NextGenerationEU: the basics

NextGenerationEU is a temporary recovery instrument worth €750 billion in 2018 prices or some €800 billion in current prices. It is at the heart of the European Union (EU) response to the coronavirus crisis and aims to support the economic recovery and build a greener, more digital and more resilient future.

To finance NextGenerationEU, the European Commission, on behalf of the EU, will borrow on the capital markets. Thanks to the EU’s high credit rating, the Commission will be able to borrow on advantageous financial terms. The Commission will then pass the benefit on to the EU Member States directly when providing them loans or to the Union budget in the form of low interest rate payments on borrowings to finance recovery spending.

The borrowing will be concentrated between mid-2021 and 2026. All borrowing will be repaid by 2058.

The EU budget – which is financed by own resources and contributions from all EU Member States - will back the borrowing.

Directing the funds to where the needs are

With a budget of up to some €800 billion in current prices, NextGenerationEU will help repair the immediate economic and social damage brought about by the coronavirus pandemic and ensure green, digital and sustainable growth. The instrument will help build a post-COVID-19 Europe that is greener, more digital, more resilient and better equipped to deal with current and forthcoming challenges.

The centrepiece of NextGenerationEU is the Recovery and Resilience Facility – an instrument to offer grants and loans to support reforms and investments in the EU Member States with a total value of €723.8 billion in current prices.

Part of the funds – up to €338 billion - will be provided in the form of grants.

The other part – up to €385.8 billion - will provide Union loans to individual Member States. These loans will be repaid by those Member States.
The funds under the Recovery and Resilience Facility will be distributed according to national Recovery and Resilience plans prepared by each Member State, in cooperation with the European Commission, and in line with an agreed allocation key.

In addition, NextGenerationEU will reinforce several EU programmes:

- **Cohesion**, under the Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU), to help address the economic consequences of COVID-19 in the first years of the recovery;
- **Just Transition Fund**, to guarantee that the transition to climate neutrality works for all;
- **Rural development**, to further support farmers;
- **InvestEU**, to support investment efforts of our businesses;
- **rescEU**, so that the EU civil protection mechanism has the capacity to respond to large-scale emergencies;
- **Horizon Europe**, to make sure the EU has the capacity to fund more excellence in research.

To finance NextGenerationEU, the EU will borrow on the markets. Repayment will take place over a long-time horizon, until 2058. This will avoid immediate pressure on Member States’ national finances and enable EU countries to focus their efforts on the recovery.
Repaying the borrowing

The borrowing will be repaid over a long-time horizon until 2058. To help repay the borrowing, the Commission will propose new own resources to the EU budget, to complement the existing sources of revenue.

Repayment of the borrowing will start as of 2028 and will take place over a long-time horizon – until 2058.

The loans will be repaid by the borrowing Member States. The grants will be repaid by the EU budget.

To help repay the borrowing, the Commission will propose new own resources to the EU budget (or sources of revenue), on top of the already existing ones. These could be also used for early repayment before 2028.

These new own resources will be based on a carbon border adjustment mechanism, the Emissions Trading System and a digital levy. Detailed proposals will follow by June 2021.

Further new own resources, to be proposed by June 2024, could include a Financial Transaction Tax, a financial contribution linked to the corporate sector or a new common corporate tax base.

Guaranteeing the borrowing

To back the borrowing, retain its high credit rating and raise funds under favourable market conditions, the EU will use the EU budget and its headroom as guarantee.

The headroom is the difference between the Own Resources ceiling of the long-term budget and the actual spending. To ensure sufficient headroom, the EU is temporarily increasing the Own Resources Ceiling of its budget by 0.6 percentage points of the EU's Gross National Income (GNI).

The Own Resources ceiling determines the maximum amount of own resources the Commission can call from Member States in any given year to finance expenditure. This gives certainty and predictability to Member States for their budgetary and financial planning. A sufficiently high ceiling allows the Union to cover all of its financial obligations and contingent liabilities falling due in a given year.

The permanent Own Resources ceiling of the budget is being increased to 1.4% of the EU’s gross national income. The additional ceiling of 0.6 percentage points will come on top. It will be limited in time, until 2058, and will only be used in the context of the recovery from the coronavirus pandemic. This increase in the Own Resource ceiling will expire when all funds have been repaid and all liabilities have ceased to exist.

The headroom will serve as a guarantee that the EU will be able to make repayments under any circumstances. This will enable the EU to continue benefiting from its high credit rating and borrow funds under advantageous financial terms.