EU priorities and the recovery during Covid19

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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

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<th>Grants</th>
<th>Guarantees</th>
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<td></td>
<td>€ billion</td>
<td>% total</td>
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<tr>
<td>Italy</td>
<td>85.9</td>
<td>19.8%</td>
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<tr>
<td>Spain</td>
<td>80.9</td>
<td>18.7%</td>
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<td>France</td>
<td>43.2</td>
<td>10.0%</td>
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<tr>
<td>Poland</td>
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<td>8.8%</td>
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<tr>
<td>Germany</td>
<td>33.8</td>
<td>7.8%</td>
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<td>EU27</td>
<td>433.0</td>
<td>100%</td>
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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 it’s 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!