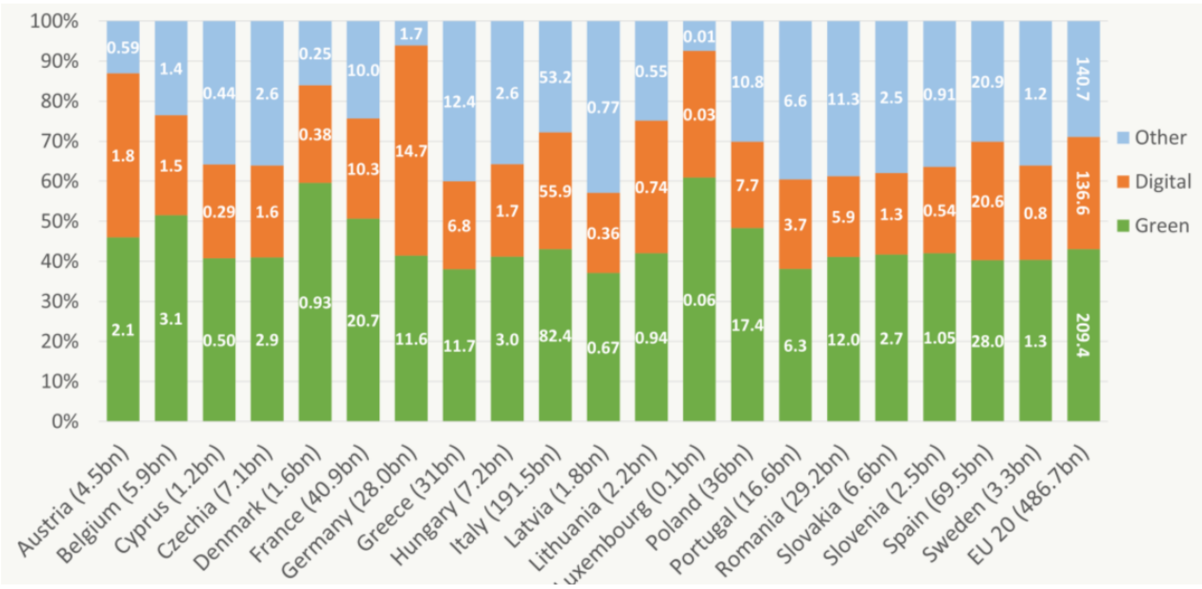
## NGEU State of Play and Follow-up

The NGEU is a real game changer in EU policy making, from different perspectives. For the first time, the EU has a substantial economic policy budget at its disposal borrowed on its own right on international capital markets. It now has the possibility to drive economic reform in a certain direction, and can assist the member states in adjusting and improving the policy mix. And it can make disbursements conditional, if the money is not used for the right purposes.

Green and digital investments are the biggest part of NGEU. Member States must allocate at least 37% of their investments to green and 20% to digital investments. So far, data demonstrate that member states exceed these targets: green stands at 39% (in broader terms even 42%), digital at 26% (See Figure 1). The total amounts that will be allocated currently stand at bn €486.7, with €196bn for green investments, and €121bn for digital. This is well below the target set of 750 bn, which is composed of grants and loans. Only a few member states have taken the full amount in grants and loans under the plan, such as Italy, which is expected to get €191.5bn, whereas Spain plans to only take up the grants, for €69.5bn.

Figure 1. RRF: National Recovery and Resilience Plans allocation

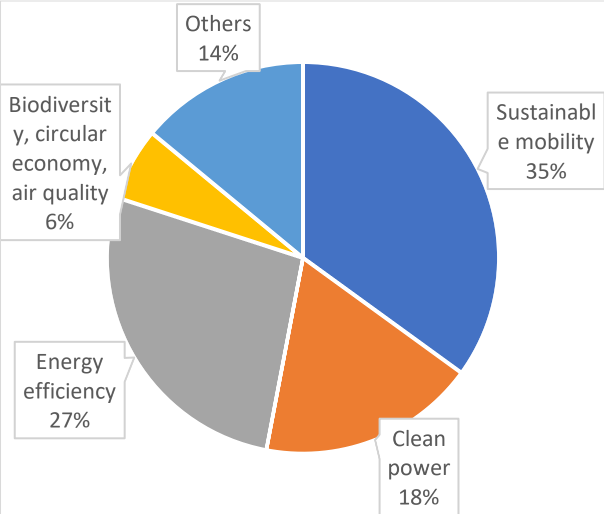


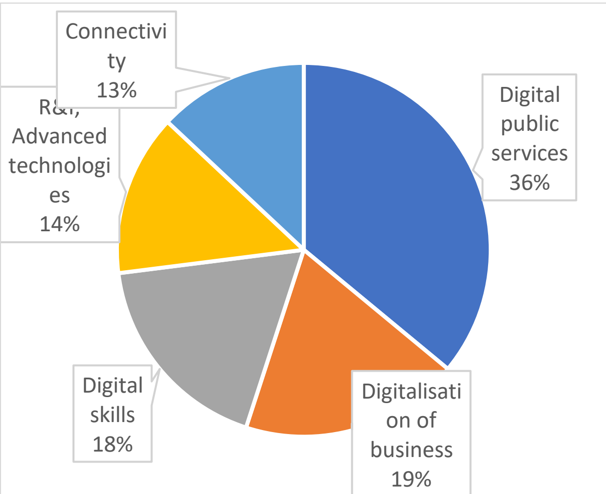

Source: CEPS on the basis on RRFPs

Proportionally, the largest part goes to Central, Eastern and Southern European countries. They represent a significant investment — 5.2% of 2019 GDP (measured on the basis of the 2019 GDP figure) for Eastern and Central Europe and 4.9% of 2019 GDP for Southern Europe. In addition, Southern European countries have made greater use of the loans offered under the facility (4% of 2019 GDP vs. 1.9% of 2019 GDP for Eastern Europe) (EIBIS, 2022). And these countries still get a largest share of the classic EU funds as well.

Within green, the largest part is going to sustainable mobility (35%), followed by energy efficiency (27%) and clean power (18%). Within digital, the largest part is going to digitalizing of public services, hence improving the efficiency of public administrations, followed by business (19%) and digital skills (18%). The largest part of the NGEU is this going in public investments, some of which are tangible, or had to be done anyway, such as for public transport or energy, others which are more intangible, such as digitizing public services.

Figure 2 and 3: Investments under Green and Digital




Source: CEPS on the basis on RRFPs

The expectation of the impact is that GDP will be about 2% higher in 2030, and 1.3% higher in 2040, relative to the baseline scenario with NGEU, thanks to investments under the plan, with the highest impact in Southern Europe, where structural improvements are estimated to raise GDP levels by as much as 5% by 2030 (EIBIS, 2022, p. 9). The public investment should give rise to multipliers, and to spill overs among countries. But all depends whether all the money will be effectively absorbed and well spent, which is a well know problem with EU funds, and large public investment programmes in general. The implementation challenge for EU and national administrations is enormous.

The EU has set 'milestones' of reforms and investments until 2026 to apportion its spending under the NGEU. In case milestones are not met, money will be withheld. So far, €64bn was disbursed to 21 countries, with the highest amounts to Italy and Spain (source: www.ngeutracker.org/payments). The amount was raised through several bond placements, issued under Luxembourg law. The bonds are listed on the Luxembourg stock exchange.

Overall, many questions can be raised about the NGEU programme. We group the most important ones below:

- **Will NGEU effectively lead to new investments, supplementing national spending, or does it substitute it, and thus provide an opportunity to consolidate public finances?** This is also called 'additionality' principle of the EU cohesion policy, the 'European value added', as enshrined in Article 5(1) of the NGEU Regulation (EU 2021/241). In an analysis of six different programmes, CEPS researchers found large discrepancies: Germany, Austria and Spain will spend the largest share of their grants to finance projects that were either already planned or to extend projects that were already existing, to in between 60% and 80% of the funds. For Italy, Portugal and Belgium, the largest share are new projects, 64% for the first two, up to 77% for Belgium (Corti et al., 2022).

- **Does NGEU contribute to improving economic cohesion in the EU, and reduce the divide between countries?** Compared to the EU's cohesion policy programmes (the EU's regional, social and cohesion funds), the NGEU is less redistributive, and goes mostly (>50%) to the middle income countries, less than 25% goes to poorest (below 75% of EU27 average) (NBB, 2021). This 'bias' is related to the varied impact of the Covid crisis across countries, certainly during the first wave, but also to the differences in public sector governance and absorption capacity.
- **What are the long-term effects of NGEU?** They will be difficult to measure, certainly for the biggest part of NGEU, Green, where, the money may simply finance a painful transition, without leading to productivity gains, like for digital. In agriculture, for example, more green may be less productive, which will not necessarily be compensated higher prices. This apart from the discussion of whether the investments could effectively command a green label. In highly carbon intensive industries, green is … 'do not significant harm', following the taxonomy.
- **How about conditionality?** As this is truly EU money, unlike the MMF money, the EU Commission can be even more insisting that the money is well spent, taking broader, more macro criteria and investment specific conditionality into account. The EU has set a series of objectives in the RRF regulation, related also to the digital and green transition, and four principles, a.o. quantitative targets and qualitative milestones. The disbursements of the RRF funds every six months will only be approved on the condition that the intermediate milestones are achieved. To this end, the EU Commission will assess member states internal control systems to prevent fraud and mismanagement (Corti and Ferrer, 2021). But will the EU Commission be up to the task, given the central management of large projects, past experiences and politicisation? In addition, there is also the very contested 'rule of law' conditionality.
- **Is this truly federal spending, is the European dimension of the RRF expenditure sufficiently taken into account**, or is the EU only using its international clout on the borrowing side, but not on the expenditure side? Are the national programmes sufficiently complementary and is the cross-border dimension exploited, to develop EU-wide strengths, as was the case in, i.e. the TEN (trans European Networks) in the past? And is the level-playing-field among countries respected and are distortions avoided?
- **And what about fraud and misallocation of funds?** Given the sums involved, and the importance, at least for certain countries, extreme vigilance for abuse and fraud is required, but this will be difficult, given the national implementation, and the politicization of the EU Commission. Until very recently, the EU Commission had no tools to track for the ultimate beneficiaries of EU funds, because of the various legal statutes of the entities, the anonymity of beneficial owners, the non-existence of EU-wide registers and the variety of programmes. In a groundbreaking study for the EP, CEPS found a high degree of concentration of EU CAP and regional funds among PEPs, wealthy businessmen and corporations in certain countries. It had apparently been impossible to get this information from the EU Commission, the chair of the responsible Committee in the EP said at the presentation of the study. The EU Court of Auditors plays a crucial role here, but it only acts ex post.

## What's next?

In order to gain the full benefits of NGEU and ensure these benefits last, it will be essential to foster additional private investments, also beyond 2026. The large amounts of post-recovery public investment under NGEU will only last until that year and are unlikely to be enough to meet the needs of the green and digital transitions. The European Commission estimates that the green and digital transitions will require additional public and private investment of almost €650 billion per year until 2030, of which €520 billion per year for will be needed for the green transition.[1] These estimates do not include investment needs relates to climate adaptation, nor do they include the investment needs for necessary innovation in other strategic sectors, such as health. Moreover, most NGEU investments are made at the national level on the basis of Member States' plans under the RRF, whereas many transition challenges are shared challenges that may also require cross-border investments.

Further measures to deepen EU capital markets play an important role. They are essential to facilitate both early stage innovation and the scale-up of promising firms and inventions. But this will only be possible if the EU significantly strengthens its markets for risk capital, to make the market more attractive for notably private equity, venture capital financing and IPOs. This also adds an important dimension to the concept of Green capital markets union (CMU): the interplay between private and public investment and how it spurs innovation.[2] So far, CMU has not achieved a lot, and more integration and depth in EU capital markets is greatly needed. NGEU has set the tone, but it must be followed up at the private level.

**Karel Lannoo**
www.ceps.eu

## References

Bisciari, P. e.a. (2021), The EU budget and the Next Generation EU Recovery Plan: a game changer? NBB Economic Review, September 2021

Corti, F. e.a. (2022), The Recovery and Resilience Facility: A springboard for a renaissance of public investments in Europe?, CEPS RRF Reflection Papers, No. 1.

Corti, F. and Jorge Ferrer (2021), Steering and Monitoring the Recovery and Resilience Plans Reading between the lines, CEPS RRF Reflection Papers, No. 2.

De Groen, W. e.a. (2021), The Largest 50 Beneficiaries in each EU Member State of CAP and Cohesion Funds, Study for the CONT Committee, May.

EIB (2022), Investment Report, Recovery is a springboard for change.

[1] See European Commission, (2021), "The EU economy after COVID-19: implications for economic governance", Communication from the Commission, COM (2021) 662 final.

[2] 'Towards a green capital markets union for Europe', Speech by Christine Lagarde, 6 May 2021 (Link).