



EUROPEAN CENTRAL BANK

EUROSYSTEM

NGEU: a euro area perspective

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State of play in January 2024: key figures for the EU

Recovery and Resilience Facility (RRF) of Next Generation EU

(EU total; January 2024)

Payment requests submitted	Tranches disbursed	EU countries requesting modifications to recovery and resilience plans	Plan modifications approved by the Council	RRF borrowing (EUR billions)		RRF funds disbursed (EUR billions)	
				Long-term bonds	EU bills	Grants	Loans
55	32	27	30	408.8	123.9	141.6	78.9

Total RRF envelope: €723.8 billion

RRF funds requested by EU countries: €631 billion (87.2% of total)

- Of which: €338 billion in grants and €292.6 billion in loans

Main takeaways

- **Innovative policy approach** of Next Generation EU (NGEU) and its core instrument, the Recovery and Resilience Facility
 - Size of EU fiscal capacity is significant, albeit temporary
 - EU-level debt issuance means prominent solidarity dimension
 - Game changer in restoring confidence during the COVID-19 pandemic crisis
 - Boost to green and digital transitions
 - Incentives for investment and structural reforms (RRF funds for reaching milestones and targets)
- **Expected economic impact:** ECB staff simulations published in 2022 suggested that, if fully implemented, NGEU could increase euro area GDP by around 1.5% by 2026 and beyond
- **Some implementation shortfalls so far:** governments need to step up efforts in 2024-26 to ensure that positive effects materialise
- **Risks:** (i) insufficient/inefficient absorption of the EU funds; (ii) excessive concentration of spending towards the end of the programme

Overview

- 1** **Expected impact on the euro area economy:** Preliminary simulations
- 2** **Financing:** Debt issuance at the EU level
- 3** **Implementation:** Latest evidence on the euro area
- 4** **Challenges**

1

Expected impact on the euro area economy

Preliminary simulations

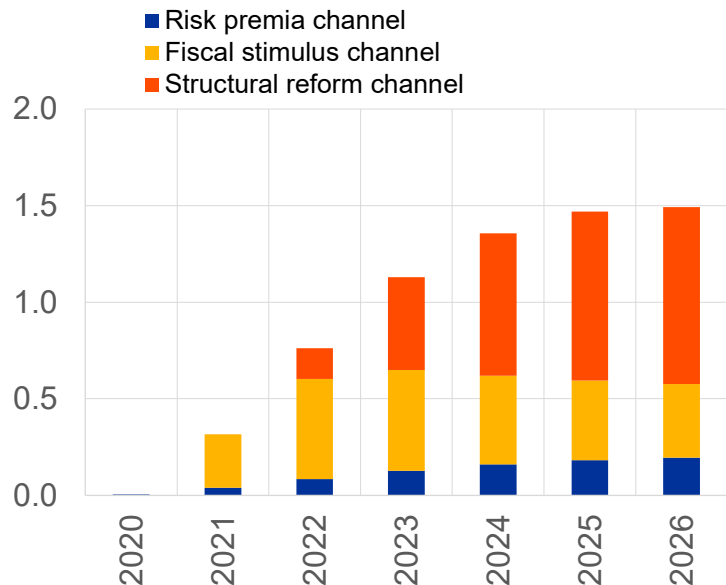
Main assumptions and caveats

- Macroeconomic impact of fiscal and structural reform measures on growth and inflation is **difficult to assess ex ante**
 - RRF-funded expenditure backloaded compared with the original plans
 - Multipliers are complex
 - Up to 2023 there were changes in (i) country requests for RRF funds and (ii) recovery and resilience plans
 - A more up-to-date assessment will be made later in 2024
- ECB staff prepared **ex ante model-based simulations** of macroeconomic impact (Bańkowski et al. 2022)
 - Simulations based on Member States' **original recovery and resilience plans (RRPs)**, i.e. they do not account for implementation shortfalls or revisions to RRP, etc.
 - **Three transmission channels** – in order of importance to longer-term macroeconomic impact:
 - i. Structural reforms
 - ii. Fiscal stimulus
 - iii. Confidence (lower risk premia)

Expected impact on euro area GDP and potential output (2022 simulations)

Expected economic impact of NGEU on euro area GDP (2020-2026)

(percentage deviation from baseline values)



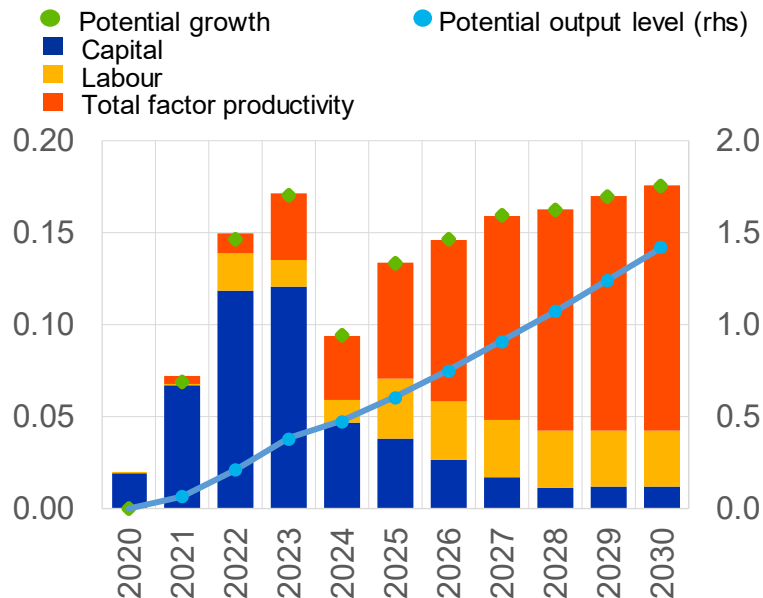
Source: ECB staff calculations (Bańkowski et al. 2022).

Notes: Total impact of all transmission channels (confidence, fiscal stimulus, and structural reforms). The effect of the additional RRF loans requested in 2023 is not included. See background slides for each transmission channel.

ECB models used: ECB-MC for risk premia channel; ECB-MC and EAGLE for fiscal stimulus channel; EAGLE for structural reform channel.

Impact of NGEU on the potential output of seven euro area countries (*)

(impact on level in percentages, on growth and contributions in percentage points)



Source: ESCB staff calculations (Bańkowski et al. 2022).

(*) DE, ES, FR, GR, IT, MT and PT.

Expected impact on euro area inflation

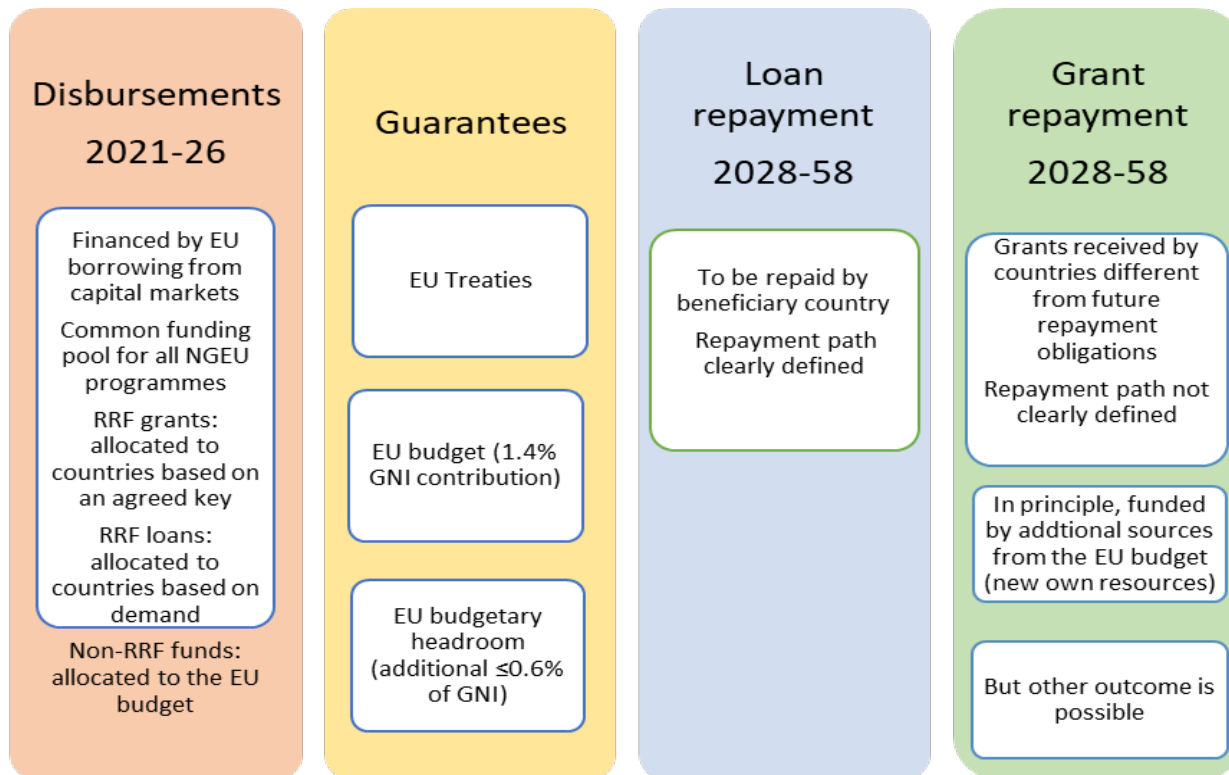
- Based on the original Recovery and Resilience Plans, the risk of inflationary pressures in the euro area over the medium term was estimated to be contained
 - *Depending on the model used, between zero and 0.1 percentage point in 2026*
- Over the medium term, the inflationary effect of additional public expenditure tends to be offset by the disinflationary effect of greater productive capacity resulting from structural reforms and investment
- Inflation outcomes may differ across countries, depending on the size of RRF funding and how expenditure is distributed (investment vs. government consumption, uniform distribution over time vs. strong concentration in one period)

2

Financing

Debt issuance at the EU level

Key features of EU debt within the NGEU/RRF programme

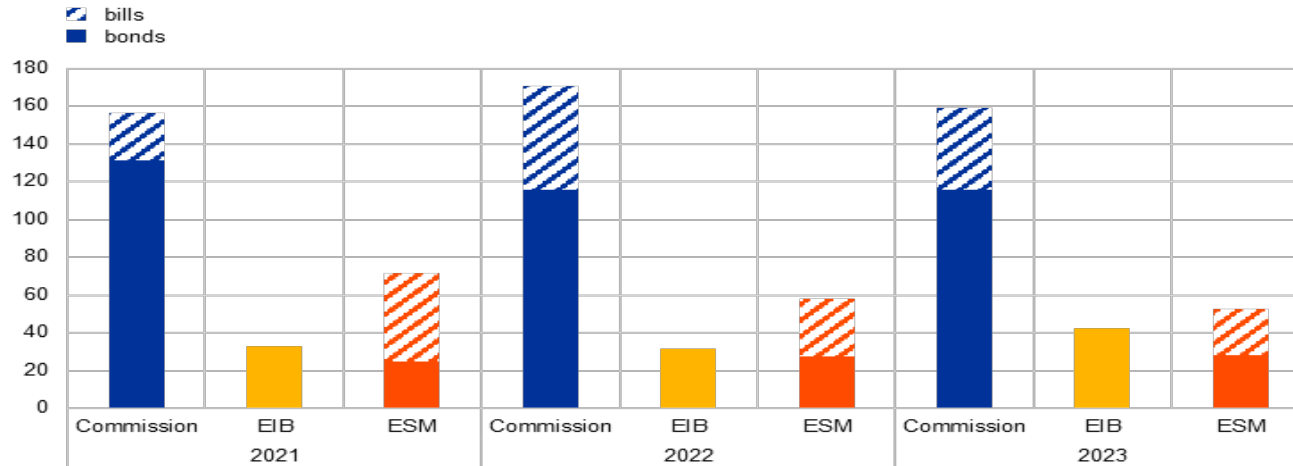


Source: M. Rodríguez-Vives (2023).

NGEU boosts EU-level bond issuance until 2026...

Total new issuance of bonds and bills by the European Commission, the EIB and the ESM (2021-2023)

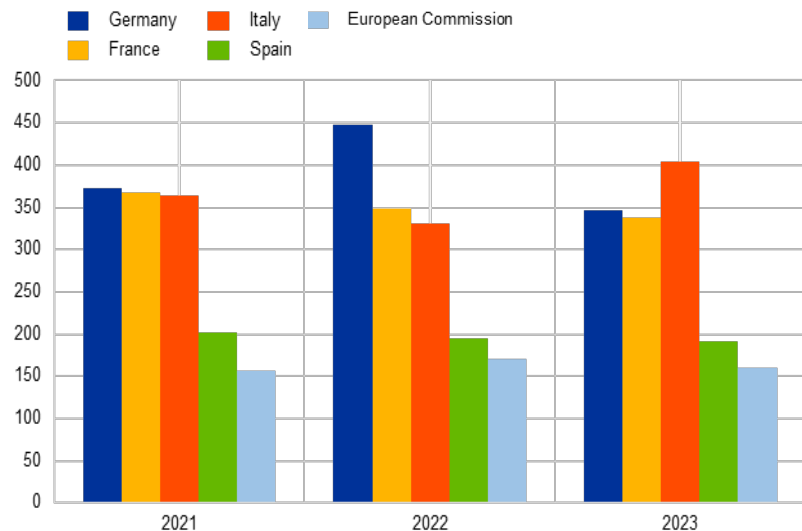
(gross issuance in EUR billion)



Source: ECB staff calculations.

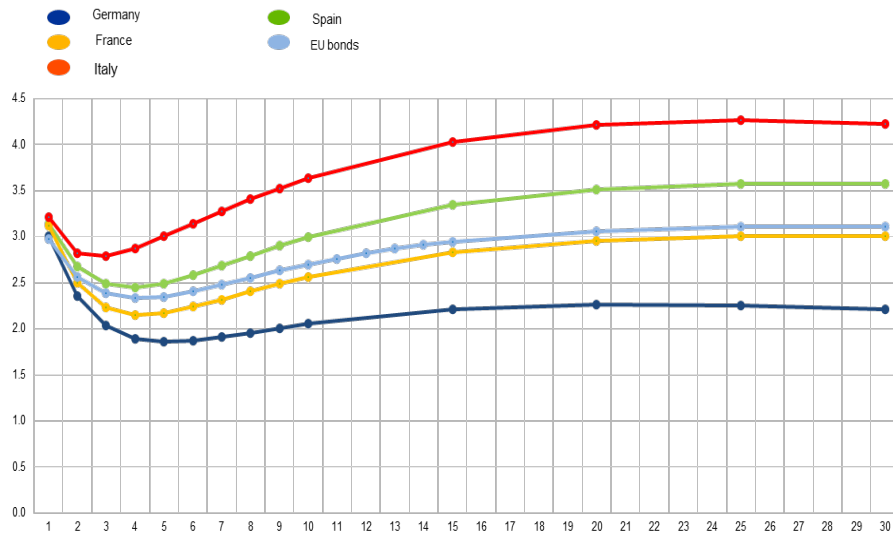
...with yields reflecting the average of large EU national issuers

Total new bond issuance by the Commission vs. big-4 euro area countries and (2021-2023)
(gross issuance in EUR billion)



Source: ECB staff calculations.

Yield curves: EU bonds vs. big-4 euro area countries bonds (2023-2053)
(percentage points)



Source: ECB staff calculations.

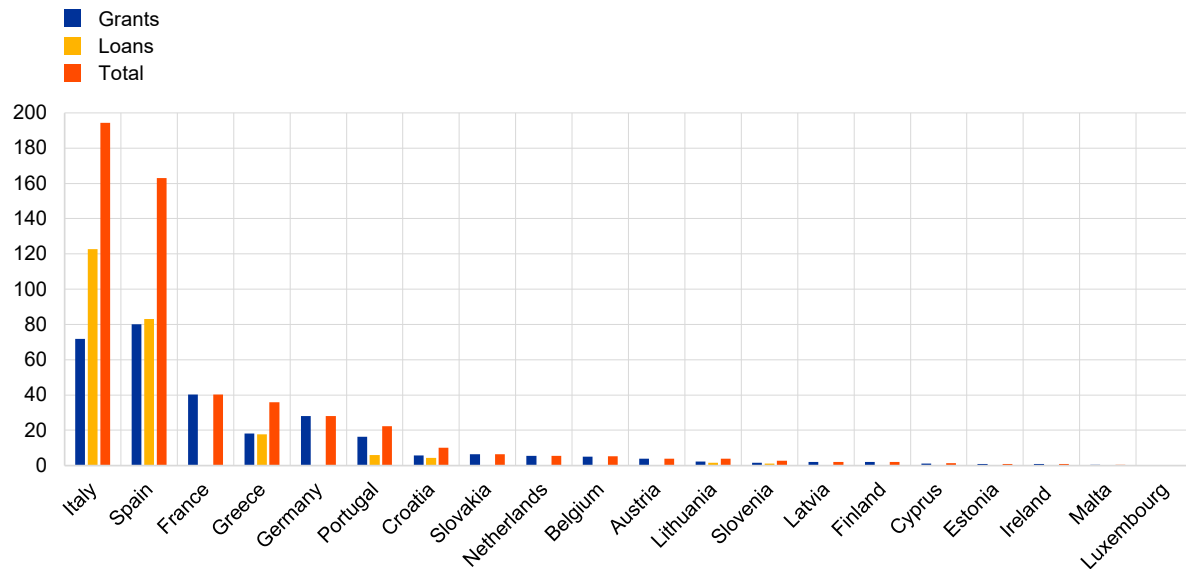
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Implementation

Latest evidence on the euro area

Allocation of RRF funding to euro area countries

RRF funds – including 2023 revisions (EUR billions)

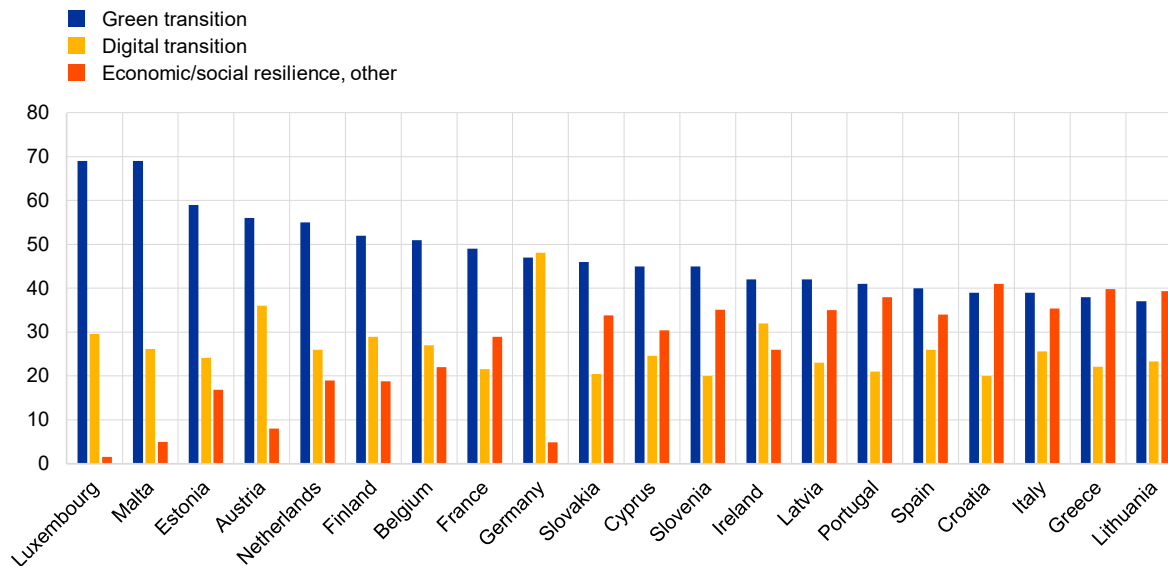


Source: European Commission.

Note: Updated to reflect changes in RRF allocations that occurred in 2023 owing to the recalculation of grants, new loan requests, and REPowerEU, etc.

RRF-funded expenditure: green transition is most important component

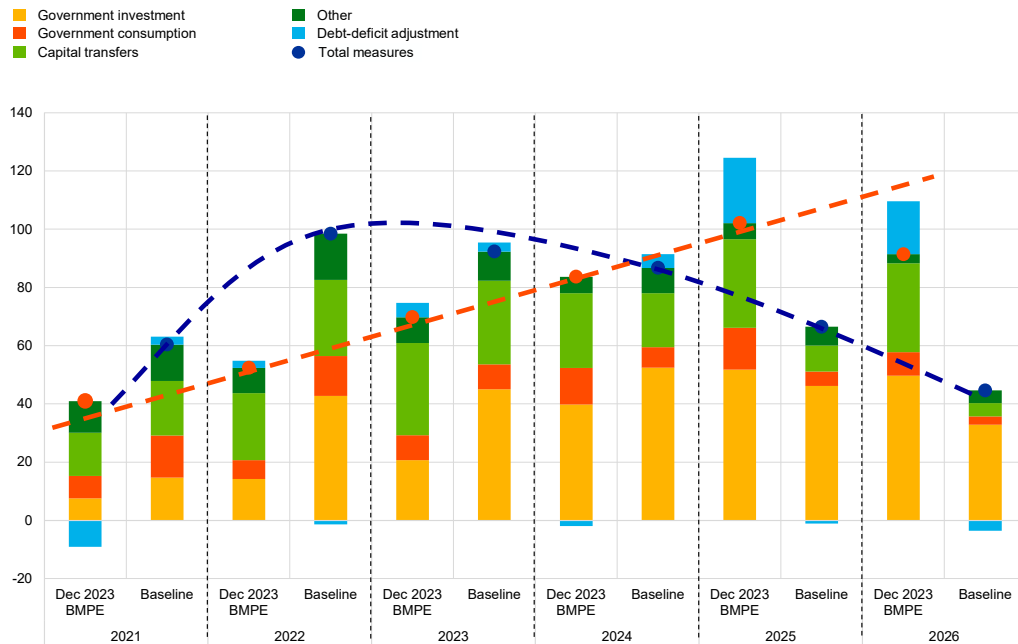
Composition of the revised recovery and resilience plans (percentages)



Source: European Commission, based on 2023 revisions to recovery and resilience plans.

Backloading of RRF-funded expenditure compared with the initial plans

Macroeconomic composition of RRF-funded public expenditure in the euro area (EUR billions)



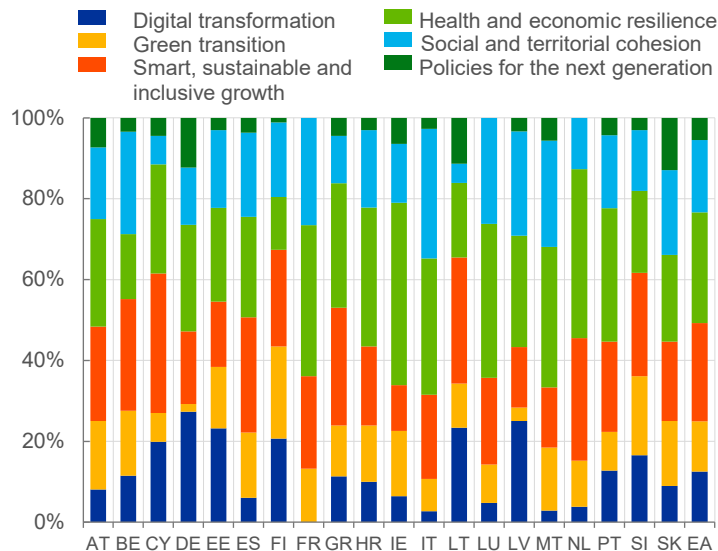
Sources: Working Group on Public Finance of the European System of Central Banks, and ECB staff calculations.
Note: BMPE stands for Eurosystem staff Broad Macroeconomic Projection Exercise

Structural reforms on which RRF funds are conditional

Breakdown by policy pillar

(percent of total reforms)

- Planned reform-related **Milestones and Targets (M&Ts)** in EA mostly in the areas of “health/economic resilience” and “smart, sustainable and inclusive growth”
- Significant shares also for green/digital transitions and social and territorial cohesion



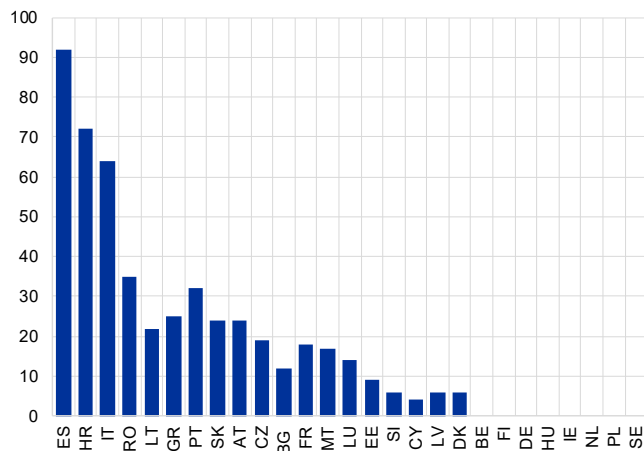
Source: ECB illustration based on European Commission data.

Notes: Data is currently being updated to reflect the latest RRP revisions.

Significant number of planned reform-related M&Ts already fulfilled...

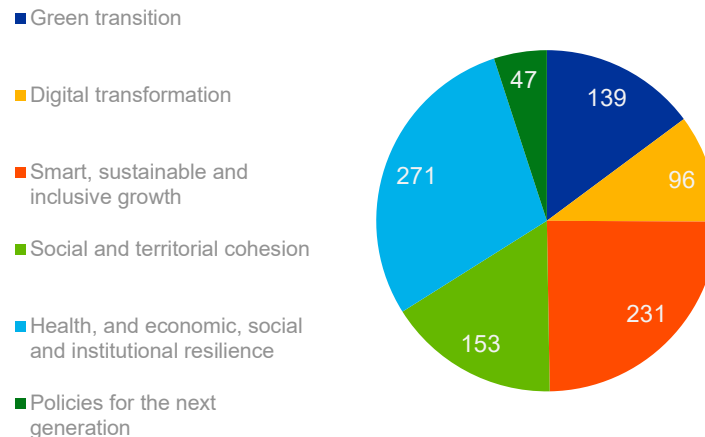
Breakdown by country

(total number)



Breakdown by policy pillar

(total number)



Source: ECB illustration based on European Commission data.

Note: Cut-off date: 6 December 2023. A Milestone or Target is counted as fulfilled if the Commission has assessed it as being satisfactorily fulfilled. Data is currently being updated to reflect the latest RRP revisions. All EU countries included.

...but there are signs of implementation challenges

- **Around 500 reform-related M&Ts have been already assessed by the Commission as satisfactorily fulfilled (20% of the total)**
- **A significant number of reform-related M&Ts are associated with delayed payment requests** or with payment requests that are overdue (so far about 750, i.e. almost 1/3 of the number foreseen over the life cycle of the RRF)
- For 2022 and 2023, a total of **175 reform-related M&Ts has been self-reported with a delayed target date** for their implementation (median delay: 181 days in 2022 and 182.5 days in 2023)

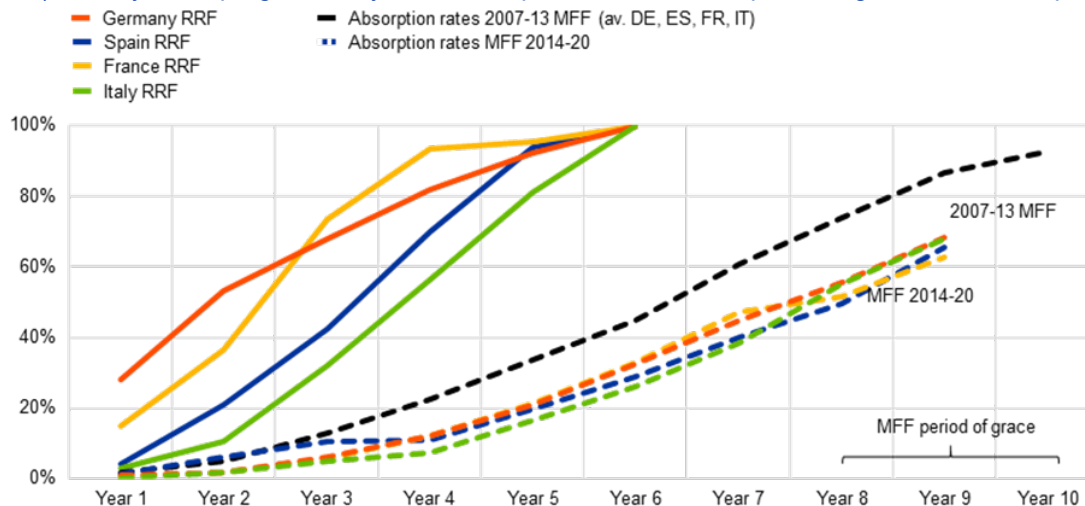
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Challenges

Risk of funds not being fully spent by the end of the programme in 2026...

Projected cumulative absorption rates of RRF funding compared with realised absorption rates of past EU multiannual financial frameworks

(x-axis: year of programme; y-axis: absorption as cumulated percentage of total envelope)



Sources: Dorrucchi and Freier (2023), based on European Commission data and estimates of the Working Group on Public Finance of the European System of Central Banks. For France, cash pay-outs under RRF according to Coeuré report (2021).

Notes: The solid lines refer to the foreseen absorption of RRF funds in Germany (DE), France (FR), Italy (IT) and Spain (ES) over the RRF period (2021-26). The dotted lines refer to the actual absorption by these four countries of past EU resources made available under the EU's multiannual financial framework (MFF). The absorption rate is the amount paid to a Member State as a percentage of the total EU budget made available to that country. Year 1 is the first year of the respective programme, i.e., 2007 for the 2007-13 MFF, 2014 for the 2014-20 MFF, and 2021 for the RRF. Pre-financing under the RRF is included in Year 1. The absorption rate of the 2007-13 MFF (black dotted line) is shown as average of the four countries and includes the European Regional Development Fund (ERDF), the Cohesion Fund (CF) and the European Social Fund (ESF), while the 2014-20 MFF includes only the ERDF and the CF. Data under the 2014-20 MFF are provisional for the year 2021 (Year 8 in the chart).

...due to lack of administrative capacity, higher inflation, supply bottlenecks

Factors reducing the absorption of RRF funds:

1. Limitations in administrative capacity

- deficiencies in the coordination between central/federal and local authorities
- inadequate technical expertise in the public administration
- overly complex administrative practices and insufficient fast-track procedures
- insufficient quality of monitoring and controls, auditing, and impact assessment

2. Higher inflation - procurement contracts and public tenders need to be revised

3. Supply bottlenecks - problems accessing the necessary materials, equipment and skilled workers

Risk of NGEU underperformance needs to be addressed

1. Risk of **RRP implementation shortfalls** – such as insufficient or inefficient fund absorption, structural reforms and investments falling short
2. Risk of **rush in RRF-funded spending** towards the end of the programme
 - Both risk scenarios would result in a ***sub-optimal macroeconomic impact*** in the euro area/EU
 - Perception that NGEU has failed may have ***negative effects for future European integration***

Priorities in the remaining part of the programme

- 1. Move forward with *full* and *well-sequenced* implementation of investment and structural reform measures as agreed in the revised Recovery and Resilience Plans**
- 2. Maintain and ensure close monitoring of NGEU under the established surveillance mechanisms**

References

- Bańkowski, Krzysztof, Bouabdallah, Othman, Domingues Semeano, João, Dorrucchi, Ettore, Freier, Maximilian, Jacquinet, Pascal, Modery, Wolfgang, Rodríguez-Vives, Marta, Valenta, Vilém, and Zorell, Nico (2022), "[The economic impact of Next Generation EU: a euro area perspective](#)", *Occasional Paper Series*, 291.
- Dorrucchi, Ettore and Freier, Maximilian (2023): "[The opportunity Europe should not waste](#)", ECB blog, 15 February.
- Freier, Maximilian, Grynberg, Charlotte, O'Connell, Marguerite, Rodríguez-Vives, Marta, and Zorell, Nico (2022), "[Next Generation EU: a euro area perspective](#)", *ECB Economic Bulletin*, Issue 1/2022.
- Rodríguez-Vives, Marta (2023), "[Towards a Common EU Debt: Where Do We Stand?](#)", *Intereconomics*, 58 (6).