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PROPOSAL

From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
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To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
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Subject:	Proposal for a COUNCIL REGULATION establishing a European Union Recovery Instrument to support the recovery in the aftermath of the COVID-19 pandemic

Delegations will find attached document COM(2020) 441 final.

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2020/0111 (NLE)

Proposal for a

COUNCIL REGULATION

establishing a European Union Recovery Instrument to support the recovery in the aftermath of the COVID-19 pandemic

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

• Reasons for and objectives of the proposal

The COVID-19 pandemic constitutes a widespread and severe public health crisis. It severely affects citizens, societies and economies worldwide. The extent of the health crisis and the policy responses taken to control it are unprecedented. As a result, the depth of its socio-economic impact is extraordinarily uncertain. Already at this stage, it is certain that it presents unprecedented and acute challenges for the financial and economic systems of Member States. According to the Commission's spring economic forecasts[1], the EU GDP is forecast to contract by about 7.5 % this year - far deeper than during the global financial crisis in 2009 - and to rebound by only 6% in 2021, while the EU unemployment rate is set to rise to 9% in 2020, with a risk of rising poverty and inequality.

In response, Member States have adopted exceptional discretionary economic and financial measures. Together with the effect of so-called "automatic stabilizers", i.e. payments foreseen under unemployment insurance and social security systems combined with loss in tax revenue, those measures have a considerable bearing on their public finances with aggregate general government deficit surging from 0.6% of GDP in 2019 to 8.5% of GDP in both the euro area and the EU this year.

The shock to the EU economy is symmetric in that the pandemic has hit all Member States, however, the impact of the pandemic differs considerably between Member States, as does their ability to absorb the economic and fiscal shock and respond to it, depending on the specific economic structures and initial conditions of the Member States. As a result, there is a risk that the crisis will widen disparities within the Union threatening the collective economic and social resilience.

The Union has acted rapidly to deliver a coordinated and powerful collective response to the social and economic consequences of the crisis, within the limits of the current Multiannual Financial Framework expiring in 2020. That response complements discretionary economic and financial measures taken by Member States.

The crisis could result in lasting damage to the Union's economic tissue unless it is met with a commensurate short and medium term policy response at the level of the Union.

A comprehensive plan for European recovery will need massive public and private investment at European level to set the Union firmly on the path to a sustainable and resilient recovery, creating high-quality jobs and and repairing the immediate damage brought by the COVID-19 pandemic whilst supporting the Union's green and digital priorities. To provide the financing for the proposed act, the Commission proposes an amendment to the [ORD] which would authorise the Union to borrow temporarily and exceptionally an amount of EUR 750 billion in 2018 prices, to increase the own resources ceiling to accommodate the liabilities and contingent liabilities for loans to the Member States. The proposed act determines the allocation of funds to different Union programmes in line with the strategy set out in the European Union Recovery Plan.

[1] European Economic Forecast, Institutional Paper 125. May 2020.

EUR 500 billion in 2018 prices will be spent for non-repayable support, repayable support through financial instruments or for provisioning for budgetary guarantees and related expenditure.

EUR 250 billion in 2018 prices will be used to provide loans to Member States. The Union will bear contingent liability in the form of a guarantee for those loans until they are repaid.

Article 3 fixes the maximum amount that can finance the Instrument. The uses to which the funds can be put are also clearly prescribed in Article 3, describing the recipient programmes, as well as the nature of the support (grants, loans and guarantees). In Articles 2 and 4, this Regulation also strictly limits the scope and the time within which the funds can be used. This excludes that the European Union Recovery Instrument can be used for any purpose other than tackling the direct economic and social consequences of this crisis.

- **Consistency with other Union policies**

The European Union Recovery Instrument provides funding for measures and actions to be carried out as outlined in the European Union Recovery Plan. The resources raised through the issuance will be used for Union´s programmes under the next multi-annual financial framework in the following areas:

- Providing support in the form of grants and loans to implement Member State recovery and resilience plans under the Recovery and Resilience Facility;
- Providing new investment support under existing and proposed budgetary guarantees (EFSI/InvestEU) for inter alia (1) crisis-impacted but viable companies to emerge from the crisis, in particular to accelerate the twin green and digital transition; (2) targeted support to projects of European strategic interest for internal market supply chains to develop the EU's strategic autonomy in key sectors and capacities;
- Enhanced support to regions and sectors hit by the crisis through reinforced cohesion policy measures;
- Supporting research and innovation in response to the COVID-19 pandemic;
- Enhancing the level of crisis preparedness and improving the strategic resilience of Union health care systems;
- Mitigating the impact of the COVID-19 pandemic on the just transition towards a green economy in territories;
- Supporting measures to address the impact of the COVID-19 pandemic on rural development;
- Supporting partner countries, in particular in the Western Balkans, the Neighbourhood and Africa, in their efforts to fight and recover from the impact of the pandemic and to strengthen their resilience.

The actions and measures will be carried out in accordance with the conditions laid down in the basic acts establishing the policy instruments. This is why the Commission presents in parallel the necessary legislative proposals ensuring that those policy instruments can receive external assigned revenues resulting from the implementation of this Regulation.

2. LEGAL BASIS, SUBSIDIARITY AND PROPORTIONALITY

- **Legal basis**

Article 122 of the Treaty on the Functioning of the European Union foresees the possibility of measures, decided in a spirit of solidarity between Member States, appropriate to the economic situation. The present situation is unprecedented. It is characterized by severe difficulties caused by exceptional occurrences beyond the Member States' control. Therefore,

it is appropriate to adopt under Article 122 TFEU exceptional temporary measures to support recovery and resilience across the Union.

- **Subsidiarity (for non-exclusive competence)**

The objectives pursued by this instrument cannot be sufficiently achieved by the Member States individually because of the scale of the measures which need to be taken. The European Union Recovery Instrument enables the Union to complement economic and financial measures of Member States, in particular in the form of "automatic stabilizers" and discretionary economic and financial measures, by a rapid and targeted significant increase in discretionary spending.

Such complementary mobilisation of funding ensures that the internal market is not undermined by disparities in the ability of Member States to mobilise funding, and provides in a spirit of solidarity funding also in those Member States where fiscal space for discretionary spending is limited. In addition, it ensures that spending is carried out based on a coherent economic strategy coordinated between the Member States.

Only such a concerted action motivated by a spirit of solidarity between Member States in a time of crisis can ensure that proceeds are mobilised in sufficient resources to generate effective interventions by the Union in the most affected areas or sectors.

- **Proportionality**

The financing from the European Union Recovery Instrument in the volumes required is due to the unprecedented circumstances in which the Union finds itself. The Recovery Instrument is clearly circumscribed in terms of duration and use. This ensures that its use is strictly limited to tackling the impact of this crisis on a scale commensurate to the impact of this crisis. The financing would be geared towards the need to provide immediate and forceful support for an economic recovery.

- **Choice of the instrument**

The Commission deems suitable to act by way of Regulation because of its direct and immediate applicability and its general scope.

3. RESULTS OF EX-POST EVALUATIONS, STAKEHOLDER CONSULTATIONS AND IMPACT ASSESSMENTS

- **Stakeholder consultations**

Due to the urgency to prepare the proposal so that it can be swiftly adopted by the Council, a stakeholder consultation could not be carried out.

- **Collection and use of expertise**

Not relevant

- **Impact assessment**

Due to the urgent nature of the proposal, no impact assessment was carried out.

- **Regulatory fitness and simplification**

Not relevant

- **Fundamental rights**

Not relevant

4. BUDGETARY IMPLICATIONS

The proposed Regulation will provide financial support from external assigned revenue from the Union's borrowing authorised under Article 3b of [ORD] for non-repayable support, repayable support through financial instruments and for provisioning for budgetary guarantees and related expenditure. This entails the need to foresee commitment and payment appropriations to cover amounts falling due for the borrowing (for coupon payments and redemptions at maturity). No repayments from the EU budget are envisaged before 2028. The necessary appropriation to cover potential coupon payments over the period 2021-2027 are compatible with the Commission proposal for the Multiannual Financial Framework, and in particular Heading 2 Cohesion and Values (excluding 'Economic, Social and Territorial Cohesion'). Future Multiannual Financial Frameworks will need to provide the necessary appropriations to cover coupon payments and redemptions at maturity.

Loans will be repaid by the beneficiary Member States and the Union will bear only contingent liability compatible with the specific own resources ceiling.

An indicative planning of the expected revenue as well as related expenditure is provided in the Legislative Financial Statement.

5. OTHER ELEMENTS

- **Implementation plans and monitoring, evaluation and reporting arrangements**

Maximum transparency and proper monitoring of the use of the EU financial resources are required. Reporting obligations for the Member States and the Commission will apply.

2020/0111 (NLE)

Proposal for a

COUNCIL REGULATION

establishing a European Union Recovery Instrument to support the recovery in the aftermath of the COVID-19 pandemic

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 122 thereof,

Having regard to the proposal from the European Commission,

Whereas:

(1) In order to contain the spread of the Coronavirus disease ('COVID-19'), which on 11 March 2020 was declared a pandemic by the World Health Organisation, Member States have adopted a set of unprecedented measures.

(2) Those measures, taken in response to that exceptional situation, which is beyond the control of the Member States, have caused significant disturbances of economic activities reflected in a steep decline in gross domestic product and a significant impact on employment, social conditions, poverty and inequalities. In particular, those measures have disrupted supply chains and production and have caused absences from the workplace. In addition, the provision of many services has become impossible or very difficult. At the same time, consumer demand has dropped. Many businesses experience liquidity shortages, and their solvency is at risk, while the financial markets are very volatile. Key sectors like travel and tourism are particularly hard hit. More broadly, those measures have already led to or will lead to severe deterioration of the financial situation of many businesses in the Union.

(3) The crisis has spread quickly in the territory of the Union and in third countries. A sharp contraction of growth in the Union is foreseen for 2020. Recovery risks being very uneven in the different Member States, increasing the divergence between national economies. The different fiscal ability of Member States to provide financial support where it is needed most for recovery and the divergence of national measures endangers the single market as well as social and territorial cohesion.

(4) A comprehensive set of measures for economic recovery are needed, requiring substantial amounts of public and private investment to set the Union firmly on the path to a sustainable and resilient recovery, creating high-quality jobs, support social inclusion and repairing the immediate damage brought by the COVID-19 pandemic whilst supporting the Union's green and digital priorities.

(5) This exceptional situation, which is beyond the control of the Member States, calls for a coherent and unified approach at the level of the Union. To prevent further deterioration of the economy employment and social cohesion and to boost a sustainable and resilient recovery of the economic activity, an exceptional and coordinated programme of economic and social support should be put in place, in a

spirit of solidarity between Member States, in particular for those who have been particularly hardly hit.

(6) As the Instrument is an exceptional response to these temporary but extreme circumstances, the support under the Instrument should only be made available in order to address the consequences of the COVID-19 pandemic or the immediate funding needs to avoid a re-emergence of the COVID-19 pandemic.

(7) This Instrument should in particular focus on measures to restore labour markets, social protection and health care systems, measures to reinvigorate potential for sustainable growth and employment in order to strengthen cohesion among Member States and support their transition towards a green and digital economy, to provide support to businesses affected by the impact of the COVID-19 pandemic, in particular small and medium sized enterprises and economically viable businesses facing solvency constraints, measures to strengthen the strategic autonomy of the Union in vital supply chains, support for research and innovation in response to the COVID-19 pandemic, capacity building at Union level to enhance future crisis preparedness, support maintaining efforts of territories towards a just transition, and support rural areas in addressing the impact of the Covid-19 pandemic. Trade and economic relations with neighbouring and developing countries, in particular in the Western Balkans, countries covered by the European Neighbourhood Policy and countries in Africa, are of high relevance for the economy in the Union. For that reason, and in line with the global role and responsibility of the Union, financial resources should also be used to provide support and humanitarian aid for the efforts of those countries to fight the impact of the COVID-19 pandemic and recover from it in order to restore and strengthen trade and economic relations between them and the Union.

(8) To ensure a sustainable and resilient recovery throughout the Union and to facilitate the implementation of economic support, the established mechanisms of spending through Union´s programmes under the relevant multi-annual financial frameworks should be used. Support under those programmes is provided in the form of non-repayable support, loans, and the provisioning of budgetary guarantees. The allocation of financial resources should reflect the extent to which those programmes are capable of contributing to the objectives of the Instrument.

(9) In view of the nature of the measures to be funded, one part of the amounts available for this Instrument should be used to provide loans to Member States, whereas the other part of the resources should constitute external assigned revenue in the meaning of Article 21(5) of the Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council[2] and should be used for non-repayable support, financial instruments or provisioning for budgetary guarantees and related expenditure by the Union. While Articles 12(4)(c) and 14(3) of Regulation (EU, Euratom) 2018/1046 apply to commitment and payment appropriations made available in relation to the external assigned revenue under this Regulation, in view of the time limits set for the different types of support, commitment appropriations resulting from such external assigned revenues should not be automatically carried-over beyond the respective end dates, except for commitment appropriations necessary for technical

[2] Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012 (OJ L 193, 30.7.2018, p. 1).

and administrative assistance for implementation of the measures under this Regulation.

(10) Commitment appropriations for non-repayable support should be made available automatically up to the authorised amount. Liquidity should be managed effectively, so that funds are raised only when the legal commitments need to be honoured through corresponding payment appropriations.

(11) Given the importance of using the amounts in the first years of the Instrument, it is appropriate to review progress in the implementation. The Commission should prepare a report to this effect by 31 March 2023.

(12) Article 135(2) of the Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community[3] provides that amendments to Council Decision 2014/335/EU, Euratom[4] that are adopted on or after the date of entry into force of that Agreement shall not apply to the United Kingdom insofar as those amendments have an impact on the United Kingdom's financial obligations. The support under this Regulation and the corresponding increase of the own resources ceiling of the Union would have an impact on United Kingdom's financial obligation. Article 143(1) of the Withdrawal Agreement limits the liability of the United Kingdom for its share of the contingent liabilities of the Union to those contingent liabilities which arise from financial operations decided by the Union before the date of the entry into force of the Withdrawal Agreement. Any contingent liability of the Union under this Regulation is subsequent to the date of the withdrawal of the United Kingdom from the Union. Therefore, this Regulation should not apply to and in the United Kingdom,

HAS ADOPTED THIS REGULATION:

Article 1
European Union Recovery Instrument

The European Union Recovery Instrument ('the Instrument') is hereby established to support the recovery in the aftermath of the COVID-19 pandemic.

Article 2
Scope of the Instrument

(1) The Instrument shall support the recovery within the Union in the aftermath of the COVID-19 pandemic and shall in particular finance the following measures to tackle the adverse economic consequences of that pandemic:

(a) measures to restore employment and job creation and restore health care systems;

(b) reforms and investments to reinvigorate the potential for growth, to strengthen cohesion among Member States and to increase their resilience;

[3] OL L 29, 31.1.2020, p. 7.

[4] Council Decision 2014/335/EU, Euratom of 26 May 2014 on the system of own resources of the European Union (OJ L 168, 7.6.2014, p. 105).

(c) support measures for businesses affected by the economic impact of the pandemic, in particular such measures benefitting small and medium-sized enterprises, including direct financial investment in those enterprises;

(d) support measures for economically viable businesses that have seen their solvency constrained due to the impact of the COVID-19 pandemic, including direct financial investment in those businesses;

(e) measures to strengthen strategic autonomy of the Union in vital supply chains, including direct financial investment in businesses;

(f) support measures for research and innovation in response to the COVID-19 pandemic;

(g) support measures for increasing the level of Union's crisis preparedness and for enabling a quick and effective Union response in the event of major emergencies; this includes improving the strategic resilience of the Union health care systems to enable a quick and effective Union level response in the event of a new cross-border health crisis; measures include stockpiling of essential supplies and medical equipment and acquiring the necessary infrastructures for maintaining appropriate levels of crisis relevant medical goods and medicines;

(h) support measures to ensure that a just transition to a climate-neutral economy will not be undermined by the COVID-19 pandemic;

(i) support measures to address the impact of the COVID-19 pandemic on agriculture and rural development.

The Instrument shall also provide crisis support to partner countries in order to restore and enhance their trade and economic relations with the Union and strengthen their resilience.

(2) The measures referred to in paragraph 1 shall be carried out under specific Union programmes and in accordance with the relevant Union acts laying down rules for those programmes. Those measures shall include technical and administrative assistance for their implementation.

Article 3
Financing of the Instrument and allocation of funds

(1) The Instrument shall be financed up to an amount of EUR 750 000 000 000 in 2018 prices on the basis of the empowerment in Article 3b of the [ORD].

(2) The amount referred to in paragraph 1 shall be allocated as follows:

(a) support of up to EUR 433 200 000 000 in 2018 prices in the form of non-repayable support and repayable support through financial instruments, allocated as follows:

(a) up to EUR 50 000 000 000 in 2018 prices for structural and cohesion programmes of the Multi-annual financial framework 2014-2020 as reinforced until 2022, including support for financial instruments;

(b) up to EUR 310 000 000 000 in 2018 prices for a programme financing recovery and economic and social resilience via support to reforms and investments;

(c) up to EUR 7 700 000 000 in 2018 prices for a programme related to health;

(d) up to EUR 2 000 000 000 in 2018 prices for programmes related to civil protection;

(e) up to EUR 13 500 000 000 in 2018 prices for programmes related to research and innovation, including support for financial instruments;

(f) up to EUR 30 000 000 000 in 2018 prices for programmes supporting territories in their transition towards a climate-neutral economy;

(g) up to EUR 15 000 000 000 in 2018 prices for development in rural areas;

(h) up to EUR 5 000 000 000 in 2018 prices for providing humanitarian aid outside the Union.

(b) loans to the Member States of up to EUR 250 000 000 000 in 2018 prices for a programme financing recovery and economic and social resilience via support to reforms and investments.

(c) up to EUR 66 800 000 000 in 2018 prices for provisioning for guarantees and for related expenditure for the following programmes:

(i) up to EUR 30 300 000 000 in 2018 prices for programmes aiming at supporting investment operations in the field of Union internal policies;

(j) up to EUR 26 000 000 000 in 2018 prices for programmes aiming at strengthening the solvency of economically viable businesses in the Union;

(k) up to EUR 10 500 000 000 in 2018 prices for programmes aiming at fostering sustainable and inclusive economic growth outside the Union.

Article 4
Rules for budgetary implementation

(1) For the purposes of Article 21(5) of Regulation (EU, Euratom) 2018/1046, EUR 433 200 000 000 in 2018 prices of the funds referred to in Article 3(1) shall constitute external assigned revenue to the Union programmes referred to in point (a) of Article 3(2) of this Regulation and EUR 66 800 000 000 in 2018 prices of those funds shall constitute external assigned revenue to the Union programmes referred to in Article 3(2)(c) of this Regulation.

(2) EUR 250 000 000 000 in 2018 prices of the funds referred to in Article 3(1) shall be used for loans to Member States under Union programmes as referred to in Article 3(2)(b) of this Regulation.

(3) Commitment appropriations covering support as referred to in point (a) and (c) of Article 3(2) shall be made available automatically up to the amounts referred in Article 3(2)(a) and(c) as of the date of entry into force of the [ORD] providing the empowerment referred to in Article 3(1).

(4) Legal commitments giving rise to expenditure for support as referred to in Article 3(2)(a), and where appropriate in point (i) of Article 3(2)(c), shall be entered into by

the Commission or by its executive agencies by 31 December 2024. Legal commitments in an amount of at least 60 percent of the amount referred to in Article 3(2)(a) shall be entered into by 31 December 2022.

(5) Decisions on the granting of the loans referred to in Article 3(2)(b) shall be adopted by 31 December 2024.

(6) The Union's budgetary guarantees up to an amount, which, in accordance with the relevant provisioning rate set out in the respective basic acts corresponds to the provisioning for the budgetary guarantees referred to in Article 3(2)(c), depending on the risk profiles of the supported financing and investment operations, shall be granted only for supporting those operations which have been approved by 31 December 2024 by the counterparts. The respective guarantee agreements shall foresee provisions ensuring that financial operations corresponding to at least 60 percent of the amount of those budgetary guarantees are approved by the counterparts by 31 December 2022. Where provisioning is used for non-repayable support related to the financial and investment operations under point (i) of Article 3(2)(c), the related legal commitments shall be entered into by the Commission by 31 December 2024.

(7) Decisions on the granting of the loans for macro-financial assistance referred to in point (iii) of Article 3(2)(c) shall be adopted by 31 December 2024.

(8) Paragraphs 4 to 7 shall not apply to measures referred to in the second sentence of Article 2(2).

(9) Costs from technical and administrative assistance for the implementation of the Instrument, such as preparatory, monitoring, control, audit and evaluation activities including corporate information technology systems of this Regulation shall be financed from the Union budget.

Article 5
Reporting

By 31 March 2023, the Commission shall submit to the Council a report on the progress achieved in the implementation of the Instrument and the use of the funds allocated in accordance with Article 3(2).

Article 6
Entry into force and application

This Regulation shall enter into force on the day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall not apply to and in the United Kingdom. References to Member States in this Regulation shall be understood as not including the United Kingdom.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Council
The President

LEGISLATIVE FINANCIAL STATEMENT

1. FRAMEWORK OF THE PROPOSAL/INITIATIVE

1.1. Title of the proposal/initiative

1.2. Policy area(s) concerned in the ABM/ABB structure

1.3. Nature of the proposal/initiative

1.4. Objective(s)

1.5. Grounds for the proposal/initiative

1.6. Duration and financial impact

1.7. Management mode(s) planned

2. MANAGEMENT MEASURES

2.1. Monitoring and reporting rules

2.2. Management and control system

2.3. Measures to prevent fraud and irregularities

3. ESTIMATED FINANCIAL IMPACT OF THE PROPOSAL/INITIATIVE

3.1. Heading(s) of the multiannual financial framework and expenditure budget line(s) affected

3.2. Estimated impact on expenditure

3.2.1. Summary of estimated impact on expenditure

3.2.2. Estimated impact on operational appropriations

3.2.3. Estimated impact on appropriations of an administrative nature

3.2.4. Compatibility with the current multiannual financial framework

3.2.5. Third-party contributions

3.3. Estimated impact on revenue

LEGISLATIVE FINANCIAL STATEMENT

1. FRAMEWORK OF THE PROPOSAL/INITIATIVE

1.1. Title of the proposal/initiative

Proposal for a Council Regulation establishing a European Union Recovery Instrument to support the economic recovery after the COVID-19 pandemic

1.2. Policy area(s) concerned in the ABM/ABB structure[5]

Economic and financial affairs (Title 01 of the general budget of the European Union, section 3 Commission)

1.3. Nature of the proposal/initiative

X The proposal/initiative relates to **a new action**

☐ The proposal/initiative relates to **a new action following a pilot project/preparatory action**[6]

☐ The proposal/initiative relates to **the extension of an existing action**

☐ The proposal/initiative relates to **an action redirected towards a new action**

1.4. Objective(s)

1.4.1. The Commission's multiannual strategic objective(s) targeted by the proposal/initiative

The COVID-19 pandemic constitutes a widespread and severe public health crisis. It severely affects citizens, societies and economies worldwide. The extent of the health crisis and the policy responses taken to control it are unprecedented. As a result, the depth of its socio-economic impact is extraordinarily uncertain. Already at this stage, it is certain that it presents unprecedented and acute challenges for the financial and economic systems of Member States. According to the Commission's spring economic forecasts[7], the EU GDP is forecast to contract by about 7.5 % this year - far deeper than during the global financial crisis in 2009 - and to rebound by only 6% in 2021, while the EU unemployment rate is set to rise to 9% in 2020, with a risk of rising poverty and inequality.

In response, Member States have adopted exceptional discretionary economic and financial measures. Together with the effect of so-called "automatic stabilizers", i.e. payments foreseen under unemployment insurance and social security systems combined with loss in tax revenue, those measures have a considerable bearing on their public finances with aggregate general government deficit surging from 0.6% of GDP in 2019 to 8.5% of GDP in both the euro area and the EU this year.

The crisis could result in lasting damage to the Union's economic tissue unless it is met with a commensurate short and medium term policy response at the level of the Union.

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5 To be determined in the 2020 and 2021 budgetary procedures. ABM: activity-based management; ABB: activity-based budgeting.

6 As referred to in Article 54(2)(a) or (b) of the Financial Regulation.

7 European Economic Forecast, Institutional Paper 125. May 2020.

A comprehensive plan for European recovery will need massive public and private investment at European level to set the Union firmly on the path to a sustainable and resilient recovery, creating high-quality jobs and and repairing the immediate damage brought by the COVID-19 pandemic whilst supporting the Union's green and digital priorities. The long-term EU budget, as reinforced, will be the main tool.

1.4.2. Specific objective(s) and ABM/ABB activity(ies) concerned

The proposed act determines the allocation of the proceeds of the Union's borrowing, as authorised under the Own Resources Decision, to the policy programmes in line with the strategy set out in the European Union Recovery Plan.

EUR 500 billion in 2018 prices will be spent for non-repayable support, repayable support through financial instruments or for provisioning for budgetary guarantees and related expenditure.

EUR 250 billion in 2018 prices will be used to provide loans to Member States. The Union will bear contingent liability in the form of a guarantee for those loans until they are repaid.

Specify the effects which the proposal/initiative should have on the beneficiaries/groups targeted.

The proposed act shall attribute the financing for measures and actions to tackle the adverse economic consequences of COVID-19 and support the economic recovery in particular in the following areas:

- Providing support in the form of grants and loans to implement Member State recovery and resilience plans under the Recovery and Resilience Facility;
- Providing new investment support under existing and proposed budgetary guarantees (EFSI/InvestEU) for inter alia (1) crisis-impacted but viable companies to emerge from the crisis, in particular to accelerate the twin green and digital transition; (2) targeted support to projects of European strategic interest for internal market supply chains to develop the EU's strategic autonomy in key sectors and capacities;
- Enhanced support to regions and sectors hit by the crisis through reinforced cohesion policy measures;
- Supporting research and innovation in response to the COVID-19 pandemic;
- Enhancing the level of crisis preparedness and improving the strategic resilience of Union health care systems;
- Mitigating the impact of the COVID-19 pandemic on the just transition towards a green economy in territories;
- Supporting measures to address the impact of the COVID-19 pandemic on rural development;
- Supporting partner countries, in particular in the Western Balkans, the Neighbourhood and Africa, in their efforts to fight and recover from the impact of the pandemic and to strengthen their resilience.

1.4.3. Indicators of results and impact

Specify the indicators for monitoring implementation of the proposal/initiative.

Speed with which funds are made available to the beneficiary financial instruments. It is to be noted that the Recovery Instrument is a temporary initiative and time limitations are foreseen for the commitment of appropriations.

Savings per Member States through recourse to EU back-to-back loans compared to self-financing on international markets.

1.5. Grounds for the proposal/initiative

1.5.1. Requirement(s) to be met in the short or long term

The current proposal for a Council regulation aims at complementing the existing Union instruments and legal basis, providing a mechanism for attributing support to the different policy areas.

The operational provisions governing the implementation of this support are contained in the legislative acts defining the beneficiary EU policy instruments, which aim to provide immediate and forceful support for an economic recovery and resilience.

1.5.2. Added value of EU involvement

The proposed EU Recovery Instrument is based on Article 122 TFEU. This article foresees the possibility of measures, decided in a spirit of solidarity between Member States, appropriate to the economic situation.

Currently, Member States are facing a severe economic disturbance caused by the COVID-19 virus outbreak which has strong negative socio-economic impacts in Member States.

The proposal allocates the financial support, made possible by the temporary and exceptional empowerment contained in the Own Resources Decision, to the crisis-related policy interventions in a spirit of European solidarity with affected Member States. Considering the extent of the crisis and the scope of its financial and economic effects, concerted action at EU level is more appropriate to ensure that sufficient resources are mobilised to generate effective interventions and mitigate the direct societal and economic impact caused by COVID-19 crisis.

The implementation of the European Union Recovery Instrument is underpinned by the subsidiarity principle. In fact, due to the global dimension of the COVID-19 pandemic and of the scope of its financial and economic effects, the Union is better placed than single Member States to address the crisis through targeted EU policies, made possible by a large-scale resources enabled by the exceptional empowerment to borrow to supplement the Union budget, contained in the Own Resources Decision.

The assignment of the additional externally assigned revenues via the proposed act will ensure that the implementation of the envisaged response by the Union is not undermined by disparities in the ability of Member States to mobilise the funding individually.

Only a concerted action motivated by a spirit of solidarity between Member States in a time of crisis can ensure that the relevant financial means are deployed effectively to generate effective interventions by the Union in the most affected areas or sectors.

1.5.3. Lessons learned from similar experiences in the past

When the Union was confronted with a grave financial crisis a decade ago, the legal basis of Article 122 of the Treaty on the Functioning of the European Union (TFEU)

enabled the Union to provide financial assistance from the Union to Member States faced with difficulties caused by an exceptional event beyond their control. The Union adopted on the basis of Article 122(2) Regulation (EU) No 407/2010 of the Council of 11 May 2010 establishing a European Financial Stabilisation Mechanism (EFSM). This instrument provided Union financial assistance to Portugal, Ireland and a bridge financing to Greece by means of back-to-back-loans.

The legal basis of Article 122 TFEU has been used as the legal basis for the recent Commission proposal for the SURE mechanism to support Member State temporary unemployment insurance schemes. This legal basis is deemed appropriate for an exceptional occurrence beyond Member States' control which calls for a collective Union resposne in a spirit of solidarity, and can therefore also be used in this particular crisis event of the COVID-19 virus outbreak.

1.5.4. Compatibility and possible synergy with other appropriate instruments

The proposed European Union Recovery Instrument assigns the additional financial means needed for the European Union Recovery Plan to the policy instruments that will address the profound social and economic consequences of the crisis. The Recovery Plan itself extends and profoundly deepends the Union policy response to the crisis. Earlier initiatives taken in response to the crisis include the European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 virus outbreak (SURE instrument), the "Corona Response Investment Initiative", the proposed enlargement of the scope of the European Union Solidarity Fund, the reactivation of the Emergency Support instrument and other instruments so support employment such as the European Social Fund and Invest EU.

The Recovery Instrument is an essential element in a more powerful and far-reaching policy response to offset the crisis and support the economic recovery and repair process. The Recovery Instrument directs support towards cohesion instruments, the Recovery and Resilience Facility, and the scaling-up of EU budgetary guarantees to support businesses and investment.

The Recovery Instrument will have the same level of transparency, accountability and audit control as the traditional budget.

The very significant financial means distributed under the Recovery Instrument calls for the strong reinforcement of the Commission's internal capacity to manage and administer this resource. A number of critical business processes will need to substantially upgraded notably: accounting and reporting on distribution and use of the means allocated to the different policies; administration and reconciliation of all payments and transfers to/from Member States, and to beneficiary policies; arrangement of loans and ensuring that all means are available when needed and on the most advantageous terms; the necessary enabling informatics support. Building this capacity in the time-frames needed to implement the Recovery Plan will be indispensable for achieving the objectives of the Recovery Plan.

1.6. Duration and financial impact

X Proposal/initiative of **limited duration**

X Financial impact from entry into force of Regulation to completion of loans maturity, overlapping several Multiannual Financial Frameworks; no maturities are envisaged before 2028.

☐ Proposal/initiative of **unlimited duration**

– Implementation with a start-up period from YYYY to YYYY,

– followed by full-scale operation.

1.7. Management mode(s) planned[8]

X Direct management by the Commission

– X by its departments, including by its staff in the Union delegations;

– ☐ by the executive agencies

X **Shared management** with the Member States

X **Indirect management** by entrusting budget implementation tasks to:

– ☐ third countries or the bodies they have designated;

– ☐ international organisations and their agencies (to be specified);

– X the EIB and the European Investment Fund;

– ☐ bodies referred to in Articles 208 and 209 of Regulation (EU, Euratom) 1046/2018;

– ☐ public law bodies;

– ☐ bodies governed by private law with a public service mission to the extent that they provide adequate financial guarantees;

– ☐ bodies governed by the private law of a Member State that are entrusted with the implementation of a public-private partnership and that provide adequate financial guarantees;

– ☐ persons entrusted with the implementation of specific actions in the CFSP pursuant to Title V of the TEU, and identified in the relevant basic act.

– *If more than one management mode is indicated, please provide details in the 'Comments' section.*

[8] Details of management modes and references to Regulation (EU, Euratom) 1046/2018 may be found on the BudgWeb site: http://www.cc.cec/budg/man/budgmanag/budgmanag_en.html

2. MANAGEMENT MEASURES

2.1. Monitoring and reporting rules

Specify frequency and conditions.

Actions receiving financial assistance under this proposal shall report regularly. By 31 March 2023, the Commission shall submit to the Council a report on the progress achieved in the implementation of the Instrument and the use of the funds allocated in accordance with Article 3(2).

2.1.1. Risk(s) identified

Management of risks in the administration of the instrument requires a significant investment in development of the Commission's financial administrative capacity. This investment explains the administrative expenditure linked to this policy, through the recruitment of specialised staff including from national administrations. The increased staff resources is also needed for support services such as accounting, back-office and dedicated IT support. The Recovery Instrument depends on Commission issuance of large volumes of debt on international capital markets under the empowerment granted by the ORD. The sudden increase in debt issuance in a period when there is likely to be extensive recourse to capital markets by other sovereigns and institutions gives rise to the risk of deterioration in the terms and conditions available to the Union. This risk will be managed through the implementation of a new debt management strategy to help the Union to obtain the best available terms, while safeguarding its very high credit rating.

2.1.2. Information concerning the internal control system set up

The European Commission's existing internal control system applies to ensure that funds available under the EU Recovery Instrument are used properly and in line with appropriate legislation. The current system is setup as follows: 1. The internal control teams focuses on compliance with administrative procedures and legislation in force. The Internal Control Framework of the Commission is used for this purpose. 2. Regular audit of grants and contracts by external auditors, which will be awarded under this instrument will be fully incorporated in annual audit plans. 3. Evaluation of overall activities by external evaluators. Actions performed may be audited by the European Anti-Fraud office (OLAF) and the Court of Auditors.

2.1.3. Estimate of the costs and benefits of the controls and assessment of the expected level of risk of error

N.A.

2.2. Measures to prevent fraud and irregularities

Specify existing or envisaged prevention and protection measures.

Maximum transparency and proper monitoring of the use of the EU financial resources are required. Reporting obligations for the Member States, other beneficiaries and the Commission will apply.

3. ESTIMATED FINANCIAL IMPACT OF THE PROPOSAL/INITIATIVE

3.1. Heading(s) of the multiannual financial framework and expenditure budget line(s) affected

- No existing budget lines

- New budget lines requested

In order of multiannual financial framework headings and budget lines.

Heading of multiannual financial framework	Budget line	Type of expenditure	Contribution			
	Number	Diff./Non-diff.	from EFTA countries	from candidate countries	from third countries	within the meaning of Article 21(2)(b) of Regulation (EU, Euratom) 1046/2018

3.2. Estimated impact on expenditure

The proposal has no impact on expenditure. A p.m. line will be created in the budgetary procedure.

3.2.1. Summary of estimated impact on expenditure

EUR million (to three decimal places)

Heading of multiannual financial framework		

DG: BUDG			**Year 2020**	**Year 2021**	**Year 2022**	**Year 2023**	**Year 2024**	**Year 2025**	**Year 2026**	**Year 2027**	**TOTAL**
• Operational appropriations											
	Commitments	(1)									
	Payments	(2)									
TOTAL appropriations for DG BUDG	Commitments	=1+3									
	Payments	=2+3									
• TOTAL operational appropriations	Commitments	(4)									
	Payments	(5)									
• TOTAL appropriations of an administrative nature financed from the envelope for specific programmes		(6)									
TOTAL appropriations	Commitments	=4+ 6									

(heading 2**)**	Payments	=5+ 6									

Heading of multiannual financial framework	7	'Administrative expenditure'

EUR million (to three decimal places)

		Year 2020	Year 2021	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026	Year 2027	TOTAL
DG BUDG										
• Human resources		0,86	3,38	3,38	3,38	3,38	3,38	3,38	3,38	24,516
• Other administrative expenditure										
TOTAL DG BUDG	Appropriations	0,86	3,38	3,38	3,38	3,38	3,38	3,38	3,38	24,516

TOTAL appropriations under HEADING 5 (2020) and HEADING 7 (2021-2027) of the multiannual financial framework	(Total commitments = Total payments)	0,86	3,38	3,38	3,38	3,38	3,38	3,38	3,38	24,516

EUR million (to three decimal places)

		Year 2020	Year 2021	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026	Year 2027	TOTAL
TOTAL appropriations under the multiannual financial framework	Commitments	0,86	3,38	3,38	3,38	3,38	3,38	3,38	3,38	24,516
	Payments	0,86	3,38	3,38	3,38	3,38	3,38	3,38	3,38	24,516

3.2.2. Estimated impact on operational appropriations

– ☐ The proposal/initiative does not require the use of operational appropriations

– **X** The proposal/initiative requires the use of operational appropriations in budget years 2020-2027: payment of interests as indicated in the table above

3.2.3. Estimated impact on appropriations of an administrative nature

3.2.3.1. Summary

– ☐ The proposal/initiative does not require the use of appropriations of an administrative nature

– X The proposal/initiative requires the use of appropriations of an administrative nature, as explained below:

EUR million (to three decimal places)

	Year **2020** [9]	Year **2021**	Year **2022**	Year **2023**	Year **2024**	Year **2025**	Year **2026**	Year **2027**	**TOTAL**
HEADING 5 (7 from 2021) of the multiannual financial framework									
Human resources	0,86	3,38	3,38	3,38	3,38	3,38	3,38	3,38	24,516
Other administrative expenditure									
Subtotal HEADING 5 (7) of the multiannual financial framework	0,86	3,38	3,38	3,38	3,38	3,38	3,38	3,38	24,516
Outside HEADING 5[10] of the multiannual financial framework									
Human resources									
Other expenditure of an administrative nature									
Subtotal outside HEADING 5 of the multiannual financial framework									
TOTAL	0,86	3,38	3,38	3,38	3,38	3,38	3,38	3,38	24,516

2020: 10 posts for 6 months, 5 SNEs for 3 months. From 2021: 18 posts and 8 SNEsThe appropriations required for human resources and other expenditure of an administrative nature will be met by appropriations from the DG that are already assigned to management of the action and/or have been redeployed within the DG, together if necessary with any additional allocation which may be granted to the managing DG under the annual allocation procedure and in the light of budgetary constraints.

9 Year N is the year in which implementation of the proposal/initiative starts.

10 Technical and/or administrative assistance and expenditure in support of the implementation of EU programmes and/or actions (former 'BA' lines), indirect research, direct research.

3.2.3.2. Estimated requirements of human resources

– ☐ The proposal/initiative does not require the use of human resources.

– **X** The proposal/initiative requires the use of human resources, as explained below:

Estimate to be expressed in full time equivalent units

	Year **2020**	Year **2021**	Year **2022**	Year **2023**	Year **2024**	Year **2025**	Year **2026**	Year **2027**	Enter as many years as necessary to show the duration of the impact (see point 1.6)
• Establishment plan posts (officials and temporary staff)									
XX 01 01 01 (Headquarters and Commission's Representation Offices)	10	18	18	18	18	18	18	18	8 AD, 10 AST
XX 01 01 02 (Delegations)									
XX 01 05 01 (Indirect research)									
10 01 05 01 (Direct research)									
• External staff (in Full Time Equivalent unit: FTE)[11]									
XX 01 02 01 (AC, END, INT from the 'global envelope')	5	8	8	8	8	8	8	8	8 SNE
XX 01 02 02 (AC, AL, END, INT and JED in the delegations)									
XX 01 04 **yy** [12] - at Headquarters									
XX 01 04 **yy** [12] - in Delegations									
XX 01 05 02 (AC, END, INT - Indirect research)									
10 01 05 02 (AC, END, INT - Direct research)									
Other budget lines (specify)									
TOTAL	15	26	26	26	26	26	26	26	

DG BUDG is the policy area or budget title concerned.

The human resources required will be met by staff from the DG who are already assigned to management of the action and/or have been redeployed within the DG, together if necessary with any additional allocation which may be granted to the managing DG under the annual allocation procedure and in the light of budgetary constraints.

Description of tasks to be carried out:

Officials and temporary staff	Debt issuance, loan administration and accounting, settlement.
External staff	Debt issuance, loan administration and accounting, settlement.

11 AC= Contract Staff; AL = Local Staff; END= Seconded National Expert; INT = agency staff; JED= Junior Experts in Delegations.

12 Sub-ceiling for external staff covered by operational appropriations (former 'BA' lines).

3.2.4. Compatibility with the current multiannual financial framework

– **X** The proposal/initiative is compatible the current and proposed next multiannual financial framework.

– ☐ The proposal/initiative will entail reprogramming of the relevant heading in the multiannual financial framework.

– ☐ The proposal/initiative requires application of the flexibility instrument or revision of the multiannual financial framework.

3.2.5. Third-party contributions

– The proposal/initiative does not provide for co-financing by third parties.

– X The proposal/initiative provides for the co-financing estimated below:

No co-financing; nevertheless, provisioning for budgetary guarantees may be provided for a specific Union programme up to the amount of voluntary commitments provided by the Member States ensuring the repayment of the borrowings by the Union.

3.3. Estimated impact on revenue

– ☐ The proposal/initiative has no financial impact on revenu.

– **X** The proposal/initiative has the following financial impact:

– X on assigned revenues (budget revenue line to be determined)

Over the period of implementation, EUR 537.4 billion (in 2018 prices) from proceeds of borrowing operations will constitute external assigned revenues devoted to grants to MSs and budgetary guarantees.

EUR billion (rounded)

	2021	2022	2023	2024	2025	2026	2027	total	After 2027[13]
constant prices 2018	35.0	84.5	111.8	122.5	74.5	34.4	17.9	480.7	19.3
current prices	37.1	91.5	123.5	138.0	85.6	40.3	21.4	537.4	23.1

[13] Includes translation differences.