The EU budget and the Next Generation EU Recovery Plan: a game changer?

P. Bisciari
P. Butzen
W. Gelade
W. Melyn
S. Van Parys*

Introduction

The last decade, the European economy and society have faced several crises and new challenges such as a large inflow of asylum-seekers in 2015 due to the war in Syria and Iraq, the rise of China as a global competitor, climate change and Brexit. After a referendum in June 2016, the UK left the EU institutions on 1 February 2020 and, with the exception of Northern Ireland, it withdrew from the EU Single Market and Customs Union and signed up to a Trade and Cooperation Agreement on 1 January 2021. The EU adapted to these challenges and often developed new instruments and strategies. Namely, it has negotiated – and in some cases concluded – (modernised) Free Trade Agreements with several partners including Canada and Japan, it has reinforced its border management with Frontex and the European Commission led by Ursula von der Leyen has put the Green Deal and the digital transition at the core of its mission.

These developments have found their way into the new Multiannual Financial Framework (MFF) that covers the period 2021-2027. While the negotiations were deadlocked after an unsuccessful European Council in February 2020, COVID-19 started to spread in Europe. The ensuing restrictions and extreme uncertainty led to major turbulence on the financial markets, to disruptions in the Single Market and to an unprecedented drop in economic activity in peacetime. Various policies have been activated to react to this exceptional common shock that had hit certain countries like Italy and Spain sooner and harder than others.

In that exceptional context, the European Council reached an agreement in July 2020 on both a new MFF and a temporary recovery instrument named the Next Generation EU (hereafter the NGEU). The Recovery Plan and the MFF have now been fully endorsed by the European Parliament and their implementation has started.

This article provides an economic reading of the EU budget and the NGEU with a special focus on the Belgian perspective. We investigate whether or not the new budgetary package is a game changer.

The first section of the article is more descriptive by nature and looks at the key features and figures of both the MFF and the NGEU. In the second section, we ask how well the budget and the NGEU will address

* The authors would like to thank, without implicating, Jozsef Barta, Charlotte Dekempeneer, Hans Geeroms, Lisa Glorieux, Michael Grams, Martin Hradisky, Henri Maurer, Marie Montigny, Lourdes Acedo Montoya, Veerle Nuyts, Alvaro Pina, Michel Saintrain, Dries Vriens and colleagues from the Statistics Department and the Resolution Unit for helpful comments and suggestions.

several key objectives and challenges : boosting the EU growth potential ; promoting convergence between countries and cohesion between regions : and facilitating the green and digital transition. In the third section, we consider the interactions between the EU institutions and the Belgian economy and general government account.

1. Overview of the EU budget and Recovery Plan

1.1 The EU budget in perspective

The size of the EU budget is traditionally one of the issues at stake in the negotiations between the co-legislators, the European Council (EUCO) and the European Parliament (EP), on the basis of a proposal by the European Commission (EC). The budget hence reflects both the priorities of EU institutions and the national governments ("dual nature", see Lehner, 2020). To avoid yearly difficult discussions, since 1988 maximum ceilings ("commitments") by categories ("headings") of expenditure are determined for a longer period, usually seven years, in Multiannual Financial Frameworks (MFF)[1]. In the remainder of the article, the expression EU budget will be equivalent to the Multiannual Financial Framework (MFF), unless otherwise stated.

The agreement on the 2021-2027 MFF sets the annual commitments at a level just above 1.1 % of the EU's gross national income (GNI). This is slightly higher than the previous MFF in order to compensate for the automatic reduction in EU GNI triggered by the withdrawal from the EU of the UK, a net contributing Member State. Also, the previously off-budget European Development Fund has been included in the MFF. Some other instruments nevertheless remain outside the budget. The size of the EU budget remains very limited compared to that of individual EU countries, which on average spent about 50 % of GNI, and federal models as in the United States where federal spending usually accounts for at least 50 % or so of final public spending (D'Alfonso *et al.*, 2021). Moreover, actual expenditure even tends to be lower than the maximum ceilings defined in the MFF.

As explained in the next section, the humanitarian and economically devastating nature of the pandemic created the momentum for an exceptional additional budgetary response at EU level, the Next Generation EU (hereafter the NGEU), with commitments around 0.75 % of GNI. The NGEU is, however, strongly frontloaded as commitments have to be made before the end of 2023, while payments may last until the end of 2026, with the bulk also expected in the next few years.

Thanks to the NGEU, the size of the total EU spending jumps to over 3 % of EU's GNI in 2021-2022, enabling it to play a macroeconomic stabilisation[2] function for the first time on top of the provision of public goods and some redistribution of resources to reduce regional disparities (Lindner and Tordoir, 2020). Even if the scope of the EU budget remains limited, some of its features can raise its impact (D'Alfonso *et al.*, 2021). The EU actually devotes a larger share of its budget to investment than national governments and the EU budget may represent a significant source of financing for investments realised by national, regional and local governments, especially in the Member States that joined the EU since 2004. Co-financing and innovative financial instruments are also intended to maximise the multiplier effect of the EU budget. Finally, the MFF helps to reap economies of scale in policy areas, notably for transnational programmes of research and innovation.

The budget allows for some flexibility to deal with sudden unexpected events. But this flexibility is not sufficient to deal with major crises, also since the EU budget cannot be in deficit. Limited borrowing is only permitted in a few cases. Hence, when confronted with the 2008-2009 economic and financial crisis and the euro area

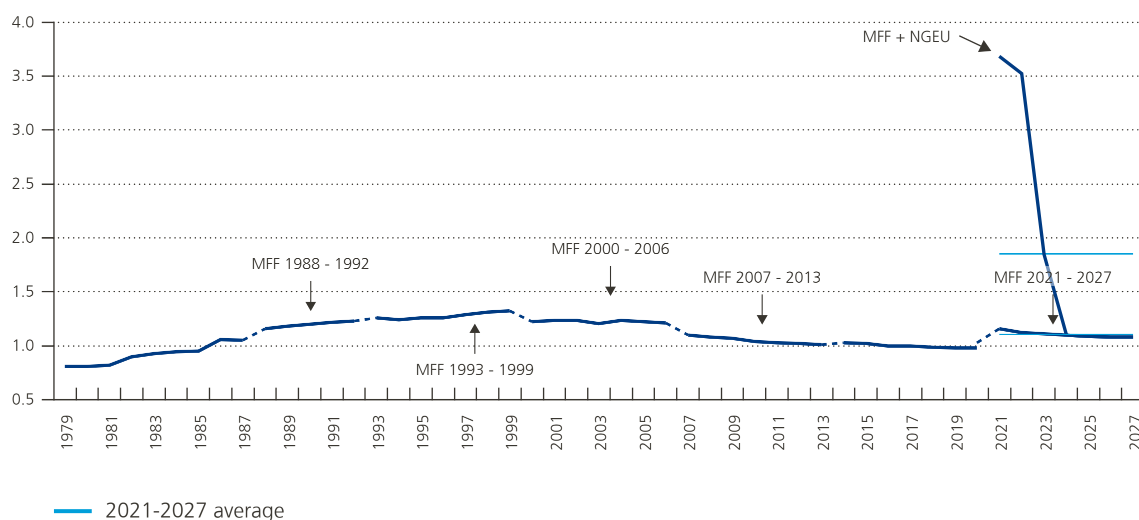
1 Within that framework, annual budgets still need to be approved to set the actual amount of expenditure and to allocate the maximum amounts per heading in detail among the various budget items.

2 The term « stabilisation » is debated, mainly because the EU funds are expected to be spent mainly while the economy is already recovering (Centraal PlanBureau, 2021).

Chart 1

Size of the EU budget in the Multiannual Financial Frameworks

(commitments, in % of EU GNI)



Source: Frogneux V. and M. Saintrain (2013), EC Spring 2021 forecasts.
Because of the uncertainty around GNI due to COVID-19, the figures for 2021-2027 have actually been set in billions of euros and we have divided them by GNI forecasts. For the expected GNI until 2022, we have used the Spring 2021 forecasts and then we have assumed a 3 % annual nominal growth rate.

sovereign debt crisis in 2010, the EU and the euro area reacted by building solutions outside the EU budget: bilateral loans (Greece I package), European Financial Stability Facility (EFSF) and European Stability Mechanism (ESM). Emergency instruments[1] have also been activated to face with the migration crisis and other crisis. To stimulate investments, the EC also called on the European Investment Bank (EIB) for the Juncker Plan. More recently, the borrowing in response to the coronavirus crisis both for the NGEU and for the European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE) had to take the form of specific instruments created outside the MFF rather than within this framework.

1.2 A Recovery Plan: the Next Generation EU

1.2.1 Rationale for the Next Generation EU

The NGEU is a more structural economic policy response of the EU institutions to the COVID-19 crisis, besides the immediate short-term response within the flexibility of the EU budget and new funding streams of three safety nets (SURE, EIB and ESM), the strong relaxation of monetary and prudential policies[2], the activation of both an easing of state aid rules and the general escape clause under the Stability and Growth Pact on the fiscal side, the latter having opened the door to an expansive fiscal policy by the Member States[3].

In April 2020, the seriousness of the economic fallout of the pandemic became clear. The IMF has labelled the economic crisis resulting from the coronavirus as the "Great Lockdown". On 23 April, the EUCO agreed on the

1 On the flexibility issue, see Sapala M. (2020).
2 See Boeckx *et al.* (2020) for a detailed presentation of the ECB's monetary response to the COVID-19 crisis.
3 More information on the EU reaction to the COVID-19 crisis may be found in box 3 in the NBB Annual Report 2020 but also in many papers, notably a box in the article "The EU budget and its financing: looking back and ahead" from the Deutsche Bundesbank's April 2020 monthly report.

need to establish a common recovery fund, commensurate with the challenge the EU is facing and targeted towards the sectors and geographical parts of Europe hit hardest by the crisis (D'Alfonso, 2020). Heads of State or Government then tasked the EC with analysing the needs and preparing a proposal. On 18 May, the German Chancellor Angela Merkel and the French President Emmanuel Macron proposed the creation of a temporary EU recovery instrument endowed with € 500 billion that would be distributed to governments in the most affected countries in the form of transfers financed by common long-term debt issuance. This decisive statement led the Commission to put forward its own proposal on 27 May for a debt-financed € 750 billion EUR recovery fund (in 2018 prices), split into € 500 billion in grants and € 250 billion in (back-to-back) loans made by the EU (EC, 2020a and b).

The economic rationale for this move is to be found in the deep and uneven recession the EU was going through. While acknowledging extremely high uncertainty surrounding the estimates, the EC projected in Spring 2020 the EU economy to contract by 7.5 % in 2020 before partially rebounding in 2021. This major economic shock, unprecedented since World War II, is symmetric as it hits all Member States, but the intensity of the impact and the capacity to absorb and rebound vary significantly within the EU. Contrary to most other recessions, the shock mostly hit the services sector, in particular the contact-intensive ones and the branches of activity depending on transport and travel, notably tourism. Contrary to the financial crisis where imbalances had accumulated endogenously, the shock was also perceived as exogenous and thus not prone to any moral hazard argument. The shock had also challenged the smooth functioning of the Single Market and the euro area. The necessary conditions for including an element of solidarity, the grant component, in the composition of the fund had been met.

Based on its analysis of the investment gap, both overall and with a view of facilitating the twin green and digital transitions, and an assessment of the corporate equity gap that, if not addressed, would result in insolvencies (EC, 2020c), the EC opted for a bold and comprehensive Recovery Plan "to kick-start the European economy, boost the green and digital transitions, and make it fairer, more resilient and more sustainable for future generations" (EC, 2020a).

1.2.2 A compromise between the different views

On top of issues related to the MFF, discussions on the NGEU have focused on the size of the Recovery Plan, the split between grants (perceived as transfers between contributors and beneficiaries) and loans, its financing and the type of programmes that would be boosted and the Member States' allocation keys for the grants of the Recovery and Resilience Facility (RRF) on which the consensus was that it should be the most substantial budgetary item.

Over these issues, the EC proposed :

- a higher total budget for the Recovery Plan than the Franco-German initiative by adding € 250 billion worth of loans ;
- a market financing through loans, which are partly paid back via new own resources (see infra in section 1.4 on revenue) ;
- a comprehensive set of programmes where money would top up funding managed at the EU level and generating EU value added such as a common Health programme, Horizon Europe (a research fund), Invest EU (an existing instrument used to stimulate investments), a new solvency support instrument aimed at reinforcing equity in viable firms all over the EU, the Just Transition Fund designed to help regions facing the highest costs of decarbonising their economy in the green transition;
- an RRF with funds allocated to national projects and with a priority given to the Resilience part of the RRF as evidenced by an allocation key reflecting the vulnerability of the economies before the pandemic.

The size of the proposed Recovery Plan was seen as commensurate to the size of the shock and helped alleviate turbulence on the financial markets but also as sufficiently balanced to preserve the AAA rating of the EC in order to get the best conditions on the market. The Plan has also been welcomed by most Member States.

However, some EU countries, in particular the so-called "Frugals" (NL, AT, SE, DK joined by FI), would have liked to scale down the Recovery Plan and, especially, the volume of grants. Furthermore, most Member States prioritised the national dimension and preferred to rebalance the funds from EU value added items towards funds where the redistribution of money to Member States was known in advance. Finally, the Member States most badly affected by the pandemic wanted an allocation key of the RRF taking the economic damage from COVID-19 into account.

As a result, the deal reached at the July 2020 European Council in Brussels is a compromise between all these views. As illustrated in table 1, the size of the NGEU has been kept unchanged with respect to the EC proposal but the volume of grants has been reduced by € 110 billion to 390, the volume of loans rising to € 360 billion.

Table 1

The NGEU expenditure

(€ billion, 2018 constant prices)

	EC proposal 27 May	Final decision [1]	Difference
Single Market and Digital	69.8	10.6	–59.2
Horizon Europe	13.5	5.0	–8.5
Invest EU	30.3	5.6	–24.7
Solvency Support Instrument	26.0	0.0	–26.0
Cohesion and Values	610.0	720.0	+110.0
Recovery and Resilience Facility	560.0	672.5	+112.5
of which loans	250.0	360.0	+110.0
of which grants	310.0	312.5	+2.5
ReactEU	50.0	47.5	–2.5
Natural resources and Environment	45.0	17.5	–27.5
Common Agricultural Policy (Rural development)	15.0	7.5	–7.5
Just Transition Fund	30.0	10.0	–20.0
Migration and Border Management	0.0	0.0	0.0
Security and Defence	9.7	1.9	–7.8
RescEU [2]	2.0	1.9	–0.1
Health Programme [2]	7.7	0.0	–7.7
Neighbourhood and the World	15.5	0.0	–15.5
Public administration	0.0	0.0	0.0
Total	750.0	750.0	0.0
of which loans	250.0	360.0	+110.0
of which grants	500.0	390.0	–110.0

Sources: EC, European Council.

1 The final decision of the interinstitutional agreement between the EP and the EUCO delegations did not change the amounts for the NGEU expenditure. It nevertheless included a top-up of €11 billion on the MFF, an agenda for the own resources, a reinforcement of the rule of law provision and a dialogue between the EC and the EP on the implementation of the RRF, especially on the National Recovery and Resilience Plans.

2 In the EC proposal, RescEU and Health Programme were classified under Security and Defence. RescEU has been reclassified under Cohesion and Values later on.

Spending has also been reallocated from various EU value added items (such as the Solvency Support Instrument, Invest EU, Horizon Europe, etc.) to the RRF which concentrates most of the NGEU resources with all the loans (360 billion) and 312.5 billion of grants. The remaining grants are finally allocated mainly to React EU (a top-up for the cohesion policy), the Just Transition Fund and the rural development pilar of the Common Agricultural Policy (CAP).

1.2.3 The Recovery and Resilience Facility, the main component of the Recovery Plan

The RRF is an innovative tool for providing direct financial support to the Member States to step up the implementation of sustainable reforms and public investment. With a view to receiving the grants, each Member State had to submit a National Resilience and Recovery Plan (NRRP) to the EC by 30 April 2021 as a target date and mid 2022 as an absolute deadline. The NRRPs[1] contain the targets and milestones of reforms and investments until 2026. By 19 August 2021, 25 Member States had submitted their NRRPs , the four main euro area economies and Belgium being among the 13 Member States having met the 30 April deadline with at most a one-day delay.

The Commission assesses the NRRPs and prepares a Council Implementing Decision which then has to be approved by the Council within a month. Consistency with the 2019 and 2020 country-specific recommendations, as well as strengthening the growth potential, job creation and economic and social resilience of the Member States and an effective contribution to the green and digital transition are prerequisites for a positive assessment (see 2.4 and 2.5 below). Investment for the green transition and digital transition should amount to at least 37 % and 20 % of the NRRPs respectively. By 6 September, the Council[2] has approved implementation decisions for 18 NRRPs.

Later in the programming period, the payment requests by Member States will be subject to the satisfactory fulfilment of the relevant milestones and targets. In the second half of 2021, the Member States will also receive a pre-financing rate of 13 %. This happened in August for the first countries among which Belgium.

The maximum volume of the loans for each Member State cannot exceed 6.8 % of its GNI.

70 % of the grants will be committed in the years 2021 and 2022 and the allocation key between Member States includes the population to reflect the size of the countries and two indicators of their vulnerabilities : the inverse of GDP per capita and average unemployment rate over 2015-2019. In the allocation key for 2023, the latter criterion is replaced, in equal proportion, by the loss in real GDP observed over 2020 and by the cumulative loss in real GDP observed over the period 2020-2021 and final allocations will be calculated by 30 June 2022.

The RRF Regulation provisionally estimated the grants on the basis of the Commission's autumn 2020 forecast and these amounts have served as a reference for the Member States to draw up their NRRPs.

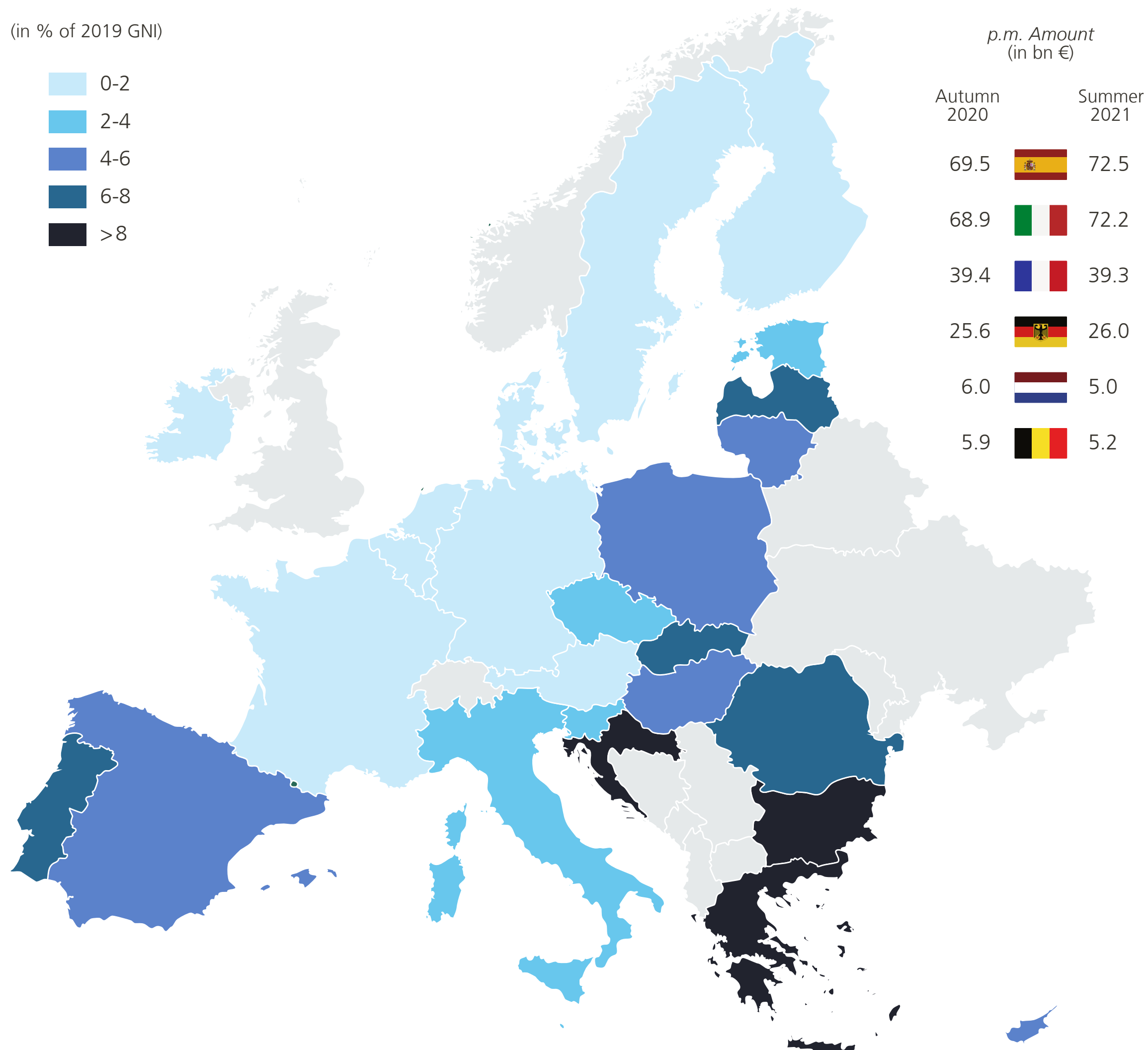
As a result, Central and Eastern Member States as well as Southern Member States are expected to receive a larger share of grants expressed in percentage of their 2019 GNI (see map) while the RRF grants are less substantial in Northern and Western Member States, notably in Belgium and its neighbouring countries.

In absolute (and nominal) terms, as the size of population is one of the criteria in the allocation key, big Member States are those that are expected to receive the highest grants, with Spain and Italy (close to € 70 billion each), way ahead of France (close to € 40 billion) and Germany (around € 25 billon). As Belgium has been hit by COVID-19 more than the Netherlands, it should receive nearly as much. Accordingly, the expected € 5.9 billion has been retained as the budget for the Belgian NRRP. In box 1, we show both the impact of adding the COVID-19 economic loss criterion and how uncertain the amounts still are on the basis of the latest economic forecasts published by the EC, those from July (summer 2021 forecasts).

1 Laggards include the Netherlands where a government still needed to be formed, the reason for which a delay has been granted.
2 A recovery plan for Europe – Consilium (europa.eu).

Chart 2

Central and Eastern European and Southern European countries are expected to receive higher RRF grants in relation to their GNI



Source: EC, autumn 2020 and summer 2021 forecasts.

BOX 1

The coronavirus economic damage criterion and underlying uncertainty

Originally, the Commission proposal in May 2020 foresaw only population, the (inverse of) GDP per capita and the pre-pandemic unemployment rate in the allocation key formula for the RRF grants. To various commentators – notably Codogno (2020a) and Darvas (2020) – but also several Member States among which Belgium, it came as a surprise that the economic damage from the coronavirus was not a criterion to allocate the grants for a Recovery Plan created to help alleviating the costs of this atypical crisis generated only by an exogenous shock, i.e. a pandemic.

The original proposal had already been amended ahead of the July 2020 EUCO: the creation of a 30 % tranche for the second allocation in 2023 had been acted and the criterion of economic damage from the COVID-19 crisis had replaced the backward-looking pre-coronavirus unemployment rate.

Introducing in the RRF grants allocation key a criterion related to the economic loss resulting from COVID-19 has benefited some countries (at the expense of others), but the final result is still uncertain

(shares in %)

	Allocation key for the 70 %	Allocation key for the 30 %		
	Fixed	p.m. Summer 2020	Autumn 2020	Summer 2021
DE	7.0	8.0	9.0	9.4
FR	10.4	15.7	14.5	14.5
IT	20.5	22.2	20.3	23.3
ES	20.0	16.8	22.2	24.7
PL	8.5	4.3	3.5	2.6
BG + RO	6.3	6.2	5.5	2.7
NL	1.7	2.1	2.0	1.0
DK + SE	1.8	1.4	0.6	0.5
Baltics + FI	2.6	2.0	1.1	0.6
BE	**1.6**	**1.9**	**2.2**	**1.5**
EL	5.7	3.8	4.1	5.6
CZ	1.5	3.6	3.4	3.0
PT	4.1	4.3	4.0	5.0
HU	2.0	2.1	2.5	1.2
AT	1.0	1.0	1.2	1.5
Others	3.0	2.4	2.4	2.3
SK	2.0	1.6	1.6	0.7
IE	0.4	0.5	0.1	0.0
EU27	100.0	100.0	100.0	100.0

Source: EC.
(Groups of) EU Member States are ranked in declining order of population.

When comparing the (fixed) allocation key for the 70 % of the RRF grants (including the unemployment rate before the pandemic) and the allocation key for the remaining 30 % as possibly estimated at the time of the European Council on the basis of the summer 2020 forecasts published by the Commission in early July, France, Germany, Italy, the Netherlands and Belgium were among the countries to gain from this change in the allocation key. In contrast, a country like Spain, despite being badly hit by COVID‑19, was expected to record a substantial loss in grants in the second tranche because its structurally very high unemployment rate was no longer accounted for. Some Eastern European Member States like Poland that were less badly affected by the first wave of the pandemic were expected to lose out substantially too.

The relative deterioration of the economy in several countries due to the second wave of coronavirus that hit Europe after the summer of 2020 led the EC to revise its forecasts in autumn 2020 and to raise its prospects of RRF grants for these Member States. This was especially so for Spain but also Germany and Belgium that found themselves at the epicentre of a new wave of infections in October. Accordingly, the share of countries first hit by the pandemic like Italy or France receded somewhat.

The allocation key might still move considerably. So far, only provisional national accounts have been approved and published by Eurostat in April for the year 2020 with a base effect for the loss computed for both years 2020‑2021. Also, in its latest summer 2021 forecasts, the Commission revised upwards its estimates for GDP growth for the year 2021 in all countries except Portugal and Finland (where it has been kept constant). According to these figures, all EU countries around the Baltic Sea but also some Eastern EU countries (Romania, Bulgaria and Hungary) and Luxembourg are now expected to get back to their 2019 GDP level in 2021 so they will not benefit from part of the GDP loss criterion (that related to the GDP loss over 2020 and 2021 taken together). This explains the drop in their allocation compared to the provisional allocation made on the basis of the autumn 2020 forecasts. In Ireland, GDP even grew in 2020, so it will not be entitled to receive anything from the 30 % part of the RRF grant.

On the contrary, as the relative economic outlook for the four main euro area Member States has deteriorated, their allocation key is expected to increase somewhat with respect to the grants pre‑allocated on the basis of the autumn 2020 forecast. As their economic outlook has brightened more than the EU average, the shares of Belgium and the Netherlands have shrunk. If the summer 2021 forecasts turn out to be right by June 2022, Belgium stands to lose € 0.75 billion of its € 5.9 billion RRF grant.

1.3 Revenue

On the revenue side, the MFF and the Next Generation EU are discussed separately as their nature is different.

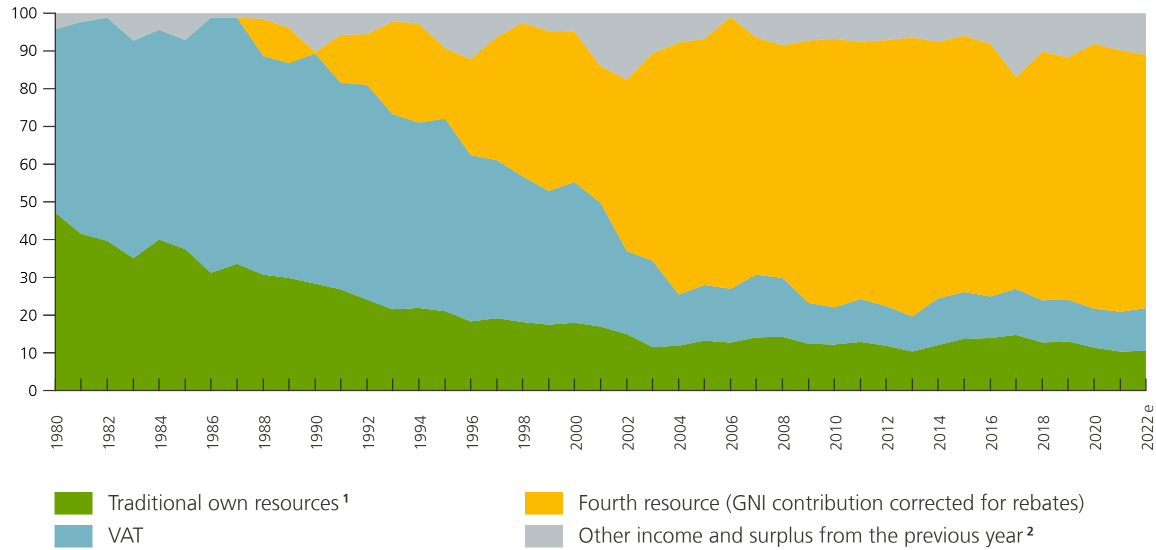
1.3.1 An MFF mostly financed by Member States

The MFF is mostly financed by contributions from the Member States. These contributions are to a large extent based on GNI and therefore reflect the economic weight of each Member State. However, in order to avoid excessive contributions from certain Member States, rebates have been granted, first to the UK and then to certain other countries making a net contribution to the budget. The main contentious issue from the revenue side in the talks on the MFF is traditionally this rebate and the negotiations on that issue in the 2021‑2027 MFF were no exception to this. The Commission (supported by most Member States) wanted to take advantage of the UK’s departure to abolish the rebates received by Germany, the Netherlands, Sweden, Denmark and Austria. These last four Member States resisted forcefully and were even able to obtain higher rebates.

Chart 3

Structure of the EU's revenue

(percentages of the total)



Sources: EC (DG Budget online and draft budget 2022), Butzen *et al.* (2006); own calculations.
1 Customs duties, agricultural levies and sugar levies (minus the compensation which Member States receive for collecting costs).
2 Includes the new national contributions on non-recycled plastic packaging waste from 2021.

The GNI contributions play a balancing role in the budget in that they are adapted to balance expenditure set annually with other revenue. Their growing share since 1988 reflect decreasing revenue from the traditional own resources and the share of VAT allocated to the EU (third resource). This decrease results from the abolition of sugar and other agricultural duties, the reduction of customs duties due to the liberalisation of trade in goods, in particular the expansion of Free Trade Agreements, and the fluctuation of collection costs. Indeed, the Member States' tax administrations are collecting customs duties for the EU and they are receiving for this service a remuneration. The share paid by the EU for these collection costs is an important parameter for those countries trading a lot and/or having major ports (the Rotterdam and Antwerp effects). This share was raised by the July 2020 European Council from the 20 % applied during the 2014-2020 period to 25 % for the 2021-2027 MFF.

The figures for 2021 include the residual contribution due by the UK as stipulated in the Withdrawal Agreement, mainly its contribution to the liabilities taken during its EU membership. From 2021, the figures of other income include a national contribution proportional to the quantity of non-recycled plastic packaging waste estimated at around € 6 billion.

The way an MFF is financed is defined in a legislative act called an Own Resources Decision that needs to be ratified by all 27 EU national parliaments. It foresees a sufficient margin for the Union to cover all its financial obligations and contingent liabilities falling due in any given year. To that end, the Member States agree so-called "own resources ceiling", which are the maximum amount of resources that may be called upon. In the 14 December Council decision, the total resources allocated to the EU to cover annual payments [1] has been raised from 1.20 % to 1.40 % of the sum of all the EU(27) Member States' GNIs.

1 The own resources ceiling for commitments has been set at 1.46 % of the EU's GNI.

1.3.2 The NGEU is first financed by loans

The same Own Resources Decision empowers the EC on an exceptional basis to borrow temporarily up to € 750 billion (in 2018 prices) on capital markets on behalf of the EU (more than € 800 billion in current prices). These loans add to the € 100 billion raised by the EC to finance the SURE programme in response to the COVID-19 crisis. By levying such amounts on the markets, the EU is fast becoming a major player on the capital markets and a major provider of safe assets in euros, thereby reinforcing the international role of the euro. Furthermore, by issuing 30 % of the NGEU funding (€ 250 billion) as green bonds, the EU will manage the largest green bond scheme in the world (Koopman, 2021).

The borrowed money will be repaid from 2028 to 2058. The Member States will reimburse their RRF loans to the EU. The share of the RRF distributed as grants will be repaid via new own resources and, if need be, future GNI compensation by all Member States.

To ensure that the EC will be able to cover all liabilities resulting from the NGEU, as a guarantee, the ceiling for payments[1] has been raised by a further 0.6 percentage point of the EU's GNI, bringing it up to 2 % of GNI. The need to resort to this additional allocation will only be temporary since the relevant financial obligations and contingent liabilities will decline over time as the borrowed funds are repaid and the loans mature. Therefore, the increase should expire when all borrowed funds have been repaid, i.e. by 31 December 2058 at the latest.

In the trialogue, the European Parliament insisted on a roadmap for the introduction of new own resources. This roadmap is seen as legally-binding by the EP but as indicative by the European Council. The new national contribution on non-recycled plastic packaging waste is the first component of it. The EC could also submit proposals for own resources linked to a carbon border adjustment mechanism (CBAM), a digital levy and a revised EU Emissions Trading System (ETS). In July 2021, it introduced a proposal for the CBAM (to be phased in starting on 1 January 2023) and the revised ETS (see section 2.4). However, it has suspended the project of a digital levy due to good prospects of an international agreement to be reached under the auspice of the OECD and the G20 on a tax on multinational enterprises and on a common corporate tax rate of at least 15 %.

By June 2024, the EC is expected to propose further new own resources. Possible candidates are a financial transaction tax, a financial contribution linked to the corporate sector or a new common corporate tax base (D'Alfonso A. *et al.*, 2021). These might enter into force on 1 January 2026.

1.4 Expenditure

Among the main policy areas of the EU, the share of agriculture has steadily declined from one MFF to another. Rural development is resisting the erosion of spending better than direct income support, while export subsidies and price support have been phased out. The share of administration appears to have held steady while that of cohesion policies is quite stable if only the MFF is considered.

If the NGEU is taken into account, the shares of these three policy areas are further reduced, while more resources are devoted to new and reinforced priorities as the RRF is considered by the EC (2021a) as falling under that category.

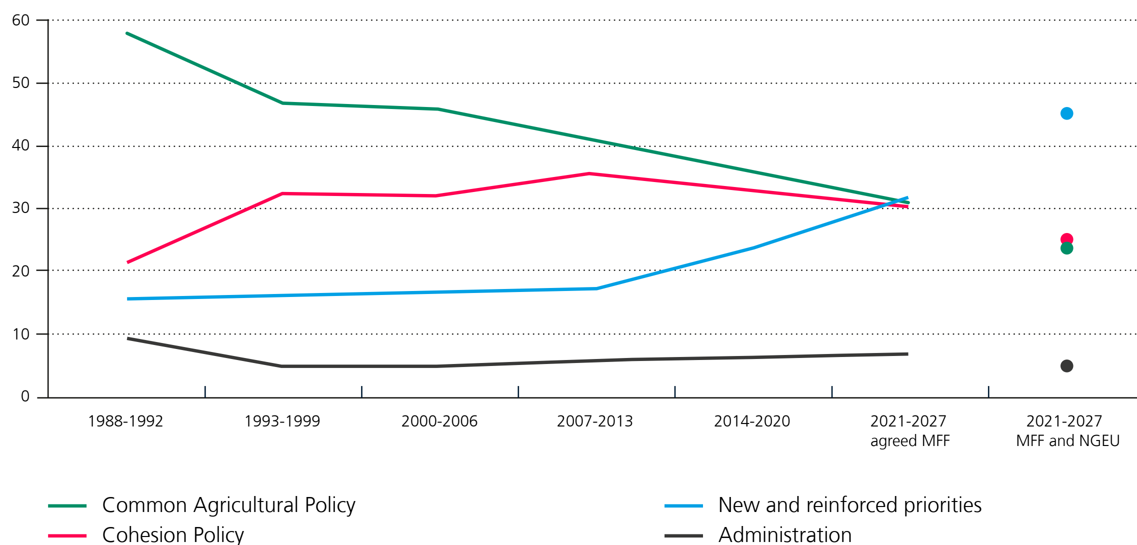
1 Similarly, the ceiling for commitments has been raised by 0.6 percentage point of the EU's GNI, bringing it from 1.46 to 2.06 % of GNI.

Looking at the EU budget headings, when we combine the € 1 085 billion from the MFF and the € 750 billion from the NGEU (in 2018 prices), 60 % of the resources for the 2021-2027 period are concentrated on the "Cohesion and Values" heading as it comprises both the RRF and the cohesion policy, to which ReactEU also contributes. 20 % of the means are allocated to the "Natural resources and Environment" heading that comprises the CAP and the Just Transition Fund.

Chart 4

Share of the main policy areas in the Multiannual Financial Frameworks

(in %)



Sources: D'Alfonso A. *et al.* (2021), EC (2021a).

The European Council and the European Parliament also negotiated special instruments to address unexpected events with resources on top of the MFF ceilings. These are mainly resources allocated to pluriannual Funds and Reserves devoted to thematic or non-thematic needs such as the European Globalisation Adjustment Fund, the Solidarity and Emergency Aid Reserve and a so-called Flexibility instrument. As a result of an agreement between the European Council and the European Parliament, the amount for these items outside the MFF has been set at € 21.1 billion. This includes € 5 billion dedicated to a Brexit Adjustment Reserve created upon the request of mainly Ireland and Belgium in July 2020, aiming to counter unforeseen and adverse consequences in Member States and sectors most affected by the UK withdrawal from the EU. Box 2 provides an overview of the main Brexit-related issues in the broader MFF.

Table 2

MFF and the NGEU (definitive figures)

(commitments, € billion, 2018 constant prices)

	MFF	the NGEU	MFF + the NGEU
Single Market and Digital	136.8	10.6	147.4
Horizon Europe	79.4	5.0	84.4
Invest EU	3.8	5.6	9.4
Cohesion and Values	383.8	720.0	1103.8
Recovery and Resilience Facility	0.0	672.5	672.5
of which loans	0.0	360.0	360.0
of which grants	0.0	312.5	312.5
Cohesion policy (+ReactEU)	330.2	47.5	377.7
RescEU	1.1	1.9	3.0
Natural resources and Environment	356.4	17.5	373.9
CAP (Direct payments, etc.)	258.6	0.0	258.6
CAP (Rural development)	77.9	7.5	85.4
Just Transition Fund	7.5	10.0	17.5
Migration and Border Management	23.7	0.0	23.7
Security and Defence	13.2	1.9	15.1
Neighbourhood and the World	98.4	0.0	98.4
Public administration	73.1	0.0	73.1
Total	1085.3	750.0	1835.3
of which loans	0.0	360.0	360.0
of which grants	1085.3	390.0	1475.3
Outside the MFF	21.1	0.0	21.1
Brexit Adjustment Reserve	5.0	0.0	5.0
Total MFF + outside the MFF	1106.4	750.0	1856.4

Sources: EC, European Council, D'Alfonso (2021).

BOX 2

What is the role of Brexit in and around the EU budget?

The net contributing position of the UK towards the EU budget has long been a contentious issue. It was something that motivated the "I want my money back" claim by Margaret Thatcher when she was serving as Prime Minister and the substantial UK rebate that she obtained at the Summit in Fontainebleau in 1984. Despite this rebate, the UK has remained a net contributor when looking only at the budgetary aspects, i.e. disregarding the benefits of EU membership for UK companies, people, banks and financial markets. According to the Deutsche Bundesbank (2020), the UK's net contribution (including customs duties and administrative expenditure) was just under € 10 billion per year on average over the 2014-2018 period. This net contribution was one of the arguments in favour of Brexit during the June 2016 referendum campaign.

The UK left the EU on 31 January 2020, but the Withdrawal Agreement (WA) provided for a transition period until 31 December 2020. During this period, the UK remained in both the EU Single Market and the Customs Union. The UK was therefore still involved in the EU budget until the end of the 2014-2020 MFF, meaning that in practice the UK withdrawal had no impact on the 2014-2020 MFF.

In the agreement on the so-called "divorce bill" within the WA, the UK has committed, as a general principle, to honour its share of the financing of all financial obligations undertaken while being a member of the EU. The UK share is provisionally estimated by the EC (2021c) at 12.36 %.

Articles 136 and 140-147 of the WA identify the areas in which payment obligations are due between the UK and the EU (EC, 2021c). The bulk of the UK obligations towards the EU stem from the "*reste à liquider*" (RAL), the total volume of legal commitments the EU has made to recipients, for which payments will follow mostly in the next three years. For the most part, this relates to commitments made by the EU before 31 December 2020 as part of the 2014-2020 MFF but which have not yet been fully implemented, with payments still to follow. The RAL as of 31 December 2020 has been officially valued for the first time by the EC (2021c) at € 303.2 billion on which the UK is expected to contribute € 35 billion. The other substantial amount making part of the financial liabilities (€ 14.3 billion) stem from the obligations linked to the EU as an employer (i.e. pensions and sickness insurance benefits for retired staff and authorities) as of 31 December 2020.

Taking also other minor items into account, he amount due from the UK to the EU is therefore estimated at € 49.6 billion. As € 2.1 billion are due to the UK by the EU, notably as proceedings from outstanding competition fines, the net receivable from the UK amounts to € 47.5 billion, of which € 6.8 billion are estimated to be paid by the UK in 2021. As a result, around € 40.6 billion is estimated to be paid by the UK after 2021 and will appear on the assets side of the EU balance sheet. The exact level of these future payments is still uncertain as the burdens from contingent liabilities and the revenue shares from fines cannot reliably be estimated.

For the year 2022, the EU budget has retained a provisional UK contribution of € 10.7 billion.

As for the 2021-2027 MFF, the EU-UK Trade and Cooperation Agreement (TCA), reached on 24 December 2020, enables the UK's continued participation in a number of EU programmes and activities, namely Horizon Europe, the Euratom Research and Training programme, the nuclear fusion test facility ITER and the earth monitoring system Copernicus. The UK's participation in the programmes will be that of a third country (as in the case of Norway or Switzerland) and will be subject to a financial contribution. These programmes will therefore receive additional resources from the UK, on top of those stemming from the MFF and, in the case of Horizon Europe, from the NGEU. The precise amount for the contribution in 2022 is not yet known in the initial budget 2022 drafted by the EC.

The departure of the UK, which was a significant net contributor, has created the need to fill the Brexit gap. Before the pandemic, this was one of the main contentious issues that prevented a deal from being reached at the special European Council in February 2020. While the gap was expected to be filled by way of higher revenue from the other Member States and through lower spending, the overall size of the budget has been preserved thanks to higher national contributions (Koopman, 2021).

Finally, the conclusions of the July 2020 EUCO included a new special instrument outside the MFF expenditure ceilings, the Brexit Adjustment Reserve (BAR), to cover at least partially Member States' general government expenditure related to the departure of the UK from the EU Single Market and Customs Union. On 25 December 2020, the day after the TCA was concluded, the EC (2020d) published a proposal for this € 5 billion (in 2018 prices) Reserve to heal the pain of the most badly affected sectors, in particular fisheries, and hard-hit countries. Despite the deal, some EU Member States, notably Ireland, the Netherlands and Belgium, are still expected to suffer bigger economic losses from Brexit than most others (Bisciari, 2019) and fisheries is expected to be especially hit. Compensating this sector was a promise to help the EU countries fishing in the UK Exclusive Economic Zone to accept the TCA.

A deal has been reached between the two co-legislators – the EP and the Council – on 17 June 2021. The regulation already partially endorsed is expected to be adopted by the beginning of October so that a first instalment of pre-financing worth € 1.6 billion will be paid by December. The rest of the € 4 billion pre-financing will be paid in two tranches of € 1.2 billion in both 2022 and 2023. The remaining 1 billion will be made available in 2025. The allocation key between countries for the largest envelope (€ 4.15 billion) will reflect the importance of the volumes traded with the UK. The value of fish caught in the UK Exclusive Economic Zone and the population of maritime border regions with the UK are also considered for the allocation of two marginal ad hoc envelopes (respectively € 0.6 and 0.25 billion). Ireland would be the main beneficiary of the BAR in absolute terms, followed by the Netherlands, France, Germany and Belgium.

2. Five challenges for the EU budget and Recovery Plan

2.1 Boosting growth through the Next Generation EU

The NGEU was designed to help the EU economies recover from the coronavirus pandemic and to spur growth over the medium and long term by fostering resilience to shocks and boosting economic potential.

According to the most comprehensive EC estimate (Pfeiffer *et al.*, 2021), using the Quest model, the NGEU may boost real GDP by 1.2 to 1.5 percentage points relative to a baseline scenario without this EU Recovery Plan.

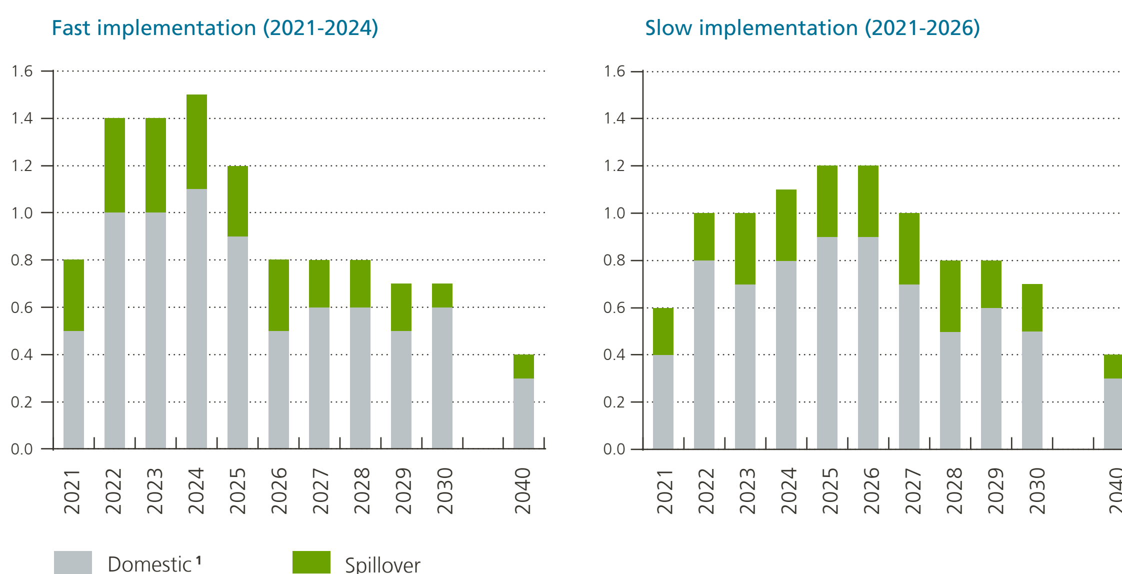
This peak impact is found in the last year of the implementation period considered: 2024 if the NGEU is assumed to be implemented quickly over only four years or 2026 if it is assumed to be implemented slowly over six years.

These estimates published in July 2021 take into account the impact of cross-border spillovers, i.e. the impact that each NRRP has not only on the domestic economy but also on the other EU Member States' economies through trade and exchange rate channels. The results show that EU-wide GDP effects are around one-third larger when explicitly accounting for spillover effects, pointing to the benefits of a coordinated Recovery Plan [1].

Chart 5

Impact of the NGEU on the EU's real GDP

(percentage point deviation from a no-policy change (no-NGEU) baseline)



Source: Pfeiffer *et al.* (2021).

1 Domestic displays a synthetic EU-wide GDP (weighted average) obtained by aggregating 27 stand-alone simulations with unilateral stimulus in each country.

The Pfeiffer *et al.* (2021) estimate of the macroeconomic impact of the NGEU on EU activity is lower than in previous EC simulations (2020a and 2020g) performed with the same model for a few reasons, among which:

- **a smaller size of the shock.** While previous EC estimates referred to the original package of € 750 billion (in 2018 prices), the July estimate relies on the effective amount of loans requested in the NRRPs submitted before 8 June (€ 166 billion for seven countries, € 122 billion of which for Italy alone) on top of the € 390 billion of grants. But the loan amount is expected to rise as Spain has expressed its intention to apply for loans at a later stage. A lower volume of loans may also be viewed as the NGEU being victim of its success (Codogno, 2020b). Thanks to the mere announcement of the NGEU (together with the ECB's accommodative monetary policy), interest rate spreads (vis-à-vis German Bunds) have been narrowed for most EU sovereigns thereby reducing the financial incentive to take up the NGEU loans. This argument is in itself a gain from the existence of the NGEU that is not accounted for as such in the simulation exercises.

1 In open economies with small grant allocations such as Belgium or Ireland, spillover effects account for the bulk of the GDP impact from the NGEU. These spillovers are often larger than what bilateral trade links would suggest as they are amplified by third-country effects resulting from the trade structure of the model (based on input-output tables and trade in intermediate goods on top of final goods and services). For example, Belgium benefits not only from the direct spillover from higher German demand but also from the increased economic activity of Germany's other trading partners, which requires imports from Belgium to grow.

- **a modelling of the economic mechanisms and dynamics of public investment including lags and delays.** In practice, the positive direct demand-side effects of public investment do not unfold immediately because of time-to-spend delays (not all projects are shovel-ready due to planning and contracting time). Furthermore, the positive supply-side effects of investment materialise later (reducing the short-run multiplier) because of time-to-build lags (government investment is not immediately productive).

Other model features and assumptions, too, might strongly determine outcomes. In the EC simulations, the NGEU funds are assumed to be spent solely on investment which is highly productive (high value for the long-run output elasticity of public capital) and highly additional: all EU grants are used for additional public investment, while EU loans are 50 % additional (the other half being used on general government spending that would have taken place anyway). Likely as a result of all these assumptions, real GDP is found to be significantly higher with the NGEU in the long term too, even in 2040.

Indeed, other institutions had found a similar order of magnitude for the macroeconomic impact based on different macroeconomic models in their baseline (optimistic) scenario: 1.5 percentage points of GDP by 2025 for the euro area according to the ECB (Bankowski *et al.*, 2021) and 1.5 percentage points by 2023 for the EU for the IMF (2020) that only took the RRF grants into consideration. However, these estimates – which correspond to the most optimistic scenarios in the respective studies – also depend strongly on a number of assumptions. The sensitivity analyses performed by these international institutions have confirmed that the macroeconomic impact can be substantially smaller:

- if public spending is used for fiscal transfers instead of productive public investment (Bankowski *et al.*, 2021);
- if investment is not additional but would have taken place anyway (EC, 2020g);
- if investment is less productive (IMF, 2020; Pfeiffer *et al.*, 2021).

Moreover, some observers have expressed their doubts and/or concern about the ability of the EU to deliver such an impact on growth in the short term or in the long term.

An important argument by Gros (2021) is that "money is fungible" which refers to the additionality question: governments may argue in the NRRPs that EU grants will finance public investment, but the question is whether this investment is additional leading to more expenditure or whether it is not, in which case EU money finances investment that would have taken place anyway. In the later situation, the government may use the money saved thanks to the rebranding of investment either to new current expenditure (transfers, etc.) or to cut taxes or to reduce the budget deficit and public debt. The macroeconomic impact would then be very different.

Another highly-debated issue is that of absorption. This concerns the capacity of both the economy and the administration to deal with the investment impetus. Gros (2021) argues that the RRF grants account for a very small share of (national) public expenditure but a very significant share of (national) public investment. For countries receiving a high share of RRF grants such as Bulgaria, Portugal, Croatia, Spain and Greece, their annual public investment should more than double over the next four to six years under the assumption of a 100 % absorption rate and full additionality (Alcidi *et al.*, 2020). This seems to be all the more unrealistic if supply-side constraints appear in the construction sector as it needs to find workers with the required qualifications within a short amount of time.

The absorption challenge is even greater when the MFF and the NGEU are combined. In particular, the NGEU funds need to be absorbed by the end of 2026 which is faster than cohesion funds in the MFF as actual disbursements of the latter can take place with a grace period of two to three years into the next MFF period. In some countries like Italy, green and digital investment has been found to take more time to be implemented than other kinds of investment (Crescenzi *et al.*, 2021). Furthermore, "The fact that the disbursement of the structural and investment funds from the 2014-2020 EU budget has been strongly backloaded will pose an additional challenge. These funds can still be spent within the next two years, which would imply an overlap with

the first years of the NGEU" (ECB, 2021b). Another risk from combining MFF and the NGEU investment is that if public administrations focus their minds on the NGEU, the delays for the MFF 2021-2027 may lengthen and the absorption of these MFF funds may be smaller than in the past. Conversely, other observers (Codogno, 2020b; Amiot and Broyer, 2021) have also expressed reasons to be optimistic on this absorption issue because the NGEU grants do not have to be co-financed by national or regional governments and are expected to involve less red tape than past regular EU funds.

There has also been a higher risk of wasteful/inefficient spending when rushing to spend quickly at the end of an MFF period. Then, some public investment may be of a lower quality, less efficient and less productive, thus generating a smaller positive impact, if any, on economic activity. In the same vein, we may also mention the risk of misallocation.

The complementarity between public and private investment also matters. The question is to what extent public investment will crowd private investment in or out. In this regard, some analysts like Pietrunti (2021) are more upbeat than the EC when estimating the macroeconomic impact from the NGEU. He reckons a higher fiscal multiplier may be retained for several reasons. First, stimulus in economies with more slack, such as Spain and Italy, tends to have larger multipliers. Second, the impact of fiscal stimulus is larger when interest rates are around the zero-lower bound (or effective lower bound), with little risk of fiscal expansions triggering higher rates which could crowd out private investment. On the contrary, Pietrunti thinks that there may be a crowding-in effect.

To sum up, even if *ex-ante* quantification remains uncertain, the NGEU is expected to have a macroeconomic impact in the short, medium and long term even though simulations have only taken investment into account. In the long run especially, a more substantial positive impact from the NGEU may stem from the structural reforms and from the interaction between reforms and investment, as some reforms, notably in public administration, planning, justice and business environment, are designed to encourage private investment. In order to obtain the hoped-for result close monitoring may be warranted since the track record for implementation and enforcement of structural reforms is not very strong in the EU.

2.2 Convergence between Member States and the COVID-19 crisis

COVID-19 has been a common shock, but with asymmetric effects across countries. It first hit Italy and Spain, the most vulnerable among the large Member States in the euro area, and had a stronger overall impact on countries, including those in Southern Europe, which rely more on tourism. This generated a risk of divergence among EU countries, which could have led to turmoil in financial markets and wider interest rate spreads on sovereign debts. This would have been especially problematic for the euro area as a monetary union. Divergence would also impair the functioning of the Single Market. The NGEU was designed in this context with the aim of supporting the most badly affected countries and thus promoting convergence between EU countries.

Crisis periods are indeed times when convergence between European countries has been most at risk (Bisciari *et al.*, 2020). While convergence has been strong over the long term in the EU[1], crisis periods led to slower convergence (in the EU28) or even divergence (in the EU15). The period following the global financial crisis, in particular, led to severe economic underperformance in Southern Europe, which was translated into slower overall convergence in the EU.

Chart 6 shows how funding under both the MFF and the NGEU has a redistributive effect among EU countries. Central and Eastern European countries have traditionally received a large part of MFF funding, in particular because they qualify for large shares of cohesion funding targeted directly at poorer regions and countries[2].

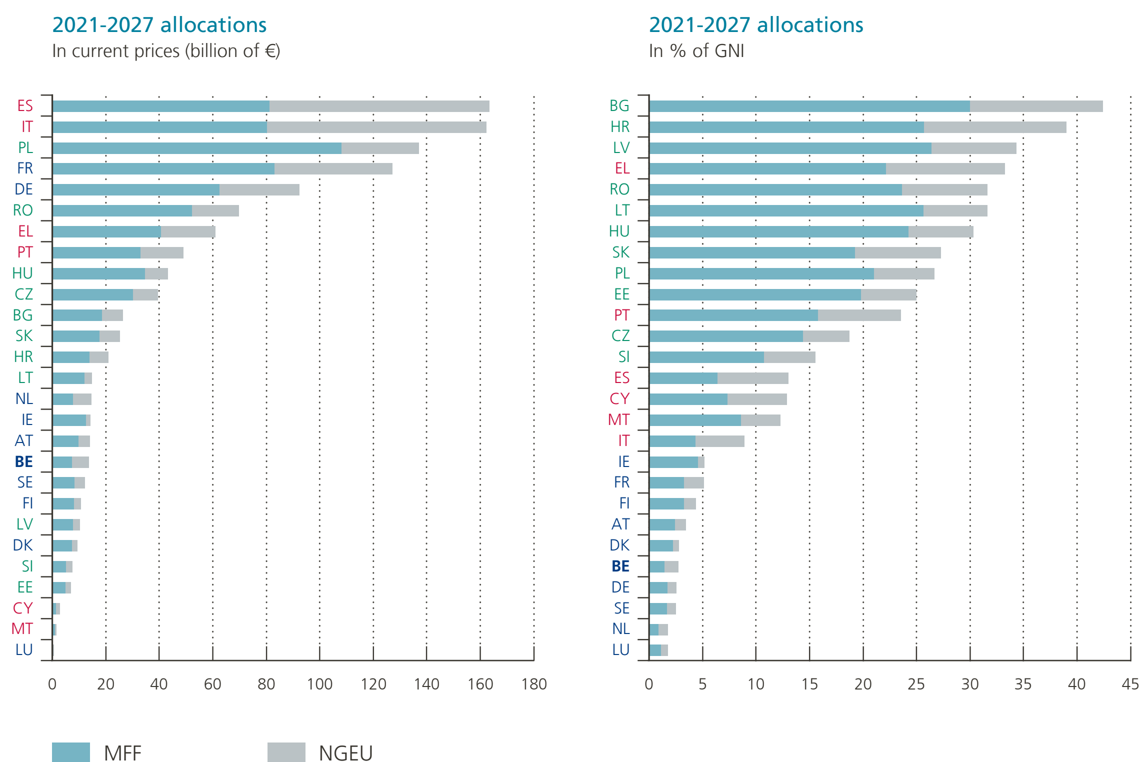
1 This result is based on trends since 1960 for EU15 countries and since 1996 for EU28 countries.

2 Much of this funding is allocated based on regional criteria (see section 2.3). This graph incorporates all funding that is allocated to a country, irrespective of whether this allocation is based on national or regional criteria.

Allocation of the NGEU funding, on the other hand, is not only based on the level of GDP per capita, but also on unemployment rates prior to the crisis and output losses during the crisis (see section 1.2) and is more directed towards Southern European countries. Because of this, in absolute amounts, Italy and Spain are now the biggest beneficiaries of the total budgetary package (MFF + the NGEU), ahead of Poland. Nonetheless, when expressed as a share of GNI, the Central and Eastern European countries remain the biggest beneficiaries.

Chart 6

National allocations for both MFF 2021-2027 and the NGEU main categories



Source: Koopman (2021), calculations based on EC spring forecasts 2021. Colours of country labels reflect their region: "South" (red), "Central-East" (green) and "North-West" (blue).

In their simulations of the impact that the NGEU may have on growth in all 27 EU countries, Pfeiffer *et al.* (2021) assess that, in a fast implementation scenario, the NGEU could boost growth by 2.8 % by 2024 in Southern Europe, against 2.5 % in Central and Eastern Europe and 0.8 % in North and Western Europe[1]. While the exact figures for these growth estimates are subject to substantial uncertainty, they do indicate that the NGEU can contribute to convergence by increasing growth for the countries in the South severely hit by the COVID-19 crisis, and for the lowest-income countries more generally.

Taking into account the estimated impact of the NGEU (and the EU budget), convergence between Member States is now set to continue, despite the COVID-19 crisis: countries which were poorer in 2019 are on average projected to grow the fastest between 2020 and 2022[2]. This is driven mainly by strong growth in Central and Eastern Europe, while some Southern European countries – in particular Spain and Italy – are expected to be

1 These regional averages are obtained by weighting the national estimates using GDP. See chart 6 for the definition of the "South" (red labels), "Central-East" (green) and "North-West" (blue).

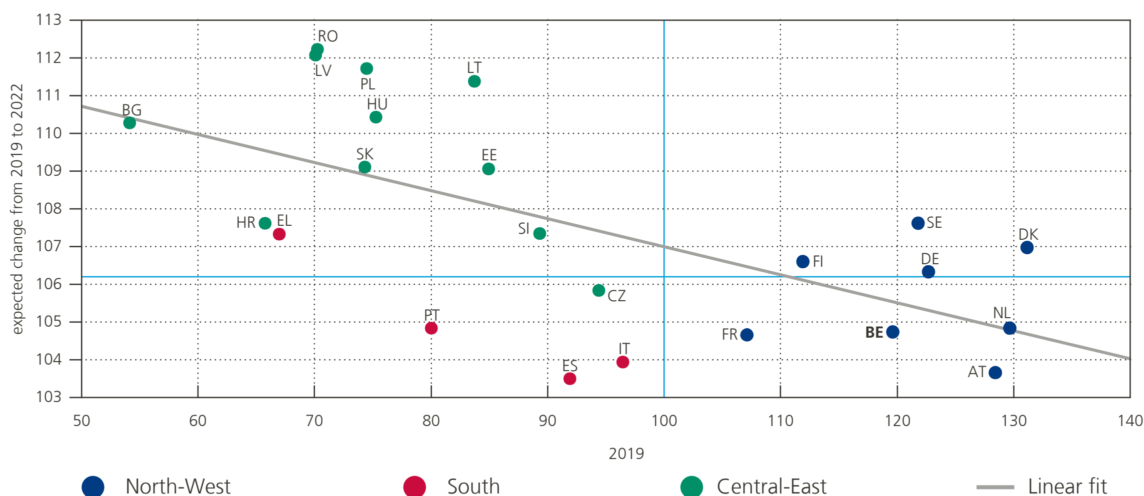
2 The EC spring 2021 projections take into account expenditure under the NGEU for 2021 and 2022. The forecast assumes that about 40 % of RRF financing will be spent by 2022.

among the worst performers. In part, the experience of previous crises is thus repeated as Southern European countries underperform and reduce overall convergence. Nonetheless, the policy response, including the NGEU grants, will most likely soften detrimental effects in both Southern and Central and Eastern Europe, and convergence among European countries can be forecast to continue despite the COVID-19 crisis.

Chart 7

The COVID-19 crisis, as tempered by the policy response and the start of the NGEU, is currently not expected to prevent further convergence across the EU27 [1]

(GDP per capita in PPS; expected change from 2019 to 2022 versus level in 2019 relative to the EU average)



Source: EC, spring 2021 forecasts.

1 As in Bisciari *et al.* (2020a), Luxembourg, Ireland, Malta and Cyprus have been excluded given the presence of large multinational corporate structures and/or an outsized financial sector which distort GDP figures. The graph thus contains only 23 countries, but we refer to EU27 because it is a well-known abbreviation.

2.3 Promoting cohesion by stimulating regional development and reducing regional disparities

Reducing regional disparities is a long-standing priority of the EU. Starting with the Treaty of Rome signed in 1957, programmes have gradually been introduced to strengthen economic and social cohesion between regions in the European Union.

Currently, several programmes constitute so-called "cohesion policy" in the budget. This includes the European Regional Development Fund (ERDF; € 200 billion in 2018 prices), the European Social Fund+ (ESF+, € 88 billion) and the Cohesion Fund (€ 43 billion). On top of this, the NGEU contributes to funding for cohesion policies through the REACT-EU instrument (€ 47.5 billion).

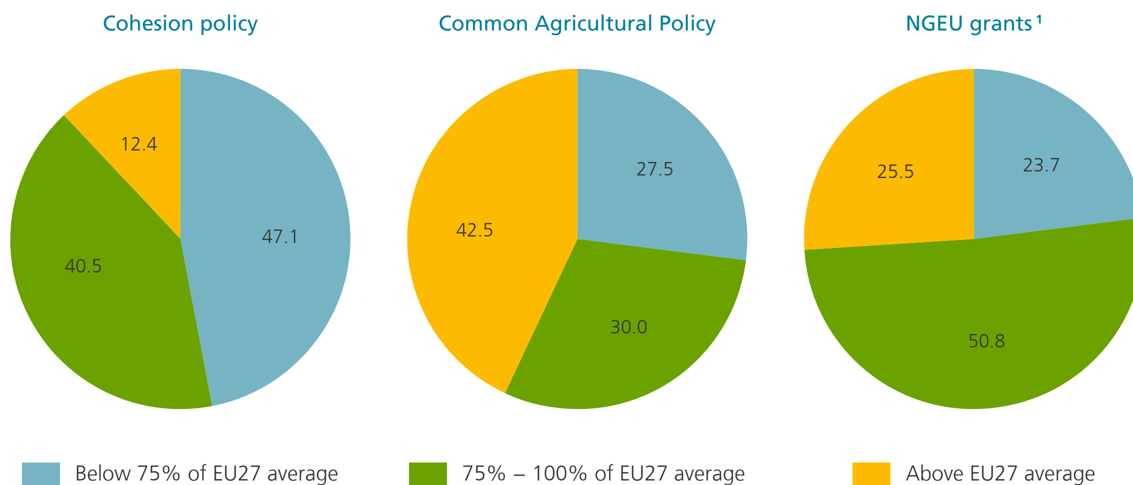
The budgets under these programmes are pre-allocated to countries and regions. ERDF and ESF+ funding depends on whether they fall in the category of less developed (GNI below 75 % of the EU average), transition (GNI 75-100 %) or more developed (GNI above 100 %) regions. For the 2014-2020 period, commitments for ERDF and ESF are estimated to amount to 1,61 % of GDP for less developed *regions*, against 0.31 % and 0.07 % for transition and more developed regions, respectively (Darvas *et al.*, 2019). ERDF is also the main source of financing for the European Territorial Cooperation programme – better known as "Interreg" – which finances projects involving regions of different countries. The Cohesion Fund is available for *countries* whose GDP is less than 90 % of the EU average.

Overall, these allocation rules make cohesion policy the most redistributive part of the budget: 47 % of cohesion policy funding goes towards countries whose GDP per capita is below 75 % of the EU average, against 27 % and 24 % for CAP and the NGEU grants.

Chart 8

Cohesion policy is more redistributive than agricultural policy and the NGEU grants

(share of 2021-2027 funding going to countries with different GDP per capita relative to the EU average)



Source: OECD (2021).
1 The NGEU grants include RRF, React-EU for 2021 and Just Transition Fund allocations.

Programmes focus on different priorities of cohesion policy. From 2021 onwards, the objectives have been reformulated and instead of 11 thematic objectives, there are now 5 policy objectives that should make Europe: 1) More competitive and smarter, 2) Greener (low-carbon), 3) More connected (mobility), 4) More social (employment, education, skills) and 5) Closer to citizens (local and sustainable urban development).

The Cohesion Fund supports policy objectives 2 and 3, the European Social Fund+ objective 4, and ERDF supports all policy objectives, but 1 and 2 are the main priorities. Depending on whether regions are classified as more developed, in transition or less developed, they need to allocate between 55 % and 85 % of funding towards these two objectives. As the ERDF is the most important Fund, these first two objectives thus carry the most weight.

Cohesion policy remains important in the EU budget. The share of cohesion policy in the budget has declined somewhat with respect to the 2014-2020 budget (from 34 % to 31 %). This overall decline masks a slight increase in the share towards ERDF (from 18 % to 19 %) and a decrease for ESF+ (from 9 % to 8 %) and, in particular, the Cohesion Fund (from 7 % to 4 %). However, if we include the top-up provided by React-EU under the NGEU, the overall budget for cohesion in real terms will be comparable to that of the previous budget.

Although cohesion policy is an important redistributive instrument, the empirical literature that studies its impact on growth is inconclusive. Macroeconomic models do suggest that cohesion funding should have important effects on GDP in low-income regions, but other empirical studies that try to assess that impact are more ambiguous. While some studies do find some positive long-term impact on regional GDP, others find only short-time effects, none at all or even negative effects. This also reflects the fact that these programmes cover a wide variety of projects in different settings. Some studies find that positive results are conditional on the region's characteristics, such as institutional quality, geographical characteristics, initial endowments, or its economic structure (for an overview, see Darvas *et al.*, 2019).

Although they do not fall under the budget's sub-heading "economic, social and territorial cohesion", other programmes in the budget also have a clear regional dimension. In the area of climate, the newly introduced Just Transition Fund (€ 17.5 billion in 2018 constant prices, € 10 billion of which provided by the NGEU) supports regions that have to undergo important changes following the green transition. In the area of agriculture, the European Agricultural Fund for Rural Development (EAFRD, € 85.35 billion, € 7.5 billion of which from the NGEU) supports rural development, with one of its objectives being to "achieve a balanced territorial development of rural economies and communities including the creation and maintenance of employment".

While the cohesion funds under the MFF are in general directly targeted towards regional cohesion, the contribution of the RRF towards regional cohesion is more ambiguous. The national Recovery and Resilience Plans are evaluated by the EC on their contribution to cohesion, but cohesion is only a part of one evaluation criterion[1] and there are no "hard" objectives in contrast to the mandatory minimum shares of spending towards green and digital investment (see sections 2.4 and 2.5).

Additionally, the RRF is allocated to countries and thus not directly to the most vulnerable regions or to those regions most affected by COVID-19. National governments have then to decide on the spending themselves which may have a differentiated territorial impact or, as in the Belgian case, the RRF grants have been shared across the federal government and the governments of the Regions and Communities according to "*rapports de force*" or including also other criteria such as their economic weight (GDP).

As a result, several experts have expressed their scepticism about the contribution of the RRF towards cohesion on the regional level. The top-down orientation, with coordination of the Plan at national level, can lead to overlooking differentiated investment and reform needs in different regions in the same country (Hunter and Pilati, 2021). In actual fact, it seems that involvement of local and regional authorities in preparing the national Plans has in most cases been limited (Cor-SEMR, 2021). If policy makers want to give a more important role to regional cohesion in future financial instruments, it would thus be important to assess the governance and within country distribution of national allocations.

2.4 The green transition

European leaders have recently agreed on the ambitious target to reduce the EU's greenhouse gas emissions by 55 % by 2030 and make it climate neutral by 2050[2]. The European Commission, for whom climate change is a key priority, has proposed in July 2021 a set of legislative proposals – called the "Fit for 55" package – that should help reach these targets. This package, which still needs to be negotiated with the European Parliament and Council, covers a wide range of areas and endeavours to reduce emissions through both carbon pricing (e.g. emission trading in the building and transport sectors) and regulation (e.g. revision of emission standards for new motor vehicles). The budget and the NGEU contribute to this agenda by stimulating investment in climate policies.

1 The full assessment criterion that includes cohesion reads as follows: "The recovery and resilience plan is expected to effectively contribute to strengthening the growth potential, job creation, and economic, social and institutional resilience of the Member State, contributing to the implementation of the European Pillar of Social Rights, including through the promotion of policies for children and youth, and to mitigating the economic and social impact of the COVID-19 crisis, thereby enhancing the economic, social and territorial cohesion and convergence within the Union."

2 The "Climate law" enshrining these targets has now entered into force following the acceptance by both the Council and European Parliament in June 2021. This raised the emission reduction target by 2030 (compared to 1990) from 40 % to 55 %.

To do so, the EU has committed itself to spending at least 30 % on climate[1], up from a 20 % target in the previous MFF[2]. This target, called *climate mainstreaming* in EU language, applies to total spending under the MFF and the NGEU combined and includes both mitigation and adaptation. Since climate spending under the RRF has a more ambitious 37 % target (see below), the implied climate target for the MFF will in fact be quite close to the 25 % originally proposed by the EC (2018).

Climate mainstreaming (i.e. targeting) can have a meaningful impact on climate spending. For the MFF 2014-2020, which was the first EU budget with such a target, total climate spending actually reached its 20 % target, while the share of climate-relevant spending under the 2007-2013 MFF has been estimated at only about 6 to 7 % by the Commission (D'Alfonso, 2019). Also, an audit by the European Court of Auditors (ECA, 2021) found that the target has led to more and better focused climate action funding in important programmes such as the ERDF and the Cohesion Fund. However, the Court of Auditors added some criticism including that some expenditure is too easily labelled as "climate funding" and that the focus is on planned expenditure instead of actual results (ECA, 2021).

In this respect, the environmental impact of the Common Agricultural Policy is a major concern, in particular as greenhouse gas emissions from agriculture in Europe have not fallen over the last 15 years. In its review of climate mainstreaming, the ECA (2021) found that the CAP had not shown any significant progress in climate-related spending and that labelling funding appropriately would reduce climate funding under the EAFRD by 40 %. As the EC (2021d) expects the CAP to deliver about 38 % of climate-related spending (excluding RRF money), this raises questions about the feasibility of the climate goal. Additionally, the CAP still contains incentives with a negative impact on climate, including widely used direct payments for specific commodities that are climate-harmful, such as subsidies for ruminant cattle, a major source of methane emissions (OECD, 2021).

To better align the CAP with the objectives of the Green Deal, a reform has been proposed by the European Commission, on which a provisional agreement between the European Parliament and Council was reached in June 2021. Under the agreement, 25 % of funding will have to be dedicated to newly established "eco-schemes", which are payments that directly benefit the environment and climate. But Member States will also enjoy increased flexibility and it remains to be seen which exact practices they will fund as part of these eco-schemes. This will influence whether this CAP reform will have a meaningful impact on agricultural greenhouse gas emissions.

Some regions that are disproportionally affected by the green transition will be supported through the newly created Just Transition Fund, whose regulation has been adopted in June 2021. Its objective is to "enable regions and people to address the social, economic, and environmental impacts of the transition towards a climate-neutral economy". Its funding will target regions where the transition will be most costly and is based on criteria such as greenhouse gas emissions of industrial facilities in regions with high carbon intensity, employment in the industry sector in these regions and employment in coal and lignite mining. In practice, 44 % of funding is being given to only three countries (Poland, Germany and Romania). The Just Transition Fund has also been criticised, however, because it supports countries who undergo a slow green transition. Indeed, nearly two-thirds of funding will go to seven countries which do not plan to phase out coal by 2030 (Gündüzyeli and Moore, 2020).

The RRF also contains several provisions to stimulate green investment. Each Member State must allocate at least 37 % of its investment under the programme towards climate action and follow a "do no significant harm"

1 To track climate spending, coefficients are applied to individual outlays across budget headings in function of their contribution to climate objectives: 100 % for significant contribution to climate objectives; 40 % for moderate contributions; and 0 % where the contribution is zero or insignificant. The specific 37 % and 20 % targets under the RRF for climate and digital funding (see below) are calculated in the same way, with the addition that reforms that support the green or digital transitions can to some extent also contribute towards the target.

2 The new MFF also contains a separate target to spend 7.5 % on biodiversity by 2024 and 10 % in 2026 and 2027, as well as the commitment to develop a new methodology to track biodiversity spending. The European Commission has estimated that biodiversity spending reached 8 % under the previous budgets, but the methodological changes envisaged make this difficult to compare with the new targets.

principle for all investment or reforms, i.e. that they will not do significant harm to any of several environmental objectives concerning climate change, biodiversity, pollution, circular economy and water and marine resources. Additionally, investment needs to be aligned with the country-specific recommendations, which include recommendations on the green transition.

According to the EC, the share of green spending in the NRRPs is well above 37 %. As at 20 July, 2021, 18 plans had been evaluated and found to contain on average 44 % of climate-related measures [1]. Some of this investment could reflect earlier planned investment that has been included in the RRP only to help meet the 37 % target. Additionally, an independent assessment of the plans takes a more critical view and finds that the share of green spending is on average 14 percentage points lower than in the EC's assessment (Green Recovery Tracker, 2021) [2]. While some of these differences are due to different methodology, they are mainly due to choices in classifying expenditures.

The NRRPs are quite well aligned with the broad green investment priorities – the so-called "flagships" – set by the EC (2020f). According to an analysis of 14 NRRPs by Darvas *et al.* (2021), 40 % of green investment goes to the flagship "Recharge and refuel" (sustainable transport and charging stations), 25 % to "Power up" (clean technologies and renewables) and 23 % to "Renovate" (energy efficiency of buildings). Only 12 % goes to other green goals outside of the flagship areas.

The budget under the MFF and the NGEU in itself will not be sufficient to meet the carbon emission targets. To that purpose, the EC (2020e) has estimated that € 350 billion additional annual investment is needed to achieve the 55 % reduction in greenhouse gas emissions by 2030. Even ignoring concerns about additionality, non-take-up of RRF loans and the potential overestimation of green spending, the increase in climate spending on the previous budget would only be around € 51 billion (2018 constant prices) per year, well below the EC's estimates of required investment efforts. Substantial contributions will therefore need to come from the private sector and national governments, including by reinforcing incentives for green investment through adoption of the measures under the "Fit for 55" package and by the InvestEU programme in the budget, which uses guarantees to leverage EU funding and stimulate additional investment. Nonetheless, investment under the budget and the NGEU, together with reforms under the RRF, can be expected to make a meaningful contribution towards reaching the new climate goals. Moreover, the funding of a considerable part of NGEU by green bonds allows to finance investments in green projects which are often more riskier in nature, by a safe asset.

2.5 The digital transition

Along with the green transition, the digital transition is the second of the "twin transitions" that is high on the EU policy agenda. The EC (2021e) has called for a "Digital Decade" for Europe and has set ambitious digital goals to be reached by 2030. These targets include Gigabit broadband internet and 5G coverage for all households, 100 % online provision of key public services as well as targets on the adoption of digital technologies by businesses and the employment of ICT specialists.

Digital investment is urgently needed as Europe is lagging. The EC (2020c) has estimated that there is an annual investment gap of € 125 billion between the EU and its competitors (US and China). The most important areas where investment needs to be stepped up are communication networks, AI and blockchain, and semiconductors/photonics. As a result, digital adoption rates in the EU are lower than in the US. For example, in the EU, 66 % of manufacturing firms and 40 % of construction firms have adopted at least one digital technology. In the US, these percentages stand at 78 % and 61 %, respectively (EIB, 2020).

1 This average is calculated as the simple average of the share of green spending in the different NRRPs.
See [Recovery and Resilience Facility | European Commission (europa.eu).]

2 This average is based on nine plans which have been assessed by both the EC and the Green Recovery Tracker.

In the MFF, several programmes contribute to the digital transition, sometimes with additional funding provided by the NGEU. Digital Europe is a programme specifically dedicated to the digital transition and will provide funding in the areas of supercomputing, AI, cyber security, advanced digital skills and ensuring a wide use of technologies across society. The digital component of the Connecting Europe Facility will invest in broadband networks. The Horizon Europe programme contains a budget for "Digital and industry" which funds research in different digital domains and EU4Health contains funding for digitalisation in the domain of health. Finally, there is the InvestEU programme, which supports corporate investment in a wide range of domains, including digital infrastructure, technologies and skills.

Also cohesion funding is intended to contribute to the digital transition, as reflected in its policy objectives. For the objective "a smarter Europe – innovative and smart industrial transformation", which is a broad category that can include investment in digitalisation, minimum targets (depending on the level of GDP per capita) exist under the European Regional Development Fund (ERDF). Another objective partly related to digitalisation is "a more connected Europe – mobility and regional ICT connectivity". However, only a small part of funding can be expected to go towards this objective.

Taken together, a wide range of programmes under the MFF support the digital transition. Nonetheless, unlike for the green transition, with the exception of the ERDF, this does not come with a minimum target for digital spending. The programme exclusively dedicated to the digital transition, Digital Europe (€ 6.8 billion, in 2018 constant prices), represents only a very small share of the overall budget and is even 17.5 % lower than the budget initially proposed by the EC (Szczepański 2021). More important programmes, such as EDRF, do consider digitalisation, but not as a specific primary objective.

On the other hand, the RRF does contain an important explicit digital component: each country needs to assign at least 20 % of its investment to the digital domain. Additionally, the required reforms can in some cases also contribute to the digital transformation.

According to the assessments of the NRRPs by the EC, 28 % of spending (as of 20 July)[1], will be allocated to digital investment, well exceeding the 20 % target. This digital investment in the National Recovery and Resilience Plans aligns well with the four digital "flagship" priorities set by the EC (2020f). According to Darvas *et al.* (2021), 37 % of digital investment will go towards the flagship "Reskill and upskill" (education and training to support digital skills), 31 % to "Modernise" (digitalisation of public administration), 25 % to "Connect" (roll-out of rapid broadband services), 3 % to "Scale up" (data cloud capacities and sustainable processors) and only 3 % to other digital investment.

Overall, the digital transition is an objective that is taken into account across programmes in the EU budget, but not with the same importance as the green transition, as reflected by the absence of an overall spending target and a lower target under the RRF (20 % versus 37 % for climate). Additional digital investment in the MFF and the NGEU will only fill a small part of the investment gap identified by the EC. Nonetheless, the budget, and in particular the digital investment under the RRF, will provide some support to the digital transition.

3. Insights for Belgium

This section will investigate the main trends in the transactions between Belgium and the EU institutions since 2000, their impact on Belgian public finances and the main changes that can be expected over the coming years. The transactions include those of the EU budget and from 2021 on those of the NGEU. With respect to

1 This average is calculated as the simple average of the share of digital spending in the different NRRPs.
See Recovery and Resilience Facility | European Commission (europa.eu).

the new MFF and the NGEU, information on the transactions of individual Member States with the EU, however, is still partial.

We will first discuss the transactions with an impact on the EU budget balance and/or on the government budget balance. Transactions that only affect the public debt will be discussed briefly at the end of the section.

3.1 Transactions between Belgium and the EU institutions with an impact on the EU budget balance and/or on the government budget balance – a framework

In analysing the transactions between Belgium and the EU institutions, the focus will be on transfers, i.e. payments with no direct counterpart. On the revenue side of the EU budget, it concerns taxes and current and capital transfers from Belgium; on the expenditure side (of the EU budget) it applies to subsidies to enterprises and current and capital transfers to Belgium[1]. This data enables net contributions to or net receipts from the EU budget to be identified, along with the impact of the EU budget on the Belgian general government balance.

Transactions between the EU budget and the EU Member States are registered in the Member States' national accounts. Out of these, the payments with no direct counterpart are reported in a systematic way in table 1b of the ECB's Government Finance Statistics (box 3). We will use this table as a reference in this section as it provides a comprehensive framework to analyze the impact of these transactions on the EU budget balance and the government budget balance.

1 Other transactions, such as dividends and proceeds of sales accruing to the government, salaries, purchases of goods and services, investment expenditure and interest charges, have a direct counterpart and are therefore excluded here.

BOX 3

Table 1b of the ECB's Government Finance Statistics (GFS)

The table below is based on reporting table 1b of the ECB's GFS and gives an overview of the transactions for each Member State with the EU budget and the European Development Fund[1,2]. The data is consistent with the ESA 2010 public accounts.

The data in this table make it possible to examine, for each Member State, the transfers made by the resident sectors of the economy to the EU budget, and also EU transfers in the Member States. This enables an analysis of the impact of the EU budget on the Member States.

The table shows relevant revenue and expenditure items. Some of these transactions are directly between the EU budget and the Member State's private sector and therefore do not pass through the government

1 Table 1b is compiled according to the ECB Guideline on government statistics and explained in detail in the Government Finance Statistics Guide (ECB, 2019).
2 Table 1b includes EDF figures since according to national accounts these are part of the statistical sector 'institutions and bodies of the EU' (S.212). In the remainder of the text, we will refer only to the EU budget as the amounts of the EDF are relatively limited.

account, such as custom duties or direct subsidies from the EU budget to companies. Other transactions go through the government and therefore have an impact on the government budget balance (see last column).

Transactions of the EU budget and the European Development Fund (EDF) with Member States

Transaction category	Item number	Impact on the Member State government budget balance?
Revenue of the EU budget and the EDF from the Member State	1 = 2 + 3 + 4 + 8	1 bis = 3 + 4 + 8
Taxes on production and imports	2	No
Current international cooperation	3	Yes
Miscellaneous current transfers and EU own resources	4	Yes
of which: VAT‑based third own resource	*5*	*Yes*
of which: GNI‑based fourth own resource	*6*	*Yes*
of which: UK rebate	*7*	*Yes*
Capital transfers	8	Yes
Expenditure of the EU budget in the Member State	9 = 10 + 11 + 12 + 13 + 14 + 15	9 bis = 11 + 13 + 15
Subsidies	10	No
Current transfers to government	11	Yes
Current transfers to non‑government units	12	No
Capital transfers to government	13	Yes
Capital transfers to non‑government units	14	No
Own resources collection costs	15	Yes
Balance of Member State vis‑à‑vis the EU budget and the EDF (net recipient +, net payer –)	16 = 9 – 1	16bis = 9bis – 1bis

Sources: ECB, NBB.

3.2 Payments of Belgium to the EU budget

The total payment of Belgium to the EU budget (item 1 in box 3) averaged 1.3 % of GDP per year over the last 20 years[1]. According to projections based on information from the Permanent Representation of Belgium to the EU, the Federal Planning Bureau and the Study Committee on Ageing (SCA), the total payment would equal on average 1.4 % of GDP per year over the period 2021‑2027.

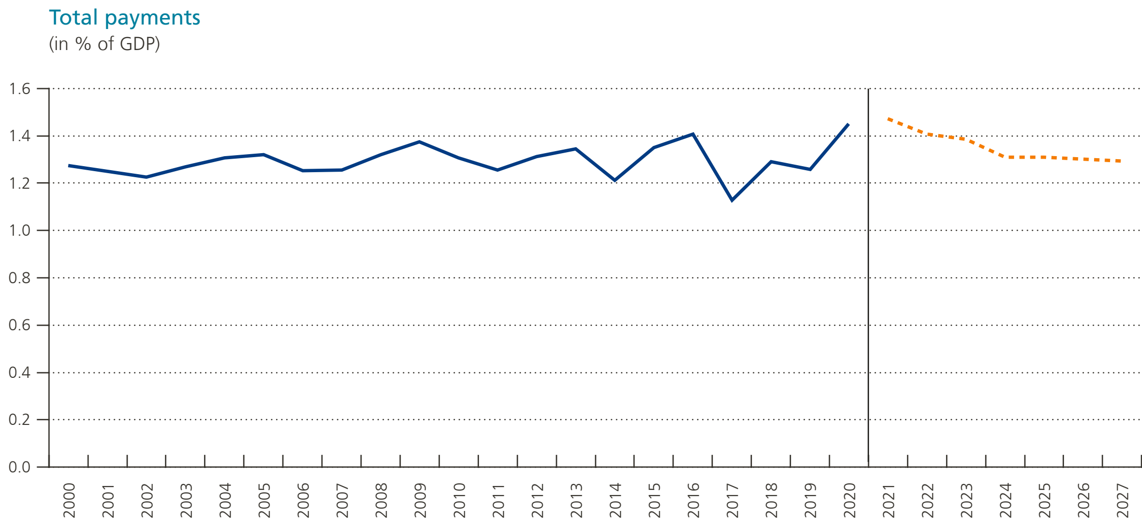
1 Payments and receipts (see section 3.3) of Belgium are expressed in % of GDP in this section as we are ultimately interested in the impact on the government budget balance.

Chart 9

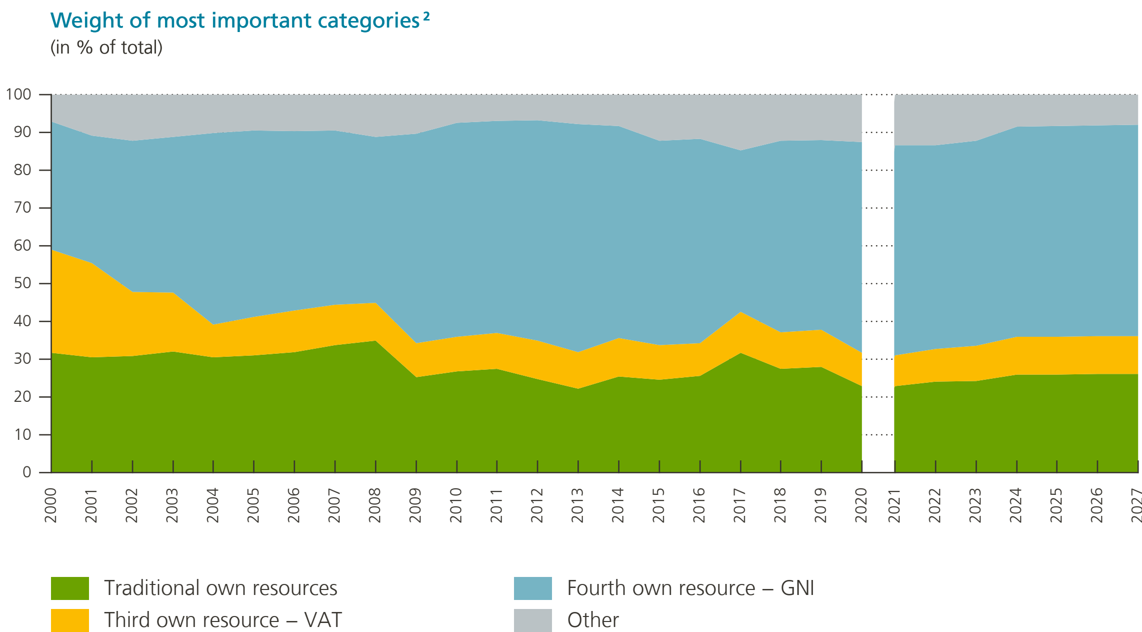
Payments of Belgium to the EU budget[1]

(actual values for 2000-2020, projections for 2021-2027)

Total payments
(in % of GDP)



Weight of most important categories[2]
(in % of total)



Sources: FPB, NAI, Permanent Representation of Belgium at the EU, SCA, NBB.

1 The categories in this chart differ slightly from those in chart 3 as they are based on national accounts data. For example, the collection costs are not subtracted from the traditional own resources here.

2 A correction was made to reallocate the contribution to the Single Resolution Fund from the category Traditional own resources to Other.

As for other Member States, the fourth own resource or the GNI-based contribution (item 6 in box 3) is currently by far the most important category, representing more than half of total payments of Belgium. As mentioned in section 1, this category is an 'additional' resource that provides the EU with the revenue required to cover expenditure in excess of the other revenues in any year. The weight of this category increased since 2000 from around 30 % to more than 50 % of the total. This would remain the most important category over the period 2021-2027 and represent some 55 % of the total.

As mentioned in section 1, the growing share of the GNI‑based contribution is a reflection of the declining weight of revenue from the traditional own resources[1] (item 2 in box 3) and from the VAT‑based own resource[2] (item 5 in box 3), from almost 60 % in 2000 to some 30 % in 2020. Based on the information from Belgium's Permanent Representation to the EU, the relative weight of both categories in total payments should increase slightly over the period 2021‑2027.

A last category contains various other payments to the EU budget and represented between 7 and 13 % of the total over the last 20 years. First, this category includes the payment for financial stability to the Single Resolution Fund (SRF). The contributions raised at national level are transferred to the SRF until 2023. Furthermore, this category also includes the UK rebate and other rebates. The UK rebate (item 7 in box 3) disappears in 2021. Finally, next to some other smaller contributions, a new payment is included starting in 2021, namely a contribution based on the non-recycled plastic packaging waste. According to the projections, the relative importance of this "other" category will drop slightly but will remain around 10 % over the period 2021‑2027.

3.3 Receipts of Belgium from the EU budget

3.3.1 Data from national accounts

Belgium's total receipts from the EU budget (item 9 in box 3) averaged 0.6 % of GDP per year over the period 2000‑2020. The most important category of receipts are the transfers that directly go to enterprises, households and non-profit institutions serving households (items 12 and 14 in box 3), except for subsidies. This includes payments under the European Social Fund (ESF), such as transfers for education and training, and the European Regional Development Fund (ERDF). The relative importance of this category has grown from around 30 % at the beginning of the 2000s to more than 40 % over the last few years. In contrast to the increase in transfers stands the declining importance of subsidies (item 10 in box 3), diminishing from almost 50 % of the total receipts in 2000 to 22 % in 2020. These consist primarily of agricultural subsidies paid under the CAP. There is no comparable information available on direct transfers and subsidies over the period 2021‑2027.

The transfers to government[3] (items 11 and 13 in box 3) displayed a strong increase over the same period, reaching almost 20 % in 2020. This category is expected to grow further substantially over the period 2021-2027 under the impulse of receipts to finance expenditure under Belgium's Recovery Plan, totaling € 5.9 billion according to provisional figures as mentioned in box 1. Besides, also receipts from the Brexit Adjustment Reserve are expected over that period in this category. One last category that can be distinguished consists of the own resources collection costs (item 15 in box 3). As already mentioned in section 1.3.1, this is the amount Member States receive to collect taxes on behalf of the EU budget. This represented between 15 and 20 % of Belgium's total receipts from the EU budget over the past years.

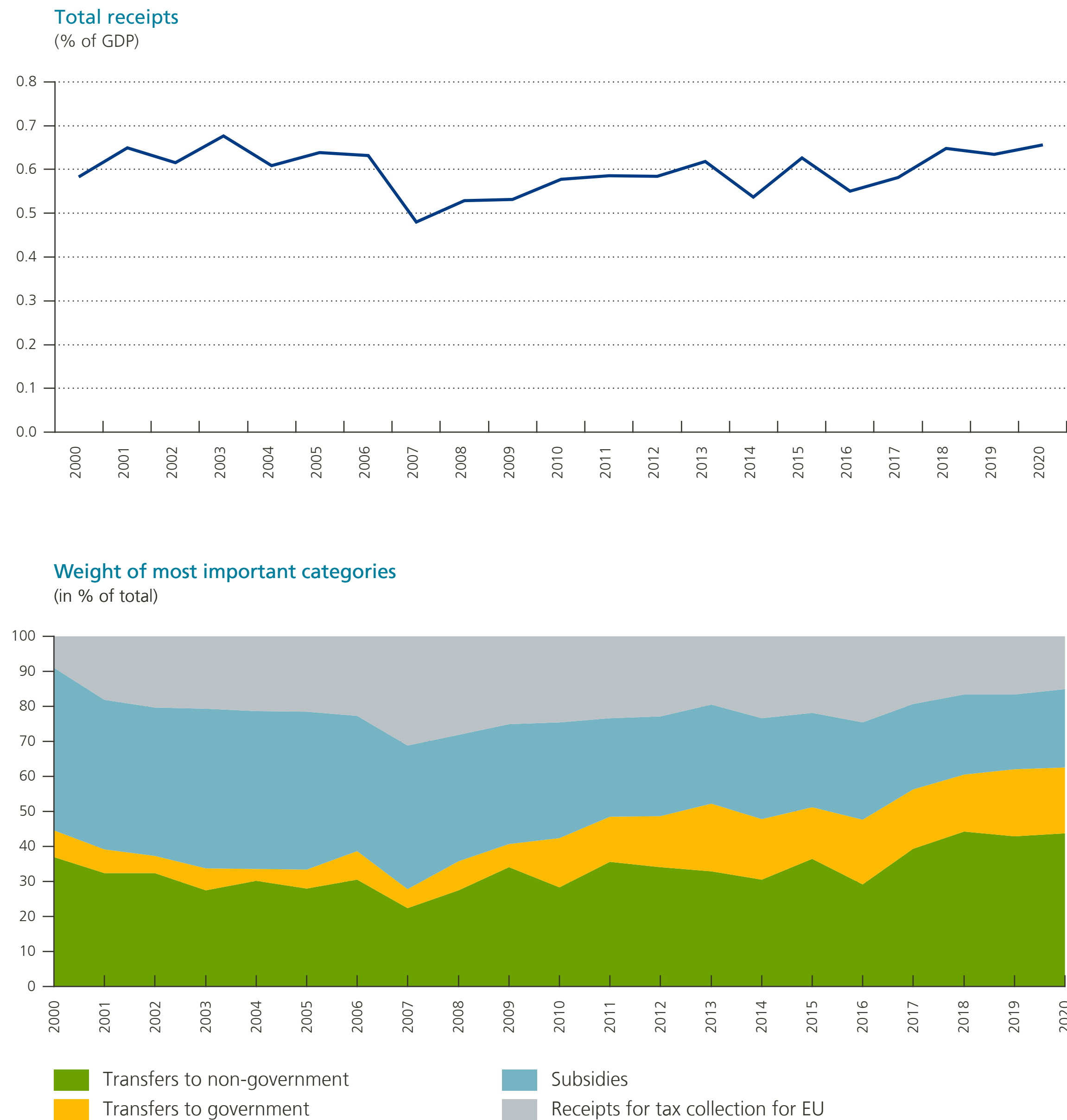
1 They consist of customs duties, agricultural duties and sugar levies.

2 This corresponds to a percentage levied on countries' VAT bases, calculated in accordance with EU rules.

3 This concerns mainly current international cooperation paid to the regions and communities.

Chart 10

Receipts of Belgium from the EU budget



Sources: NAI, NBB.

3.3.2 Data from the Operating Budgetary Balance (OBB)

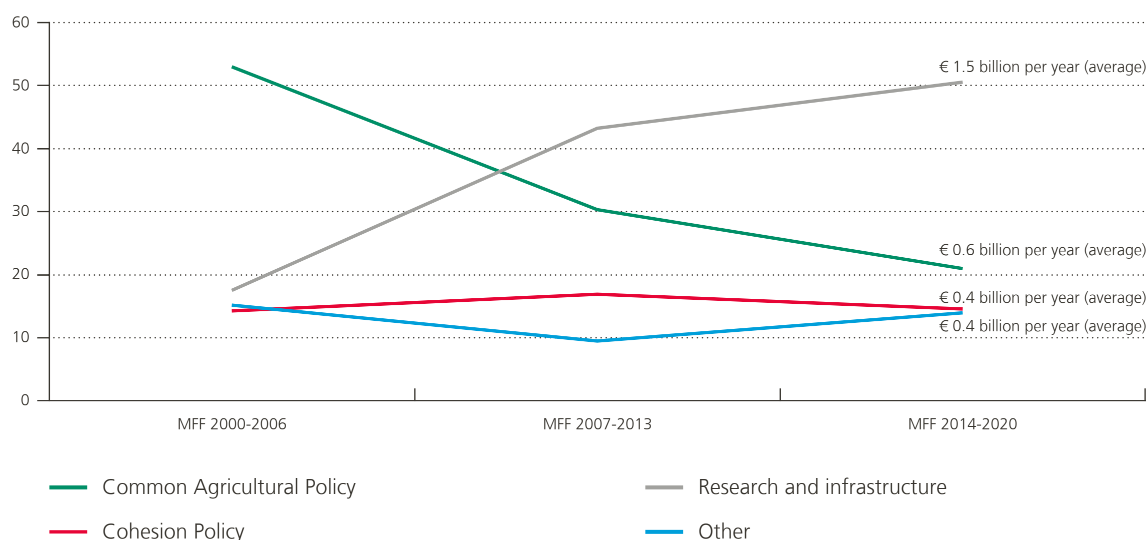
The total receipts of a country from the EU budget can also be analysed through a functional classification available in the operating budgetary balance (OBB). These data are calculated and published by the EC and show actual payments from the voted budgets.

The OBB data make it possible to study the evolution of the payments by main program and by country. They can slightly differ from the amounts in the national accounts data. Based on data since 2000, the trend in EU

Chart 11

Receipts of Belgium from the EU budget by main policy area

(in % of total receipts)



Sources: EC, NBB.

allocations to Belgium by main policy area can be retraced over the last three MFFs[1]. In this article, we consider the main areas agriculture; cohesion; research and infrastructure; and other. This approach also makes it possible to give an indication of the orientation over the next MFF (2021-2027) based on the pre-allocations published by the EC (EC, 2021a).

The main category in the MFF 2014-2020 was research and infrastructure, representing on average € 1.5 billion per year or around 50 % of the total allocations for Belgium, compared to less than 20 % in the MFF 2000-2006[2]. The main programmes under this category from which Belgium receives funding are the Framework Programme for Research and Innovation (Horizon 2020), the Connecting Europe Facility (CEF), which promotes growth, jobs and competitiveness through targeted infrastructure investment, and the EU Programme for Education, Training, Youth and Sport (Erasmus+).

In contrast to this, the relative importance of allocations from the Common Agricultural Policy has dropped sharply from a little more than 50 % in the MFF 2000-2006 to 21 % in the MFF 2014-2020, representing a yearly average of € 0.6 billion. This category consists mainly of payments by the European Agricultural Guarantee Fund (EAGF).

The relative importance of the area of cohesion has remained rather stable. The two main areas for which Belgium receives funding are European territorial cooperation (through Interreg), and the objective Investment for Growth and Jobs (through ESF and the EDRF). Finally, the remaining category of "other" has also been quite stable over the last three MFFs.

1 The category administrative receipts has been disregarded. This includes salaries, pensions of EU personnel and other operational costs.
2 The official name of this category of expenditure in the MFF 2014-2020 is Competitiveness for Growth and Jobs.

3.3.3 Pre-allocations of certain funds in the 2021-2027 EU budget and Recovery Plan

In the Spring of 2021, the EC published pre-allocations[1] by country for some of the main areas under the MFF 2021-2027 and the NGEU (EC,2021a). For the MFF, these figures show that Belgium has pre-allocations for agriculture under the EAGF and the EAFRD over the period 2021-2027 worth slightly more than € 4 billion (compared to pre-allocations of € 4.3 billion over the period 2014-2020). For cohesion policy, a total pre-allocation of almost € 2.7 billion is envisaged. Finally, under the Just Transition Fund, Belgium stands to receive € 80 million.

Under the NGEU, the biggest sums are foreseen under the Recovery and Resilience Facility with € 5.9 billion over the period 2021-2026 (see discussion in box 1). Belgium has also a pre-allocation for the EAFRD of € 14.2 million in 2021 and € 33.9 million in 2022. For the Just Transition Fund, an amount of € 103 million is planned over the period 2021-2027. Under REACT-EU, Belgium is pre-allocated an amount of € 260 million in 2021.

Table 3

Pre-allocations of certain EU funds for Belgium over the period 2021-2027 [1,2]

(current prices in € billion)

	Total (2021-2027)	2021	2022	2023	2024	2025	2026	2027
MFF 2021-2027								
European Agricultural Guarantee Fund	3.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
European Agricultural Fund for Rural Development	0.6	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Cohesion Policy	2.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Just Transition Fund	0.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
The NGEU								
European Agricultural Fund for Rural Development	0.1	0.0	0.0	n.a.	n.a.	n.a.	n.a.	n.a.
Just Transition Fund	0.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
RRF allocation [3]	5.9	1.0	1.6	1.2	1.1	0.7	0.3	n.a.
REACT-EU	n.a.	0.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: EC, FPB.
1 Not exhaustive in terms of funds as well for the MFF as for the NGEU. For the MFF this represents less than half of the total funds.
2 In commitments.
3 Yearly figures based on Federal Planning Bureau (2021).

3.4 Balance

Subtracting the revenue of the EU budget from the Member State from the expenditure of the EU budget in the Member State as defined in item 16 in box 3 gives the net contribution (negative sign) to or the net receipt (positive sign) from the EU budget.

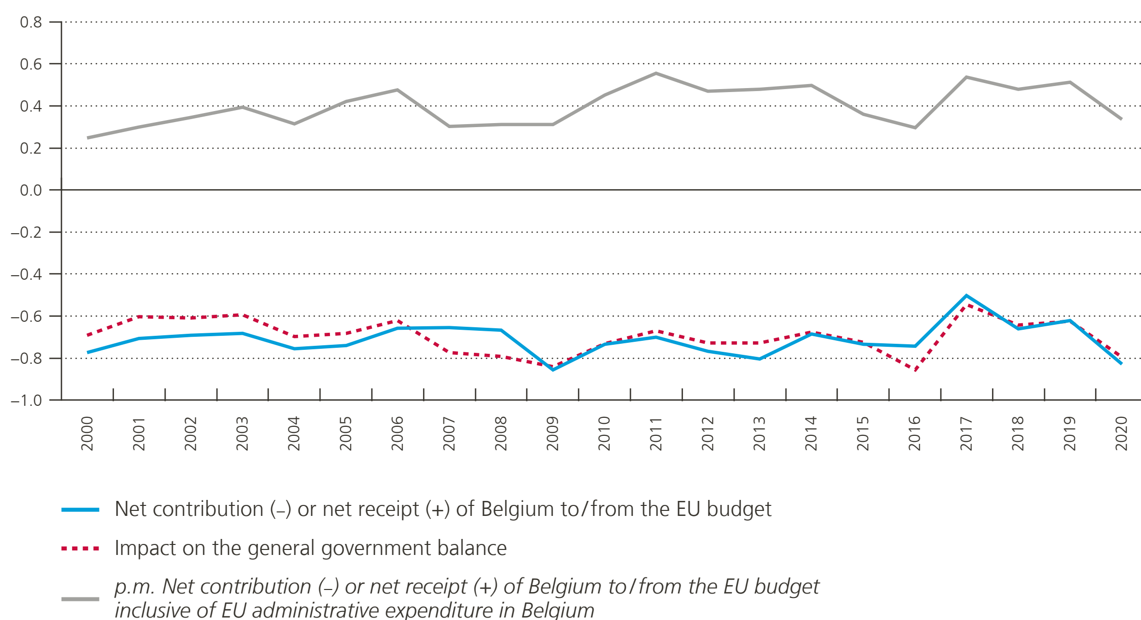
Belgium displayed a net contribution over the whole period covered, hovering between 0.5 and 0.9 % of GDP without any clear trend. When we take a narrower view and only consider those items with an impact on the

1 In commitments.

Chart 12

Net contribution (negative sign) or net receipt (positive sign) of Belgium to/from the EU budget and impact on the general government balance

(in % of GDP)



Sources: NAI, NBB.

government balance – i.e. excluding the direct transactions between the EU budget and the private sector (item 16bis in box 3) – the picture remains broadly unchanged. This means that the net contribution is almost completely situated in the government sector.

If we depart from our preferred approach to only consider transactions with no direct counterpart and take on board administrative expenditure by the EU institutions in Belgium, which are very important for the local economy, the resident sectors of Belgium would become a net receiver of roughly between 0.2 and 0.6 % of GDP over the period 2000-2020[1]. However, the salaries of officials paid in Brussels are not spent entirely in Belgium. This argument is particularly valid in the case of pensions, which are largely paid to officials who have left Brussels.

All in all, we can conclude that the impact of transactions of Belgium with the EU budget remains rather limited and stable over time.

Although it is interesting to look at the balance from an accounting perspective, it is important to be aware of the exact content and limitations of it.

The following caveats apply when using these budget balances[2]:

1 The inclusion of these EU expenditures makes a significant difference for the two Member States which are home to most of the European institutions, namely Belgium and Luxembourg. These two countries then become net receivers from instead of net contributors to the EU budget.

2 Butzen *et al.* (2006), Pilati *et al.* (2020), Asatryan *et al.* (2020).

- the EU is based on solidarity, and not on some "fair return" principle. Any net contribution should also be compared to the broad economic benefits from membership and economic integration which are particularly large for a small open economy like Belgium[1];
- expenditure in one particular Member State may benefit another either directly (e.g. the construction of an airport in Greece by a German contractor) or indirectly by boosting imports;
- EU expenditure in many cases benefits several or all Member States, or address a common public good; it may also generate economies of scale;
- Member States can benefit from financial instruments outside of the budget (EIB, EFSI, ESM, …).

The discussion about how much each EU Member State is getting out of the budget versus how much they are contributing is therefore flawed and has to be put in context.

3.5 Transactions between the EU institutions and Belgium that affect only public debt

Apart from the transactions with an impact on the budget balance which were discussed in the previous sections, Belgium also has transactions with the EU institutions that affect only public debt. Although they have no impact on the budget balance, they are important to give a global view on the transactions between EU institutions and Member States. This section gives a brief overview of the main transactions and outstanding amounts.

On the liabilities side for the Belgian government, the most important transaction with the EU institutions falls under the SURE programme, which was launched in 2020 in response to the COVID-19 crisis. This facility provides EU Member States with a financing option by loans for measures taken to provide temporary employment support and to reduce the impact of the crisis in terms of unemployment or loss of income. The total amount for Belgium came to € 8.2 billion at the end of June 2021. Another important liability consists of loans from the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB). Finally, it is worth mentioning that, like most EU countries, Belgium did not apply for the loan component of the RRF, but only for the grants. On the assets side, different participations of the Belgian government in European institutions can be identified (EIB, EBRD, EMS, ...).

Conclusion

The Multiannual Financial Framework (MFF) 2021-2027 and the Recovery Plan the Next Generation EU (the NGEU) may to some extent be seen as a game changer for a few reasons.

First, thanks to the addition of the NGEU, the EU funding will be exceptional in size over the first years of the 2021-2027 period. Indeed, the NGEU instrument complements the € 1100 billion agreed ceiling for the MFF with another € 750 billion (in 2018 prices) to be spent by 2026 at the latest. For the first time ever, the EU budget also intends to play the role of an economic stabilisation function. But it remains very limited compared to that of individual EU countries and federal models as in the United States. Second, by borrowing more than € 900 billion taking also the SURE instrument into account, the EU will become both a significant player on the financial markets and a provider of safe assets in euro, thereby reinforcing the international role of the euro.Third, the NGEU and its major instrument, the Recovery and Resilience Facility (RRF) are not only designed to speed up the EU recovery, but also to spur growth over the medium and long term by stimulating

1 According to data put together in 2019 by the EC, Member States' benefits from the single market exceeded 6 times their contributions. This is because the single market gives access to 450 million customers and creates opportunities that no EU country can offer on their own. See EC (2019), Pilati *et al*. (2020), In 't Veld (2019).

Member States' investments and reforms. To that end, governments had to submit National Recovery and Resilience Plans (NRRPs).

Estimates by the EC, IMF and the ECB show that the NGEU could boost EU growth potential and increase real GDP by up to 1.5 percentage points by the middle of the decade. However, to achieve such effects on growth, important conditions need to be met: the NGEU funding has to be used for productive investment; it has to fund additional investments that would not have taken place otherwise; and countries need to be able to absorb the inflow of substantial additional resources in a relatively short time span. In the long run, we may expect growth effects to come mainly from the structural reforms, and from the interaction between the reforms and investments.

Fourth, the main part of the NGEU is made up of grants showing some solidarity between the Member States in times of crises. This solidarity is also reflected in the criteria chosen for allocating the RRF between countries as they favour the worst-hit EU economies (in the South) and the poorest and less resilient economies (in the Centre and East).

Consequently, the NGEU may help keeping the convergence between countries going further despite COVID-19, that has been a common shock with asymmetric effects across countries.

Fifth, together with the new MFF, the NGEU may further promote cohesion between the regions in the EU. Thanks to additional funding from the NGEU cohesion policy retains the same budget in real terms as the previous MFF. Cohesion policy, much of which is targeted directly to the most disadvantaged regions, is the most redistributive part of the EU budget.

Finally, both the NGEU and the MFF support the so-called "twin transitions" (green and digital). Investments in both domains are indeed much needed to achieve the new ambitious climate targets (a cut of 55 % in greenhouse gas emissions by 2030 and climate neutrality by 2050) and to increase the use of digital technologies. For the green transition, at least 30 % of the total package (MFF + the NGEU) needs to be used for climate-related spending. A threshold of no less than 37 % is even set for the RRF specifically encouraging the Member States to focus on green investments in their NRRPs. While there is some attention for digital investment in different programs throughout the budget, digital spending does not have a comparable target for the total package and only a smaller 20 % target for the RRF.

Going forward, the success of the NGEU will depend on the implementation. It is a one in a lifetime opportunity for the less resilient countries and/or most affected by the COVID-19 crisis to help remedy their structural problems through investments and reforms. This is the reason why in a next article we intend to further analyse and compare the NRRPs of the main euro area Member States, notably Italy and Spain as they have received the highest absolute amounts of RRF grants. Belgium will also be considered in this comparison. Belgium's NRRP has been drafted on the assumption that it will receive € 5.9 billion of RRF grants from the EU. Based on the summer 2021 EC forecast, Belgium may receive € 750 million less than expected at the autumn 2020 since its GDP developed better than in the other EU Member States.

Bibliography

Alcidi C., D. Gros and F. Corti (2020), *Who will really benefit from the Next Generation EU funds?* (www.ceps.eu).

Amiot M. and S. Broyer (2021), *Next Generation EU will shift European growth to a higher gear, S&P comments,* 27 April.

Asatryan Z., A. Havlik, F. Heinemann and J. Nover (2020), *Why net operating balances are a distorted indicator of a Member State's benefit from the EU budget*, EPRS Briefing, PE 648.148, February.

Banco de España (2020), "The macroeconomic impact of the Next Generation EU programme under various alternative scenarios", Box, Quarterly Report on the Spanish Economy, *Economic Bulletin* 3, 50-53.

Bankowski K., M. Ferdinandusse, S. Hauptmeier, P. Jacquinot and V. Valenta (2021), *The macroeconomic impact of the Next Generation EU instrument on the euro area,* ECB Occasional paper 255, January.

Bisciari P. (2019), *A survey of the long-term impact of Brexit on the UK and the EU27 economies*, NBB, Working Paper 366.

Bisciari P., D. Essers and E. Vincent (2020a), "Does the EU convergence machine still work?", NBB, *Economic Review,* June, 23-64.

Bisciari P., D. Essers and E. Vincent (2020b), *Does the EU convergence machine still work and how will the Covid-19 crisis impact it?*, SUERF Policy Note 172, May.

Boeckx J., M. Deroose and E. Vincent (2020), "The ECB's monetary policy response to Covid-19", NBB, *Economic Review,* September, 37-52.

Butzen P., E. De Prest and H. Geeroms (2006), "Notable trends in the EU budget", NBB, *Economic Review,* September, 49-67.

Camous A. and G. Claeys (2020), "The evolution of European economic institutions during the Covid-19 crisis", *Eur Policy Anal*,1-14.

Centraal Planbureau (2021), "Komen EU-herstelplannen te laat?", box in *Juniraming* 2021.

Codogno L. (2020a), *European Council: Open issues in the EU Recovery Plan*, European Economics Notebook, 15 June.

Codogno L. (2020b), *NG-EU: Victim of its own success? Risk of abortion of stimulus*, European Economics Notebook, 16 October.

Codogno L. (2020c), *EU/Eurozone: is the Recovery Plan at risk?,* European Economics Notebook, 27 November.

Cor-CEMR (2021), *The involvement of municipalities, cities and regions in the preparation of the national Recovery and Resilience Plans: Results of the CoR-CEMR targeted consultation.*

Crescenzi R., M. Giua and G.V. Sonzogno (2021), "Mind the Covid-19 crisis: An evidence-based implementation of Next Generation EU", *Journal of Policy Modeling*, 43(2), 278-297.

D'Alfonso A. (2020), *Next Generation EU: a European instrument to counter the impact of the coronavirus pandemic*, EPRS Briefing, PE 652.000, July.

D'Alfonso A. (2021). *Multiannual financial framework for the years 2021 to 2027, The future of EU finances*, EPRS Briefing, PE 637.979, January.

D'Alfonso A., A. Delivorias, N.Milotay and M. Sapala (2021), *Economic and Budgetary Outlook for the European Union 2021*, EPRS, PE 679.062, January.

Darvas Z., A.M. Collin, J. Mazza and C. Midões (2019), *Effectiveness of cohesion policy: learning from the project characteristics that produce the best results,* Bruegel.

Darvas Z. (2020), *The EU's recovery fund proposals: crisis relief with massive redistribution*, Bruegel Blog, 17 June.

Darvas Z., M. Dominguez-Jimenez, M. Grzegorczyk, L. Guetta-Jeanrenaud, M. Hoffmann, K. Lenaerts, T. Schraepen, A. Tzaras and P. Weil (2021), *European Union countries' recovery and resilience plans,* Bruegel, 14 July.

Deutsche Bundesbank (2020), The EU budget and its financing: looking back and ahead, *Monthly Report*, April.

ECB (2019), *Government finance statistics guide*, January.

ECB (2021a), *General government fiscal position of the euro area, the European Union and European Union countries*, May.

ECB (2021b), *The macroeconomic impact of the Next Generation EU instrument on the euro area*, ECB, Occasional Paper Series 255.

EC (2018), *A modern budget for a Union that Protects, Empowers and Defends, the Multiannual Financial Framework for 2021-2027*, COM(2018) 321 final, 2 May.

EC (2019), *Benefits of the EU budget* (https://ec.europa.eu/info/strategy/eu-budget/long-term-eu-budget/2021-2027/benefits-eu-budget_en)

EC (2020a), *The EU budget powering the recovery plan for Europe,* Communication *from the EC to the EP, the EUCO, the Council, the European economic and social Committee and the Committee of the* Regions, COM(2020) 442, 27 May.

EC (2020b), *Europe's moment: Repair and Prepare for the Next Generation,* Communication *from the EC to the EP, the EUCO, the Council, the European economic and social Committee and the Committee of the* Regions, COM(2020) 456, 27 May.

EC (2020c), *Identifying Europe's recovery needs, Commission* Staff Working Document, SWD(2020) 98, accompanying the document EC (2020b).

EC (2020d), *Proposal for a Regulation of the EP and the Council establishing the Brexit Adjustment Reserve,* COM(2020) 854 final, 25 December.

EC (2020e), *Stepping up Europe's 2030 climate ambition: Investing in a climate-neutral future for the benefit of our people*, COM(2020) 562 final, 17 September.

EC (2020f), *Annual Sustainable Growth Strategy 2021*, COM(2020) 575 final, 17 September.

EC (2020g), European Economic Forecast, Autumn 2020, Institutional Paper 136, November.

EC (2021a), *The EU's 2021-2027 long term Budget and Next Generation EU, Facts and figures*, April.

EC (2021b), *Operating budgetary balance* (https://ec.europa.eu/info/publications/technical-briefing-eus-next-long-term-budget_en)

EC (2021c), *Consolidated annual accounts of the European Union, Financial Year 2020.*

EC (2021d), *Statement of Estimates of the European Commission: Preparation of the 2022 draft budget,* SEC(2021) 250, June 2021.

EC (2021e), *2030 Digital Compass: the European way for the Digital Decade*, COM(2021) 118 final, 9 March.

Federal Planning Bureau (2021), *Macroeconomic and fiscal effects of the draft National Recovery and Resilience Plan*, Report to the Secretary of State for Recovery and Strategic Investments, April.

Frogneux V. and M. Saintrain (2013), *MFF 2014-2020 – impact sur les contributions des EM des Conclusions du sommet européen des 7 et 8 février (et autres notes techniques)*, BFP document REP_ MFF20142020REC_10414, février.

Green Recovery Tracker (2021), *Country Reports* (https://www.greenrecoverytracker.org/country-reports-overview).

Gros D. (2021), *Next Generation EU: applying some basic economic principles, Executive education course on the EU Recovery Plan, School of Transnational Governance,* European University Institute, Florence, 19 May.

Gündüzyeli E. and C. Moore (2020), *Just transition or just talk?*, EMBER and CAN Europe, September.

Hunter A. and M. Pilati (2021), *Recovery and reform in the EU's most vulnerable regions*, EPC, Policy Brief.

In 't Veld J. (2019), *Quantifying the Economic Effects of the Single Market in a Structural Macromodel,* DG ECFIN European Economy Discussion Paper 94.

IMF (2020), *Euro area country report,* IMF country report 20/324.

Koopman G.J. (2021), *New role, new responsibilities: Long-term budget 2021-2027 & NextGenerationEU,* Executive education course on the EU Recovery Plan, School of Transnational Governance, European University Institute, Florence, 19 May.

Lehner S. (2020), "The Dual Nature of the EU Multiannual Financial Framework", in Laffran B. and A. De Feo (eds), *EU Financing for Next Decade*, European University Institute, Robert Schuman Centre for Advanced Studies, Florence.

Lindner J. and S. Tordoir (2020), "Euro Area Macroeconomic stabilization and the EU budget; A Primer", in Laffran B. and A. De Feo (eds), *EU Financing for Next Decade*, European University Institute, Robert Schuman Centre for Advanced Studies, Florence.

OECD (2021), *Economic Survey of the EU.*

Pilati M. and F. Zuleeg (2020), *The benefits of EU membership are not measured by net operating balances,* EPRS Briefing, PE 648.145, February.

Pfeiffer Ph., J. Varga and J. in't Veld (2021), *Quantifying Spillovers of Next Generation EU Investment,* EC, DG ECFIN, Discussion Paper 144, 15 July.

Pietrunti M. (2021), *NGEU – boosting growh more than inflation,* Agence France Trésor, Monthly Bulletin 373, June.

Sapala M. (2020), "Strengths and Weaknesses of the EU Budget Flexibility 'toolbox'" *in Laffran B. and A. De Feo (eds), EU Financing for Next Decade,* European University Institute, Robert Schuman Centre for Advanced Studies, Florence.

Sapala M., M. Pari and N. Kresnichka-Nikolchova (2020). *EU Financing for 2021-2027*, EPRS, PE 659.371. December.

Sapala M. and N. Thomassen (2021), *Recovery plan for Europe: State of play,* EPRS Briefing, PE 690.656, June.

Szczepański M. (2021), *Digital Europe programme: Funding digital transformation beyond 2020*, EPRS Briefing, PE 628.231, May.

Van Lierop Ch. ('2021), *Brexit adjustment reserve,* EPRS Briefing, PE 690.611, May.

Zorell N. and S. Tordoir (2021), "Towards an effective implementation of the EU's recovery package", ECB Economic Bulletin, Issue 2.

Legal texts:

"Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community", OJ L 29, 31 January, 7-187.

"Council Decision (&EU/Euratom) 2020/2053 of 14 December 2020 on the system of own resources of the EU and repealing Decision 2014/335/EU", Euratom.

"Regulation (EU) 2021/241 of the EP and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility", Official Journal of the EU, L57/17 (OJ L 424, 15.12.2020),18 February.

EU (2018), "Guideline (EU) 2018/861 of the European Central Bank of 24 April 2018 amending Guideline ECB/2013/23 on government finance statistics", *Official Journal of the European Union*, 15 June.

"Trade and Cooperation Agreement between the European Union and the European Atomic Energy Community and the United Kingdom of Great Britain and Northern Ireland", OJ L 444, 31 December, 14-1462.