



JÖRG KUKIES

State Secretary,
Federal Ministry of Finance,
Germany

NGEU and RRF – Implementation will be key

In a historic step, EU leaders decided in July 2020 to establish the temporary European Recovery Fund Next Generation EU (NGEU) worth 750 bn Euro – more than 5% of EU GDP in 2019. In its autumn forecast 2020, the EU Commission showed that the EU package could contribute to a significantly quicker and more sustainable recovery, resulting in an up to 2% higher GDP in the coming years. The Recovery and Resilience Facility (RRF) is going to be the main distributing instrument of NGEU with a volume of up to 672.5 bn Euro, representing 90% of total NGEU. The disbursement of funds is conditional on the implementation of reform and investment packages by Member States, set out in individual national Recovery and Resilience Plans (RRP). Member States are currently drafting their RRP that should be submitted to the EU Commission by end of April.

We are, hence, at a crucial moment of the RRF process. Member States should now set up ambitious plans in line with the conditions laid down in the RRF regulation. Those include in particular a climate target of 37% and a digital target of 20% of RRF funds. This means, in total around 250 bn Euro of the RRF will be spent on the green transition in the next years, and over 130 bn Euro on the digital transition. A big step towards making our economies more resilient and fit for the future. Furthermore, the RRF aims at strengthening economic and social cohesion while enhancing the growth potential in the aftermath of the crisis. That requires a country-specific approach. Therefore, Member States will have to address their national challenges and priorities identified in the European Semester. Comprehensive national reforms in combination with investments in key policy areas create a unique chance to emerge substantially strengthened from the crisis.

Challenges for Member States arise inter alia from the time constraints under which adequate reforms and investments need to be identified now. However, Member States that already took decisive steps towards their recovery before the creation of the NGEU (i.e. since February 2020) are allowed to include those in their plans. This will help to make funds flow as soon as possible. Meeting predefined milestones and targets is a prerequisite for the payout of the funds. Given the highly uncertain economic outlook as well as internal imponderables, including possible bottlenecks and absorption problems, there is a risk that some of them might

be missed, especially further down the timeline. However, timing is key to support the recovery effectively. That is why all funds have to be allocated by the end of 2023 and disbursed by the end of 2026. Member States will have the possibility to update their national plans in 2022, when 30% of the RRF funds are newly distributed based on the latest economic data. While necessary, calculating plausible cost estimates and ensuring effective control and audit procedures is also not an easy task.

Against this background, it is important to minimize impediments for the proper functioning of the instrument wherever possible. This means inter alia, that milestones and targets should be defined in a way that avoid frequent amendments of the plans. Attention should also be paid to the administrative burden for Member States when drafting their plans and implementing their projects. At the same time, this is precisely the moment for Member States to not only invest but also address reform bottlenecks. Member States can make requests for payments twice a year, leading to up to over fifty requests per year. Given that, it will be important, that the Commission and the Economic and Financial Committee (EFC), representing the Member States, handle the assessment of the requests in a pragmatic way. The fact that the process builds on well-established structures of the European Semester should help in this regard.

The EU recovery package is the right instrument at the right time. Making the best out of it requires joint efforts from all sides.