Blog

How about a comprehensive assessment of the European recovery fund?

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AUTHOR



Olli Rehn
Governor

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Finnish debate seems to be focusing on the risks and liabilities related to the recovery fund, which are, indeed, important issues. However, less attention has been given to the objective of the fund. Rather than a partial assessment, would not a **comprehensive assessment** be needed as a basis for decision-making?

By this I mean an assessment of not only the possible liabilities incurred by Finland but also of the significant positive effects that the recovery fund will have on the recovery of the European and Finnish economies and, by extension, on employment.

In fact, the current debate brings to mind the discussions of 10 years ago, during the euro crisis. At that time, there was a lot of talk about future guarantees and losses. Less concern was expressed over the consequences for the jobs of Finnish people. In fact, in the wake of the financial crisis, close to 100,000 jobs were lost in Finland.

I am not aware of any economic losses suffered by the Republic of Finland, or any damage to Finland's government finances, as a consequence of the decisions taken in order to stabilise the euro area. But what we do know is that the establishment of the European Stability Mechanism and the accommodative monetary policy pursued by the European Central Bank helped us beat the euro crisis and return the economy onto a growth path – and 12 million new jobs have been

created in Europe since 2013. How's that for an overall assessment?

Now, however, we are going through a new crisis that is causing the economy and employment to suffer again drastically. To date, national measures have focused on supporting households and businesses that have run into difficulties largely as a result of the coronavirus restrictions. Measures taken by the ECB have maintained financial stability and safeguarded financial conditions.

With the recovery fund presented on Wednesday, Europe would be better equipped to counter the recession caused by the coronavirus pandemic. The purpose of the fund is to ensure that the regions most affected by the pandemic will also get back on the path of growth.

One of the key issues is conditionality. In the Commission's proposal, EUR 560 billion will be channelled into a Recovery and Resilience Facility, the funds of which would be distributed to the Member States as grants and loans. These would be allocated to measures that support employment and growth within the framework of European Semester, as well as climate and energy objectives. The funds should be granted assuming that the Commission and the other Member States approve a national recovery plan.

The fund would be financed by temporarily raising the European Commission's own resources ceiling to 2% of gross national income. Using the room for manoeuvre thus created, the EU's high credit rating could be used to borrow EUR 750 billion on the financial markets. A similar approach – utilisation of budgetary leeway and the creditworthiness of the EU – was taken 10 years ago to create the European Financial Stability Mechanism.

Repayment of the funds would start in seven years and would take place over a period of 30 years. The funds raised would be repaid through future EU budgets within the period 2028–2058. This timeline would mean that repayment by the Member States of the funds borrowed by the Commission would not burden Member States' budgets in the immediate years ahead, as they will then already be facing large deficits due to national recovery measures.

For repayment purposes, the Commission is looking into new sources of funding. These could include the levying of payments based on the Emissions Trading Scheme, a Carbon Border Adjustment Mechanism, and a digital tax on large technology companies.

The corona pandemic will inevitably lead to a strong growth in debt. This is problematic, but it can be managed better if economic growth is higher than growth in debt: the extra revenue generated by economic growth would help finance the larger debt-servicing costs and enhance wellbeing. This idea is at the heart of the recovery fund. The purpose of the fund is to help the European economy rise from a historically deep hole and shorten the duration of the recession. But the

funds borrowed for recovery purposes must not be wasted in running expenses; they must be invested effectively in areas that improve the conditions for economic growth and long-term wellbeing.

Finland is dependent on the recovery and growth of the European economy as a whole. Even though the Finnish Government has responded to the crisis in a determined manner, a firm turn in the economy will take place only once the coronavirus has been contained and the economy starts to grow also in other parts of Europe and the world more widely. Finland's export-driven economy cannot recover properly if a large part of our domestic market in Europe sinks into a deep and long-lasting recession.

The Commission's proposal for a recovery fund brings fiscal policy to the forefront in the recovery from the corona crisis, to share the burden carried by monetary policy. This is a most welcome aim.

The elements of the Commission's proposal will certainly be refined further as Member States start processing it. Based on the opinions expressed by the Finnish Government, Finland is playing an active and constructive role in this – which is all to the good.

Keywords

COVID-19, COVID-19 crisis, economy, EU, fiscal policy, monetary policy