

From COVID-19 Pandemic to Next Generation EU

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Abstract

The post COVID-19 pandemic European Union (EU) funds will be an opportunity for the European Union to create a more solid economy, to create a bigger cohesion between countries and to open the door for the creation of the future United States of Europe, which will give more EU competitiveness throughout the world. Is for the first time when the EU economy will be financed by common European loans made by the European Commission at smaller rates than most of the countries can borrow. It will be an advantage for everybody, consolidating the irreversible development of the EU, despite the initial opposition of the more developed countries from northern Europe. In the history of humanity always the bigger crises and wars were the turning point which boosted future enhanced development, practically when the countries were somehow forced to risk not to get destroyed. The innovative Next Generation EU fund will go in parallel with the Multiannual Financial Framework and will consolidate the classical development programs by financing new updated programs which are helping to the optimisation of the necessary infrastructure for future ecological economic growth. Environmental protection should be a must for the future existence of this planet, in the last years a lot of steps were made just to destroy it. Increased environmental requirements and quality standards must be implemented in national legislations, with the obligation for all the companies, public institutions and individuals to bring them to fruition. Social cohesion policies must reduce the gap between rich and poor, one idea currently being proposed is to create a minimum wage in all the EU countries represented by 60% of the average wage of the country concerned. History has shown that the poor will get poorer and the rich will get richer. We need scientific governmental strategies to be implemented so that everyone can be in a win-win position in the future.

Keywords

pandemic, Next Generation EU, green, digital and resilient

1. Introduction

After COVID-19 pandemic appeared in autumn of 2019 and strongly affected Europe in 2020, the EU decided at the end of 2020 to launch a €750 billion financial program to help its member states to get a quick recovery after a disastrous economic downturn in that year, to avoid a financial crisis like it was in 2008 after the American bank Lehman Brothers got bankrupt.

COVID-19 pandemic started in EU in January of 2020 and in May of 2020 there were more than 1 million reported cases and more than 100.000 deaths (over 50% of the cases in Europe). Between March and May 2020 all EU economies were in lockdown limiting the spread of the virus, but with huge financial costs. This was the time when the European Institutions launched the idea of creating a recovery fund.

This should be more than a classical recovery plan, called Next Generation EU (NGEU), which must transform the post pandemic economies in opportunities for the future of Europe. It is in our power, know-how and resources to implement this without spending ineffective the money. There will be a lot of work respecting the new green, digital and resilient quality standards.

Rebuilding and rethinking the European society must be the motivation for overcoming the pandemic and it helps us to imagine a future EU as a whole country, with a more competitive resources

allocation. All the public and private managerial systems should be connected to access all these NGEU funds for optimizing the results in accordance with the sustainability and the health of the future policies, which are helping us to prevent other crises or depressions.

The environmental, social and governance factors are the engine for the future sustainable economic development model, which should enhance countries cohesion through investments in the health of the surrounding environment, social assistance and education at all levels through lifelong learning programs, with a focus on research and development (Figure 1).



Fig. 1. ESG – environmental, social and governance investments and performance

The history showed that the countries which are investing in these sectors have above the average economic growth rates, getting higher performance in value added products and gross domestic product levels with focus for attracting more foreign investments by multinational companies.

On the operational side, the return on assets approach shows us how profitable a company can be in relation to its assets [1], while the return on investment approach is defining the efficiency of the company compared with the invested resources and with other companies results from the same filed and from other sectors [2].

On the market view, the satisfaction of the shareholders must be maximised to motivate them to keep the money in that business. Keeping an optimal balance between offered dividends and reinvested capital must be the solution for getting a maximised market value. Tobin's Q is helping us to evaluate a company, to estimate if the value of the company is above or under its expected value. Can be calculated by a ratio between its market value and its assets value [3].

2. Chronology of Events

The first COVID-19 wave in Europe was in March 2020 and the lockdown was the solution, hoping that by stopping the movement of people will kill the virus.

Until 17 March 2020 COVID-19 was reported in every EU member state and all of them implemented the lockdowns as a rescue solution. The public healthcare spending exploded and the national debts exceeded sustainable levels trying to help the companies not to go bankrupt.

In mid-March the European Central Bank (ECB) created a temporary purchase program of €750 billion, which was extended with €600 billion on 4 June 2020.

On 19 March 2020 were allowed recovery packages for the national economies of the member states by the European Commission.

Starting with 21 March 2020 the ECB's Governing Council relaxed the fiscal rules, letting the countries free to fight against the pandemic.

From 15 May 2020 was created a "pandemic crisis support" by the European Stability Mechanism.

Because the crisis was bigger than expected and the measures were not enough, the Prime Ministers of Italy (Giuseppe Conte) and Spain (Pedro Sanchez), trying to consolidate the EU, proposed corona bonds as common public debt, accepted by France, Belgium, Ireland, Portugal, Greece, Slovenia and

Luxembourg. Germany, Austria, Sweden, Denmark and the Netherlands refused because they were scared of the other countries default.

On 18 May 2020 France and Germany proposed €500 billion grants for the affected EU countries.

From 27 May 2020 the European Commission presented the "Next Generation EU" plan, representing borrowings and distribution of €750 billion, increasing the EU budget to €1.85 trillion. (Italy and Spain asked for €1000 billion while France and Germany initially accepted €500 billion).

On 17 July 2020 the European Council accepted this for the 2021–2027 Multiannual Financial Framework (MFF) [4].

Starting with 10 November 2020 the European Institutions agreed to integrate the €1074.3 billion MFF (2021–2027) of and the €750 billion NGEU (2021 – 2026).

On 17 December 2020 was reached its final adoption as a €1.8 trillion (in 2018 prices).

The date of 30 April 2021 was considered as a presentation time limit for the national plans. Some came earlier from mid-October 2020 and were used for assisting and helping the other countries with modifications.

On 31 May 2021 all EU countries have ratified the plan, so NGEU could be financed.

All the countries should have a recovery and resilience plan financed by supplementary EU funds, which will help them to overcome the crisis generated by this pandemic, which found the countries financially unprepared. The incentives will help the EU economies to get out of the induced recession, through generating sustainable economic growth, with specific plans in different sectors.

All projects should involve environmental protection measures, social development strategies and solid governance objectives, with coherent activities and added value results. Investing especially in these sectors, the countries can generate sustainable economic growth, assuring the payment of accumulated debts in the past by next generations, without risking economic depression.

The implementation can be accelerated by reducing the bureaucracy, quick resolution of appeals, leaving more freedom to local authorities and specialised public authorities. The specialists in each and every sector can understand better what and when it is better the make and implement a decision and they know how to organise processes and allocate resources.

3. The Next Generation EU (NGEU)

3.1. The NGEU elements

The EU budget (with NGEU) will be the Europe's largest ever financing stimulus package of €2.018 billion, in 2021 prices (Table 1). At the end we should have a greener, digital and long-term resilient economy with increased flexibility mechanisms.

Most of the money will be invested in research and innovation, fair climate and digitalisation, preparedness, recovery and resilience.

Table 1. Allocations for Multiannual Financial Framework and Next Generation EU [4]

Heading	MFF (2021 – 2027)	NGEU (2021 – 2026)
Single market, innovation and digital	149.5 billion euro	11.5 billion euro
Cohesion, resilience and values	426.7 billion euro	776.5 billion euro
Natural resources and environment	401.0 billion euro	18.9 billion euro
Migration and border management	25.7 billion euro	
Security and defence	14.9 billion euro	
Neighbourhood and the world	110.6 billion euro	
European public administration	82.5 billion euro	
Total	1,210.9 billion euro	806.9 billion euro

NGEU represents a post-COVID-19 recovery fund of more than €800 billion, available between 2021 and 2026 (Table 2). This will help economic and social recovery for all EU member states.

The Recovery and Resilience Facility loans and grants will support reforms, with concentration for greater needs. The investments will be made in green transition, digital transition and economical resilience linked to EU priorities.

Table 2. Next Generation EU fund description [4]

Recovery and Resilience Facility (loans and grants)	723.8 billion euro (385.8 billion euro + 338.0 billion euro)
ReactEU	50.6 billion euro
Horizon Europe	5.4 billion euro
InvestEU	6.1 billion euro
Rural Development	8.1 billion euro
Just Transition Funds	10.9 billion euro
RescEU	2.0 billion euro
Total	806.9 billion euro

ReactEU represent coronavirus pandemic crisis repair measures, for the cohesion policy of the socio-economic crisis impact.

Horizon Europe will provide money for vital research and innovation in health, resilience, green and digital transitions.

InvestEU will be available for private investments for the Union's projects involving resilience for green strategic sectors and digitalising the most important sectors of the economy.

European Rural Development Fund will be used for structural changes in rural areas, respecting the European Green Deal.

Just Transition Fund will assure transition to climate neutrality.

RescEU will help the EU to be prepared for other crises in the future.

The EU budget will be financed through customs duties, member states value added tax contributions, gross national income contributions and starting with 1 January 2021 a non-recycled plastic national contribution, for the packaging waste.

For NGEU the money will be borrowed at favourable rates and then redistributed by the European Commission. These money would be repaid until 2058.

3.2. The NGEU objectives

The NGEU breaks the classical EU austerity policy and together with the 2021–2027 MFF assures the collective policy of the EU member states.

The first objective involves the economic recovery and social welfare quickly after the coronavirus pandemic damages, which can help for a better future European generation.

The second objective is to implement green, digital and smart growth reforms for social cohesion, health policies, next generation resilience and education.

The third objective will offer a modern economy. Most of the funds will be invested in research and innovation, fair climate, digital transition, preparedness, recovery, resilience and health.

As final objective is the creation of the Economic and Monetary Union, with a competitive EU economy and a Banking Union. The reforms will give advantage and flexibility generating economic growth and convergence for a strong common currency.

4. Conclusions

The Frugal Four countries (Denmark, Sweden, Austria and the Netherlands) were NGEU-skeptical and supported just the loans (without grants), while Germany and France agreed both grants and loans to help European countries to overcome post pandemic crisis, showing leadership and unity in the EU.

Before this crisis Germany was in favour of fiscal restraint and austerity but they changed this policy and supported a common EU debt and grant instrument.

The countries from south with high budget deficits after the 2008 financial crisis wanted the grants to be allocated without conditionality.

The countries from east, being net beneficiaries, wanted the NGEU to be just temporary and to be linked with the MFF which should remain the main fund for underdeveloped regions.

The European Union assure COVID-19 recovery with a €750 billion NGEU plan, representing loans of €360 billion and grants of €390 billion (in 2018 prices), expected to dominate public finances in the next years, with implications on long-term goals.

Traditional policies should be updated with maximum priority for the social assistance and modern agriculture. The climate change fight will be financed with a record of 30% share of the funds. Investments will be made in biodiversity protection and stronger gender equality.

The companies in the affected areas will have available an insolvency support for creating a more clean, digital and flexible future, including strategic and responsive priorities.

Until 2050 Europe will become the first climate-neutral continent, without producing greenhouse gases that cannot be absorbed by our ecosystems. We will have more environmentally friendly technologies, greener vehicles, public transport, more energy efficient buildings and public spaces for biking. By protecting the natural environment, we will improve water quality, will reduce waste by reusing second-hand products, will reduce plastic litter by recycling, will plant billions of trees and will bring back the bees. In the cities will be created green spaces and the renewable energy will be increased. Our food will be healthier through more environmentally friendly farming, by producing more vegetables and eating less meat.

The next 10 years will be the Europe's digital decade. The 5G connections will be able everywhere with EU-wide and ultra-fast broadband, we will get a digital identity, easier access to online public services and more control over our personal data. We will have efficient smarter cities, more secure online shopping, artificial intelligence which will fight against climate change and will improve healthcare systems, green transport and e-education. The online training courses will be more accessible for everyone to improve their digital skills and the small businesses will go online.

The coronavirus pandemic is forcing us to be better prepared for other future crisis determined by health threats, investing in health systems innovation and hospitals research, developing new vaccines and treatments for all kind of diseases. All EU countries should have access to modern technology and medical services, investing more money in the medical and healthcare professionals to train people for healthier diet and physical exercises.

We will build a stronger and more resilient Europe. We must encourage young students to study science and technology, to have future green and digital jobs and not to be stressed about losing jobs or income. In this field some grants and loans should be offered for young entrepreneurs together with other sectors affected by this pandemic making them more green, digital and sustainable.

The Europe should work for everyone, having diversity, equal economic and social opportunities, fighting against racism, promoting gender equality, protecting the human rights, combating discrimination and strengthening the EU law. There will be more employment opportunities for disadvantaged areas or people with disabilities. More people will have decent housing and inclusive education, especially for children.

Analysing all the worldwide public events in the last years, we learned that every time external shocks can happen, so the best public policy for governments should be to generate budgeted surplus in the economic growth years, as a company that makes profit. The so generated money must be used in the years when the external shocks are leading to economic downturn, instead of running always after borrowed money.

In the last two years, the USA public deficit increased from 100% to 130% from GDP, in Italy the public deficit increased from 120% to 150% from GDP and in Romania from 35% to 50% from GDP. The Next Generation EU funds will generate a higher public fiscal deficit relative to GDP through the borrowed money allowed, if these money will not be invested in key areas such as environmental, social and governance.

On the environmental side, investments must be made in reducing the carbon emissions by reducing air and water pollution, developing waste management and green energy technologies, reducing water usage and deforestation. On the social side the human rights, employees and customer respect, data and labour security should be the values of the companies. On the governmental side the management diversity and results must respect ethics and legislation, the stakeholder satisfaction should represent social welfare generated by responsible policies [5].

The research is limited to the EU's plan to implement investments in the EU countries and to ensure quality standards that can be allowed complementary to the national budgets. The implementation of the increased quality standards by European Green Deal policy may be held back by the rising costs of the components: natural resources, salaries, interest rates and information.

Future research will follow the multi-year implementation of each national recovery and resilience plan, with a focus on how to avoid future financial and social crises and optimised strategy proposals on governmental sector. As it is known that the private sector is the engine of the economy, many ideas from this side should be used as they are tested and the results are deeply present in real life.

The managers need to be aware that future development implies permanently increased quality standards, greater specialisation, optimised dynamic capabilities, strategic marketing and lots of money from EU funds. Preserving the nature health enhanced by green deal programs must be present in all product and service projects, being at least one step ahead of other companies should facilitate the next stages of company development, at least in the short term.

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