

## The EU budget powering the recovery plan for Europe

### European Commission presents proposal for long-term EU budget and recovery fund

**The European Commission has presented its recovery plan for Europe, which would bring the total financial firepower of the EU budget for 2021-2027 to 1,85 trillion EUR. The funds would be invested in recovery and resilience and aligned with the objectives of the European Green Deal, including in the building and energy sectors.**

### The ordinary long-term EU budget (Multiannual Financial Framework)

The European Commission's proposal for the 'ordinary' long-term EU budget for 2021-2027 amounts to 1,1tr EUR, including 323b EUR for cohesion policy.

Cohesion policy supports the reduction of social economic and territorial disparities in the EU. Funds in the cohesion envelope are allocated to less advanced and more marginal regions for investment in projects with a focus on innovation, digitalisation, SMEs, and sustainability.

Some portion of these funds is spent on, for example, energy efficiency renovation projects in public and residential buildings (14b EUR in 2014-2020) and high efficiency district heating projects (1,6b EUR in 2014-2020).

### An exceptional recovery fund financed by EU debt (NextGenerationEU)

In addition to the ordinary long-term budget, the European Commission proposes to borrow 750b EUR on the financial markets for exceptional spending (500b EUR in grants, 250b EUR in loans), to fund the recovery from the coronavirus recession. The bulk of this money would be allocated to Member States to finance investment and reform that would facilitate recovery and improve resilience with a focus on the green and digital transitions. The debt would be paid back with additional new own resources, which might include a common corporate tax, revenue from the EU emissions trading system, a digital services tax, a financial transaction tax, a levy on plastics, or a carbon border adjustment mechanism.

The European Commission proposes to make use of the sustainable finance taxonomy, which is still under development, to identify projects and activities aligned with objectives of the European Green Deal. The sustainable finance taxonomy package would set common definitions across the EU for what investments could be considered 'green' (and which could not). Among the activities with the potential to make substantial contributions to climate change mitigation according to the draft taxonomy are:

- Storage of thermal energy
- District heating or cooling distribution
- Installation and operation of electric heat pumps
- Production of heat or cool using waste heat
- Building renovation

### Budget guarantees to mobilise private investment (InvestEU)

The proposed budget aims to mobilise an additional 600b EUR of private investment through budget guarantees, including some 31b EUR set aside in the InvestEU Fund. The budget guarantees are leveraged by the European Investment Bank among others, helping to de-risk investments and inspire confidence for private investment. The European Investment Bank notably co-finances building energy efficiency and renewable heat projects.

## Previous liquidity and safety net packages

The recovery fund comes in addition to previous emergency measures, worth some 540b EUR in total, adopted by the EU institutions to provide immediate relief to the most affected Member States.

This notably includes the SURE instrument adopted in early April, which allows the European Commission to take on up to 100b EUR in debt on the financial markets to extend loans to Member States to finance their unemployment expenditures.

The European Investment Bank put in place a 25b EUR Guarantee Fund to provide liquidity to struggling businesses with a focus on SMEs.

## National stimulus package and state aid

Besides joint efforts in the context of the EU, national governments have also implemented their own stimulus packages with relaxed EU state aid rules. The European Commission has approved some 2tr EUR in state aid so far. The level of state aid varies greatly from country to country. Moreover, some countries have attached 'green strings' to their stimulus measures, whereas others did not. This has led to concerns about distortions in the Single Market.

## Next steps

The European Commission's budget proposal is subject to unanimous approval by the EU Member States. An agreement would have to be found by December 2020, when the current long-term budget closes.

## Recommended actions

Most of the EU financing is channelled through existing EU programmes and made available to the market through financial intermediaries in the Member States, including commercial banks.

## Related documents and links

All related documents and articles can be found in the respective sections in the right sidebar.

- GEN – 1116.01 – European Commission budget proposal
- GEN – 1116.02 – Annex to the European Commission budget proposal
- GEN – 1106.00 – COVID-19 EU response