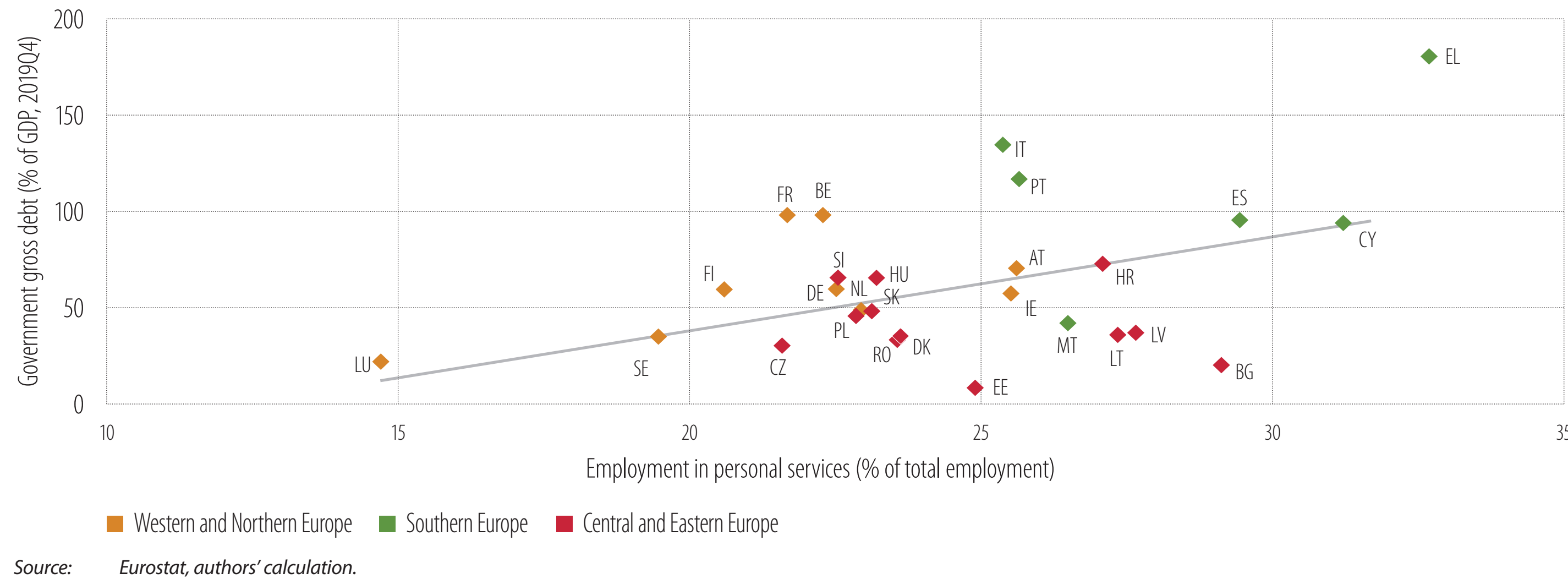




Chapter 1

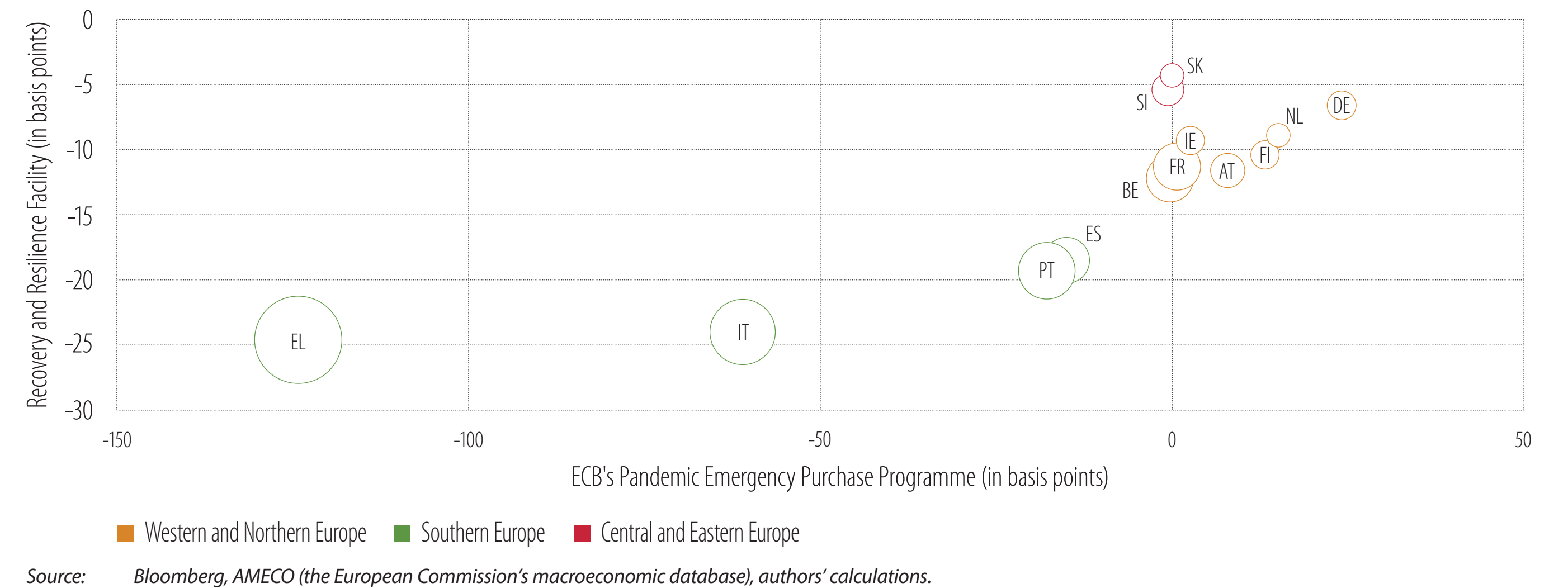
The macroeconomic context: Pandemic shock and policy response

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



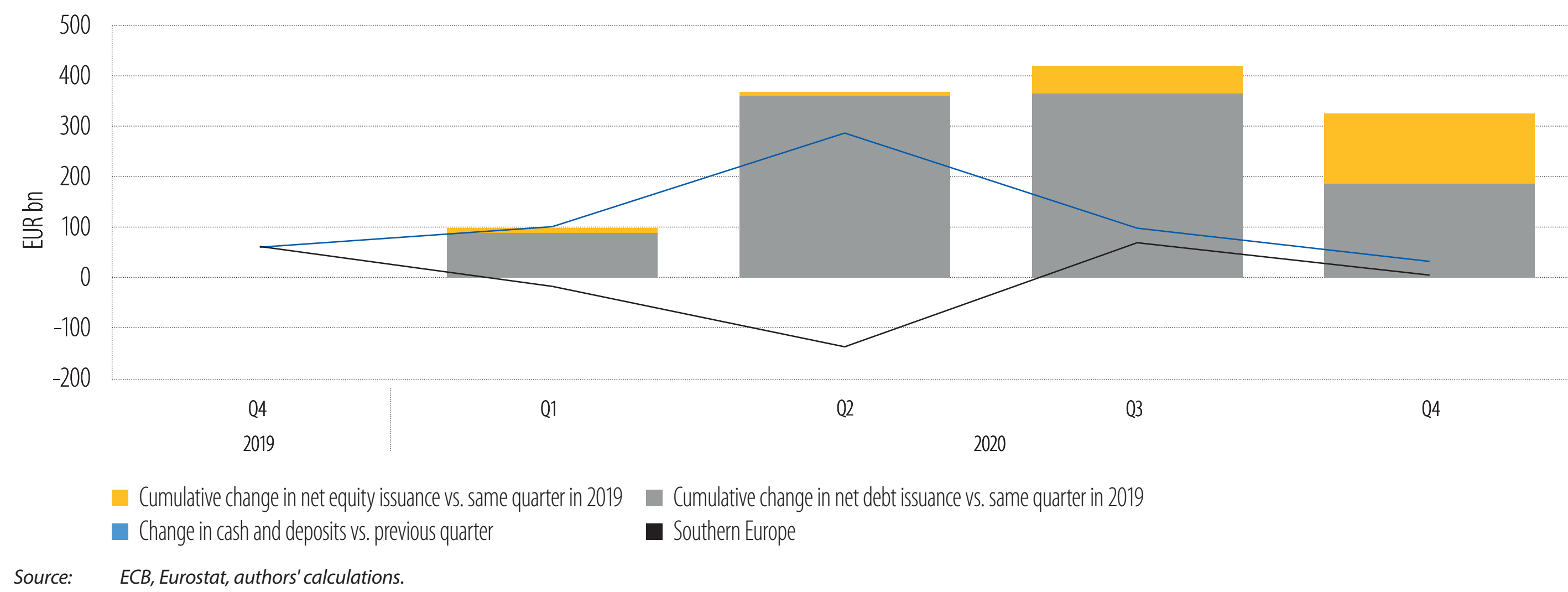
EU provided fiscal support to Member States

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

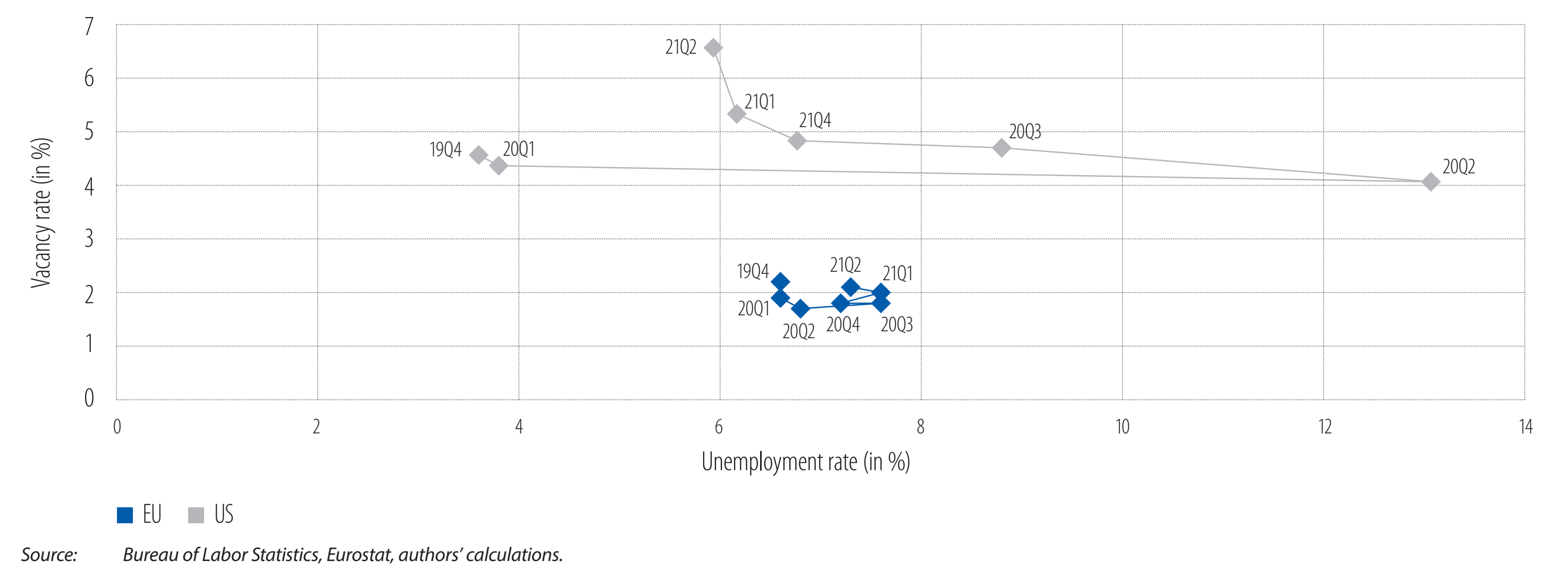


Firms cut investment and took on debt to weather the crisis

Credit guarantees and the ECB's support for financial markets allowed firms to build up cash

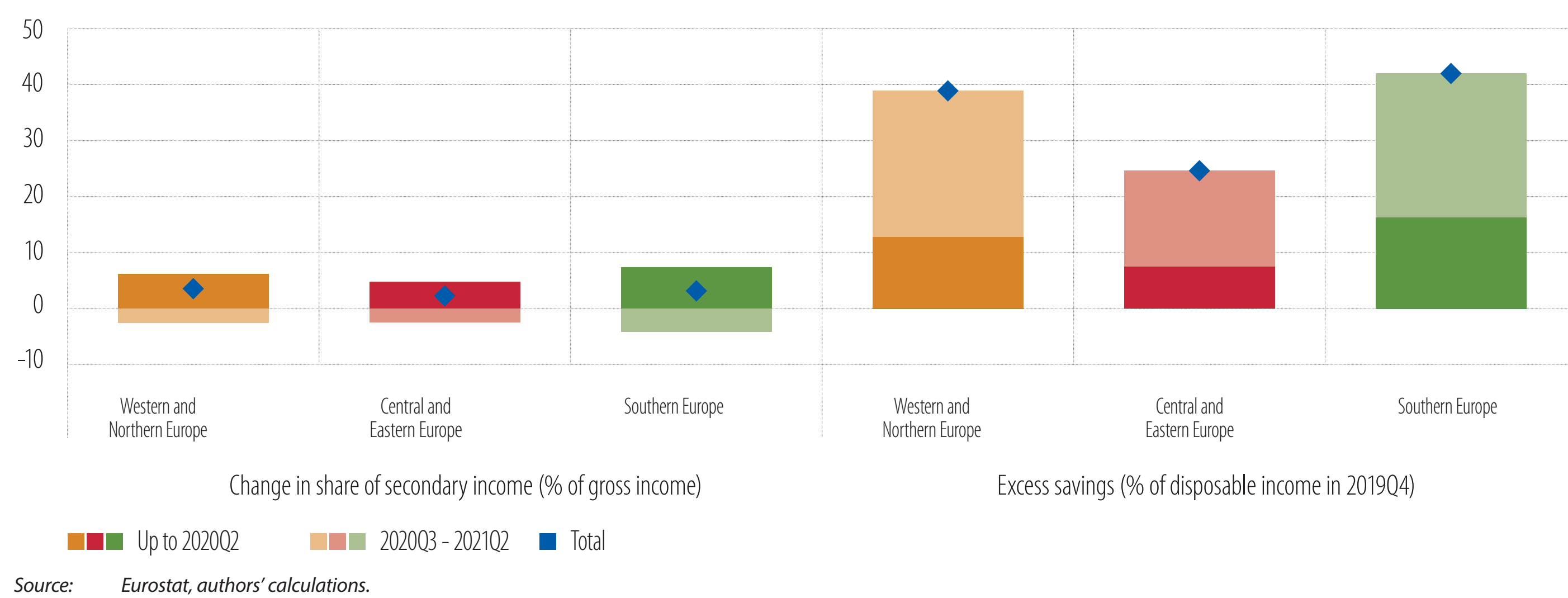


Job retention schemes slowed down the adjustment of the EU labour market



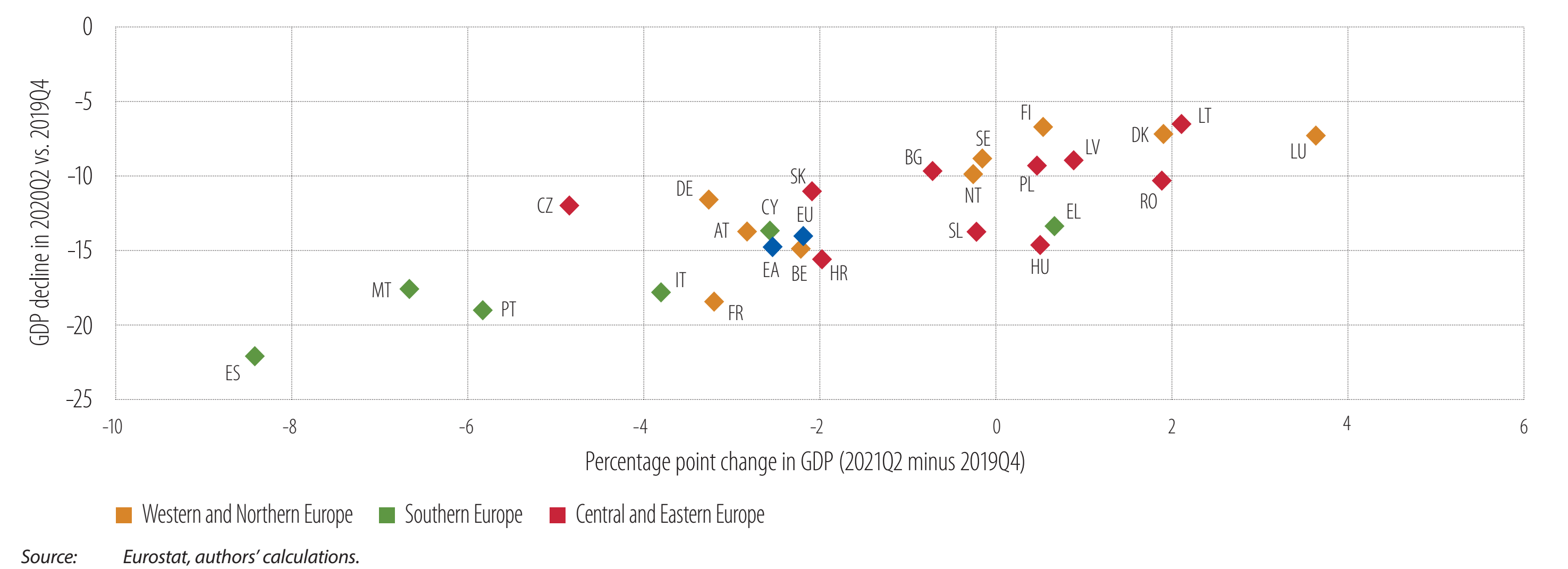
Governments largely absorbed the shock to household income

Transfers enabled households to build up large savings



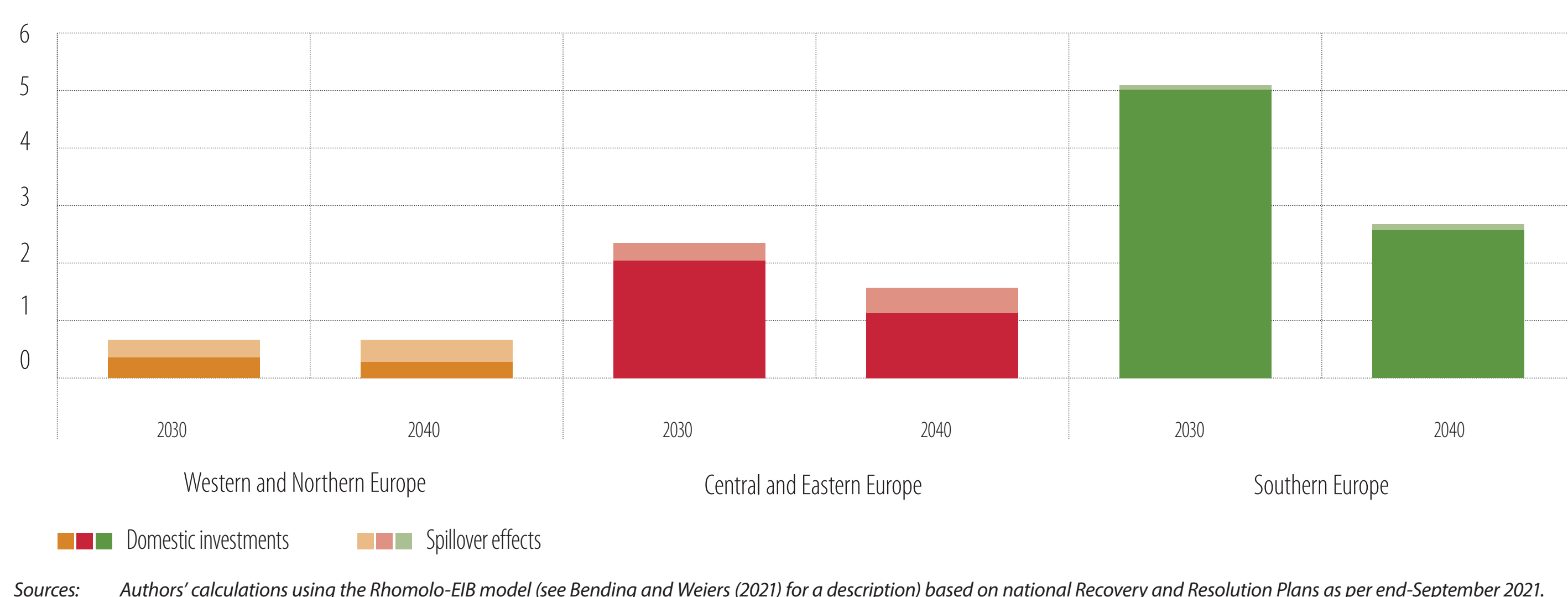
While policy support helped, the most affected EU members still have not fully recovered from the crisis

Closing gaps between countries and regions will not be easy



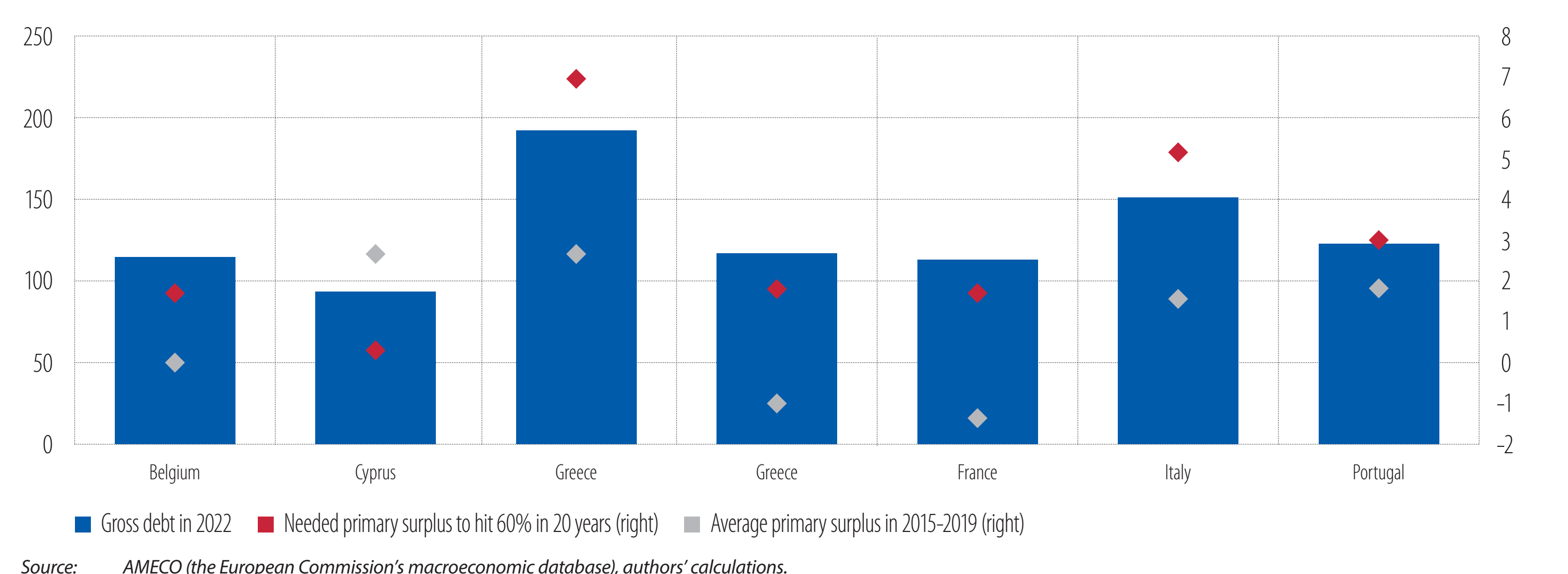
The Recovery and Resilience Facility: A joint European effort to rebuild better

The €723.8 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.
- Once the pandemic is over, some EU members will have to deal with the sustainability of their debt.
- Public investment needs to be shielded from an abrupt fiscal consolidation. The Recovery and Resilience Facility will help by providing financial support and by tying its support to investment milestones.



Chapter 1 of the *Investment Report 2021/2022: Recovery as a springboard for change* can be downloaded at:
https://www.eib.org/attachments/publications/economic_investment_report_2021_chapter01_en.pdf

