

CHART OF THE WEEK

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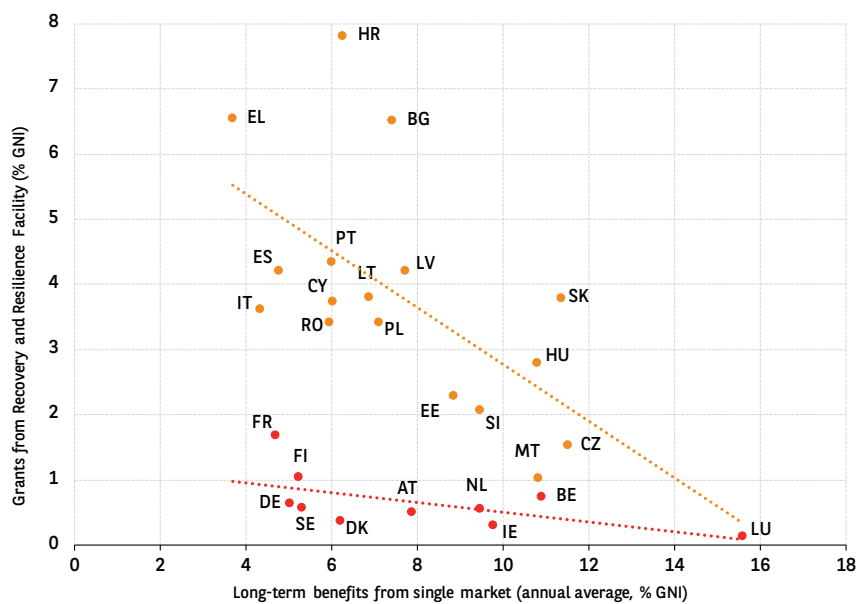
by BNP PARIBAS

29 July 2020

RECOVERY FUND: WILL THE EU KILL TWO BIRDS WITH ONE STONE?

Hubert de Barochez

GRANTS FROM THE EU AND LONG-TERM BENEFITS FROM THE SINGLE MARKET



SOURCE: BRUEGEL, EUROPEAN COMMISSION, BNP PARIBAS

Through the Recovery and Resilience Facility, an essential part of its Next Generation EU plan, the European Union (EU) will disburse grants and loans to member states according to precise criteria. Allocations for 2021 and 2022 will depend on each country's population, GDP per capita, and unemployment rate. The same criteria will be used for 2023, except for the unemployment rate, which will be replaced by the loss in real GDP observed this year and the cumulative loss observed over the period 2020-2021.

With that in mind, the think tank Bruegel has estimated the allocations by country¹. When excluding the most developed countries (in red), it appears that grants will particularly benefit those that profit the least from their membership to the EU's single market - according to the results of three studies that seek to quantify these benefits. That is partly a coincidence, as the Covid-19 pandemic has particularly affected countries that benefit relatively less from the single market, such as Italy and Spain. Nevertheless, this also expresses the EU's two-pronged strategy: improving the resilience of the most fragile countries in addition to facilitating the recovery in the whole region. The aim is to avoid further economic divergence between member states. Overall, all countries should profit. Those benefiting the least from grants count, to support their exports, on demand from the other countries, for which economic disaster has been made less likely by the recovery plan.

¹ Bruegel, *Having the cake, but slicing it differently: how is the grand EU recovery fund allocated?*, 23 July 2020

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