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Explainer: What we know of EU Commission's post-coronavirus economic recovery plan

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BRUSSELS (Reuters) - A huge stimulus package to kick-start the EU economy once the coronavirus pandemic ends is likely to feature a mix of loans and grants and be underpinned by private sector investments.

FILE PHOTO: European Union flags fly outside the European Commission headquarters in Brussels, Belgium, April 10, 2019. REUTERS/Yves Herman

The package, which could be worth several trillion euros and is linked to the European Union budget, is being drafted by the executive European Commission for review by the bloc's leaders by around mid-May.

Below is a rough outline of the blueprint, compiled from public remarks by Commission head Ursula von der Leyen and Budget Commissioner Johannes Hahn, and an internal Commission note seen by Reuters.

HOW MUCH?

Von der Leyen said the plan would produce at least 1 trillion euros ($1.08 trillion) of support. She also said the scheme could last up to three years, suggesting the sum could be significantly higher. The Commission note had 2 trillion pencilled in brackets - a sign it might change.

WHERE WOULD IT COME FROM?

Some would be cash, but most would be leveraged, along the lines of a flagship EU investment scheme used over the last five years.

The EU would use a small amount of its own money to finance the riskiest part of an investment. This would be the first tranche of bear any losses, leaving the safer, larger parts to private capital.

WHEN WOULD IT START?

The recovery plan would start when

the next long-term EU budget starts, on Jan 1, 2021, providing there is agreement on the fiscal plan by then, which is not a given.

SOMETHING FOR RIGHT NOW?

Some leaders asked the Commission for ideas on how some recovery money could be made available already now and he EU executive is considering “bridging solutions”.

HOW WOULD

GOVERNMENTS GET THE MONEY?

The package is to be a mix of loans and grants, whose proportions are still subject to negotiations between northern EU nations, which want mostly loans, and southern states insisting on grants to avoid an unsustainable debt build-up.

THE LOAN PART

The Commission plans to borrow around 320 billion euros on the market, according to the internal note, using its triple-A rating to do so cheaply.

It would then lend on around half of that to governments, producing 1.5-1.6 trillion euros of investment on the assumption that it is leveraged 10 times, as suggested in the past by Commissioner Hahn.

The loans would be long-term, but the Commission has yet to propose how many years.

GUARANTEES

The Commission wants to borrow the 320 billion against increased government guarantees in the EU budget, which gets its money from customs duties on imports, a cut of national VAT and national contributions.

The EU budget cannot run a deficit, so the amount that governments undertake to pay into it, called commitments, is always slightly higher than the payments it disburses.

The ceiling for commitments is currently set at 1.2% of EU economic output, with payments around 1.1%.

To be able to borrow the 320 billion, the Commission wants to raise the commitments ceiling to 2% for two to three years.

This increase of 0.8% would in essence be theoretical, to be drawn on only if needed. But it would produce some 110 billion euros of “fiscal space” every year that could be used as repayment guarantee for investors.

Over three years, that headroom would give commission leeway to borrow more than 300 billion euros on the market.

GRANTS

The other half of the money borrowed by the Commission on the market would go to the long-term budget, which deals with grants, not loans.

Since the money was initially borrowed, however, it would still have to be repaid. The internal note proposed that this be done after 2027 over a long time or through new sources of revenue for the EU budget - earlier proposals for which included a carbon border tax, a plastics tax, or a financial transactions tax.

Other proposed sources of grants in the Commission note included a Recovery and Resilience Facility of

200 billion euros in the EU budget and two other funds - to help sound companies rebuild their capital quickly and build strategic autonomy in vital supply chains at a European level. Each of those would also have 200 billion euros at their disposal.

The budget would also re-purpose 50 billion euros of cohesion funds - used to equalise standards of living between EU countries - to be spent in 2021 and 2022 on restoring labour markets, health care systems and small and medium sized companies.

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