

### Box 1.2.3: The incorporation of the Recovery and Resilience Facility in the forecast

Following the entry into force of the Recovery and Resilience Facility (RRF) regulation on 19 February 2021, Member States have submitted, or are preparing to submit, their draft Recovery and Resilience Plans (RRPs) to the Commission. The spring forecast therefore includes the draft RRFs in its budgetary and economic projections. However, at the cut-off date for the forecast, details of some plans were still under discussion in a number of Member States. The following working assumptions have therefore been used for the inclusion of the RRF in the forecast:

- As regards the time profile of expenditure to be financed by the facility <sup>(1)</sup>: by default the forecast assumes linear absorption of the full RRF grant allocation over the RRF lifetime, starting from the second half of 2021 and ending in 2026. This results in an absorption of 1/11th of the entire RRF grant allocation in 2021 and 2/11th in 2022.
- As regards the composition of expenditure, by default the forecast assumes it to be split between gross fixed capital formation (i.e. public investment) and capital transfers (which would predominantly support private investment).
- The above assumptions only cover the absorption of the grant allocation of the RRF.

For countries where there was sufficiently detailed and credible information available on the (draft) RRFs at the cut-off date of the forecast, the forecast deviates from the default assumptions. In some cases, information on the RRFs has also been derived from the Stability and Convergence Programmes.

The statistical recording of transactions related to the RRF in the forecast follows the guidance from the 17 November 2020 draft note published by Eurostat.<sup>(2)</sup> This stipulates that:

<sup>(1)</sup> RRF grants could also finance measures and reforms with estimated costs that relate to revenue measures or financial instruments, neither of which are 'expenditure' in national accounts terminology. For simplicity, we refer here to expenditure only.

<sup>(2)</sup> <https://ec.europa.eu/eurostat/documents/10186/10693286/GFS-Draft-guidance-note-statistical-recording-recovery-resilience-facility.pdf>

(i) any expenditure or other costs financed with RRF grants or loans are recorded following ESA 2010 rules;

(ii) grants provided by the RRF to Member States are recorded similar to grants from 'traditional' EU funds. This implies in particular that grants are recorded as revenue in government accounts at the same time as the associated expenditure.<sup>(3)</sup> One exception to this rule applies to grants issued retroactively for expenditure incurred in 2020: in this case, and pending the formalisation of the agreement reached within the statistical community by Eurostat, the budgetary projections in this forecast record the corresponding revenue in 2021;

(iii) any loans provided by the RRF have been recorded as Member States' debt towards the EU.

As regards the cash disbursements of grants from the facility, an additional working assumption on their distribution over the RRF lifetime has been applied for all Member States. It implies the recording of the pre-financing and a first regular disbursement in 2021 and a linear pattern of the remaining total RRF allocation in the subsequent years, until 2026. In line with the general rules for the recording of revenue from the RRF mentioned above, differences between cash disbursements of grants and the accrual recording of revenue are recorded as financial transactions, with no impact on the general government net lending or net borrowing. Cash disbursements exceeding (or lagging behind) the incurred expenditure (and accrued revenue) have an indirect debt-reducing (debt-increasing) impact.

Finally, in all cases, the incorporation of the RRFs in the spring forecast rests on the working assumption of a positive assessment by the Commission and their endorsement through a Council implementing decision, without prejudging the outcomes of the Commission and Council decisions.

<sup>(3)</sup> This is commonly referred to as the principle of budget neutrality. It implies that any leads and lags in the cash disbursement of the grants compared to the time profile of the costs funded by the RRF, are neutralised in statistical terms, i.e. they have no impact on the general government lending or borrowing.

*(Continued on the next page)*

*Box (continued)*

In the 2021 spring forecast, the budgetary projections of only six Member States (EL, HU, MT, NL, PL and SE) are fully based on the above simplified working assumptions for incorporating RRFs. In all other cases, the forecast departs from the working assumptions at least partly. In most cases, the departures imply a substantial frontloading of RRF-funded costs by 2022. On average in the EU, around 40% of the total RRF financing is assumed to be spent over the forecast horizon. This corresponds to EUR 140 bn, or just below 1% of 2019 GDP.

Of the large Member States, Germany, France and Spain are assumed to absorb more than 50% of their RRF allocation by 2022. In terms of composition of expenditure, close to 30% of the EU's RRF funding by 2022 is assumed to be used for general government investment, close to 50% as capital transfers (predominantly supporting private investment), while the remainder would finance current expenditure and other costs.