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Revealed: The EU's massive recovery fund

The European Commission has finally revealed its plan for an EU recovery fund, and it's €750bn, larger than the French-German proposal. If implemented, this fund would be massive, not only supporting the European recovery but it would also demonstrate solidarity. However, expect plenty of horse-trading in the coming weeks

EU Commission President Ursula Von Der Leyen, pictured in April

The European Commission plans for a recovery fund do not lack ambition, just look at the proposal's name: "Next Generation EU". The plan is to borrow €750bn from the markets with plans to repay it within in a three-decade window from 2028 to 2058 through the EU budget. The EU plan to repay also includes raising own resources through taxing large corporates, emission trading schemes and a carbon border adjustment mechanism. It intends to use €560bn of the raised money for support to member states of which €310bn would be in grants and €250bn in loans.

Also, there is a plan to top-up cohesion support by €55bn, a solvency support instrument which should use €31bn to unlock more than €300bn from the private sector to support companies with liquidity problems, some €15bn in a Strategic Investment Facility to unlock some €150bn, the traditional European instruments to leverage public money with private money.

Fierce negotiations ahead before a deal is reached

The Commission presents this ambitious plan but does not have the final say in the matter. It looks quite a bit like the French-German proposal but seems to be more ambitious in total size and raising EU taxes as part of the repayment plan, an answer to the long-standing discussion about own resources for the EU. As member states have to unanimously agree to a recovery fund, it is important to keep in mind that the Netherlands, Austria, Sweden and Denmark have been very sceptical of the French-German plan and raised their own proposal for a recovery fund including just conditional loans. That suggests that there are fierce negotiations ahead before a deal is reached. The fact that the European Commission's proposal includes 'loans' is a clear opening for a compromise. However, let's be clear, this kind of horse-trading is never exclusively played on one topic. Instead, expect the bargaining to be extended to other policy areas; just think of state aid rules.

The proposal is like an expensive bottle of wine...

Given that unanimity is needed and there are diverging views on the fund, the Commission's proposal will be more of a starting point to the negotiations than something that will be rubber-stamped by EU leaders at the next summit. To us, it is more relevant for a substantial recovery fund to see the light of day if we can see a softening of the stance taken by those member states which oppose burden-sharing. There is some time left before the EU summit on 18/19 June when the fund is back on the EU leaders' agenda, but it could well be that more summits are needed before a final compromise is agreed on. Interestingly, Germany will hold the rotating EU presidency starting 1 July. It could very well be that one of Angela Merkel's last stunts in Europe will be to lead the way to more integration.

All in all, the European Commission proposal is a lot like the expensive bottle of wine on the supermarket shelves: it would be a real pleasure, not to say sensational, to savour it, but very often it is only there to make the lower-priced ones look reasonable. Let the negotiations begin.

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