

# NGEU: a game changer for the European Union?<sup>1</sup>

*Note written by Didier Cahen*

## Executive summary

On the 21st of July 2020, in response to the unprecedented Covid-19 crisis that took the world by surprise, the Council of the EU agreed upon a massive and unprecedented recovery plan: Next Generation EU. The plan aimed at kick-starting the European economy and supporting the energy and digital transitions in order to make the EU more resilient to future crises. The announcement of this program also aimed at reassuring markets about the EU's stability and strength, through a show of solidarity among Member States<sup>2</sup>.

NGEU comprises a combination of loans (**€385 bn**) and grants (**€217 bn**) which Member States can call upon to finance national projects. The fund came into effect in February 2021 and is set to end in August 2026<sup>3</sup>. It cannot be understated how revolutionary NGEU was for its time due to being the first EU program financed by common debt issuance. Many political commentators have called it the EU's Hamiltonian moment.

Currently, despite being an initiative grounded in a qualitative and performance-based approach, NGEU remains significantly underutilized compared to its ambition. Its implementation has proven slower and more complex than expected, reflecting heavy administrative procedures and absorption constraints in several Member States.

At first glance, NGEU appeared to have a positive effect on several Southern European countries such as Spain, Italy and Portugal where investment levels increased compared to the pre-pandemic period. However, these additional capital flows have not yet generated measurable improvements in labour productivity. Productivity growth has slowed in Spain relative to the pre-Covid-19 phase and has even contracted in Italy as of the end of 2025. These issues raise the question of NGEU's efficacy. So far, NGEU has been slow to generate the

productivity gains that were hoped for at its inception. This both suggests critically inefficient resource allocation and a structurally slow disbursement issue.

Although NGEU has successfully secured market access for its financing, the sharp rise in interest rates since 2022 has fundamentally altered its long-term budgetary implications. **Annual interest and principal repayments are projected at around €24 billion from 2028**, or approximately **15% of the EU budget**, thereby transforming a temporary recovery tool into a **permanent** and politically salient expenditure item for the EU's next Multiannual Financial Framework (2027 onwards). This shift redirects the debate from **borrowing capacity to growth effectiveness** and fiscal sustainability: while investment has increased in several Member States, productivity gains remain **uneven**, raising uncertainty about whether NGEU will generate sufficient long-term growth dividends to ensure its repayment.

The grant component of NGEU also entails a specific repayment mechanism with important distributive implications. Unlike loans, which are repaid by beneficiary Member States, grants are financed through common EU borrowing and repaid collectively via the EU budget. Repayments are therefore allocated according to each Member State's contribution to the EU budget which is largely based on Gross National Income (GNI), rather than according to the amounts received. This implies that some countries will ultimately be net contributors to the repayment of NGEU grants, while others will remain net beneficiaries, reinforcing the redistributive dimension of the programme and potentially intensifying political sensitivities during the repayment phase. As of 2025, Portugal, Italy, Greece and Spain were the recipients of 78% of available funds whilst contributing to only 28% of GDP<sup>4</sup>.

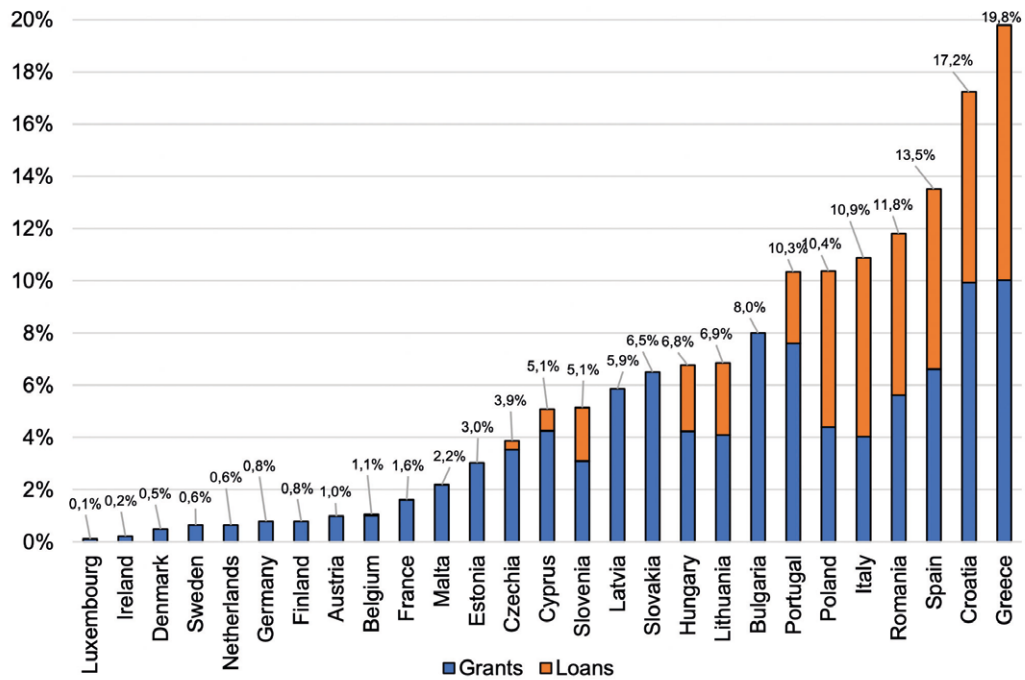
1. The author would like to thank Azra Ersevik (Master's student, Sciences Po Paris and Université Paris Nanterre) and Kiann Conlon (Master's student, HEC & Sciences Po) for their valuable contribution to this chapter.

2. European Commission, Europe's moment: Repair and Prepare for the Next Generation, Press Release IP/20/940, 27 May 2020, available at: [https://ec.europa.eu/commission/presscorner/api/files/document/print/en/ip\\_20\\_940/IP\\_20\\_940\\_EN.pdf?utm\\_source=chatgpt.com](https://ec.europa.eu/commission/presscorner/api/files/document/print/en/ip_20_940/IP_20_940_EN.pdf?utm_source=chatgpt.com)

3. European Commission, "the EU as an issuer – the NextGenerationEU transformation", EU budget policy brief, July 2022.

4. Storbeck et al., Financial Times, Reversal of fortunes: Europe's thriving south and stagnant north, 14/01/2025.

**CHART 1.**  
RRF funding (loans and grants) to be received by EU Member States, % of GDP



Source: EU Commission, NGEU tracker

The collective repayment of the programs' grant component will only further intensify distributive tensions, particularly in the absence of robust new own resources. Essentially, NGEU exposes the **limits of debt mutualisation without deeper fiscal federalisation**. Designed as an exceptional crisis response rather than a permanent fiscal instrument, NGEU now faces a decisive post-2028 stress test in which its sustainability will depend less on continued market confidence than on Member States' willingness to sustain durable fiscal commitments and on the Union's capacity to deliver visible economic convergence that can anchor the political economy of common debt over time.

### 5.1 NGEU: An Unprecedented €800 bn joint EU Response to Covid-19 supporting Green and Digital transitions

NGEU builds on earlier EU crisis-response instruments and embeds the post-pandemic recovery within the Union's longer-term objectives of climate neutrality and strategic autonomy, notably through its alignment with the European Green Deal and the Fit for 55 package.

Whilst NGEU is comprised of multiple investment vehicles totalling over €800bn, **the centrepiece of NGEU is the Recovery and Resilience Facility (RRF)**. The RRF represents €577 bn (5.2% of EU-27 GDP) (2019) and aims to finance the green and digital transitions: at least 37% of the RRF is dedicated to climate-related expenditure, with another 20% to support digitalisation.

Beyond the RRF, NGEU also includes REPowerEU. This fund was introduced in October 2022 in response to the energy shock induced by Russia's invasion of Ukraine. REPowerEU focuses on energy savings, renewable deployment and supply diversification.

Considering the extraordinary nature of NGEU and the politically sensitive ramifications of common debt issuance, a strong emphasis was placed on transparency and efficacy of funds. That is why NGEU funds such as the RRF operate as performance-based instruments: disbursements were conditional on the satisfactory fulfilment of predefined milestones and targets embedded in national recovery and resilience plans rather than on individual projects' eligibility. Grant allocations also reflect factors such as population size, GDP per capita and average unemployment rates. To safeguard the integrity of the framework, the Commission had the power to suspend or interrupt payments in case of deficiencies and apply ex post financial corrections when failures are identified.

### 5.2 NGEU financed by common debt: the largest EU bond-funded programme to date

NGEU is financed primarily through common debt, marking an unprecedented step in EU budgetary history. For the first time, large-scale common borrowing and a degree of risk-sharing have become central features of an EU spending programme. To fund NGEU, the European Commission issued debt through a diversified strategy combining short and

long-term instruments. These include EU-Bills and EU-Bonds across a wide range of maturities, as well as a significant share of green bonds.

Since the launch of SURE and NGEU, EU bond issuance has expanded rapidly. Outstanding EU debt rose from less than €50 billion before the pandemic to around €580 billion by the end of 2024 and approximately €695 billion by mid-2025<sup>5</sup>. By the end of NGEU, total issuance is expected to reach between €800 billion and €950 billion, placing the EU among the largest issuers in euro-denominated bond markets<sup>6</sup>. Despite the sharp rise in interest rates since 2022, EU bond issuance has proceeded smoothly, with continued strong investor demand across maturities. Green bonds play a central role in the NGEU funding strategy.

The EU plans to finance up to 30% of NGEU, around €240 billion, through green bonds dedicated to eligible climate-related expenditure, including clean energy, energy efficiency and sustainable transport. By early 2025, around €70 billion of NGEU green bonds had been issued. This strategy has positioned the EU as the world's largest green bond issuer and a major player in the euro-denominated debt market.

**The debt raised by the EU Commission to fund NGEU is backed by the European Union's general budget<sup>7</sup>.** This means that the European Commission is responsible for repaying the bonds using EU budget resources. In practice, if the Commission were unable to repay its debts from its usual budget revenue, it could request that Member States cover the shortfall up to the budget ceiling.

To reinforce this guarantee provided by the EU budget, the ceiling on the EU's own resources (the maximum amount that the Commission can request from Member States) has been temporarily increased by 0.6% of the EU's GNI, in addition to the permanent ceiling of 1.4%. This additional margin ensures that the EU can always meet its repayment obligations, whatever the circumstances.

Therefore, the Member States indirectly guarantee the debt through their commitment to contributing to the EU budget within the framework of the own resources ceiling.

In other words, net contributors to the EU budget are surreptitiously financing structurally weak countries most affected by the Covid-19 crisis (Italy, Spain) *i.e.* in a manner hidden from public scrutiny.

### 5.3 NGEU Current disbursement and key data of NGEU: an overview in numbers

By the end of January 2026, all 27 National Recovery and Resilience Plans (NRRPs) had been approved by the European Commission and formally adopted by the EU Council. All Member States also submitted amendments to their plans, primarily to integrate REPowerEU chapters aimed at strengthening energy security and addressing implementation bottlenecks in the final phase of the programme.

The total envelope of the Recovery and Resilience Facility (RRF) currently stands at €577 billion, reflecting both initial allocations and subsequent revisions. The envelope comprises €360 billion in grants and €217 billion in loans. The grant is funded by €338 billion coming from the original RRF allocation, complemented by €20 billion stemming from the auctioning of allowances under the Emissions Trading System (ETS) and €2 billion from the Brexit Adjustment Reserve (BAR)<sup>8</sup>.

As of today, cumulative disbursements amount to approximately €394 billion, including €238 billion in grants and €156 billion in loans. This amounts to around two-thirds of the overall RRF envelope.

**TABLE 1.**  
RRF financial envelope and cumulative disbursements (January 2026)

	Total RRF	RRF Grants	RRF Loans
Available (EUR bn)	577	360	317
Disbursed (EUR bn)	394	237.53	155.88
Percentage disbursed	68%	66%	54%

Source: EU Commission

Notes: amounts are expressed in 2026 prices. The €360 billion in ent Reserve grants is split in €338 billion of original RRF grants, €20 billion in ETS grants and €2 billion in BAR (Brexit Adjustmts). The loan envelope reflects revisions recorded by end-January 2026, following the decommitment of approximately €74 billion in loans by several Member States

These data describe the situation as of January 2026, while the legal deadline for the completion of RRF-funded reforms and investments is set for August 2026. The programme is therefore in its final implementation phase, with a significant share of approved investments still to be executed over a compressed timeframe. This points to substantial progress in the mobilisation of NGEU resources, but they provide only a partial picture of the programme's effective economic transmission.

5. S&P Global Ratings. RatingsDirect: European Union and European Atomic Energy Community. Rapport, 30 juin 2025. PDF. Commission européenne (Luxembourg/Strasbourg). [https://commission.europa.eu/system/files/2025-07/RatingsDirect\\_EuropeanUnionandEuropeanAtomicEnergyCommunity\\_3398360\\_Jun-30-2025.pdf](https://commission.europa.eu/system/files/2025-07/RatingsDirect_EuropeanUnionandEuropeanAtomicEnergyCommunity_3398360_Jun-30-2025.pdf)

6. European American Chamber of Commerce (EACC), "European Commission to issue €90 billion in long-term EU-Bonds in the first half of 2025", 11 décembre 2024, communiqué, <https://eaccn.eu/european-commission-to-issue-e90-billion-in-long-term-eu-bonds-in-the-first-half-of-2025/>

7. Germany is the largest contributor to the EU budget (~22.5%), followed by France (~18.3%) and Italy (~12.9%).

8. European Commission, The Recovery and Resilience Facility : [https://commission.europa.eu/business-economy-euro/economic-recovery/recovery-and-resilience-facility\\_en](https://commission.europa.eu/business-economy-euro/economic-recovery/recovery-and-resilience-facility_en)

Disbursement ratios reflect the formal fulfilment of milestones and targets, but do not necessarily capture the pace, balance or quality of on-the-ground execution. In several Member States, payments have advanced faster than project implementation, with effective expenditure remaining backloaded as the deadline approaches.

### **Execution and absorption constraints: the binding limitation of NGEU.**

Despite its innovative, performance-based design, the implementation of NextGenerationEU has proven slower and more complex than initially anticipated. Administrative bottlenecks, heavy documentation requirements and delays in the assessment of payment requests have constrained execution across Member States. The coexistence of the RRF with other EU instruments, notably REPowerEU and traditional cohesion funds, has further increased the procedural complexity and strained administrative capacities, particularly at regional and municipal level. In other terms, the fragmentation of NGEU into different funds appears to seriously inhibit its efficacy and flexibility due to the additional administrative burdens.

As the August 2026 deadline approaches, implementation risks have intensified. Inflationary pressures and changing economic conditions have forced some projects to be rescaled or revised, while political transitions have led to renegotiations of national plans. Unlike previous EU programmes, NGEU requires near-complete absorption within a compressed timeframe of five and a half years, amplifying long-standing weaknesses in project preparation, coordination and administrative execution.

In practice, disbursements primarily reflect formal progress against milestones and targets, rather than effective expenditure or economic impact. Information on actual costs, implementation speed and efficiency remains limited, making it difficult to assess the real macroeconomic transmission of NGEU-funded investment. This gap between financial flows and on-the-ground execution indicates that the binding constraint of NGEU has shifted from financing capacity to execution capacity.

Beyond execution constraints, recent developments also highlight limits to EU common borrowing on the demand side. As EU borrowing conditions degraded over 2023–2025, several Member States chose not to draw on the loan component of NGEU. By early 2026, around €74 billion in recovery loans had been forgone<sup>9</sup>. As sovereign spreads narrowed

relative to the Commission's funding costs, the marginal financial advantage of EU loans diminished, while administrative complexity and tight spending deadlines remained unchanged.

Taken together, these elements confirm that NGEU's effectiveness now hinges less on the availability of resources than on Member States' ability to convert approved allocations into timely, high-quality investment and reforms. They also contribute to increasingly differentiated implementation trajectories and macroeconomic outcomes across countries.

### **5.4 Italy and Spain are the main recipients of the RRF**

Italy and Spain together account for the largest share of RRF resources and therefore provide a relevant benchmark for assessing how differences in national execution conditions shape the macroeconomic transmission of NGEU.

**By the end of NGEU's lifecycle, Spain is set to receive €163 billion (€79.8 billion in grants and €83.2 billion in loans) : 13.5% of its GDP and 28.9% of RRF. As of January 2026, Spain had already received €55.1 billion in RRF grants, representing approximately 69 % of its total grant allocation (€79.8 billion).** These numbers highlight the sheer scale of RRF support to the Spanish economy.

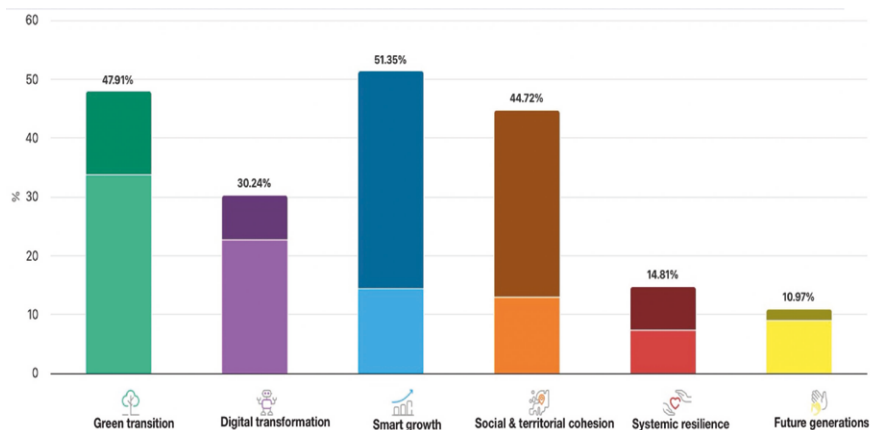
In terms of planned expenditure, Spain's RRF remains strongly aligned with the RRF's strategic priorities. Measures tagged under "smart, sustainable and inclusive growth" account for the largest share (74,48%), alongside substantial allocations to the green transition (48,25%) and digital transformation (22%). As reforms and investments are systematically tagged under both primary and secondary policy objectives, cumulative shares exceed 200%, reflecting the cross-cutting nature of the plan. Actual disbursements display a different timing. By the beginning of 2026, payments remained concentrated in growth and cohesion related pillars (€20.19 billion and €12.8 billion respectively), while green (€13.10 billion) and digital (€7.52 billion) disbursements lagged behind their programmed shares. This pattern reflects a sequencing effect rather than a misalignment with RRF objectives, as climate and digital intensive investments typically involve longer planning and implementation cycles.

Overall, Spain combines a strong formal compliance with RRF priorities and a relatively high absorption with a more gradual rollout of green and digital

9. Paola Tamma and Barney Jopson, "EU states spurn €74bn in unused Covid recovery loans", Financial Times, <https://www.ft.com/content/92168da8-f822-4b3b-adc5-3f0f6b45987a>

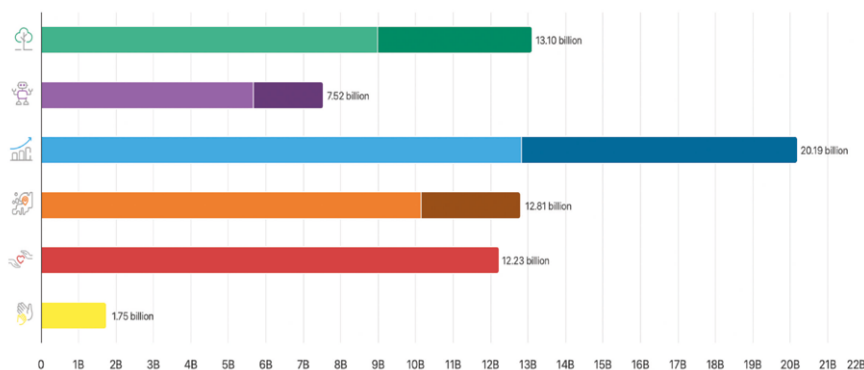
**CHART 2.**  
Spain's RRP expenditures

Chart 2a : Share of the plan's estimated expenditure contributing to each policy pillar



This graph displays the share of the recovery and resilience plan's estimated contribution to each policy pillar. As each measure contributes towards two policy areas of the six pillars (primary and secondary assignments), the total contribution to all pillars displayed in the graph amounts to 200% of the RRF funds to the Member State.

Chart 2b : Disbursements per pillar



08 May 2024: The data in the 'Disbursements per pillar' graph was revised due to a technical issue. Each disbursement reflects progress in the implementation of the RRF, across the six policy pillars. This graph displays how disbursements under the RRF relate to the pillars. The amounts were calculated by linking the milestones and targets covered by a given disbursement to the pillar tagging (primary and secondary) of their respective measures. Over time, the pre-financing that Member States have received is offset with each payment that is disbursed. Therefore, the amounts per pillar in the above graph reflect the gross payments, i.e., the actual disbursements under each instalment together with the corresponding shares of pre-financing that has been cleared, i.e., set off with each paid amount. The amounts are updated after each payment.

Source: European Commission

spending. While this has had limited the immediate macroeconomic impact, available evidence suggests a credible and progressive transmission of NGEU-financed investment, conditional on timely completion of remaining projects ahead of the 2026 deadline.

**Italy is the largest beneficiary of the RRF, with a total allocation of €194.4 billion, or 10.9% of its GDP and 26.1% of RRF. By the beginning of 2026, Italy had received €54.1 billion in grants and €99.1 billion in loans, bringing total disbursements to around €153 billion. This represents around**

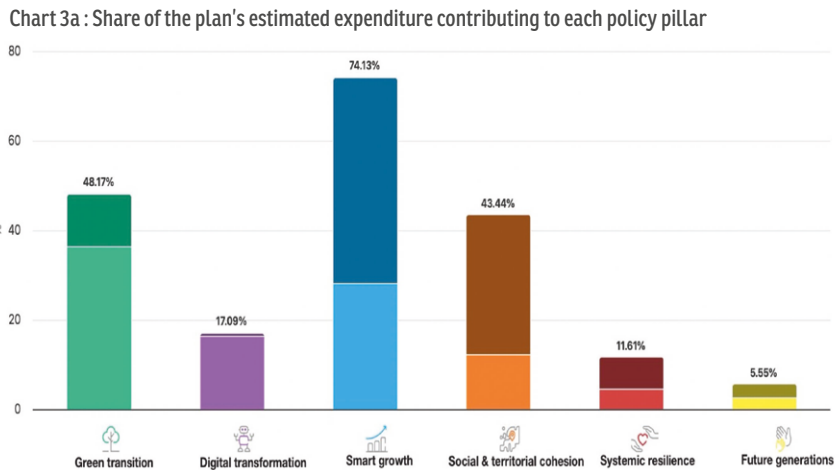
**79% of its total allocation and roughly 7% of Italy's nominal GDP in 2025 (based on IMF estimates of \$2.39 trillion).<sup>10</sup>**

However, effective spending remained significantly lower, at around €86 billion. This amounts to approximately 44% of Italy's total RRF allocation (€86 bn / €194.4 bn ≈ 44.2%), or roughly 56% of the funds already disbursed (€86 bn / €153 bn ≈ 56%), highlighting a **persistent gap between formal disbursements and effective on-the-ground execution.**<sup>11</sup>

10. IMF, World Economic Outlook Database, April 2024 edition, variable NGDPD (Nominal GDP, current prices), Italy, 2025 projection. [url.me/gMQZ3V](http://url.me/gMQZ3V)

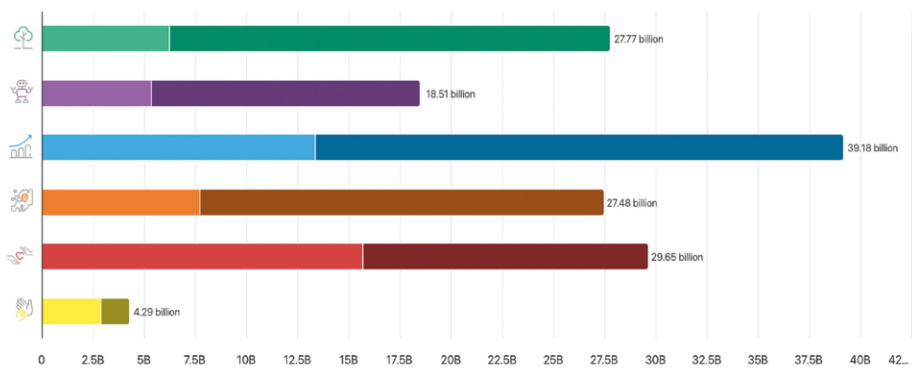
11. European Parliamentary Research Service. China's Belt and Road Initiative – A Human Rights Assessment. EPRS Briefing 2021/698847, European Parliamentary Research Service, European Parliament, July 2025. [https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/698847/EPRS\\_BRI\(2021\)698847\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/698847/EPRS_BRI(2021)698847_EN.pdf). [https://ec.europa.eu/economy\\_finance/recovery-and-resilience-scoreboard/country\\_overview.html?country=Italy](https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/country_overview.html?country=Italy)

**CHART 3.**  
Italy's RRP expenditures



This graph displays the share of the recovery and resilience plan's estimated contribution to each policy pillar. As each measure contributes towards two policy areas of the six pillars (primary and secondary assignments), the total contribution to all pillars displayed in the graph amounts to 200% of the RRF funds to the Member State.

**Chart b: Disbursements per pillar**



08 May 2024: The data in the 'Disbursements per pillar' graph was revised due to a technical issue. Each disbursement reflects progress in the implementation of the RRF, across the six policy pillars. This graph displays how disbursements under the RRF relate to the pillars. The amounts were calculated by linking the milestones and targets covered by a given disbursement to the pillar tagging (primary and secondary) of their respective measures. Over time, the pre-financing that Member States have received is offset with each payment that is disbursed. Therefore, the amounts per pillar in the above graph reflect the gross payments, i.e., the actual disbursements under each instalment together with the corresponding shares of pre-financing that has been cleared, i.e., set off with each paid amount. The amounts are updated after each payment.

Source: European Commission

While Italy's NRRP is formally aligned with RRF climate and digital objectives, 47.9% of planned expenditure tagged to climate objectives and 30.2% to digital transformation when accounting for primary and secondary policy tagging, actual disbursements remain skewed toward other pillars. As of early 2026, payments were concentrated in "smart, sustainable and inclusive growth" (€39.2 billion), health and resilience (€29.7 billion) and social and territorial cohesion (€27.5 billion), while the green transition (€27.8 billion) and digital transformation (€18.5 billion) lagged behind their programmed weight.

Although disbursements accelerated in 2025 and further progress is expected ahead of the August

2026 deadline, Italy's NGEU-related growth effects are therefore likely to remain backloaded and contingent on sustained improvements in administrative capacity and project execution.

There are numerous factors that have contributed to these delays. First and foremost, Italy suffers from structural administrative weaknesses. There is a significant lack of public engineering capacity. Moreover, the public procurement procedure has historically been cumbersome. Project monitoring and oversight is lacking. Many investments such as schools, hospitals and local infrastructure rely on a multitude of administrative strata (municipalities, provinces, regions and local public operators).

These issues have led the Italian Court of Auditors and the Bank of Italy to call for stronger administrative capacity and better financial planning. Centro Studi Confindustria has also expressed concern over the effectiveness of the Transition 5.0 measure and the risk of underspending by the deadline<sup>12</sup>. There is a silver lining however. The implementation of NGEU had led Italy to undertake numerous reforms, especially in the speed and efficiency of the judicial branch.

### 5.5 Has NGEU succeeded in accomplishing its objectives?

Before examining country-specific implementation patterns, it is necessary to assess whether the increase in productive investment following the launch of NGEU has led to measurable productivity gains in the Euro area countries that benefited most from it.

The charts above highlight a central paradox in the post-pandemic Euro area recovery. While NGEU has mechanically supported investment in several

Southern European economies, notably Spain, Italy and Portugal, this investment surge has not resulted into measurable gains in labour productivity.

As shown in Chart 4a, annual net corporate investment (excluding the consumption of fixed capital, thus reflecting the flow of new investment) increased markedly in Southern European countries between the pre- and post-Covid-19 periods. In Italy, it turned positive (from -0.2% to 1.2%); in Portugal, it almost doubled (from 2.67% to 4.36% of GDP); and in Spain, it remained high but did not increase further.

However, this increase in investment does not appear to have been accompanied by commensurate productivity gains (see Chart 4b). In Italy, for example, average annual labour productivity growth, which had been flat before the pandemic, turned negative between 2023 and 2025. In Spain, productivity growth slowed from 0.4% between 2014 and 2019 to 0.3% between 2023 and 2025. At the aggregate level of the Euro area, productivity growth weakened from 0.6% to -0.1%.

**CHART 4.**  
Corporate investment and productivity across the EA Member States

Chart 4a : Net corporate investment, % of GDP, average annual during the period

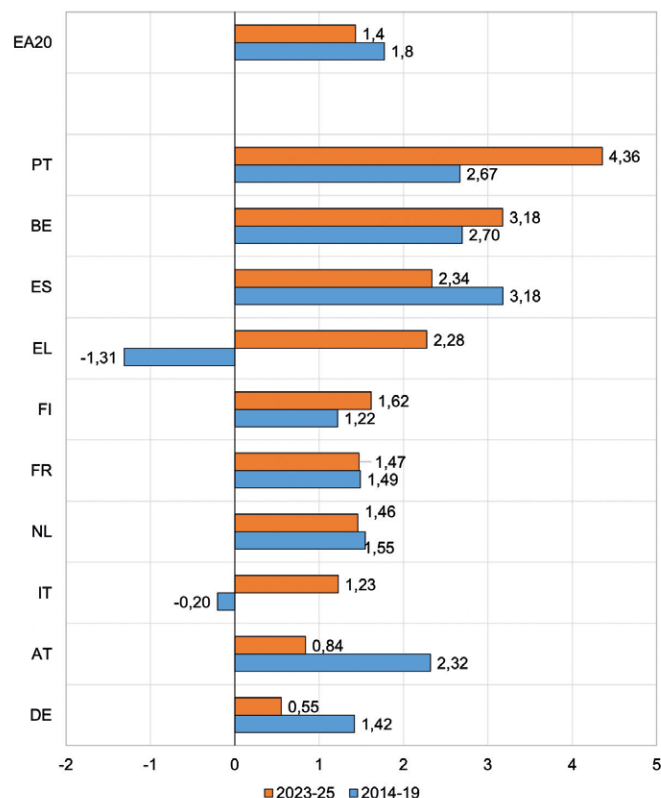
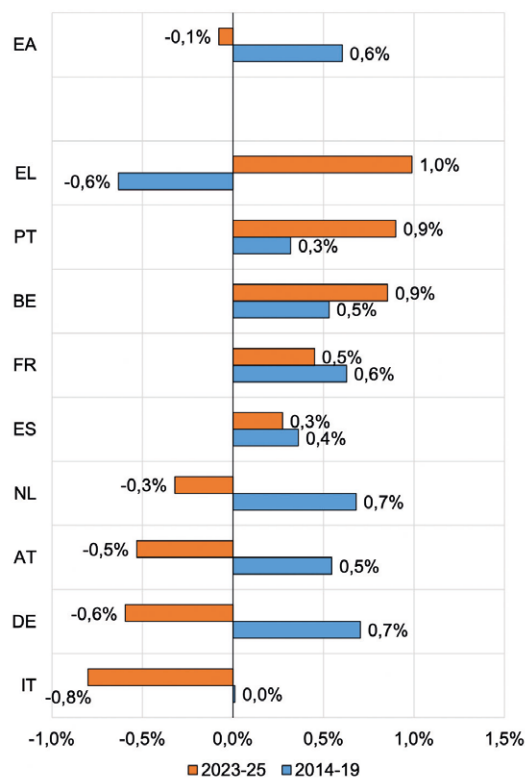


Chart 4b : Labour productivity, average annual change, %



Source: Ekomics, based on data from Eurostat

12. Banca d'Italia. 2025. Economic Bulletin No. 2/2025. Rome: Banca d'Italia. [https://www.bancaditalia.it/media/notizia/economic-bulletin-no-2-2025/?com.dotmarketing.htmlpage.language=1&utm\\_source=c](https://www.bancaditalia.it/media/notizia/economic-bulletin-no-2-2025/?com.dotmarketing.htmlpage.language=1&utm_source=c)

However, this increase in investment does not appear to have been accompanied by commensurate productivity gains. In Italy, average annual labour productivity growth, which had been flat before Covid-19, turned negative between 2023 and 2025. In Spain, productivity growth slowed, from 0.4% between 2014-19 to 0.3% between 2023-25. At the Euro area aggregate level, productivity growth weakened from 0.6% to -0.1%.

This divergence between capital formation and productivity performance raises questions regarding the composition and efficiency of post-pandemic investment. According to the European Commission's assessment of the RRF, the growth impact of recovery funds depends critically on project selection, administrative capacity and the timely implementation of complementary reforms conditions that influence whether higher investment translates into durable productivity gains<sup>13</sup>.

## 5.6 Italy has faced implementation constraints with NGEU funds, whilst Spain has used them more efficiently

**Spain: a gradual but observable macroeconomic transmission supported by investment additionality**

As stated previously, Spain's Recovery and Resilience Plan is one of the largest under the RRF, reflecting both the severity of the pandemic shock and the allocation criteria applied at EU level. By 2026, Spain had absorbed a substantial share of its grant envelope following the fulfilment of milestones and targets, while loan take-up remained more limited and backloaded. Available macroeconomic estimates suggest that the programme is already having measurable effects: simulations by the Observatoire français des conjonctures économiques (OFCE)<sup>14</sup> point to a GDP increase of around 1.2 percentage points over 2021–2031, with peak effects in the mid-2020s, while CaixaBank Research<sup>15</sup> estimates a cumulative impact of 2–3% of GDP by 2026. Firm-level survey evidence analysed by the Banco de España and the Real Instituto Elcano indicates a high degree of additionality, with a large share of supported firms reporting that investments would have either not have occurred or been scaled down without RRF funding.

Spain relied on a relatively centralised governance structure and sequenced reforms and investments aimed at reducing early administrative bottlenecks, prioritising structural reforms before scaling up major investment projects. The European Commission has highlighted the strong climate and digital orientation of the plan, particularly in sustainable transport, renewables and digital public services. Implementation has nevertheless been uneven, with delays in capital-intensive projects and rising absorption risks as the August 2026 deadline approaches. Moreover, Spain's solid post-pandemic growth cannot be attributed to NGEU alone: cyclical factors such as tourism, immigration and favourable energy prices have also played an important role, while longstanding productivity weaknesses and investment gaps may limit the programme's long-term structural impact.

**Italy: high nominal disbursements and weak macroeconomic transmission**

Italy, in contrast to Spain, illustrates the limits of large scale financing in the absence of adequate execution capacity. Although it is the largest beneficiary of the Recovery and Resilience Facility, the translation of disbursements into effective expenditure has been uneven: by early 2026, roughly €153 billion had been received<sup>16</sup>, but only about €86 billion had been spent, leaving a persistent absorption gap. This timing mismatch has also produced temporary macro-fiscal effects, including a return to a small primary surplus in 2024–2025, partly because transfers preceded actual investment outlays.

Macroeconomic projections confirm the limited short-term growth impulse. The European Commission expects GDP growth to remain modest at below 1% in 2025–2026, while public debt is projected to edge up towards 137–138% of GDP<sup>17</sup>. Private forecasts by Prometeia<sup>18</sup> similarly suggest that NRRP-related investment will peak only in 2026, implying backloaded macroeconomic effects. Structural bottlenecks such as administrative fragmentation, complex procurement rules and the heavy reliance on tax incentives have limited these productivity spillovers. Although implementation accelerated in 2025, the concentration of spending in the programme's final phase raises risks for both absorption capacity and expenditure quality ahead of the August 2026 deadline.

13. European Commission, Recovery and Resilience Facility Annual Report 2024, Brussels, 10 October 2024, [https://reforms-investments.ec.europa.eu/technical-support-instrument-0/publications-0/recovery-and-resilience-facility-annual-report-2024\\_en](https://reforms-investments.ec.europa.eu/technical-support-instrument-0/publications-0/recovery-and-resilience-facility-annual-report-2024_en)

14. OFCE, Quel impact du plan de relance européen NGEU sur la croissance ?, Blog OFCE, 6 January 2025. [https://www.ofce.sciences-po.fr/blog2024/fr/2025/20250106\\_CR/](https://www.ofce.sciences-po.fr/blog2024/fr/2025/20250106_CR/)

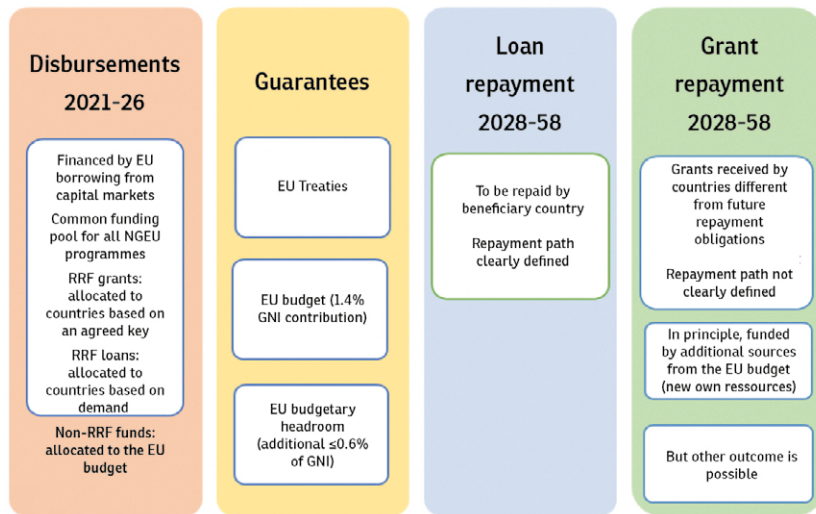
15. CaixaBank Research, How the NGEU funds are going in Spain: bread for today and hope for tomorrow, March 2025.

16. European Parliament Research Service, National Recovery and Resilience Plans: Latest State of Play, February 2025, <https://epthinktank.eu/2022/02/03/national-recovery-and-resilience-plans-latest-state-of-play/>

17. European Commission, Spring 2025 Economic Forecast, country chapter Italy. p.111. [https://economy-finance.ec.europa.eu/publications/european-economic-forecast-autumn-2025\\_en](https://economy-finance.ec.europa.eu/publications/european-economic-forecast-autumn-2025_en)

18. Prometeia, Italy in the Global Economy, February 2026. <https://prometeia.img.musvc3.net/static/7372/documenti/ConsoleDocuments/Prometeia-Brief-2026-2.pdf>

**CHART 5.**  
Key features of EU debt within the NGEU/RRF program



Source: ECB

## 5.7 The transition of NGEU into its repayment phase

Before examining the implications of the repayment phase, it is important to distinguish between the two components of NGEU financing. Loans granted to Member States are to be repaid directly by the beneficiary countries themselves, in accordance with the terms set by the EU.

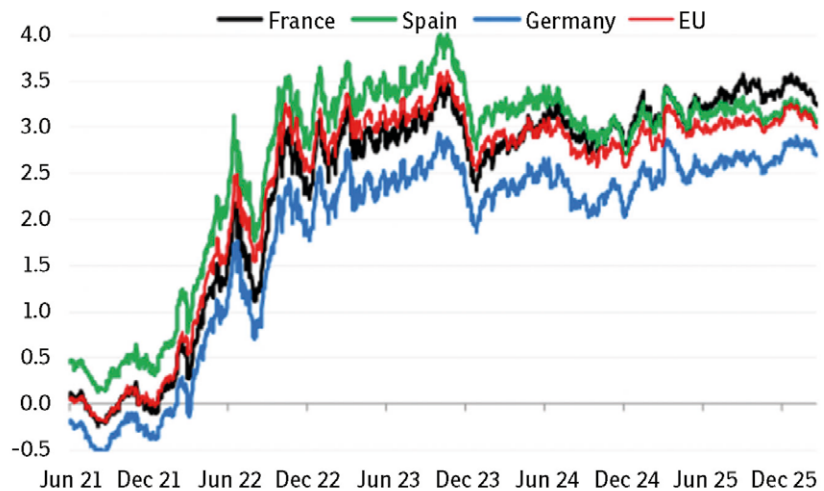
By contrast, the grant component is financed through common EU borrowing and will be repaid collectively via the EU budget, implying a mutualisation of repayment through EU budget revenues (see Section 6.2). All borrowing operations to finance NGEU must be completed by the end of 2026, while repayments of the associated debt are scheduled to extend over several decades, with final maturity no later than 2058.

### Rising interest rates and the structural fragility of NGEU's repayment architecture

While market access has not constituted a binding constraint for NextGenerationEU, the financial environment in which EU common debt is being serviced has shifted markedly compared with the assumptions prevailing at the programme's launch in 2020. At that time, borrowing costs were expected to remain close to zero for a prolonged period, allowing the servicing of large-scale common debt to be absorbed gradually within the EU budget. This assumption has proven overly optimistic.

Following the post-2022 tightening of global monetary conditions, yields on EU bonds rose sharply. Although financing conditions eased somewhat in 2025, interest rates remain structurally higher than initially anticipated in 2020-2021, particularly for long-dated issuances financing the grant component of NGEU. This shift materially alters the budgetary implications of common borrowing.

**CHART 6.**  
10-year sovereign bond yields, %



Source: LSEG, Bloomberg, BNP Paribas

From 2028 onwards, the annual debt service linked to the non-repayable (grant) component of NGEU is estimated at around €24 billion per year, combining interest payments and the linear repayment of principal. As reported by *Le Monde* (11 February 2026)<sup>19</sup>, this would represent approximately 15% of the EU's annual budget. Far from being marginal, NGEU debt servicing would thus become one of the largest rigid expenditure items in the post-2027 Multiannual Financial Framework.

This projected servicing burden has already entered the political debate. In Berlin, officials have explicitly linked the magnitude of these repayments to concerns about fiscal room for manoeuvre and have argued that additional common borrowing would be difficult to justify in the absence of deeper structural reforms and measurable productivity gains.

The debate therefore shifts from the question of financial capacity to that of **growth effectiveness**. Beyond its immediate budgetary implications, the repayment phase reopens a broader structural issue: whether NGEU has generated sufficient productivity-enhancing transformation to sustain its long-term servicing. Unlike the United States' Inflation Reduction Act, which relies heavily on direct tax credits and incentive-based mechanisms rapidly deployed to firms and households, NGEU operates through nationally designed recovery plans, subject to administrative procedures, milestone verification and intergovernmental coordination. This model has reinforced an intra-state allocation logic and has limited the development of large-scale cross-border industrial projects at the Union level.

As debt servicing begins in 2028, the transition from fiscal expansion to repayment thus occurs in a context where productivity performance remains uneven and structural reforms incomplete. The distributive dimension of common borrowing consequently becomes more salient: the issue is no longer whether the EU can raise funds on capital markets, but whether it can generate sufficient long-term growth dividends to stabilise the political economy of its repayment.

These rising costs interact with a structurally asymmetric repayment architecture. While NGEU loans will be repaid directly by beneficiary Member States according to a clearly defined schedule

extending from 2028 to 2058<sup>20</sup>, the servicing of the grant component and its associated interest costs will be borne collectively through the EU budget. In the absence of sufficient and predictable new own resources, this implies a sustained reliance on national GNI-based contributions over several decades, intensifying political sensitivities around burden-sharing and fiscal sovereignty<sup>21</sup>.

As Didier Cahen has emphasised, this asymmetry exposes a fundamental fragility of NGEU<sup>22</sup>. While debt issuance has been successfully mutualised ex ante, repayment remains politically unresolved ex post. Common borrowing postpones, rather than eliminates, the distributive question of who ultimately pays. This tension becomes more salient in a macroeconomic environment characterised by moderating growth dynamics and persistent structural weaknesses across several Member States. As previously shown, the expected productivity dividends of NGEU-funded investment remain uncertain and uneven, raising the question of whether the programme will generate sufficient long-term growth to ease its own servicing burden. Once debt servicing becomes a permanent and visible budgetary obligation, solidarity risks weakening, particularly in a context of competing spending priorities and tighter national fiscal constraints.

In this sense, NGEU illustrates the limits of debt mutualisation without fiscal federalisation: the EU has acquired the capacity to borrow at scale, but not the autonomous fiscal resources required to stabilise this borrowing over time in a context where member states are **unwilling – or unable – to increase their contribution to the EU budget**. This does not even take into account the fact that the national public opinion of Member States are generally not ready to relinquish national fiscal sovereignty.

This institutional fragility is compounded by adverse financial dynamics. As Didier Borowski<sup>23</sup> observes, post-pandemic debt servicing costs are significantly higher than initial projections due to the rise in interest rates since 2022, posing a structural challenge for the European Commission's budgetary planning. With principal repayments scheduled from 2028 onwards, servicing the grant component of NGEU debt will absorb a substantial share of the EU budget in the medium term,

19. *Le Monde*, "L'Allemagne et la France affichent désormais leurs désaccords sur les propositions défendues par Macron", 11 February 2026, [https://www.lemonde.fr/international/article/2026/02/11/l-allemande-et-la-france-affichent-desormais-leurs-desaccords-sur-les-propositions-defendues-par-macron\\_6666298\\_3210.html](https://www.lemonde.fr/international/article/2026/02/11/l-allemande-et-la-france-affichent-desormais-leurs-desaccords-sur-les-propositions-defendues-par-macron_6666298_3210.html)

20. European Parliamentary Research Service (EPRS), *Future of EU long-term financing – post-2027 needs and how to finance them*, February 2025. [https://www.europarl.europa.eu/RegData/etudes/BRIE/2025/767242/EPRS\\_BRI%282025%29767242\\_EN.pdf?utm\\_source=](https://www.europarl.europa.eu/RegData/etudes/BRIE/2025/767242/EPRS_BRI%282025%29767242_EN.pdf?utm_source=)

21. Bob Lyddon, "EU Shadow Debts Start to Become All Too Real", Institute for Research in Economic and Fiscal Issues (IREF Europe), September 10, 2025, <https://en.irefeurope.org/publications/online-articles/article/eu-shadow-debts-start-to-become-all-too-real>

22. Didier Cahen, *The Euro Is in Danger*, Éditions Odile Jacob, 2025, pp. 206–207 and pp. 247 ff.

23. "Remboursement de la dette NGEU : un défi pour la nouvelle Commission européenne". *Option Finance*, <https://www.optionfinance.fr/analyses/remboursement-de-la-dette-ngeu-un-defi-pour-la-nouvelle-commission-europeenne.html>

underlining the importance of introducing and ratifying new own resources to cover these long-term liabilities.

The post-2028 phase therefore represents a decisive stress test. NGEU will cease to function as a recovery instrument and will instead become a conventional debt item embedded in the EU budget. Whether this transition can be managed without eroding political cohesion will depend less on market confidence, which has so far held, than on Member States' willingness to accept durable fiscal commitments at EU level. The sustainability of EU common debt thus hinges not on its issuance, but on the credibility of its long-term repayment framework.

### **NGEU: an exceptional instrument exposing the structural limits of EU fiscal governance**

NextGenerationEU was conceived as an exceptional response to an exceptional crisis, rather than as a blueprint for a permanent transformation of EU fiscal policy. Its legal and budgetary architecture reflects this logic. NGEU was designed as a temporary top-up to the 2021–2027 Multiannual Financial Framework and integrated into the EU budget through external assigned revenues rather than ordinary budgetary channels<sup>24</sup>. This construction preserved the formal constraints of the EU's fiscal framework while allowing for a one-off expansion of spending capacity.

While this exceptional design enabled a rapid and sizeable response to the pandemic, it also revealed important governance and integration limits. Implementation under the Recovery and Resilience Facility has largely followed a national logic, with EU objectives operationalised through country-specific plans. Monitoring mechanisms have focused primarily on compliance with milestones and targets, privileging inputs and outputs over longer-term outcomes. As a result, assessing the true structural impact of NGEU-funded spending remains difficult, and the visibility of its European added value has been diluted.

The institutional balance underpinning NGEU has further accentuated these tensions. Executive authority has been reinforced, particularly within the European Commission, while parliamentary involvement in defining priorities and exercising democratic oversight has remained limited. The growing complexity of fund management, combined with overlaps between NGEU and traditional EU instruments, has strained existing control and audit frameworks.

Beyond governance issues, the exceptional design of NGEU also carries long-term budgetary

implications. Although conceived as a temporary crisis instrument, the servicing of common debt from 2028 onwards will structurally constrain the EU budget, reinforcing the tension between emergency-driven solidarity and the absence of a permanent fiscal framework.

To conclude, it is worth highlighting several important points:

From 2028 onwards, the programme will cease to operate as a recovery instrument and will instead become a structural commitment embedded in the EU's budgetary framework. Debt servicing will become a visible and politically salient expenditure item, intensifying trade-offs between traditional EU policies, emerging strategic priorities and fiscal discipline within a constrained Multiannual Financial Framework.

This transition will test the political sustainability of common borrowing. As debt repayments become permanent, the focus shifts from mobilisation capacity to growth effectiveness and fiscal credibility. The sustainability of NGEU will depend not only on market conditions, but on the Union's ability to generate durable economic returns and secure stable resources capable of anchoring long-term repayment.

At the same time, NGEU's macroeconomic impact has proven uneven and more backloaded than initially anticipated. Administrative bottlenecks, limited sub-national capacity and long implementation cycles for capital-intensive green and digital projects have slowed delivery in several Member States. The comparison with the United States' Inflation Reduction Act highlights differences in implementation speed and incentive design. Whereas the IRA relies heavily on direct, tangible and rapidly deployable tax incentives, NGEU operates through nationally mediated plans, often subject to procedural complexity and fragmented execution.

The issue is therefore not primarily one of financial scale, but of transmission and coordination. If common borrowing is to remain politically viable, it must be associated with visible convergence effects across Member States. The sustainability of shared fiscal commitments ultimately depends on economic convergence: the more growth paths and productivity performances align, the more stable the political economy of common debt becomes. Absent such convergence, distributive tensions may resurface as solidarity shifts from expansion to repayment.

24. European Parliamentary Research Service (EPRS), Future of EU long-term financing – post-2027 needs and how to finance them, February 2025. [https://www.europarl.europa.eu/RegData/etudes/BRIE/2025/767242/EPRS\\_BRI%282025%29767242\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2025/767242/EPRS_BRI%282025%29767242_EN.pdf)