

Non-paper EU support for COVID-19 recovery

The COVID-19 crisis is hitting EU Member States hard, both socially and financially. It is clear that the EU needs a common recovery strategy to overcome this crisis. A temporary Recovery together with a modified MFF can contribute to this end.

The Commission's Spring Forecast shows that all Member States will suffer from a large economic contraction in 2020 with an asymmetric recovery in 2021. A smaller economy and lower GNI means that the relative share of Member States' contribution to the EU budget as part of their total expenditures will increase. At the same time, national budget deficits are rising fast in an effort to stem the crisis. Additional funds for the EU budget, no matter how they are financed, will strain national budgets even further. That is why we need a clear **needs assessment** to be able to target the limited funds that will become available to the Member States, sectors and segments that are most hit; the funds should be directed to activities that can contribute most to the recovery. These can be efforts to support national reforms and can strengthen the internal market, including through investments in growth-enhancing and future oriented areas such as research & innovation, the green recovery and digitalisation. Moreover, an EU response should have clear added value added to national efforts.

In order support recovery from COVID-19 through a modified MFF, we **first of all should look within the MFF** to find savings by **reprioritizing**, for example by cutting margins and special instruments and adjusting the deflator. Secondly, **frontloading** of COVID-19-related expenditure in the first two years of the new MFF can help to kick start the economy and speed up recovery. For instance by temporarily and partially extending the current flexibilisation of Cohesion policy as part of the CRII. In the modified MFF corrections for net payers remain structurally important to enable fair burden sharing.

Additional funds that are needed can be provided through a Recovery Fund along the following lines:

- **Firms (private investment):** In case of solvency issues in firms, support should be done via **InvestEU/EIB**. Substantial capital support should go hand in hand with a **bail-in from stakeholders** (i.e. no dividends, bonuses, cut in wages of board members, etc.). The EIB could support firms through **grants in exchange for equity capital or highly subordinated debt**, to share in the upside. This should be on the same terms as national state aid to avoid a preference for InvestEU that might crowd-out companies that need it mostly. No loss financing is to be considered.
- **Sovereigns (public investment):** as this crisis hits all member states, access to additional financing should be available on a voluntary basis to all Member States that are committed to undertaking **structural reforms that promote growth potential and economic resilience** and enhance the ability of Member States to pay back their (increased) debt. The BICC that combines reforms and investments can serve as inspiration for the recovery fund, but with modifications commensurate to the growth challenges ahead. Access to investments would require strict commitment to reforms and should be targeted to the Country Specific Recommendations to achieve full compliance; the more ambitious the reform plans and the more it contributes to growth potential the more funds are allocated. Actual release of funds is to take place in tranches dependent on implementation of reforms. Member States commit to keep the reforms in place in the coming 5 years or otherwise pay back the funds received as originally proposed. Investments, which become available after the enactment of the reform, are based on the needs assessment and come mainly as loans, with possible grants after completion of the reform. Adherence to Rule of Law and combating fraud with EU funds is a basic premise of using the funds. To protect the funds of the Recovery Instrument from fraud, strong involvement of OLAF, EPPO and ECA is warranted.

Based on a needs assessment these additional investments could take the following form:

1. **Temporary top-ups of existing MFF programmes** can be discussed. These programmes already support a wide range of activities, covering most of the needs following from COVID-19, such as Health, BICC and InvestEU. These top-ups should be limited in time to 2021 and 2022 to maximize their effect on kickstarting the economy.

Financing can be done through temporary additional contributions. To make the system as transparent, fair and simple as possible these contributions could be based on GNI. No rebates are needed for these top-ups as a further form of solidarity.

2. **Possibility for loans (i.e. not grants) temporarily (two years) and only in response to COVID-19** can be discussed. Requirements and principles could be laid down in the Own Resources Decision. Unused headroom would fall free after the two-year period.

In parallel to these extra investments, we need a package to restore and deepen the internal market in the areas of the market for services, digital goods and the capital markets. Such a package should at least include effective and controllable commitments of Member States to remove impediments within the internal market as well as an independent task force (e.g. Single Market Enforcement Taskforce) to enforce these commitments.

Some Member States argue in favour of using 'loans for grants' to fund additional spending through the EU budget. We oppose loans for grants as this is not in line with the principles in the Treaty and Financial Regulation that the EU budget shall be in balance, the Union may not raise loans within the framework of the budget and that the MFF should be wholly financed by own resources. Besides fundamental complications that may arise in designing such a system, it is not clear whether this type of intervention is needed:

1. **Giving loans allows for much higher leveraging of available funds than giving grants.** This means that with limited funds we can support the recovery of many sectors and regions.
2. For the ESM Pandemic Crisis Support Facility the Commission has recently concluded that all Member States have a sustainable debt. Therefore, all Member States are able to take on a higher Debt/GDP ratio. **If Member States were to face debt sustainability issues, they would first need to restructure to receive EU support.** The Recovery Fund cannot replace the ESM and its existing preconditions.
3. Moreover, high public debt in some member states should be put in perspective: total debt levels (public and private) are higher in many Member States compared to Member States with the highest public debt to gdp level.