EU Member States Reach Unanimous Deal on Historic EUR 750 billion Fiscal Stimulus Package

By Lily Engbith

Original post here.

On July 21, the 27 Member States of the European Union (EU) brokered a deal for a comprehensive stimulus package to combat the economic fallout of the COVID-19 pandemic.

The announcement, which also included details on the long-term Multinational Financial Framework (MFF), laid out the terms and conditions for a collective fiscal response under the EUR 750 billion (USD 857 billion) Next Generation EU (NGEU) program. In the resulting Conclusions from the Special meeting of the European Council, leaders reaffirmed their commitment to sustainable solutions that would integrate the interests of all Member States and be "significant, focused, and limited in time" (see here).

Borrowing by EU

Perhaps the most important feature of the NGEU package is the novel provision authorizing the European Commission to borrow funds on behalf of the Union. It plans to raise EUR 750 billion on the capital markets, with new net borrowing to stop by the end of 2026. The raised funds will be used to provide EUR 360 billion in low-cost loans and EUR 390 billion in grants to combat and mitigate the effects of the pandemic, without regard for Member States' previous economic conditions or commitments.

The repayment of debts by the Union will be scheduled in order to ensure "steady and predictable reduction in liabilities" until 2058 (see here). Outstanding amounts not used for interest payments can be used for early repayments before the end of the MFF 2021-27. The specific details of repayment have yet to be decided; it was only agreed that the Commission will establish a yield curve of debt issuance that may strain future EU budgets.

Although Member States will most likely be unwilling to increase their individual contributions, the Commission plans to levy new environmental and digital taxes to help allay the costs (see here). Principal repayments due to the Union in a specified year will not exceed 7.5% of the maximum EUR 390 billion allocated for expenditure. Finally, leaders agreed on a temporary increase in their own resource ceilings by 0.6 percentage points in order to "create sufficient budgetary space," which will be "available (i) for the contingent liabilities from loans to Member States and (ii) for the repayment of the debt from borrowed funds for spending programmes in the future" (see here).

Funding for each Member State

Although the Commission has yet to release specific country-by-country allocations, it decided on a series of stipulations that will help guide the future disbursements that are expected to begin in 2021.

For instance, the Commission reserves, as a last resort, the right to "call more resources" from Member States as it deems necessary, without increasing the ultimate liabilities of the collective (see here). Such requests will be determined on a pro rata basis and will be limited to the Member States' share of the temporarily increased resources ceiling (i.e., 0.6% of Member States' gross national income (GNI)). In addition, funds distributed through the NGEU program will be considered external assigned revenues and therefore fall under the political jurisdiction of the Budgetary Authority, in consultation with the European Parliament, the Council, and the Commission. The legal commitment of top-up funds to a given program will be made by December 31, 2023, and related payments will be made by December 31, 2026. In the meantime, the programs will utilize existing funding to make disbursements starting in 2021. Table 1 below shows NGEU disbursements through various EU programs.

Table 1: Next Generation EU Disbursement by EU Programme

Facility or Fund	Main Purpose	NGEU Disbursement
Recovery and Resilience Facility (RRF)	Provides "large-scale financial support to reforms and investments undertaken by Member States, with the aims of mitigating the economic and social impact of the coronavirus pandemic and of making the EU economies more sustainable, resilient and better prepared for the challenges posed by the green and digital transitions."	Loans: EUR 360 billion Grants: EUR 312.5 billion Total: EUR 672.5 billion
ReactEU	"Continues and extends the crisis response and crisis repair measures delivered through the Coronavirus Response Investment Initiative and the Coronavirus Response Investment Initiative Plus (see here). It will contribute to a green, digital and resilient recovery of the economy."	EUR 47.5 billion
Horizon Europe	Supports "European partnerships with EU countries, the private sector, foundations and other stakeholders. The aim is to deliver on global challenges and industrial modernisation through concerted research and innovation efforts."	EUR 5 billion

InvestEU	Builds "on the successful model of the Investment Plan for Europe, the Juncker Plan. It will bring together, under one roof, the European Fund for Strategic Investments and 13 EU financial instruments currently available."	EUR 5.6 billion
Rural Development	Reinforces "the market measures and income supports of the CAP with strategies and funding to strengthen the EU's agri-food and forestry sectors, environmental sustainability, and the wellbeing of rural areas in general."	EUR 7.5 billion
Just Transition Fund (JTF)	Supports "Small and Medium-sized Enterprises, the creation of new firms, research and innovation, environmental rehabilitation, clean energy, up- and reskilling of workers, job-search assistance and active inclusion of jobseekers programmes."	EUR 10 billion
RescEU	Enhances "both the protection of citizens from disasters and the management of emerging risks."	EUR 1.9 billion
		Total: EUR 750 billion

As illustrated in Table 1 above, Member States will be able to access EUR 672.5 billion in funds through the Recovery and Resilience Facility (RRF). It is hoped that 70% of grants will be committed in 2021 and 2022 and 30% will be fully committed by the end of 2023. Additionally, the 2015-19 unemployment criterion for allocation will be replaced in proportion to the loss in real GDP observed over the course of 2020 and cumulative loss in real GDP observed over 2020-21, to be calculated by June 30, 2022. The maximum volume of the loans for each Member State is not to exceed 6.8% of its GNI, and pre-financing for the RRF will be paid in 2021 and should amount to 10% (see here).

Another significant outcome of the NGEU proceedings was the requirement that all Member States prepare national Recovery and Resilience plans for 2021-23. These schemes will then be assessed by the Commission within two months of submission for consistency with country-specific conditions, including plans for strengthening green and digital economies. Upon the Commission's proposal, countries will need to obtain approval from the European Council by qualified majority (55% of Member States, which represents 65% of the EU's population). Payment requests will thus be contingent upon successful fulfillment of these strategic goals, which will be reviewed and adapted in 2022 in order to determine final allocations for 2023.

Member States may request that the President of the European Council refer matters of other States' "serious deviations from the satisfactory fulfillment of relevant milestones and targets" to the next European Council (see here). Dutch Prime Minister Mark Rutte, a staunch advocate of austerity, was primarily responsible for the inclusion of the oversight mechanism. However, there is a three-month statute of limitations on such formal complaints, and the Commission retains final approval.

Reactions and concerns

Beyond the much-needed economic aid, pro-Europeanists hope that the MFF and NGEU package will act to mutually reinforce solidarity among Member States. This political signaling is particularly important, given the initially fractured and chaotic response to the pandemic. However, many questions still remain about the checks on leaders who are believed to be in violation of the EU's rule-of-law standards. Hungary's President Viktor Orban and Poland's Prime Minister Mateusz Morawiecki have been criticized for their crackdowns on freedom of expression in the media and the judiciary, among other issues (see here). While the NGEU framework outlines a general process for levying official complaints against other Member States, it is unclear how effective the European Commission will be in dissuading deviations from EU values. Furthermore, the imposition of sanctions - considered to be the most consequential penalty for non-adherence - would require unanimity among the group of 27 nations. Hungary and Poland, along with the Czech Republic and Slovakia, have already promised to protect each other in such cases.

Many details have yet to be sorted before Member States see the tangible benefits of the NGEU stimulus package. Apart from the allocation of funds, each country's government will have to individually ratify the agreement and begin to draft their Recovery and Resilience proposals for Commission and Council approval. This process is expected to last at least until the end of 2020; the facility will open in January 2021, and no new bridge funding will be provided beforehand.

Despite the contentious political debates surrounding oversight and debt mutualization, the agreement reached by Member States is an important step forward toward the creation of a European fiscal union and provides, at the very least, an architecture for collective responses to future crises.