

An EU Recovery Fund: How to square the circle?*



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Following the Heads of State and Government meeting on 23 April, this note provides a snapshot of the current and recently proposed EU budgetary and financial support instruments in view of the discussions on possible building blocks for a new European Recovery Fund. This note was originally published on 27 April 2020 as [briefing](#) for Members of the European Parliament. The views expressed in this article are solely those of the authors and do not represent an official position of the European Parliament.

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On 23 April, EU Leaders [agreed](#) to work “towards establishing a recovery fund, which is needed and urgent. This fund shall be of a sufficient magnitude, targeted towards the sectors and geographical parts of Europe most affected, and be dedicated to dealing with this unprecedented crisis. We have therefore tasked the Commission to analyse the exact needs and to urgently come up with a proposal that is commensurate with the challenge we are facing. The Commission proposal should clarify the link with the MFF, which in any event will need to be adjusted to deal with the current crisis and its aftermath.”

The Commission indicated that it aims at presenting its proposal by 6 May, clarifying its link to a revised and more ambitious Multiannual Financial Framework (MFF).

Some elements that need to be taken into account are presented below.

Within the MFF, there are two main constraints:

- In accordance with [Art. 310 TFEU](#), the EU budget must be in balance. Therefore, all its budget expenditure must be matched by revenues (national contributions and EU traditional own resources). In other words, the EU budget cannot have deficits financed by borrowing on the market;
- The EU can borrow on the market only to provide loans to Member States, and therefore not to finance other expenditures. Loans are provided “back-to-back”, i.e. with exactly the same conditions. Such borrowing is limited to an amount corresponding to the difference (“headroom”) between the maximum revenues and the planned expenditures of the EU budget.¹

Therefore, for the new Recovery Fund to be within the MFF and respect the EU budget constraints, the EU revenue ceiling must be raised.² This would allow:

- to increase the amount of EU budget expenditures: new funds could be given as grants to the beneficiaries, within the new limits;
- to increase the amount that can be borrowed and then lent to Member States (by increasing the “headroom”);
- to increase the amount used to reinforce the European Investment Bank (that makes loans to companies) and/or European Investment Fund (that provides risk-capital, including by acquiring shares);
- to establish any new EU financial instruments (e.g. a EU equity fund).

Once the general purpose of the Fund is agreed, at least three different dimensions of its design need to be considered, each of them with several options. These dimensions are: funding, spending, and governance.

¹ The EU own resources ceiling determines the maximum amount of own resources (revenues) in a given year that can be used for EU payments (expenditures) and operations guaranteed by the EU budget. The so-called headroom is the difference between the own resources ceiling and the MFF payment ceiling. The headroom is needed for many purposes, e.g. risks of non-repayment on EU lending, a safety margin in case of an unexpected drop in EU gross national income etc.

² Increasing the revenue ceiling requires amending the EU own resources decision (involving a Council decision by unanimity, consultation to the European Parliament and ratification by national parliaments).

Some options are presented below, together with the models that are currently applied (i.e. existing EU instruments). For each option, much more details could be specified, but they are not dealt with here.

- (1) In what concerns the **funding leg** of the Recovery Fund, one can note the following options based on current EU instruments:
 - Increase the MFF appropriations earmarked for grants to beneficiaries;
 - Issuing bonds, backed by the EU budget, up to the amount given by the margin, e.g. [EFSM](#) model;
 - Issuing bonds backed by the EU budget and with back-guarantees provided by Member States, e.g. [SURE](#) model;
 - Possible additional funding provided by optional (or intergovernmental) Member States contributions ([BICC](#) planned model for euro area Member States).

- (2) As to the **spending leg**, there are essentially the following current options, based on current EU instruments:
 - Grants from the EU budget, including e.g. grants provided under the Common Agricultural Policy; the structural funds (grants for investments, to be matched by national/private contributions); financial contributions (grants to be matched by “variable” national contributions on the basis of progress in reforms implementation (the planned [BICC](#) model);
 - Loans, as in the EFSM and SURE models, or EIB loans to companies, based on a EU budget guarantee (EFSI model);
 - Equity financing by the European Investment Fund, which is co-owned by the EU.

- (3) The **governance** of such Recovery Fund could be:
 - Based on the “community method” (making use of the EU bodies and institutions as decision makers): that is the case for disbursements under the EU budget, where decisions are mostly taken by Council and Parliament and execution is left to the Commission; or disbursements under the SURE, EFSM or EIB;
 - Based on an intergovernmental method such as the [ESM](#) and the EFSF.

There are currently no mixed models of governance. Nevertheless, the BICC model (as proposed) is an example of a mixed governance model, insofar the Euro Summit and the Eurogroup provide strategic guidance on the scope of the spending priorities, implemented by the Commission.

The Annex presents, in tabular format, an overview of the current EU budgetary and financial instruments.

ANNEX

Table: A simplified overview of current, proposed and discontinued EU financial and budgetary instruments providing loans and grants

Instrument	Legal basis	Funding	Disbursements	Decision-making / Implementation	Capacity	Addressees
EU programmes (based on the headings of the MFF)	Multiannual Financial Framework (MFF) based on Article 312 of TFEU	EU own resources and contributions from Member States (based on GNI and VAT)	Mostly grants (depending on the specific programme)	Adopted by the European Parliament and the Council, on a proposal from the Commission	Around EUR 148bn per year (2019 figure; EU 28 level of payments)	All EU Member States (a variety of final beneficiaries)
BICC + CRI (RSP + BICC governance (proposals))	RSP: Arts. 175/3 and 197/2 TFEU BICC governance: Arts. 136/1/b and 121/6 of TFEU	MFF spending programme based on the EU budget + possible inter-governmental agreement for BICC	Grants	Eurogroup and Council (qualified majority)	To be decided in MFF 2021-2027	BICC - Euro Area (EA) Member States CRI - non EA Member States
SURE (proposal)	Art. 122 TFEU	Borrowings by Commission, guaranteed by the EU budget and back-guaranteed by EU Member States	Loans	Council (qualified majority)	100bn	All Member States
EFSI (InvestEU)	Articles 172 and 173, the third paragraph of Article 175 and Article 182 (1) of TFEU	Borrowing by EIB based on guarantees by the EU budget and EIB and EIF capital	Loans	EIB + Steering Board, an Investment Committee and a Managing Director	EUR 85.4bn financing approved (EUR 466bn investment mobilised) in 2019	All EU Member States (companies)
EIF	Statute signed by the shareholders Company owned by EIB, EU and national financial institutions	Borrowing on the markets based on EIF capital (including back-guarantees EU budget)	Equity investment	Board of Directors	EUR 10.1bn used in 2018 (€ 58.9bn leveraged for SMEs)	SMEs in all EU
MFA	Article 212 of TFEU and Joint Declaration by the EP and Council	Borrowings by Commission guaranteed by the EU budget	Loans and grants	Co-decision procedure	Depending on EU Budget limits	Third countries
BoP Facility	Art 143 TFEU; Council regulation 332/2002	Borrowings by Commission guaranteed by the EU budget	Loans	Council (qualified majority)	EUR 50bn	Non-euro area Member States
EFSM	Art 122 TFEU; Council regulation 407/2010	Borrowings by Commission guaranteed by the margin of EU budget	Loans	Council (qualified majority)	Depending on EU Budget limits (EUR 60bn in 2010)	Euro area Member States
ESM	Intergovernmental agreement based on Art 136 TFEU International financial institution	Borrowings in international capital markets guaranteed by ESM capital	Loans	ESM Board of Governors	Around EUR 704bn (704 798.7 million)	Euro Area Member States
EFSF (discontinued)	Intergovernmental agreement between EA MS Company by shares owned by EA MS	Borrowings guaranteed by EA MS on the basis of ECB capital key	Loans	Unanimity of EA Member States	EUR 440bn	Euro Area Member States
Greek Loan Facility (discontinued)	Intergovernmental agreement between EA MS	Each MS funding	Loans	Unanimity of participating EA Member States	EUR 80bn (minus EUR 2,7 bn)	Greece (created in 9 May 2010)

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