EU recovery fund: timetable and links with eurozone governance

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An important aspect of the EU's coronavirus recovery plan is how countries will access the funding they are eligible for. The recovery plan is designed as an extension to the EU's regular budget, and its governance will be integrated within the European Semester process. Member states will submit multi-year recovery and resilience plans as part of the 2021 European Semester, and progress against set milestones and targets will be assessed each year after that.

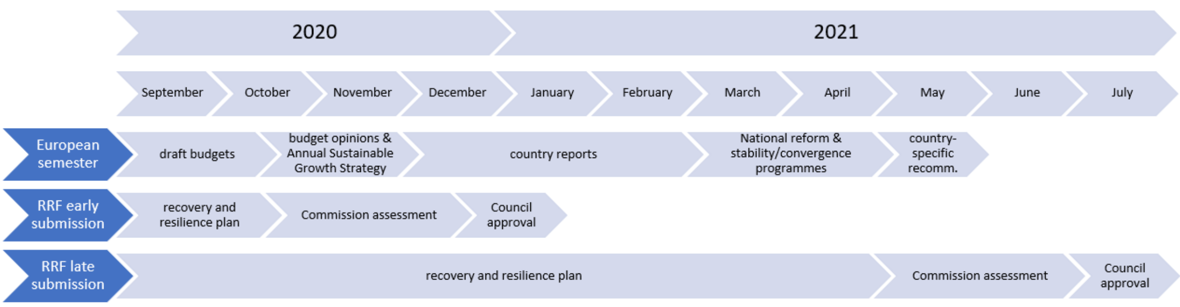
The main framework for this will be the member states' National Climate and Energy Plans. These were submitted in 2019, and were intended to guide government policy coordination over the period of 2021-2030. The main change to the EU's economic governance under the von del Leyen Commission was supposed to be a shift in focus to the EU's sustainable growth strategy, the European Green Deal. While the Coronavirus pandemic has distracted policy attention away from the climate and energy transitions, the European Green Deal remains the overarching framework of EU economic policy. The member states' recovery and resilience plans will need to be compatible with the green transition goals, already set by the member states in their National climate and Energy Plans for the coming decade.

This note looks at how the European Semester will be affected by the Next Generation EU recovery plan, as well as the timeline of the various policy documents by the member states. The focus is on the 2021 European Semester, when the recovery and resilience plans will need to be submitted.

Timeline of recovery and resilience plans

According to the Commission's original proposal for a Recovery and Resilience Facility, member states will each have to submit a recovery and resilience plan to the Commission by 30 April next year (European Commission, 2020). This is considered an annex to the respective National Reform Programme, which is due each year in April. The recovery and resilience plan can be submitted earlier, though, alongside the draft national budget which is due in mid-October.

Figure 1: initial recovery plan submissions within the European Semester (see text)



Some countries, such as France, have released stimulus plans as early as this month, so presumably they may submit their recovery and resilience plans together with the draft budget in October. It is unclear whether other member states will follow suit, but it seems likely. According to the original design, however, governments could wait to receive the opinions on their draft budgets, issued by the Commission in November, and the country reports issued by the Commission next February. Member states would finalise their recovery and resilience plans only then, to be submitted alongside their national reform programmes in April. Instead, what is likely to happen is that member states will submit their recovery and resilience plans with their draft budgets by October 15, and then build next year's National Reform Plans around their recovery and resilience plans. Figure 1 summarises how all this fits together.

The Council conclusions require the assessment of the recovery and resilience plans to be based on various EU policy goals. These are: improving growth potential, and creating jobs; increasing social and economic resilience; and contributing to the green and digital transitions.

Countries already have current policy documents issued by themselves or the Commission to address each of these goals. What this means is that one can expect recovery and resilience plans to include projects that the member states already intended to carry out anyway, perhaps on a faster schedule than would have happened otherwise. It remains to be seen whether member states will reduce their investment of their own funds in areas not subsidised by the EU's recovery fund. In other words, whether the recovery fund money will lead to a net increase in investment or just a redirection of investment flows.

The latest forward-looking country-specific recommendations date from May/June this year, after the Covid-19 pandemic had forced European countries into lockdown. But the recovery and resilience plans also need to be consistent with National Climate and Energy Plans covering the decade of 2021-2030. The National Climate and Energy plans were submitted by the respective member states in 2019 and are expected to undergo a mid-term review in 2024. By then, all the commitments under the Recovery and Resilience Facility will have been made. This implies that compatibility with the National Climate and Energy plans will steer recovery and resilience plans in a direction unrelated to the pandemic.

The July European Council conclusions mandate the Commission to assess the recovery and resilience plans within two months of their submission (European Council, 2020). Then the Council would approve this assessment within a further four weeks, unlocking the commitment of funds. Funding for projects starting in 2021 will be authorised then, and disbursed until the end of 2024. If member states wait until April 30 to submit their plans, their approval must be done by the end of July. But, if they submit them by October 15, the approval process will be finalised by mid-January. This may allow grants to be disbursed early in 2021.

There is a mechanism for amendments to the recovery and resilience plans, which is tied to the loan component of the Recovery and Resilience Fund. Countries are not required to apply for loans, and so the initial recovery and resilience plans need only appeal to the grant component of the fund. However, at any time until the end of 2023, when all the spending from the fund must have been committed, member states can request loans for additional reforms or investment. These requests can be accompanied by a revised recovery and resilience plan. It is quite likely that they always will.

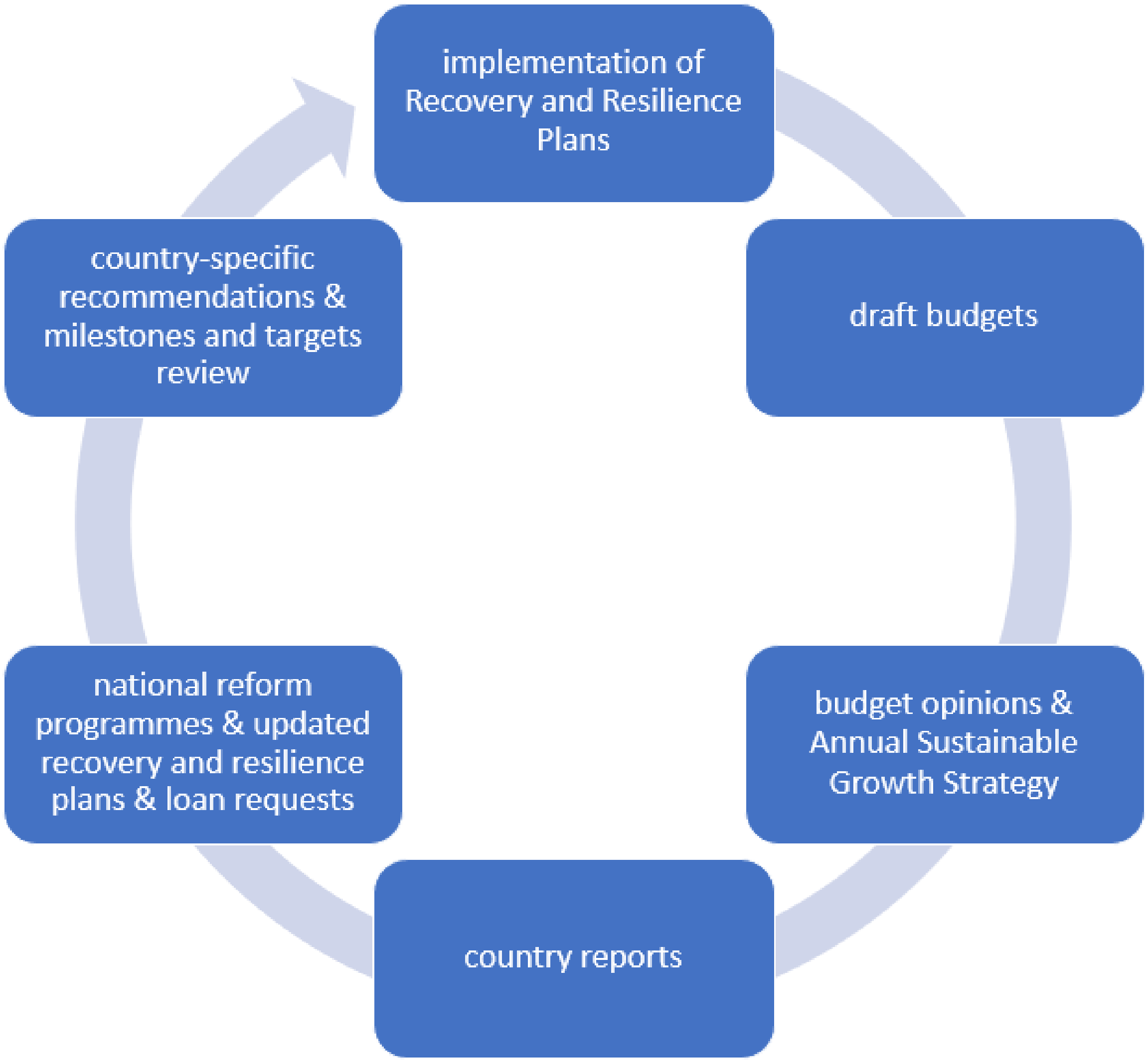
In addition, the Council conclusions foresee that recovery and resilience plans will be reviewed in 2022. This review will support the final allocation of funds in 2023, to ensure money that is available for the recovery does not remain unspent. All commitments must be made by the end of 2023, even if payments can continue until the end of 2026.

Recovery and resilience plans must incorporate targets and milestones tracking the progress of investment programmes. These are likely to be annual, to be reviewed as part of the European

Semester. The release of funds in future years will depend on recipient countries meeting their self-imposed targets and milestones. The Commission's country reports each February, and the country-specific recommendations each May, are likely to be the vehicles for the assessment of these targets. The European Commission is also required to seek an opinion from the Economic and Financial Committee on each member state's fulfilment of its milestones and targets.

The conclusions of the July Council foresee that member states can challenge each other on the fulfilment of these milestones and targets. In that case, the situation is resolved with the involvement of the European Commission and the Council itself. This process of review should not take more than three months after the Commission asks for the opinion of the Economic and Financial Committee. Depending on when the Commission does this, a challenge could be resolved in the second quarter of each year, or at the latest by the end of July. Figure 2 is a stylised representation of how the recovery and resilience plans fit within the annual cycle of the European semester.

Figure 2: the recovery and resilience plans in the annual cycle of the European Semester (see text)



Eurozone economic governance and the green deal

The European Green Deal is the EU's growth strategy for the next three decades (European Commission, 2020). Its three goals are: to ensure the EU has no net greenhouse gas emissions by 2050, to decouple economic growth from resource use, and to achieve this in an inclusive way.

The big policy initiative of the von der Leyen Commission was supposed to be the European Green Deal. This would involve an overhaul of the European Semester. Member states were supposed to supplement their reform and stability/convergence programmes with new National Climate and Energy Plans.

For this reason, the European Commission has renamed the Annual Growth Strategy, which used to kick-start the European Semester each November, to Annual Sustainable Growth Strategy. The European Green Deal becomes the long-term policy framework informing the first step of the European Semester, which will no longer be focused solely on government debt and deficit and on member states' macroeconomic imbalances.

National Climate and Energy Plans and Just Transition Plans

As we have noted, member states' national climate and energy plans for 2021-2030 were produced in 2019 and will be subject to a mid-term review in 2024. A complement to the European Green Deal is the Just Transition Mechanism. This is a combination of European Commission grants and European Investment Bank support for private-sector investment and public-sector loans, supported by the 2021-2027 EU budget and augmented by the EU's recovery plan (European Parliament, 2020). The Just Transition Fund was adopted to ensure the sustainable growth strategy had buy-in from countries with regions heavily dependent on emissions-intensive industries or coal mining. All countries are eligible based on these dependences. Member states are expected to produce Just Transition Plans by the end of this year. The recovery and resilience plans are supposed to also be compatible with Just Transition Plans where appropriate.

National reform and stability/convergence programmes

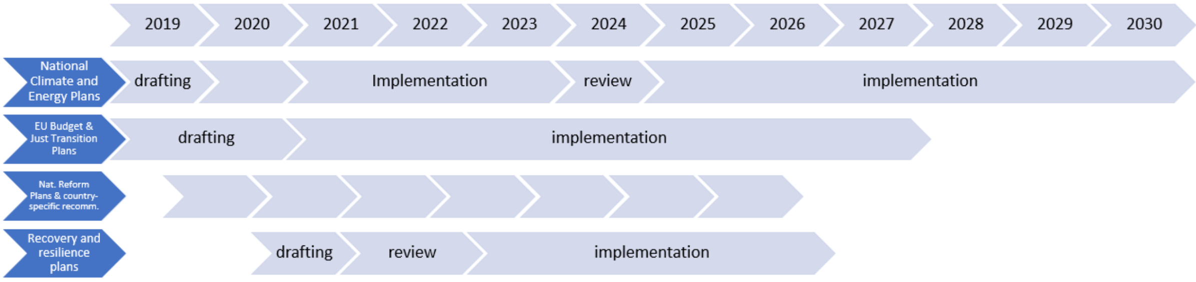
National reform programmes are the member states' main contributions to the European Semester. They are due in April, and respond to the Commission's country reports issued in February.

Originally, the European Semester was focused on budgetary convergence and compliance with the Maastricht criteria of a deficit not exceeding 3% of GDP and a debt-to-GDP ratio below 60%. Member states submit a three-year budget plan. This is called a stability programme for eurozone countries, and a convergence programme for non-eurozone countries as most are required by the treaties to aim for eurozone membership.

This is supplemented by a National Reform Programme. Initially this was focused on fostering economic growth and employment. With the eurozone government debt crisis, the issue of macroeconomic imbalances came to the forefront and National Reform Programmes also have to address the Commission's macroeconomic imbalance indicators, such as the current account balance and international investment position, export shares, or private debt ratios.

With the introduction of the sustainable growth strategy, National reform programmes should be expected to also address how each member state is progressing on its National Climate and Energy Plan. How all of these policy drafting processes fit together with the recovery and resilience plans is summarised in figure 3.

Figure 3: integrated timeline of policy documents feeding into recovery and resilience plans (see text)



Conclusions

Money from the recovery and resilience facility must be committed to projects by the end of 2023, and disbursed until the end of 2026. recovery and resilience plans, therefore, will be medium-term policy plans for the period of 2021-2026. They will include targets and milestones, likely annual. These plans will be reviewed in 2022 to ensure any remaining funds are committed by the end of 2023. Member states will be able to amend their recovery and resilience plans at any time in 2021-2023, when they submit requests for loans under the Recovery and Resilience Facility for additional reforms or investments.

This all means that the initial recovery and resilience plans will determine how the first 70% of the grants from the EU Recovery and Resilience Facility will be spent. The remaining 30%, to be committed in 2023, will be allocated to the member states in the 2022 review. So, it is not necessary that the initial plans detail how this additional money is to be spent. Countries can apply for loans for additional reforms or investment at any time until the end of 2023, so it is also not necessary that the initial plans detail how much of the loan component will be drawn or how loan money will be spent. Because no money can be committed after 2023, even though it can be disbursed until 2026, the 2022 review will be very important.

Recovery and resilience plans must be compatible with several economic governance documents produced by the member states themselves and by the Commission. These include the respective National Climate and Energy Plans, which are ten-year plans drafted in 2019 to meet sustainability and climate targets for 2030; the National Reform Programmes submitted by the member states in April; and the Commission's country-specific recommendations from May.

The direction of investment of EU recovery fund money will be determined by these framework documents. But nowhere does it say that the investment funded by the recovery fund must be additional to what member states would have done otherwise. It is entirely possible that member states will fund their investment out of the EU recovery fund, at the same time reducing other investment from their own budget to reduce their deficits and their debt ratios. It will be up the Commission in the European Semester, through budget opinions, country reports, and country-specific recommendations, to ensure recovery fund investment is additional and not a replacement for other investment. The EU recovery fund is a strong incentive to steer investment in the direction of sustainability and the green and digital transitions. But, by itself, the recovery fund cannot ensure that the dearth of public investment in the past decade is repaired.

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