The EU budgetary package 2021-2027 almost finalized[23]

Diese Kurzanalyse gibt eine Einschätzung des EU-Budgetpakets für 2021-2027, einschließlich des EU-Aufbau-Instruments „Nächste Generation EU" (EURI-NGEU). Meilensteine sind die gemeinsame Schuldenaufnahme am Kapitalmarkt durch die EU für die Programme unter EURI-NGEU und der verstärkte Fokus auf klimapolitisch relevante Ausgaben. Insgesamt bleiben die EU-Budgetausgaben in Relation zum EU-BIP mit 1,5% jedoch niedrig und nationale Fiskal- sowie (gemeinsame) Geldpolitik sind für die gesamtwirtschaftliche Stabilisierung in der EU weiterhin zentral. Das Fehlen einer raschen und umfangreichen gemeinsamen stabilisierenden Fiskalpolitik wird die Unterschiede, die zwischen den EU-Ländern hinsichtlich der Höhe der staatlichen Bruttoverschuldungsquoten bestehen, vermutlich erhöhen.

EURI-NGEU Zuschüsse, die ja besonders relevant für EU-Mitgliedstaaten mit unterdurchschnittlichem Pro-Kopf-Einkommen sind, zielen vor allem auf die Finanzierung öffentlicher Investitionen für einen Strukturwandel durch Klima- und Digitalisierungsprojekte. Ein Teil dieser Zuschüsse könnte auch COVID-induzierte nationale Fiskaldefizite finanzieren helfen, allerdings nur in einem geringen Ausmaß. Die Effizienz der öffentlichen Verwaltung wird die wichtigste Herausforderung bei der Implementierung dieser Projekte sein. Gegenüber dem ursprünglichen Vorschlag der EU-Kommission kürzte der Europäische Rat die Finanzierung von EU-weiten strategischen Investitionen und von Programmen außerhalb der EU (Nachbarschaftspolitik, Entwicklungszusammenarbeit, Humanitäre Hilfe) – für diese Programme stehen inmitten einer globalen Pandemie nun sogar weniger Mittel zur Verfügung als in der Vorperiode 2014-2020 (basierend auf EU27). Außerdem gefährden Kürzungen des Europäischen Rats beim vorgeschlagenen Volumen des „Fonds für einen gerechten Übergang" (Just Transition Fund), der der Finanzierung des sozialen Ausgleichs für den Ausstieg aus klimaschädlicher Produktion dient, das Erreichen des Ziels eines 30% Anteils der Klimaausgaben an sämtlichen EU-Ausgaben (exkl. Kredite).

Auf der EU-Budgeteinnahmenseite gibt es erste Ansätze für die Erschließung neuer EU-Eigenmittel zur Finanzierung der Schuldenaufnahmen für EURI-NGEU. Während das Europäische Parlament und die Europäische Kommission zudem auf ein Ausschleifen der nur für einen Teil der netto-zahlenden Mitgliedsstaaten bestehenden „Rabatte" auf den relativ zum Volkseinkommen berechneten nationalen Beitrag zum EU-Budget drängten, beschloss der Europäische Rat, diese Beitragskürzungen für Österreich, Dänemark, Niederlande und Schweden, nicht jedoch Deutschland zu erhöhen.

An Assessment

The EU budgetary package 2021-2027 is a major joint effort in response to the severe economic crisis resulting from the COVID-19 pandemic. The European Union Recovery Instrument, called Next Generation EU (EURI-NGEU), complements the regular Multiannual Financial Framework (MFF) and is funded through common borrowing on the capital markets by the European Commission on behalf of the Union. This common borrowing does not increase the national public debt levels. EURI-NGEU increases total EU budgetary expenditures (non-repayable) in real terms by a third and provides another third as funding for loans.

While fully acknowledging the historic step forward, one must recall that even when including EURI-NGEU expenditures, total annual EU budget expenditures remain small at just 1.5% of annual gross national income (GNI), as opposed to annual national public expenditures of about

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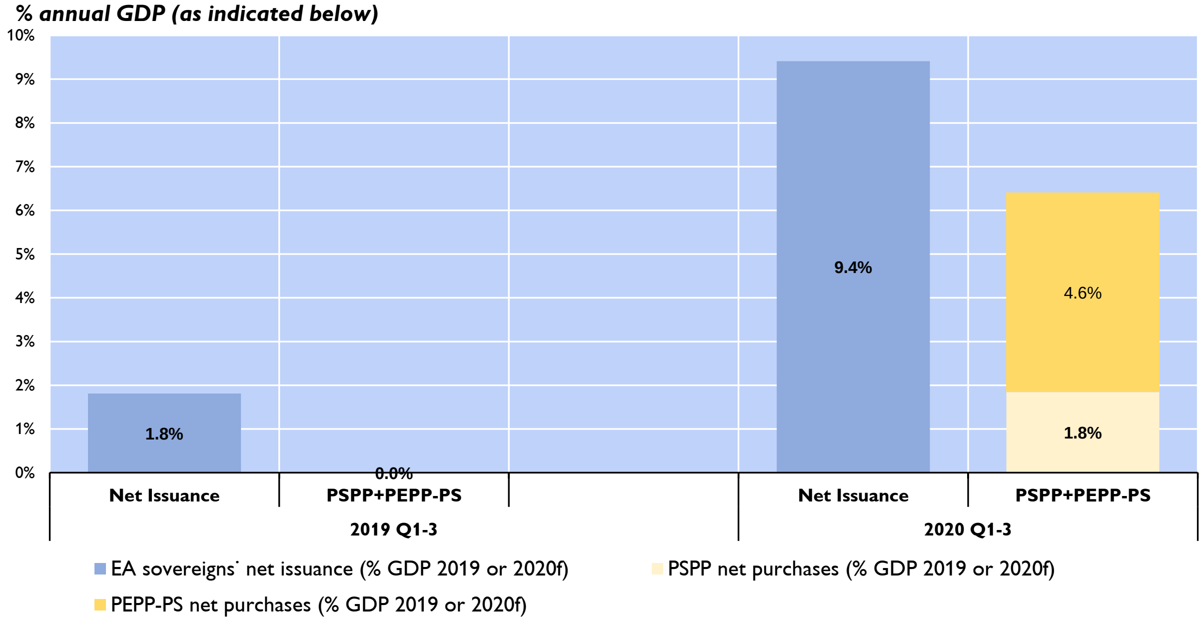
50% of annual GDP on average in the EU. In fact, absolute multi-annual figures from cumulating annual amounts over seven years (2021-2027) for the whole Union are usually at the center of negotiations and may cause quite a misleading impression in the public. Moreover, the rise in the expenditures-to-GNI ratio compared with the EU27 MFF 2014-2020 is only 0.3 percentage points. In this vein, it is obvious that the EU budgetary package is not a substitute but is complementary to EU central banks' quantitative easing (QE) policies for preserving macroeconomic stability. These unconventional monetary policies were even more necessary in 2020, when euro area governments posted net issuance of national sovereign debt of 9.4% of annual GDP already in the first three quarters, while the ECB's net purchases of public-sector debt on the secondary market amounted to 6.4% (see Chart 1). Hence, the ECB's QE was decisive to ensure both the functioning of the monetary transmission mechanism and financial stability, including by minimising the risk of destabilising sovereign debt crises. The lack of an early and bold common EU fiscal stabilization policy in response to COVID-19 will likely lead to more heterogenous public debt ratios of EU member states and likely make the exit from unconventional monetary policy in the future significantly more difficult.

Chart 1

Comparing the order of magnitude:
EA national sovereigns' net issuance versus ECB secondary market net purchases



Source: European Central Bank (2020a, b, d). European Commission (2020a), Own calculations.

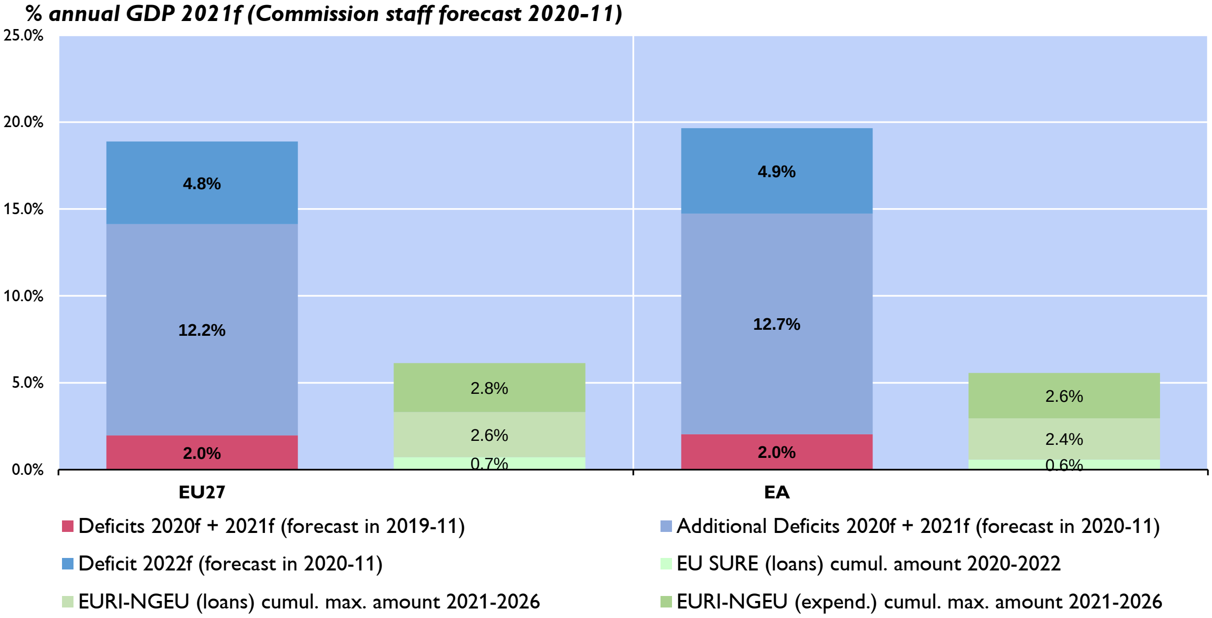
The EU budget, and particularly EURI-NGEU, will above all provide a highly welcome public investment impulse for structural change under a medium-term perspective. In addition, EURI-NGEU may moderately contribute to financing forecast COVID-induced deficits, but it may do so only to a small extent in the form of grants and hence without raising the national public debt levels. To the extent that EURI-NGEU helps finance COVID-induced deficits with grants and mainly loans, it moderately complements the minor common EU fiscal stabilisation policy response that is provided via the EU loan programme called SURE (for 'Support mitigating Unemployment Risks in Emergency'), which was established in 2020 to help finance short-time work schemes.

The fact that EURI-NGEU is primarily oriented towards structural issues explains its overall smaller order of magnitude compared to the COVID-induced fiscal deficit shock: Chart 2 shows multi-annual figures as a percentage of annual GDP, comparing the COVID-induced fiscal deficits in 2020-2022 with cumulated SURE loan payouts in 2020-2022 and cumulated maximum EURI-NGEU loan and grant payments 2020-2026. In addition to the comparatively smaller order of magnitude, the chosen EURI-NGEU structural policy-focus and its political, legal and administrative hurdles imply that first payments of EURI-NGEU funds will hardly take place before the second half of 2021 and total payouts are likely to stretch over six years until end-2026. This protracted approach further limits the relevance of EURI-NGEU for financing COVID-induced fiscal deficits.

Chart 2

Comparing the order of magnitude:
Public deficits 2020-2022 vs. SURE 2020-22 and EURI-NGEU's max. amount 2021-26

% annual GDP 2021f (Commission staff forecast 2020-11)



Source: Council (2020b, i), European Commission (2020a, q). EU (2020b). Own calculations.

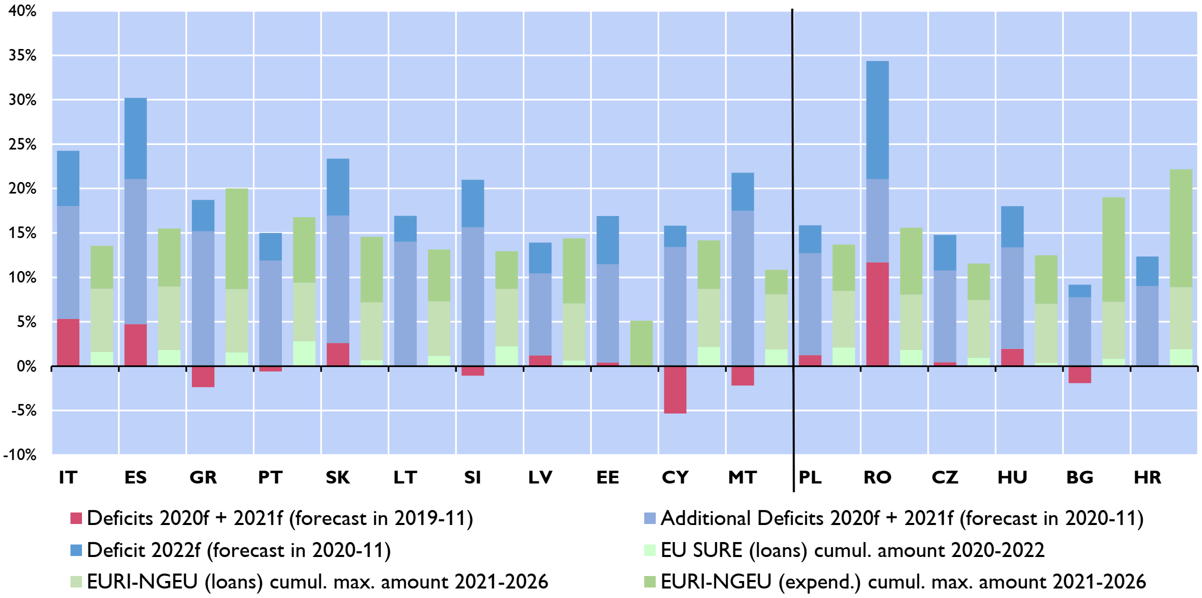
Within total expenditures (not loans) of the 'Recovery and Resilience Fund' (RRF), the largest EURI-NGEU programme, the target share of spending on climate-related measures is set at 37% and that for digitisation projects at 20%, to foster structural change. All member states that do not have very high public debt ratios, where large additional deficits could lead to market funding pressures, would be economically well advised to use these targeted RRF funds exclusively for additional climate-/digitisation-related investment projects to accelerate structural change and meet agreed longer-term climate goals, instead of using them for already previously (i.e. in pre-Covid times) envisaged climate-/digitisation-related investment projects. In terms of decision-making, a lot will depend on the political will of each member state and on the stance of the European Commission.

Particularly for several EU member states with below-average per-capita income the impact of EURI-NGEU could be sizeable, both for structural improvements and potentially for contributing to financing COVID-induced fiscal deficits (see Chart 3). To a large extent, the real value of EURI-NGEU hinges on the successful implementation of high-quality investment projects. It will constitute a major challenge for the administration and governance of each member state and the European Commission to couple spending for economic recovery with the start or intensification of structural reforms that tackle climate change and enhance digitisation and, more generally, strengthen the potential for sustainable and inclusive growth.

Chart 3

Comparing the order of magnitude: For EU-MS of below-average GDP per capita: Public deficits 2020-2022 versus SURE 2020-22 and EURI-NGEU's max. amount 2021-26

% annual GDP 2021f (Commission staff forecast 2020-11)



Source: Council (2020b, i), Darvas (2020a, b, c), European Commission (2020a, q). EU (2020b). Own calculations.

Compared with the Commission's proposal, the European Council position reflected in the final EU budgetary package 2021-2027 envisaged a lower amount of EURI-NGEU grants and thus a far smaller rise in 'EU-wide Strategic Investments' (relative to EU27 MFF 2014-2020 levels in 2018 prices), while concentrating remaining grants on national 'Recovery and Resilience Plans' (see Table 1). Moreover, the final EU budget resulting from the European Council decisions and particularly the cuts in proposed EURI-NGEU grants even envisages a decline (instead of the proposed substantial increase) in funding for 'External Action', including the Neighbourhood, Development and International Cooperation Instrument (NDICI) and humanitarian aid. The latter stands in stark contrast to the fact that the gap between humanitarian funding required and funding received has widened sharply on a year earlier in the wake of COVID-19, according to the UN Organisation for the Coordination of Humanitarian Affairs (OCHA). Indeed, the EU budgetary package proposed by the European Commission in response to COVID-19 as a global pandemic was less self-centred and instead more ambitious, globally outreaching and forward-looking.

While the climate-spending target of 30% of the aggregate volume of expenditures under the finally adopted EU budgetary package 2021-2027 is highly welcome, it is less consistent than the lower target of 25% proposed by the European Commission, and there is quite a risk of missing it altogether. This is mainly due to the cuts by the European Council to the proposed climate-specific programme 'Just Transition Fund', which is designed to provide social support to speed up the exit from climate-damaging production. In addition, both the proposed and the final budgetary package could fail to reach their respective climate target in view of doubts whether a climate weight of 40% is fully appropriate (and not too high) for a large share of sizeable EU agriculture expenditure, namely decoupled and possibly differentiated direct payments per eligible hectare accessible to all farmers who comply with the legally required minimum standards with respect to environment and climate. Having said that it is welcome that the European Commission has committed to underpin the climate spending target by issuing 30% of the common borrowing for EURI-NGEU under a 'green bond standard'.

EU Recovery Instrument "Next Generation EU"				
Commission proposal versus European Council decision				
Commitments 2021-2023, payments 2021-2026	COM		EUCO	
EUR billion, in 2018 prices	Loans	Grants	Loans	Grants
Loans total	**250.0**		**360.0**	
National Recovery & Resilience Plans	250.0		360.0	
Grants total		**500.0**		**390.0**
National Recovery & Resilience Plans		310.0		312.5
EU-wide Strategic Investments (incl. Solvency)		56.3		5.6
Cohesion (ReactEU: short-term crisis repair)		50.0		47.5
Climate Action (Just Transition Fund)		30.0		10.0
External Action (Development, Humanitarian Aid)		15.5		0.0
Rural development		15.0		7.5
Research & Innovation (Horizon EU)		13.5		5.0
EU4Health and RescEU (civil protection)		9.7		1.9
Note: Grants include provisions for guarantees.				

On the revenue side, the new national contribution to the EU budget as of 2021, based on the quantity of plastic waste, is welcome, albeit weakened by lump-sum reductions for member states with below-average income per capita introduced by the European Council. The Interinstitutional Agreement (IIA) on a roadmap for new own resources as revenues for the EU budget, particularly for future interest payment and repayment of EURI-NGEU borrowing, is welcome. Negotiations on specific new own resources must follow soon, as the roadmap envisages the introduction of a carbon border adjustment mechanism, a digital levy and a contribution based on the EU Emissions Trading System, possibly extended to aviation and maritime transport, by 1 January 2023. Additional new own resources, which could include a financial transaction tax and a financial contribution linked to the corporate sector, are scheduled for 1 January 2026. In view of sizeable income and wealth inequalities, which are very likely to increase further in the wake of the COVID crisis, taxation measures to address rising inequality, such as a solidarity surcharge or net wealth tax, are discussed as part of the 'additional new own resources'.

Against the background of UK's 'Brexit', the proposal by the European Commission and the European Parliament resolutions envisaged a phase-out of the reductions of the national GNI-based contributions to the EU budget of Austria, Denmark, Germany, the Netherlands and Sweden. However, the European Council increased these 'rebates' for these member states, except for Germany. There will be no rebates for other member states, including those which usually have net payment positions of a similar size relative to GNI (France, Italy, Finland). The 'Council decision on the system of own resources' does not require the consent of the European Parliament.