

EU priorities and the recovery during Covid19

Guntram Wolff

Committee on EU Policies of the Italian Chamber of Deputies, 17th
June 2020

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)

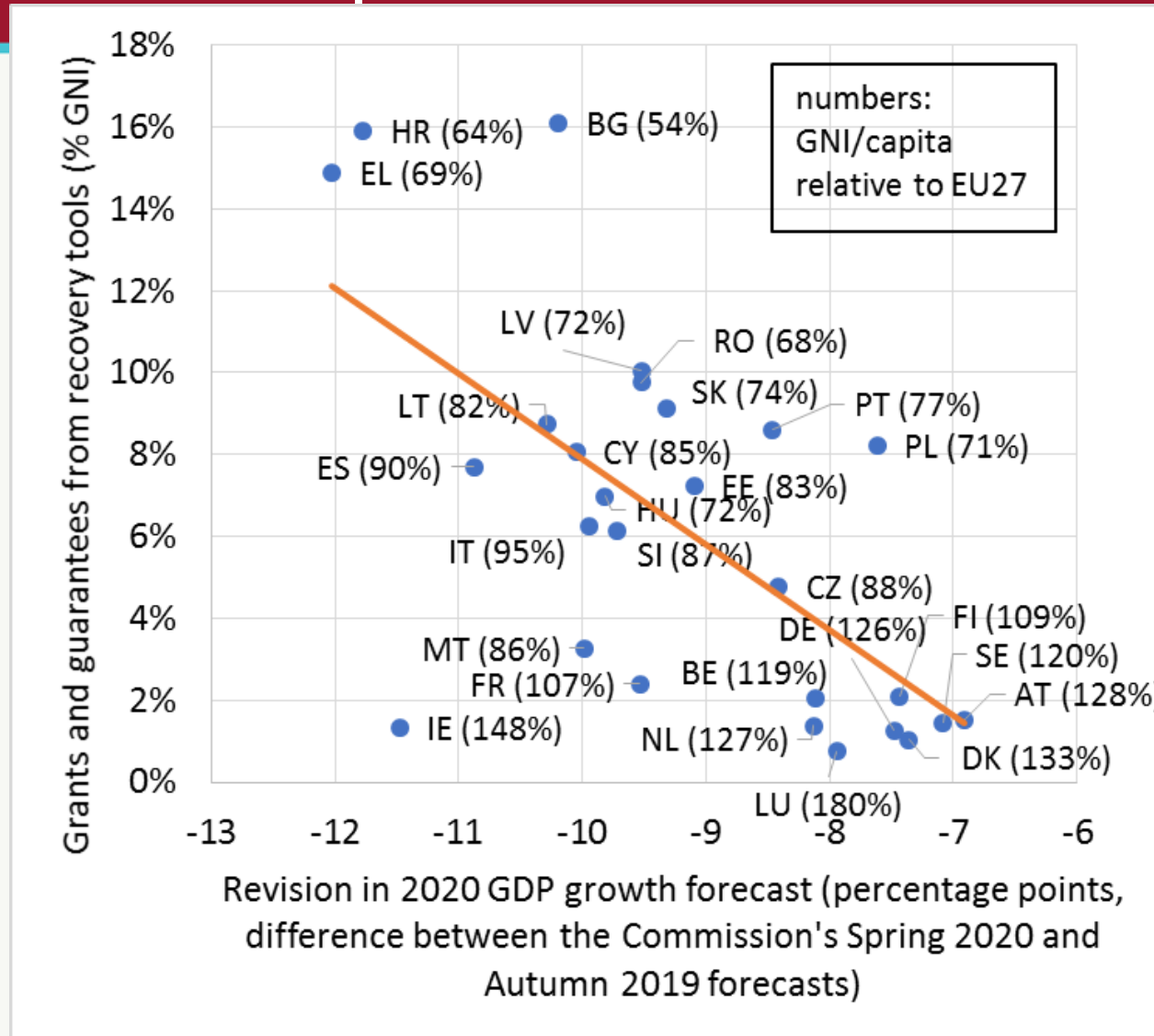
- 443bn grants, 56bn guarantees, 250bn loans
- Regular MFF of 1.1tn for 2021-27 largely business as usual, missed opportunity for new priorities
- Recovery and Resilience Facility (RRF) €310 billion grants and €250 billion loans.
- REACT-EU for a quick response, €5 billion in 2020 and €50 billion in 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
Italy	85.9	19.8%	5.2%	18.25	29.63%	1.10%
Spain	80.9	18.7%	7.0%	8.01	13.00%	0.69%
France	43.2	10.0%	1.8%	13.11	21.29%	0.56%
Poland	38.2	8.8%	8.1%	0.38	0.62%	0.08%
Germany	33.8	7.8%	1.0%	9.29	15.09%	0.27%
EU27	433.0	100%		61.59	100%	

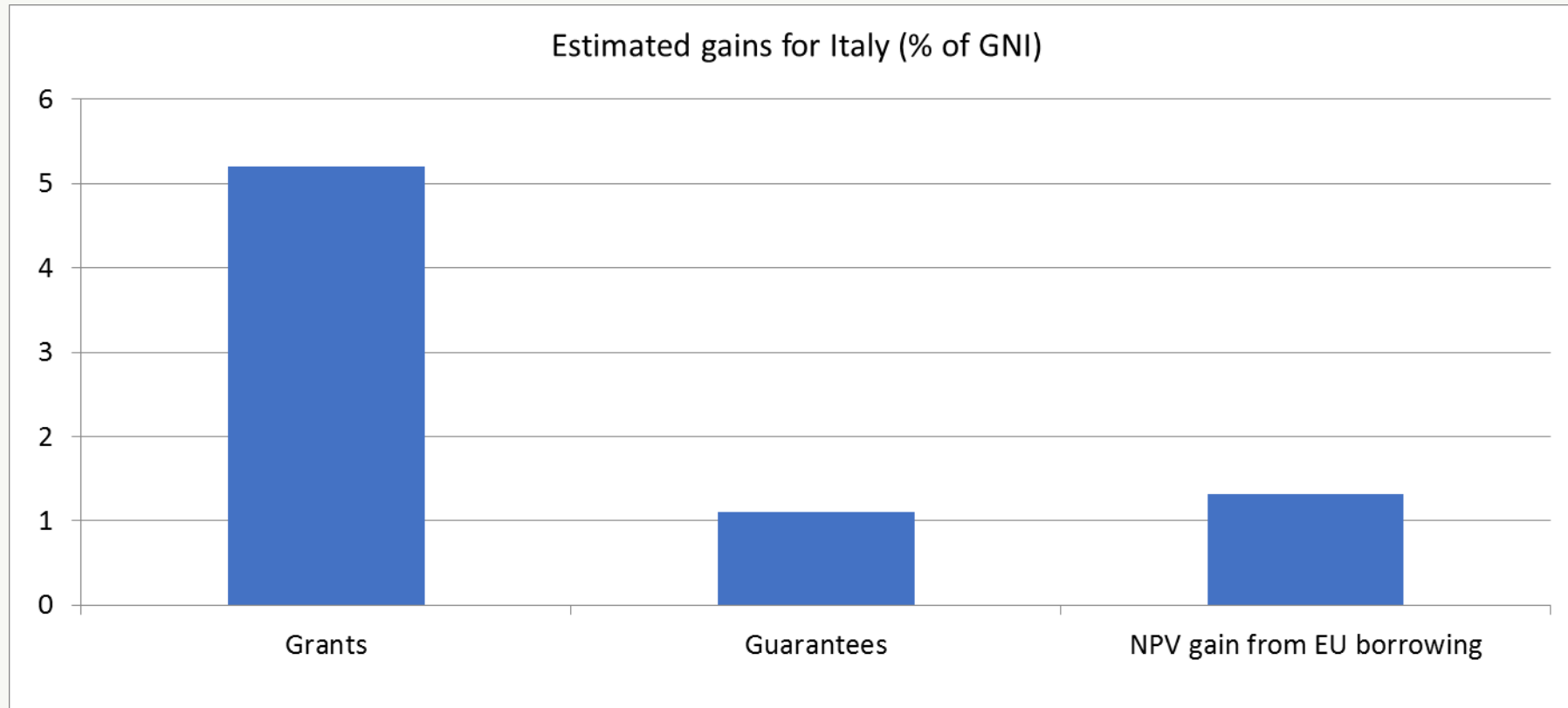
Source: Darvas (2020) 'the EU's recovery fund proposal: crisis relief with massive redistribution', Bruegel. Notes: For more detail on methodology see paper.

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



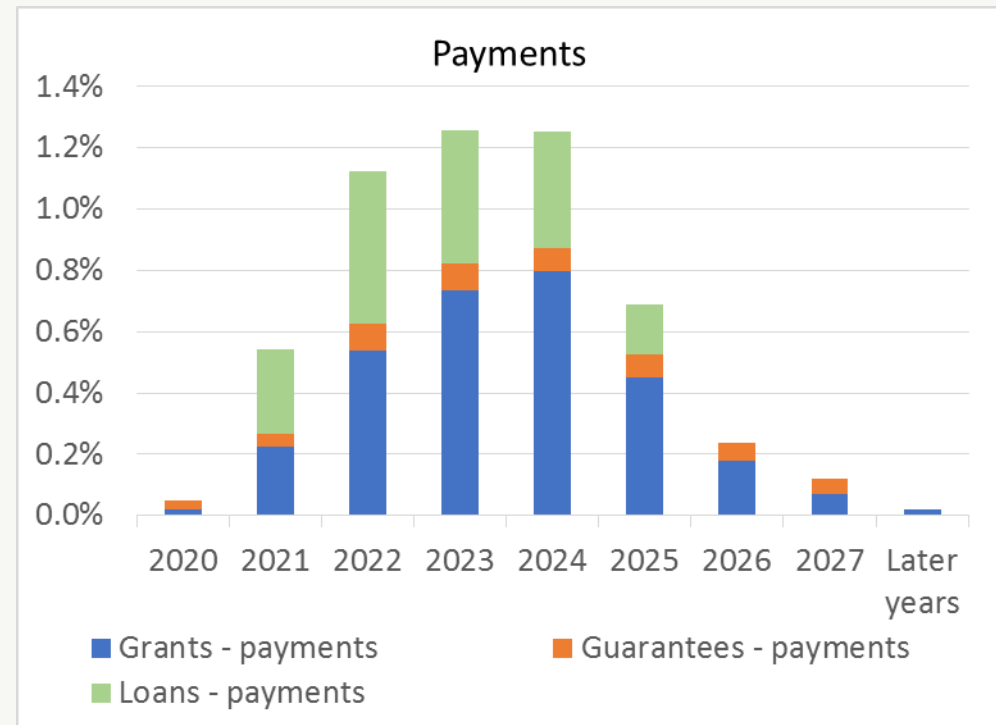
Source: Darvas (2020) '[Crisis relief with massive redistribution](#)', Bruegel. Notes: The numbers in brackets after the country codes indicate GNI/capita at Purchasing Power Standards relative to the EU27 average for 2021, according to the Spring 2020 European Commission forecast. For more detail on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