

THE ASYMMETRIC IMPACT OF THE PANDEMIC IN THE EU: THE ROLE OF NGEU FUNDS

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Governor

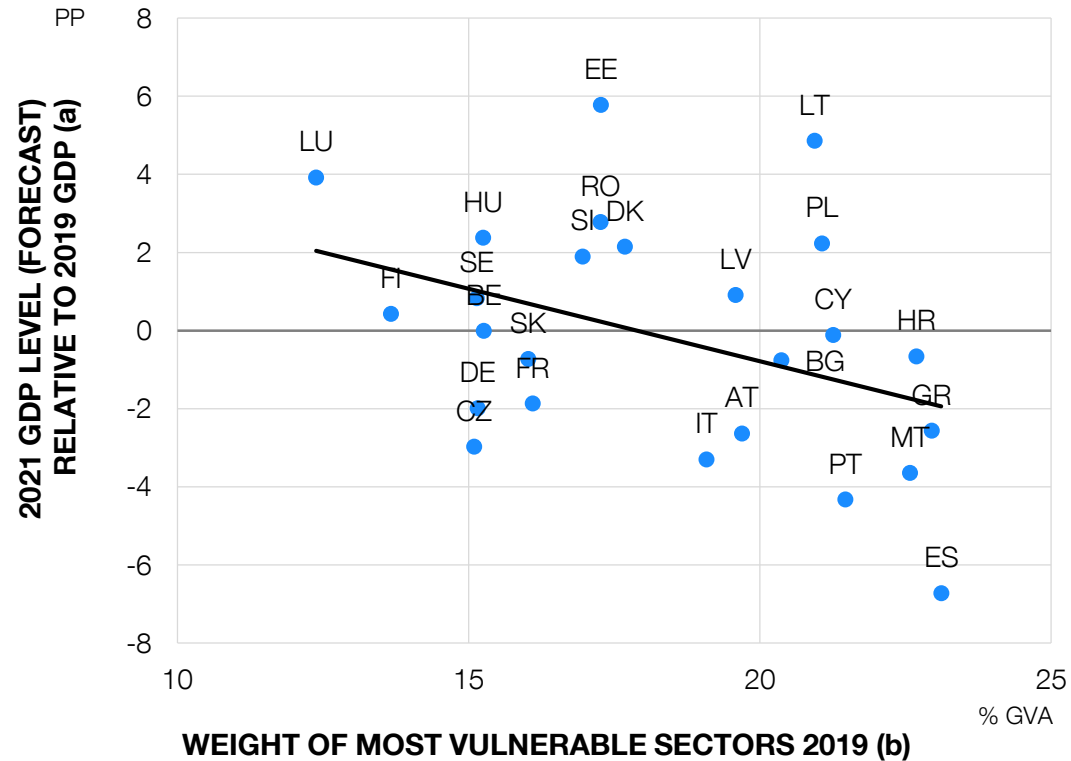
EUROPEAN INVESTMENT BANK
ANNUAL ECONOMIC CONFERENCE
PANEL SESSION III: ASYMMETRIC IMPACTS – ARE EUROPE'S ECONOMIES
CONVERGING OR DIVERGING?

13th January 2022

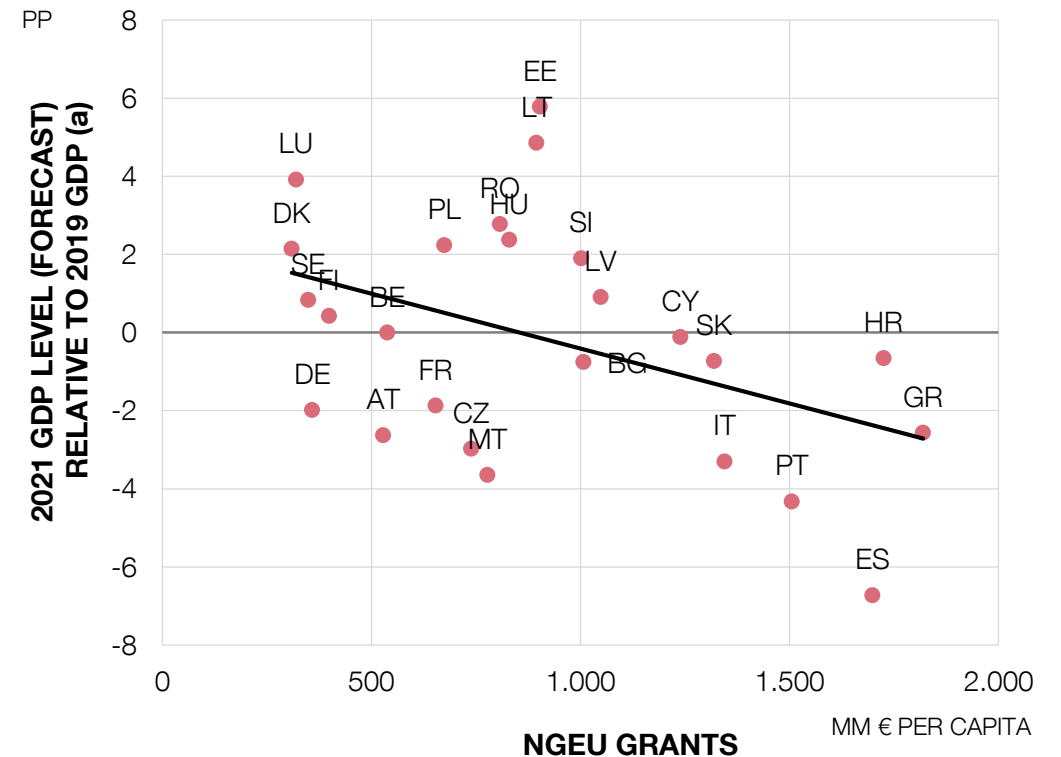


ECONOMIC IMPACT OF THE COVID-19 PANDEMIC

PRODUCTIVE STRUCTURE



NGEU FUNDS



Sources: Eurostat and European Commission

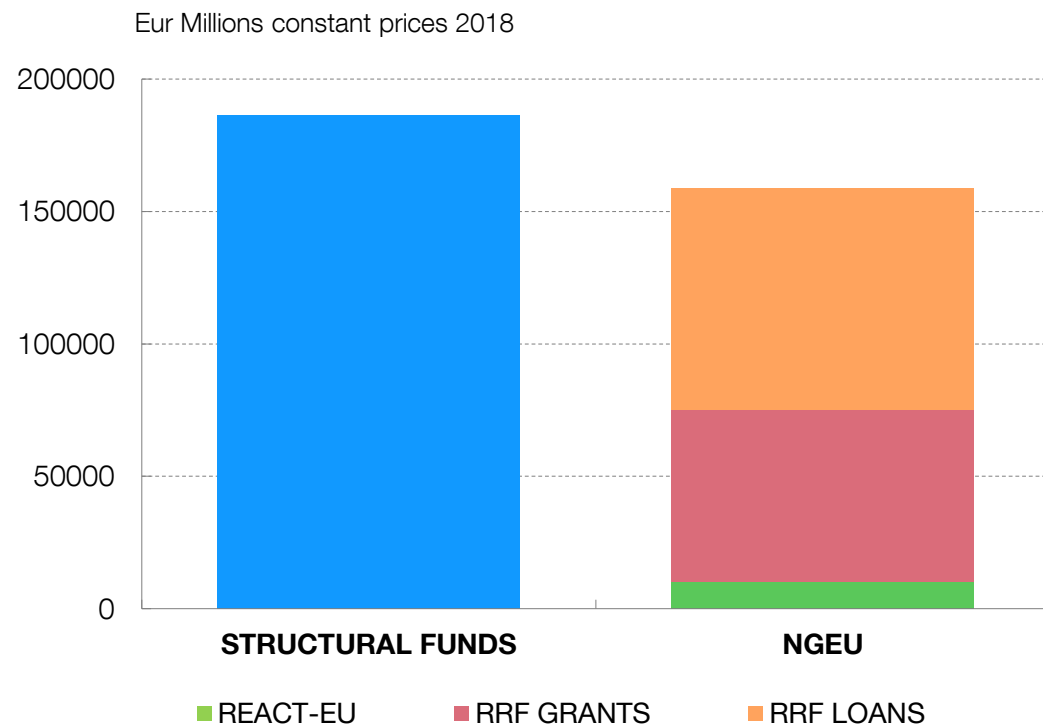
(a) 2021 GDP forecast from European Commission 2021 Autumn forecasts.

(b) Calculated as the share of nominal GVA of the sectors accommodation and hospitality (I), artistic and leisure activities (R), and other personal services (S) in the whole economy.

AN UNPRECEDENTED MAGNITUDE. THE USE OF THE FUNDS IS A KEY DETERMINANT OF EXPECTED GROWTH

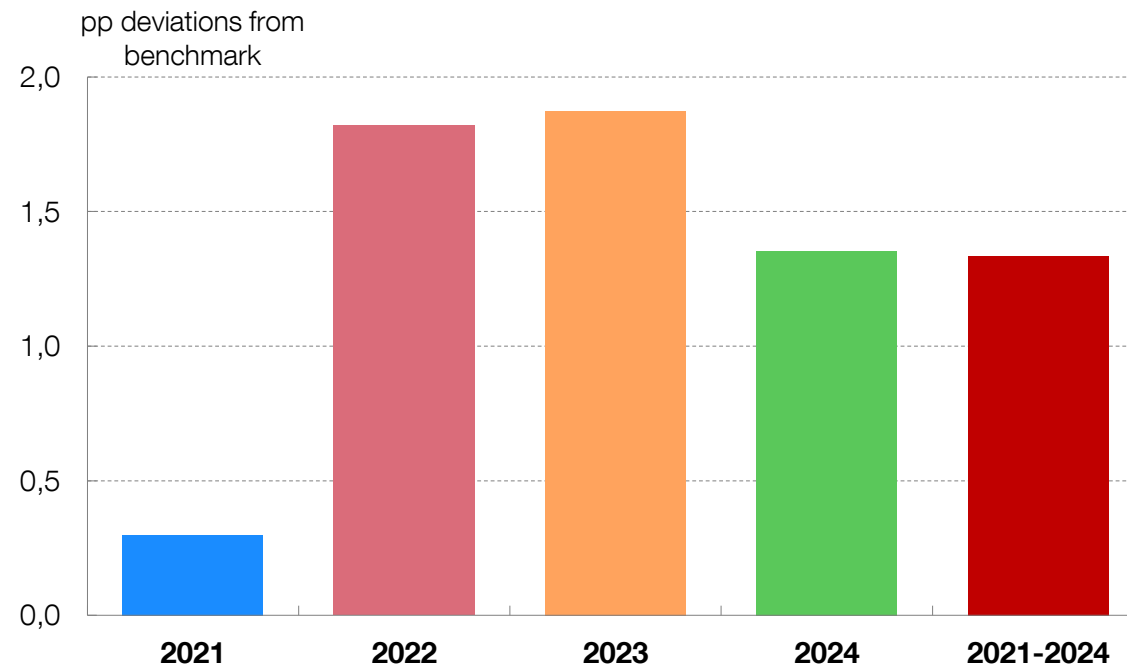
- **NGEU represents an unprecedented source of funds, similar to the amount of structural funds Spain has received in the last three decades. Around 2% of GDP per year, over six years (if asked for in full)**

COMPARISON BETWEEN NGEU AND STRUCTURAL FUNDS IN SPAIN



Source: European Commission

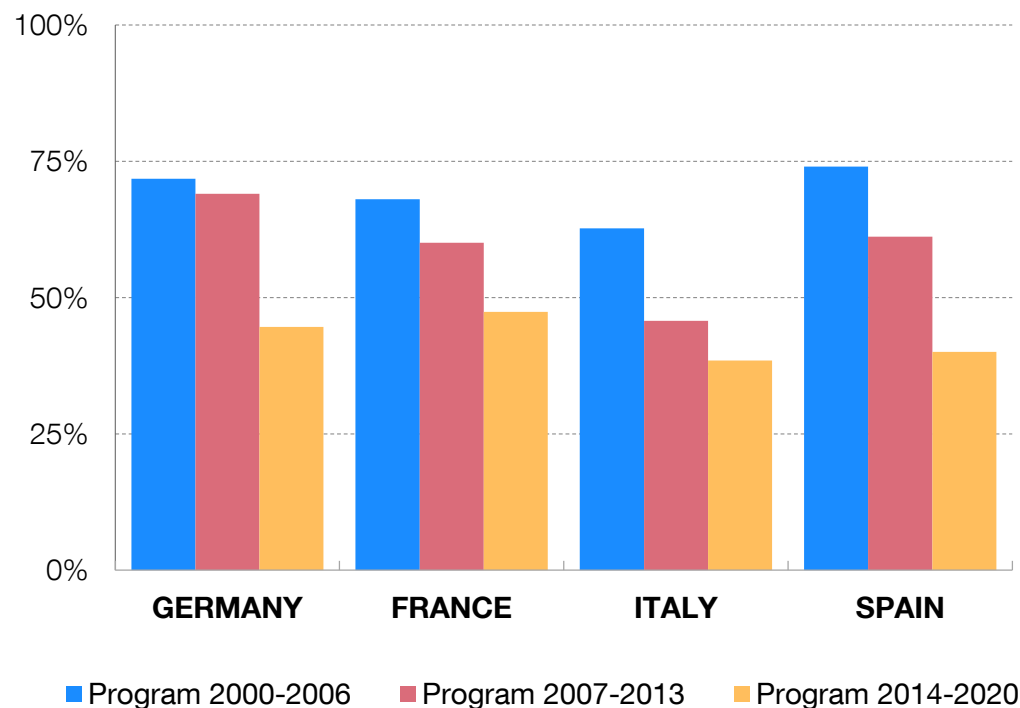
EFFECT OF NGEU SPENDING ON SPANISH GDP AS 2021 DECEMBER BANCO DE ESPAÑA MACROECONOMIC PROJECTIONS



Source: Banco de España. December 2021

USE OF EU FUNDS FROM A HISTORICAL PERSPECTIVE

AT THE END OF THE BUDGET HORIZON (a)

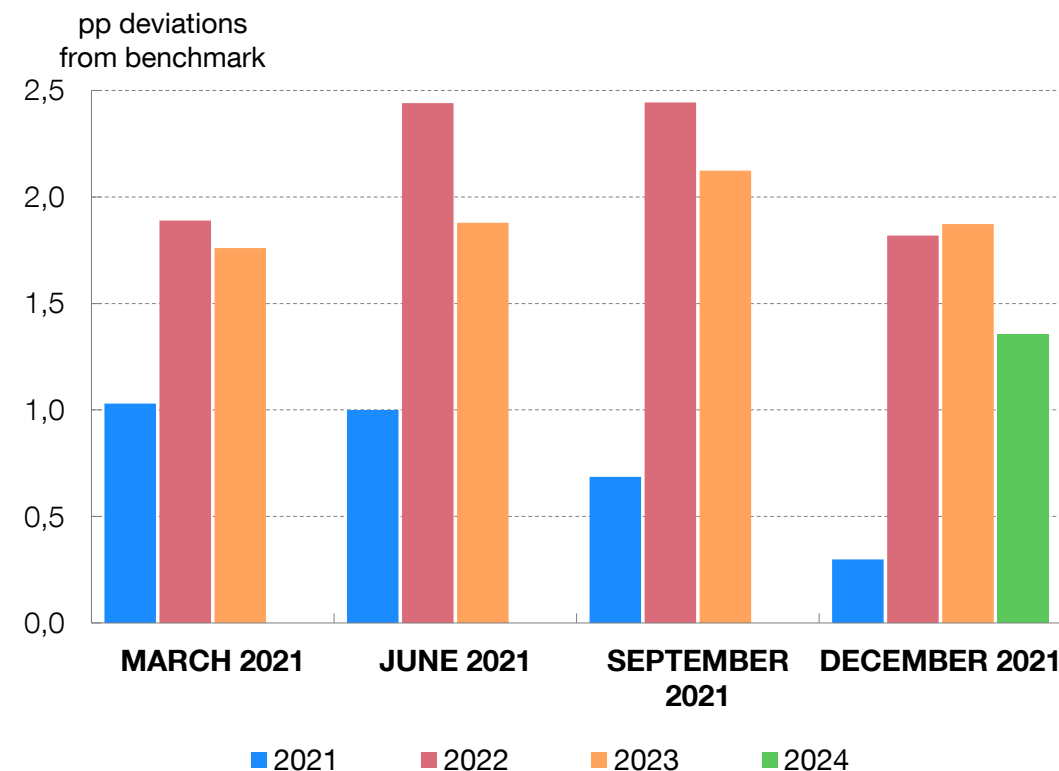


Source: European Commission.

(a) The absorption rate is the ratio of the total payments to total commitments accumulated until year seven of each program.

EFFECT OF NGEU SPENDING ON GDP IN SPAIN

BANCO DE ESPAÑA MACROECONOMIC PROJECTIONS



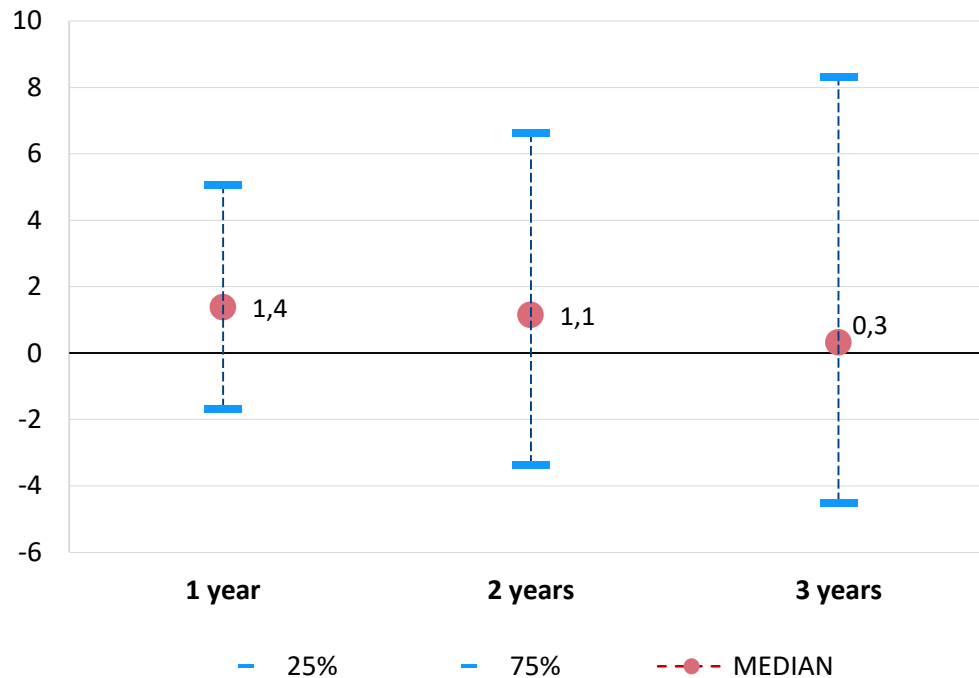
Source: Banco de España

UNCERTAINTY ABOUT ITS IMPACT (II)

FISCAL MULTIPLIERS ARE VERY HETEROGENEOUS. SECTORAL BOTTLENECKS & SPILLOVERS MAY AFFECT OVERALL AND COUNTRY-LEVEL IMPACTS

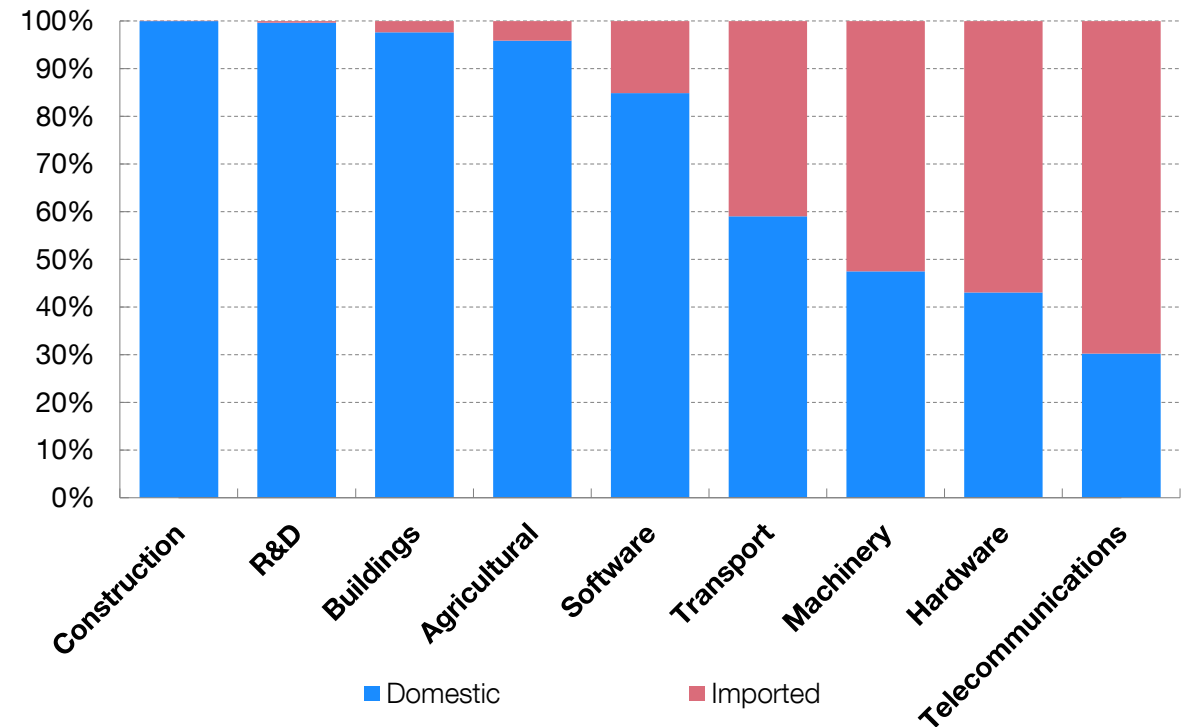
- Large uncertainty about the size of multiplier: fiscal multipliers may differ depending on use, composition, complementarity with private investment, additionality, etc.
- Sectoral focus might exacerbate bottlenecks in specific sectors and countries, also in the context of green and digital transition, leading to lower (higher) direct impact in some countries, depending on sectoral specialisation

REGIONAL FISCAL MULTIPLIERS OF EU FUNDS



Source: Canova and Pappa (2021). GVA fiscal multipliers, computed on the basis of European Regional Development Funds (ERDF).

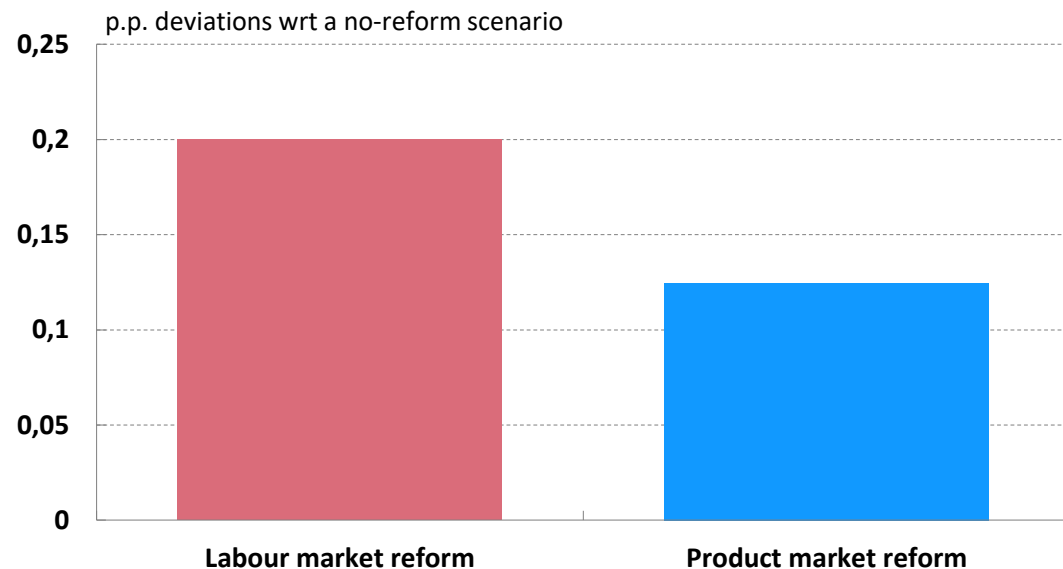
SPAIN - SUPPLIERS' ORIGIN OF CAPITAL



Source: EU-KLEMS

- Supply-side reforms increase growth potential and enhance the impact of fiscal spending
- Realized compliance with CSR remains low
- Conditionality of NGEU should be used to improve implementation of structural reforms

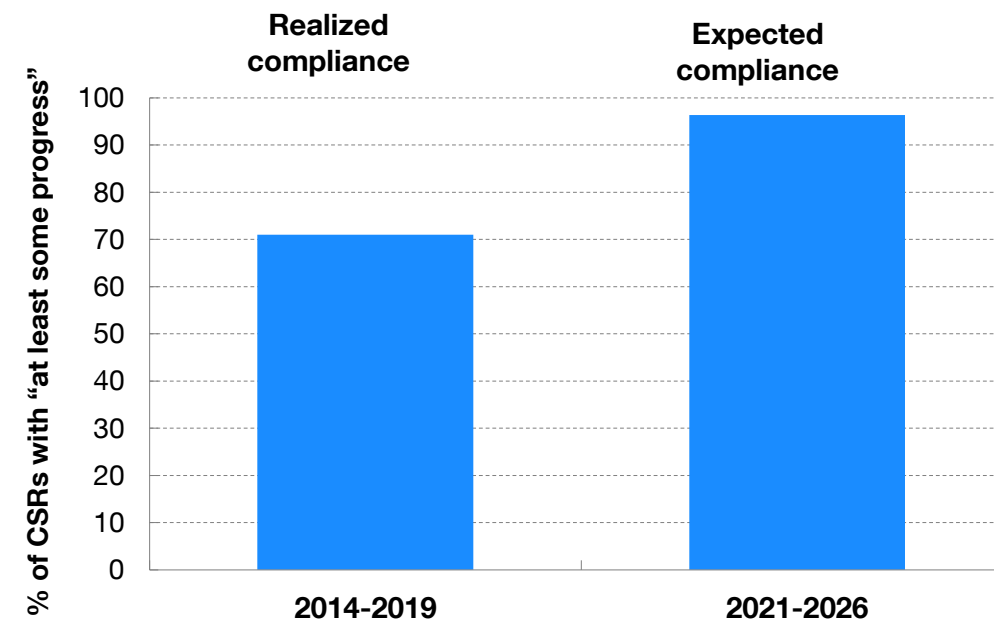
IMPACT OF REFORMS ON THE FISCAL MULTIPLIER OF EU FUNDS



Source: Albrizio S. and J. F. Geli (2021).

Note: EU FUNDS refer to ERDF. Multiplier: impact after 5 years

COMPLIANCE WITH EUROPEAN COMMISSION COUNTRY-SPECIFIC RECOMMENDATIONS

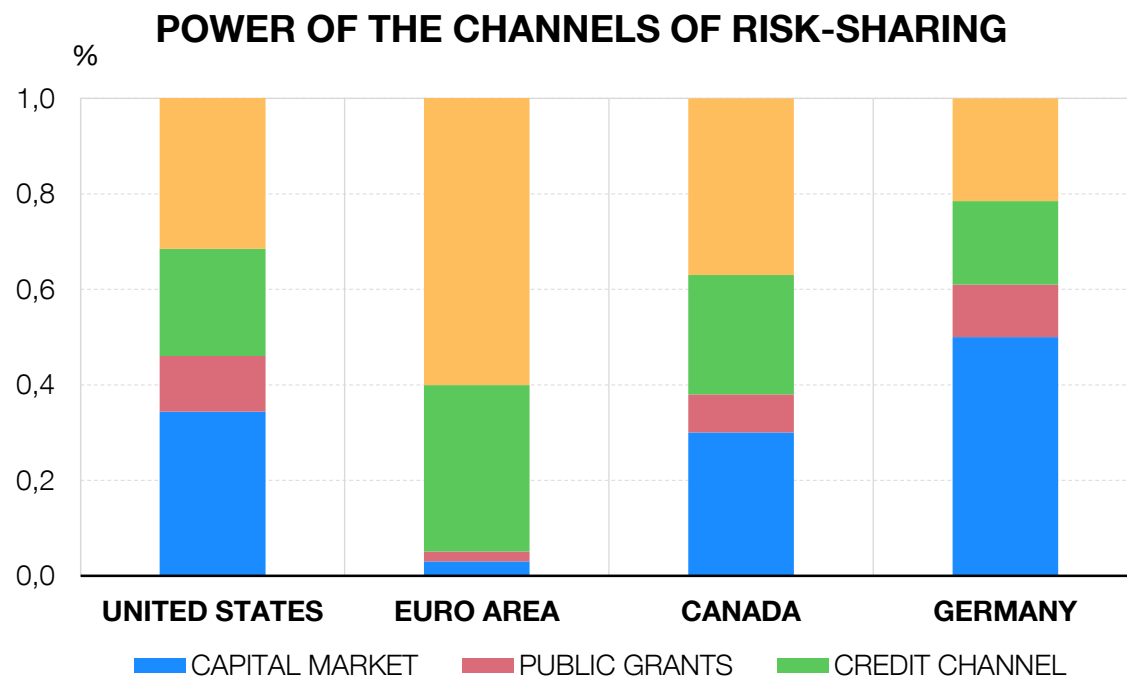


Source: European Commission.

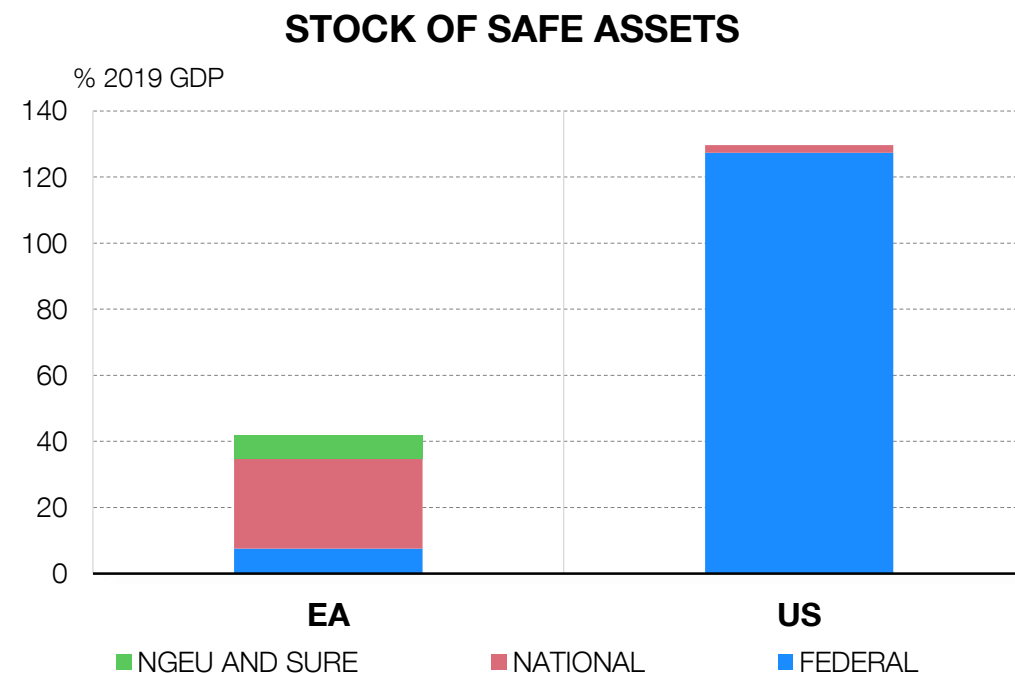
(a) Multi-year implementation in 2014-2019 assesses the degree of compliance from the time the recommendations were adopted to February 2020

THE NEED OF A PERMANENT FISCAL CAPACITY

- Increase risk-sharing within EMU, a general feature of more advanced monetary unions
- Complements monetary policy by calibrating the aggregate fiscal stance & internalizing spillovers
- A permanent macro stabilisation mechanism should have taxation power, sufficient size & issue debt
- The issuance of pan-European debt helps to alleviate the scarcity of safe assets in euros
- Not in isolation: accompanied by completing the Banking and Capital Markets Union



Source: Cimadomo et al (2019)



Source: European Commission, Eurostat and national statistics.
Note: Long-term public debt. Credit rating AAA/AA+ according to S&P. Euro area includes DE, NE, AT, FI and LU