Bundestag's budget committee hearing on the own resources decision on 22 March 2021

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Economic effect of the COVID-19 crisis

The ongoing COVID-19 pandemic caused an economic and social crisis unique in its severity. It particularly affected the EU Member States and the European single market. The pandemic relentlessly demonstrated how closely intertwined EU economies are and how containment measures taken by national governments impact supply chains, investments and consumption decisions not only domestically, but also in neighbouring countries of the Single Market with an overall negative impact on the EU economy. It also exposed the weaknesses of our economies, of our health systems, and of our social safety nets in cushioning and counterbalancing the fallout of the crisis.

While the economic effect of the COVID-19 crisis is clearly visible across the EU, the depth of the recession in 2020 and the speed of the recovery in 2021 and 2022 vary widely among Member States. This does not only reflect differences in the severity of the pandemic and the stringency of containment measures, but also differences in economic structures (particularly the relative importance of tourism and leisure activities) and domestic policy responses.

Give their strong interlinkages, the overall recovery of the EU economy would benefit from a robust rebound by all Member States, to create positive spill-overs and avoid negative ones. However, at times when the fiscal room for offsetting measures varies greatly, robust counter-measures at EU level are more required than ever. At the same time, this is also an opportunity to transform and modernize our economies in order to make them ready for the challenges of the future. The objective must be not simply go back to situation pre-crisis but to learn the lessons from the pandemic and use the current situation to invest in our future.

Strong response at EU level

As a response to the COVID-19 pandemic, the European Commission proposed in May 2020 a powerful, modern and revamped long-term EU budget boosted by the so-called NextGenerationEU instrument. NextGenerationEU is a temporary recovery instrument that will allow the Commission to raise funds to help repair the economic and social damage brought about by the pandemic and rebuild our economies for the future. The EU long-term budget 2021-2027 together with NextGenerationEU form the largest stimulus package ever financed through the EU budget, of €1.8 trillion. The package was endorsed by EU Leaders in July 2020 and finally adopted in December 2020.

The Recovery and Resilience Facility

The Recovery and Resilience Facility (RRF) is the centrepiece of NextGenerationEU. It entered into force on 19 February 2021. With an envelope of €672.5 billion in grants and loans, the RRF is a unique opportunity for Member States to implement ambitious reforms and investments that are needed to let our economies, labour markets and social systems emerge stronger and more resilient from this pandemic, to deliver on our environmental and climate commitments, to boost the digital transition and to address inequalities.

In order to access the RRF, Member States will need to prepare recovery and resilience plans (RRPs) that set out a coherent package of reforms and investment projects. To benefit from the support of the Facility, these reforms and investments should be implemented by 2026.[1]

[1] The Commission has published extensive guidance to help Member States in drafting their RRPs. It has also published examples for components to be included in the plans, in line with several European flagship areas of common interest. All documents can be found on the RRF website.

The RRF is intrinsically interlinked with the European Semester, the EU process of economic policy coordination. RRPs must address all or a significant subset of challenges identified in the relevant country-specific recommendations adopted by the Council in the context of this exercise. Fulfilling this legal obligation does require including ambitious reform elements in each plan. Sustainable and growth-enhancing reforms are indeed essential to complement the very large investment effort in order to set our economies back on track and to ensure that the RRF has a lasting impact over time.

In addition, the RRF Regulation foresees that a minimum of 37% and 20% of expenditure on reforms and investments contained in each RRP needs to support climate and digital objectives, respectively. This will allow making bold steps towards implementing the European Green Deal and reaching carbon neutrality in 2050. It will also help making progress on the enormous challenge of the digital transformation. The RRF Regulation also requires the proper green and digital tagging of reform and investment initiatives in that regard. In addition, Member States need to ensure that all reforms and investments they propose under the RRF do no significant harm to the EU's environmental objectives, within the meaning set out in the Taxonomy Regulation. Respecting the ‘do no significant harm' principle is a precondition for the endorsement of the plans that is set in the RRF Regulation.

The RRF in practice – a contract with transparent and sound management

RRPs follow a partnership approach between the Member States and the Commission, with very close collaboration between all parties in their preparation and implementation. Once approved, the plans can be seen as a contract between each and every Member State, the Commission and the EU society in general. Transparency and communication on the RRP is thus of high importance. Member States are encouraged to ensure a broad consultation of key stakeholders, such as social partners and regional authorities, in the drafting and implementation process. In addition, the European Parliament may invite the Commission every two months to discuss the state of play on the RRF implementation.

While the RRF Regulation provides a broad margin for each Member States to tailor the use of the RRF to their specific needs and timeline of execution, performance must be guaranteed to ensure funding. Reforms and investments set out in the RRPs are fixed commitments that will be delivered according to agreed milestones and targets and that will trigger financial support only upon their fulfilment.

A proper design of milestones and targets will ensure a smooth implementation of the plan while at the same time measuring the performance of the reforms and investments put forward. Milestones and targets should capture the key steps in the implementation of a reform or investment and remain limited to a meaningful level. The amount of milestones and targets should be commensurate to the individual RRF allocations and the envisaged number of instalments.

The beneficiaries of the RRF funds are the Member States. The responsibility for their proper financial management lies primarily with them. Unlike in traditional EU expenditure programmes, the Commission will not oversee the actual expenditure in the implementation of the national recovery and resilience plans but will monitor the achievements of the commonly agreed objectives and disburse funds once these objectives (and the related milestones and targets) are met. This approach requires that a detailed and thorough estimation of the costs of the reforms and investments is included in the plans submitted to the Commission.

It is therefore of utmost importance that Member States’ authorities provide as much as possible substantiated costing information on all the measures included in the recovery and resilience plans, backed up by appropriate justification. The Commission will use these explanations to assess whether such cost estimates are reasonable and plausible. The presentation of sufficient costing information is a precondition for the approval of the RRP and the proper determination of the overall RRF allocation of a specific Member State.

Beyond costing, it is also the Member States' responsibility to provide for robust audit & control systems to execute the RRF. Only a strong audit and control structure will allow for the efficient and responsible disbursement and use of RRF funds, in line with the expectations of EU taxpayers, and will allow for the avoidance of corruption. It is a logical requirement flowing from the strong solidarity effort that the RRF represents, with significant flows of money to the Member States accounting for several percentage points of GDP. It also echoes the country-specific recommendations on corruption that have been issued to several Member States in the past. Member States should use the RRF as an opportunity to complete their legal anti-corruption framework but also to implement it effectively.

RRPs will need to include an explanation of the Member States' systems to prevent, detect and correct corruption, fraud and conflicts of interests and avoid double funding from the RRF and other EU programmes. It is essential that such audit and control arrangements are based on robust processes and structures, with a clear definition of responsibilities across all actors involved. While the experience that Member States have gathered under the management of EU structural funds is helpful in that regard, it will need to be adapted to fulfil the requirements of the RRF Regulation.

The Commission will check the compliance of the Member States with audit & control requirements under the RRF and may, in case of doubts, carry out its own audits to check the absence of serious irregularities such as fraud, corruption or conflicts of interests. Beyond that, also the European Anti-Fraud Office (OLAF), the Court of Auditors and, where applicable, the European Public Prosecutor's Office (EPPO) are expressly authorised to exert their competences and rights as provided for by their respective legal bases during the implementation of the RRF.

The next steps

Constructive and close work is currently happening between all Member States' authorities and the Commission in the drafting of the RRPs. Some Member States have expressed the intention to submit to the Commission their final plan still in March. Others intend to notify quickly thereafter. As a rule, Member States can submit their final plans until 30 April.

Once officially submitted, the Commission has two months to assess the RRPs. After the Commission has finalised its assessment, it is for the Council to decide within one month on the final approval of the plans. After this approval, the first disbursements of funds can happen within weeks after the Council decision. The RRF Regulation foresees that the Commission shall make a pre-financing payment of an amount of up to 13 % of the financial contribution (and, where applicable, of up to 13 % of the loan) upon the approval of the plan, to kick-start the recovery. For that purpose, the Commission raises the necessary funds on the financial markets by issuing bonds. In order for this to happen, the swift ratification of the Own Resources Decision in all Member States is however needed, including in Germany. After the first disbursement, Member States have the possibility to request twice a year further disbursements upon reaching agreed milestones and targets.

The priority right now is to work intensively with the Member States on all the elements remaining to make recovery and resilience plans ready for their official submission. The Commission is fully committed to support in all the steps necessary to finalise high-quality RRPs, taking the necessary time required to do so.

The Recovery and Resilience Facility (RRF) – How will it work?

Commission raises necessary funds on markets by issuing bonds

MEMBER STATE
Countries submit national plans of reforms and investments, with clear milestones and targets

As a rule by 30 April

COMMISSION
The European Commission assesses these recovery and resilience plans

Within two months of receipt

COUNCIL
The Council approves national plans on a case-by-case basis

Within one month

COMMISSION
The EU pays 13% of the total support upfront to kick-start the recovery

Within two months

MEMBER STATE
Member States request further disbursements upon reaching agreed milestones and targets

Up to twice a year

COMMISSION
The Commission prepares preliminary assessment of the request

Within two months

MEMBER STATE
Member States receive instalment of EU financial support

After consulting expert committee