EU aims to strengthen medium-long term growth and competitiveness through EU Recovery Fund

TAKASUKE TANAKA
ECONOMIC RESEARCH OFFICE

MUFG Bank, Ltd.
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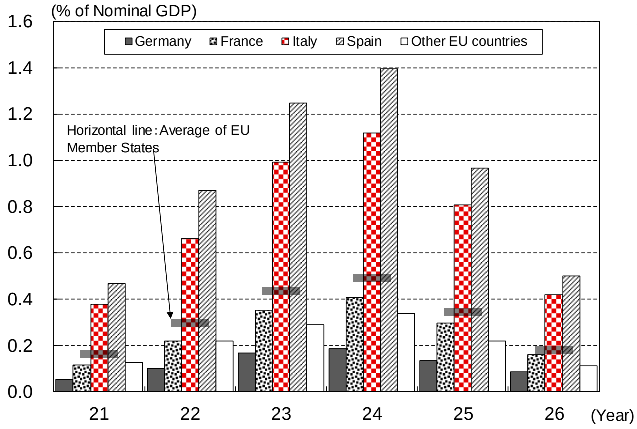
Last July, the EU established the EU Recovery Fund (NextGenerationEU, or NGEU) of approximately 750 billion EUR for the purpose of supporting countries that have been impacted by the pandemic. At the end of May, an agreement that 27 member countries will be covered by the EU's own resources was reached. On 15 June, EU-Bonds were issued to secure the NGEU's financial resources and the NGEU was officially launched.

The NGEU includes money contributions such as disparity correction, rural development and research development. However, the core of NGEU is the Recovery and Resilience Facility (RRF), which is composed of grants and loans for the recovery following the pandemic and accounts for approximately 90% of the NGEU total. 24 of 27 countries have already prepared plans for the use of RRF. We expect that finance provision is to begin in late July at the earliest once plans are reviewed by the European Commission and approved by the European Council's ministers.

However, RRF is a plan to provide partial support over 6 years (Chart 1). Once 13% of the amount approved by the EU is supplied as pre-financing towards recovery plans in 2021, the remaining amount will be provided along with the progress of the recovery plan. The scale of fiscal policies for the pandemic remains relatively small compared to those implemented by US and Japan, but RRF is not meant to supplement member states' fiscal spending in the short-term. It is different from policies that offer a temporary pillar of support to households like additional economic policies established in the US in March of this year. Thus, we surmise that its effects on future business conditions will be limited in the short term.

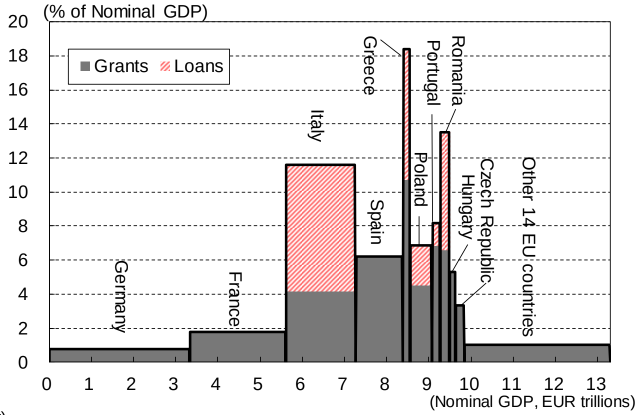
RRF is aimed at urging EU member states to redistribute income and cultivate next-generation industries in the medium-term. Thus, it has been decided that a minimum of 37% of expenditure will be set aside for tackling climate change, and 20% will be set aside for digital transition. In addition, there will be a generous distribution to countries in south Europe, where the economies are relatively vulnerable (Chart 2). We cannot predict if NGEU will lead to discussions of future EU fiscal integration, but if full advantage of NGEU is utilised to press forward with economic growth and strengthening of competitiveness, then it is worth paying attention as it can serve as a model for new policy measures in the future.

Chart 1: Forecast of Issued RRF Grants (January 2021)



Note: Calcuated using ECB's January 2021 data. Each year's GDP is based on IMF data.
Source: ECB, IMF, MUFG Bank Economic Research Office

Chart 2: EU Member States' RRF Plans



Note: The horizontal axis is each country's nominal GDP (Actual 2020 data), vertical axis is the RRF application amount as part of nominal GDP, the graph area shows the RRF plans' amount.
Source: European Commission, MUFG Bank Economic Research Office

(Translated by Rebecca Whitter)

For further details, please contact the Economic Research Office, MUFG Bank

Managing Director, Rei Tsuruta Tel: +81-(0)3-3240-3204

Written by Takasuke Tanaka <takasuke_tanaka@mufg.jp>