. In practice, the temporary increase of the own resources ceiling aims to preserve the Union's AAA credit rating, while enabling the Commission to borrow on the capital markets on a much larger scale than it has done to date. The additional 0.6 % would be the guarantee for the temporary expansion of the Union's lending capacity and would last until all the resources borrowed under the recovery instrument have been repaid, i.e. at the latest by 31 December 2058 under the planned repayment scheme (see below).

Another modification announced by the Commission as compared to the 2018 proposal is that the corrections by means of which five Member States (Austria, Denmark, Germany, the Netherlands and Sweden) have their national contributions to the 2014-2020 MFF reduced could be phased out over a longer timeframe (and no longer by 2025). The proceeds of borrowing operations to finance grants to Member States and budgetary guarantees would represent external assigned revenue for the EU budget (see box), which is revenue other than EU own resources. The EU budget cannot run a deficit. The amended proposal for the Own Resources Decision spells out the principle that borrowed funds cannot finance operational expenditure of the EU budget and provides for a derogation to this principle limited to up to €500 billion of the temporary and extraordinary resources borrowed to address the coronavirus crisis (i.e. the grant component of the recovery instrument).

External assigned revenue

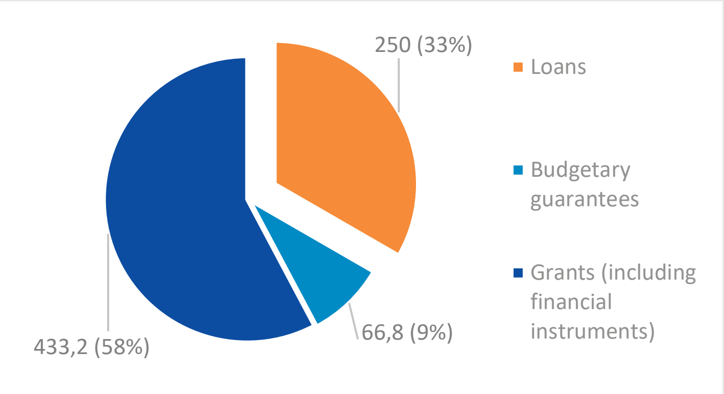
Universality is one of the budgetary principles underpinning the EU budget, on the basis of its Financial Regulation (FR). It means that revenue finances all expenditure without distinction. External assigned revenue represents one exception to this principle, since it finances specific items of expenditure. The FR identifies various types of external assigned revenue, such as contributions from third countries to certain EU activities, and gives the legislative authority the possibility of establishing other assigned revenue – internal or external – through a basic act. The Commission proposal for Next Generation EU is based on the latter option. The allocations for external assigned revenue are not decided by the budgetary authority in the annual budgetary procedure, but stem automatically from the implementation of related acts and are detailed in the reporting phase at the closure of the annual accounts and with the presentation of the next draft budget. Next Generation EU would generate an unprecedented volume of external assigned revenue for the EU budget. Given the sums involved, there have been suggestions for the budgetary treatment of external assigned revenue to be reconsidered. This approach would require an amendment to the FR, to be adopted by Parliament and Council under the ordinary legislative procedure.

Council regulation: Activating the empowerment to borrow

A separate proposal has been designed to create the European Union recovery instrument through a Council regulation, with a view to activating the empowerment to borrow. The proposed legal basis is Article 122 of the Treaty on the Functioning of the European Union (TFEU), which provides the EU with the possibility of establishing measures, decided in a spirit of solidarity between Member States, appropriate to the economic situation. The European Parliament is not involved in this legislative procedure, which requires a qualified majority in Council. Article 122 TFEU has already been used in the context of the immediate response to the coronavirus crisis to establish the European instrument for temporary support to mitigate unemployment risks in an emergency (SURE).

In practice, this Council regulation would be the basic act that would, based on Article 21(5) of the EU's Financial Regulation (FR), generate the external assigned revenue (see box) for Next Generation EU and allocate the resources from the borrowing operations to a number of EU budgetary programmes. The text sets out the breakdown of resources by type of support, establishing that grants, financial instruments and provisioning for guarantees would channel two thirds of the resources through the EU budget while the remaining third would go to loans to Member States (see Figure 2).

Figure 2 – Next Generation EU: breakdown of resources by type of support (€ billion, 2018 prices, % of total)



Source: EPRS, based on COM(2020) 441.

In addition, other provisions define the scope of the instrument, devoting it solely to the recovery from the impact of the coronavirus pandemic and detailing the list of measures that can be supported to this end (Article 2). A number of rules for budgetary implementation (Article 4) limit the time within which the resources can be used, setting 31 December 2024 as the final deadline both for entering the legal commitments giving rise to grant support and for adopting decisions on the granting of loans. A specific provision aims to promote the frontloading of the resources, determining that at least 60 % of the amounts earmarked for grants and for some categories of budgetary guarantees must be committed by the end of 2022.

Repayment plan

The EU budget would repay the funds borrowed to finance grants and budgetary guarantees (i.e. up to €500 billion). According to the proposal, this repayment would start as of 2028 and finish at the latest in 2058 over a 30-year period. The annual amount involved would be capped at €37.5 billion. In addition to the principal of these resources, the EU budget would pay their borrowing costs. The Commission estimates that such interests could amount to up to €17.4 billion over the years 2021 to 2027 as part of expenditure under the next MFF.

In the future, the Commission intends to propose the establishment of new EU own resources to help repay the funds raised on the markets, while contributing to the achievement of EU policy objectives. Examples provided in this respect are: additional proceeds stemming from a reform of the EU's emissions trading system (ETS); a border carbon adjustment mechanism; an own resource based on operations of companies in the EU single market; and a digital tax. Without such new own resources, policy-makers could face choices for the post-2027 MFF such as an increase in national contributions or a reduction in funds allocated to other items of expenditure. Conversely, the loan component of Next Generation EU (i.e. up to €250 billion) would be repaid directly by the Member States that request this form of assistance. The same would apply to related borrowing costs.

Expenditure

The funds raised on the capital markets would be channelled through a dozen EU budgetary instruments and programmes, all of which are determined by the European Parliament and the Council under the ordinary legislative procedure. In the relevant basic acts, the co-legislators are expected to decide on provisions that would allow external assigned revenue from the European recovery instrument to finance the programmes' activities up to a given amount. The fact that these instruments are to be part of the EU budget means that the European Parliament will be able to ensure democratic scrutiny annually of how resources are spent in the context of the discharge procedure. However, the appropriations for external assigned revenue are not decided by the budgetary authority under the annual budgetary procedure (see box above). Under the amended proposal for the interinstitutional agreement on budgetary matters, the Commission must report annually to Parliament and Council on the financing and expenditure of the recovery instrument and its contribution to the achievement of the agreed objectives. The European Commission has organised the expenditure side of Next Generation EU in a thematic three-pillar structure, allocating the bulk of funding (up to €560 billion, i.e. three quarters of total resources) to one single instrument, the Recovery and Resilience Facility.

A mix of new and already planned spending instruments

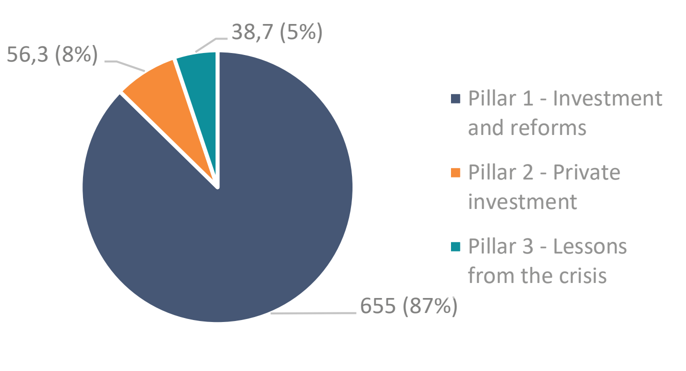
Some instruments and initiatives would be either completely new or new windows in tools already planned for the MFF. They would also be time-limited and recovery-specific in the sense that only Next Generation EU would ensure their financing over the next programming period: a Recovery and Resilience Facility;[4] Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU);[5] a Solvency Support Instrument (under EFSI – the European Fund for Strategic Investments); and the Strategic Investment Facility (under InvestEU). Other instruments and programmes planned for the 2021-2027 MFF would be provided by Next Generation EU with additional resources on top of those available under the standard MFF: the European Agricultural Fund for Rural Development (EAFRD), the Neighbourhood, Development and International Cooperation Instrument (NDICI) and Horizon Europe for research and innovation (with proposals for amendments in an omnibus regulation covering all of them); the Just Transition Fund; an already planned component of InvestEU; humanitarian aid; and the Union civil protection mechanism (rescEU). In addition, EU4 Health, previously part of the proposal for the broader European Social Fund Plus (ESF+), would become a specific and standalone programme, receiving more than 80 % of its resources from Next Generation EU and the remainder from the standard MFF.[6]

A three-pillar structure

The European Commission has grouped the spending instruments contributing to the objectives of Next Generation EU in three separate categories, focusing on: public investment and reforms, private investment, and lessons learnt from the crisis. The bulk of resources, including 81 % of the total grants and all the loans, would go to the first pillar dealing with investment and reforms in Member States (see Figure 3 and Table 1).

The three pillars across which the resources raised with Next Generation EU would be invested are:

Figure 3 – Next Generation EU: Breakdown of resources by expenditure pillar (€ billion, 2018 prices, % of total)



Source: EPRS, based on COM(2020) 456.

1 **Supporting Member States in their recovery**. This pillar is designed to underpin investments, reforms and just transition in Member States. A Recovery and Resilience Facility would provide Member States with up to €560 billion in the form of grants and loans geared towards supporting the investment and reforms necessary for a sustainable recovery. The instrument would be voluntary: each Member State would decide whether to use the facility in any given year, submitting a national recovery and resilience plan by 30 April of the year concerned to the European Commission, which would have four months to assess it. National plans must address the investment and reform priorities identified in the European Semester and be in line with agreed EU priorities, such as the green and digital transitions. If the Commission approves the plan (through an implementing act), resources to finance the planned investments would be disbursed in instalments linked to the achievement of agreed targets and milestones. Proposed provisions include a series of reporting obligations towards the European Parliament and the Council. Since the facility would take some time to become operational, the REACT initiative would grant €50 billion to shore up cohesion spending in 2021 and 2022, with a view to avoiding a disruption in support to key crisis repair measures across sectors. The rules for the use of the resources would be more flexible under REACT than for normal cohesion spending, and measures supported could receive up to 100 % financing from the EU budget. When programming their national allocations, Member States would be encouraged to take account of the priority areas for frontloading public investment identified in the context of the European Semester in 2020. Other measures planned under this pillar are additional resources for the EAFRD, and for the Just Transition Fund, which will focus on the green transition.

2 **Kick-starting the economy and helping private investment**. This pillar would address investment needs in the private sector, providing support exclusively in the form of budgetary guarantees. The European Investment Bank (EIB) Group is expected to be a key partner in the implementation of relevant measures. A Solvency Support Instrument, a new window under EFSI, would seek to mobilise private capital to support the solvency of viable companies. While open to all EU Member States, it would focus on those most affected by the crisis and/or where solvency support aid is more limited, with a view to counter-balancing the distortions in the single market expected from the relaxation of state aid rules (see above). In addition, InvestEU, the key EU programme for investment through financial instruments under the 2021-2027 MFF, would see its capacity more than doubled by Next Generation EU and would be endowed with a new window, a Strategic Investment Facility, to promote resilience and strategic autonomy across key sectors, technologies and value chains.

3 **Learning the lessons from the crisis**. This pillar seeks to enhance the EU and Member States' capacity to respond to future crises both internally and globally. To this end, Next Generation EU would increase the resources available in the EU budget for building up preparedness for health crises (EU4Health), carrying out research and innovation in the health field (Horizon Europe), creating EU-level reserves of essential supplies to respond to major emergencies (rescEU), and supporting international partners (NDICI and humanitarian aid).

Table 1 – Next Generation EU: breakdown of resources by expenditure pillar and spending instrument and availability of further funding under the standard MFF (€ billion, 2018 prices)

	NEXT GENERATION EU				OTHER MFF RESOURCES
	Grants	**Guarantees**	**Loans**	**Total**	**2021-2027**
PILLAR 1 – Investment and reforms	**405**	**0**	**250**	**655**	
Recovery and Resilience Facility	310		250	560	No
REACT-EU (top-up to cohesion spending)	50			50	No
Rural development	15			15	Yes (75)
Just Transition Fund	30			30	Yes (10)
PILLAR 2 – Private investment	**0**	**56.3**	**0**	**56.3**	
Solvency Support Instrument (under EFSI)		26		26	No
InvestEU		15.3		15.3	Yes
Strategic Investment Facility (under InvestEU)		15		15	No
PILLAR 3 – Lessons from the crisis	**28.2**	**10.5**	**0**	**38.7**	
EU4Health (health programme)	7.7				Yes (1.7)
EU civil protection mechanism (rescEU)	2				Yes (1.1)
Horizon Europe	13.5				Yes (80.9)
Neighbourhood, Development and International cooperation (NDICI)		10.5			Yes (75.5)
Humanitarian aid	5				Yes (9.8)
TOTAL	**433.2**	**66.8**	**250**	**750**	

Source: EPRS, based on European Commission factsheet.

Timeline and allocation keys

Against the backdrop of urgent needs triggered by the crisis asymmetrically across the EU, two aspects in focus are: the distribution of Next Generation EU resources between Member States; and the time required to agree, deploy and implement the complex package of proposals that underpins the European recovery instrument. Time is a major challenge. The European Commission expects Next Generation EU to become operational as of January 2021, which implies, not least, that the Own Resources Decision providing the empowerment to borrow (see above) must be adopted in Council and ratified by all national parliaments by the end of 2020.

This calendar is very ambitious, considering the complex legislative procedure involved: as for the current decision, two years and four months elapsed between the adoption in the Council and ratification by all national parliaments. The Commission hopes that the extraordinary times triggered by the crisis will lead to the adoption and ratification of the new decision within a six-month timespan.

Given the difficult general outlook, the Commission is proposing a bridging solution worth €11.5 billion (in current prices) to finance a number of measures contributing to the objectives of the recovery plan already in the last months of 2020. Since borrowing under the recovery instrument is not yet possible, these resources would not be part of the €750 billion package, but would stem from amendments to the 2014-2020 MFF and the EU budget for 2020. The bridging solution would focus on a number of needs across the three investment pillars, including an early kick-off of REACT-EU and of the EU instrument to support the solvency of viable businesses (see Table 2).

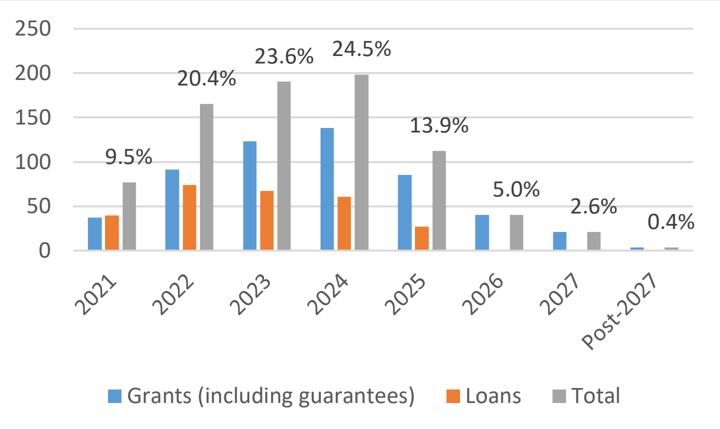
Table 2 – Recovery plan: Bridging solution for the last months of 2020 (€ billion, current prices)

	RESOURCES FROM THE 2014-2020 MFF
PILLAR 1 – Investment and reforms	**5**
REACT-EU (top-up to cohesion spending)	5
PILLAR 2 – Private investment	**5.5**
Solvency Support Instrument (under EFSI)	5
Capital increase of the European Investment Fund (EIF)	0.5
PILLAR 3 – Lessons from the crisis	**1**
European Fund for Sustainable Development (EFSD)	1
TOTAL	**11.5**

Source: EPRS, based on COM(2020)423.

As for expenditure under Next Generation EU proper, as of 2021, the efforts necessary for its implementation to reach full speed will be considerable. In addition to the legal acts for revenue, the deployment of expenditure will require the adoption of the new MFF Regulation, the agreement on the implementing instruments linked to Next Generation EU, and their launch. For the 2014-2020 period, the late adoption of the MFF Regulation in December 2013 delayed the start of its implementing programmes, leading to significant resources being reprogrammed from 2014 to subsequent years. Figure 4 recapitulates how the Commission expects the payments linked to the implementation of Next Generation EU to be distributed over the 2021-2027 period and beyond, based on the assumption that all the elements of the package will be in place in good time.

Figure 4 – Next Generation EU: Estimated breakdown of payments by year (€ billion, current prices, % of total)



Source: EPRS, based on Commission sectoral proposals.

Grants are projected to have a slower initial deployment than loans: 6.9 % and 16.9 % of the total amounts available for grants are expected to be paid in 2021 and 2022 respectively (as compared to 14.8 % and 27.5 % of total loans paid in the same years). Taken together, payments for both categories are concentrated in 2023-2024 (48.1 % of the total as compared to around 30 % in 2021-2022 and around 22 % from 2025 onwards).[7]

In addition to the calendar for approval and implementation, another major element under the spotlight is the allocation of overall resources between Member States, since one objective of the recovery instrument is to focus support on the areas where the impact of the pandemic has been most severe. The instruments under the pillar devoted to investment and reforms in Member States would use different allocation keys. In particular, the Recovery and Resilience Facility would determine the distribution of its grants through a formula based on population, GNI per capita and the 2015-2019 unemployment rate compared to the EU average, with safeguards to avoid excessive concentration of resources. As for loans under the same facility, the maximum amount for each

Member State is capped at 4.7 % of its GNI. REACT-EU, the second largest instrument, would allocate resources on the basis of gross domestic product (GDP), GNI per capita, unemployment and youth unemployment. The formula would be dynamic since national allocations for 2022 would be calculated at a later stage, using updated data for the variables. As for grants under the Recovery and Resilience Facility and the Just Transition Fund, the Commission has detailed the maximum financial allocations available per Member State in the context of Next Generation EU (see Table 3).

Table 3 – Grants under two instruments: national allocations (€ million, 2018 prices)

	Recovery and Resilience Facility	Just Transition Fund
BE	4 821	285
BG	6 131	2 020
CZ	4 678	2 560
DK	1 723	139
DE	21 545	3 864
EE	1 004	552
IE	1 209	132
EL	17 874	1 294
ES	61 618	1 355
FR	32 167	1 606
HR	6 125	290
IT	63 380	1 606
CY	1 082	158
LV	2 170	299
LT	2 766	426
LU	101	14
HU	6 136	407
MT	226	36
NL	5 197	972
AT	2 950	212
PL	26 808	6 000
PT	12 905	349
RO	13 505	3 337
SI	1 693	403
SK	6 140	716
FI	2 196	726
SE	3 849	243
Total	**310 000**	**30 000**

Source: European Commission.

European Parliament

The response of Member States and EU institutions to various crises over the last decade has included the creation of a number of tools partially or completely outside the EU framework and/or the EU budget, with little involvement of the European Parliament. This has raised questions about the democratic scrutiny and accountability of such tools at EU level. In this respect, the proposals for Next Generation EU imply greater involvement of the European Parliament than with intergovernmental tools such as the European Stability Mechanism (ESM). Since Next Generation EU would channel expenditure through EU budgetary instruments, Parliament would be co-legislator for such spending instruments and ensure democratic scrutiny of how the EU budget is spent under the discharge procedure. However, as compared to the budget financed by the standard MFF, Parliament and Council would not set annual expenditure in the budgetary procedure since financing would be based on external assigned revenue. Parliament's involvement varies depending on the elements of Next Generation EU at stake and the relevant legal bases (see above).

Already ahead of the coronavirus pandemic, Parliament was a strong advocate of an ambitious EU budget, endowed with resources commensurate with the tasks entrusted to the EU. Having been ready to negotiate the 2021-2027 MFF with the Council since November 2018, Parliament has repeatedly stressed that expenditure and revenue should be treated as a single package, warning that it will not give its consent to the new MFF Regulation without a reform of the EU financing system and the introduction of new genuine EU own resources. Following the Commission proposal, Parliament's negotiators for the MFF and own resources stressed that the recovery plan was crucial, but warned that it could not come at the expense of the core MFF and its wider objectives. Noting that Parliament would give its consent to the MFF if the final agreement included its main priorities and genuinely provided for Parliament's participation, they once again urged the Council to start negotiations immediately and recalled Parliament's request for an MFF contingency plan in order to eliminate any risk of discontinuity. In a joint letter, the leaders of five political groups (EPP, S&D, Renew Europe, Greens/EFA and GUE/NGL) called on the European Council to match political statements with sufficient budgetary means. Considering the overall figure put forward for the recovery instrument as a good starting point, they opposed any reduction and underlined that Parliament must be fully involved in its creation and delivery. New own resources and a robust MFF were deemed essential.

Reactions to the Commission proposals[8]

While noting a number of points to be improved or addressed in the proposals, analysts and commentators have by and large assessed Next Generation EU positively.

Professor Iain Begg of the London School of Economics and Political Science describes the proposal as bold and deserving to succeed despite various challenges that may hinder an agreement, adding that a stimulus package of this magnitude would be beneficial both within and outside the EU.

The CEPS think-tank sees Next Generation EU as a remarkably coherent landmark that may represent a first move in the design of a missing piece for a functioning monetary union with a single market, but draws attention to a number of challenges that remain before it can be operationalised. The author considers that embedding the new instrument in the EU budget is positive in terms of transparency and democratic accountability, but could slow down the disbursement of resources and reduce their flexibility. Some doubts are expressed as to how deeply the objectives of green and digital transition will be incorporated into implementation of the instrument.

An article published by Friends of Europe deems the proposal ambitious and innovative, praising the underpinning idea of financing a bold EU budgetary response to the crisis with borrowed funds to be repaid after 2027 as fit for the current economic circumstances. The focus on the regions most in need is assessed positively as a way to avoid further divergence in the EU and the single market. Features deserving attention include distribution keys under different instruments.

According to the Bruegel think-tank, the proposed recovery instrument has a number of positive elements and is bold enough to boost confidence with a positive impact on the economy. Limitations identified include an overall size that, despite its macroeconomic significance, remains below expected needs in the current economic outlook, and the €250 billion loan component of the instrument, which is deemed less effective than the support channelled through grants. In addition, the author recommends greater efforts to frontload resources.

A commentary from the European Policy Centre considers that the proposals are a step in the right direction in the efforts to reform the EU budget. The time-limited nature of the new instruments created to tackle the impact of the crisis is seen as appropriate to their purpose. However, the author expresses concerns that increases in resources to address long-term challenges such as climate change under existing MFF programmes also come from the time-limited Next Generation EU rather than from the core MFF, fearing that this could be a missed opportunity to reform the EU budget permanently.

Focusing on the Recovery and Resilience Facility, a policy paper from the Hertie School's Jacques Delors Centre argues that its proposed design is too technocratic. The authors suggest that the European Parliament should be given veto power over the Commission decision assessing national recovery and resilience plans and allocating resources. Another recommendation is that national parliaments be involved in the adoption of their countries' respective plans.

Christine Lagarde, President of the ECB, who had urged euro-area countries to launch a joint fiscal stimulus, has welcomed the Commission's proposal for the European recovery instrument and the revised MFF, considering that the package is crucial to enable the EU budget to contribute to the mobilisation of the resources necessary for recovery. She noted that the creation of a common safe asset through EU borrowing on this unprecedented scale could enhance the international role of the euro. In addition, she underlined the importance of having a clear and timely calendar for the approval of the package. Likewise, Werner Hoyer, President of the EIB, stressed that time is of the essence. Considering that the EIB is already the most leveraged multilateral financial institution in the world, he said that Member States should increase the Bank's capital if it is to deliver its expected contribution to the recovery plan.

Negotiations

In a speech to the European Council on 19 June 2020, European Parliament President David Sassoli stressed the need to act urgently and welcomed the Commission proposals, noting that they should be the minimum baseline for the negotiations. Recalling Parliament's demand for new own resources and its full involvement in the recovery plan, he called for a 'common approach, with the broadest possible consensus, that combines urgent action with a forward-looking vision to build a stronger and more resilient Europe that serves everyone's interests'. The European Council video-conference of 19 June 2020 held an initial exchange of views on Next Generation EU and the revised MFF proposal for 2021-2027. Commission President Ursula von der Leyen welcomed the unanimous consensus that had emerged at the level of Heads of State or Government on the need for a common ambitious response to the crisis, based on solidarity, investment and reform. Among the elements where different views persisted, she mentioned: the overall volume of resources, the mix between loans and grants, allocation keys, new EU own resources, and correction mechanisms in the financing of the EU budget. The European Commission has called for an agreement to be reached in July. European Council President Charles Michel has announced his intention to launch negotiations immediately. He has convened an extraordinary European Council, the first to take place in person since the outbreak of the crisis, on 17 and 18 July 2020. Ahead of the meeting, he will present concrete proposals in a new 'negotiating box', to replace the one from February 2020, on which Heads of State or Government had failed to find agreement on the 2021-2027 MFF. Parliament has repeatedly stressed that it will give its consent to the MFF only if the agreement includes its priorities (see above).

MAIN REFERENCES

European Commission, Europe's moment: Repair and Prepare for the Next Generation, COM(2020) 456.

MFF legislation and Sectoral legislation, European Commission website.

ENDNOTES

1. See for example: E. Jones, Can Europeans afford to be optimistic?, Encompass, June 2020.
2. C. Giles, OECD warns of deepest economic scars in peacetime for a century, in: *Financial Times*, 10 June 2020.
3. A. Bailey et al., The world must seize this opportunity to meet the climate challenge, in: *The Guardian*, 5 June 2020.
4. The proposal for the facility is built on and replaces a previous proposal for a much smaller Reform Support Programme under the 2021-2027 MFF. The creation of a budgetary instrument for convergence and competitiveness (BICC) focused on the euro area has also been dropped.
5. Based on the Coronavirus Response Investment Initiative (CRII) from April 2020, and modifying the current Common Provisions Regulation.
6. In addition, the Commission has put forward amendments to other related legislative proposals in the context of Next Generation EU and the revised MFF. For example, the proposal for the ESF+ has been modified through amendments that: 1) increase its thematic concentration on actions targeted to support youth (from 10 % to 15 % of the resources under shared management in Member States with high rates of young people not in employment, education or training – NEETs); 2) devote at least 5 % of the resources under shared management to children in poverty; and 3) promote new skills in line with the green and digital transitions.
7. Commitments are concentrated in the 2021-2024 period. However, since they often cover multiannual plans and projects, related payments are spread over a longer time span.
8. This section aims to provide a flavour of the debate and is not intended to be an exhaustive account of all views on the proposals.

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