IMPLEMENTING THE EU RECOVERY PACKAGE

The Recovery and Resilience Facility is the central part of Next Generation EU, the recovery package to revitalise the EU economy after the COVID-19 pandemic while also addressing the main structural challenges of our time - climate transition, digital transformation and improving economic efficiency. To receive support from the facility, Member States have to submit their recovery and resilience plans to the Commission, which then assesses them against the country specific recommendations and the facility's six pillars.

EU financial assistance from the €672.5 billion Recovery and Resilience Facility aims to power the European economic recovery by supporting reforms and investment projects around the six policy areas: green and digital transition; smart, sustainable and inclusive growth; and social and territorial cohesion.

The session assessed if the national resilience plans are fit-for-purpose. The state of play is encouraging but remaining challenges need to be addressed to ensure that this EU financing will effectively contribute to increasing medium term sustainable growth in the EU.

1. Recovery and Resilience plans: an encouraging state of play

1.1 As of 8 September 2021, 18 national recovery and resilience plans were already endorsed by the Council

A policy-maker explained that the European Commission currently has 25 national recovery and resilience plans that have been notified by the member states. 18 plans were already endorsed by the council. 10 member states have already received pre-financing by the Union for amounts totalling almost €50 billion, and the other eight member states are about to receive it very soon. The implementation phase is commencing.

1.2 The national recovery and resilience plans are ambitious

An official stated that progress has been very strong. The member states are delivering and taking ownership. The European Commission is being very strict on those issues. Enforcing the mandate that the Council gave to the Commission in being tough, strict, and clear on the targets is exactly what was decided on.

An official noted that every plan that is going through has significant ideas and creativity on growth-enhancing measures. The first-round effect of public investments is being increased, as well as structural reforms about removing investment bottlenecks. The Commission has been extremely successful in raising the funding required and the demand for the bonds that are being distributed to finance. There is also a substantial volume of highly rated pan-European debt, which is something that will help along with the Capital Markets Union (CMU), the Banking Union (BU) and other big, strategic projects.

1.3 The example of the Italian Recovery and Resilience Plan

An official explained that Italy has the largest plan in Europe in terms of absolute size, but not relative to gross domestic product (GDP). The negotiation with the Commission has been complex, but Italy is happy with the outcome. The implementation stage is upcoming. Many actions will be done before the end of 2021, such as making good progress in shaping coordination and governance for the implementation of the Recovery and Resilience Plans (RRP). One of the chambers has approved legislation for bringing forward a judicial reform package.

An official underlined that in August Italy received the advance payment of almost €25 billion from the Commission. Italy is expected to deliver by the end of 2021 (?) on 51 milestones and targets a total of over 500. The risks are connected to a very complex and lengthy domestic legislative process. Italy has to review the civil service in depth. A dedicated website has been prepared where the government will give full transparency on the whole plan. A five-year plan is in place. The assessment by the Commission and by the Council is a critical step which needs to be done wisely and in an effective and timely manner.

An official stated that the Next Generation EU (NGEU) programme is output-based, and the reform packages are parts of the milestones and targets that have to be met in order to go on with the payments. Performance indicators are connected to the reforms that need to be implemented. Italy is asked to approve new legislative framework on the judicial system to improve the performance but is also expected to reduce the backlog by a certain percentage by the end of the of the plan. There are quantitative indicators that will be assessed by Italy, the Commission and the Council.

An official explained that work is need on the actions that will provide some boost to productivity that has been lagging behind for too long. The civil service is key, and improvements are needed in the way they are organised. The other area is education; human capital is an area that is included in the plan, which will require a lot of effort and a lot of care.

An official summarised that it is important to examine the risks and opportunity from an overall European perspective. The Commission and the Council need to ensure that the overall planning and implementation is coherent and consistent. Some policy areas that are important for some member states can be looked at differently from a European perspective. More can be done on the ways to interconnect the resources at the member state level and on cross-border projects. That is particularly difficult in the implementation stage, but it is worth giving it a try.

1.4 The example of the French recovery and resilience plan

An official stated that the French implementation respected the Commission's deadlines. It has overshot regarding the green transition, so the top priority and about 50% of the investment plans are oriented towards the climate transition. Significant investment has gone into energy retrofitting of buildings, development of green infrastructure, mobility and technologies. France is investing in innovative sectors such as artificial intelligence, cloud, research and development, and digitisation of the economy. The COVID crisis showed that if a business does not have an internet page it is lagging behind. The national plan is 50% for the environment, 25% for digital and 25% for young people. It is likely that there will be important shifts in the economy after the crisis; the incoming workforce need to be able to find a job so that a social crisis does not occur in the long term.

1.5 Delegated acts to support the monitoring of the implementation of the Recovery and Resilience Facility (RRF) should be adopted soon

A public representative explained that the European Parliament is using its scrutiny power to monitor the situation. A working group has been set up. Member states and governments are trying to speed up the process. There is interest in seeing the final versions of the delegated acts that will come from the Commission, which should include the scoreboard indicators that are aiming at seeing how the RRF is implemented. Caution is needed, as it is important to see how long lasting the recovery will be. It is important to keep the support and be careful in not withdrawing too early, because momentum and the positive fiscal stance needs to continue in the countries that are supporting the demand.

1.6 Markets are positive

An industry representative stressed that the market is very positive and has been from the beginning, because it saw a clear discontinuity compared to the past. Europe behaved timely and had a plan that was clearly coming out of a crisis but was not an emergency plan. It is a large, complex plan. Both the Commission in Brussels and single countries are acting fast and with relentless effort. The Commission has done an excellent job in being 11-times oversubscribed. The introduction of a green/brown framework is also important, because it is a huge, important market. The market is fully bought in, but the amount is not that significant.

An industry representative added that the markets are currently positive. For the last 10 years the investment rate in Europe dropped by almost 1% of GDP. COVID has made that worse, so it is hard to see how the growth trend can be changed without going back to compensate for the lack of investment. It is hard to see how growth can be reignited without a well-thought and sizable investment plan. If there is a way to do this for less than €750 billion then it should be explained how the trend in growth is going to be changed with a smaller package. The working assumption is that Europe already has very high leverage in more countries than others. This has an effect on indebtedness. Markets are positive because if the RFF change the growth trend there is no problem in getting the money back.

An official confirmed they are happy with the way things are developing. The Commission has done everything right so far and showed that it can come up with toughness when it comes to the right sort of plans. The area of targets and milestones is now being entered, and countries are curious to find out how they will work in the Council with the proposals from the Commission.

2. Remaining challenges and success factors

2.1 Main challenges and priorities to make the European recovery plan a success and for it to boost potential growth

2.1.1 Timing

A policy-maker stated that the time for spending these amounts is until 2026, which is extremely short when looking at the amount of GDP percentages for some countries and their track record for absorption of the amounts. In many member states there have been very far-reaching measures to try to speed up the absorption, by removing investment bottlenecks and by simplifying the procedures. The European Commission is equipped with technical support and the close help it intends to give member states in that process, but it will be a challenge that should not be underestimated.

An official agreed that impressive work has been done in delivering the European recovery plan, and there are priorities in the coming months to ensure it remains a full success. The first is to ensure swift adoption of the remaining recovery and resilience plans to foster a coordinated rebound among member states, provided that they respect the regulations and requirements. Disbursement should not be delayed for purely administrative or bureaucratic reasons.

2.1.2 Ownership

A policy-maker noted that the plans are member states' plans, which is beneficial. The country-specific recommendations of the European Semester have given an agenda, but the member states have chosen the reforms and the investments that are in those plans. They will have to be delivered, but the ownership will have to be increased because of timing reasons. The Commission needs to have a partnership approach with the member states to ensure those reforms and investments are successful on the ground.

An official pointed out that it is crucial to ensure the measures included in the plan are effectively implemented to keep pressure in the system. There is no doubt that funds will eventually be absorbed. It is a major challenge, but after funds are absorbed, the hope is that they will prove very efficient in enhancing growth opportunities.

2.1.3 The importance of social measures

A public representative stressed that EU Parliament is insisting on the social aspect. There is a lot of interest and a lot of concerns in Parliament, because looking at and investing in something related to education is not just the social aspect as it is presented. When reforms to boost potential growth are discussed, parliament always discusses the reform of the judicial system, especially civil law, bureaucracy, and speeding up the procurement process. It is important to have a business-friendly environment, but the medium to long-term competitiveness of a country is based on the skills and education that Parliament are providing. Achieving the green transition and the digital transformation cannot be done without investment in education and upskilling.

2.1.4 The cross-border dimension of the EU Recovery plan remains challenging

An official noted that they had been hoping to see more cross-border activity in transportation and electricity grids, as a question would be how to deploy and transport the electricity through European grids and several member states. Another question is how to get the planning permissions quicker to generate wind energy, but to also make sure that there is an efficient distribution network to electrify automotive fleets.

A policy-maker added that the cross-border dimension was very difficult for member states to put in their plans, but that does not mean that those plans will not deliver on EU policy and will not contribute together to the single market. That is what is being done in the implementation phase. It has to be done in a consistent manner and will be seen more clearly as the Commission sets out more transparently what the internal market effort has to be accompanying the implementation plan.

2.1.5 Avoiding a stigma around NGEU loans and ensure that member states want to use them

An industry representative stated that the market needs to see that the plan can help Europe become competitive again. A lot has been decentralised at national government level, but reassurance is needed that the entire €750 billion is used. If Europe wants to be competitive again it cannot be just decentralised to single countries. Single countries need to do their structural reform, but competitiveness in Europe is also part of Europe itself. If Europe cannot complete the BU then the credibility of the rest is in question.

A policy-maker explained that the key question is how attractive the loans will be for many member states. When the success of the growth operation is seen, it is expected to get more attractive by the day. For the grants and loans already taken, it is a question of absorption. Everything is being done to ensure the bottlenecks are removed, the reforms are concluded, and the investments are proceeding

2.2 Success factors

2.2.1 The milestones and targets agreed by the Council shall not be watered down

An official noted that funds will need to be channelled into the productive parts of the economy. Reaching the targets and milestones will create additional growth and productivity. It is unclear whether investing in digital technologies and the green transition will have the beneficial effects that are expected, but on the green transition there is no choice. It is unknown whether green technologies actually create welfare and jobs. It is not enough to just invest in digital, as there needs to be a way to employ all these digital tools and technologies in a way that actually enhances productivity.

An official added that absorption capacity will pose a key challenge in member states with a high allocation. Many member states have passed or committed to pass important enabling reforms to strengthen their administrative capacity and efficiency of the public sector. The Commission shall apply the necessary stringency when it comes to pay out requests, only approving them when all the proposed milestones and targets have been completed.

An industry representative pointed out that the challenge is whether Europe is going to change the growth trend. The market knows it will take years, but it will monitor the situation. A lot of money needs to be well invested. European infrastructure, market infrastructure and digital infrastructure are needed.

2.2.2 The use of proceeds must be done properly and transparency throughout the process is essential

A policy-maker explained that there are packages of milestones and targets for the next five years that will come together once or twice a year to be subject to payment. Member states will have to demonstrate that they have fulfilled the milestones and targets, delivered the reforms that achieve the objectives described in the plan, made progress on the investments that were foreseen, and hit targets on the investment. It is important for the member states, the Commission and the stakeholders on the ground to work together and agree very early on the content of the reforms. There has been a lot of transparency throughout the process.

In response to an official, a public representative stressed that transparency is one of the most important things for parliament and was the reason why it wanted to have scrutiny. It is pushing to have more data and information at the more disaggregated level, as parliament needs to achieve the objectives it gave itself last year. There is also very positive cooperation with the Commission.

2.2.3 Effective mobilisation of member states and relying of International and National Promotional Banks

An IFI representative stated that the European Bank for Reconstruction and Development (EBRD) is an operational institution and will work as much as possible with member states to make that a success. Some elements such as technical assistance have to be embedded in the process of implementation. The quality of project and having the local capacity to bring them to fruition is even more important than the financing. Delegation of funds to institutions which know how to deploy them is important, as is putting the implementation where the expertise is.

A policy-maker noted that delegation is possible and is foreseen on a number of plans towards different types of financial institutions, such as the EBRD, national development plans and the European Investment Bank (EIB). The process should not be delayed and the safeguards within the plan for the quality of the investment delivery need to still be there. Technical assistance is on offer, both by the Commission and by the international organisations that are active in that field.

An IFI representative explained that the original ambition of creation of the European Bank for Reconstruction and Development (EBRD) was about investment in policy and reforms. That is fundamentally country-specific, as coming out of the crisis there is a lot of divergence in different situations across member states. It is sector-specific. The pan-European dimension is very important and is not easy to embed in the plan, because the plans are proposed by member states. Institutions like the EBRD can help connect the actors of these plans.

An IFI representative concluded that it is the role of the Commission to build European public goods, which will be extremely important to create sustainable growth. The EBRD's strategy is based on green, digital and inclusion. The inclusion dimension is an overarching objective that should be there if Europe wants to do the green transition and if it wants to make the digital transition something which is socially acceptable and which brings productivity.

2.2.4 The capacity constraints on a great deal of materials are manageable

An official stated that generally the target of productivity enhancement is the right one, and the right approaches are being intensively discussed. Almost every plan contains measures to improve the carbon efficiency of residential buildings by investing billions, in pretty much every member state, on better insulation and better energy efficiency. If everyone does that at the same time then there will be capacity constraints in an already capacity constrained construction industry in almost every member state. There are already capacity constraints on a lot of materials, so it will be a question of timing and staggering to get the money deployed and not selectively run into capacity constraints in individual industries. That is manageable.

2.2.5 The question of how the mutually guaranteed EU debt will be repaid cannot be left out of sight

An official explained that own resources is part of the deal, and the Commission's proposals are anxiously awaited. There is a lot of discussion, especially on the climate-related proposals. Part of the deal is that a substantial amount of the own resources will be used to pay back the debt, which is very positive, as it could be a way to finally get consensus and unanimity among member states to think about how the own resources can be 'Europeanised' for future Multiannual Financial Frameworks (MFFs).

A policy-maker underlined that own resources are crucial and intensive work is ongoing. The proposals have been slightly postponed, but the Commission is still working on both corporate taxation and on the green side. The Fit for 55 package is already giving good indications of the direction of trave.