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ABSTRACT

Title: The Impact of the Recovery Fund on EU regions. A Spatial General Equilibrium Analysis

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Abstract:

The COVID-19 pandemic caused an unprecedented health and economic crisis worldwide. The pandemic hit almost simultaneously all countries and had heterogeneous national and regional impacts due to different containment measures and policy reactions (Sakkas et al., 2021; Rodriguez-Pose and Burlina, 2021).

In response to the crisis, the European Commission launched the Recovery Plan for Europe in May 2020, now referred to as Next Generation EU (NGEU). The plan covers a wide range of policy interventions and reforms.

Quantifying the regional economic impacts of the Recovery and Resilience Facility (RRF), which constitutes the bulk of NGEU, is essential for European policy makers who must maximise the economic benefits of the funds at their disposal to counteract the consequences of the crisis. However, academic research on the potential impact of the RRF on EU economies is presently scant. Building on existing literature on the impact of public investments and rescue packages,¹ a few RRF studies concentrate on EU-level results without thoroughly analysing the details of the national plans (Bankowski et al., 2021; Pfeiffer et al., 2021; and Picek, 2020), while others focus on specific countries (for instance, see Malliaropoulos et al., 2021).

Our paper constitutes the first ex-ante evaluation of the macroeconomic effects of the RRF taking into account the planned investment lines contained in each plan currently submitted and approved by the European Commission. We obtain results for the whole EU, for each of its member state, and for their NUTS 2 regions by employing a recursively dynamic spatial general equilibrium model. In the

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model, the spatial interactions and spillovers between regions are captured through bilateral trade flows and factor mobility.

Our results suggest that EU GDP would be about 1.3% higher than in the absence of the RRF at the end of its implementation in 2026. Long run aggregate EU GDP multipliers are between 3.1 and 3.8 Euro for every Euro invested through the RRF, depending on the types of financing. We document substantial heterogeneity of economic impacts across and within member states.

We study alternative scenarios based on different regionalization criteria in order to comment further on income convergence. A positive consequence of the RRF is that it would reduce regional disparities in the EU, especially if the funds are distributed across regions according to cohesion-like principles that is, benefitting relatively more the less developed regions in each country.

These results bear implications for the design of territorial recovery policies and the regional income distribution in the EU, including potential interactions with existing place-based policies.

Keywords: Recovery Fund, general equilibrium, regional growth, regional disparities

JEL codes: C68, E27, R13