European Commission

FINANCING THE RECOVERY PLAN FOR EUROPE

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1 Financing the Recovery plan

To finance the necessary investments, the Commission will issue bonds on the financial markets on behalf of the EU.

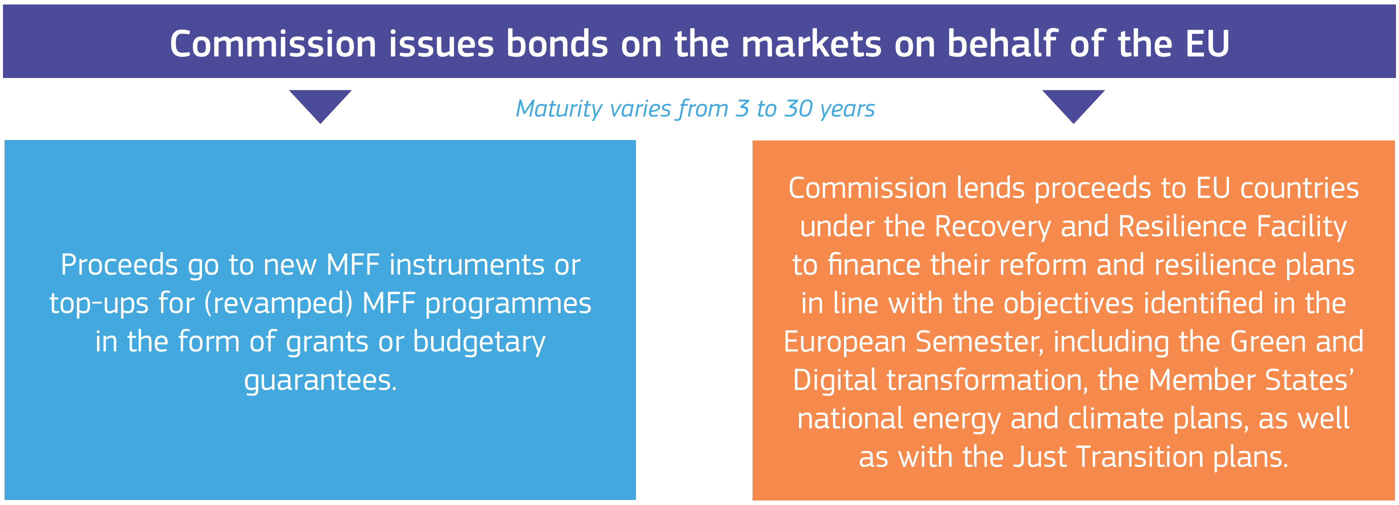
To make borrowing possible, the Commission will amend the Own Resources Decision and increase the headroom – the difference between the Own Resources ceiling of the long-term budget (the maximum amount of funds that the Union can request from Member States to finance its expenditure) and the actual spending.

With the headroom as a guarantee, the Commission will raise funds on the markets and channel them via **Next Generation EU** to programmes destined to repair the economic and social damage and prepare for a better future.

The Commission will borrow up to €750 billion, the bulk of it concentrated in the period 2020-2024 and:

- channel the funds to one of the **new or reinforced programmes** or finance the **grant component** of the Recovery and Resilience Facility, or
- **lend the money** to the Member States in need under the new Recovery and Resilience Facility under the terms of the original emission (same coupon, maturity and for the same nominal amount). In this way, Member States will indirectly borrow under very good conditions, benefitting from the EU's high credit rating and relatively low borrowing rates compared to several Member States.

The timing, volume and maturity of the emissions will be organised to obtain the **most advantageous terms** possible for the EU and its Member States.



Source: European Commission

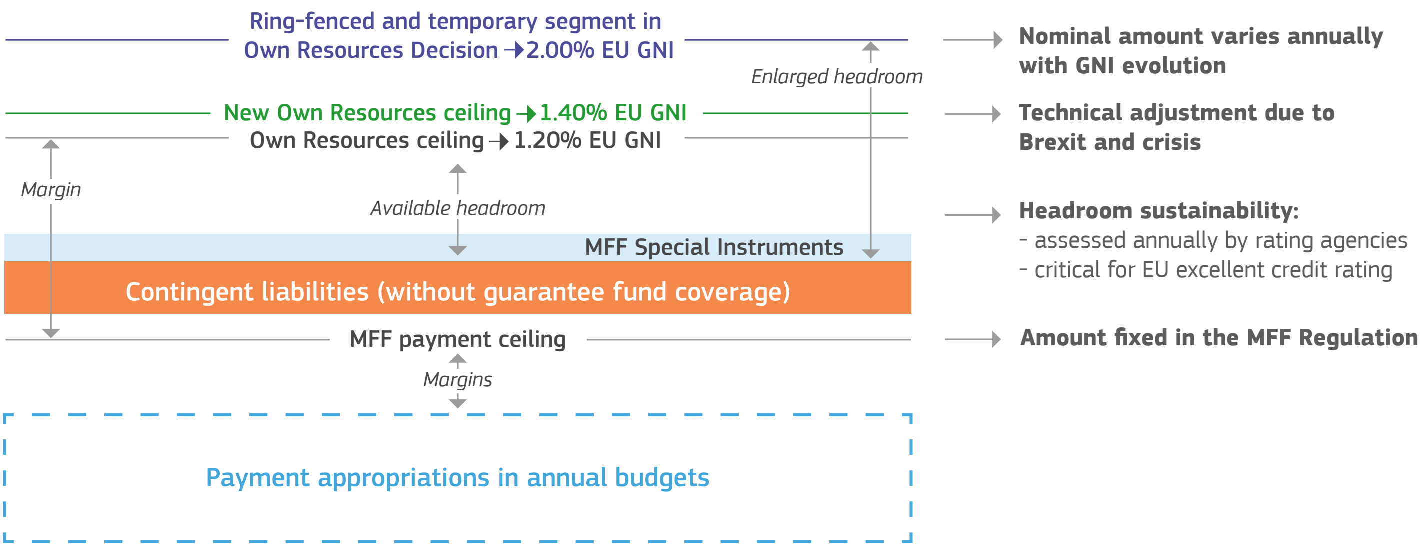
The funds raised will be repaid after 2027 and by 2058 at the latest, from future EU budgets. The loans will be repaid by the borrowing Member States. To facilitate the repayment of the market finance raised and further help reduce the pressure on national budgets, the Commission will propose additional new own resources, on top of those proposed in 2018, at a later stage of the 2021-2027 financial period.

2 How will the debt issuance be managed?

In order to ensure sufficient headroom, the Commission proposes to amend the Own Resources Decision – the legal text which sets the conditions to fund the EU budget – to allow borrowing and to increase the Own Resources ceiling on an exceptional and temporary basis by 0.6 percentage points. This increase will come on top of the permanent Own Resources ceiling - 1.4% of GNI, which is proposed on the account of economic uncertainties and Brexit.

The **Own Resources ceiling** determines the maximum amount of resources in any given year that can be called from Member States to finance EU expenditure. The **payments ceiling** under the long-term budget is the maximum amount that can be paid out from the budget. The difference between the two (plus the amount of other revenue, e.g. taxes on the salaries of EU staff and competition fines) is the **headroom**. The Commission uses the headroom as a guarantee for the borrowing. The increase in the Own Resource ceiling will expire when all funds have been repaid and all liabilities have ceased to exist.

The increased headroom will demonstrate to investors that the EU budget can fulfil its debt repayment obligation under any circumstances. In this way, the EU will keep borrowing costs as low as possible, without immediate additional contributions to the long-term budget by its Member States.



Source: European Commission

Financing immediate crisis needs in 2020

All Member States will have to ratify the amended Own Resources Decision according to their constitutional requirements. In the meantime, the Commission is proposing to revise its current long-term budget in order to allow for higher spending still in 2020. €11.5 billion will be available to help regions most in need (through REACT-EU), strengthen capital of viable European companies (Solvency Support Instrument) and support those in need outside EU borders, such as in the Western Balkans (through European Fund for Sustainable Development).

3 Revenue sources of the EU budget

The revenue sources of the EU budget have remained the same over the last decades: customs duties, contributions from the Member States based on value added tax (VAT) and those based on gross national income (GNI).

In May 2018, the Commission proposed to **retain** these sources of financing and simplify them. In addition, the Commission proposed to diversify the sources of revenues with new own resources which will contribute to the EU priorities (climate change, circular economy and fair taxation). These proposals remain on the table.

Possible additional own resources to be added at a later stage of the 2021-2027 financial period:

- Emissions Trading System-based own resources, including extension to the maritime and aviation sectors to generate €10 billion per year
- Own resource based on operations of companies, that draw huge benefits from the EU single market, which, depending on its design, could yield around €10 billion per year
- Carbon border adjustment mechanism to raise €5 billion to €14 billion per year
- Digital tax on companies with a global annual turnover of above €750 million to generate up to €1.3 billion per year

Taken together, these new own resources could **help finance the repayment** of and the interest on the market finance raised under Next Generation EU.

In view of the current circumstances, the Commission will work towards a **more gradual elimination** of the **rebates** than initially foreseen.

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