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Can the Recovery and Resilience Facility lay the foundations of a new European economic governance framework?

Rethinking the European Union amid crisis

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List of abbreviations

EU	European Union
MS	Member States
NGEU	NextGenerationEU
RRF	Recovery and Resilience Facility
EC	European Commission
NRRP	National Recovery and Resilience Plan
CSRs	Country Specific Recommendations
M&Ts	Milestones & Targets
ECA	European Court of Auditors
GDP	Gross Domestic Product
EP	European Parliament

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1) Introduction

In the wake of unprecedented economic challenges posed by the COVID-19 pandemic, the European Union (EU) found itself at a critical juncture, necessitating swift and innovative responses to safeguard economic stability and foster recovery. The symbol of this innovative answer to the crisis is the decision taken during the summer of 2020 to contract a common debt between all the Member States (MS), establishing the NextGenerationEU (NGEU) plan. The centrepiece of this effort is the Recovery and Resilience Facility (RRF), a bold initiative to revitalise European economies while addressing long-standing structural vulnerabilities. At a time when the EU has rarely come under so much criticism from all sides, when mistrust of its institutions is worrying and when populism is on the rise, Europe cannot afford failure. Therefore, against the backdrop of this ambitious endeavour, a pressing question emerges: can the Recovery and Resilience Facility lay the foundations of a new European economic governance framework? If the RRF proves to be a success, it might influence the European response to future crises or even become a permanent instrument.

In order to answer the research question, this thesis will be divided into three main sections. The first section will focus on describing the main features of the European response to the crisis and particularly the RRF and its novelties. Then, a critical assessment of the RRF will be conducted. It is clear that there are both positive and negative points that need to be discussed to adequately answer the research question. A first conclusion of the benefits of the RRF and its drawbacks will therefore be possible to reach, allowing us to determine if it would potentially deserve to be extended beyond its expiry date. In the third and final part, the extent to which the RRF is a game changer or not and might possibly lead to changes in the European governance framework will be analysed. Next, it will be possible to propose, on a more experimental basis, potential reforms that could be adopted to improve the mechanism if it were to be repeated.

2) What are NextGenerationEU and the Recovery and Resilience Facility?

2.1) NextGenerationEU: a groundbreaking instrument

NextGenerationEU is a total financial package of €750 billion in 2018 prices, composed of grants (€390 billion) and loans (€360 billion) contracted from a common debt from all the Member States, which represents a huge novelty. Indeed, before the crisis, the EU budget was very largely financed by contributions from Member States based on their Gross National Income (GNI). This led to very little fiscal capacity, while the new EU budget includes the borrowing capacity.

A common debt among the Member States has thus been contracted. On behalf of the EU, the European Commission (EC) finances the plan by borrowing on the capital markets and repaying until 2058 at the latest. The percentage split between the loans and the grants has been the subject of intense debates during the negotiations between net contributor countries and beneficiaries, which will be studied later in this work (Begg, 2023).

NextGenEU is implemented through several EU instruments and programs. The biggest part (89,7%) is allocated to the Recovery and Resilience Facility (RRF), the largest component of the plan, providing €672.5 billion in grants and loans to support Member States' recovery plans. In addition, other instruments such as for instance ReactEU (6,3%), providing additional support to the most affected regions and sectors, InvestEU (0,8%), a program to support investments in the EU or Horizon Europe (0,7%), the EU's research and innovation program, receive a part of the funds.

The loans are reimbursed by the Member States while the grants are reimbursed by the EU budget. To assist in repaying the grants portion of the borrowing, the Commission has put forth a proposal for a next generation of EU “own resources”. The EU uses the framework of the EU budget and its headroom (the difference between the maximum amount of resources that the Commission can ask the Member States to contribute during a given year and the funds that it actually needs to cover the expenses outlined in the budget). Consequently, the EU has increased the Permanent 1.4% Own Resources Ceiling of its budget by 0,6 percentage points of the EU's Gross National Income (GNI) (Directorate-General for Budget, 2022). As very briefly explained, huge modifications to the Commission's debt management architecture have been undertaken, which have turned out to be a success (Christie et al., 2021).

Besides, the Commission is funding up to 30% of NextGenerationEU by issuing green bonds, making the EU the world's biggest green-bond issuer. Hence, it fosters a heightened interest in green investments and green goals (Directorate-General for Budget, 2022), potentially increasing the global influence of the euro and setting robust standards for sustainable finance in sovereign issuances (Christie et al., 2021).

The financing of the NGEU plan, its consequences, the path towards a European Capital Market Union and this possible “*Hamiltonian moment*” (Bocquillon et al., 2023) would deserve much further discussion, but it is not the purpose of this work.

2.2) The RRF: centrepiece of NextGenerationEU

The Recovery and Resilience Facility is the cornerstone of the Next Generation EU funds. It was clear that given the asymmetrical shock and differences in fiscal position among European countries, capacities to react to the crisis were very heterogeneous. Therefore, it became increasingly clear that a more ambitious European fiscal response and deeper fiscal integration, characterized by solidarity and redistribution, would be essential (Dermine, 2020).

Consequently, it was decided that a specific solidaristic allocation key for the RRF would be used. This allocation key takes pre- and post-pandemic economic situations into account, with for instance elements such as the population, GDP per capita, unemployment rate, etc. It is noteworthy that the criteria have been applied to provisional figures leading to subsequent revision of the amount per country.

The allocation of grants to each MS has been determined according to their pre-pandemic vulnerabilities while the allocation of loans to each MS has been determined by the assessment of their loan request, with the constraint that it cannot exceed 6.8% of their 2019 gross national income (Directorate-General for Economic and Financial Affairs, 2023).

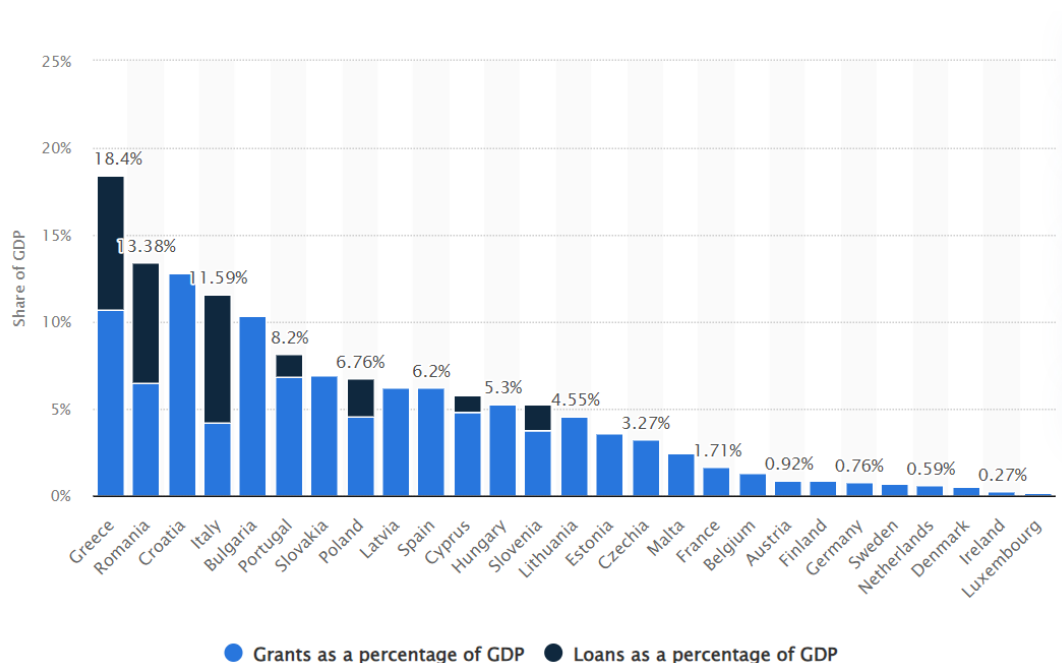
This resulted in the two following figures, showing the amounts available per country, and what it represents in terms of a share of the Member State’s GDP.

Figure 1: Available and requested grants and loans from the RRF (€ billions)

	Official submission date	RRF grants requested	Estimated RRF grants	Final grants	RRF loans requested	Maximum RRF loans	total
Austria	01/05/2021	4,5	3,5	3,8	0	27,2	4,50
Belgium	01/05/2021	5,9	5,9	4,5	0	32,8	5,90
Bulgaria	15/10/2021	6,6	6,3	5,7	0	4,2	6,60
Croatia	15/05/2021	6,4	6,3	5,5	0	3,7	6,40
Cyprus	17/05/2021	1,0	1,0	0,9	0,2	1,5	1,23
Czechia	02/06/2021	7,1	7,1	7,7	0	14,3	7,10
Denmark	30/04/2021	1,6	1,6	1,4	0	21,9	1,60
Estonia	18/06/2021	1,0	1,0	0,9	0	1,9	0,98
Finland	27/05/2021	2,1	2,1	1,8	0	16,4	2,10
France	29/04/2021	40,9	39,4	37,4	0	168,4	40,90
Germany	28/04/2021	27,9	25,6	28,0	0	240,9	27,90
Greece	28/04/2021	17,8	17,8	17,4	12,7	12,4	30,50
Hungary	12/05/2021	7,2	7,2	5,8	0	9,7	7,20
Ireland	28/05/2021	1,0	1,0	0,9	0	18,7	1,00
Italy	01/05/2021	68,9	68,9	69,0	122,6	122,8	191,50
Latvia	30/04/2021	1,8	2,0	1,8	0	2,0	1,80
Lithuania	15/05/2021	2,2	2,2	2,1	0	3,2	2,20
Luxembourg	30/04/2021	0,1	0,1	0,1	0	2,7	0,09
Malta	13/07/2021	0,3	0,3	0,3	0	0,8	0,32
Netherlands	08/07/2022	4,7	6,0	4,7	0	55,3	4,70
Poland	03/05/2021	23,9	23,9	22,5	12,1	34,8	36,00
Portugal	22/04/2021	13,9	13,9	15,5	2,7	14,2	16,60
Romania	31/05/2021	14,3	14,2	12,1	15,0	15,0	29,30
Slovakia	29/04/2021	6,6	6,3	6,0	0	6,3	6,60
Slovenia	01/05/2021	1,8	1,8	1,5	0,7	3,2	2,50
Spain	30/04/2021	69,5	69,5	77,2	0	84,8	69,50
Sweden	28/05/2021	3,3	3,3	3,2	0	33,2	3,30
EU27		342,3	338,0	338,0	166,0	952,2	508,32

Source : Darvas et al., 2023a

Figure 2: Loans and grants given to European Union Member States from the Recovery & Resilience Facility (RRF) as a share of Member States' Gross Domestic Product (GDP) in 2020



Source : <https://www.statista.com/statistics/1367431/next-generation-eu-funds-as-a-share-of-gdp/>

This distribution key allows us to see how much money different countries can claim. We can notice that proportionally, countries receive very different amounts. Therefore, it is paramount to note that the importance of this recovery plan differs greatly across MS. The opportunity cost of potentially missing out on RRF grants thus varies significantly.

Nevertheless, the Commission does not distribute this money idly, and this is the gist of the Recovery and Resilience Facility. In order to get this financial aid, each Member State was required to submit a National Recovery and Resilience Plan (NRRP), indicating precisely how the funds of the RRF would be spent and which reforms and investments would be undertaken until 2026. It is innovative that this instrument urges MS to have a medium-term vision. In cooperation with the MS, these plans were assessed by the Commission, and making a favourable assessment meant that *“Commission is responsible for proposing the award of all grants and loans requested and for disbursing payments based on the fulfilment of agreed milestones and targets”* (Hodson et Howarth, 2024). Besides, the Economic and Financial Affairs Council (ECOFIN) must authorize the assessment and the decision must ultimately be adopted by a qualified majority vote by the Council of the European Union. In addition, the plans must be in line with the 2019 and 2020 Country-Specific Recommendations (CSRs) under the European Semester.

Despite this, an independent impact evaluation is lacking. According to the legislation (Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 Establishing the Recovery and Resilience Facility, 2021), *“no financial contribution shall be allocated to the Member State concerned”* if there is a majority of Bs over As, or at least one C. Yet, when we look at the results, among the 27 NRRPs, 24 obtained 10 A ratings and 1 B, while Belgium and Estonia got 9 A ratings and 2 B ratings, and Czechia 8 As and 3 Bs (Darvas et al., 2023a). Such extraordinary results might seem a bit lacking objectivity.

Also, let us insist on the fact that as examined by Demertzis (2022), grants might be much more attractive than loans. As a matter of fact, unlike grants, a small number of countries have requested the loans. On the one hand, some countries can borrow from the financial markets at a lower cost than with the RRF. On the other hand, other countries with higher borrowing costs are still not thrilled with the idea of claiming these loans. Indeed, as it will be discussed later in this thesis, the administrative cost of the RRF is significant. Consequently, countries might opt to incur a small additional cost by resorting to market borrowing to secure unconditional funds rather than relying on RRF funds.

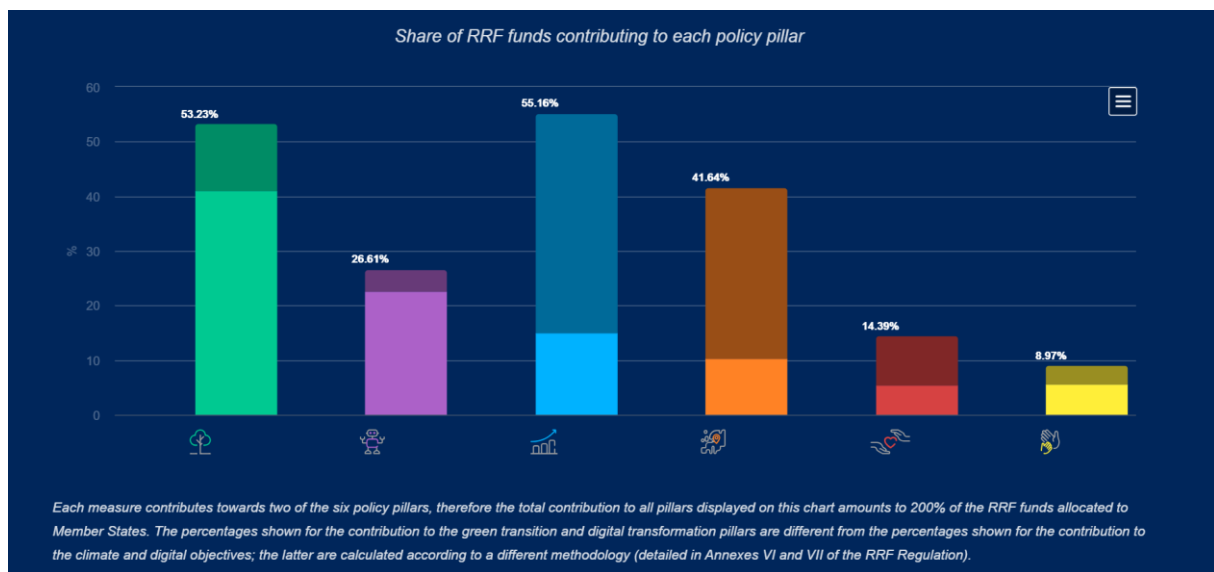
At its core, the RRF rests upon six pillars,

“namely: green transition; digital transformation; smart, sustainable and inclusive growth, including economic cohesion, jobs, productivity, competitiveness, research, development and innovation, and a well-functioning internal market with strong small and medium enterprises (SMEs); social and territorial cohesion; health, and economic, social and institutional resilience with the aim of, inter alia, increasing crisis

preparedness and crisis response capacity; and policies for the next generation, children and the youth, such as education and skills.”

“That plan should detail how, taking into account the measures included therein, it represents a comprehensive and adequately balanced response to the economic and social situation of the Member State concerned, thereby contributing appropriately to the six pillars, taking into account the specific challenges of the Member State concerned” (Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 Establishing the Recovery and Resilience Facility, 2021).

Figure 3: Share of RRF funds contributing to each policy pillar



Source : European Commission : https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/index.html

Beyond the general requirement to contribute to the different pillars, each country must dedicate at least 37% of its NRRP’s allocation to measures contributing to climate objectives and 20% for digitalisation.

In addition,

“The Facility should support activities that fully respect the climate and environmental standards and priorities of the Union and the principle of ‘do no significant harm’”,

which means

“not supporting or carrying out economic activities that do significant harm to any environmental objective”. (Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 Establishing the Recovery and Resilience Facility, 2021).

Moreover, it is paramount to note that the RRF is a performance-based system. The disbursement of payments hinges upon the attainment of milestones and targets (M&Ts), pre-agreed between the Commission and the MS. This represents a true departure from traditional mechanisms, based on invoices or implementation costs of each measure. “*Member States receive the benefits of more cost-effective implementation, as well as bearing the burden of possibly higher costs*” (European Court of Auditors, 2022a), which incentivizes them to implement the M&Ts efficiently and effectively. According to the RRF Regulation, Member States have primary responsibility for ensuring that their measures comply with applicable EU and national law but also for ensuring that appropriate measures are taken to prevent, detect and correct conflicts of interests, fraud, corruption, etc.

Also, other milestones, labelled as “*super milestones*”, exist in the NRRPs and must be implemented before any payment is authorised by the Commission. For example, in the Hungarian plan, 27 super milestones were identified, including some of the Key Implementation Steps of the 17 remedial measures proposed by Hungary under the rule of law conditionality mechanism, some measures concerning judicial independence included in the ongoing Article 7 procedure, recent country-specific recommendations (CSRs) and the Rule of Law Reports, but also audit and control-related measures (Schwarcz, 2023).

Besides, to ensure compliance with the rules, each payment request necessitates validation through a management declaration, certifying that Member States have conducted internal checks deemed adequate by the Commission in overseeing the management of RRF funds. The extent of the Commission's scrutiny regarding adherence to EU or national legislation is contingent upon the specifications delineated in the associated conditions of the milestones and targets. Subsequently, the Commission's evaluation of satisfactory fulfilment encompasses these considerations (Gauer, 2022).

In order to effectively answer the research question of this thesis, a critical assessment of the instrument will now be conducted. Its purpose will be to highlight the main positive and negative points to determine if, now that some hindsight is possible, the RRF has enough merit to be potentially extended beyond its expiry date as such.

3) Critical assessment of the Recovery and Resilience Facility

3.1.) Positive aspects of the RRF

3.1.A) A successful economic recovery

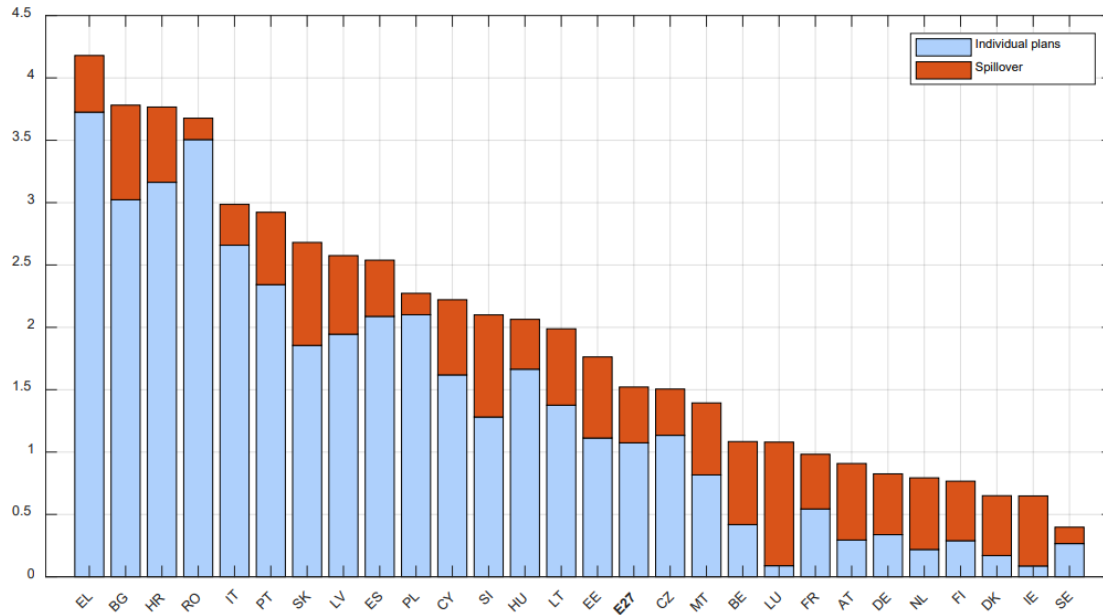
Numerous models and papers have been produced to determine the macroeconomic impacts of the NGEU and RRF tools on the economic recovery from the COVID-19 crisis. As in the previous section, the results of the various analyses are relatively similar and point in the same direction. Therefore, here are the main highlights that can be found.

Most analyses were carried out using the NiGEM model. It has been demonstrated that RRF disbursements, starting from the first pre-payments in late 2021, have positively impacted EU GDP until 2023 (Directorate-General for Economic and Financial Affairs, 2023). Specifically, RRF disbursements in 2022 increased EU GDP by 0,4 per cent compared to what it would have been without RRF spending. These effects were more pronounced in Southern and Eastern countries than in those contributing more to the EU GDP. Again, differences in impacts between net contributors and more beneficiary countries must be underlined. Additionally, NiGEM simulations indicate that initial disbursements also led to a decrease in unemployment in the EU by approximately 0,2 percentage points compared to what it would have been without the RRF. Bańkowski et al. (2022) go even further, demonstrating that the increase of the GDP in the euro area might be up to 1.5% by 2026, with an even bigger impact in the main beneficiary countries.

Pfeiffer et al. (2021), using a different DSGE model (QUEST), find that the positive macroeconomic spillovers of NGEU are very significant. When accounting for these spillover effects explicitly, the GDP impacts of NGEU at the EU level could be approximately one-third greater. In certain cases, spillover effects often account for the majority of domestic GDP gains. At least one-third of the positive economic effects pointed here above can be explained by spillover effects from trade between EU Member States, which thus points to the benefits of joint action. Indeed, huge European fiscal stimulus like NGEU is always much more effective than classic national stimulus plans (Bozou & Creel, 2023). Furthermore, the fiscal multiplier effects and spillovers provided by the NGEU grants have an impact on both the EU zone and its periphery (Allemand et al., 2023).

In small open economies receiving a relatively small amount of direct funds, the bulk of the growth impact stems from spillover effects (for instance Belgium or Luxemburg), whereas less open economies primarily benefit from the impact of their own allocation (Pfeiffer et al., 2021). This demonstration is illustrated by the following graph.

Figure 4: GDP effects of NGEU across MS (% deviation from no-NGEU baseline) - 2024



Source: Pfeiffer et al. 2021

Let us note that the paper this graph comes from does not quantify the impact of structural reforms undertaken under the RRF and was written in 2021 before the energy prices crisis. On the one hand, since we will show in the next section that the RRF drives structural reforms and that these are effectively being implemented, we can conclude that the positive macroeconomic results of this analysis might be underestimated. Nevertheless, some reforms can have very long-term effects or can have negative short-term effects but positive long-term effects. Including these reforms in this kind of macroeconomic project is therefore very tricky. On the other hand, the paper of Pfeiffer et al. presumes that all investments as set out in the RRF are carried out. The argument that this chart may potentially underestimate the positive effects of the RRF can be considered but must be qualified.

Moreover, the use of financial conditionality by the RRF to trigger structural reforms not only incentivized national reforms but also fostered a degree of convergence among EU Member States (Directorate-General for Economic and Financial Affairs, 2023). This facilitated a coordinated approach to addressing economic and social issues, ultimately contributing to greater cohesion and stability across the EU.

As shown by the report from the Directorate General for Economic and Financial Affairs (2023), Greece and Italy emerged as significant beneficiaries, witnessing respectively an additional 1,6 and 0,97 percentage points of GDP in fiscal space. In some countries, the long-term effects of the RRF are significant, either because RRF payments make up a large portion of their GDP, or due to a high elasticity of output in relation to capital, or of course, both factors combined (Directorate-General for Economic and Financial Affairs, 2023). These impacts are more pronounced for the relatively economically disadvantaged Southern European countries, which also bore the brunt of the COVID-19 pandemic.

The distribution key for potential RRF funds follows the same philosophy, allocating more funds to countries hardest hit by the pandemic, whether economically or in terms of public health, in order to help them getting back on track. In addition to making a significant contribution to the continent's economic recovery, both directly and indirectly through spillovers, the RRF contributes to greater convergence between EU countries in the mid and long-term, as we have just highlighted (Bańkowski et al., 2022).

It might be a bit early to draw definitive conclusions. As explained in the discussion of the Pfeiffer et al. paper (2021), the initial results are good, but it would be premature to definitively state that they are outstanding. Nonetheless, initial results are encouraging. As the continent's economic recovery is the priority of a recovery plan, these positive results are paramount in the critical assessment.

3.1.B) Using financial conditionality as a way to drive national reforms

As we have seen, the Recovery and Resilience Facility uses financial conditionality. This is a strategic mechanism to drive national reforms within the Member States. By conditioning the disbursement of funds on the implementation of specific reforms and investments, the RRF has been hoping to establish a framework that would incentivize Member States to align their policy agendas with EU priorities and objectives. The financial conditionality embedded in the RRF framework would then operate as a powerful tool to drive national reforms by linking access to substantial financial resources with the adoption of measures that were agreed upon in the NRRPs. For once, Europe is thus not just wielding the stick but also offering the carrot. This dual approach aims to not only enforce compliance but also to reward progress and cooperation. Is it working as expected? This section will tackle this question.

There is a broad consensus in the literature recognizing the effectiveness of the RRF in bolstering reforms that might not have seen the light of day otherwise. It is acknowledged that it also plays a pivotal role in tackling a significant portion of CSRs and it effectively aids in rolling out reforms that have been pending for too long.

It also seems worth mentioning that, even if it seems rather intuitive, the efficiency of the RRF in triggering structural reforms is more pronounced in countries that receive the lion's share of its funding. The conditionality of payments based on meeting milestones and targets rather than incurred costs, along with the establishment of a distinct timeline for reforms and investments lie at the heart of the mechanism and effectively create a dynamic in which Member States are motivated to undertake structural reforms in exchange for financial support from the RRF (Bekker, 2021). Along the same vein, the correlation between CSRs implementation and financial backing weakens when Member States receive a relatively smaller financial allocation, as they are less incentivized to partake in structural reforms (Directorate-General for Economic and Financial Affairs, 2023). Belgium is a case in point. In its NRRP, the country

committed itself to several reforms of its pension system, one of which has not been implemented (*“improving the financial sustainability of the social security system and of public finances”*). While it is quite likely that it will not receive all the funds it is owed, this is not a fundamental issue in the public debate or in the country's political priorities. It should thus also be important to push for reforms in countries that receive relatively small amounts of RRF funds, and for which the opportunity cost of potentially missing EU funds is rather small (Darvas & Welslau, 2023).

In the case of countries with limited fiscal capacity within the EU, Corti & Vesan (2023) demonstrate that the RRF has particularly contributed to enacting reforms which would have remained on paper otherwise. Similarly, in countries like Croatia, Italy, and Spain (all with limited fiscal margins), the RRF made a significant difference by providing the financial resources necessary to adopt reforms and investments (Bokhorst & Corti, 2023). The performance-based approach did increase the contractualization of the relationship between Member States and the Commission but by doing so, contributed to developing mechanisms of internal disciplining and efficiency. Indeed, it led to a reconfiguration of the national decision-making process, speeding up the implementation of delayed policies. As a Croatian official admitted in the article of Bokhorst & Corti (2023), the RRF has been considered a trigger for actions that might have otherwise been postponed or languished in the planning stage. In many cases, these are reforms that were thought to be blocked forever as being too delicate given the ideological differences between the country's political forces (Demertzis, 2022). The RRF thus also managed to overcome these political deadlocks.

Siegfried Mureşan, Member of the European Parliament and one of his institution's three rapporteurs for the first report on the implementation of the RRF agrees that the RRF is *“the most effective tool the Commission has ever had for making sure that Member States implement the necessary reforms”* (European Court of Auditors, 2022). This notwithstanding, speeding up the implementation of delayed policies might not be enough, as he emphasizes the fact that Member States have too often been submitting retroactive reforms (i.e. reforms that were actually implemented before the submission of the NRRP).

In conclusion, using the carrot as a way to drive national reforms has hence very effectively fostered the implementation of major reforms across a broad range of policy areas in MS receiving a large part of the RRF. This way of conditioning financing is part and parcel of the RRF mechanism's core novelties. As for the economic results, the fact that it has been so successful makes it a paramount positive point.

3.1.C) Complementary interactions between the European Semester and the RRF

The Recovery and Resilience Facility has become closely interlinked with the European Semester, a framework for the coordination of economic policies across the European Union. At its core, the European Semester involves a cycle of economic policy coordination and surveillance at the EU level, with the aim of fostering economic growth, stability, and convergence among Member States. Each year, during the different stages of the Semester, the European Commission issues country-specific recommendations (CSRs) to individual Member States. These CSRs provide guidance on areas where Member States can improve their economic performance and address potential challenges.

However, many scholars widely argue that prior to the pandemic, the implementation of CSRs was pretty poor and declining. Factors contributing to this include market pressures, macroeconomic vulnerabilities, governance quality, political dynamics, etc. Previous evaluations of the semester have revealed a lack of compliance with recommendations, also attributed to the limited enforceability of the structure and a lack of national ownership (Darvas & Welslau, 2023; Vanhercke & Verdun, 2022).

As we have highlighted before, the RRF introduced (among others) two main new elements into the European Semester process: conditioning RRF grants on the implementation of past CSRs (previously approved by the Council and thus supposed to be representing the views of the MS), and linking funding to meeting milestones and targets rather than the total spending of the projects (Darvas & Welslau, 2023). These two together make the Semester a more effective tool.

In both directions, the RRF and the European Semester offer significant synergies in their interplay. The main contribution of the European Semester to the RRF comes from the economic policy guidance it provides during the formulation of NRRPs. It was already a well-known, respected, legitimate and relevant instrument. It has therefore been able to share its expertise to facilitate and strengthen the drafting of national plans as MS had to submit an annual National Reform Program in the context of the European Semester. Given the stringent time constraints and the unique challenge of identifying a comprehensive reform and investment program for recovery plans, this guidance is particularly valuable. Conversely, the RRF offers a major advantage to the European Semester by strengthening national ownership of the EU's economic guidance. Member States can set their own milestones and targets, making it easier to do implementation efforts. In addition, the RRF introduces financial incentives for structural reforms, reinforcing its overall impact on the Semester (Moschella, 2020; Bekker, 2021). Practically this interaction can be seen in the fact that the RRP implementation report has been a chapter of the National Reform Program.

Hence, within the framework of RRF governance, the Semester is seen as positioned appropriately between two ends of the spectrum and striking a balance (Vanhercke & Verdun, 2022). On the one hand, it offers ample constraints to really enforce recommendations that

might have been simply ignored otherwise. The RRF fosters enhanced fiscal coordination, characterized by the harmonization of priorities within the recovery agenda and the CSRs. With the potential consequence of losing access to funds for non-compliance, the conditionality of CSRs is now operational within the framework of the RRF (Ceron, 2023). Therefore, the RRF creates momentum to reinvigorate the European Semester as a central element of policy coordination, fundamentally altering the effectiveness of CSRs (Bracke & Raaijmakers, 2022). On the other hand, it simultaneously affords MS a room for manoeuvre and flexibility in selecting and executing their preferred domestic policy measures, knowing that a substantial portion of the newly accessible funding comprises loans to countries.

Through the interlinkages now existing between the Semester and the RRF, it can be argued that the Semester shifted from a non-binding body aiming at policy coordination to a supranational economic policy embodied by the leadership of the European Commission (Vanhercke & Verdun, 2022). The question of the importance and the implications of this shift to the balance of power within the EU institutions will be discussed later in this work.

Yet, the European Court of Auditors (2022) has put forth several recommendations. Among these is the alignment of the RRF progress report with the Semester Report and ensuring comprehensive monitoring of all CSRs, even for those not directly targeted in the NRRPs. Furthermore, a robust information system should be established in a bid to track the extent to which the RRF effectively contributes to CSRs implementation.

Figure 5: The European Semester and Recovery and Resilience Facility integrated process



Legend: ASGS: Annual Sustainable Growth Survey, EAR: Euro Area Recommendation, JER: Joint Employment Report, AMR: Alert Mechanism Report, DBP: Draft Budgetary Plans, EA: euro area, RRF: Recovery and Resilience Facility, SGP: Stability and Growth Pact.

Source : European Commission, Annual Sustainable Growth Survey, 2023 ; Retrieved from Patrin (2023)

3.1.D) The Rule of Law Conditionality Regulation

First and foremost, the Rule of Law is a principle enshrined in the Treaty on the European Union and is deemed necessary for the protection of fundamental rights. The Article 2 of the Treaty on the European Union clearly states:

“The Union is founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities. These values are common to the Member States in a society in which pluralism, non-discrimination, tolerance, justice, solidarity and equality between women and men prevail”.

Therefore, when the so-called rule of law Conditionality Regulation was adopted by the Council and the Parliament at the end of 2020, it clearly embraced the gist of the EU and is even more relevant at a time when freedom is in the doldrums and since the democratic backlash ongoing throughout the continent.

The best-known example of this regulation is Hungary. The Hungarian RRP, worth €5.8 billion in grants and €8.3 billion in loans, was approved by the European Commission in June 2021. However, the allocation of RRF funds to Hungary has faced criticism and calls for conditionality due to the rule of law concerns. The Rule of Law Conditionality Regulation thus affected Hungary's access to RRF funds, freezing billions of EU funds.

In its most recent qualitative assessment report on the rule of law (Directorate-General for Justice and Consumers, 2023), the Commission called on Hungary to implement a number of measures. In a nutshell, concerns have been raised about the independence of the judiciary system and the lack of transparency, public sector corruption, media pluralism and media freedom, and institutional issues related to checks and balances.

Some might consider this totally insufficient, even going so far as to say that the ambiguity and unclarity of such regulation is counter-productive and harms the legitimacy of the EU (Scheppelle, 2020). Its vagueness and lack of clarity are often criticized. Nonetheless, it is important to understand that the outcome is the result of fierce negotiations. During these, all countries except Poland and Hungary wanted a very strict outcome regarding respect for the rule of law and the values espoused by the EU. Nevertheless, as de la Porte and Jensen (2021) point out, in view of the fierce opposition from these two countries during long and tedious negotiations, the final text makes reference to *“general principles embedded in the Union Treaties, in particular the values of Article 2 TEU, and more specifically to the financial interests of the Union, and to the respect of rule-of-law”*. They argue that this ambiguous formulation left room for considerable interpretation, and now leads to mainly a fight towards corruption and misuse of the EU funds rather than to the guarantee of the rule of law. Finally, it might be argued that although the original purpose was to protect the rule of law itself within

the EU, the rule of law is now used to protect the EU's budget and financial interests (Baraggia & Bonelli, 2022).

But is this necessarily a bad thing? Despite its more restricted scope, this regulation carries substantial weight as a valuable augmentation to the rule of law toolbox by introducing an additional mechanism to uphold the fundamental values and principles that form the basis of the Union (Baraggia & Bonelli, 2022). This marks a significant change in the EU's approach to addressing violations of the rule of law within its Member States and gives more legal ground to do so (Kirst, 2021). The new approach is more binding and coercive, moving away from the previous emphasis on dialogue and persuasion. The regulation not only reinforces monitoring and sanction mechanisms for instances of rule of law violations but also broadens the EU's capabilities to ensure respect for fundamental principles across its Member States, enhancing its credibility.

However, for credibility to hold weight, it must be accompanied by consistent action. Recently, many criticisms have surfaced. Hungary, for instance, had threatened to use its veto power against a massive 50 billion euros in aid for Ukraine. In December 2023, the Commission released 10 billion euros for Hungary, just hours before the European summit (Dunai et al., 2023). Officially, the Commission stated that this decision was purely technical, not political, and solely linked to the progress made on Hungary's recovery plan. Unofficially, critics argue that it was a way of buying the Hungarian vote. The matter is far from over though and could reach impressive dimensions as the European Parliament is preparing to sue the European Commission over its controversial decision (Hanke Vela & Chiapp, 2024).

In conclusion, it seems that the rule of law had to be part of the RRF because the very essence of the EU is at stake. The existence of the Conditionality Regulation is therefore definitely a positive thing and if it did not exist, it would be an anomaly. By linking EU funds to respect for the rule of law, the EU is sending a strong message that democratic principles and the rule of law are a *sine qua non* for enjoying the benefits of EU membership. While it is regrettable that the outcome of the negotiations makes the principle unclear and challenging to enforce, it is better than nothing in view of the need for unanimity among the 27. This notwithstanding, where the problem lies, and this is unacceptable, is in possibly blackmailing such a fundamental principle for the European Union, for example by releasing RRF funds to Hungary contingent upon its support for 50 billion in aid to Ukraine.

3.2) Negative aspects of the RRF

3.2.A) Milestones and targets, a measure of real impacts?

As explained before, in the context of the Recovery and Resilience Facility, milestones and targets (M&Ts) act as guideposts for Member States to access funding. These M&Ts are established within each country's recovery and resilience plan, the roadmap detailing how RRF funds will be used. M&Ts are thus specific, measurable goals – some being qualitative and others quantitative. We have studied how this way of working is innovative and can be considered positive. In theory, linking the payment of funds to results such as M&Ts rather than mere expenditure can only be welcomed. However, many experts have shared their criticisms and possible improvements to this mechanism.

Indeed, the pertinence of milestones and targets in accurately measuring the outcomes and effects of associated investments and reforms is subject to debate. Darvas and Welslau (2023) and the European Court of Auditors (2023a) both highlight significant variations among Member States in the indicators employed to monitor these targets. Consequently, this suggests that the seamless translation of milestones and targets into successful implementation of reforms and investments may not be guaranteed (Directorate-General for Economic and Financial Affairs, 2023).

In the realm of EU terminology, a performance-based instrument is commonly perceived as a mechanism aimed at fostering the achievement of results. However, the RRF Regulation's definition of milestones and targets introduces a focus on inputs and outputs to measure an actual implementation, rather than on the actual results of the NRRP commitments (Darvas & Welslau, 2023; Zeitlin et al., 2023b). M&Ts are defined in the regulation as “*measures of progress towards the achievement of a reform or an investment*”. It thus implies a focus on the process and not necessarily on the actual attainment of results (Darvas et al., 2023). By way of nuance, it should be noted that some reforms financed by the RRF may be complex and take time to produce tangible results. Consequently, it may be unfair to evaluate the plan solely on the basis of short-term results, as this would not adequately reflect the real effectiveness of the reforms.

This perspective, which is concurred by the ECA (2023b), posits that milestones and targets predominantly contribute to assessing the realization of specific objectives within the RRF, as opposed to its broader overarching goal, and thus do not fully cover all aspects of the RRF's performance. To illustrate, several studies have raised concerns about the lasting impact of the RRF on the green transition, highlighting that the existing milestones and targets do not sufficiently guarantee the fulfilment of RRF objectives (Darvas & Welslau, 2023).

Darvas et al. (2023) go even further and point out that the RRF does not sufficiently distinguish between general performance indicators (which focus on long-term effects) and

immediate results indicators (which measure tangible short-term results). They therefore suggest that the RRF does not put enough emphasis on these types of concrete indicators. According to the ECA (2023b), ensuring a comprehensive performance monitoring and evaluation framework with more informative and consistent reporting is necessary, as well as improving the quality of data on the common indicators (i.e. indicators that assess global impacts rather than M&Ts).

These observations do not call into question the positive impact of the RRF on the implementation of structural reforms, as we have already discussed, but it does allow to take a critical look at the instrument with a view to possibly improving it. If such a mechanism were to be used again in the future, it would be essential to work on real performance indicators and very specifically define it with a particular focus on results. In practice, monitoring could therefore prioritize scrutinizing cost details, instead of inputs and outputs only (Zeitlin et al., 2023a). Of course, this argument does not apply to all reforms. For example, to be able to observe concrete results from a reform of the education system, 10 years at the very least are needed.

Nonetheless, it will always be difficult to assess the performance of different countries perfectly, because when the national plans were drawn up, some countries' targets were inevitably more or less ambitious than others. For sure, levels of ambition of the plans differ a lot across EU countries (Zeitlin et al 2023b) as well in link to the grants received.

3.2.B) The growing role of the European Commission in a shift towards supranationalism

As briefly mentioned before in this thesis, the Recovery and Resilience Facility, co-legislated by the European Parliament (EP) and the Council, raises questions about the share of power between the different institutions of the European Union and the national representatives.

The Commission plays a key role in all stages of the RRF, notably by potentially unlocking rounds of funding. Many scholars argue that it is a clear empowerment of the Commission (Buti & Fabbrini, 2023; Vanhercke & Verdun, 2022), and an institutional failure for the European Parliament.

A first focus must be put on the legislation itself, resulting from the trilogue between the three institutions (European Commission, European Parliament, Council of the EU). In a way, this trilogue enabled the EP to play an influential role in refining the high-level requirements for the utilization of RRF funding (Leino-Sandberg & Raunio, 2023). It also made the RRF regulation prioritising key elements such as the green and digital transition, gender inclusion, a sustainable social market economy, and adherence to the rule of law (Gianna, 2023). These priorities were also strongly advocated by the Council.

However, the European Parliament sought a more influential role in the implementation of the RRF, particularly in adopting the NRRPs and impacting directly the distribution of EU funds. This would have resulted in a balanced authority between the Parliament and the Council since we have seen earlier that the ultimate decision of allocating funds belongs to the Council. Inevitably, as it is often the case, the Parliament and the Council competed for institutional powers.

Ultimately, the EP did not get any decision-making rights in the implementation phase of the RRF. Yet, the Parliament managed to obtain the Dialogue and information rights, guaranteeing transparency and communication (Gianna, 2023). Let us underline that according to the Regulation, the Commission

“shall take into account any elements arising from the views expressed through the recovery and resilience dialogue, including the resolutions from the European Parliament if provided.”

This could have been promising. Yet, in reality, it is a sort of mysterious gadget to satisfy the demands of the EP, resulting in soft or zero accountability powers (Dias Pinheiro & Dias, 2022; Leino-Sandberg & Raunio, 2023). In the end, the outcome of the trilogue can be seen as a victory for the Commission (as the executive body supervising the implementation process), a satisfactory result for the Council (getting the final word for unlocking funds), and a deceiving lack of influence for the Parliament (Gianna, 2023).

After the study of the trilogue, it is now over to the executive phase of the RRF, which follows the same trend in terms of the balance of power. Of course, the implementation process is the natural role of the EC (in charge of the execution of regulation). Yet, many issues have been raised.

We already analysed that the RRF has strengthened the European Commission's steering capacity, by fostering reforms and investments. This includes notably reforms that are part of the European Semester, such as CSRs. Fostering reforms and investments, especially as some of these have been blocked for a long time, is a good thing in itself. But, to achieve this goal, it has resulted in *“a contractualization of the relationship with the EU and a centralization of decision-making processes”* (Bokhorst & Corti, 2023). By linking up with the European Semester, the RRF has shifted the balance of power towards the technocratic supranational institution the European Commission is (Patrin, 2023).

In addition, it appears that the RRF is a way for the Commission to pursue its agenda. At the heart of this endeavour lies the crafting of guidelines and criteria dictating the eligibility and allocation of funding, a process through which the Commission seeks to align national recovery plans with overarching EU objectives. Ceron (2023) conducted an analysis showing how the EC can indirectly push its agenda through the NRRPs. She compares prioritization across the three broad policy areas which characterize the RRF in the NRRP to those in the CSRs and party manifestos, capturing respectively supranational and domestic priorities.

Hence, she finds for instance that green investments are more prominent in NRRPs than in the initial national policy agenda. The RRF then effectively manages to orientate the recovery agendas toward green objectives.

What seems interesting to note is that the perception of the Commission's agenda-setting within the RRF is inherently contingent upon the objectives it espouses and the values it prioritizes. Where the Commission's agenda aligns with widely shared goals such as fostering green investments to mitigate climate change, its actions are likely to garner broad-based support and be viewed as a commendable exercise of leadership. In this context, the debate would not be very tense. Conversely, in instances where the Commission's agenda intersects with more contentious issues characterized by deep-seated divisions within the EU, its actions may provoke much more scepticism and criticism. Particularly concerning are scenarios where the Commission would appear to prioritize certain objectives over others in a manner perceived as undemocratic or infringing upon national sovereignty. Issues such as migration, taxation, and governance reforms often elicit divergent viewpoints within the EU, rendering them highly polarizing and sensitive to perceived encroachments on national prerogatives. In such cases, the Commission's exercise of authority within the RRF may be construed by people as heavy-handed, paternalistic, or just not democratic at all.

Taken together, the distribution of funds, the European Semester and the CSRs, as well as the assessment of milestones and targets, create a framework in which the Commission might be omnipotent, omnipresent (Bracke & Raaijmakers, 2022), and able to push its agenda on the Member States relying mainly on the RRF, which have no choice but to comply as their economic recovery depends on it. Indeed, we have seen that some MS rely much more on the RRF than others.

But, even so, it would be incomplete to simply state that the Commission is becoming all-powerful, with no leverage or other entity to contradict it. First of all, the Commission is not just an army of technocrats with no political legitimacy. It is elected by the Parliament and the European Council, which are supposed to represent the will of the European people.

Besides, the conditionality and the disbursing of funds in the framework of the RRF are not a simple top-down imposition of the EC priorities (Ceron, 2023). At first, it is the national governments that must draft their National Recovery and Resilience Plan (NRRP), giving them the opportunity to articulate their own reform proposals through these, thus providing room for manoeuvre in formulating specific reforms tailored to the national situation and domestic priorities (Bekker, 2021; Vanhercke & Verdun, 2022). So, submitting national plans gives MS power and the possibility to develop ownership. These national governments are supposed to be controlled by the national parliaments, giving them democratic legitimacy within the countries.

Moreover, despite the undeniable central role of the Commission, in the case of disbursement, it must first consult an ECOFIN advisory body staffed by high-level officials from national treasuries, the Economic and Financial Committee (Hodson & Howarth, 2024).

The fact that the ECOFIN Council is made up of the economic and finance ministers of all the MS can, in a way, mitigate the omnipotence of the Commission and support the role of the Member States. As we have seen earlier, the Commission assesses the NRRPs, but the final decision lies within the Council through implementing acts.

Instead of insisting on a puzzling growing power for the Commission, Ladi & Wolff (2021) thus speak about dialogue and cooperation between the Council and the Commission and justify it by the following argument. The RRF's conditionality includes sanctions for non-compliance and its connection to the rule of law is a new aspect of the 2021-2027 Multiannual Financial Framework (MFF). If one or more Member States believe another country's plan significantly deviates from agreed-upon milestones, they can request an extraordinary summit within a three-month timeframe. To halt fund disbursement, they then need the consent of a qualified majority at the Council.

This point should be nuanced. Indeed, the major flaw in this procedure is the lack of a strict separation of powers. The potential vote takes place in the Council. This means that it would be the Member States themselves who would vote to potentially sanction another Member State. As a result, members of the Council may obviously have an interest in not sanctioning a country in order to ensure that they themselves are not potentially sanctioned in the future. They are thus both judge and jury at the same time. This countervailing power of the Council seems therefore extremely limited. For instance, since the implementation of the RRF in 2021, the Council has never contested an EC assessment, even in cases of suspension of payment.

In addition, the argument according to which the NRRPs are simply the translation of national electors and democratic will because they are subjected to national parliaments is not totally honest. The RRF is not known for its particularly high flexibility. Considering the amount of time allotted to Member States in an emergency situation, it is very debatable whether the national parliaments would have had sufficient opportunity to thoroughly review and amend it totally consistently. Therefore, the NRRPs have not been central in the national public debates, which lead to a lack of ownership. Then, when the reforms must be implemented to access EU funds but are not popular, politicians present these reforms as European obligations although the NRRP had been drafted and accepted by the government itself. The EC can thus simply be presented as an executioner imposing potentially unpopular reforms, absolving governments of any responsibility, and leading to a democratically regrettable lack of ownership.

For example, Bekker (2021) highlights that in Spain, trade unions have shared their deep concerns regarding the perpetual interference of services of the EC in the government's work on the NRRP, hampering social dialogue at the national level. According to them (European Trade Union Confederation, 2021), *“The responsibility for designing and implementing NRRP belongs to national governments in cooperation with economic and social players. Social partners are better placed to establish content and timing of reforms in the best interests of Spanish workers and businesses and Spain as a whole. The above-mentioned interference puts*

at risk comprehensive reforms that would provide policy response to challenges related to the Spanish labour market and in particular temporary employment and youth unemployment. They also resulted in an unacceptable interference in national social dialogue and autonomy of social partners”. The same kind of reaction has been observed in other European countries as well. In the same vein, it is important to note that the involvement of stakeholders is left at the discretion of the MS. Excessive centralization can therefore also be observed within Member States (Bokhorst & Corti, 2023).

We must not fall into caricatures, which is why the different roles and possibilities of the two other institutions have been presented. Nonetheless, we explained why in practice, the control power of the Council can be seen as representing fairly weak checks and balances, compared with the influence granted to the Commission. Besides, the constant information rights of the European Parliament present deceiving accountability power.

The discussion having been conducted, it is now clear that the RRF confirms the dominance of the executive body, here the European Commission, as the main actor implementing and overseeing the EU’s economic governance system (Dermine, 2020). In a nutshell, as Dermine (2020) argues, fiscal authority, robust bilateral interactions with national authorities and the incorporation of the RRF into the broader context of the European Semester enhance the dominance of the EC. This effectively empowers the Commission to collaboratively develop recovery strategies with the Member States. After this analysis, it is not unreasonable to consider that this presents a democratic, legitimacy and institutional issue.

3.2.C) An overwhelming bureaucratisation?

The Recovery and Resilience Facility has been established with a laudable goal: to jumpstart Europe's economic engine in the wake of the pandemic. However, the road to receiving this financial support is paved with bureaucratic hurdles, raising concerns among the stakeholders.

The crux of the issue might lie in the slow and cumbersome process of obtaining funds. National governments face a labyrinth of complex approval processes with the European Commission. This translates to mountains of paperwork and detailed plans, delaying access to critical resources that might hinder the overall recovery effort. The administrative burden is substantial, potentially straining limited resources and diverting focus from actual recovery projects.

Of course, stringent procedures can ensure transparency and accountability, crucial for maintaining public trust and preventing misuse of funds, especially at a time when mistrust of political decision-makers is reaching fever pitch. Overall, it protects the financial interest of the Union. This notwithstanding, voices have been raised against this excessive time-consuming work and bureaucratisation.

Upon submission of the NRRPs, the European Commission conducts an assessment to ascertain compliance with regulatory requirements and alignment with the overarching objectives of the RRF. Subsequently, the plans undergo review and approval by the Council of the European Union. The rigidity of the criteria and guidelines might undermine the ability of countries to tailor their recovery strategies to suit their unique circumstances and exigencies. Consequently, MS may find themselves constrained by a one-size-fits-all approach that fails to accommodate the dynamic nature of crises and recovery efforts. The intricate procedures, exhaustive documentation requirements, and protracted evaluation timelines contribute to bureaucratic inertia. Substantial human and financial resources are therefore needed, which can also hamper the ability of certain European countries to coherently reach the RRF objectives more than others. Many Member States did not prioritize adequately strengthening administrative capacity at the local and regional levels, which has proved to be essential to ensure the proper implementation of the NRRPs (Directorate-General for Economic and Financial Affairs, 2023). The actual resources and workforce required for successful implementation have been largely underestimated by many MS. This is even more the case for the revision process and the auditing. Amending and modifying the plans has turned out to result in huge administrative costs and a lack of flexibility, as stressed by many MS (Directorate-General for Economic and Financial Affairs, 2023). In a model where milestones and targets are set over a six-year period, it becomes challenging and cumbersome to revise plans when underlying circumstances change or unexpected problems arise (Zeitlin et al. 2023a). As perceived by several Member States, the introduction of new audit and control requirements for the performance-based instrument has led to uncertainty and excessive auditing, impacting the efficient execution of the plans. Indeed, audits are the responsibility of MS (although the EC can check these and act in case of misuse of funds). Again, an insufficient audit system of a Member State puts it in a difficult position.

The high degree of ex-ante knowledge in the plans, potentially not aligning with local needs and limiting the flexibility of policymaking, must also be considered. Bokhorst & Corti (2023) speak about a shift from a "*comply-or-explain*" principle to a "*comply-or-do not-get-paid*" principle, implying hence greater emphasis on implementation rather than explanations. The detailed and contractualized nature of M&Ts may thus result in a rigid implementation process, leaving no room for context-specific interpretation and adaptation. This administrative burden is so significant that as we explained earlier, countries might prefer to borrow from the markets rather than get tight with all these rules (Demertzis, 2022).

The rigidity of the RRF poses another problem: in some countries, such as Poland, implementation has been delayed by specific political circumstances (the freezing of funds for the rule of law, followed by the reforms announced since Donald Tusk became Prime Minister once again). Currently, the legislation states that all net issuances are to cease after August 2026, putting an end to the RRF, since the instrument has been created as a one-off. Consequently, although the Commission has insisted on the temporary nature and the 2026 deadline for the RRF, some very prominent MEPs admit that it is not impossible for the deadlines to be extended if necessary to ensure that the money is properly spent. This would imply a change of the current RRF regulation and would therefore depend on the willingness

of the future European Parliament. This potential extension could, though, be blocked by many reluctant states (Szumski et al., 2024), as we will explore in the next section.

Even so, one could argue that these rigid administrative constraints are the price that must be paid to ensure that European funds are allocated transparently, efficiently and in a way that guarantees good public management which is new and necessary (Bokhorst & Corti, 2023; Gauer, 2022). Let us note that the European Court of Auditors (2023a) stated that “*the Commission has designed a control system that provides for an extensive process for verifying the fulfilment of milestones and targets*” and that the procedures are extensive. In addition, from a political point of view, it can be tempting for some leaders to blame potentially excessive bureaucratization for their failure to achieve the objectives they committed to in the NRRPs.

Imposing constraints to guarantee the appropriate use of funds is a good thing in itself and a praiseworthy objective. Yet, it is clear that certain limits have been exceeded, putting MS in a difficult position. The key to moving forward would probably be to strike a better balance. Streamlining procedures without compromising accountability is essential. This could involve simplifying application processes, focusing on clear and achievable goals, and providing technical assistance to national governments navigating the application process. Additionally, allowing some flexibility within the guidelines would empower countries to tailor recovery plans to their specific circumstances.

Figure 6: Mapping of the administrative costs of the Recovery and Resilience Facility implementation

ADMINISTRATIVE COSTS OF RRF IMPLEMENTATION	
EU ADMINISTRATIVE COSTS	MS ADMINISTRATIVE COSTS
<p>Activities generating administrative costs</p> <p>One-off: Assessing the NRRPs Preparing the proposal for a Council Implementing Decision, operational arrangements and financing and loan agreements Drafting and approving the REPower Regulation Assessing the REPower chapter of NRRP Assessing NRRP amendments Evaluating mid-term and ex-post (estimation) Setting up the FENIX IT tool</p> <p>Recurrent: Reporting to the European Parliament and the Council Dialogue with the Council and the European Parliament Ex-ante controls at payment requests Monitoring Performance management Ex-post audits Outreach activities, Communication</p>	<p>Activities generating administrative costs</p> <p>One-off: Setting up the governance structure Drafting the NRRP Stakeholder consultation Informal dialogue with the COM on plan submission Official process of plan submission Drafting the REPower chapter, plan amendments</p> <p>Recurrent: Bi-annual reporting on milestones and targets Bi-annual reporting on monitoring steps Bi-annual reporting on other EU funding Reporting on common indicators Informal dialogue with the COM on payment request submission Official submission of payment request Monitoring and performance management Audits by national authorities Audits by EU institutions (EC) Audits by EU institutions (ECA) Outreach activities</p>

Source: Directorate-General for Economic and Financial Affairs, 2023

3.2.D) Frictions between Member States

The establishment of the Recovery and Resilience Facility surely represents a significant milestone in European integration, as it entails for the first time the issuance of a common debt at the European Union level. This development signifies a departure from the traditional fiscal framework, where Member States primarily relied on their own resources and financial instruments to address economic challenges. The RRF's creation acknowledged the need for collective action and solidarity in responding to the unprecedented socio-economic consequences of events such as the COVID-19 pandemic. The debt contracted at an EU level has different implications within the MS.

Inevitably, when you take on debt collectively and allocate funds, it leads to the emergence of a dynamic between Member States, distinguishing net contributors and net beneficiaries. This differentiation stems from the varying levels of financial contributions made by countries to the common debt pool and the allocation of funds to support national recovery and resilience initiatives. As we developed earlier, the total amount of grants given to each MS is determined by an allocation key. Although the economic returns of such a mechanism proved to be directly and indirectly (through spillovers) positive, not all countries are on the same page concerning these kinds of economic tools. Consequently, the positioning of states often referred to as the “Frugals”, underscores their concerns regarding fiscal discipline and the prudent use of EU funds.

In other words, an Italian official, a net beneficiary, who has suffered the full brunt of the crisis and for whom the stimulus plan has produced excellent benefits, will be more inclined to repeat the RRF experience than an official from the Netherlands, a net contributor, who would probably have been able to recover without the European mechanism and who ultimately end up paying more than what is received. From this perspective, the RRF is more similar to the EU's standard multiannual financial framework, which involves redistribution from richer to poorer Member States to support their structural transformation in a bid to convergence, than to a post-crisis recovery plan aiming at fostering efficiency above anything else (Darvas, 2022).

During the negotiations, it was pretty clear that two main camps emerged. On the one hand, Southern European leaders (advocating less budgetary discipline than the Frugals) were strongly in favour of sharing financial resources. On the other hand, Frugal countries were much more reluctant to borrowing commonly but accepted for the pursuit of structural reforms within the MS (Bokhorst & Corti, 2023).

Differences are thus also observed in the NRRPs. In Southern countries, the RRF enabled investments that might have never been possible to implement without the EU funds. On the contrary, the net contributors could have potentially financed the investment themselves. Priorities lying in the NRRPs and allocation of EU funds can therefore vary considerably from one EU country to another (Ceron, 2023; Corti & Vesan, 2023).

Therefore, one could argue that if it were to be repeated, it would have to be for a huge shock such as COVID-19. Indeed, it was unprecedented in modern history, and images such as those seen in Italy deeply affected all European citizens. This is why a joint European relaunch was seen as an absolute and justified necessity. However, in less dramatic and more polarizing circumstances, this kind of European mechanism could create more friction among MS.

As a matter of fact, the temptation would be too great for populists, but not only, to use this kind of situation to blame the EU. Such a mechanism for smaller shocks would provide fodder for the narrative according to which some countries give much more to the EU than they receive, and that the taxes of some European citizens are being transferred to a technocratic organization and to other countries that are less responsible for their public finances. For a time, the RRF can conceal the structurally divergent trajectories of Member States and promote solidarity and convergence between them. Nonetheless, it is highly plausible that the potential frictions that we explained earlier (and not only populist claims) would reappear with all the more strength in the future in the absence of a real crisis of the calibre of the pandemic justifying such a solidaristic mechanism (Allemand et al., 2023). Any new EU crisis response tool should therefore very carefully define the guiding principles of cross-country redistribution (Darvas, 2022).

Furthermore, it is essential to consider very recent advancements in economic governance, such as the implementation of the Medium Term Fiscal Structural Plan and the introduction of enhanced fiscal coordination mechanisms. Should these measures effectively address fiscal challenges in heavily indebted countries, they may facilitate smoother negotiations and acceptance of future instruments akin to the RRF.

3.3) Conclusion of the critical assessment

Now that our critical assessment has been conducted, we can draw our first conclusions on the quality and effectiveness of the Recovery and Resilience Facility.

On the one hand, the RRF is reaching its objectives. The very first purpose of a recovery plan is of course the economic recovery, which is turning out to be successful. A clear consensus from the scholar has emerged, and spillovers but also the fostering of convergence must be noted. In addition, using financial conditionality as a means of driving national reforms, the most paramount feature of the mechanism has proved its efficiency. Structural reforms are being implemented throughout the continent, tackling weaknesses of the MS and thus of the EU. The RRF has also been fruitfully interlinked with the European Semester, enabling CSRs to become more relevant. Finally, despite its real limitations which deserve to be pointed out, imposing a conditionality based on the rule of law was a prerequisite for the credibility of the EU.

On the other hand, many concerning pitfalls have been underlined. First and foremost, since it is the gist of the mechanism, the performance indicators used for assessing the milestones and targets must be reformed in order to better ensure results. In addition, we studied the growing role of the European Commission, omnipotent in the process. Moreover, the other side of the coin of the absolute need for strict control over the use of European funds (although justified), has led to a blatant lack of flexibility and administrative burdens that have put some Member States in difficulty. Ultimately, the solidaristic aspect of the RRF was justified by an extraordinary external shock. Yet, if the RRF had to be repeated, the net contributors would not accept such a similar tool easily.

Furthermore, an additional point must be raised to qualify the drawbacks of the RRF. It is important to keep in mind the situation in which the instrument has been implemented. The European Union had to come up with a framework for its recovery plan extremely quickly and efficiently and therefore had to work under great time pressure. This is not to say that the instrument is beyond reproach, but it is important to qualify the statement by putting the implementation of the RRF in context, which has been created as a one-off.

Therefore, it appears that in its current shape, the Recovery and Resilience Facility cannot be made permanent. However, the economic recovery is ongoing and its main features, i.e. the use of milestones and targets is a success. Could this lay the foundations for the future of the European economic governance framework?

4) Does the Recovery and Resilience Facility lay the foundations of a new European economic governance framework?

4.1) Is the Recovery and Resilience Facility a game changer?

In addition to the novelties brought by the RRF explained in Chapter 2, the RRF represents a genuine breakthrough. According to Buti & Fabbrini (2023), the economic answer to the COVID-19 crisis represents a true shift of the EU decision-making methods in economic governance. Indeed, they argue that during the sovereign debt crisis in the 2010s, the EU used to function as “*unconstrained intergovernmentalism*”, using national resources of the MS. Conversely, the response to the pandemic corresponds to what they define as “*constrained supranationalism*”, using new own resources highlighting the EC’s decisions centrality (although checked by the Council and the Parliament which has to vote the discharge of the EC). This view is well summarised by the following table, retrieved from Buti & Fabbrini (2023).

The Monnet Compatibility Test and EU decision-making methods

EU decision-making Monnet Compatibility Test	Traditional Community method (EU annual budget)	Unconstrained intergovernmentalism (national resources)	Constrained supranationalism (new own resources)
Institutional coherence	Co-decision	National governments’ primacy	Commission ‘s centrality
Economic coherence	Regulatory standard	Risk of incongruent policy mix	Fiscal rules and fiscal capacity
Political coherence	Administrative accountability	Divisions between creditors and debtors	National reforms as mutual trust

Source: Buti & Fabbrini, 2023

On the contrary, Bocquillon et al. (2023) argue that the RRF has not displaced any existing process of economic governance and has not brought new objectives to the EU agenda. As a matter of fact, we studied how the RRF is now intertwined with the European Semester, promoting now effectively the CSRs. What the RRF has done is improving existing tools and slightly modifying them. Indeed, within the Semester process, the RRF has bolstered the codification and precision of obligations within national recovery plans, strengthening monitoring mechanisms and sanctions to address instances of non-compliance.

Between the two precedent views, Ladi & Wolff (2021), provide a nuanced point, developing the concept of “*coordinative Europeanization*”, as being neither a supranational nor an intergovernmental mode of cooperation. They describe it as very different from the “*coercive Europeanization*” we witnessed during the Eurozone crisis, with European

institutions imposing changes on the Member States. Here, the current approach involved direct consultations with EU Member states, leading to permanent dialogue and cooperation. This is directly illustrated by the NRRPs drafting through dialogues between the MS and the EC.

While it is possible to argue about specific points, overall, the RRF presents many important new features. Will the RRF and its novelties become permanent?

4.2) Towards a permanent instrument?

More and more scholars claim that NGEU might lead to a permanent EU borrowing capacity. More than a temporary transfer mechanism, NGEU could thus become a permanent fund that would aim to invest in EU public goods and would create a common safe asset (Begg, 2023).

The EU definitely needs an instrument to push for national reforms, and the success of the RRF in this aspect will for sure tempt European decision-makers to repeat a relatively similar mechanism. Therefore, the RRF could thus become a good instrument for “insuring” EU countries against common shocks (Demertzis, 2022).

Formally, the package is a one-off, a temporary measure with no provision for renewal or becoming a permanent instrument. However, the reimbursement of the funds borrowed under NGEU will only end in 2058. In the European integration history, it has frequently happened that temporary reforms endure and shape further institutional developments (Bocquillon et al., 2023). Even if this may seem surprising at first sight, the EU’s reaction to the crisis alongside the introduction of new budgetary instruments does demonstrate itself a notable degree of continuity (Dermine, 2020). This concept is called path dependency. Path dependency in European integration refers to the idea that historical decisions and events shape the trajectory of integration, leading to outcomes that are difficult to reverse or deviate from. It underscores the notion that the direction of European integration is not solely determined by rational choices made in the present, but also by the legacy of past decisions and institutional structures. Policies, amendments, and institutional changes can then become entrenched over time, even if initially designed as strictly temporary.

Although it was an instrumental mechanism, the RRF could thus initiate a gradual transformation of the EU economic governance. As a matter of fact, path dependence and gradual change are interlinked, and outcomes stemming from critical junctures frequently unleash transformative forces in the aftermath of crises (Rehm, 2022). At the end of the day, of course, it is impossible to know for sure whether such a tool will be renewed in any way. However, it definitely appears that the pandemic response will shape the EU institutional architecture and its relationship with its Member States for a long time (Ladi & Wolff, 2021).

In 2023, a new chapter, called REPowerEU, has been introduced within the Recovery and Resilience Facility. Its purpose was to be an adequate response to the disruption to the energy market caused by Russia's invasion of Ukraine and to reduce Europe's dependence on Russian gas. It consists of an investment of €210 billion for the period 2022-2027. It has more focused objectives than the RRF, namely to

“save energy; diversify supplies; quickly substitute fossil fuels by accelerating Europe’s clean energy transition; smartly combine investments and reforms”.

(Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 Amending Regulation (EU) 2021/241 as Regards REPowerEU Chapters in Recovery and Resilience Plans and Amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC, 2023)

Based on the RRF legislation, the amounts have thus been extended; the legislation having created this precedent, it has already made it possible to respond to a new crisis: the energy crisis. Seen in historical institutionalist terms, the war in Ukraine has not produced a genuine institutional change but instead introduced a slight modification to the RRF (Hodson & Howarth, 2024).

Yet, the path dependency of the RRF can be found in the Macro-Financial Assistance (MFA) programme, providing €18 billion of support in the form of loans (Fabbrini, 2023; Hodson & Howarth, 2024). Indeed, a *“memorandum of understanding”* has been agreed between the Commission and Ukraine, conditioning the funding to the country by the respect of principles of democracy and the rule of law. This can remind the mechanism of conditionality of the RRF.

Furthermore, a form of path dependency can also be seen in the recently adopted reform of budgetary rules. On the one hand, the RRF consists of releasing funds on condition that reforms are carried out. On the other hand, the New economic governance framework now allows for a longer period of adjustment under the condition of reforms being implemented. The two follow therefore a relatively similar logic.

As regards the contracting of a joint debt between the MS as for NGEU, the possibility of repeating the mechanism is regularly in the news. For instance, Kaja Kallas, the Estonian Prime Minister, has proposed a joint loan of 100 billion euros to finance Europe's defence effort and its military reindustrialization. Mario Draghi is on the same page about the need to jointly re-contract debt (Berretta, 2024). Directly, as we suggested earlier in this thesis, the response of certain net contributor countries has been very firm, rejecting this idea or being very sceptical (Brzozowski & Pugnet, 2024), at least in the media.

After a positive critical assessment although presenting serious issues, it seems that thanks to the path dependency brought by the Recovery and Resilience Facility, the instrument could lay the foundations of a new European economic governance framework.

4.3) Room for reforms to achieve actual legitimacy and ownership

We highlighted several drawbacks in our critical assessment. We discussed the problems associated with milestones and targets, excessive bureaucratization, and the potential friction between Member States that such mechanisms create. Potential reforms to remedy these pitfalls should be implemented, but the ambition of this work does not allow us to go into the details of potential reforms for all these facets of the RRF. For this reason, our focus in this section will be on potential reforms based on the lessons learned from the chapter on the institutional power issues of the RRF. In a period of mistrust of the European project, improving the balance of power between the various institutions could enable the RRF to humbly enlighten the EU accomplishments.

The pioneering role of the RRF paves the way for further European integration. Although it is only temporary, its success in promoting national convergence (Bańkowski et al., 2022) and effective coordination might lead to a paradigm shift (Buti & Fabbrini, 2023). Yet, this shift to a supranational authority potentially with a central fiscal capacity could not be accepted smoothly without a stronger role for the national parliaments, the Council and the European Parliament.

Firstly, in many MS, national parliaments are not involved in negotiations concerning the RRF. The NRRPs must be voted but as we explained earlier in this work, the short timing and the urgency of the situation meant that this process could not be carried out in conditions most conducive to a fully democratic vote. In addition, since the parliaments are not involved in the implementation of the NRRP projects, the government do not report enough in front of the MPs. Indeed, the goals, status of implementation and payment flows are not directly communicated (European Court of Auditors, 2022). Furthermore, the NRRPs lead to a consolidation of centralisation within MS (Zeitlin et al., 2023b). The participation of local and regional authorities, social partners, and civil society organizations in the development and execution of NRRPs has been markedly limited. Local stakeholders directly affected by EU-funded projects are thus not involved in their design and oversight, which therefore impedes its acceptance and appropriation. This is a direct consequence of the fact that the national governments are the only point of contact with the Commission for a matter of efficiency in verifying the fulfilment of relevant milestones and targets to facilitate periodic payment requests. This is also due to the fact that the pandemic crisis asked for a fast response leaving a very short time not only for the elaboration of the RRF regulation but also for the redaction of NRRP by MS. It has also been observed that in countries with high financial allocations from the RRF, the sense of ownership decreases (although smaller allocations do not lead to good ownership) (Munta et al., 2023).

Consequently, to achieve real ownership at the national level, two main issues need to be addressed: drafting and implementation. On the one hand, parliamentary work on NRRPs' drafting needs to be carried out in better conditions, allowing for more expert parliamentary debate and potential amendments. Commitments made to the Commission would thus be perceived more as emanating from the democratic debate within parliament, rather than as a constraint coming from the European level. If the RRF is extended to respond quickly to future crises, this problem will persist. If the RRF is extended as a fostering reforms instrument, more time could be given to parliamentary debate, and this pitfall could be avoided. On the other hand, during the implementation process, excessive centralization within the MS reduces ownership. On this point, it appears to be the responsibility of the MS to organize more dialogue and cooperation with local entities and civil society, and not necessarily the responsibility of the EU. Yet, as explained earlier, it is always convenient for a national politician to argue that when a project succeeds, it is a matter of his success, and when difficult reforms have to be undertaken, it is a matter of European constraints. Excessive centralization within the MS is therefore the responsibility of the Member States politicians.

Secondly, as the Council is concerned, we noted that the ECOFIN must authorize the assessment of NRRPs and that the decision to unlock funds ultimately lies within the Council. However, we analysed why the potential halt of fund disbursement by a qualified majority vote in the Council presents practical pitfalls. This power seems important for a matter of checks and balances; it must therefore be reformed to become truly effective. As the Member States are both judge and jury at the same time, one could imagine a reform of how the votes are conducted. For instance, voting could be made anonymous to reduce political pressure and potential retaliations between Member States. In addition, more independent audits by experts could be carried out, both on national plans and on progress of milestones and targets.

Thirdly, our analysis of the institutional shift of power towards the Commission underlined the modest role of the European Parliament in the implementation process with very limited accountability power. In a very indirect way, one might reply that the EP votes to approve the Commission at the start of the legislature and that executive powers are *de facto* responsible for the implementation of democracy. Yet, democracy also implies checks and balances, and we analysed why these present major issues. To tackle this problem, a potential right of veto for the European Parliament over key RRF decisions could be a game changer.

A parallel could be drawn with the EU trade policy, for which the Lisbon Treaty has been a game changer. Wouters & Raube (2019) analysed that giving the Parliament consent powers has made it able to influence the negotiations from the very beginning (in the EC's proposals), because the EP has the power of veto at the very end. That is why the Parliament asked to be informed throughout the negotiations. This created a "*shadow of the future*", leading to consistent checks and balances of the executive body from a legislative body. The main drawback of such a reform in the case of the RRF would probably be the potential extra time this would require, given that some Member States are already racing against the clock to finish before the August 2026 deadline. By implementing this reform, the European Parliament would strengthen its role of oversight and democratic control over the RRF, thereby

contributing to greater transparency. As the Parliament is the most direct representative of the European voters' choices and the very gist of democracy, strengthening its power would strengthen democracy.

All these reforms might tackle the main institutional issues of the RRF: a lack of ownership and legitimacy.

5) Conclusion

The European response to the COVID-19 pandemic was unprecedented, and the Recovery and Resilience Facility is undoubtedly an innovative instrument. By analysing it, this thesis has aimed to answer the question of whether the RRF can lay the foundations of a new European economic governance framework.

Firstly, we described the main features of the Recovery and Resilience Facility and the framework in which it was created, i.e. NextGenerationEU. This highlighted many novelties brought by this new tool.

Secondly, we conducted a critical assessment of the RRF. On the one hand, we underlined that it is succeeding in reviving the continent's economy and it has pushed through major structural reforms in some Member States thanks to its financial conditionality. Besides, from an institutional point of view, it has been convincingly integrated into the European Semester, giving new weight to the CSRs. The question of the rule of law conditionality has also been tackled, insisting on the importance of such conditionality while warning against its main pitfalls. On the other hand, the RRF currently presents notable drawbacks. The definition of milestones and targets, while it is the crux of the instrument, can be improved for better control of genuine results. Furthermore, the massive role accorded to the European Commission should be addressed adequately at a time when mistrust of the institution is growing, and its potential lack of legitimacy is frequently raised. Also, although the EU has been able to react very quickly and effectively to the crisis, the lack of flexibility and the massive administrative burden has been difficult to handle for Member States, leading some of them to serious difficulties. Finally, the solidaristic aspect of the RRF was for sure justified after the pandemic, but it seems hard to imagine that it will be easily replicated without a crisis of this scale, given the positions it has implied for Member States. Based on our critical analysis, we therefore concluded that in its current form, despite its undeniable positive aspects, the RRF could not be extended as such.

Thirdly, in order to answer the research question, we delved into the extent to which the RRF has been a game changer for the EU economic governance framework. Next, this thesis has shed light on the weight of path dependency in European integration, arguing that it might apply to the RRF, which could thus lay the foundations of a new European economic governance framework. We concluded this chapter by proposing potential reforms to counterbalance the new scales of power. Reinforcing the role of national parliaments, the Council of the European Union and the European Parliament, as we proposed, could potentially enable European citizens to take greater ownership of this tool, and why not reduce the gap with its leaders.

To reach the full potential of legitimacy and ownership of the RRF, further research and reflection might be conducted on potential ways of enhancing governance by complementary and cooperative relationships between the national parliaments and the European Parliament. Unleashing this potential could be a way of reconciling national interests with European issues by guaranteeing complementary partnerships.

Ultimately, being able to improve the Recovery and Resilience Facility to make it a permanent tool would symbolise the EU's capacity to overcome adversity and would be a blueprint for a truly united European Union. That would be quite a signal sent to its detractors.

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