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Delivering on the EU recovery fund

Right after the emergency response to the crisis, France, jointly with Germany, strongly advocated for an ambitious recovery fund to make Europe bounce back stronger than before the crisis. The Commission's proposals followed suit and their formal approval at the July 2020 European Council was a historical breakthrough and a step towards deeper economic integration of the EU in many regards.

Indeed, the Commission had already borrowed on financial markets in the past to on-lend the funds to Member States requesting financial assistance. The latter remained however entirely and ultimately liable for these back-to-back loans. With NGEU, the Commission will still issue bonds – though at a much larger scale - which means Member States will again benefit from the Commission's good credit rating. Yet, this time, common indebtedness (through a temporary and exceptional increase of the own resources ceiling for tackling the Covid19 crisis) - combined with a long grace period before redemption of principal kicks in - allows for swiftly raising significant amounts of money to fund the recovery in the short term while only incurring the costs down the road when growth has returned and is solidly entrenched.

The other defining feature of NGEU is that 390bn€ out of the 750bn€ raised will be passed on to Member States in the form of grants via EU budget programs, and in particular via the new Resilience and Recovery Facility. The allocation criteria ensure that the size of the shares each Member State will receive will depend, to some extent, on the severity of the crisis. As such shares may end up differing from the countries' eventual contributions to the reimbursement of these sums, this mechanism will lead to money transfers to the benefit of Member States most hit by the crisis.

However, several safeguards were attached to this mechanism to insure its legal soundness and political acceptability. First, the instrument is meant to be temporary, one-off and designed exclusively to deal with the effects of the Covid19 crisis. The introduction of new own resources to refund NGEU bonds will also be critical in avoiding an undesirable increase in Member States' contributions to the EU budget between 2028 and 2058. Second, the money will finance, to a large extent, investments in the green and digital transitions and reforms to boost resilience and competitiveness. In this respect, we now need a swift implementation of the RRF to ensure it effectively contributes to the recovery. This is the main challenge ahead and the clear priority. Third, the governance of the RRF was extensively discussed as part of the political agreement. The solution that has been crafted ensures that the Commission and the Member States have a say on the implementation of those measures, while ensuring national ownership in the design and the implementation of national policies. Respecting these principles is key to success.

The implementation of the RRF will help maintain a supportive fiscal stance in the coming years and achieve a more balanced policy-mix after the crisis. Indeed, in the wake of the 2010 sovereign debt crisis, the EU embraced fiscal consolidation too soon, hence hampering the return of growth. This time, backed by the activation of the General Escape Clause in 2021 and its likely extension in 2022, Member States ought to keep in place support measures as long as necessary and coordinate fiscal policies to maintain an expansionary aggregate fiscal stance. The Commission should also address differentiated fiscal guidance to Member States namely to encourage those with fiscal space to invest in support of domestic demand.

Finally, we must foster strong and well-supervised European financial actors and deeper capital to help fund the recovery and also promote the international role of the euro. Therefore we must strengthen the Capital Markets Union by simplifying and bringing closer our 27 legal frameworks and make our Banking Union more credible by simultaneously advancing crisis management, EDIS and cross-border integration. The issuance of NGEU bonds is also an opportunity to create a euro-denominated safe asset which will help in propping up the international role of the euro.