Box 2.3

NGEU: AN INITIATIVE BOLSTERING THE EU PROJECT

Next Generation EU (NGEU) is the temporary instrument put in place by the European Union to boost, through investment and reform financing, the recovery of Member States' economies in the wake of the pandemic.[1] Its aims are not limited to offsetting in the near term the fall in demand resulting from the crisis and supporting Member States' emergency programmes through the mobilisation of additional resources under current cohesion funds. More importantly, NGEU also aims to increase the European economy's growth potential in the medium and long term, by boosting reforms and reallocating productive resources to areas such as digitalisation and combating climate change. An additional feature of this programme is that the allocation of its total funds among countries will not be proportional to their respective economic weights, but will favour Member States more severely affected by the pandemic. The reason is it seeks uniform recovery, thus avoiding any economic fragmentation in the EU as a result of the crisis. NGEU was adopted simultaneously with the multiannual EU budget for the period 2021-2027, under which spending has also been reoriented to foster the structural transformation of the European economy.

NGEU, with a total envelope of €750 billon, comprises several instruments. The Recovery and Resilience Facility (RRF) is the centrepiece, with an envelope of €672.5 billion, of which €312.5 billion will take the form of grants and €360 billion the form of loans.[2] The RRF is supplemented with many additional smaller instruments, totalling €77.5 billion, some of which were already in place before the outbreak of the pandemic. The total volume of funds under NGEU amounts to slightly over 5% of EU GDP, but, as discussed above, since the allocation among countries is not proportional to their respective weights in the EU as a whole, this instrument might mobilise funds accounting for almost 20% of some countries' annual GDP in cumulative terms over the duration of the programme (see Chart 1).

NGEU is thus helping to make up for the lack of a common automatic fiscal stabilisation capacity, one of the main shortcomings in the EU's institutional architecture. In the current circumstances, a permanent macroeconomic stabilisation mechanism enabling the heterogeneous effects across countries arising from the materialisation of a risk to be more evenly distributed among them would have been particularly useful. The lack of this common mechanism is, specifically, a significant constraint on the smooth functioning of EMU. Furthermore, strengthening the euro area capacity to address economic shocks also requires completing initiatives such as the banking union and the capital markets union (see Box 1.3).

NGEU financing through large-scale supranational debt issuance represents an unprecedented step that will contribute to reducing the relative scarcity of euro-denominated safe assets. The EU will borrow funds by issuing debt instruments for a volume of up to €750 billion — i.e. the programme envelope —, with different maturities from 2027 to 2058. Under the assumption that this borrowing capacity will be used in full, the pan-European debt stock would double, thus expanding the range of choices available to international investors for the inclusion of euro-denominated assets in their safe asset portfolio, with the additional incentive of yielding a higher return than other euro-denominated assets (see Charts 2 and 3).[3]

Despite its temporary nature, the implementation of NGEU represents a significant step forward in the construction of the European institutional framework. The evidence available shows that the confirmation of news reflecting progress in this connection, insofar as they are perceived as strengthening European construction, has historically led to a reduction in euro area countries' sovereign bond yields.[4] The adoption of NGEU, which was not an exception in this respect, was accompanied by an easing of financing conditions for sovereigns and by rises in stock market indices in the euro area.[5]

In order to receive funds from the RRF, each Member State is required to submit a Recovery and Resilience Plan (RRP) setting out the investments and reforms to which the funds will be allocated. The projects to be financed, which should be structured around six priority

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1 See O. Arce, I. Kataryniuk, P. Marín and J.J. Pérez (2020), *Thoughts on the design of a European Recovery Fund*. Occasional Papers, No. 2014, Banco de España.

2 These amounts are expressed in 2018 prices and, therefore, will be larger in practice after accounting for cumulative inflation since then.

3 See M. Delgado-Téllez, I. Kataryniuk, F. López-Vicente, and J.J. Pérez (2020), *Supranational debt and financing needs in the European Union*, Occasional Papers, No. 2021, Banco de España.

4 See I. Kataryniuk, V. Mora-Bajén and J.J. Pérez (2021), *EMU deepening and sovereign debt spreads: using political space to achieve policy space*, Working Papers, No. 2103, Banco de España.

5 See Box 5, "Next Generation EU: Main characteristics and impact of its announcement on financial conditions", *Economic Bulletin,* 3/2020, Banco de España.

pillars common to all countries, are to be implemented by 2026. The European Commission (EC) will assess the implementation of each RRP every six months based on a set of criteria, including, among others, alignment with these common priorities, contribution to compliance with the European Commission's country-specific recommendations,[6] implementation by the relevant Member State of the European social rights pillar and allocation of certain minimum percentages of the total funds to the green and digital transitions (37% and 20%, respectively). The criteria to be considered will also include an assessment of the efficiency of the measures adopted, in terms of fulfilment of the milestones and targets proposed by each Member State (see Table 1). In 2022 Member States shall review compliance with their RRPs to ensure that grants have been fully allocated by

NGEU is contributing to make up for the lack of a common automatic fiscal stabilisation capacity. The amount of top-notch credit rating EU bond stocks as a percentage of GDP is more than three times lower than that of US bond stocks.

Chart 1
NGEU GRANTS AND LOANS PER COUNTRY

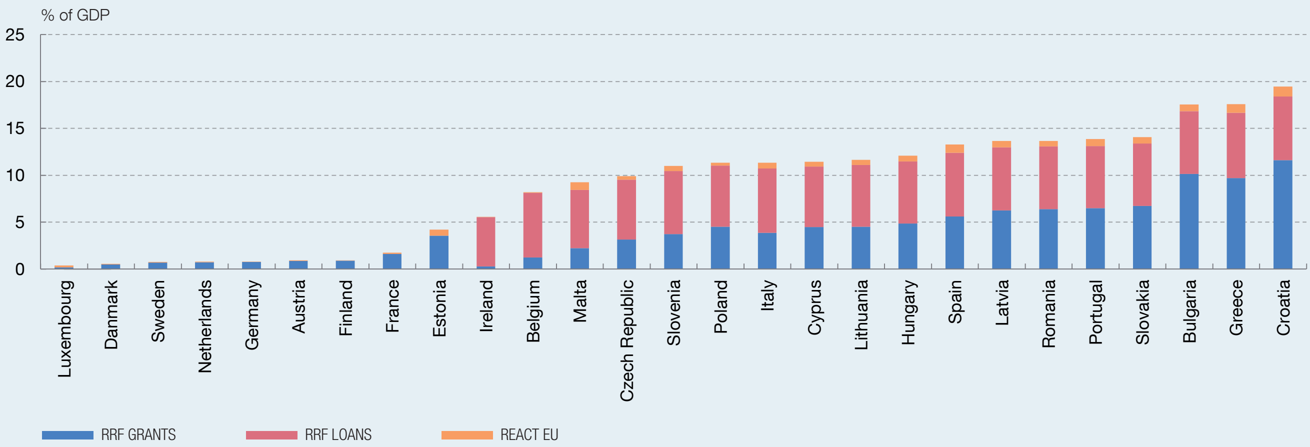


Chart 2
STOCK OF SAFE ASSETS (2019) (a)

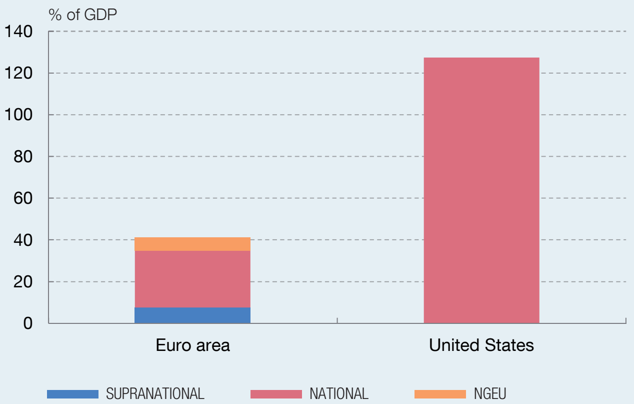
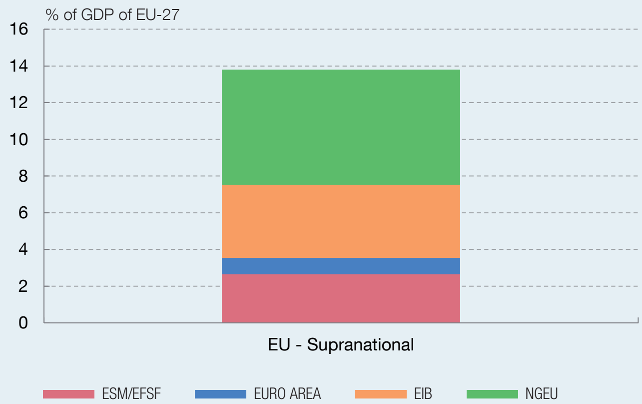


Chart 3
STOCK OF PANEUROPEAN SAFE ASSETS (2019)



SOURCES: European Commission, Eurostat and national statistics.

a Long-term public debt. Rated AAA/AA+ by S&P. National in the euro area includes Germany, Austria, Finland, Luxembourg and the Netherlands.

6 P. García-Perea, A. Millaruelo de la Fuente, A., V.M. Mora Bajén and C. Sánchez Carretero, (2020), *The 2020 European Semester and the specific recommendations for Spain,* Economic Notes, *Economic Bulletin,* 3/2020, Banco de España, elaborate on the specific recommendations relevant to this assessment.

the end of 2023. In addition, prior to that date, each country will be allowed to modify its RRP at any time as a result of the submission of additional investment or reform projects, where these projects are proposed to be financed with loans.

To date, only the first draft RRPs of most Member States, containing a preliminary overview of their projected public investments, are known. The priority areas include the reduction of climate change-inducing emissions, for which projects improving energy efficiency of buildings or promoting electric mobility, for example, through the installation of electric vehicle charging stations, have been proposed.[7] Several countries plan to undertake large-scale transport infrastructure projects, partially financed with Cohesion Funds. The proposed reforms

Table 1
RECOVERY AND RESILIENCE PLAN ASSESSMENT CRITERIA (a)

Criteria	Description	Required rating
Response to the economic and social situation	The RRP contributes in a comprehensive and adequately balanced manner to all six pillars, taking into account the specific challenges, the financial contribution and the requested loan support of the Member State concerned	Majority of As
Adressing country-specific recommendations	The RRP effectively addresses all or a significant subset of challenges identified in the relevant country-specific recommendations, or challenges identified in other relevant documents officially adopted by the Commission in the context of the European Semester, and the RRP represents an adequate response to the economic and social situation of the Member State concerned	A
Smart, sustainable and integrating growth	The RRP strengthens the growth potential, job creation, and economic, social and institutional resilience of the Member State, contributing to the implementation of the European pillar of social rights, including through the promotion of policies for children and youth, and mitigates the economic and social impact of the COVID-19 crisis, thereby enhancing the economic, social and territorial cohesion and convergence within the Union	A
No environmental harm	No measure does significant harm to environmental objectives	Majority of As
Green transition	The RRP contains measures that effectively contribute to the green transition, including biodiversity, or to addressing the challenges resulting therefrom, and that account for an amount which represents at least 37% of the RRP's total allocation	A
Digital transition	The RRP contains measures that effectively contribute to the digital transition or to addressing the challenges resulting therefrom, and that account for an amount which represents at least 20% of the RRP's total allocation	A
Structural reforms	The RRP has a lasting impact on the Member State concerned	Majority of As
Monitoring and implementation	Arrangements ensure effective monitoring and implementation of the RRP, including the envisaged timetable, milestones and targets, and the related indicators	Majority of As
Reasonable and plausible costs	The justification provided by the Member State on the amount of the estimated total costs of the RRP is reasonable and plausible and is in line with the principle of cost efficiency and is commensurate to the expected national economic and social impact	Majority of As
Prevention of corruption, fraud and conflicts of interests	The proposed arrangements prevent, detect and correct corruption, fraud and conflicts of interests when using the funds provided under the RRF, including the arrangements that aim to avoid double funding from the RRF and other Union programmes	Majority of As
Coherent actions	The RRP contains measures for the implementation of reforms and public investment projects that represent coherent actions	Majority of As

SOURCE: Devised by authors based on the European Commission.

a The European Commission assesses the criteria by giving ratings from A (highest) to C (lowest). Countries are required to have an A for the criteria in rows 2,3, 5 and 6 and a majority of As for the other criteria.

7 See M. Lopriore and M. Vlachodimitropoulou (2021), *Recovery and resilience plans for the next generation EU: a unique opportunity that must be taken quickly, and carefully,* EIPA Paper, European Institute of Public Administration.

Box 2.3

NGEU: AN INITIATIVE BOLSTERING THE EU PROJECT (cont'd)

focus on aspects such as administrative simplification (Belgium, Greece and Germany), reform of the judicial system (Greece and Italy) or improving public finance sustainability through different channels, including spending reviews or the introduction of tax reforms (Belgium, Italy and Romania). Finally, as regards RRP governance, several countries (Portugal, Bulgaria, Croatia and Greece) launched public consultations which enabled social agents and the general public to contribute to the design of the proposed measures.