IN-DEPTH ANALYSIS

Recovery and Resilience Dialogue with the European Commission

BUDG-ECON Committee meeting on 21 November 2022

Executive Vice-President Dombrovskis and Commissioner Gentiloni have been invited to the eighth Recovery and Resilience Dialogue (RRD) under the Recovery and Resilience Facility Regulation. The previous RRD took place on12 September. This briefing first presents the state of play of the Recovery and Resilience Plans' adoption, rule of law conditionality, latest progress on milestones and targets, introduction of RePowerEU, audit and control, and financing aspects of the Facility.

1. Overview

All 27 Member States submitted Recovery and Resilience Plans (RRPs) to the Commission**, 26 of those were so far assessed by the Commission and adopted by the Council**, so for these the focus in now fully on implementation of the agreed reforms and investments. The Commission disbursed **pre-financing of around EUR 56,6 billion to 21 Member States**. Ireland has not requested pre-financing. Pre-financing is no longer available, as the RRF Regulation provides the option of pre-financing only for plans adopted by the Council until 31 December 2021.

Hungary submitted its RRP to the Commission on [12 May 2021]. According to the Commission, Hungary requested EUR 7,2 billion in grants under the RRF and the country structured its plan around the key policy areas of green transition, healthcare, research, digital, cohesion and public administration. The plan includes measures in sustainable transport, energy transition and the circular economy. Projects in the plan cover the entire lifetime of the RRF until 2026. The plan proposes projects in five of the seven European flagship areas. The Hungarian plan is the last one pending assessment.

Member States can **submit payment requests once the milestones (qualitative achievements) and targets (quantitative achievements)** that are required for the respective payment tranche are completed). 12 countries have so far submitted payment requests to the Commission (Spain made three payment requests, Greece, Italy, Portugal, and Croatia each submitted two requests, and France, Slovakia, Romania, Latvia, Cyprus, Bulgaria and Slovenia each submitted one request). So far, the Commission has made **14 positive assessments and 11 disbursements** (total amount around EUR 77.9 billion) **to 9 Member States** (two each for Spain and Italy, and one each for France, Greece, Portugal, Croatia, Slovakia, Romania and Latvia). Where, as a result of the assessment, the Commission establishes that the milestones and targets set

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PE 733.728 - 17 November 2022

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out in the RRP **have not been satisfactorily fulfilled**, the **payment of all or part of the financial contribution** and, where applicable, of the loan shall be suspended (see Section 3 below).

The RRF Regulation foresees **three situations where RRPs can be altered**:

- when a Member State requests a loan at a later stage;
- an updated plan in case of an increased allocation (see Box 1); and
- an amended or new plan in case the approved plan can no longer be implemented on the basis of objective circumstances.

According to information in the public domain, many Member States are considering some amendments to their RRPs. For instance, the newly appointed Government in Italy has indicated its intentions to discuss changes to its plan with the Commission.

In addition, inter-institutional negotiations are on-going to amend the **RRF Regulation in order to include a specific RePowerEU chapter** in the RRPs, please see Section 4 below.

For an overview of actions relating to audit and control, please see Section 5 below.

And for latest developments relating to the **financing arrangments of the NextGenerationEU, notably RRF**, please see Section 6 below.

Box 1: Commission Guidance on revisions of RRPs

The Commission published **guidance** on 18 May on how to **take into account the revised grants allocation under the RRF and the proposed introduction of the RePowerEU package**.

More specifically on revisions of RRPs following **revised grant allocations**, in accordance with the guidance, upward revisions would require an updated plan, with new reforms and investments to cover the additional funds. The additional amount resulting from the upward revision of the financial contribution cannot be used to compensate for an increase in the estimated costs of measures included in the already adopted RRPs. In case of a downward revision, Member States are encouraged to continue implementing their adopted RRPs, relying on alternative sources of financing. They could request loans (and present additional reforms and investments), transfer cohesion funds or use national funds. Updated or revised RRPs would be assessed against the 11 criteria set out in the RRFR; new reforms and investments would need to cater for the 2022 country specific recommendations. There is no information so far on which Member States, if any, have requested amendments to their RRPs.

For a more detailed overview of the building blocks of the RRF, please see separate stand-alone EGOV document.

2. Rule of law conditionality: latest developments

At the 7 March RRD (recording available here), when outlining the ongoing work to provide the assessment of the then-pending RRPs, Executive Vice President Dombrovskis said "*For the Commission, it is important that all Member States benefit from the Facility and engage in ambitious reforms and investment agendas, so we are working to approve the plans of all Member States. However, we cannot compromise as regards the Rule of Law and respect of the RRF Regulation*".

The Rule-of-Law (RoL) includes the principles of legality implying a transparent, accountable, democratic and pluralistic law-making process; legal certainty; prohibition of arbitrariness of the executive powers; effective judicial protection, including access to justice, by independent and impartial courts, also as regards fundamental rights; separation of powers; and non-discrimination and equality before the law.

The RoL framework is relevant for the RRF as regards three dimensions (see presentation by the Commission): as guidance to RRPs whenever Member States had CSRs addressing RoL concerns[1]; as regards the protection of the EU financial interests (see RoL Conditionality Regulation and article 8 of the RRF Regulation); and as indicators for possible milestones and targets aiming at ensuring the protection of EU financial interests, whenever the systems put in place by the Member States present deficiencies[2].

Box 2: Rule of Law conditionality Regulation

On 16 February 2022, the European Court of Justice rendered its judgments in Cases C-156/21, *Hungary vs Parliament and Council*, and C-157/21, *Poland vs Parliament and Council*, concerning actions for annulment of the RoL regulation where it clarified that the regulation "*is intended to protect the Union budget from effects resulting, in a sufficiently direct way, from breaches of the principles of the rule of law and not to penalise those breaches as such.*" and that "*The sound financial management of the Union budget and the financial interests of the Union may be seriously compromised by breaches of the principles of the rule of law committed in a Member State. Those breaches may result, inter alia, in there being no guarantee that expenditure covered by the Union budget satisfies all the financing conditions laid down by EU law and therefore meets the objectives pursued by the European Union when it finances such expenditure*" (see, in particular, points 131 to 134 of case C-156/21 and 149 to 152 of case C-157/21.

In its position in the above legal procedures, the EP highlighted the connection between the cases at hand and the RRF framework (see point 29 in case C-156/21 and 26 of case C-157/21), mainly arguing that the full application of the RoL Regulation was important to ensure EU financial interests would be protected when implementing the RRF. In the plenary debate on 16 February, the Parliament urged the Commission to act (here). A resolution to that effect was voted in the March Plenary (here) and a further resolution addressing Hungary was approved at the September plenary (final text adopted here).

Following the above Court decisions, the Commission President announced in February 2022 that the Commission will assess the decisions and issue guidelines "*providing further clarity about how we apply the mechanism in practice*". Such guidelines were published on 2 March[3] and refer, notably, that "*non-effective or untimely cooperation with the EPPO and OLAF constitutes a ground for action under the Conditionality Regulation. (...) co legislators have also clarified that the Conditionality Regulation may be triggered where the proper functioning of the authorities implementing their RRPs is not ensured, in line with Article 8 of Regulation EU) 2021/241 ('RRF Regulation'). The Court of Justice also clarified that the Conditionality Regulation can also relate to breaches of the principles of the rule of law affecting the collection of the Union's own resources*".

[1] See specific EGOV paper discussing how CSRs on tax avoidance, money laundering and corruption issues are being addressed in national RRPs.

[2] A number of Member States have milestones and targets related to RoL concerns, notably as regards the robustness of their internal control and monitoring mechanisms to ensure EU funds are not mis-handled.

[3] The guidelines clarify (a) the conditions under which the Commission will adopt measures under the RoL regulation; (b) how the mechanism relates to other EU budget protection tools; (c) the proportionality test and the procedural steps to follow; (d) the sources in order to assess potential serious breaches of the rule of law; and (e) how Commission will protect the rights of the final recipients or beneficiaries of EU funding.

In early April, Commission President Von den Leyen announced the **stepping up of legal proceedings against Hungary under the RoL Regulation**, which is confirmed in its 2022 RoL Report[4].

On 18 September, the **Commission submitted to Council a proposal to suspend Hungary's access to a number of cohesion funds**. The Commission expressed concerns regarding Hungary's systemic irregularities, deficiencies and weaknesses in public procurement and limitations in detecting, preventing and correcting conflicts of interest as well as concerns regarding use of EU funds by "public interest trusts". The Commission concerns also relate to Hungary's anti-corruption framework. Adoption of the Hungarian RRP is pending and, therefore, this proposal does not address RRF funds as such.

The Commission proposed to suspend:

(1) 65% of the budgetary commitments under the (a) Environmental and Energy Efficiency Operational Programme Plus; (b) Integrated Transport Operational Programme Plus; (c) Territorial and Settlement Development Operational Programme Plus, for a total of around EUR 7.5 bn, if approved at the time Council decides on the measure;

(2) the approval of (a) Environmental and Energy Efficiency Operational Programme Plus and/or Integrated Transport Operational Programme Plus and/or Territorial and Settlement Development Operational Programme Plus;

(3) entering into legal commitments for programmes managed under direct or indirect management by the Commission with any public interest trust estalished on the basis of the Hungarian Act IX of 2021 or any entity maintained by such a public interest trust.

The Council has one month to decide whether to adopt such measures, by qualified majority (extensions are possible). Hungary has committed to fully inform the Commission about the fulfilment of the key implementation steps by 19 November[5].

Remedial actions by Hungary "*could in principle address the issues at hand, if they are correctly detailed in relevant laws and rules, and implemented accordingly*", the Commission said.

The 2022 Country Specific Recommendations (CSRs) include RoL related matters in the CSRs addressed to Poland and Hungary.

On 28 August 2022, four European associations of judges – the Association of European Administrative Judges (AEAJ); the European Association of Judges (EAJ); Rechters voor Rechters; and Magistrats Européens pour la Démocratie et les Libertés (MEDEL) – **lodged an annulment action with the General Court of the EU against the Council decision to adopt the Polish RRP** (see publication in the Official Journal of 31 October 2022; to our understanding, the deadline for applications to intervene is 12 December). A press release from the Good Lobby provides further details. The associations claim that the rule of law milestones fall short of what is required to ensure effective judicial protection and disregard the judgement of the European Court on the matter. The press release indicates as well that the decision to endorse the plan was not consensual within the College of Commissioners and that a number of Member States expressed concerns in Council.

[4] In July 2022, the Commission published its 2022 Rule of Law Report, assessing the RoL situation in the European Union (see Parliament's related procedure here[4]). This third report covers four areas (the justice system, the anti-corruption framework, media pluralism and other institutional issues related to checks and balances), was adopted following extensive consultation with the Member States (see here Member States' imput) and stakeholders, and includes, in each country chapter (one per Member State) specific recommendations[4]. The Commission will be following up on these recommendations in next year report. The report also covers for the first time some new topics that have emerged as relevant for ensuring RoL, such as public service media and an overview of the implementation of judgments of the European Court of Human Rights.

[5] An annex to the Commission proposal details the steps to be taken by Hungary in this regard.

3. Milestones and targets

3.1. Findings of the latest ECA special report

In early September, the European Court of Auditors (ECA) published a **Special report** on "*The **Commission's assessment of national recovery and resilience plans***", based on its review of a 'judgement sample' of RRFs from six Member States with the largest absolute (Germany, Spain, France and Italy) or relative grant allocations (Greece and Croatia).

Overall, the ECA found that the Commission's assessment process was appropriate, given the complexity of the process and the time constraints.

However, the ECA also **identified risks for the successful implementation** of the plans.

A point of particular importance in this context is that – contrary to other EU instruments – RRF funding is solely based on the achievement of milestones and targets instead of the reimbursement of costs, meaning that cost estimates[6] mattered at the time the Commission assessed the RRP, while actual costs (potentially deviating from cost estimates) have no impact on the disbursement of funds during the implementation of the RRF.

Consequently, the findings of the ECA's Special report suggest that from a scrutiny point of view the main focus should be on the **actual achievement of milestones and targets**.

In that respect, the ECA found that the Commission's assessment improved the quality of milestones and targets, but also noted some important issues remained unaddressed. The ECA's audit namely focused on the **clarity of milestones and targets**, **that a prerequisite for measuring the progress** of measures, justifying the disbursement of funds, and containing the risk that the objective initially aimed at was not fulfilled. The Special report gives examples from all six RRPs where milestones and targets lack clarity, meant to reflect key stages (start – interim – final) in the implementation process; the ECA noted that in the sample, **the average number of milestone/target ranged from 1.7 per measure in Croatia to 3.2 in Germany**.

The actual achievement of milestones and targets can theoretically be based on input indicators, output indicators, or impact indicators; the Commission's related guidance[7] gave **preference to output indicators**. The ECA found that "*In line with the guidance, most milestones and targets included in the six RRPs in our audit sample are output-oriented (e.g. number of buildings renovated/kilometres of railways renovated/charging stations installed). However, at least half of the sampled RRPs included measures with input indicators, generally referring to spending of a certain amount of funds (e.g. Germany, Spain and France).*"

As regards measurability, the ECA's Special report sets out that in most RRPs the completion of an investment was generally measured in form of a **quantifiable target** (e.g. number of houses renovated etc.), but also mentions that in particularly the Greek plan frequently included a **non-quantifiable milestone in form of completion report** instead (sometimes quantified in the Council Implementing Decision or operational arrangement). The ECA considered whether the difference in the ratio of milestones to targets (see figure 1) might also indicate a different approach in defining milestones and targets.

[6] In line with Annex V, section 2.9 of the RRF Regulation, the Commission assessed that the estimated total costs are reasonable, plausible, in line with the principle of cost efficiency, and commensurate to the expected national economic and social impact. For that assessment, the Commission developed a corresponding rating system with three categories.
So far, **all RRPs carry a 'B' rating for costing**. The ECA noted that the requirement to achieve an 'A' rating were relatively ambitious and relatively low for a 'C' rating, making it unlikely that anything other than a 'B' rating would be given, despite differences in the frequency and severity of shortcomings in the cost estimates. The ECA also noted that for certain innovative investments, the cost estimates were largely based on professional judgement rather than historical data.

[7] Commission guidance to Member States Recovery and resilience plans, SWD(2021) 12, Part 1/2, page 34.

Figure 1: Number and ratio of milestones to targets in the ECA sample of RRFs

Source: ECA Special report 21 2022; analysis based on the annexes to Council Implementing Decisions

The ECA finally highlights that the Commission's **assessment of monitoring and control arrangements** was comprehensive but **partly based on systems not yet in place**. Structures for monitoring and implementing of RRPs in the six sampled Member States were found to vary significantly, depending on the complexity of Member State's structure, and on whether it relies on existing systems and bodies (Germany, France, Croatia) or needs to introduce new ones (Greece, Spain, Italy).

As regards control systems not yet in place, the Commission argues in its reply to the ECA's Special report that additional milestones agreed for control systems relate to elements which can be strengthened but do not put the adequacy of the control systems in doubt. Replying to related written questions[8] by the CONT committee in the context of the 2021 discharge procedure, the Commission further writes that "*where the systems were overall adequate, but small (possible) deficiencies remained, an additional milestone on audit and control matters was agreed, which must be fulfilled early during the implementation of the RRP. The Commission will not make any disbursement (excluding pre-financing) until such milestones are indeed satisfactorily fulfilled.*"

3.2. Latest postive assessments by the Commission

As set out in the previous section, from a scrutiny point of view the main focus should be on the actual achievement of milestones and targets. Before making a disbursement, the Commission assesses whether in its view the milestones and targets have been satisfactorily achieved. Given that the RRF funding is solely based on achievements made and not designed to reimburse actual costs, and given the size and complexity of the overall programme, one may be surprised to learn that the Commission has not yet have a methodology in place to address the partial fulfilment of milestones and targets. In any case, in its reply to the questions from the CONT committee, the Commission writes that it "*is **working on a methodology to determine the amount for partial payments/suspensions** in case one or more milestones and targets are not fulfilled. The Commission is solely responsible for determining the suspended amount.*" See also Section 5 below.

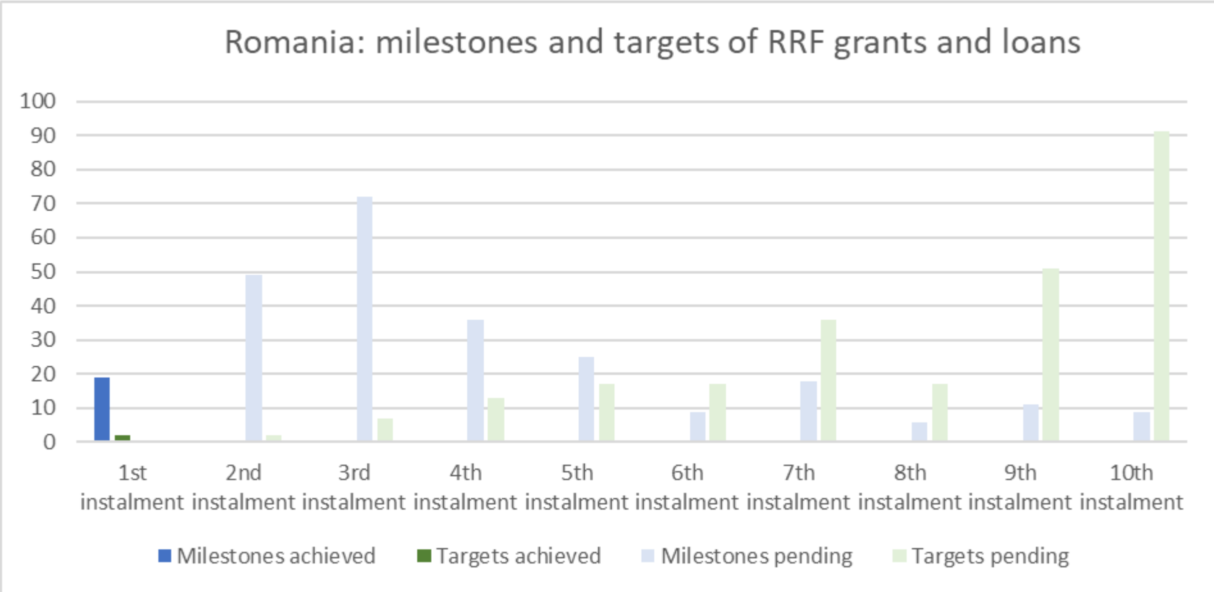
Below, the latest prelimiary assessments related to the payment requests from Romania, Latvia, Cyprus, and Bulgaria are summarised (see separate EGOV document for all related documents).

8 See 2021 Discharge to the Commission, written questions to Commissioners Paolo Gentiloni and Valdis Dombrovski, Hearing on 25 October 2022

Romania

On 1 June, Romania submitted a request for payment for the first instalment of the non-repayable support (in the amount of EUR 1,8 billion) and the first instalment of the loan support (in the amount of EUR 790 million), accompanied by the required management declaration and summary of audits. To support its payment request, Romania provided due justification of the satisfactory fulfilment of the 14 milestones and targets of the first instalment of the non-repayable support and the 7 milestones of the first instalment of the loan support.

The Commission submitted its positive preliminary assessment to Economic and Financial Committee on 15 September.



Source: EGOV, based on the Council Implementing Decision

Selective observations:

As regards milestone #69 (*"Adoption of the strategy for the development of railway infrastructure 2021-2025 and application of the action plan*"), the preliminary assessment mentions that "*Beyond the requirements of the milestone, the **Romanian Audit Authority** has found that the funds allocated under the recovery and resilience plan for the modernisation and renewal of railway infrastructure are not included as a source of funding in the table on "national public funds allocated for the development of railway infrastructure during the period 2021-2025" in the action plan. [...] Noting this, the Audit Authority only **considers this recommendation partially implemented**."* (own emphasis)

As regards milestone #142 ("*Task-force to implement and monitor Digital Transformation reforms and investments established and operational*"), the preliminary assessment mentions that "*The **Romanian Audit Authority** recommended for the task force to become operational by employing 17 highly specialised contract agents in the field of digital technologies and specialised project management. The Audit Authority found the **recommendation partially implemented**, as it will only be fully implemented once the task force is fully staffed with 17 employees. The Commission considers that the documents provided are sufficient to demonstrate that the task force is established and operational and that the CID Annex and the verification mechanism in the operational arrangements are respected given that the task force is expected to be fully staffed after the next recruitment session running from 12 August until 29 September 2022 to fill the 5 current open positions.*" (own emphasis)

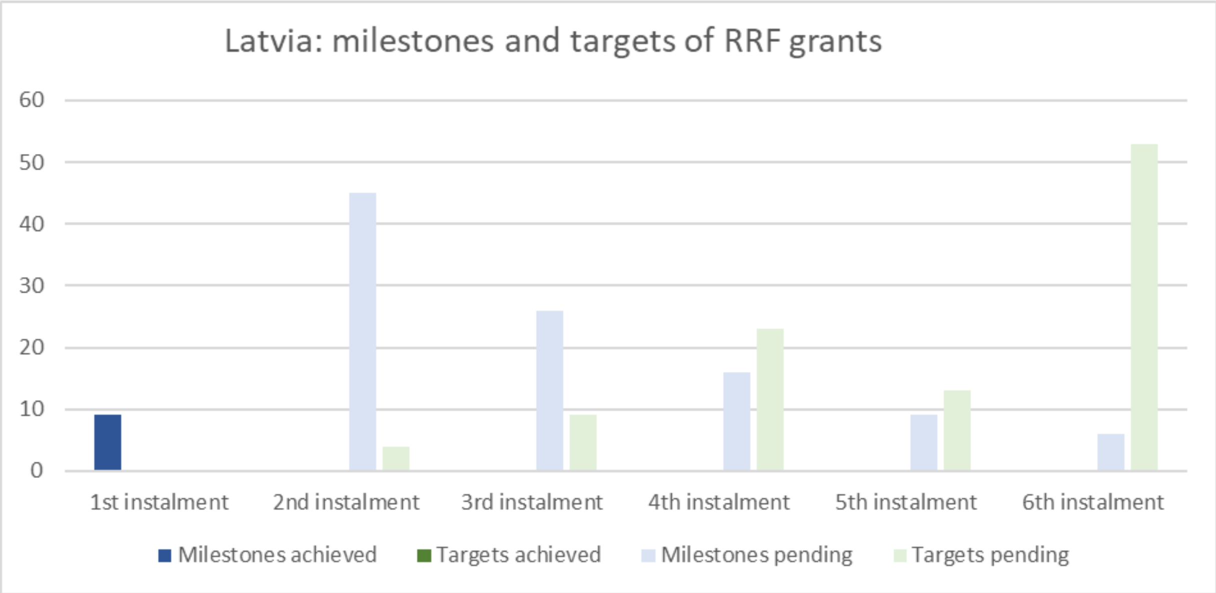
As regards milestone #1 for loan support ("*Entry into force of the amendments to the Law No 241/2006 on water supply and sewerage*"), the preliminary assessment mentions that "*The* ***Romanian Audit Authority*** *also reviewed the milestone. The authority found that for the last amendment concerning the development of criteria for authorization, construction, registration/record, operation and maintenance of appropriate individual systems, the Romanian* ***government developed the criteria but did not formally approve them****. The authority recommended that the government approved them. The milestone requires amendments for the empowerment to develop the criteria and not for their application, therefore this* ***conclusion is not relevant for the assessment of the milestone****. As indicated above, the Commission notes that the Government Decision 714 approving the criteria was adopted on 26 May 2022.*" (own emphasis)

As regards milestone #270 ("*Policy Support Facility (PSF) Reform Implementation Unit established and operational*"), the preliminary assessment mentions that "*In the summary audit accompanying the payment request, the* ***Romanian Audit Authority's identified the lack of human capacity as an obstacle to the achievement of the Milestone****. At the time of the Authority's assessment (19 April 2022), 8 posts were filled for the period 2021-2025 on a full-time basis, 2 posts were filled for the period 2021-2025 with part-time contracts and 7 posts remained vacant. IIn line with the CID Annex, the UIRPSF has received an assignment of 17 staff positions for the duration of the Recovery and Resilience Facility. As of 31 May 2022, the UIRPSF hired 10 staff members, all with a contract running through 2026 – as proven by the provisions in the ministerial orders of appointment of those staff members. Another competition was organised in June and lead to the selection of 5 new staff members of the UIRPSF, all with full-time contracts. The* ***European Commission considers the current staffing adequate*** *for the operationalisation of the unit.*" (own emphasis)

Latvia

On 17 June, Latvia submitted a request for payment of EUR 201 million for the first instalment of non-repayable support, accompanied by the required management declarations and the summary of audits. To support its payment request, Latvia provided due justification of the satisfactory fulfilment of the 9 milestones of the first instalment of the non-repayable support.

The Commission submitted its [positive preliminary assessment] to the Council's Economic and Financial Committee on 29 July.



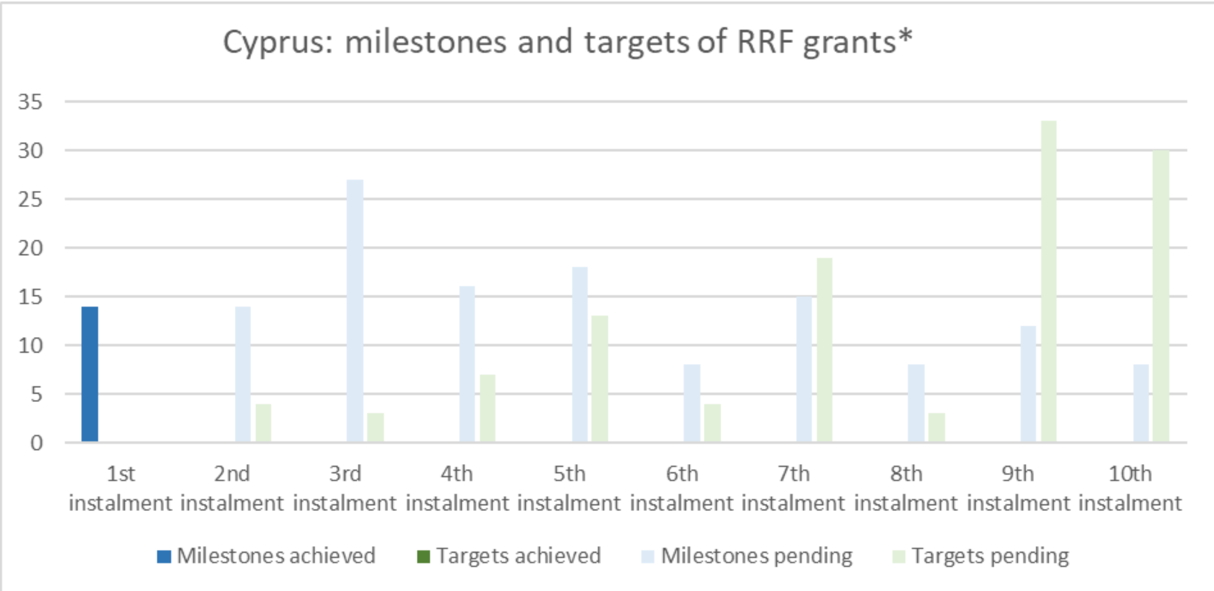
Source: EGOV, based on the Council Implementing Decision

Selective observation:
As regards milestone #209 ("*Entry into force of regulatory framework for improving the competition environment and reducing corruption risks in public procurement*"), the preliminary assessment mentions that Latvia's Public Procurement Law has been amended, inter alia in order to incorporate life-cycle costs: "*The **amendments identify specific areas where life-cycle costs and quality criteria are to be assessed** in addition to the purchase price. With the amendments, Section 51 of the Public Procurement Law (Annex 1) is being supplemented with Paragraph 31, which stipulates that the contracting authority is not entitled to use only price for comparison and evaluation of the tenders, if the subject-matter of the procurement contract is:*
a) designing of construction works (also applicable to design & build contracts).
b) electricity consuming goods and products (supply contracts).
c) road transport vehicles." (own emphasis)
One may note in this context that some sources consider a wider application of the life-cycle cost criterion (see, for example, Life Cycle Costing State of the art report, March 2018).

Cyprus

On 28 July, Cyprus submitted a request for payment of EUR 85 million for the first instalment of the non-repayable support, accompanied by the required management declaration and summary of audits. To support its payment request, Cyprus provided due justification of the satisfactory fulfilment of the 14 milestones of the first instalment of the non-repayable support.

The Commission submitted its positive preliminary assessment to the Council's Economic and Financial Committee on 25 October.



Source: EGOV, based on the Council Implementing Decision; * Milestones and targets shown as achieved/pending are only those for grants; Cypruy will also have four loan-related instalments, with in total 9 milestones and 6 targets (currently all still pending)

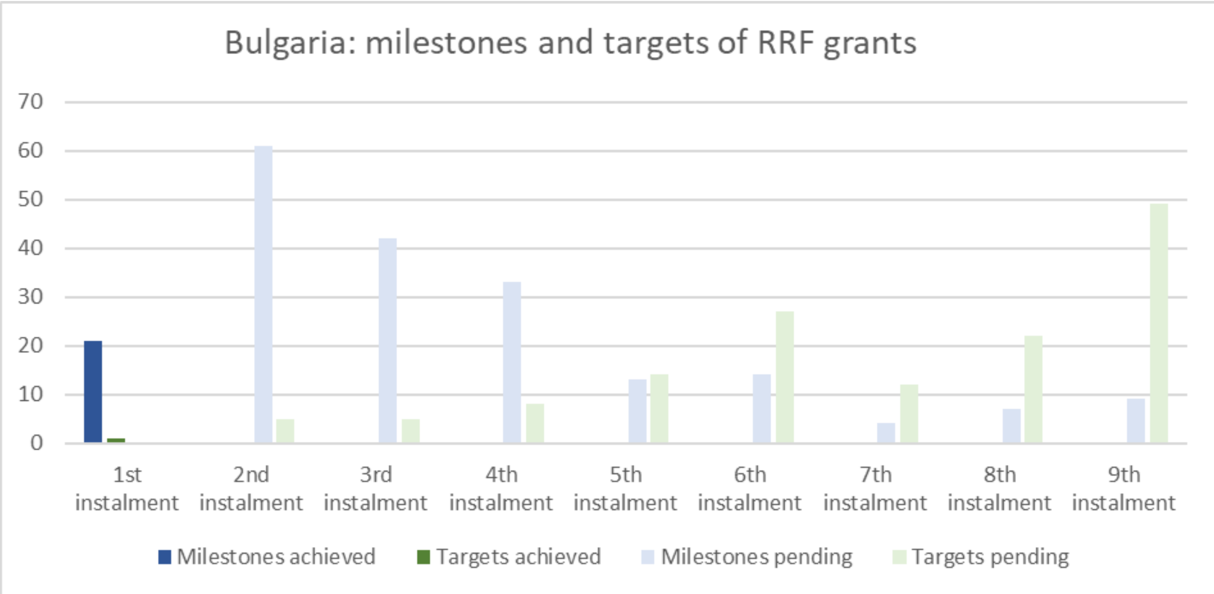
Selective observation:

As regards milestone #189 ("*Entry into force of the law to protect whistle-blowers*"), the preliminary assessment states that the milestone consists of the entry into force of a law to **protect whistle-blowers** reporting fraud and corruption from internal sanctions, and that the evidence provided allows to conclude that the milestone has been satisfactorily fulfilled. However, while that law has undoubtedly been adopted, one may note that an opinion piece in the CyprusMail argues that the law itself is unlikely to sufficiently protect whistleblowers, given that neither officials nor potential whistleblowers could enjoy the anonymity that is taken for granted in larger countries.

Bulgaria

On 31 August, Bulgaria submitted a request for payment of EUR 1,37 billion for the first instalment of the non-repayable support, accompanied by a management declaration (updated on 7 October) and summary of audits. To support its payment request, Bulgaria provided due justification of the satisfactory fulfilment of the 22 milestones and targets of the first instalment of the non-repayable support.

The Commission submitted its positive preliminary assessment to the Council's Economic and Financial Committee on 7 November.



Source: EGOV, based on the Council Implementing Decision

Selective observations:

As regards milestone #182 ("*An approved workload analysis for the National Funds Directorate and the Central Coordination Unit, entry into force of the amendments to the structural regulations for the Executive Agency 'Audit of EU Funds' and the implementation of respective recommendations*"), the preliminary assessment states that the recommendations of the **workload analysis** for the Executive Agency 'Audit of EU funds' have been implemented in line with the requirements of the Council Implementing Decision, considering that "*The Council Implementing Decision required that decisions on the allocation of the necessary resources shall take place before the first payment request on the basis of the workload analysis and its recommendations. The* ***recruitment procedure was launched*** *and orders of the Executive director of the Audit Agency to open positions were provided as evidence as well as links to the accompanying* ***vacancy notices for the seven additional people published*** *on the Audit Agency's website (Info 11 and Info 2). The fact that the recruitment procedure has been launched is considered to be sufficient evidence that a decision on the allocation of the necessary resources has been taken.*" (own emphasis)

One may note in this context that for a comparable situation in Romania, the Romanian Audit Authority considered vacant positions for which recruitment procedures have started as being only a partial implementation.

As regards milestone #238 ("*Adoption of the action plan to mitigate the money laundering and terrorist financing risks identified in the national risk assessment*"), the preliminary assessment states that the **action plan** for mitigating the risks identified in the National Risk Assessment report was prepared by a permanent working group and "***adopted*** *by Decision No. 672 of the Council of Ministers* ***on 17 September 2021***". One may note in this context that a comprehensive Mutual Evaluation Report (5th Round) on Bulgaria's anti-money laundering and counter-terrorist financing measures by the Council of Europe's related expert committee (MONEYVAL) was published in May 2022.

4. RePowerEU and the Recovery and Resilience Facility

Following up on its RePowerEU communication , the Commission published in 18 May its RePowerEU Plan. The package is composed of a number of documents, among which a Communication, a proposal to amend the RRF Regulation and a number of amendments to other acts to finance the Plan. **The RRF Regulation as proposed by the Commission** is being amended to notably introduce (see also Commission presentation here):

- An obligation on Member States modifying their RRPs to also submit a dedicated REPowerEU chapter, outlining measures and actions aimed at addressing the REPowerEU objectives;
- A targeted exemption from the obligation to apply the do-no-significant-harm principle for reforms and investments improving energy infrastructure to meet immediate security of supply needs for oil and gas, notably to enable diversification of supply in the interest of the Union as a whole;
- A new assessment criterion catering for the specific objectives of REPowerEU; and
- Reporting obligations regarding the REPowerEU chapter.

The financing package is composed of:

- EUR 20 billion in grants from the sale of EU Emission Trading System allowances;
- EUR 26,9 billion from cohesion policy, through voluntary transfers to the RRF (up to 12.5% of Member States' national allocation);
- EUR 7,5 billion from the Common Agricultural Policy, through voluntary transfers to the RRF (up to 12.5% of Member States' national financial allocation).

Further financial sources are being made available, notably through the European Investment Bank, the Innovation Fund and InvestEU. The Commission also recalls that Member States still have available a large part of RRF loans, that can be used to finance policies under the RePowerEU Plan. The Commission's guidance from May 2022 on how to revise the RRPs covers also the introduction of RePowerEU.

The **Council reached a general approach** on the Commission's proposal to amend the RRF Regulation on 4 October 2022. The main elements of that general approach are:

- As regards the sources of financing of the additional EUR 20 billion, instead of auctioning from the EU Emissions Trading System (ETS) Market Stability Reserve, the Council decided to use the Innovation Fund (75%) and frontloading ETS allowances (25%). Transfers from the cohesion and agricultural funds to RePowerEU can be made (up to a total of 12.5%). In its position, the Council also includes the possibility of voluntary transfers from the Brexit Adjustment Reserve (BAR), as well as from the Just Transition Fund (JTF);
- With respect to these additional grants, the Council modifies the allocation key by introducing a formula which takes into account cohesion policy, Member States' dependence on fossil fuels and the increase of investment prices;
- The Council limits the obligation for Member States to submit the RePowerEU chapter only to cases where they wish to request RRP additional funding in the form of RRF loans from NGEU, non-repayable support from new revenue or newly transferred resources from shared

management programmes and thus not upwards updates of maximum financial contribution;

- The Council allows including in the dedicated RePowerEU chapter measures of the Council Implementing Decision that are no longer achievable in case of a downward June 2022 update of a maximum financial contribution;
- The Council clarifies that Member States shall be able to request loan support until 31 August 2023.
- Concerning possible derogations from the ‘do-no-significant-harm’ principle for investments improving the energy infrastructure and facilities to meet immediate security of supply needs for oil and gas, a careful balance was struck which aims to limit the additional administrative burden for member states. The Council does oblige Member States to provide a justification to the Commission when they wish to derogate from the 'do-no-significant-harm' principle;
- The Council removed the requirement, proposed by the Commission, for the Member States to provide a summary of the consultation process of local and regional authorities and other relevant stakeholders, including, as relevant, from the agricultural sector, for reforms and investments included in the RePowerEU chapter.

The BUDG-ECON report on the amendments to the RRF Regulation was voted in November plenary and inter-institutional negotiations on the legislative text has started following this partial vote in plenary. The first trialogue took place on 16 November.

The EP position adresses, notably amendments relating to the funding of RePower EU; the misalignment of the allocation key with the RePower EU objectives and a stronger framework for loan requests. As regards the RePower EU chapters, aligments of the date of RRPs eligible measures to 1 February 2022 (instead of 1 February 2020 as for the current version of the Regulation), to avoid backtracking too much; further incentivise the inclusion of cross-border and multi-country projects in the revised RRPs and ensure that any derogation to the “do no significant harm principle” is fully aligned with the RePower EU objectives. Mandatory consultation of local and regional authorities and stakeholders in reviewing the RRPs is also proposed.

Presenting before the plenary of the EP on 10 November a new set of measures to address the consequences of the energy crisis, the President of the European Commission underlined that “*If we boost the financial firepower of REPowerEU we will ensure that all Member States have the possibility to realise these critical investments. In other words, this would give every Member State the same opportunity to prepare for the future, and, at the same time, some fiscal space to support vulnerable businesses and households*”.

5. Audit and Control: recent developments

5.1. The levels of control systems in RRF

The audit and control system (ACS) for the RRF rests on **three main lines of defense**:

1) the **Member States** and the national responsible authorities must:

- before the first payment, set up adequate audit and control systems at national level;
- accompany each payment request with evidence confirming achievement of the milestones and targets, a management declaration and a summary of the audits carried out, including weaknesses identified and any corrective actions carried out;

2) **the European Commission**, as part of applying the RRF Regulation, must:

- assess whether the audit and control systems described in the RRP comply with the RRF requirements (a condition for the first payment);
- assess primary evidence on milestones and targets provided, and possibly check on the ground whether they were were correctly achieved, including milestones and targets concerning setting up or strengthening audit and control systems (where applicable), and
- considering the audits performed by the Member States, undertake at least once per Member State over the implementation period (i) risk-based system audits on milestones and targets and (ii) system audits on the protection of the financial interest of the Union;

3) **EU financial enforcers** (Commission, OLAF, the Court of Auditors and EPPO -for participating Member States-) are granted under the Financial regulation the rights and access necessary to protect the financial interests of the Union (including on-the-spot checks and inspections for OLAF) which may result in funds recovery in case of serious irregularities.

The EP has a role in scrutinizing the Commission application of the RRF Regulation, including through the **discharge procedure** of the Commission.

All these authorities play a role in ensuring RRF funds are not misused throughout the whole life cycle of the Facility. Further details can be found in this Commission presentation.

5.2 Control systems at national level

Member States are the main line of defense. The RRF requires them to provide an effective and efficient internal control system and to recover amounts wrongly paid or incorrectly used (article 22 of the RRFR).

Member States are specifically required, as beneficiaries of RRF funds, to ensure that the use of the funds complies with the applicable Union and national laws, in particular as regards prevention, detection and correction of fraud, corruption and conflicts of interests.

Member States are furthermore required to collect and ensure access to standardised data on recipients, contractors and sub -contractors. Member States may rely on their regular national budget management systems and the Commission shall make available to them an integrated and interoperable information and monitoring system including a single data-mining and risk-scoring tool to access and analyse the relevant data.

Member States' control systems are assessed as part of the Commission's evaluation of the RRPs and are involved, subsequently, in each payment request. Robustness of national control systems is addressed as well as part of the EU rule of law framework (see above). For some payment requests, the Commission considered the milestones still not fully implemented and, therefore, asked Member States to continue reinforcing their control systems[9]. See also a separate EGOV document, on national control mechanisms (here).

5.3 Control systems at EU level

The Commission

In the RRF implementation phase, the Commission:

(a) **assesses ex ante primary evidence on milestones and targets**[10] provided by the Member States (with possible onsite visits), within two months of the payment request;

(b) **may deploy further checks**, depending on the audits performed by the Member States; and

(c) **assesses whether the national control systems** described in the RRP comply with the RRF requirements.

According to a note by the Commission[11] on the internal control setup for the RRF, the Commission stresses that the **RRF requires a control framework tailored to its unique nature as an EU spending programme**; one which should provide adequate financial and reputational protection for the EU budget. Inside the Commission, DG ECFIN has been assigned financial responsibility for the implementation of the RRF on behalf of the Commission and, as such, is responsible for the creation of an Internal Control System (ICS) for the RRF. In addition, information on control of the RRF will be scrutinised under the annual budgetary discharge procedure. This Commission note provides the main elements that will be used to define the RRF control strategy. Notably, the note provides that the control framework under the RRF be built upon three pillars:

1. Controls to provide reasonable assurance over the **regularity and legality** of commitments and payments, with specific controls related to the achievement of the agreed milestones and targets A robust control framework is needed to detect irregularities in the evidence provided to prove that the milestones and targets are completed.

2. Controls to ensure adequate **protection of the financial interests of the Union**, in the manner prescribed in the RRF Regulation for non-repayable support and loans – Under the RRF, as the payment is neither linked to actual cost nor directly to fund investment or reforms, it is Member States' own expenditure that finances the reforms and investment, even if such expenditure is ultimately supported by the RRF. Nonetheless, in line with the RRF Regulation, the Commission should recover funding in case of serious irregularities that have not been corrected by the Member States or in case of serious breach of the financing agreement.

3. The Commission's internal control structure will include requirements stemming from the **Internal Control Framework of the Commission** and, in particular, of DG ECFIN. The Anti-Fraud Strategy, IT systems and Document Management, Financial Circuits, Communication, Evaluation and Risk

[9] See this EGOV briefing for some additional information on a number of payment requests and milestones and targets linked to audit and control systems.

[10] For cost-effectiveness of these checks, the Commission may select, collect and assess a **sample** of documents underpinning the achievement of the milestone or target. Documents shall be kept five years by Member states for ex post control purposes.

[11] See also DG ECFIN: Audit strategy for the Recovery and Resilience Facility: Building Audit Assurance

Management will be adapted to consider the requirements of sound internal control and audit of the RRF.

The European Court of Auditors[12]

The **ECA** Annual report on the implementation of the EU budget for 2021 had for the first time a separate Chapter on the RRF looking at the EUR 46.4 billion payments during that year, of which EUR 10 billion was one payment to Spain based on the achievement of milestones and targets (the rest was pre-financing). It examined whether the Commission had sufficiently assessed the prerequisites for the payment to Spain, namely the achievement of all 52 related milestones. This report focuses on regularity. Compliance with EU and national rules and the effectiveness of reforms are to be dealt with in dedicated ECA special reports.

The ECA concludes that RRF expenditure was **not affected by material error**. However, the Court found that one out of the 52 milestones was not fulfilled at the time of the first payment to Spain[13]. The error could not be quantified in the absence of a method for quantifying the impact of not achieving a milestone or target[14].

The ECA recommends that the Commission **develop a methodology to quantify the amounts to suspend** in case a milestone is not fulfilled, failing which "it is unclear how the Commission would implement Article 24 of the RRF Regulation".

In the ECA's view, Commission should also **document better its ex ante assessment of milestones and targets** and justify cases in which elements that are part of the Operational Arrangements and Council implementing decision are not to be considered relevant for determining whether a milestone or target has been achieved satisfactorily.

At the CONT committee hearing of 25 October, Executive Vice-president Dombrovskis and Commissionner Gentiloni reported that the methodology for partial payment was being developed by the Commission.

It its **Special report 21/2022 "The Commission's assessment of national recovery and resilience plans: overall appropriate but implementation risks remain"**[15], discussed in the CONT committee on 25 October, the Court examined the Commission's assessment of the national RRPs. It concluded that this assessment was overall appropriate, given that the process is highly complex and takes place under strict time constraints.

Some weaknesses emerged in the ECA's audit and should be addressed: (1) the existing internal guidelines and checklists of the Commission were not used systematically; (2) the key documents supporting the Commission's final assessment were not always easily traceable; (3) the Commission could have facilitated exchanges of good practices between Member States.

Regarding the question of whether the national RRPs are in line with the policy objectives of the RRF, (4) some aspects of country-specific recommendations remained unaddressed[16]; (5) the "do no significant

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[12] This section is largely based on a briefing on the" Extraordinary meeting of the Budgetary Control Committee and the European Court of Auditors", EP Policy department for budgetary affairs, Michaela Franke, October 2022.

[13] because one element of the "modifications to corporate income tax in 2021" milestone, namely "ensuring a minimum 15% tax rate" would only be achieved through future changes including the Budget law entering into force on 1 January 2022 and Commission did not explain why it did not consider it relevant.

[14] The Commission's Internal Audit Service cites the same observation, among other things, for not providing assurance on the RRF's control framework in its Annual report on internal audits carried out in 2021.

[15] See also Replies by the Commission to the Special Report.

[16] The ECA special report highlighted that *"the recovery and resilience plans address country-specific recommendations, but gaps remain"*. See also a specific EGOV document on CSRs gaps persisting beyond implementation of the RRPs.

harm" principle should be better monitored and transparency improved; (6) milestones and targets should be adequately defined and verified to provide clarity; and (7) the Court identified some gaps and deficiencies in national control mechansims, notably some Member States decided against using the Commission's data mining and risk scoring tool. For the replies by the Commission to the ECA report, please see this document.

According to the latest ECA Work Programme, it plans to publish in the next two years, 12 audit reports examining the NGEU, mainly covering the RRF (see Table below).

Table 1: ECA Work Programme for 2023 on NGEU

Strategic priority and planned publication year	Task name	Product type	Task objective
Horizontal area: the NGEU **2023**	Coronavirus Response Investment Initiatives (CRII, CRII Plus) and REACT-EU	Special report	To examine whether the Commission effectively adapted the 2014-2020 cohesion policy through the Coronavirus Response Investment Initiatives and REACT-EU and rapidly mobilised European Structural and Investment Funds (ESIF) to respond to the COVID-19 pandemic.
	Commission RRF control system design	Special report	To assess whether the Commission's control system has the potential to ensure the regularity of RRF payments and the protection of the EU financial interests.
	Debt management at the Commission	Special report	To assess whether the Commission developed effective systems to manage debt raised to finance the NGEU.
	RRF performance	Special report	To assess whether the Recovery and Resilience Facility monitoring framework is appropriate for measuring performance.
	RRF absorption	Special report	To assess one of the key objectives of the RRF – speed – by examining the extent to which RRF financing was actually front-loaded. The audit will assess the level of absorption into reforms and investments by Member States (MS).
	Double funding	Special report	To assess whether the Commission and Member States put in place robust management and control systems to avoid double funding of expenditure financed from the RRF and the cohesion policy programmes.

Source: ECA Work Programme.

The European Parliament

On 25 October 2022 the CONT Committee held a **hearing with Executive Vice-president Dombrovskis and Commissionner Gentiloni**[17]**, in the framework of the 2021 discharge procedure**.

At this meeting the rapporteur of the 2021 Discharge: General Budget of the EU: Commission, MEP Monika Hohlmeier and other MEPs brought up several concerns.

The main issue discussed was the difficulty to establish a clear link between milestones and targets required for the payment of the installments and the measures the funds are disbursed for in the Member States.

More specifically, the discharge procedure for 2021 needs to assess the efficient spending of the first installment paid out to Spain, while the milestones and targets reported in the payment request only cover reforms with no or minor costs.

Questions came up concerning the audit and control of the RRF funds on the trustworthiness of national audit authorities and systems, and the possible Commission controls, the voluntary nature of using the ARACHNE risk-scoring and data-mining tool. The transparency of final beneficiaries and the access to financial and beneficiary data by the EP was mentioned as necessary for an efficient discharge process. The Commissioners gave promises to provide all data they request and receive on beneficiaries also to the Parliament.

[17] See also written questions to Commissioners Paolo Gentiloni and Valdis Dombrovski in advance of the Hearing on 25 October 2022 in the CONT Committee.

Other concerns related to EP discharge included the concentration of beneficiaries, the fairness of disbursements, the entanglement of EU and national funding in some measures, backloading of important milestones and targets and the non-fulfilment of these in the late stages of the programme, the possibility of retrospective corrections, the possibility of revising the national Recovery and Resiliance Plans, or the funds recovered or withheld.

Other EU institutions and bodies

The European Anti Fraud Office (OLAF), in line with the Commission's Anti-Fraud Strategy, developed a risk framework for the Recovery and Resilience Facility (RRF), covering potential serious irregularities – fraud, corruption and conflicts of interest – arising in the implementation of the RRF[18]. The Advisory Committee for the Coordination of Fraud Prevention brings together the Commission (represented by OLAF) and Member State experts. In this framework an expert group dedicated to the use of IT tools to protect the RRF resources was set up.

In September 2021, **the European Union Agency for Law Enforcement Cooperation (Europol), OLAF, the European Public Prosecutor's Office (EPPO), the European Union Agency for Criminal Justice Cooperation (Eurojust) and 21 Member States** joined forces as part of Operation Sentinel to anticipate the expected wave of fraud affecting the recovery funds. To this end, Europol established a dedicated internal mechanism to process operational data, help with information exchanges and support ongoing cases. The joint activities targeted fraud, as well as tax evasion, excise fraud, corruption, embezzlement, misappropriation and money laundering. Europol and OLAF issued a Joint Report – 'Assessing the Threats to the Next Generation EU (NGEU) Fund' – in February 2022.

A case was opened on 24 February 2022 by the **European Ombudsman** on "*The transparency and accountability of the Recovery and Resilience Facility*". The latest questions put to the Commission in relation to this case are detailed in the Annex to the Ombudsman letter of 7 October 2022.

6. Financing the Recovery and Resilience Facility: latest developments

6.1 Funding the Recovery and Resilience facility

The RRF - which is part of the Next GenerationEU (NGEU) project - is being financed through borrowings on capital markets (for further details see section 2.1 of this EGOV briefing and proceedings of the BUDG committee workshop held on 27 October 2021; for a state of play of EU borrowings see this EGOV briefing). The Commission has been providing information on developments around its issuances through dedicated reports and its website.

A recent policy brief from Commission's staff concludes: "*The appeal of joint EU-Bonds also reflects the strength of Union solidarity and the commitment of EU Member States to use joint EU borrowing and novel instruments in support of EU needs and values*." (our emphasis)[19]. A second semi-annual report on the execution of the

[18] See 33rd Annual Report on the protection of the European Union's financial interests and the fight against fraud – Year 2021 (PIF Report).

[19] The policy brief provides further details on the broader impacts of EU issuance on EU capital markets. On a similar vein, a recent ECB's staff paper also illustrates the positive impacts the borrowing has on the liquidity and depth of EU markets and the pivotal role of EU securities as "safe assets".

NextGenerationEU funding operations was published on 8 July[20]; the latest investors' presentation is available here[21].

The EURI implementation report of 31 October 2022 pursuant to Article 4 of Council Regulation (EU) 2020/2094 establishing EURI provides an overview of NextGenerationEU (and more specifically of RRF) transactions carried out until 30 September 2022. Until that date, "*the Commission has issued EUR 148.6 billion in NGEU bonds, of which EUR 28 billion in the form of green bonds. The Commission has also established a regular issuance of three-month and six-month EU-Bills to meet short-term funding needs, with EUR 20.1 billion in EU-Bills outstanding on 30 September 2022*[22]". Of such amounts, EUR 79.4 billion have been used to finance RRF grants and EUR 33.4 for RRF loans.

6.2 Planned reimbursement of the NGEU borrowed amounts

According to the provisions of the 2020 Own Resources Decision and of Article 15.3 of the RRF Regulation, repayments of the RRF borrowed amounts foreseen for loan support to Member States (up to EUR 360 billion in 2018 prices) and the related interests is to be ensured by the Member States requiring such loans. The Union is however liable in case such repayments are not performed. As for the repayment of the principal and interest of funds to be used for grants (up to EUR 390 billion in 2018 prices), they will have to be reimbursed by the general budget of the EU, including by sufficient proceeds from new own resources introduced gradually from 2021 onwards. All liabilities incurred by the exceptional and temporary empowerment to borrow funds should be fully repaid by 31 December 2058. A specific 'EURI budget line' was created in the EU budget in order to provide for the resources needed to reimburse the interest and principal due each year for NGEU non-repayable support.

The Interinstitutional agreement (IIA) between the Parliament, the Council and the Commission[23] **provides a roadmap for introducing new EU Own Resources to finance repayment of NGEU debt issuances.** According to this roadmap, the Commission was expected to propose by June 2021 new own resources based on a carbon border adjustment mechanism (CBAM), the Emissions Trading System (ETS) and a digital levy.

The proposals were finally published on 22 December 2021. **The Commission proposed three new sources of revenue**: (a) 25% of revenues from emissions trading (ETS) allowances auctioned, (b) 75% of the income generated by the proposed EU carbon border adjustment mechanism, (c) 15% of the share of residual profits from multinationals that will be re-allocated to EU Member States under the OECD/G20 agreement on a re-allocation of taxing rights ("Pillar One") would be paid into the EU budget as own resources. The Commission expects the new sources of revenue to generate on average a total of up to EUR 17 billion annually for the EU budget in the period 2026-2030.

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[20] There the Commission acknowledges the increased interest rates it faced in its last issuances "*NextGenerationEU bonds were affected by the pronounced increase in interest rates over this period, which was also the case for sovereign, supranational and other bond issuers globally. The average cost of funding is more than one percentage point higher than over the past six months. However, NextGenerationEU bonds continue to price comparatively well, reflecting the inherent credit quality of the EU and strong recognition for the EU as a value-oriented social and green issuer.*". There seems to be no information available of the impacts of interest rate increases on the EU budget.

[21] The diversified funding strategy the Commission is employing rests on having a cash buffer available for disbursements, contrary to a back-to-back strategy where the Commission would borrow on markets whenever disbursements were upcoming. The Commission recognises the existence of such cash buffer (notably on page 30 of its latest investors' presentation) but there seems to be no information available on the dimension of such cash buffer nor its costs.

[22] For further granular information on EU Bonds and Bills issuances, see the regularly updated briefing on the Financing the Recovery and Resilience Facility: EU Bond and Bill issuance.

[23] In fact, either new own resources - as foreseen in the IIA - are made available, or the borrowings will have to be repaid through the normal budgetary resources/instruments. The staff's paper referred to above explains that "*the EU will always have the means to meet its debt repayment obligations, be it by an automatic increase of the direct contribution by Member States – the GNI-based contribution – or by active resource management, for example through re-allocation of funds within the budget.*".

The Commission will also present a **proposal for a second basket of new own resources by the end of 2023**[24], building on the *Business in Europe: Framework for Income Taxation (BEFIT)*[25].

Considering this adjustment to the own resources roadmap and relevant developments unforeseen at the time of the IIA, the BUDG committee is preparing an own-initiative report to set out Parliament's position ahead of the Commission second batch proposal, to be adopted by the plenary in March 2023: "Own Resources: A new start for EU finances. A new start for Europe" (Rapporteurs: Jose-Manuel Fernandes (EPP), Valérie Hayer (Renew)).

The Commission's December 2021 proposals comprise two legal acts:

- a proposal to amend the own resources decision (requiring unanimity in Council and consultation with the European Parliament[26], and national ratification) and
- targeted amendments to the Multiannual financial framework[27] (requiring unanimous adoption by Council after obtaining the consent of the European Parliament).

The BUDG report for the consultative opinion by the EP broadly endorses the former Commission proposal (vote in plenary foreseen in NOV II) and the EP interim report of 13 September 2022 (pending EP consent) supports the latter proposal with a few improvements.

There is limited public information on the side of the Council as regards progress in these two files. The Council Working Party on Own Resources is meeting on a frequent basis. Agendas available point to existing working documents but these seem not to be publicly available in Council's register of documents. On the other hand, the draft agendas for Council meetings during the Czech Presidency indicate that the 6 December ECOFIN meeting should possibly focus on policy debate regarding the new own resources and the global agreement on re-allocation of taxation, among other tax-relevant files.

After initial delays, the interinstitutional regular dialogue meetings on new Own Resources foreseen by the IIA began on 3 December 2021. During the second such meeting which took place on 26 April 2022, the FR presidency updated the EP about Council discussions concerning CBAM, the ETS, SCF and implementation of the OECD agreement on corporate taxation. New own resources were only discussed superficially in the 17 June 2022 ECOFIN meeting on the basis of a presidency progress report. At the third interinstitutional dialogue which took place on 25 October 2022, the CZ presidency gave information on the working party meetings it started, where Member States delegations examine proposals in depth, including the delicate simulations of the breakdown of the impact per own resource and per Member State (in relation to GNI key).

A study was delivered to BUDG Members in April 2022 on *New EU own resources: possibilities and limitations of steering effects and sectoral policy co-benefits*. It assesses the Commission's legislative proposals for new own resources included in the interinstitutional roadmap and briefly reviews further own resource options which could create co-benefits and steering effects supporting a sustainable, inclusive, green and digital transition.

The Commission underlines in the above-mentioned EURI implementation report that issuances of EU debt instruments have become **increasingly challenging in the current market environment faced with a sharply raising inflation**. In such context interest rates have sharply increased and at the end of September 2022, the yield on the 10-year EU bond topped the 3% mark, up from around 0.2% in January. Such sharp increase has meant that "*the initial estimated costs for interest payments on NGEU non-repayable support to be*

[24] Anticipating the deadline agreed in the IIA by six months, from June 2024 to end 2023 (as reiterated by Commissioner Hahn in a hearing in January 2021 before the BUDG Committee and in the Commission Communication accompanying the December 2021 proposals).

[25] The Commission Communication notes that this second proposal "*could include a Financial Transaction Tax and an own resource linked to the corporate sector*".

[26] The legislative file can be followed here. BUDG Committee decision is awaited.

[27] The legislative file can be followed here.

covered by the 2023 EURI budget [line] *is no longer considered sufficient. Therefore the Commission proposed in its amending letter of 5 October 2022 an upward revision of EUR 450 million for the existing 2023 EUR 1.03 billion EURI budget line*". However, such amount has been revised downwards by EUR 170 million in the context of the agreement reached by the Parliament and Council on the 2023 EU Budget on 14 November 2022.

Rising EURI interest costs (combined to financial assistance for Ukraine) currently risk to crowd out financing for MFF programmes: the EU budget urgently needs fresh income.

As regards funding of the NextGenerationEU programme, the Commission's latest EU Investor Presentation of October 2022 states that "*Thanks to the EU's high credit rating, the Commission is able to borrow on **advantageous financial terms***". Please, see below ratings dated 15 November on EU Member States and EU bonds.

Table 2: Spreads of European 10yr bonds in comparison to EU bond

Country	Yield	Spread
Germany (1.70% 15 Aug 2032)	2.09	-64
Netherlands (0.5% 15 Jul 2032)	2.37	-36
Denmark (0% 15 Nov 2031)	2.46	-28
France (2.0% 25 Nov 2032)	2.59	-15
Ireland (0.35% 18 Oct 2032)	2.60	-13
Belgium (0.35% 22 Jun 2032)	2.66	-8
Austria (0.90% 20 Feb 2032)	2.68	-5
Finland (1.50% 15 Sep 2032)	2.69	-4
EU Next Gen (1% 06 Jul 2032)	**2.73**	**0**
Portugal (1.65% 16 Jul 2032)	3.03	30
Spain (2.55% 31 Oct 2032)	3.10	37
Slovenia (2.25% 03 Mar 2032)	3.34	61
Slovakia (1% 14 May 2032)	3.47	73
Italy (2.50% 01 Dec 2032)	4.04	131
Czech Republic (1.75% 23 Jun 2032)	4.98	225
Hungary (4.75% 24 Nov 2032)	8.55	582

Source: MTS European Bond Spreads (Time snapshot: 15/11/2022 - 5:29 PM CET)

6.3 Other related recent developments

On 15 July, the **ECA issued on its opinion on the methods and procedure for making available own resources based on the Emissions Trading System, the Carbon Border Adjustment Mechanism and reallocated profits**, and on the measures to meet cash requirements, and, on 26 July, its opinion on the Commissions' proposal to amend the RRFR.

The EP is discussing the borrowing strategy to finance NGEU through a BUDG own initiative report, expected to be adopted at the November plenary (the procedure can be followed here). The draft report adopted in the BUDG committee on 14 October 2022, underlines that "*the features of NGEU's borrowing will have direct consequences on repayments from the Union budget for decades*" and "*insists, therefore, on optimising the debt service and ensuring a smooth debt profile in order to spread out the future burden evenly*". Furthermore, the report underlines that the credibility and sustainability of NGEU financing will depend on "*its ability to repay the common debt with new own resources in the environmental and corporate sector, rather than with increased gross national income-based contributions from the Member States*". The introduction of new own resources is also deemed necessary in order to avoid cuts to Union programmes in the future.

Such positions are further emphasized in the draft report adopted in the BUDG committee on 4 November 2022 on the proposal for amending the system of own resources of the EU. The report notably underlines that the Commission "*needs to take further timely actions if the proposed new own resources are not adopted or do not generate the anticipated level of revenue for the Union budget. In line with the legally binding Interinstitutional Agreement of 16 December 2020, the Commission is expected to present a proposal for a second basket of new own resources by the end of 2023, which could include a financial transaction tax and an own resource linked to the corporate sector.*"

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