

Directorate General Economics, Statistics and Research

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Next Generation EU (NGEU) funds: how they are recorded in the balance of payments and international investment position

Balance of Payments and Financial Accounts Division

1 Introduction

The Next Generation EU (NGEU) programme is an extraordinary temporary instrument designed to stimulate recovery in Europe from the economic and social consequences of COVID-19. It consists of a package of funds with an envelope of €750 billion¹ to be distributed among the Member States, conditional upon the submission of and compliance with so-called National Recovery and Resilience Plans. The programme was approved by the European Council in July 2020 and, in order to ensure that the assistance is concentrated in the initial years following the crisis, the funds will be available until 31 December 2023.

The Member States receive NGEU funds in the form of loans or grants, through traditional Union instruments and programmes (such as the European Social Fund and the European Regional Development Fund) or new ones (the Recovery and Resilience Facility (RRF) being the most important). In fact, the NGEU programme is made up in turn of seven sub-programmes the amounts of which are set out in Table 1 of the annex.

The receipt of these funds may have a significant impact on Spain's net lending/net borrowing in certain periods, although in some cases it will only give rise to entries in the financial account and not in the current and capital account. The purpose of this note is to explain how the NGEU funds are recorded in the balance of payments and the international investment position. For a detailed description of the programme see Box 1.2 of the Annual Report 2020 of the Banco de España.²

2 Recording in external statistics (BoP/IIP)

As mentioned above, countries receive NGEU funds in the form of grants or loans.

2.1 Grants

¹ At 2018 prices.

² https://www.bde.es/f/webbde/SES/Secciones/Publicaciones/PublicacionesAnuales/InformesAnuales/20/Files/InfAnual_2020-Cap1-Box1.2.pdf

Grants may be received by the Spanish government before the expenditure for the purpose the grant was applied for is recorded. If a receipt of transfers from abroad were recorded by general government at that initial moment, when it is still not possible to record an expenditure, the movement would have a temporary impact on the budget deficit which, under European rules, should not happen. According to these rules, the receipt of the transfer (which may be either a current or a capital transfer, depending on what the funds are to be used for) should be recorded in the same period as the expenditure.³

The Commission has opened an account at the ECB for these operations and all the related cross-border transactions will be settled through the TARGET system.⁴ Thus, initially, the grants received by Spain are reflected in the Banco de España's position vis-à-vis the Eurosystem. The ECB will record a debit in the Commission's account and a credit in the Banco de España's account. In the Spanish balance of payments this credit is recorded as a decrease in the Banco de España's financial account liabilities,⁵ under the heading *other investment*, specifically in the instrument *deposits*. The counterpart of this entry is an increase in general government financial account liabilities, under *other investment*, *other accounts payable*. Thus, initially, the arrival of the funds only has an impact on the financial account, of the Banco España and of general government.

Subsequently, when the expenditure is made using the funds received, the transfer credit is recorded in the current or capital account. The counterpart entry is a debit (decrease in liabilities) in the financial account, which cancels out the liability previously generated in general government *accounts payable*. It is in this second stage that the NGEU programme has an impact on the net lending of the Spanish economy, through its effect on the current or capital account balance.

The sequence of entries is set out below. The mirror entries in Spain's counterpart economic territories (the ECB and the European Commission) are also included for the purposes of a fuller understanding of the recording of these transactions.

³ The only exception to this neutrality principle is expenditure incurred in 2020 that is going to be financed by RRF grants. In that case, the receipts are recorded at the time of approval by the Council of the relevant national plan.

⁴ Trans-European Automated Real-time Gross settlement Express Transfer System.

⁵ The Banco de España's account at the ECB is recorded under assets or liabilities depending on whether Spain is in credit or debit. It is currently recorded as a liability, and has been for some time.

Time 1. The funds are received through TARGET

| The Spanish balance of payments | | |
|--|-------------------------------|--|
| | Change in assets / CCA debits | Change in liabilities / CCA credits |
| Current and capital accounts | - | - |
| Financial account and IIP | | Decrease in the Banco de España's deposit liabilities vis-à-vis the ECB. Financial account. Other investment Increase in general government liabilities under other accounts payable vis-à-vis the European Commission. Financial account. Other investment |

| The ECB's balance of payments⁶ | | |
|--|---|---|
| | Change in assets / CCA debits | Change in liabilities / CCA credits |
| Current and capital accounts (CCA) | - | - |
| Financial account and IIP | Decrease in deposit assets vis-à-vis the Banco de España. Financial account. Other investment | Decrease in deposit liabilities vis-à-vis the Commission. Financial account. Other investment |

| The European Commission's balance of payments⁷ | | |
|--|--|-------------------------------------|
| | Change in assets / CCA debits | Change in liabilities / CCA credits |
| Current and capital accounts | - | - |
| Financial account | Decrease in deposit assets vis-à-vis the ECB. Financial account. Other investment Increase in general government assets under other accounts payable vis-à-vis Spain. Financial account. Other investment | |

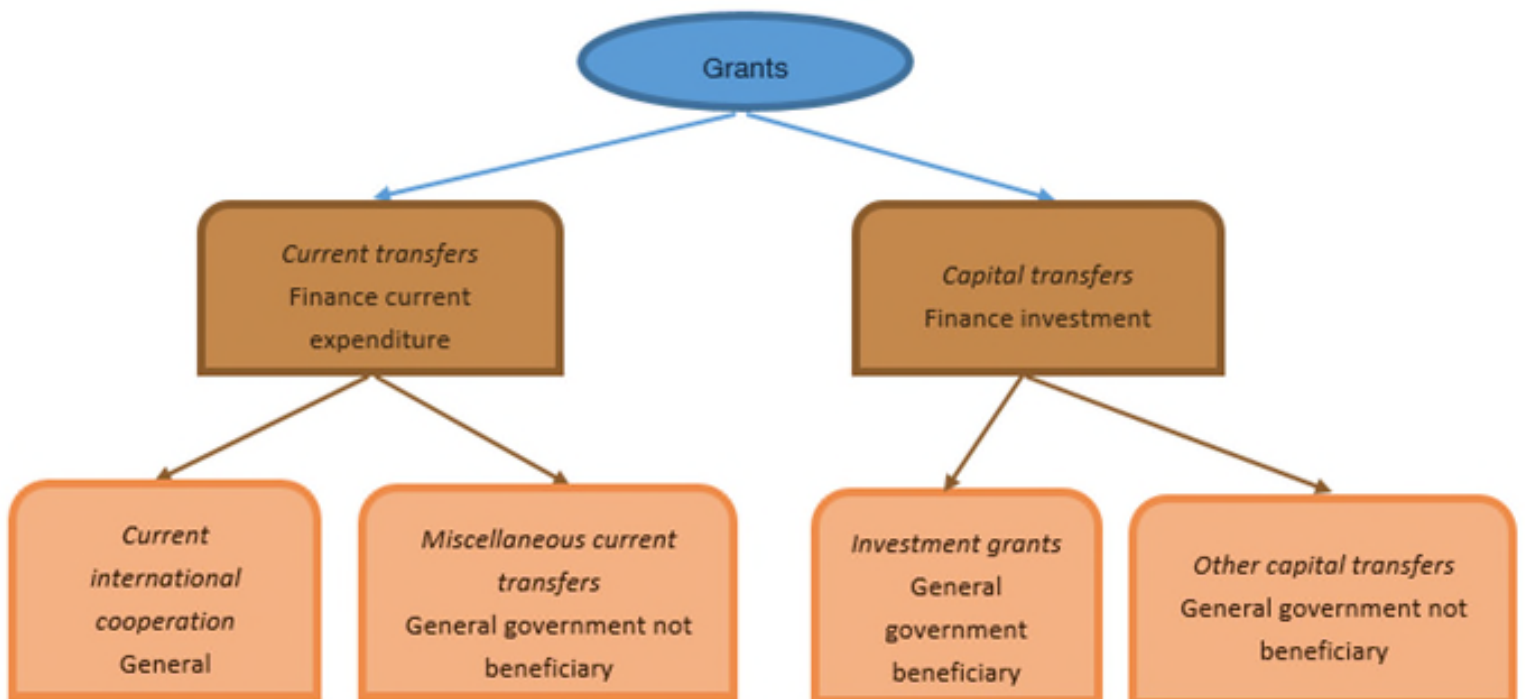
⁶ The ECB's balance of payments is not published separately, but is included, by the ECB, in the euro area balance of payments.

⁷ The European Commission's balance of payments is not published separately, but included in that of the EU institutions, which is published by Eurostat.

Time 2. The expenditure the funds are used for is recorded

| The Spanish balance of payments | | |
|---------------------------------|-------------------------------|--|
| | Change in assets / CCA debits | Change in liabilities / CCA credits |
| Current and capital accounts | - | Transfer credit vis-à-vis the European Commission. Current account secondary income or capital account |
| Financial account | - | Decrease in general government liabilities under other accounts payable vis-à-vis the European Commission. Financial account. Other investment |

How are current transfers and capital transfers distinguished? In the balance of payments, Member States record the grants they receive as current or capital *transfers* according to the purpose for which the funds are earmarked. Also, the heading will vary according to the sector considered to be the beneficiary of the grant, as set out below.



For RRF grants the general government sector is always considered to be the beneficiary, since the areas to be financed fall within the scope of government decisions.

2.2 Loans

The RRF loans received by Member States should be recorded as debt vis-à-vis the EU institutions. In the financial account of the BoP and in the IIP these flows and the

corresponding stocks are recorded under liabilities, as *loans* of the general government sector in the category *other investment*. The corresponding interest payments will be recorded in the current and capital account of the BoP, in *primary income - investment income – of other investment*.

- Principal = *other investment - loans* of the general government sector
- Interest = *primary income - investment income – of other investment*

3 Movements and entries in 2021

In 2021 Spain received advance payments of NGEU funds amounting to €9,036 million in August and €10 billion in December⁸ which, initially (upon receipt) had an impact on the financial account as explained above. Also, entries have been made in the current and capital accounts (transfer credits as mentioned in section 2, the counterpart of which partly cancels out the financial account entries). Although the amounts included are still provisional and may be revised, these credits have a significant impact on the observed improvement in net lending, which rose from €13.7 billion in 2020 to €22.3 billion in 2021.

⁸ The €19 billion received in 2021 corresponds to RRF grants. See Table 2 of the annex for the timing of these grants.

ANNEX

TABLE 1. MULTIANNUAL FINANCIAL FRAMEWORK 2021-2027 AND NGEU

€ bn

| MFF expenditure scope and NGEU component | MFF amounts | NGEU amounts | For Spain |
|---|---------------|--------------|-------------------|
| 1. Single market, innovation and digital economy | 132.8 | 10.6 | |
| <i>Horizon Europe (grants)</i> | | 5 | <i>By project</i> |
| <i>Invest EU (loans)</i> | | 5.6 | <i>By project</i> |
| 2. Cohesion, resilience and values | 377.8 | 721.9 | |
| <i>Recovery and Resilience Facility</i> | | 672.5 | 140 |
| <i>-loans</i> | | 360 | 70 |
| <i>- grants</i> | | 312.5 | 70 |
| <i>REACT-EU (grants)</i> | | 47.5 | 12.4 |
| <i>Resc EU (grants)</i> | | 1.9 | <i>As needed</i> |
| 3. Natural resources and environment | 356.4 | 17.5 | |
| <i>Rural Development (grants)</i> | | 7.5 | 0.7 |
| <i>Just Transition Fund (grants)</i> | | 10 | 0.4 |
| 4. Migration and border management | 22.7 | | |
| 5. Security and defence | 13.2 | | |
| 6. Neighbourhood and the world | 98.4 | | |
| 7. European public administration | 73.1 | | |
| TOTAL | 1074.4 | 750 | 280 |

Source: Spain's Recovery, Transformation and Resilience Plan.

TABLE 2. TIMING OF RRF GRANTS ALLOCATED TO SPAIN
(PROVISIONAL)

€ bn

| Year | 2021 | | 2022 | | 2023 | | 2024 | | 2025 | | 2026 | | TOTAL |
|---------------|------|------|------|------|------|-----|------|-----|------|-----|------|--|-------|
| Half | H2 | H1 | H2 | H1 | H2 | H1 | H2 | H1 | H2 | H1 | H2 | | |
| Amount | 19.0 | 12.0 | 6.0 | 10.0 | 7.0 | 8.0 | 0.0 | 3.5 | 0.0 | 0.0 | 4.0 | | 69.5 |