Global Counsel

The political battles over the EU's recovery fund may be just beginning

Blog post by Research Analyst Maarten Lemstra, 21 July 2021

Last week the ECOFIN committee endorsed the Commissions' positive assessment of the first batch of twelve national recovery plans. However, while the approval of recovery plans will be relatively straightforward (with the notable exception of Hungary), the disbursement phase will be a crucial moment to watch for political battles to occur. Key political choices lie ahead for the member states and the Commission regarding the disbursement of the recovery funds. The adoption of the European Commission's first positive assessment of a national recovery plan started with a scene that made 'frugals' all over Europe sit up straight. "Can I go to the bank now?" the Portuguese president António Costa asked European Commission president Ursula von der Leyen. The answer to Costa's question may not be simple. There are three things to watch.

Firstly, the Council will likely become the main stage for disagreements to play out. The Economic and Financial Committee (ECOFIN) decides whether milestones and targets have been reached and disbursement is granted. If one or more member states disagree, the matter can be put on the European Council agenda. While political leaders seem committed to reform, it remains possible that disagreement will arise in the future on whether ambitious reforms, such as labour law reform in Greece or judiciary reform in Italy, have been fully delivered in practice. Member states like the Netherlands that fought hard to include a link to milestones and targets want this element of control, and the possibility of an "emergency brake" was one of their main selling points at home. Dutch prime minister Mark Rutte and his 'frugal' peers will be tempted to demand debate to signal their seriousness about defending fiscal prudence, but this might reopen old wounds between "North and South".

Secondly, the conditionality mechanism attached to disbursement of the EU budget and the recovery funds, on which the ECJ will rule in autumn, is a big source of potential tension. In principle, it will prevent funds from being misused by countries abusing the rule of law. This will probably lead to tense discussions in the Council on whether to apply it to Hungary and Poland, who have been accused of such rule of law infringements. Hungary's recent anti-LGBT law and Polish legal battles against the supremacy of EU law and the European Court of Justice will increase the pressure on liberal member states to take a hard stance against them. Explicitly linking finance and highly sensitive issues related to sovereignty and infringements of the rule of law would be seen as a declaration of war in Budapest and Warsaw. This could destabilise decision making on a wide range of EU files.

Thirdly, the Commission has a significant role in assessing whether reforms and milestones have been achieved satisfactorily. This gives it potential political leverage. For example, whereas the Commission had no power to push member states to implement its Country Specific

Recommendations (CSR) as part of the European Semester, now member states must incorporate and implement these CSR's if they want to obtain funding. As always for the Commission, their balancing act revolves around retaining member states' political support while pushing hard – and equally hard on all member states - when it does not see results, both as guardian of the treaties on the rule of law and on economic reforms.

All this suggests that the political path for the recovery fund could still get very rocky. This has implications for the fulfilment of spending commitments. While the new Hanseatic League seems all but forgotten now the recovery plan has been approved, we could see a return of alliances focussed either on fiscal prudence, the EU's values or both, as we enter the next stage of the recovery fund and its disbursement. Antonio Costa's trip to the bank to get the first 13% pre-financing (€2.2bn) will be easy, but after that, the hard work to obtain the rest of the funding is only about to begin.