

Covid-19 - EU Commission proposes EUR 750 bn recovery instrument

Dear all,

The European Commission (EC) **has formally proposed a new recovery instrument with a size of €750 billion for the EU to help with the economic recovery from the pandemic.** This instrument will be attached to the next multi-annual European budgetary programme – the so-called Multiannual Financial Framework (MFF).

This comes on top of the emergency support measures – the ESM credit lines and the unemployment reinsurance scheme, and European Investment Bank guarantee funds – worth around € 540 billion.

You can find the press release [here](#).

The proposal for the so-called “Next generation EU” fund can be found [here](#).

The EC **proposal would foresee an increase in the own resources ceiling of the EU (the headroom in the budget that allows the European Commission to directly tap capital markets to raise funds) to around 2% of EU GNI.** This would mean that on top of the proposed € 1.1 trillion MFF, the recovery instrument could have an overall proposed size of EUR 750 billion. The EC’s proposal foresees that this is **split into € 500 bn of grants that can be dispersed to Member States through EU programmes and €250 billion in credit lines.**

The size of the grants segments in this context is significant is likely to lead to a politicised fight between Member States who are vocally opposed to the use of non-repayable grants as a form of fiscal transfer. The use of grants is viewed as necessary as it would enable the channelling of support funds to individual Member States without – unlike with loans – increasing public debt levels even further.

HEADLINES

- EUR 750 billion recovery instruments with funds to be raised directly by the European Commission through long-term bond issuance with varying maturities repayable between 2027 and 2058.
- **Increase of EU own resources to service debt** - the EC will come forward with concrete proposal for generation of additional own resources for the EU to service the long-term debt. This includes:
 - a common consolidated corporate tax base,
 - a digital tax,
 - a carbon border adjustment mechanism,
 - a plastics packaging waste tax,
 - resources from the Emission Trading Scheme.
- **All funds towards green and digital transition** - all funds disbursed through the recovery instrument and the attached EU funding programmes will be geared towards achieving the overall political objectives of a “digital and green transformation” of the EU economy.
- All resources in the recovery instruments will be channelled through to Member States to support national recovery measures before 31 December 2024.
- **Three pronged use of resources** - including through support for national recovery programmes, boosting existing EU funding programmes, as well as boosting private investments.
- **Recovery and Resilience Facility** – the facility has a proposed capacity of €560 billion (310 in grants and 240 in loans) that will be channelled to Member State national recovery

programmes and to support the green and digital transition. The distribution of the facility funds will be done in such a way as to even out national imbalances across the EU to the best extent possible and make sure that funds are flowing to those areas most affected by the pandemic.

- **Member States to request funds from the facility through the European Semester** – Member states will have to as part of their national recovery plans draw up proposals to request funds from the facility as part of the EU budgetary surveillance mechanism, with approved funds being disbursed to Member States in instalments as and when pre-defined milestones and benchmarks are met.
- **Increase in funds for the EU Just transition fund from €10 billion to €40 billion** – to provide an additional financial boost to help those Member States that are most affected by the green transition on their progress towards carbon neutrality.
- **Recognition that current funding and liquidity support for EU companies will not be enough and creation of Solvency Support for companies** – as a result the EC is proposing the creation of a Solvency Support Instrument that can mobilise private resources to aid companies that would without the impact of Covid have been fully viable, but may due to pandemic face liquidity pressures. The overall size of this support instrument through also leveraging EIB funding mechanisms could be up to €300 bn.

OUTLOOK

It is important to note that this remains a proposal from the European Commission at this stage and will be subject to fraught negotiations between Member States in the Council. That said, given the urgency of the situation, the EC is asking Member States to do their utmost to reach an initial agreement on the core elements of this proposal as early as the meeting of Head of State and Government scheduled for July 2020.

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