EU recovery fund boosts growth prospects for weaker economies

Almost all EU countries have now submitted their proposals for the EU Recovery and Resilience Facility. Thanks to a low take-up of loans, the fund's payouts so far will be smaller than expected. But don't underestimate the impact on GDP, which will be sizable for some of the eurozone periphery countries

An emergency phone at a tram stop close to the ECB's headquarters in Frankfurt

The recovery fund: taking stock

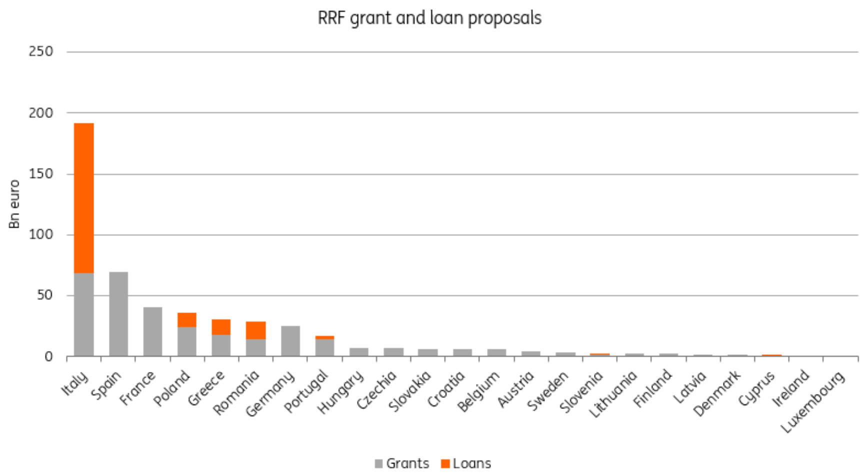
More than a month after the deadline, proposals are still coming in. Out of 27 countries, 23 have now submitted their proposals and the largest part of the available grants will be tapped if approved. The biggest one not tapping funds for the moment is the Netherlands, which stands to gain €6bn in grants. Still, with very few countries opting for loans, the total amount of proposals comes in at 'just' €493.2bn, well shy of the total €672.5bn in the fund.

Now that all countries have ratified the Own Resources Decision, there are no hurdles left for the EU to start borrowing from the market which will happen first later this month. Very important is that the Commission is going to review the proposals within two months of receipt, which will be at the end of June for the largest countries. One month after the Commission agreement, the Council will have to approve the plans as well. When agreed, the countries will receive 13% as an early payout to get projects going. That means that money can start flowing in the third quarter of this year, providing a welcome boost to the eurozone recovery.

Italy takes the lion's share

When you look at the chart below, it is obvious that Italy has gone big and bold with its proposal. Not only has the country applied for the maximum amount of grants available to them, they have also gone for an even larger amount in loans and add their own contribution on top. That makes the amount for Italy - if approved – about 39% of the total money demanded from the fund. But don't count out Spain's fiscal efforts either. While Italy's plans spread out over the total period of 2021-2026, Spain's plans are set to take effect in the first three years only, making the impact on GDP in the first recovery phase very large.

Most grants from the fund have now been applied for



Source: Source: European Commission, National Recovery and Resilience Proposals, ING Research

Note: some country data – like Italy - also includes the funds requested from the REACT-EU part of the NextGeneration EU

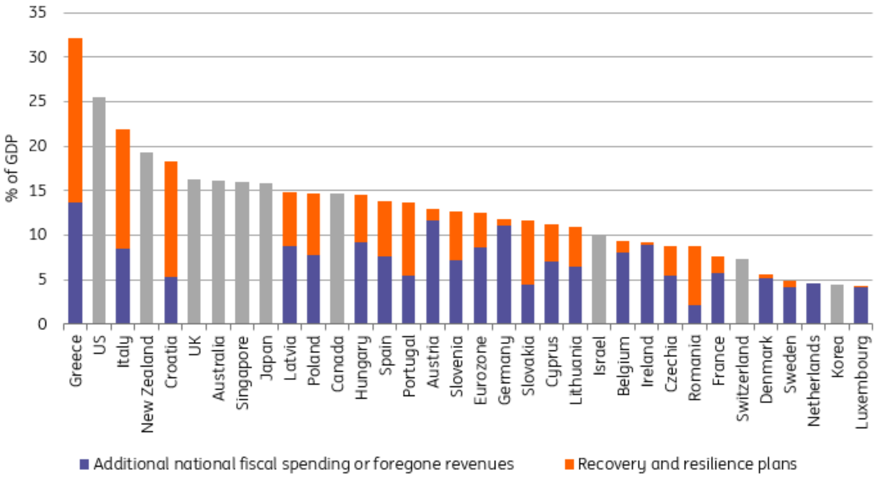
The plan still leaves eurozone fiscal efforts at less than half of the US

The impact of the plan is definitely sizeable, although the amount applied for is well shy of the total available in the fund. At €493.2bn, it has to be said that the impact will spread out over the full period 2021-2026 for almost all countries. That makes the fiscal impact of the programme for the initial recovery phase somewhat underwhelming.

Looking at the additional fiscal spending that countries have done or promised to do in response to Covid-19, the US stands out with a whopping 25.5% of GDP. This includes the approved proposal for the American Rescue Plan, but not the new plans put forward by President Biden which have yet to find approval in Congress.

The eurozone comes in at just 12.4% of GDP when adding the Recovery and Resilience Proposals to national fiscal spending to fight the pandemic. This might even overstate the total amount as there may be some double-counting in projects originally planned to be nationally financed that are now included in the national RRP.

Average eurozone fiscal spending since the start of the pandemic is half that of the US



Source: IMF database of fiscal policy responses to Covid-19, National Recovery and Resilience Proposals, ING Research

Note: possible double counting due to projects initially nationally funded now included in RRPs. France has been corrected for double counting as total spending funded from RRF is part of previous proposals.

Of course, it is more relevant to look at the fiscal impulse for individual countries as the fund was designed to help those most in need. Given the sizeable loans that countries like Greece and Italy have taken out, these countries do move to the global frontrunners in terms of fiscal spending in response to Covid-19. Greece even surpasses the US at 32.1% of GDP, while Italy stands at 21.9% of GDP (keep the possible double-counting caveat in mind for the exact number though; view this as an upper estimate). It is important to remember the time span though, as US support agreed on so far has a far larger immediate impact than the Italian and Greek RRPs.

As Spain and Portugal have weak automatic stabilisers, this is of concern from a crisis response perspective. That shows that while the project helps significantly in terms of fiscal support, it is still unlikely to cause the harder hit eurozone economies to recover quicker than their northern eurozone partners as we have extensively written about here. The big wins are for the medium term as investment and reforms have the potential to improve trend growth, which has been a clear eurozone problem since the global financial crisis.

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