

# EU priorities and the recovery during Covid19

Guntram Wolff

Committee on EU Policies of the Italian Chamber of Deputies, 17<sup>th</sup>  
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# Commission Work Programme 2020 prior to pandemic

Three primary messages:

- European Green Deal
- Building a Europe fit for the digital age
- Geopolitical Commission

# Pandemic changes picture dramatically

- More than 8 million infected and 400,000 deaths
- Major global recession
- EU in deep recession, some countries more affected than others
- EU policy response manifold: SGP, State aid rules, increasing health cooperation, cross country cooperation but...

# The European recovery: EU debt as insurance to catastrophic shocks

- National fiscal responses on their own insufficient
  - Externalities within single market, level playing field
  - Political tensions, perceived lack of solidarity
  - Inacceptable attack on ECB by German court
  - Solvency concerns
- EU debt would provide comprehensive insurance against the pandemic, insurance means grants
- EU budget preferable to intergovernmental mechanism with better legal credibility, democratic legitimacy & involving EU monitoring institutions (OLAF, ECA)
- Creates European Public Goods

Sources: Wolff (2020), [EU debt as insurance against catastrophic events in the euro area: the key questions and some answers](#), Bruegel blog, April 2020.

Bofinger et al (2020), [The independence of the Central Bank at risk](#), Bruegel blog and FAZ, May/June

# Commission proposal: Next Generation EU (+ 2020 budget amendment): programmes (excl. non-EU)

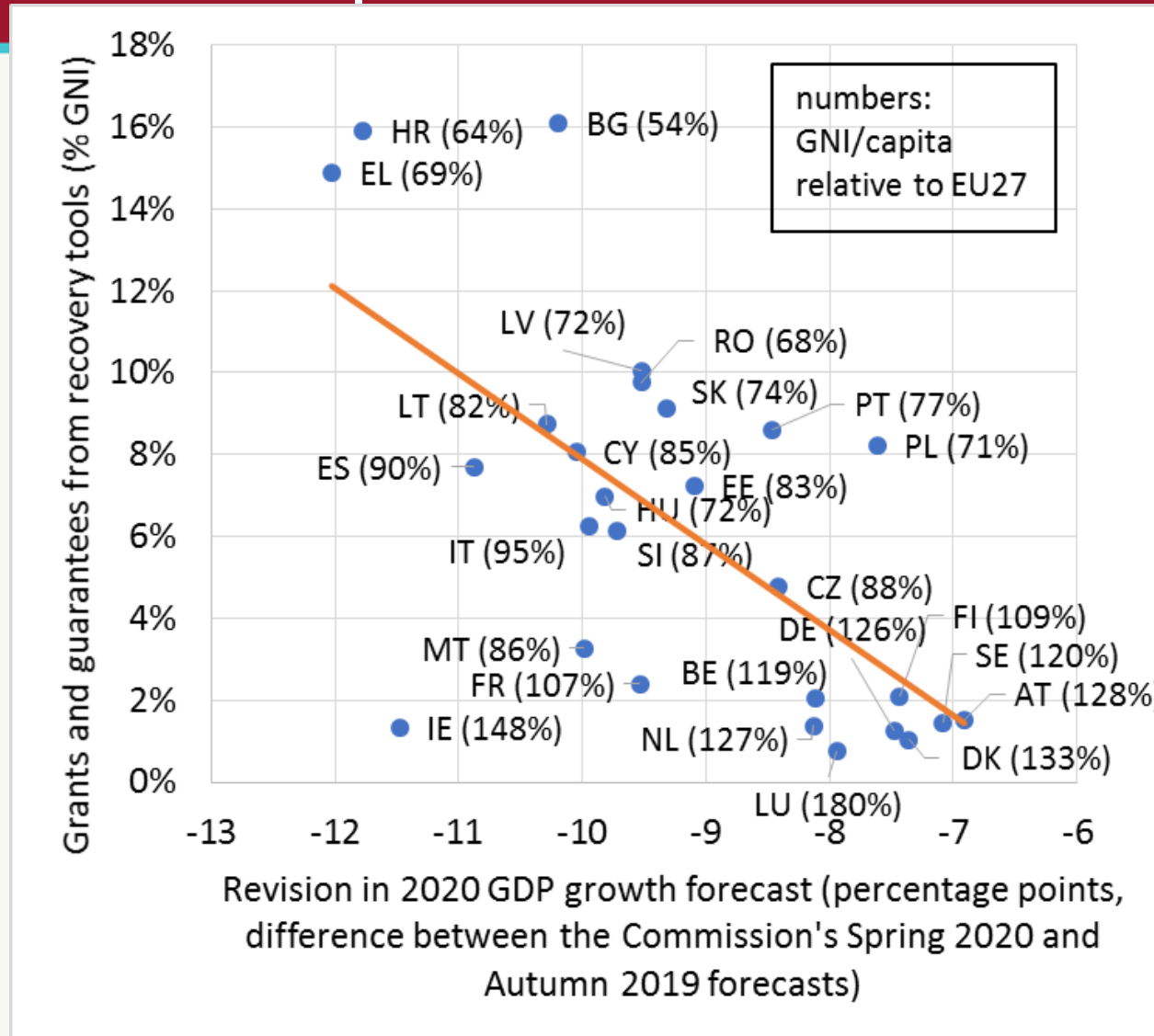
- 443bn grants, 56bn guarantees, 250bn loans
- Regular MFF of 1.1tn for 2021-27 largely business as usual, missed opportunity for new priorities
- Recovery and Resilience Facility (RRF) €310 billion grants and €250 billion loans.
- REACT-EU for a quick response, €5 billion in 2020 and €50 billion in 2021-2022.
- Just Transition Fund (JTF) €30 billion extra, EAFRD €15 billion extra.
- Solvency Support Instrument €31 billion (inc. €5 billion in 2020), InvestEU €15.3 billion extra & Strategic Investment Facility €15 billion.
- EU4Health, rescEU & Horizon Europe combined €23 billion extra.

# Next Generation EU (+ 2020 budget amendment): grants and guarantees for the larger member states

	Grants			Guarantees		
	€ billion	% total	% 2021 GNI	€ billion	% of total	% of 2021 GNI
<b>Italy</b>	85.9	19.8%	5.2%	18.25	29.63%	1.10%
<b>Spain</b>	80.9	18.7%	7.0%	8.01	13.00%	0.69%
<b>France</b>	43.2	10.0%	1.8%	13.11	21.29%	0.56%
<b>Poland</b>	38.2	8.8%	8.1%	0.38	0.62%	0.08%
<b>Germany</b>	33.8	7.8%	1.0%	9.29	15.09%	0.27%
<b>EU27</b>	<b>433.0</b>	<b>100%</b>		<b>61.59</b>	<b>100%</b>	

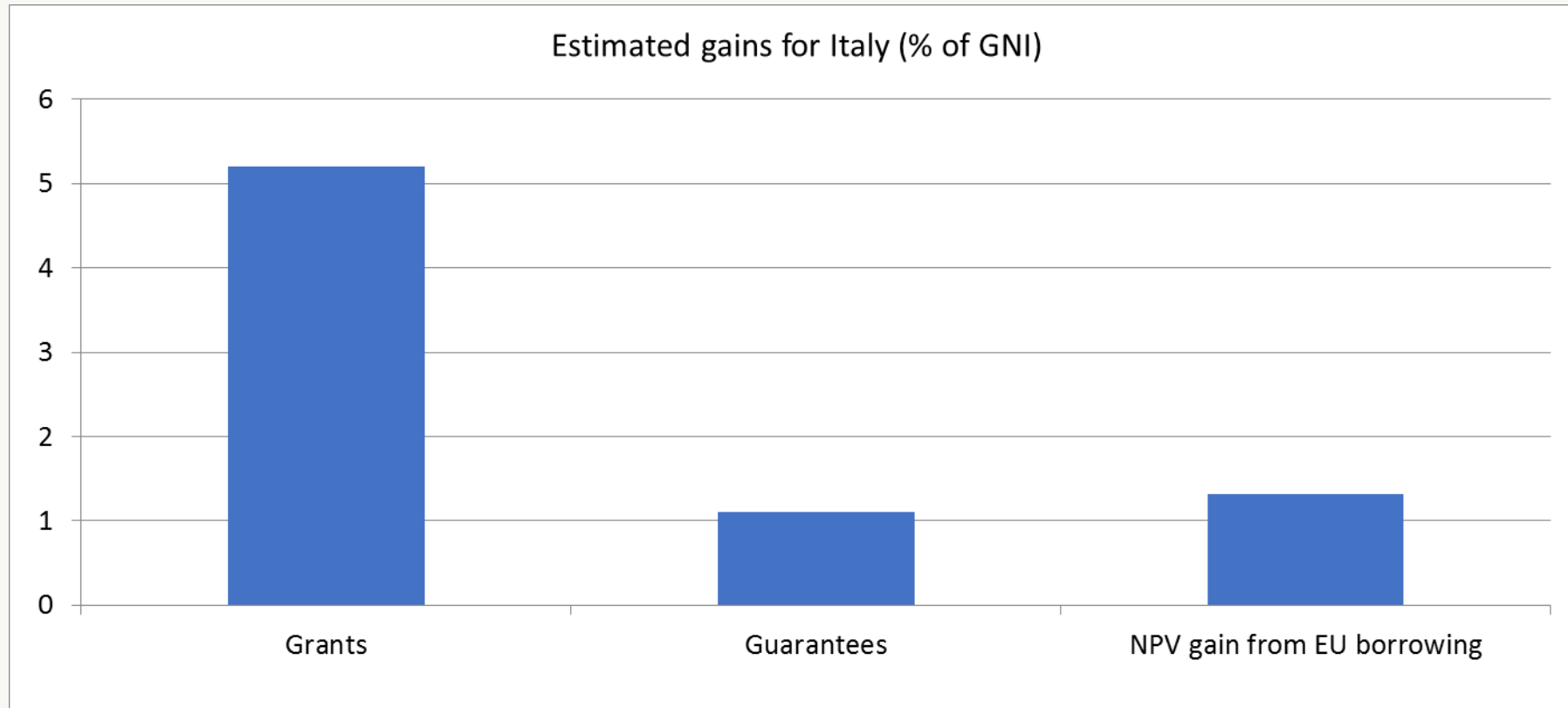
Source: Darvas (2020) 'the EU's recovery fund proposal: crisis relief with massive redistribution', Bruegel. Notes: For more detail on methodology see paper.

# Recovery tool: insurance against shock and transfer from rich to poor income countries.



Source: Darvas (2020) '[Crisis relief with massive redistribution](#)', Bruegel. Notes: The numbers in brackets after the country codes indicate GNI/capita at Purchasing Power Standards relative to the EU27 average for 2021, according to the Spring 2020 European Commission forecast. For more detail on methodology see paper.

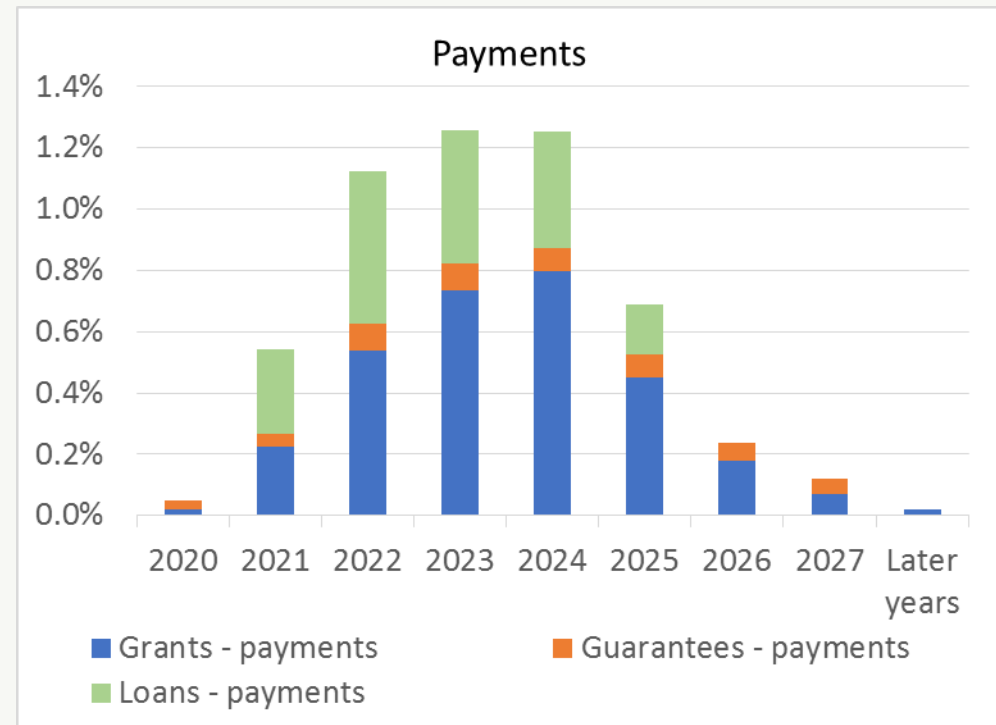
# Next Generation EU (+ 2020 budget amendment): the Italian situation



Source: Darvas (2020) 'Cross-country allocation of the proposed EU recovery instrument', Bruegel. Notes: Net present value (NPV) gain assumes ESM borrowing rates + 10 bps (to cover costs), borrowing of 4.7% of GNI (current cap) and maturity of debt evenly distributed between 10, 20 and 30 years. For more detail on methodology see paper.



# Next Generation EU (+ 2020 budget amendment): disbursement schedule



Source: Darvas (2020) 'Three-quarters of Next Generation EU payments will have to wait until 2023', Bruegel

# Remaining limitations of the proposed recovery mechanism

- Grants for the RRF (€310 billion) are allocated based on 2019 (or earlier) data - fundamentally not a shock-based instrument
- Disbursement is delayed (capital markets provide a partial solution)
- The proposal fails to fundamentally reform the wider EU budget (MFF), or its budgeting methodology
- Will it pass the legal tests in the future?
- Will it be agreed?

# Conclusions

- Difficult period of pandemic is not over
- Massive fiscal support will continue to be necessary to limit the fallout on citizens and companies
- As lockdowns end, gradually shift support policy from firm specific preservation measures to broader demand policies allowing for reallocation across sectors
- EU recovery programme provides substantial support to countries. More effectively targeting measures to countries most affected would be sensible.
- Green? Provide clear guidance to private sector to trigger investment: Carbon price needed.

Thank you!