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“Since the adoption of the European Green Deal on 11 December 2019, European climate strategy has stepped up. The core of the scheme remains the adaptation to climate change, an area in which Europe is at the forefront.”

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EUROPE ON THE FRONT LINE: A REVIEW OF ITS CLIMATE ACTION AND ECONOMIC SUPPORT

OECD Team*

Since the adoption of the European Green Deal on 11 December 2019, European climate strategy has stepped up. Far from paralysing its climate action, the health crisis was the backdrop for the adoption of NextGenerationEU. This recovery plan has mobilised considerable resources to meet the European Union's needs in terms of climate and digital transition, healthcare and education. While its implementation is only halfway through, the first positive effects can already be observed. Other mechanisms (including REPowerEU, the carbon border adjustment mechanism and the Critical Raw Materials Act) have been added to this plan to respond to the new challenges that have arisen since the Covid-19 pandemic and the war in Ukraine (supply security, energy dependence). But the core of the scheme remains the adaptation to climate change, an area in which Europe is at the forefront.

* Hélène Baudchon, Guillaume Derrien, Stéphane Colliac, Lucie Barette, Anis Bensaidani, with the precious contributions of Louis Morillon (intern from February to July 2023), Nassim Khelifi (intern from August 2023 to January 2024) and Elisa Petit (intern from April to August 2024).

EUROPE ON THE FRONT LINE: A REVIEW OF ITS CLIMATE ACTION AND ECONOMIC SUPPORT

Since the adoption of the European Green Deal on 11 December 2019, European climate strategy has stepped up. Far from paralysing its climate action, the health crisis was the backdrop for the adoption of NextGenerationEU. This recovery plan has mobilised considerable resources to meet the European Union's needs in terms of climate and digital transition, healthcare and education. While its implementation is only halfway through, the first positive effects can already be observed. Other mechanisms (including REPowerEU, the carbon border adjustment mechanism and the Critical Raw Materials Act) have been added to this plan to respond to the new challenges that have arisen since the Covid-19 pandemic and the war in Ukraine (supply security, energy dependence). But the core of the scheme remains the adaptation to climate change, an area in which Europe is at the forefront.

The health crisis, followed by the war in Ukraine, has profoundly affected European economies, to the point of initiating a significant paradigm shift in the direction of their economic policies. The context of reduced growth (0.5% in the Eurozone in 2023 as an annual average), partially contained inflationary pressures (5.4% in 2023 after 8.4% in 2022 as an annual average) and restricted budgetary margins (average public debt of 88.6% of GDP in 2023 according to Eurostat's preliminary estimate), all these conditions make it difficult to reconcile climate imperatives while strengthening economic activity. It is also becoming imperative that Europe takes action in response to the measures implemented by the US and China. While China bets on colossal amounts in terms of industrial investment (particularly in R&D) and its key position in certain markets (especially critical metals), the US focus on subsidies, quite heavily, via the Inflation Reduction Act (IRA, 2022).

The EU also faces its own challenges: significant deindustrialisation of some of its Member States, high dependence on energy and critical metals supplies, and the limited size of the European budget.

To respond to this, the EU has unveiled several plans in recent years, aimed at transforming its economy in light of the various challenges it faces (climate change, digital: see diagram). As a new decisive democratic moment awaits, with the EU elections being held between 6 and 9 June, it is appropriate to put into perspective the efforts made so far by the EU and the Member States. We will start by presenting the different European plans, and then explain how the European Green Deal and NGEU work.

THE EUROPEAN UNION'S MULTIPLE RESPONSES TO CURRENT CHALLENGES

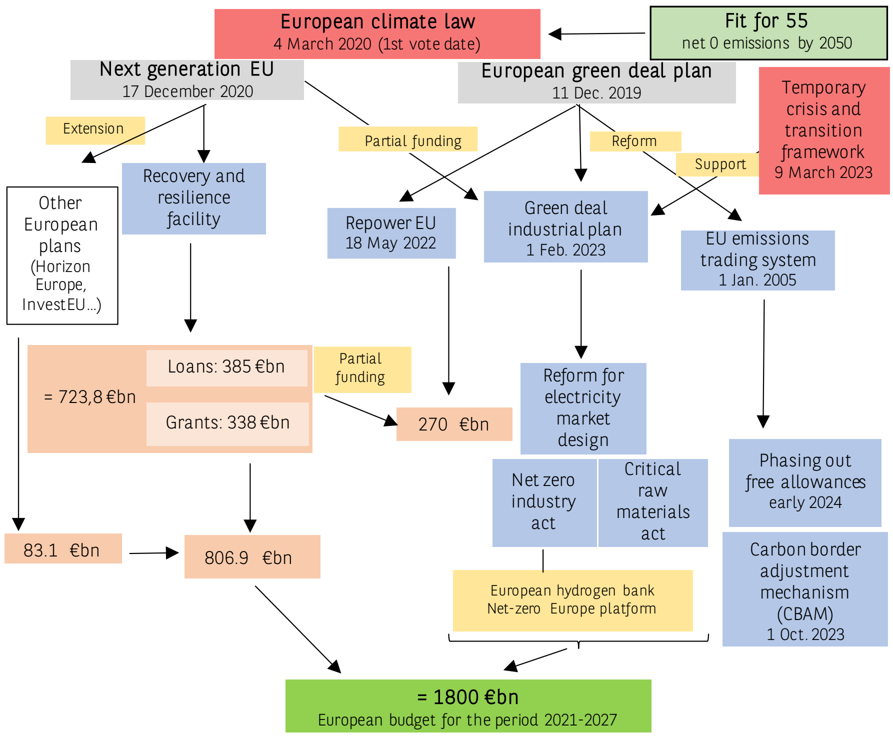

TABLE 1

SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

SEVERAL PLANS TO TRANSFORM THE EUROPEAN ECONOMY SINCE 2019

The first plan unveiled by the EU in December 2019, before the health crisis began, is the **European Green Deal**. This is structured around a legislative framework embodied by the European climate law adopted shortly after, on 4 March 2020. This set of initiatives aims primarily to make the Old Continent the first climate-neutral bloc by 2050. In particular, it includes the **Green Deal Industrial Plan** introduced in February 2023, sometimes presented as the European answer to the US Inflation Reduction Act (IRA). This plan has four pillars: (i) a simplified regulatory environment, (ii) faster access to funding, (iii) enhancing skills and (iv) more resilient supply chains. In practice, these four pillars are reflected in legislation such as the Net-Zero Industry Act, the European Critical Raw Materials Act and a reform of the European electricity market.

The health crisis has given rise to new needs within the EU and justified the introduction of a large-scale recovery plan for the continent: **NextGenerationEU**, approved on 17 December 2020, with an initial budget of EUR 750 billion, which was subsequently increased to EUR 806.9 billion. The plan aims to get the EU out of the economic crisis caused by the Covid-19 pandemic shock, while preparing countries for the green and digital transition. It therefore aims to boost the European economy by fully incorporating the objectives of the European Green Deal.

The NextGenEU plan picks up and reinforces many existing European plans (InvestEU, Horizon Europe, etc.), but its primary tool is the creation of the Recovery and Resilience Facility (or RRF) of EUR 723.8 billion distributed in the form of loans (EUR 385.8 billion) and grants (EUR 338 billion).

The war in Ukraine, which began in February 2022, highlighted Europe's vulnerabilities in terms of energy supply, particularly with regard to Russian gas imports. As a result, the European Commission created the **REPowerEU** plan, which aims to strengthen the EU's energy resilience and independence by diversifying energy sources and investing heavily in the energies of the future. This plan, which has an envelope of nearly EUR 300 billion (EUR 72 billion in grants and EUR 225 billion in loans), will nevertheless need to evolve according to the Member States' use of its funds, mainly from the RRF plan and, to a lower extent, from other European plans (Innovation Funds, Cohesion Policy Funds, European Investment Bank [EIB], etc.).

Alongside these different plans, the European Commission has undertaken a major reform of the European carbon market (EU ETS) supported by the introduction of the Carbon Border Adjustment Mechanism (CBAM). In addition to encouraging the decarbonisation of the economy, the aim of this reform is to generate additional revenues to fund, essentially, the REPowerEU plan (see *Box 1*).

CARBON MARKET AND EMISSIONS "LEAKAGE"

Since 2005, the European Union has established an emissions trading system for European producers called the EU ETS (EU emissions trading system). This system allows issuers of emissions to trade their emissions allowances and to fix a price for the emission of one greenhouse gas (GHG) unit.

As part of the Fit for 55 plan to reduce GHG emissions by 55% by 2030, the European Commission has introduced a series of proposals, including amending and strengthening the EU ETS. These measures include implementation of the Carbon Border Adjustment Mechanism (CBAM), which aims to phase out free allowances allocated to certain sectors at risk of "carbon leakage". Carbon leakage is the relocation of a GHG-emitting industry or activity to a country with more permissive regulations than those of its home country. The CBAM therefore aims to introduce a carbon tax at EU borders to offset the cost of carbon borne by European industries and activities. This mechanism, deducting potential carbon taxes previously paid prior to import, should also encourage economies and businesses outside the EU to implement a similar system or to reduce their GHG emissions.

However, this reform threatens the competitiveness of European companies that export outside the EU. Several simulations have been conducted using the Vulcain, Mirage and ThreeME models to obtain an overview of the CBAM's effects by 2030[1]. According to the Mirage model, the CBAM would halve "carbon leakages" (taking into account the removal of free quotas) but would also lead to a loss in terms of GDP and competitiveness. As a matter of fact, the CBAM's constraints on decarbonisation would result in an increase in ETS quota prices, which would be passed on to both the prices of carbon-emitting inputs within the EU, and the prices of carbon-emitting goods imported from non-EU countries (including intermediate consumption by companies). The effect of the ETS is therefore enhanced by this "double effect", encouraging European companies to opt for decarbonised production across the entire production chain, and discouraging European players from importing high-carbon products in the long term, but at an economic cost that is yet to be determined. According to Vulcain, the negative relationship between the economic cost and the reduction of territorial emissions is non-linear. And lastly, according to ThreeME, the revenues generated by the CBAM would reach around EUR 10 billion per year in 2030.

In addition, there is a heterogeneity in the methods used to combat GHG emissions, such as carbon pricing, regulation or incentives through tax credits or subsidies. The choice of the tool implemented by the EU's trading partners would then be constrained by the CBAM, as highlighted, in particular, by the United States. And lastly, it is the responsibility of the entity importing the goods (for example, a European company) to assess and pay carbon tax at the border, therefore asking the question of who will actually bear the additional cost generated by the CBAM.

BOX 1

1 The economic implications of climate action, 22 May 2023 by Jean Pisani-Ferry and Selma Mahfouz.

THE EUROPEAN GREEN DEAL IN SUPPORT OF DECARBONISATION

On 11 December 2019, the European Commission announced the roll-out of the European Green Deal, which lays the foundations for concrete climate targets to be met by 2050. A legislative framework was put in place on 4 March 2020 with the adoption by the European Commission of the European Climate Act, which includes the target of net zero CO2 emissions by 2050 and a 55% reduction in GHG emissions by 2030 compared to 1990 levels (Fit for 55). This plan covers several schemes, such as REPowerEU for the energy component, the Innovation Fund and Horizon Europe strategic plan for the research and innovation side, the establishment of the CBAM and the Green Deal Industrial Plan announced at the beginning of 2023. The Covid-19 crisis has slowed down the implementation and roll-out of the Green Deal. However, the economic recovery, in the context of the NextGenEU plan and the RRF, was an opportunity to introduce the first reforms in favour of the green transition and energy resilience.

In August 2022, after the health crisis, the United States adopted the Inflation Reduction Act (IRA). There were strong reactions from Europe, even generating the setting up of a joint task force called the "EU-US Task Force on the IRA" in October 2022. This was not enough, however, to reassure European decision-makers. The EU therefore launched the **Green Deal Industrial Plan** on 1 February 2023, which aims to support private investment through public actions .

A plan structured around three pillars

(i) The **Net-Zero Industry Act (NZIA)**. To this end, the European Commission has created two new institutions: the Net-Zero Europe Platform and the European Hydrogen Bank. The Net-Zero Europe Platform is tasked with bringing together and addressing all measures and reforms related to the NZIA, while supporting private investment in what are known as "strategic net-zero" technologies, of which there are eight: solar photovoltaic and solar thermal technologies, electrolysers and fuel cells (green hydrogen), onshore wind energy and offshore renewable energies, biogas and biomethane technologies, battery and energy storage technologies, carbon capture and storage technologies, heat pumps and geothermal energy technologies and grid technologies.

The European Hydrogen Bank plays a similar role to the Net-Zero Europe Platform but exclusively for this energy source. It could also become the preferred intermediary between the EU and Member States, regarding potential premiums for importing hydrogen within the Union. The goal is to produce 10 million tonnes of hydrogen in Europe and to import the same amount by 2030. Under the supervision of the European Hydrogen Bank, EUR 800 million was channelled through the Innovation Fund. The pilot auctions were launched at the end of November 2023 and the successful projects are yet to be selected.

According to EU estimates, by 2030 the value of the global net-zero technology market could be EUR 600 billion, while the European ecosystem represented around EUR 100 billion in 2021. The goals for 2050 are to almost quadruple the roll-out of renewable energies, to increase six-fold the roll-out of heat pumps and to increase fifteen-fold the continental production of electric cars.

The overall aim is to ensure that domestic green energy production meets at least 40% of demand within the EU.

(ii) The second pillar of the European Green Deal Industrial Plan is the **Critical Raw Materials Act (CRMA)**. This programme aims to scale up and secure the production of critical raw materials to limit disruptions in supply chains. Raw materials identified as critical are lithium, cobalt, nickel, gallium, borates, tungsten and titanium. As the EU does not have significant natural resources in rare earth metals (only 10% of annual requirements will be covered by extraction by 2030), it relies on imports. The EU has set clear targets for 2030 so as not to depend too heavily on a single country: production within the EU (refining, recycling and extraction) will have to cover 65% of annual requirements and imports of each raw material from one country should not exceed 65%.

Another solution is the integration and development of the supply chain and the use of critical raw materials. This is because a rare material must first be processed before it enters the supply chain. At the present time, a number of figures highlight the EU's dependence on certain countries: 97% of the EU's supply of magnesium and 100% of the rare earth metals used in permanent magnets are refined in China, 63% of the world's cobalt is mined in the Democratic Republic of Congo, while 98% of the EU's supply of borate comes from Turkey. The EU has therefore begun to approach new countries, particularly on the African continent, with, for example, the signing of the Sustainable Investment Facilitation Agreement (SIFA) with Angola in November 2022.

(iii) The third major pillar of the European Industrial Green Deal is the **reform of the electricity market**. This reform extends the Clean Energy for all Europeans Package, approved in 2019 as part of the Paris Agreements and the preliminary discussions around the European Green Deal. It has two main objectives: to secure the energy supply of European citizens and to reduce the dependence of electricity production and supply on fossil fuel and GHG-emitting energies. Several measures were adopted in March 2023. These include greater price stability, with the right to a flat-rate contract decorrelated from the price on the electricity market (transferring risk to electricity suppliers), better information on the diversity of the existing supply and the establishment of suppliers as a last resort in each Member State in order to avoid any shortages. This reform also provides for the strengthening of Power Purchase Agreements (PPAs), which help secure supply and energy costs for end consumers, while ensuring a minimum return for producers of decarbonised electricity.

In this regard, two-way Contracts-for-Difference (CfDs) were adopted on 17 October 2023. Concluded between a State and an electricity producer, this type of contract aims to reduce price volatility. These contracts consist of fixing a price ceiling, above which the company will have to pass on its excess profits to the State, and a floor price, below which companies will be paid a subsidy by the State. This mechanism would therefore guarantee the profitability of new energy infrastructures while avoiding a spike in electricity prices, particularly during an energy crisis. CfDs will come into force for projects that start between three and five years after entry into force of the law.

Integration of all stakeholders in the economy

Access to funding and the need for massive investments generated by the green and digital transition will continue to grow substantially. There are three different funding methods: European public funding, domestic public funding and private funding. As we have seen above, European public funding involves the implementation of numerous funds under the NextGenEU and REPowerEU plans or other existing programmes (Horizon Europe, InvestEU, etc.).

In domestic terms, funding is strictly regulated by EU competition policy. This is why the European Commission adopted the Temporary Crisis and Transition Framework (TCTF). The TCTF is integrated into the European Green Deal but does not form part of the Green Deal Industrial Plan, although it meets the need for better access to funding. The purpose of this reform is to simplify the legal framework and broaden the scope of national public authorities for any measure related to the advancement of the European Green Deal. Nevertheless, there is a significant risk of marked divergence between European countries, not all of which have the same budgetary resources to support their businesses. However, the RRF only provides a partial answer to this problem.

At the same time, the EU has put in place a number of measures to involve private stakeholders in the green transition process. The European Green Deal Investment Plan (EGDIP) was therefore adopted on 14 January 2020. This plan was subsequently picked up and developed further to become InvestEU. With EUR 26 billion, it should contribute to generating nearly EUR 370 billion in additional green investment by 2030 according to EU estimates (compared to an initial target of EUR 1 trillion). It is aimed at both public and private stakeholders carrying out public-sector duties. This programme is still in force today, and aims to support private and public investment by guaranteeing funds committed by selected stakeholders (implementing partners).

NEXTGENERATION EU: A MULTIFACETED RECOVERY PLAN

The NextGenEU plan, adopted on 17 December 2020, currently has a budget of EUR 806.9 billion. The plan has two components: the creation of the Recovery and Resilience Fund (RRF) and the strengthening of the various pre-existing European plans. The European Commission is responsible for allocating the budget between States according to two sets of criteria: the first set determines 70% of the budgetary envelope and relates to structural criteria (GDP per capita, unemployment rate, weighting by number of inhabitants), while the remaining 30% is allocated based on economic criteria linked to the effects of the health crisis (such as the variation in real GDP in 2020).

The two priorities of the NextGenEU plan are the green transition, which must represent at least 37% of the budget of each State's National Recovery and Resilience Plan (NRRP), and the digital transition, for a minimum of 26%. In addition to measures related to the green and digital transition, Member States are also required to include a chapter entitled REPowerEU of the eponymous plan in their NRRP. This includes measures contributing to greater energy resilience. And lastly, Important Projects of Common European Interest (IPCEIs) mainly concern the construction of large-scale plants or energy infrastructure. It is the successor of Projects of Common Interest (PCIs) set up from 2015 under the Presidency of Mr Juncker. However, these IPCEIs are, currently, underutilized by Member States and do not seem to represent a sufficient response to the lack of European cooperation. In order to ensure the consistency of the national recovery plans and the different measures within the Member States themselves, the European Commission has established the Do No Significant Harm (DNSH) principle. This provides for prohibiting the support or implementation of projects that significantly undermine achievement of climate or environmental objectives (overexploitation of natural resources, high GHG emissions, etc.).

Unprecedented funding of the NextGenEU plan

Issuance of common debt

The funding of these measures has formed the subject of historical decisions in European governance and integration. Every seven years, EU Member States decide on the long-term financial framework which determines the overall budget and expenditure items for the coming years. The last decision dates back to December 2020, and covers the period 2021-2027. This EU budget is required to be balanced. As a result, EU expenditures should not exceed its own resources, which consist mainly of compulsory contributions from Member States, customs duties and VAT revenues.

The first European-wide debt issuance took place following the creation of the European Financial Stability Facility (EFSF), a mechanism introduced during the European sovereign debt crisis in 2011, which applied the principle of back-to-back funding. It means that a State benefitting from a loan taken out by the EU was responsible for repaying, individually, the principal and interest on that debt. Until the pandemic, the EU was in debt to the tune of EUR 50 billion, but this was not a joint debt as not all European States were supporting repayment of the debt but were only acting as guarantors.

Another milestone was reached in April 2020, with the creation of the SURE[1] programme to support partial unemployment measures in the EU through loans funded by issuances of joint debts. This process of sharing debt between EU member countries was then amplified with the creation of the NextGenEU programme in July 2020, which provides for a joint debt issuance of a maximum amount of EUR 806.9 billion by 2026. Part of the NextGenEU funds is allocated in the form of loans to Member States[2] and their repayment applies the principle of back-to-back funding. So, each country individually repays the sums allocated to it in the form of loans. Only funds allocated in the form of grants will be subject to mutualised repayment.

However, it is important to note that the mutualisation of debt is not the only innovative tool for funding the NextGenEU plan. Reform of the EU ETS and implementation of the CBAM are expected to generate nearly EUR 10 billion in additional revenue per year from 2030, which would double the total current annual revenue of the EU ETS, bringing it to around EUR 20 billion in 2030. Other reforms are expected to contribute to the European budget in the coming years, such as the plastics tax or the introduction of a minimum tax rate of 15%, in force since January 2024 for multinationals operating in the EU.

1 The European instrument providing temporary Support to mitigate Unemployment Risks in an Emergency.
2 In addition to funding the debt from the NextGenerationEU plan, the common debt issuance at European level also makes it possible to fund EU aid to Ukraine of EUR 49 billion, of which EUR 18.4 billion comes from the joint European debt.

A safe asset but not the same as a sovereign debt

This new form of debt issuance at European level has several implications and requires certain guarantees. Given the high demand for safe assets (in the current context of stricter prudential requirements and rising interest rates), European debt was immediately in high demand. As the European Commission is considered a safe issuer, it benefits from an interest rate close to, but not the same as the ones for Germany and France.[3] Firstly, the temporary increase in the maximum EU revenue accruing from Member States – from 1.4% to 2% of Gross National Income (GNI) – intended to fund the NextGenEU programme, provides additional guarantees as to the degree of security of this asset. The NextGenEU plan is also expected to contribute at least 37% to the EU's climate targets. As a result, a significant share of European debt should be funded by the issuance of green bonds (target of 30% by 2026), making the Union the first issuer on this market and increasing its attractiveness. The first issuance of EU green bonds took place on 12 October 2021. Moreover, the European common debt is not expected to continue beyond 2058, the deadline for its repayment set by the European Commission, which reinforces its unique nature in relation to government bonds.

What is the situation of the main countries in terms of their plan of action?

European countries have each used the funds released by the RRF, taking responsibility for the classification and choice of the type of expenditure they wish to implement in compliance with European legislation. This leads to varied and not necessarily coordinated national plans (see *Box 2* for more detailed elements of each of these plans). The amounts disbursed so far (April 2024) represent 31% of the fund's total amount. Disbursements are expected to accelerate in the coming years as States have until 2026 to make their investments.

The French and German NRRPs are also supplemented by national measures. The main French plan, France Relance, adopted in September 2020, responds to the health crisis. It includes EUR 100 billion in expenditures, equally split in three ways, dedicated to the energy transition, competitiveness and social cohesion, respectively. EUR 73 billion had been disbursed at the end of November 2023. Funded projects relate in particular to the MaPrimeRenov' plan, the incentive to purchase electric vehicles and the decarbonisation of French industry. France 2030 was adopted in October 2021. This plan has a longer horizon than France Relance and has an envelope of EUR 54 billion to be rolled out over 5 years. A large proportion of the resources of France 2030 is intended to support innovative private projects in key sectors such as future energies (hydrogen, next-generation nuclear power, etc.), decarbonisation of industry or IT (quantum computing, AI, etc.). It follows on from France Relance and focuses exclusively on the digital and green transition. The French government would like to undertake the provisioned public expenditures quickly. In fact, the Pisani-Ferry-Mahfouz report[4] showed that the longer we delay the implementation actions, the greater the economic cost of climate action becomes. This report also highlights the interest of public support in attracting private funding. Therefore, nearly EUR 3.5 of private funding would be generated for every EUR 1 of public funding granted by the France 2030 plan according to the Comité de Surveillance des Investissements d'Avenir (CSIA).

3 The rising cost of European Union borrowing and what to do about it (bruegel.org), 31 May 2023.
4 2023-incidences-economiques-rapport-pisani-5juin.pdf (strategie.gouv.fr), May 2023.

AMOUNT OF NRRP IN THE FOUR MAJOR EUROZONE ECONOMIES

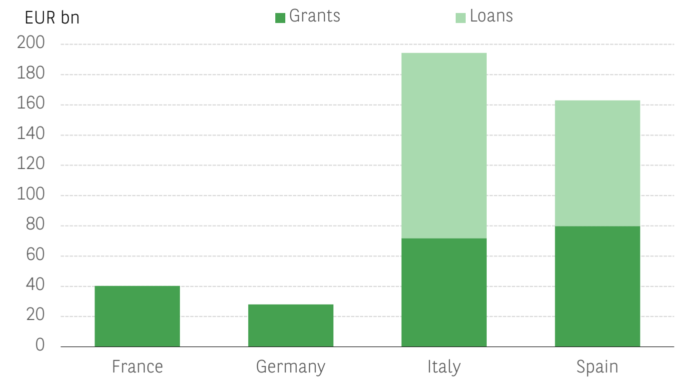

CHART 1 SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

DISBURSEMENTS ON 04/22/2024

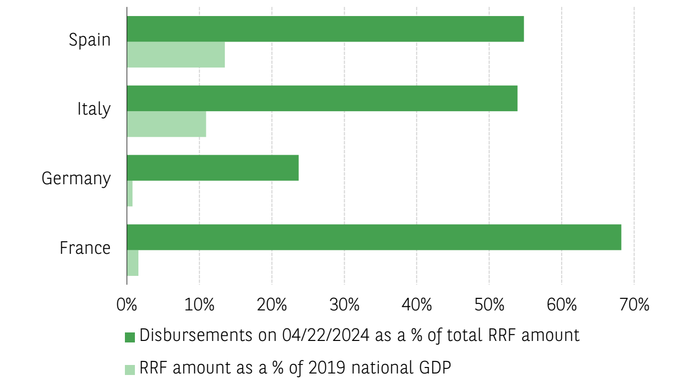

CHART 2 SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

RECOVERY AND RESILIENCE FACILITY: DISBURSEMENTS (AS OF APRIL 2024)

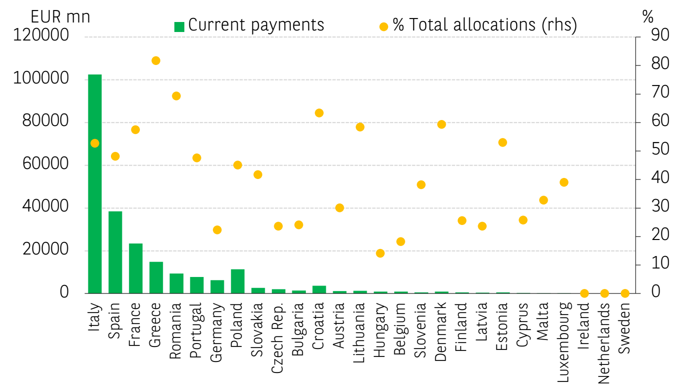

CHART 3 SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

GERMANY: AMOUNT OF RRF FUNDS ALLOCATED

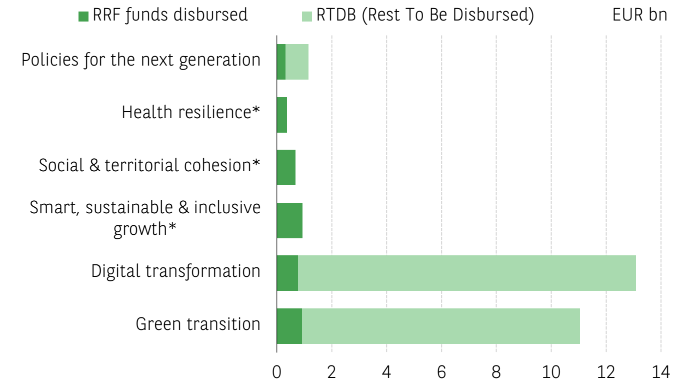

CHART 4

SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

FRANCE: AMOUNT OF RRF FUNDS ALLOCATED

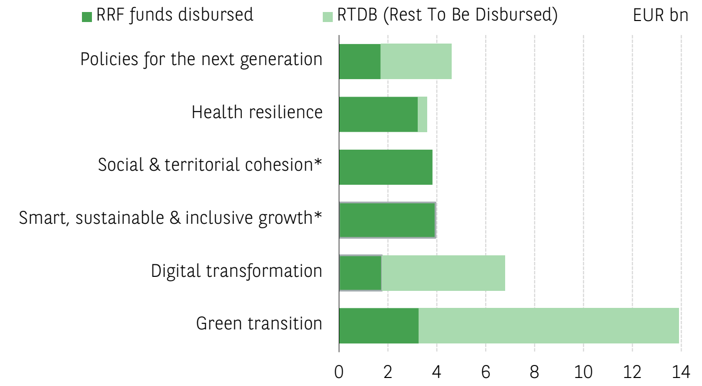

CHART 5

SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

ITALY: AMOUNT OF RRF FUNDS ALLOCATED

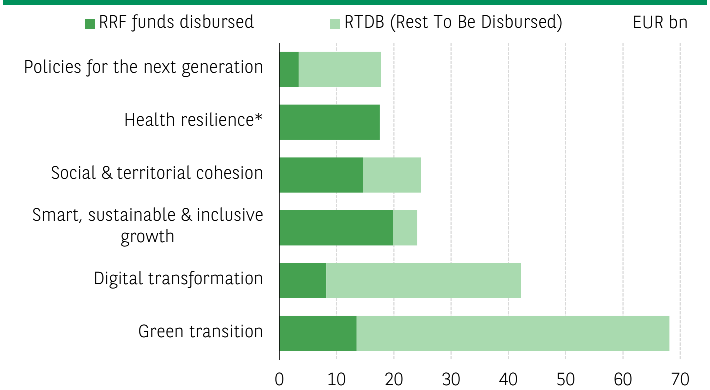

CHART 6

SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

SPAIN: AMOUNT OF RRF FUNDS ALLOCATED

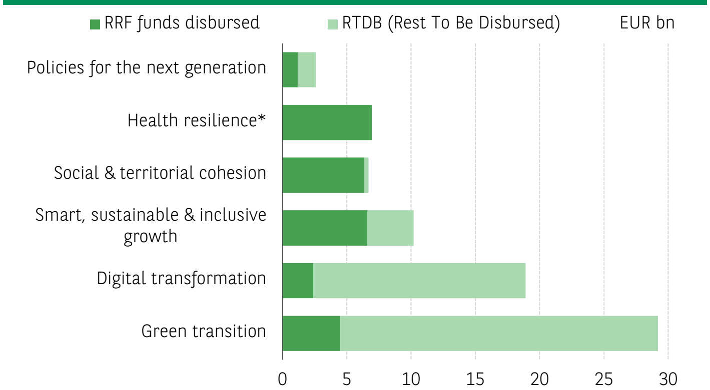

CHART 7

SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

** Means that the country has spent more than initially announced for this pillar.*

The CSIA estimates that the effects of the France 2030 plan on French real GDP would be between +1.5% and +2.8% by 2030, and that net job creation would be between 288,000 and 600,000.[5]

Germany's NRRP is among the lowest in the EU as a percentage of national GDP (0.73% of GDP). However, this European funding is significantly boosted by other national measures. In response to the health crisis, the German government released EUR 130 billion in 2020, through a set of measures including a reduction in VAT and direct subsidies for households. Then, in response to rising energy prices, the German government implemented three successive energy shields in 2022 and 2023 with a potential total amount of more than EUR 200 billion.[6] Other measures, announced at the beginning of 2021 and independent of the NextGenerationEU plan, also contribute to increasing public support for the energy transition, the green transition and the resilience of the German economy (aid for development of the rail network of more than EUR 1 billion, support for development of renewable energies of nearly EUR 30 billion).

Italy also has an additional fund of EUR 30.6 billion aimed at boosting its NRRP. The European Commission has provided the peninsula with an additional EUR 13 billion from the REACT-EU programme to promote territorial cohesion between northern and southern Italy.

The Spanish NRRP is the second largest in the EU in absolute value. This plan was amended in October 2023, and a chapter on REPowerEU was added. The value of the plan now stands at EUR 163 billion (i.e., 13.1% of national GDP in 2019), distributed between EUR 79.8 billion in grants and EUR 83.2 billion in loans. To date, Spain has received EUR 37 billion in resources from the RRF (22.7% of the amended NRRP). In addition to these funds, EUR 36.7 billion comes from the structural funds of the 2021-2027 long-term financial framework. The national "Spain Can" plan, which is a beneficiary of funds from the RRF, allocates the sums to the various objectives previously established.

5 CSIA report on the effects of France 2030, [sites_default_files_contenu_piece-jointe_2023_06_rapport_devaluation_csia_france_2030_vf_-_publique.pdf (info.gouv.fr)](), July 2023.
6 Expenses planned for this cap, initially set at EUR 200 billion, were revised significantly downwards as a result of the fall in energy prices. According to Garnadt et al. (2023), the gas cap represented EUR 15 billion in 2023. As for the electricity cap, advice from German experts estimates this at EUR 13 billion in 2023. Following the ruling of the Karlsruhe Constitutional Court in November 2023, the government decided on the removal of this cap from 2024.

The country also had a EUR 16 billion plan to mitigate the effects of the war in Ukraine and support households, through direct aid and reduced-rate loans to help households and businesses cope with soaring prices.

NGEU: Mid-term report and expected support for activity

Between the entry into force of NGEU and February 2024, EUR 225 billion was allocated to Member States through the RRF. This represents nearly a third of the total budget of this European fund. This involved mainly direct grants (EUR 214 billion). However, there is a marked diversity in the use of these funds between European economies. At the end of February, three countries had not yet submitted an application (Ireland, the Netherlands and Sweden). Conversely, some countries have already received several payments, namely Italy (four), Spain, Greece, Croatia, Portugal (three) and France (two). The funds of the RRF are conditional on the gradual implementation of investment and reform milestones, all of which are included in the National Recovery and Resilience Plan (NRRP) of each respective country. By February 2024, just less than one fifth of these milestones (1,153 out of 6,266) had been reached. However, the majority of these targets are expected to be achieved by 2025-2026.

According to the latest European Commission estimates, the NextGenerationEU plan is expected to have tangible positive effects on the economy in the coming years. The most notable would be in terms of growth and net job creation. By 2022, the programme had in fact already helped to increase European GDP by 0.4% and to reduce the unemployment rate by 0.2%. The impact of the plan on Member States should then become more and more important as the expenditures related to the RRF increase. These expenditures should reach nearly 0.4% of GDP in 2023, after 0.2% in 2021 and 0.3% in 2022. They should remain at this level over the period 2024-2026.

Nevertheless, the effect of the RRF on investment has been relatively weak for the time being. Non-residential investments within the EU, which nevertheless represent the primary channel for directing the RRF to the real economy, only increased by 3% in 2023 and are therefore still 5% lower than pre-COVID levels. At this stage, the long-term positive effect of the RRF on the European economy remains uncertain, and will depend, to a large extent, on its impact on total factor productivity. The European Commission's central scenario[7] estimates that the long-term impact on EU's real GDP would be +1.4% on average, with a more marked increase for the plan's principal beneficiaries (Greece, Croatia, Spain).

In addition, in its recent mid-term evaluation, the Commission[8] highlighted a number of obstacles in the roll-out of these funds: administrative complexity, operating costs, centralisation of decision-making, and lack of consultation involving all stakeholders. External factors (war in Ukraine, energy crisis, supply chain disruptions) also significantly delayed implementation of NRRPs in countries in the region in 2023. The European Commission also warned that there may be a potential substitution effect between the RRF and other intra-EU programmes. And lastly, there is a risk that the impacts of the RRF on economic activity will be mitigated by a lack of synergy between European and national budgets.

7 Quantifying Spillovers of Next Generation EU Investment (europa.eu), 15 July 2021.
8 Mid-Term Evaluation of the Recovery and Resilience Facility. Drawing Lessons for the way ahead. (europa.eu), 22 February 2024.

IMPACT OF NGEU ON THE POTENTIAL OUTPUT OF 7 EURO AREA COUNTRIES (*)

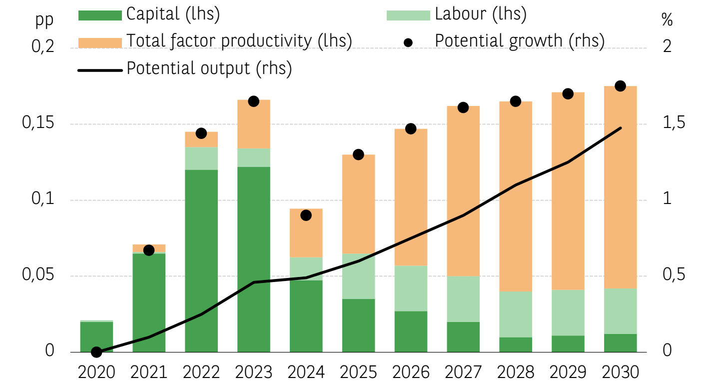

CHART 8

SOURCE: BNP PARIBAS CALCULATIONS, ECB DATA (BAŃKOWSKI ET AL, 2022)
(*) DE, ES, FR, GR, IT, MT AND PT

NGEU: IMPACT ON GDP

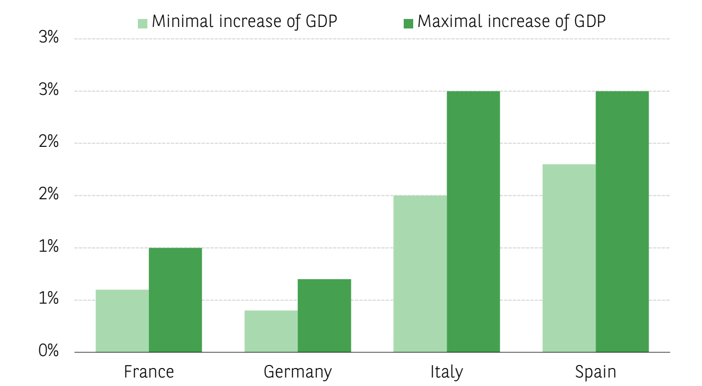

CHART 9

SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

NGEU: IMPACT IN TERMS OF JOB GAINS

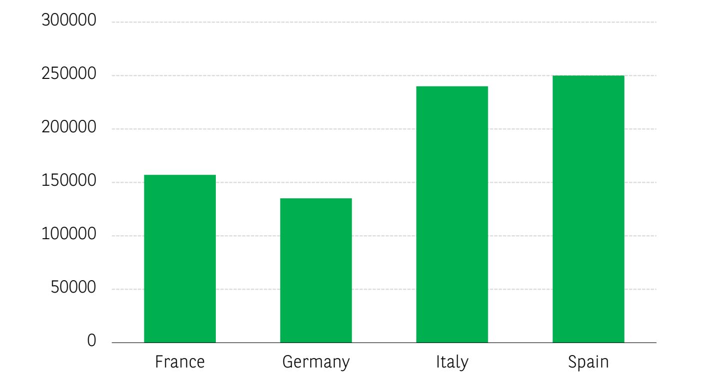

CHART 10

SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

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In light of the European construction, the NGEU plan is historical for two reasons. Firstly, because of the amount committed by the EU – EUR 807 billion, almost twice the annual amount of the European budget – and secondly, because of its unprecedented funding strategy, which is based on an old, albeit controversial, idea of common debt for all members. However, the complexity of organisation of the EU, between national and European policies and the burdensome nature of the administrative process, has already generated significant delays in the implementation of the initial projected schedule. While it may be hard to question the positive impact of the plan on growth and jobs at the European level, this efficiency could be reduced by the capacity of the Member States to absorb funds (risk of a substitution effect between the different plans and traditional budgets), and by the more gradual implementation of NGEU compared to the US fiscal stimulus (fewer projects completed or in the process of being completed). Nevertheless, conscious of these shortcomings and given the progress that NGEU has already generated (mutualised debt), Europe currently has more room for manoeuvre than in the past to take action, and to take on the structural and economic challenges it is facing.

Hélène Baudchon, Guillaume Derrien, Stéphane Colliac, Lucie Barette, Anis Bensaidani, with the precious contributions of Louis Morillon (intern from February to July 2023), Nassim Khelifi (intern from August 2023 to January 2024) and Elisa Petit (intern from April to August 2024).

DETAILS ABOUT NATIONAL PLANS*

France Relance: EUR 4 billion has been committed to the energy-efficiency retrofit of local authority buildings. The MaPrimeRenov' mechanism has enabled approval of more than 1 million renovation applications since its creation, against an initial target of 400,000. With regard to the decarbonisation of industry, France Relance has allocated EUR 1.2 billion in investment grants. Allocated on the basis of calls for projects from French manufacturers, these funds are expected to reduce French industry's annual emissions by 4.3Mt eqCO2, with a target of 30Mt eqCO2 by 2030 compared to 2019, and to generate EUR 2.4 billion in private investment. The France Relance plan also funds EUR 2 billion of the EUR 7 billion planned between now and 2030 as part of the national strategy for the development of decarbonised hydrogen, including EUR 1.6 billion for the Hy2Tech IPCEI.

France 2030: the measures taken as part of the France 2030 plan include, in particular, the development of the hydrogen sector (EUR 3.5 billion), decarbonisation of industry (based on the France Nation Verte plan of EUR 5.6 billion, which ensures the continued existence of France Relance measures) and transformation of the French agricultural and food sector (EUR 2.7 billion). EUR 10.3 billion will also be committed to the development of start-ups and EUR 8.7 billion to teaching, research and training. And lastly, EUR 8.8 billion will be spent to encourage the development of French digital sovereignty.

German NRRP: in terms of energy, this plan allocates EUR 3.3 billion to the decarbonisation of industry, EUR 5.4 billion to support the purchase of electric vehicles and EUR 2.6 billion for the energy-efficiency retrofit of buildings. Within the framework of three Important Projects of Common European Interest (IPCEIs), particularly in partnership with France, EUR 3 billion will be spent on microelectronics, batteries, communication technologies and hydrogen. And lastly, the remainder of the German budget will be dedicated to other pillars of the RRF. However, there are limitations to the segmentation of measures, and a number of reforms affect more than one pillar at the same time. For example, no budget is specifically dedicated to the "healthcare and social and economic resilience" pillar, but nearly 30% of the measures in the RRF have a positive impact in this area.

Italian NRRP: this plan provides EUR 23.9 billion for the digitalisation and innovation of the private sector, in addition to the approximately EUR 10 billion planned for similar reforms in the public sector. The focus is also on training and education, from daycare to university, with an envelope of EUR 19.4 billion in addition to the complementary measures (nearly EUR 20 billion). Development of the territorial connection through large-scale rail projects, particularly in the south of the country, has mobilised EUR 25 billion in investment. There is also an envelope of nearly EUR 24 billion for the development of renewable energies, such as hydrogen, EUR 15.4 billion for the renovation and improvement of the energy efficiency of buildings, and EUR 15.1 billion for the protection of land and maritime resources.

Spanish NRRP: significant investments and measures include EUR 63 billion to promote the growth and resilience of SMEs and the industrial sector, particularly in the context of Spain's industrial policy (including EUR 11 billion in semiconductors). Other key measures are the budget of EUR 15 billion for the roll-out of 5G, cybersecurity and better connectivity within the territory, and also EUR 6.5 billion for the modernisation of public administration. The Spanish government also plans to allocate EUR 7 billion to the REPowerEU plan, the highest amount in the EU.

**Data and information as of January 2024.*

BOX 2

GROUP ECONOMIC RESEARCH

William De Vijlder Chief Economist	+33 1 55 77 47 31	william.devijlder@bnpparibas.com

OECD ECONOMIES AND STATISTICS

Hélène Baudchon Deputy chief economist, Head - United States	+33 1 58 16 03 63	helene.baudchon@bnpparibas.com
Stéphane Colliac France, Germany	+33 1 42 98 43 86	stephane.colliac@bnpparibas.com
Guillaume Derrien Eurozone, United Kingdom - Global trade	+33 1 55 77 71 89	guillaume.a.derrien@bnpparibas.com
Anis Bensaidani United States, Japan	+33 1 87 74 01 51	anis.bensaidani@bnpparibas.com
Lucie Barette Southern Europe	+33 1 87 74 02 08	lucie.barette@bnpparibas.com
Veary Bou, Tarik Rharrab Statistics		

ECONOMIC PROJECTIONS, RELATIONSHIP WITH THE FRENCH NETWORK

Jean-Luc Proutat Head	+33 1 58 16 73 32	jean-luc.proutat@bnpparibas.com

BANKING ECONOMICS

Laurent Quignon Head	+33 1 42 98 56 54	laurent.quignon@bnpparibas.com
Céline Choulet	+33 1 43 16 95 54	celine.choulet@bnpparibas.com
Thomas Humblot	+33 1 40 14 30 77	thomas.humblot@bnpparibas.com
Marianne Mueller	+33 1 40 14 48 11	marianne.mueller@bnpparibas.com

EMERGING ECONOMIES AND COUNTRY RISK

François Faure Head – Argentina, Turkey – Methodology, Modelling	+33 1 42 98 79 82	francois.faure@bnpparibas.com
Christine Peltier Deputy Head – Greater China, Vietnam – Methodology	+33 1 42 98 56 27	christine.peltier@bnpparibas.com
Stéphane Alby Africa (French-speaking countries)	+33 1 42 98 02 04	stephane.alby@bnpparibas.com
Pascal Devaux Middle East, Balkan countries	+33 1 43 16 95 51	pascal.devaux@bnpparibas.com
Hélène Drouot South Korea, Philippines, Thailand, Andean countries	+33 1 42 98 33 00	helene.drouot@bnpparibas.com
Salim Hammad Latin America	+33 1 42 98 74 26	salim.hammad@bnpparibas.com
Cynthia Kalasopatan Antoine Ukraine, Central European countries	+33 1 53 31 59 32	cynthia.kalasopatan.antoine@bnpparibas.com
Johanna Melka India, South Asia, Russia, Kazakhstan	+33 1 58 16 05 84	johanna.melka@bnpparibas.com
Lucas Plé Africa (Portuguese & English-speaking countries)	+33 1 40 14 50 18	lucas.ple@bnpparibas.com

CONTACT MEDIA

Mickaelle Fils Marie-Luce	+33 1 42 98 48 59	mickaelle.filsmarie-luce@bnpparibas.com

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