NOTRE EUROPE JACQUES DELORS INSTITUTE

BLOG POST

TACKLING THE CORONAVIRUS CRISIS: HOW CAN THE EU BUDGET HELP?

23/03/2020 | **EULALIA RUBIO** | **ECONOMICS AND FINANCE**

Eulalia Rubio, Senior Research Fellow, Jacques Delors Institute

The spread of COVID-19 across Europe has prompted calls for a coordinated European fiscal response to support Member States' healthcare systems and prevent a major economic recession. Given its small size, rigidity and other features – such as the fact that it cannot be financed through deficits - the EU budget is not the right instrument on which to build this response. Yet, it remains the only budgetary instrument the EU institutions have to hand and it should logically be mobilised as much as possible to fight this crisis.

On Friday 13th March, the Commission presented a package of measures to respond to the COVID-19 outbreak. As part of this package, it proposed the set-up of a €37bn "Coronavirus Response Investment Initiative" financed through the EU cohesion policy funds. This blogpost discusses the "Coronavirus Response Investment Initiative" proposal, explores other possible ways through which the EU budget can be mobilised in response to the crisis and makes some general reflections on the implications of this crisis for the negotiation of the 2021-2027 EU budget.

The "Coronavirus Response Investment Initiative"

The Coronavirus Response Investment Initiative consists of a series of measures aimed at facilitating the front-loading and redirection of unused cohesion policy funds to fight against the coronavirus. In particular:

- The Commission proposes to **renounce its obligation to recover unused pre-financing cash sent to Member States at the beginning of the year**. The provision of cash advances is a normal feature under EU cohesion policy, and corresponds approximately to 1-3% of real planned investment. According to EU cohesion rules, if Member States do not undertake the planned expenditures, they have the obligation to return these pre-financing advances to the EU Commission. The Commission proposes to leave this cash in the hands of the Member States. In practice, this implies giving them immediate additional liquidity to set up new actions in response to the crisis.

- The total amount of unused pre-financing cash to be recovered this year would have been €8bn. Instead, Member States will be required to use these €8bn to finance three types of eligible actions in response to the crisis: corona-related health expenditures, support to SME working capital and short-term employment schemes. They will apply the usual national co-financing rate to finance these actions. In view of the average co-financing rates across Member States, the Commission estimates that **these €8bn will trigger the release and use of some €29bn of additional funding across the EU, thus reaching a total amount of €37bn**.

- In addition, the Commission proposes various **changes to the EU cohesion policy rules** in order to facilitate the redeployment of EU cohesion funds to these new priorities as well as the provision of **administrative support** to Member States' cohesion authorities to help them start planning and implementing these new actions immediately.

The proposal has been judged insufficient by many experts. It has been criticized for not implying additional EU funding as well as the fact that it does not involve any mutualisation of risks. In effect, **the distribution between Member States will depend on the amounts of unused pre-financing available in each country and not on criteria related to the gravity of the COVID-19 crisis**. As a result, the first beneficiaries are Poland and Hungary, two countries relatively spared so far from this crisis.

These criticisms are well-founded, but the proposal has an important advantage. **Using existing programmes rather than creating something "ex novo" ensures the quick disbursement of EU funds in support to the crisis.** Besides, acting through the EU cohesion policy allows the Commission to rely on a well-structured system for planning, implementation and monitoring of the use of EU funds according to local needs.

In fact, the "Coronavirus Response Investment Initiative" is similar to the measures adopted in 2008 in response to the global financial and economic crisis. At the time, the Commission also proposed to accelerate and facilitate the take-up of EU structural funds to boost the cash flow to national and regional cohesion authorities[1]. As we were at the start of the Multi-Annual Financial Framework (MFF), this was done by increasing the pre-financing amounts for 2009 rather than allowing Member States to retain the unused pre-financing cash. The result was an additional €6.2bn of cash available in early 2009 for national and regional cohesion authorities, on top of the €5bn already advanced[2]. This was complemented with other measures, such as more flexibility to reallocate spending or to apply state aid rules. In 2010, a review conducted by the Commission concluded that these measures had been welcomed to a great extent by the Member States and that the impact had been quite positive[3].

Finally, it is important to acknowledge that we are now at the end of the current MFF period. Consequently, **the possibilities to frontload EU funding are more limited**. In 2008, in addition to changes to EU cohesion funding, the Commission proposed to revise the Financial Framework to move €5bn from the 2009 and 2010 budgets to the 2008 budget in order to finance transnational energy infrastructure. This cannot be replicated this time as we are in the last year of the current MFF.

Can we do more with the current EU budget?

This does not mean that nothing else can be done to mobilise extra EU funding in response to the crisis. To start with, the Commission has announced other measures alongside the "Coronavirus Response Investment Initiative":

- An additional **€1bn will be made available to support COSME and InnovFin**. These two programmes, managed by the European Investment Fund (EIF), provide liquidity support to SMEs and mid-caps. In particular, the EIF offers guarantees to commercial banks to help them provide more

1. European Commission, "A European Economic Recovery Plan", COM (2008) 800 final Brussels, 26.11.2008
2. Robin Smail, 2010, "The response of EU cohesion policy to the economic crisis", EIPASCOPE 2010/2 http://aei.pitt.edu/29758/1/20101022102008_Eipascope_2010_2_Article4.pdf
3. European Commission, "Cohesion Policy: Responding to the economic crisis. A review of the implementation of cohesion policy measures adopted in support of the European Economic Recovery Plan", SEC(2010) 1291 final, Brussels, 25.10.2010

loans and equity finance to firms. The Commission estimates that this extra €1bn will trigger €8bn of additional support from banks to firms. It is important however to clarify that the €1bn is not 'fresh money'. It will be redeployed from parts of the EU budget guarantee (the EFSI) that were foreseen for longer-term projects and other objectives.

- The regulation of the **EU Solidarity Fund** (EUSF), originally conceived to respond to natural disasters, will be amended to include public health crises within its scope. This will allow Member States to ask for financial assistance if needed. At present, up to **€800 mn** are available in 2020.

- The Commission has also expressed its willingness to mobilize the **European Globalisation Adjustment Fund** (EGAF) if needed to support dismissed and self-employed workers affected by the crisis. Up to **€179mn** are available for this in 2020.

In addition to these measures, there could be other possible ways to release additional EU funding in response to the COVID-19 crisis.

- The Commission could propose to the Council and the Parliament to mobilise the **Flexibility instrument** in response to the coronavirus crisis **(€919mn available in 2020)**. This instrument can be used to cover any type of clearly identified expenditures which cannot be financed without exceeding the EU budget's expenditure ceilings. This can be useful, for instance, to extend existing EU programmes deemed important to react to the crisis (e.g. more funding for COSME or InnovFIn, or to Horizon2020 projects supporting research on the coronavirus disease).

- Another option is to use the **margins** available in the EU budget. The EU budget includes a mechanism called **Global Margin for Commitments (GMC)**, which allows the transfer of margins left unused in previous years to subsequent years. The amount available from the GMC in 2020 is **€1.2bn**[4]. As in the case of the Flexibility instrument, any mobilisation of the GMC must be jointly adopted by the Council and the Parliament following the annual budgetary procedure (that is, with the Council voting under majority).

- A more sizeable tool is the **Contingency margin**. This is a last resort instrument which allows exceeding annual MFF ceilings by an amount equal to 0.03 % of the EU GNI to react to unforeseen circumstances. In 2020, this would be equivalent to **€5.1bn**[5]. However, there is an important limitation to the use of this instrument: the volumes mobilised through the Contingency Margin have to be offset against the margins from current or subsequent years. **Since we are in the last year of the MFF, the Contingency margin cannot be mobilised as there is no possibility to offset increases in subsequent years.** It is important to recall that this obligation to offset the amounts mobilised against existing margins is relatively recent. Before 2014, the Council and the Parliament were allowed to revise the MFF ceilings upwards by 0.03% of EU GNI, with the Council acting by qualified majority, without having to offset these increases by reducing the margins. These types of revisions were relatively frequent in the first financial perspectives – in fact the very first one (covering the 1988-1993) was revised upwards seven times.

4. European Commission, draft 2020 budget.
5. According to the MFF technical adjustment for 2020

- Another possibility would be to set-up a **temporary EU debt instrument backed by the EU budget** to provide support to the Member States most affected by the COVID-19 crisis. This new instrument would be similar to the "European Financial Stability Mechanism" (EFSM) created in 2010 to help Euro-zone countries in financial difficulties. As the EFSM, this instrument would be based on art 122.2 TFEU, which allows the Council to grant financial assistance to Member States in difficulties or seriously threatened with severe difficulties caused by natural disasters or exceptional occurrences beyond its control. In fact, that would be a sort of "Coronabond" as the money would be raised by the Commission on behalf of the Union and risks would be covered by the EU budget (which it is ultimately guaranteed by all Member States). However, this instrument would be limited in size, as the total borrowing cannot surpass the margin available under the own resources ceiling for payment appropriations (which represents the maximum amount the EU Commission can request to Member States to honour EU budget obligations). In the case of EFSM the total lending capacity was fixed at €60bn. At present, the margin available under the own resources ceiling is **€31.4bn**. Another question is whether the support provided shall necessarily be in form of loans (as with the EFSM) or can also consist into grants. In principle, the wording of article 122.2 ("grant, under certain conditions, Union financial assistance") does not seem to preclude the use of grants. That would allow a certain degree of fiscal risk-sharing through the mobilisation of the EU budget.

- The Commission could also propose to **reallocate funding between EU programmes**. However, **with 80% of EU spending already pre-allocated to beneficiaries, the capacity to shift resources between programmes is very limited**. Besides, deviations of multi-annual spending programmes' financial envelopes are only allowed up to a margin of 10% and have to be adopted by the Council and the Parliament.

- Finally, there is always the possibility to **revise the MFF and increase the annual ceilings for 2020**. The MFF regulation explicitly foresees the possibility to revise the MFF in case of 'exceptional circumstances' (art 17 MFF regulation). This, however, would require unanimity in the Council to increase ceilings and the consent of the Parliament. Besides, such an increase would be limited to €31.4bn as Member States would still be subject to the own-resources ceiling set in the Own Resource Decision[6]

What about the EU budget for 2021-2027?

It is too early to assess how this crisis will affect the EU budget after 2020. The Commission has already announced that it will propose changes in the MFF proposal to address the crisis but we still do not know the details of these proposals. One thing is clear: with all three EU institutions (the Commission, the Council and the Parliament) in crisis management mode and all institutional resources deployed to combat the crisis, the risk of being confronted with a MFF no-deal scenario at the end of 2020 is increasing. Under these circumstances it is not surprising that the European Parliament is urging the Commission again to draw up a contingency plan to prolong current spending through 2021.

6. In principle the own resource ceiling can be also modified but the procedure is lengthy and difficult: any reform of the Own Resource Decision requires an unanimous vote in the Council and ratification by all national parliaments.

Apart from that, **a lesson to be drawn from this crisis is the importance of increasing the flexibility of the EU budget**. In today´s world, with changing economic and climate conditions and in a context of globalisation, it is no longer possible to freeze EU spending priorities for a long seven-year period. The Commission has proposed some minor improvements to existing flexibility provisions but they have been rejected or watered down by the Council. Thus, for instance, the Council refuses to organise a mid-term review of the MFF – an idea endorsed by the Parliament – and the latest MFF proposal put forward by Charles Michel reduces the size of the Flexibility Instrument and the European Globalisation Adjustment Fund.

The Council should re-think its position on flexibility. It should accept to undertake a major spending review in the middle of the MFF and strengthen the existing flexibility instruments. It would be also very welcome if the Council and the Parliament agree to re-install into the future MFF regulation the provision that existed in previous MFF regulations, which allowed the revision of the MFF ceilings upwards by 0.03% of EU GNI with the Council acting under majority voting. This would be very useful to deal with possible new crises.

These are not revolutionary changes but pragmatic moves that can be adopted in the context of the ongoing MFF negotiations. It is time to take bold actions, and this also applies to MFF negotiators. A more flexible but also more ambitious European budget would provide greater amounts to address exceptional circumstances, that our world may have to cope with more often nowadays.

L'Europe pour les citoyens

PREMIER MINISTRE

Institut Jacques Delors
Penser l'Europe • Thinking Europe • Europa Denken
18 rue de Londres 75009 Paris, France • www.delorsinstitute.eu
T +33 (0)1 44 58 97 97 • info@delorsinstitute.eu