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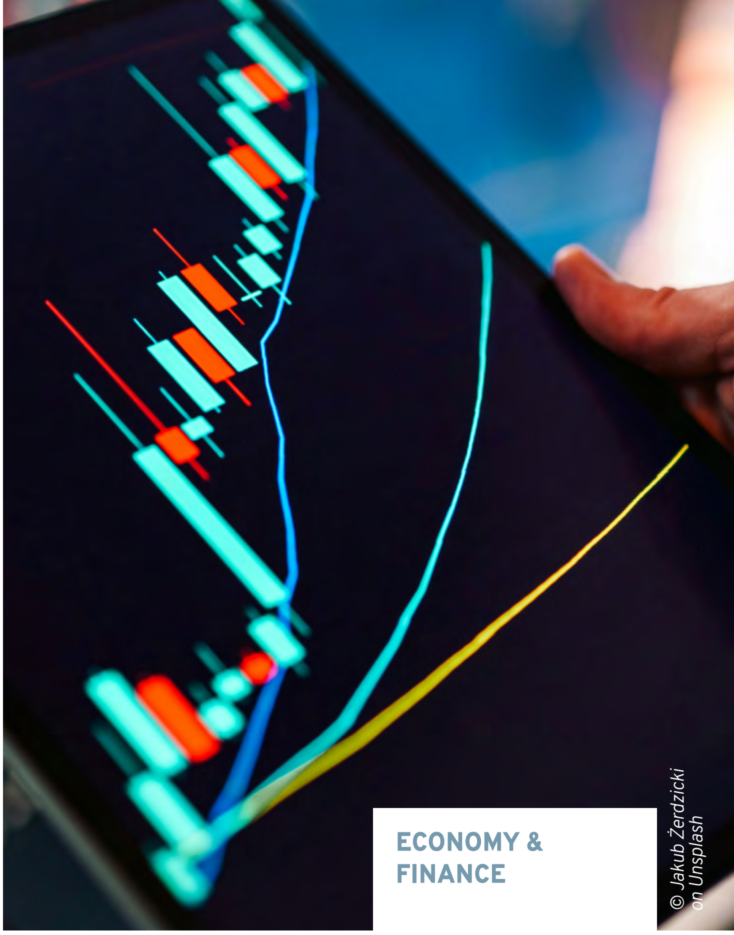

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ECONOMY & FINANCE

POLICY BRIEF
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Southern Europe's impressive post-Covid performance

What impact are European recovery funds having on the recovery momentum

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Introduction

In response to the massive economic shock caused by the Covid-19 pandemic, the European Council launched the NextGenerationEU (NGEU) recovery programme in July 2020. The centrepiece of this programme, the Recovery and Resilience Facility (RRF), has a budget of €577 billion (comprising €360 billion in grants and €217 billion in loans)[1] to be mobilised, in principle, by August 2026.

The economic recovery following the Covid-19 pandemic has been particularly robust in the four southern European economies (Italy, Spain, Greece and Portugal), which are also among the main beneficiaries of the RRF in terms of their GDP. Although there is "no causal link", the correlation between these variables raises questions about the contribution of the RRF to these outcomes, when compared with the average performance observed across the EU or in certain Central and Eastern European countries – such as Poland and Romania – which have also received very generous funding.

This note begins by reviewing the main characteristics of the RRF (objectives, allocation and channels of intervention) before examining the post-crisis economic performance of the four southern countries mentioned above. The final section, looking beyond the cyclical impact of this unprecedented EU programme, examines its capacity to trigger a sustainable growth dynamic.

1 The RRF was initially allocated a larger budget of €723 billion (comprising €338 billion in grants and €385 billion in loans), before undergoing several adjustments. In 2022, following the invasion of Ukraine, it was bolstered by an additional €22 billion in grants – €20 billion of which came from the auctioning of allowances under the emissions trading scheme from the Emissions Trading System (ETS) and €2 billion from the Brexit Adjustment Reserve (BAR). Member States were able to apply for loans until December 2023. Of a total budget of €385 billion, €291 billion had been committed by the end of 2023. However, €74 billion was decommitted in early 2026, as eight Member States revised their requests downwards. The total amount of loans actually committed now stands at €217 billion.

I. The RRF: objectives, allocation criteria and channels of intervention

Established in 2021, the RRF was designed as a coordinated EU fiscal response to the Covid-19 crisis. It had a dual objective: in the short term, to mitigate the economic shock and support the recovery of growth through fiscal stimulus; in the medium and long term, to transform the European economy to make it stronger and more resilient, in particular by supporting the green and digital transitions. Since 2022, its scope has been expanded to support Member States' responses to the energy crisis following Russia's invasion of Ukraine.

To benefit from the Facility, Member States were required to submit National Recovery and Resilience Plans (NRRP), setting out a package of measures - investments and reforms - to be implemented between February 2020[2] and August 2026. Each country was allocated a predefined amount of grants, calculated using a distribution key based on population, GDP per capita and the unemployment rate. A first tranche (70%) was allocated on the basis of pre-pandemic data, whilst the second (30%) was distributed in 2023 according to the estimated impact of the Covid-19 crisis on national economies.

Member States could also request concessional loans to bolster their National Recovery and Resilience Plans (NRRPs), up to a ceiling of 6.8% of their GNI, an option available until the end of 2023. Only 14 countries made use of this option, including the four southern European countries. Overall, the distribution of RRF funds has been particularly favorable to the latter: Italy and Spain are the main beneficiaries in absolute terms and also rank among the top five in terms of proportion of GDP, alongside Greece, Portugal and Croatia (see Table 1).

TABLE 1. Main beneficiaries of the RRF in relative terms (amount as % of 2023 GDP)

	Greece	Croatia	Spain	Italy	Portugal	Romania	Poland	EU
Grants	18.2	5.79	79.9	71.8	16.3	13.6	25.3	360
Loans	17.7	4.25	22.7	122.6	5.6	7.8	29.4	217
Total Allocated RRF	35.9	10.04	102.6	194.4	21.9	21.4	54.7	577
% of GDP	16.0	12.86	6.84	9.12	8.18	6.60	7.31	3.3
% of total FFR	6.22	1.74	17.78	33.69	3.79	3.70	9.48	100

▲ Source: *Recovery and Resilience scoreboard* – European Commission, January 2026

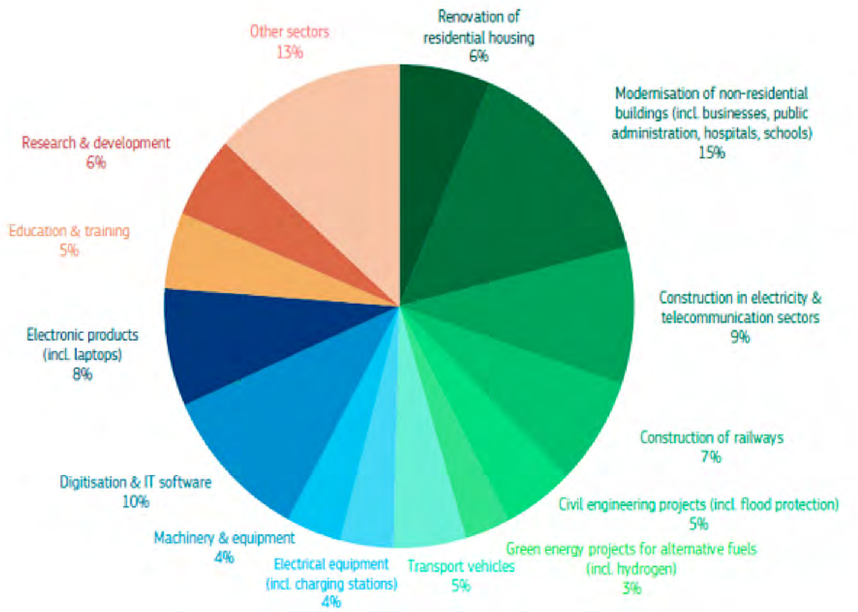
Whilst the content of the NRRP varies from one country to another, all plans had to comply with common rules, notably allocating at least 37% of funding to climate objectives and 20% to the digital transition. Unsurprisingly, a review of the 27 NRRPs shows that the investments most supported by the RRF relate to the energy transition, in particular the energy renovation of public and private buildings (21% of the total), the development of electricity infrastructure and renewable energy (9%), as well as rail and sustainable transport (12%). (see Figure 1)

Sectors linked to the digital transition are also receiving a significant share of the funding, particularly for the deployment of telecommunications infrastructure and support for digitalization (10% of the total). As regards reforms, the most significant relate

2 Although adopted in February 2021, the RFF Regulation allowed Member States to use RRF funds retroactively to finance measures taken in response to the pandemic from February 2020 onwards (in other words, to cover expenditure already incurred by national budgets).

to the energy transition as well as public administration — including education, the labour market, health and justice (Michels et al 2026)

FIGURE 1. Breakdown of investment by key sectors (as a % of total FFR)



▲ Source: Michels et al 2026 and Commission services

A key feature of the RRF lies in its disbursement mechanism. Unlike cohesion policy funds, which reimburse actual costs as projects are implemented, RRF payments are conditional upon the achievement of pre-defined objectives (milestones and targets). In this context, disbursements primarily reflect formal progress in achieving these milestones and targets, rather than the level of expenditure actually incurred. Consequently, the RRF disbursement rate does not necessarily correspond to the pace of investment implementation on the ground. For example, by March 2026, Italy had received €153 billion under the RRF (representing 79% of its total allocation), whereas, according to national sources[3], the expenditure actually incurred amounted to around €113 billion (59%). Similarly, Spain had received around 70% of its allocation (€71.3 billion), but had actually spent only around 66% of it (€66.9 billion[4]) by the same date.

II • The economic recovery of southern European countries as they emerge from the crisis

The major economies of southern Europe were particularly hard hit in 2020 by the pandemic shock, with their GDP falling by an average of nearly 10% – a sharper decline than that seen across the EU as a whole or in the eastern European countries. They also experienced a relatively sharper rebound in activity in 2021 and 2022, before subsequently returning to a growth rate in line with pre-crisis trends observed prior to the crisis (Italy and Spain), and even higher (Portugal and Greece).

3 Camera dei Deputati, Senato della Repubblica (2026) Monitoraggio del Piano Nazionale di Ripresa e Resilienza, 13 aprile 2026

4 According to figures published by the Spanish government, updated on 6 April 2026 (https://planderecuperacion.gob.es/ejecucion/elisa-el-plan-en-cifras)

It should be noted in this regard that in the case of the EU's two main economies, Germany and France, or in the case of the eastern EU economies taken here as references, Poland and Romania, GDP growth rates in 2025 are significantly below their 2015-2019 average levels (Table 2).

TABLE 2. GDP growth – Selected countries benefiting from the RRF – NGEU

GDP growth (volume, %)	2015/2019	2020	2021	2022	2023	2024	2025
Italy	+0.4	-9.0	+8.9	+4.8	+1.0	+0.7	+0.4
Spain	+2.8	-11.2	+6.7	+6.4	+2.5	+3.5	+2.9
Portugal	+2.6	-8.3	+5.6	+7.0	+2.4	+3.0	+3.5
Greece	+0.8	-9.3	+8.7	+5.5	+2.1	+2.1	+2.1
Germany	+1.7	-3.8	+3.7	+1.8	-0.9	-0.5	+0.2
France	+1.6	-7.5	+6.9	+2.7	+1.4	+1.2	+0.7
EU	**+2.2**	**-5.6**	**+6.0**	**+3.5**	**+0.4**	**+1.1**	**+1.4**
Poland	+4.6	-2.0	+6.9	+5.3	+0.2	+3.0	+3.2
Romania	+4.8	-3.7	+5.5	+4.2	+2.3	+0.9	+0.7

▲ Source: EC *Economic forecasts* - Autumn 2025

This naturally raises the question of the sustainability of the performance posted by these four southern economies relative to their growth potential. The strength of the cyclical rebound following the crisis can no doubt be explained by the fact that they also experienced a sharper decline in activity in 2020 than their EU partners, partly due to their dependence on tourism and to their relatively limited fiscal space the fact that they had relatively limited fiscal room for manoeuvre. However, it is necessary to go further in order to assess the role played by RRF funding mobilised from 2021 onwards, by examining in greater detail the factors contributing to this recovery (see section 3 below).

Another notable feature of this post-crisis period is the spectacular improvement in public finances in these four Southern European economies (Table 3). The public debt-to-GDP ratio fell by 6.4 percentage points in Italy between 2021 and 2025 (roughly in line with the EU as a whole), by 13.6 percentage points in Spain, and by as much as 21.2 and 26.3 percentage points, respectively, in Greece and Portugal. It should be moted that, over the same period, public debt rose significantly in Poland and Romania—other major beneficiaries of the RRF—whilst it increased by 3.2% in France and fell by 3.8% in Germany.

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The southern economies naturally benefited from the operation of cyclical stabilizers during this phase of strong economic recovery. However, this only partially explains the improvement in their fiscal positions, which deteriorated in the two eastern EU economies mentioned, even though they experienced a cyclical catch-up of similar magnitude. The main explanatory factor actually lies in the discretionary fiscal policy pursued by the four southern countries. The relevant indicator in this regard is the structural budget balance (adjusted for cyclical factors), which has improved significantly since 2021 in the southern countries, whilst it has deteriorated sharply in Poland and Romania.

TABLE 3. Public finance adjustment

Primary structural budget balance (% of GDP)	average for 2016-20	2021	2025	Public debt/GDP 2025 (2021: 100) %
Italy	+1.5	- 4.6	+0.7	93.6
Spain	-1.2	-2.3	-1.1	86.4
Portugal	+1.3	+1.3	+2.1	73.7
Greece	+7.3	-1.3	+3.0	78.8
EU	**+0.3**	**-2.7**	**-1.1**	**93.8**
Poland	-1.0	-1.0	-4.1	112.3
Romania	-2.8	-5.0	-4.7	122.4

▲ Source: EC *Economic forecasts* - Autumn 2025

However, the interpretation of these indicators is itself undoubtedly skewed due to the impact of the Community support programme. Disbursements under the RRF are, to a large extent fungible within Member States' budgets, thereby encouraging substitution effects. This is particularly the case for funds mobilized through grants, which have been used to a much greater extent than loans (see above), and of which 70% are is allocated to the public sector (central government and local authorities), with 30% going to the private sector (more than half of which to small and medium-sized enterprises)[5].

It therefore seems likely that the dramatic adjustment in the public finances of the main beneficiaries reflects a 'windfall effect' as RRF funds were able to finance public expenditure which would otherwise have forced governments to draw on their national budgetary resources or to take on further debt. The impact of this factor remains uncertain, however. For instance the proportion of RRF funds already disbursed, relative to the total amount allocated, varies significantly from one country to another: it stands at 70% in Spain and 65% in Italy, but at less than 50% in Greece or Portugal. Yet these last two countries are also those where the reduction in the structural budget balance has been most marked, reflecting a proactive adjustment policy.

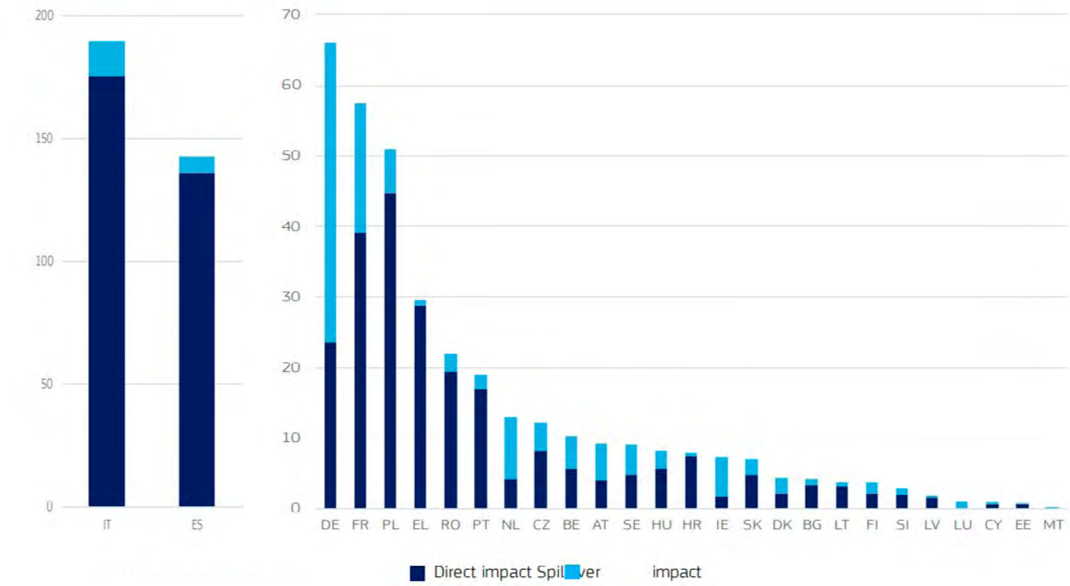
The multiplicity of intervention channels and the resulting substitution effects call for caution in the overall estimation of the economic impacts of the RRF. However, its contribution to the recovery of the economies of the southern EU (albeit to varying degrees across the countries as well as the catching-up of the Eastern economies appears to be beyond dispute. It should be emphasised that one of the objectives of the NGEU programme is to (re)launch a process of convergence that was severely affected by the 2010–2012 eurozone crisis, particularly in Southern Europe.

However, the close integration of the EU economies fosters positive externalities from those countries most generously endowed by the RRF toward their partners in the single market (and more specifically within the Economic and Monetary Union). Thus, the economies of Germany, France and the Netherlands, to name but the main ones, are already benefiting (and will benefit even more in the future) from these effects, channelled through several avenues: increased demand in their own markets, a greater contribution from their partners towards common objectives linked in particular to the climate and

5 Cf. EC (2025) : *Report from the Commission to the European Parliament on the implementation of the RRF* – (Com/2025-637), Brussels, 8-10-2025

digital transitions, and finally a 'confidence effect' in a stronger and more cohesive Europe (see Figure 2).

FIGURE 2. Direct effects and externalities linked to RRF funds allocated (€bn)



▲ Source: European Commission
Report from the Commission to the European Parliament on the implementation of the RRF – (COM/2025-637), Brussels, 8 October 2025

III • What impact has the RRF had on growth dynamics?

An examination of the factors that contributed to the rebound in the southern economies provides some useful insights. It appears that investment was the main driver of the economic recovery and increased significantly in Italy, Spain and Greece between 2022 and 2025 compared with the period 2016–2020, whereas its growth slowed slightly in Portugal.

However, a more detailed analysis shows that this investment momentum took different forms across countries. Thus, in the case of Italy, the growth in total investment (+7.2% in 2022 and +10.1% in 2023, before returning to a rate of around 3% in 2025) largely reflects a boom in construction investment (cumulative growth of over 25% between 2022 and 2023), whilst investment in capital goods, which is a priori more conducive to productivity gains and potential growth, remained at a rate of around 1%. The opposite trend is observed in Spain, where it is capital expenditure (up 8.6% in 2025) that has contributed most to the rise in total investment[6]. It should be noted that other factors, such as the reliance on immigration and the strength of domestic demand, have also stimulated growth in the Spanish economy.

This data can be compared with that relating to productivity, which rose by 5% between 2021 and 2025 in Spain (and by 4% and 5%, respectively, in Greece and Portugal), whilst it stagnated in Italy. Productivity gains, also very modest across the EU as a whole, rose sharply over the same period in Romania (+7%) and even more so in Poland (+11%).[7]

Southern countries face (to varying degrees) a range of structural challenges that have hampered their potential growth for several

6 Source: European Economic Forecasts Autumn 2025, November
7 These figures relate solely to labour productivity (GDP per person employed). Total factor productivity (TFP), a broader and more relevant concept, is not available for this sample of countries over the same period.

years: an ageing population, low employment rates, high youth unemployment, stagnant investment and productivity, etc. However, recent estimates indicate an increase in their potential growth compared with the pre-pandemic period (Table 4). This trend, more pronounced in Spain and Greece, contrasts with the estimated slowdown in Poland and Romania, countries that have also benefited substantially from European support funds.

TABLE 4. Changes in potential growth

Potential growth (%)	2016-20	2026
Italy	+0.2	+ 0.9
Spain	+0.6	+2.6
Portugal	+1.4	+2.2
Greece	-1.0	+1.8
EU	**+1.4**	**+1.3**
Poland	+3.7	+2.9
Romania	+4.4	+1.4

▲ Source: EC *Economic forecasts* - Autumn 2025

Potential growth is an estimated, rather than an observed, variable. These results should therefore be treated with some caution. They are, however, sufficiently clear and distinct to be regarded as providing relevant insights into the growth dynamics of the countries under consideration. The contribution of the RRF to this growth dynamic, however, remains to be established. In this regard, it may seem paradoxical that the improvement in growth potential was three times greater in Spain than in Italy, even though the proportion of funds disbursed was fairly similar in both countries.

The multiplicity of the RRF's objectives, the complexity of the instrument — combining investment and reforms — as well as innovations in governance make it particularly difficult to estimate their macroeconomic impact. The various studies available, based on distinct methodologies and scopes (European Union[8] or Eurozone[9]) nevertheless converge on an impact of between 1.2 and 1.5 percentage points of GDP. These studies highlight the difficulties in estimating the effects on growth in beneficiary countries, particularly from a long-term perspective[10]. The direct fiscal impact depends on several factors: the size of the National Recovery and Resilience Plans (NRRPs), the pace of implementation, the nature of the expenditure financed and its degree of additionality. Regarding this last point, disbursements may give rise to substitution effects ('windfall effects') that limit the additionality of the funds mobilized and complicate the calculation of multiplier effects. Furthermore, the RRF is also expected to produce a transformative effect through reforms. The assessment of the impact of structural reforms remains subject to numerous assumptions and uncertainties; however, according to Bańkowski et al. (2022), in some countries their long-term impact could exceed that of investments.

Conclusion

Should we speak of a miracle, a mirage, or the start of a sustainable expansion dynamic in the four southern EU economies to which more than 60% of the RRF budget has been allocated? Indeed, they have experienced a spectacular rebound following the crisis and, over the past five years, have recorded growth significantly higher than the EU average, thereby facilitating a reduction in their public debt and deficits that has also been more pronounced than among their European partners.

8 Pfeiffer P. et al. (2021), *"Quantifying Spillovers of NGEU Investment"*, European Economy Discussion Paper N°144, European Commission, July; European Commission (2024) Mid-term evaluation of the Recovery and Resilience Facility SWD (2024) 70

9 Bankowski K. et al. (2022), *"The economic impact of NGEU: a euro area perspective"*, ECB Occasional paper N° 291, April 2022; Bańkowski, K et al. (2024), "Four years into the Next Generation EU programme: an updated preliminary evaluation of its economic impact," Economic Bulletin Articles, European Central Bank, vol. 8.

10 Rubio E. (2023), "*Macro-economic impact of the EU Recovery Funds*", IEF Documento de Trabajo, N°45, March

RRF support, particularly in the form of grants, has undoubtedly contributed to these outstanding performances. This overall assessment must, however, be qualified: on the one hand, disbursements (as a proportion of the amounts allocated) have so far varied considerably from one country to another. On the other hand, distinguishing between the additive effects of RRF assistance and its substitution effects is difficult, even though both contribute to the financial situation of the recipient countries. Finally, account must be taken of the initial disparities between the four economies under consideration, with Spain and Portugal having recorded growth rates three to seven times higher than those of Greece or Italy in the five years preceding the crisis.

Looking beyond the short term, the challenge lies in the RRF's ability to boost the growth potential of southern countries and, at the same time, reduce economic heterogeneity within the EU (and more specifically within the eurozone). The diversity of objectives, the wide range of instruments deployed and the various channels of influence make this assessment very challenging and call for further research in this area.

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