Box I.4.3: The inclusion of Next Generation EU and its Recovery and Resilience Facility in the forecast

Next Generation EU (NGEU) and its centrepiece Recovery and Resilience Facility (RRF) are set to have a sizeable positive impact on the EU economies over the forecast horizon, supporting a faster and more sustainable recovery. National authorities are preparing their Resilience and Recovery Plans (RRPs) for submission to the European Commission by end of April.[(1)] The funding of the plans will be conditional upon their positive assessment by the Commission and endorsement through a Council implementing decision, as well as the achievement of milestones and targets.

The Commission has invited the Member States to report on a voluntary basis on any planned RRF-related measures that are included in their 2021 draft national budgets (through an annex to the Draft Budgetary Plans for euro area countries and a stand-alone table for non-EA countries). However, at this early stage, only a few Member States were ready to incorporate such plans in their draft budgets or to provide sufficient details on them.

Given the limited information on the use of RRF, the approach to its incorporation in the 2020 autumn forecast is based on technical assumptions, following to the extent possible the customary no-policy-change (NPC) assumption that the Commission uses in its forecast (see Box I.4.1). The approach is as follows.

- The forecast only incorporates those measures that are credibly announced and sufficiently detailed in the draft national budgets (as reflected in the Draft Budgetary Plans in the case of euro area countries), irrespective of whether they are planned to be part of the (forthcoming) draft RRPs. Thus, in principle only measures planned for 2021 are included. For 2022, the no policy change assumption implies that the forecast does not incorporate the measures expected to be taken in line with the RRP in 2022, to the extent that those measures have not been specified in the sense explained above. Exceptions apply when the budgetary impact of the measures extends beyond 2021, or in the case of multi-year budgets also covering 2022.

- No financing from the RRF has been included on the revenue side of the budgetary projections. Only the pre-financing [(2)] of RRF grants is included in the forecast for 2021 (see Table 1), as a financial transaction, i.e. no impact on the budgetary balance, with an indirect debt-reducing impact (i.e., as debt-reducing stock-flow adjustment).

The above approach for the incorporation of the RRF pre-financing in the autumn forecast rests on the technical assumption that all Member States will be able to claim and receive the grants' pre-financing in 2021, following the endorsement of their RRPs through a Council implementing decision. Credibly announced measures that Member States may want to include in their RRPs are assumed to be implemented, irrespective of whether they will eventually be financed by the RRF.

The selected approach to the incorporation of the RRF in the forecast may create a bias in the projections for the general government balance and debt. In particular, the inclusion in the forecast of expenditure measures that may eventually qualify for funding with RRF grants will decrease the general government balance of the Member States, as the corresponding revenue is not (yet) included in the forecast. However, this deficit bias will be reflected in a higher general government debt only to the extent that the total amount of the measures exceeds that of the grants' pre-financing in the stock-flow adjustment.

In the 2020 autumn forecast, the budgetary projections of only five Member States – France, Czechia, Lithuania, Portugal and Slovenia - include measures expected to be financed under RRF. The projections for France incorporate measures from the French Recovery Plan amounting to 1.5% of

(1) This is the deadline set in the Council Presidency compromise proposal for the RRF regulation (11538/20) of 7 October 2020, on which the Council Presidency obtained a mandate for conducting the negotiations with the European Parliament.

(2) In the latest proposal for the RRF regulation (see footnote 1), the pre-financing amounts to up to 10% of the total amount of financial support in the form of non-repayable support, and, where applicable, of up to 10 per cent of the loan support in the form of a loan'.

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Box (continued)

GDP, 0.7 pps. of which are expected by the government to be financed by the RRF. For Lithuania, a significant amount of budgetary measures planned for 2021 is deemed potentially eligible for RRF financing. For the remaining countries, the RRF-related measures that are incorporated in the forecast amount to around 0.2% of GDP in 2021 for each (and a further 0.4% for 2022 from the multi-annual budget of Slovenia). In line with the approach to the inclusion of RRF outlined above, these measures are recorded as deficit-increasing, though they may eventually be financed by RRF grants (depending, inter alia, on the formal endorsement of the Recovery and Resilience Plans). As a result, the budgetary projections of the concerned Member States are subject to a positive risk.

Table 1:
Pre-financing of RRF grants

Country	Pre-financing, 2021, mil. EUR	Share of GDP, 2021(%)	Country	Pre-financing, 2021, mil. EUR	Share of GDP, 2021(%)
HR	643	1.2	**SI**	168	0.3
BG	646	1.0	**CZ**	734	0.3
EL	1,753	1.0	**FR**	4,055	0.2
RO	1,493	0.7	**MT**	22	0.2
PT	1,425	0.7	**BE**	557	0.1
SK	630	0.7	**FI**	252	0.1
LV	202	0.7	**SE**	400	0.1
ES	6,392	0.5	**AT**	324	0.1
LT	262	0.5	**NL**	603	0.1
HU	677	0.5	**DE**	2,459	0.1
CY	104	0.5	**DK**	168	0.1
PL	2,485	0.5	**IE**	138	0.0
IT	7,083	0.4	**LU**	10	0.0
EE	110	0.4	**EU**	33,797	0.2

Note: In the latest proposal for the RRF regulation (see footnote 1), the pre-financing amounts to up to 10% of the total amount of financial support in the form of non-repayable support, and, where applicable, of up to 10 per cent of the loan support in the form of a loan.

Going forward, the economic recovery in 2021 and 2022 for the EU Member States is likely to turn out stronger than projected in the 2020 autumn forecast once RRPs are implemented. The full economic impact of the RRF on the EU economies is illustrated through simulations of hypothetical spending scenarios in Special Topic I.3.2.