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Recovery plan for the EU economy: Central European countries react

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On 27 May, the European Commission announced a recovery plan for the EU economy, the key element of which is the creation of the Next Generation EU fund, planned to amount to €750 billion. The basis for the proposal was the German-French agreement of 18 May. The initiative assumes support not only for the EU's South, as previously speculated, but also Central Europe to a significant extent. According to preliminary estimates, the latter group of countries could receive 16% of subsidies and 17% of loans from the new fund, guaranteeing only 6% of contributions to finance it. The plan's beneficiaries include Bulgaria (whose positive balance of subsidies and contributions is equivalent to 9.7% of its GDP), Croatia (7.4%), Romania (3.4%), Poland (1.7%) and Hungary (0.3%). Slovenia will maintain a balanced balance of subsidies and contributions, while the Czech Republic must be ready to accept a position of a net payer (losing the equivalent of 1.5% of GDP). The fund is to be financed from bonds issued by the EC (and guaranteed by EU member states), which may be repaid by means of a new community tax.

Commentary

- Croatia, Slovenia, Slovakia, Bulgaria, Romania and Poland are among the supporters of the new fund. Croatia and Bulgaria are the most enthusiastic about the initiative, hoping that it will support the restructuring of their tourism sectors. Slovakia fully supports the EC's proposal, which places it among the largest beneficiaries of Next Generation EU, and could help to transform its economy, which is heavily dependent on the automotive sector. Romania also hopes to use the money from the new fund to restructure its economy. Representatives of Slovenia are also positive about the plan, as they hope their country will not become a net payer into the fund, something which could conceivably happen due to the country's wealth.
- Meanwhile, the Czech Republic and Hungary are showing resistance to Next Generation EU. Prague's position is dictated by fears that the Czech Republic will find itself permanently among the net contributors to the fund in the coming years. This problem may get worse due to the traditional problems which the state has with using all its EU subsidies (something which also applies to Slovakia, for example). In turn, the Budapest government has fallen hostage to its own quite Eurosceptic narrative, and it also hopes that an assertive attitude can guarantee it a larger pool of subsidies. The amount

currently proposed for Hungary is only slightly above that allocated to Slovakia, which is half the size. Prime Minister Viktor Orbán sees the EC initiative as a form of financial support for rich countries at the expense of the poor, because Hungary will receive less net funds (in relation to its GDP) from the richer countries of Spain and Portugal. Both in Budapest and Prague, voices have been heard opposing the *de facto* granting of the loans from the new fund to states who had been conducting irresponsible fiscal policies before the outbreak of the COVID-19 pandemic.

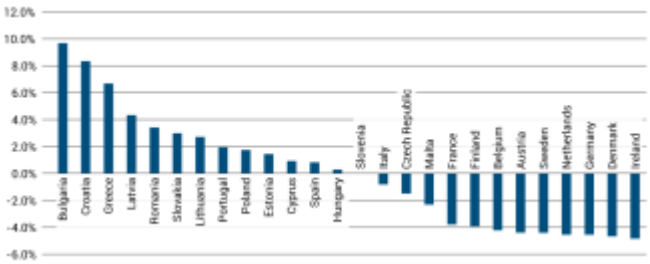
- It cannot be ruled out that the attitude of Central European countries towards the new fund will alter after the EC presents the exact criteria and conditions for using the money. The Commission's proposal presents a challenge to the Visegrad Group (V4), whose cooperation was important in the negotiations on the Multiannual Financial Framework (MFF). Poland, which will take over the presidency of the V4 from the Czechs in mid-2020, may have difficulties getting the Group to agree on a common position regarding the MFF for 2021-2027, which should be agreed upon this year.

Table. The Next Generation EU Fund: size of grants, loans and individual contributions (in € billions)

	loans	grants	dues	Totals of grants and contribution
Greece	9.4	22.6	10.1	12.5
Spain	63.1	77.3	67.1	10.2
Poland	26.1	37.7	28.5	9.2
Romania	11.6	19.6	12.0	7.6
Bulgaria	3.2	9.2	3.3	5.9
Croatia	2.6	7.4	2.9	4.5
Portugal	10.8	15.5	11.4	4.1
Slovakia	4.9	7.9	5.1	2.8
Latvia	1.6	2.9	1.6	1.3
Lithuania	2.4	3.9	2.6	1.3
Estonia	1.4	1.9	1.5	0.4
Hungary	7.0	8.1	7.7	0.4
Cyprus	1.1	1.4	1.2	0.2
Slovenia	2.5	2.6	2.6	0.0
Malta	0.6	0.4	0.7	-0.3
Czech Republic	10.6	8.6	11.9	-3.3
Finland	0.0	3.5	12.9	-9.4
Italy	90.9	81.8	96.3	-14.5
Denmark	0.0	2.2	16.7	-14.5
Ireland	0.0	1.9	18.7	-16.8
Austria	0.0	4.0	21.5	-17.5
Belgium	0.0	5.5	25.5	-20.0
Sweden	0.0	4.7	25.6	-20.9
Netherlands	0.0	6.8	43.7	-36.9
France	0.0	38.8	130.3	-91.5
Germany	0.0	28.8	185.1	-156.3

Source: OSW calculations based on EC data and a study by D.M. Herszenhorn and L. Bayer, *Ursula von der Leyen's big gamble with borrowed money*, 27 May 2020, Politico.eu.

Chart. Balance of subsidies from Next Generation EU and contributions to the fund per individual countries' GDPs



Source: OSW calculations based on EC data and a study by D.M. Herszenhorn and L. Bayer, *Ursula von der Leyen's big gamble with borrowed money*, 27 May 2020, Politico.eu.