Spain's non-paper on a European recovery strategy

April 19, 2020

The COVID-19 crisis constitutes an unprecedented shock with severe consequences for European societies and economies as a whole. It is thus essential that the EU offer a firm and comprehensive response to the pandemic. For this, the April 23th European Council will have to deliver on the following three pillars:

1. Swift implementation of Eurogroup decisions

Following the mandate of the European Council of 26 March, on April 9 the Eurogroup agreed on a package of short-term liquidity proposals based on credits to finance national expenditures to counteract the impact of COVID-19.

This package includes a triple safety net of around 500 billion euros for states, companies and workers: (i) A precautionary ESM liquidity line of about 250 billion euros to finance direct and indirect health expenditure in euro countries, including cure and prevention related costs; (ii) A guarantee fund of EUR 200 billion from the European Investment Bank and; (iii) A SURE EU programme within the EU budget to finance up to 100 billion for short-term work schemes.

Operational work of this package should be finalized as a matter of urgency, with a view to the full implementation of the three instruments by 1 June 2020.

2. Establishment of a Recovery Fund

While credit-based instruments are needed in the European toolbox to tackle the short-term liquidity needs, the response to the COVID-19 should not be limited to measures increasing national debt to GDP ratios. **A new Economic Recovery Fund should be established based on grants to Member States**, thus not raising national public debt levels, along the following lines:

- Its **minimum size** should be robust in order to have a macroeconomic impact and offset the negative impact of the current crisis. Most experts estimate it at 1% of EU GDP (1 to 1.5 trillion Euros).
- It should be financed through **perpetual EU debt**, backed by existing legal mechanisms to fund the EU budget underpinning the triple A rating of the EU institutions. The ECB should continue to play a key role to ensure financial stability through liquidity and other measures.
- It should make **grants to Member states through the EU budget** based on a **national allocation key** related to the impact of the COVID 19 crisis on the basis of clear and transparent indicators, such as percentage of population affected, drop of GDP, increase in unemployment levels, etc.
- **Transfer of funds should be frontloaded to start on 1 January 2021** and be executed during the coming 2 to 3 years in order to jump-start the economies of affected countries.
- The Fund should support the financing of post-crisis economic reconstruction in a coherent way at European level. Priority should be given to **national programs that jumpstart the ecological and digital transition of the economy**, and that boost its **industrial and technological autonomy**, in line with European Commission

priorities. Special attention should be given to those sectors most affected by the global lock-down and virus contention measures, such as tourism and transport.

- **Repayment of the interest on the debt** should rely as much as possible on a new set of European taxes that provide the EU with its own resources independent of Member State contributions (e.g. Border Carbon Tax, CO2 emissions, single market tax). Repayment from ECB' seigniorage could also be envisaged.
- The Fund could be **anchored within the umbrella of the Multiannual Financial Framework**, below the own resources ceiling but above the expenditure ceiling.

3. A revised MFF Proposal

The EU response to the crisis should be completed with the full power of the Multiannual Financial Framework for 2021-2027. To do so, the EU should approach the next MFF in a new manner, so that it can better serve to overcome the impact of the crisis, and support a strong, balanced and inclusive recovery. In this vein, an **agreement on an adjusted and ambitious MFF should be reached as soon as possible in 2020**, with a view to ensuring effective implementation as of 1 January 2021.

- **The overall size of the next EU Budget should be commensurate with the magnitude of the unprecedented crisis.** The 2018 European Commission proposal with a budget ceiling of 1,114% of GNI should be the basis for discussion.
- **Allocations for Cohesion Policy and Common Agriculture Policy should be maintained.** There is also need to make room for new programs, to improve the Union´s resilience in areas like health, R&D, migration or external action. European agriculture has proven to be a key element of stability, self-sufficiency and geopolitical autonomy in times of crisis. It is therefore key to ensure that the **Common Agricultural Policy** provides appropriate support to ensure the ability of farmers to adjust to the increasing needs and reinforce the contribution of this sector to the ecological transition. Likewise, **cohesion policy** can play an important role in avoiding divergence of countries and regions in the aftermath of the health crisis. Nevertheless, the reinforcement of cohesion policy does not replace the need for a recovery instrument to provide grants at national level to fund the investments and reforms needed to kick start the European economy once the contention measures are lifted.
- **The next MFF should incorporate appropriate flexibility**. Some of the increased flexibility (of transfers between funds, between regions, on thematic concentration) recently approved through the Coronavirus Response Initiative (CRII+) should be extended at least for the first two years of the next MFF, in order to ensure that funds are used effectively to support a fast economic recovery.
- **A mid-term review is warranted**: The uncertain evolution of this crisis makes it difficult to anticipate the outcome, in terms of output loss and regional divergence. An enhanced MFF mid-term review is thus necessary 2 to 3 years after it enters into force.
- **The MFF should also incorporate a real stabilization function for the Eurozone**: The Recovery Fund mentioned above could unfold into a revamped euro budget, which operates as a real stabilization instrument. The 2018 Commission´s proposal

for an **Investment Stabilisation Function**, complemented with a **European Unemployment Reinsurance** Scheme should be reconsidered.

- **The next MFF should be supported by a strong and fair system of own resources.** The EU needs to raise the own resources ceiling above the current level of 1.2% of GNI, thus increasing EU´s lending capacity.
- **The EU should advance towards full tax harmonization and the eradication of all unfair tax practices between Member States.** Tax-base erosion and tax diversion by forum shopping between heterogeneous legal systems, in particular in the area of corporate taxation, is proving to be one of the weaknesses of economic integration in the EU. Spain favors transiting towards qualified majority system for decisions on tax matters.

Finally, whereas increased flexibility for national responses is needed and welcome, it is key to avoid that this leads to a more unequal EU and a weakening of the internal market. All rules and financing by the MFF should ensure that the cohesion and convergence objectives, as well as **level playing field** for companies and states within the Single Market, are reinforced.