The EU recovery plan

No way back to a pre-Covid-19 'normal'

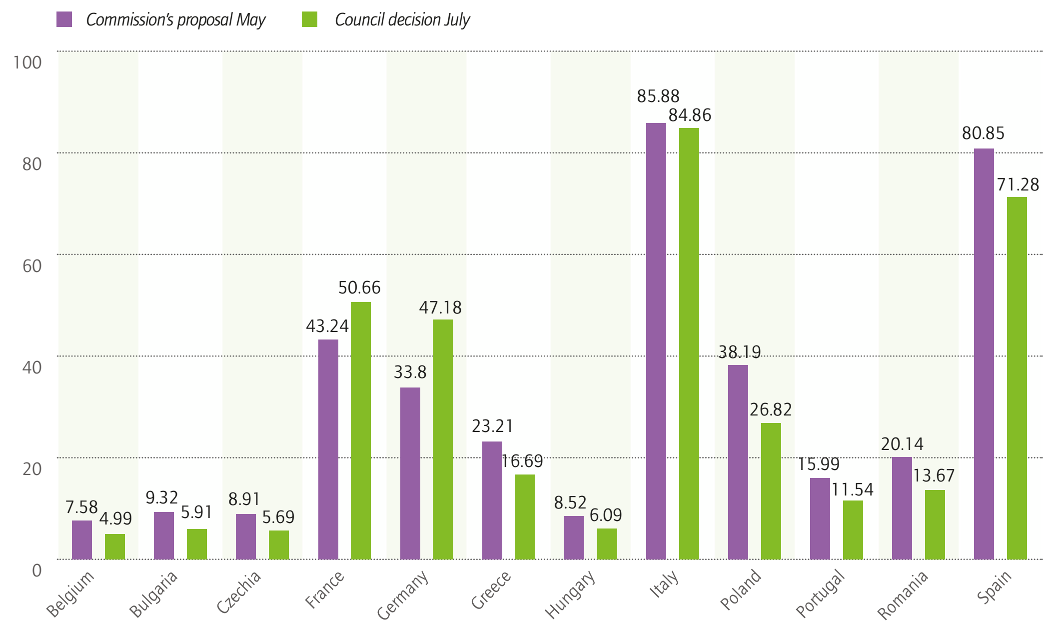
It is clear that after the pandemic there is no way back to the 'old normal', as a structural shift will necessarily have to be part of any cyclical adjustment. From a technological point of view, the digitalisation of the economy gained a further boost, and this will have longer-term effects. From a sustainability point of view, policymakers recognised the urgent need to act and shape recovery measures in line with earlier decarbonisation strategies. It is a welcome development that once the first shockwaves of the health crisis had settled, European policymakers (both at national and at EU level) quickly recognised that the blueprint of EU recovery should be the European Green Deal.

The European Recovery Fund proposed by the Commission in May 2020, and approved by the European Council in a modified form at the July Summit (2020), is a historical milestone in two ways. It is the first time that the EU as a whole will borrow from capital markets to finance expenditures throughout the Union. And, secondly, it aims at a longer-term vision of a zero-carbon economy, with the Next Generation EU (NGEU) investment programme building on the objectives and priorities of the European Green Deal (see also Laurent, forthcoming). This includes: stepping up investment in retrofitting/renovation of the building stock, with a target of EUR 350 billion per year via the InvestEU instrument; establishing an EU tendering scheme for renewables and facilitating EUR 25 billion worth of capital investment at the Member State level, along with EUR 10 billion in funding from the European Investment Bank; and scaling up investment in clean hydrogen. For the automotive sector, key objectives are a EUR 40-60 billion investment in zero-emission powertrains and a doubling of investments in charging stations.

The final compromise deal approved by the European Council, includes cuts in total grants from EUR 433 billion originally proposed by the Commission to EUR 384.4 billion, and it also includes modifications in the cross-country allocation method of the largest instrument, the Recovery and Resilience Facility (RRF). While 70% of the RRF is now expected to be allocated during 2021 and 2022, for the 30% that is due in 2023 a new allocation key is applied. Instead of the relative unemployment rate between 2015 and 2019, now the loss in real GDP in 2020 and the cumulative loss in real GDP observed over the period 2020-2021 will be decisive. This means that while the earlier proposal generally favoured lower-income countries (independently of how much they have been affected by the Covid-19 crisis), the approved package now favours large countries with a high GDP loss, as the fall of GDP is measured at absolute level in constant-price euros (see Chapter 1). Figure 3.15 shows the effect of the changes in the allocation of grants to Member States as a percentage of their gross national income (GNI), based on calculations by Bruegel (Darvas 2020).

While Italy and Spain will further on receive the highest amount of grants, it is Germany and France who will benefit most from the amendments. At the other end of the spectrum, Poland and some CEE new Member States now receive significantly lower allocations than what the original Commission proposal contained. Poland, Romania and Croatia will receive roughly 32% less in the form of grants; for Greece the reduction is 28%, and for Bulgaria 38%.

Figure 3.15 Comparison of cross-country grant allocations from the recovery instruments (billion at 2018 prices)



Source: Bruegel 2020 and European Commission.