A recovery plan for Europe

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These questions, along with the bruising memories of the previous crisis, prompted Member States, especially from the south of the EU, to advocate early on in the current crisis for stabilisation and recovery funding to be financed through common European debt. Following proposals in May, first from France and Germany and then from the European Commission, a political agreement on the broad outlines of a recovery plan involving both the next Multi-Annual Financial Framework (MFF, i.e. the EU budget) for the period 2021-2027, and a recovery pillar, the 'Next Generation EU' instrument, was reached at the European Council in July 2020.

The agreed commitments for the 2021-2027 MFF are at €1.074 trillion whereas the Next Generation EU (NGEU) pillar is to receive a total of €750 billion, €390 billion of which are to be provided as grants and €360 billion as loans to Member States, a total of about 4.5% of the EU's GDP, spread over several years. The NGEU funds would be channelled to Member States through existing programmes of the EU budget, mostly under the heading of 'Cohesion, Resilience and Values', but with some under the headings 'Single Market, Innovation and Digital' and 'Natural Resources and Environment'. The NGEU instruments would be organised under three pillars: supporting Member States to recover (which includes the Recovery and Resilience Facility as well as the REACT-EU initiative and some funds for the Just Transition Fund); kickstarting the economy and helping private investment; and learning the lessons from the crisis.

The European Commission would be authorised to borrow from the financial markets on behalf of the EU to provide the funds for NGEU. This would generate a large quantity of safe assets (EU bonds) which the ECB could also buy in the context of its asset purchase programmes, making its task politically easier, as it would be buying EU rather than country-specific debt. The biggest instrument under NGEU is the Recovery and Resilience Facility (RRF), the financial commitments for which were agreed at €672.5 billion (of which €360 billion is in loans and €312.5 billion in grants). The largest part of these RRF funds (70%) should be committed in 2021 and 2022 and the rest by the end of 2023; 30% will have to be dedicated to greening projects. The funds that will be borrowed over six years to finance these programmes will be repaid by 2058. The European Commission proposed some new 'own resources' which have yet to be agreed by the Council, to ease the burden of repayment of the loans on future MFFs.

To receive funding from the RRF, Member States would have to submit for approval their recovery and resilience plans, which should propose reform and investment programmes to be financed. In its first instalment of the autumn package 2020, the European Commission proposed guidelines to Member States for writing up their recovery and resilience plans, the positive evaluation of which will give them access to the RRF's funds. Although some criteria for positive assessment were already stated in the July agreement, it is not yet clear how economic conditionality will be applied in practice to Member States for drawing on grants and loans, beyond the general conditions to which Member States already have to comply when receiving grants from the EU budget. Member States should take into account the last Country-Specific Recommendations when spelling out the challenges they will try to address in their plans while meeting specified objectives and contributing to flagship EU initiatives. Up to 37% of received funds should contribute to promoting a green transition and up to 20% should contribute to promoting the digital transition.

Disbursement will be agreed so long as Member States proceed to implement the agreed plan. The European Commission will be asking the opinion of the Economic and Financial Committee for its assessments, which will be adopted (or not) by the Council by qualified majority voting. One or more Member States may ask the President of the European Council to refer a Member State to the European Council if they think that it deviates from its plans. This process cannot take longer than three months.

This process will alter the European Semester at least until 2023, when the last funds of the RRF will be disbursed, and make it far more 'politicised' than it has been so far. These changes are welcome. On the downside, however, it is also clear that it will still be the national budgets that will be doing the heavy lifting in supporting Member States. NGEU will account for 4.5% of EU GDP, spread over several years. It remains to be seen whether the economic objectives set out by the European Commission in its guidelines to Member States for writing their Recovery and Resilience Plans will all be met to the same extent and whether, for example, actions to promote recovery will be successful in promoting the green transition as well. If the plan succeeds in instigating reforms and mobilising investment, it is likely to become a stepping stone towards developing a fiscal capacity at the E(M)U level.

The agreement over NGEU is a breakthrough in crisis management in Europe: the EU will borrow amounts of money at an unprecedented scale on behalf of all Member States, issuing common (albeit not joint) bonds to finance the recovery efforts of Member States, in line with progressive income and unemployment criteria and criteria related to the impact of the crisis on them. Member States will pay back this debt in line with their share of contributions to the EU budgets. Moreover, unlike the ESM in the previous crisis, NGEU has been established within the EU legal order using the Community method.

Before the plan is put into action, however, a legislative package specifying in more concrete terms what was agreed in broad terms in July would have to be adopted by the Council, approved by the European Parliament and ratified by Member States. Most notably, the Council would have to unanimously approve the MFF package of regulations, with the consent (that is, an approval or disapproval of the entirety of the package but without the possibility of making amendments) of the European Parliament. The Council would also need to unanimously decide on the 'own resources' that will finance the package, after having received an opinion by the European Parliament; this must be ratified by every Member State, in accordance with their constitutional requirements.

As part of the MFF package of regulations, in May 2018 the European Commission proposed a new regulation on the general regime of conditionality for protecting the EU's budget in case of 'generalised deficiencies as regards the rule of law' in the Member States. The European Council agreement in July 2020 included a broad statement on the importance of respecting the rule of law in order to protect the EU's financial interests. The content of this regulation was the subject of fairly intense negotiations between the negotiators of the German Presidency of the European Council and those of the European Parliament, with the latter preferring to take a hard stance on the matter. An agreement was reached on the new conditionality regime in early November, and on 10 November on the overall MFF package, including a roadmap for reforming the EU's own resources, to be eventually approved by the European Council.

However, at the time of writing, the leaders of Poland and Hungary, with some support from their Slovenian equivalents, have signalled that they intend to veto the package on the next MFF as they are unhappy with the conditionality regime related to the rule of law, thus throwing a spanner into the works of the ratification process. The risk is that reaching a new compromise would delay the launch of the new MFF and NGEU beyond 1 January 2021, forcing the use of emergency budgets and blocking the disbursement of funds for new spending priorities, such as the green transition. Such a delay might also have repercussions for the awaited Council decision on increasing the EU's targeted cuts in carbon emissions to 55% of 1990 levels by 2030, as the financial means to start implementing it would not yet be available. The option of further watering down the condition of compliance with the rule of law for accessing EU budget funds is likely to meet with resistance from the European Parliament. Another alternative would be to establish the Recovery Fund outside of the EU legal order, instead opting for an intergovernmental treaty in the style of the ESM; but this would only draw into sharper focus the inability of all Member States to reach an agreement.

However, the economic and political risks for the two countries are high: should the deal be delayed they would both stand to lose large sources of financing at a time when the second coronavirus wave has been affecting them quite badly. Poland would also be the biggest beneficiary of the Just Transition Fund, which would help cushion the economic and social impact of phasing out coal in the country. More importantly, a persistent veto is likely to turn the vast majority of Member States (including large ones) against them and generate political losses in the longer term, as building broad alliances is important for influencing decisions in the EU. These factors all give the EU good reason to sit back and wait for the two countries to 'blink first' (Guttenberg and Buras 2020).

The history of the EU suggests that a compromise will be found. The situation, however, also calls into question the capacity of the EU to move forward with further integration initiatives when certain processes, such as the deepening of the EMU and the implementation of the European Pillar of Social Rights, are still ongoing.