Chapter 1

The macroeconomic context: Pandemic shock and policy response

EU members most affected by the pandemic had less fiscal space to address the economic crisis

EU provided fiscal support to Member States
EU policies, European Central Bank (ECB) asset purchases and the temporary suspension of the Stability and Growth Pact rules kept sovereign funding costs low

Firms cut investment and took on debt to weather the crisis
Credit guarantees and the ECB’s support for financial markets allowed firms to build up cash

Governments largely absorbed the shock to household income
Transfers enabled households to build up large savings

The Recovery and Resilience Facility: A joint European effort to rebuild better
The €723.6 billion facility will support structural reforms and EU efforts to foster short- and long-term growth (% GDP)

Fiscal consolidation needs to be well managed
Reinstating EU budget rules without adaptation would require the hardest-hit countries to quickly tighten their spending (% GDP)

Ensuring a sustainable recovery
- Overcoming the pandemic remains the priority for most Member States.
- To fight the pandemic, the EU provided support through grants, loans and technical assistance. As the pandemic recedes, the focus is shifting to rebuilding better.
- The Recovery and Resilience Facility is an opportunity to coordinate and to strengthen public investment. Gaps in public investment remain large, particularly in the green transformation of the economy.
- The Recovery and Resilience Facility could have a sustained impact on GDP if it is implemented well.
- While policy support helped, the most affected EU members still have not fully recovered from the crisis
- Closing gaps between countries and regions will not be easy
- Fiscal consolidation needs to be well managed
- Reinstating EU budget rules without adaptation would require the hardest-hit countries to quickly tighten their spending (% GDP)

The European Commission’s macroeconomic database), authors’ calculations.

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