Media briefing, 15.02.2024

Building back better?

Assessing the EU's economic resilience post-Covid

- The economic resilience of the EU was stable in the last years – despite economic shocks in the form of the pandemic, the Russian invasion of Ukraine and the energy crisis
- **Latvia** and **Italy** were able to increase economic resilience most in 2019-22
- **Poland** and **France** saw the biggest falls in economic resilience
- Analysis suggests **the EUs' Recovery & Resilience Facility** contributed to economic resilience, especially in countries with the most comprehensive reform and investment plans and which received the most funds per capita
- **Social Progress and Cohesion**, which is necessary for resilience, stagnated – if not addressed this may detriment economic resilience in future

The Economic Resilience Index

The ability of economies to handle shocks and to still prosper is critical in this era of polycrisis. 'Economic resilience' has become an important goal, with the UN, the OECD, and the EU all calling for more resilient economies.

Researchers from ZOE Institute developed a composite indicator to assess holistic economic resilience; economies' future-preparedness to thrive when faced with continuous crises. The Economic Resilience Index (ERI) is grounded in a holistic theoretical framework. Resilience is assessed in 3 capacities – **absorption, recovery, and adaptation –** using a total of 27 different indicators, divided into six 'dimensions'.

The first Economic Resilience Index published in 2023 showed that EU economies differ greatly in their capacities to absorb, recover from, and adapt to shocks. Member States' resilience scores ranged from 0.78 to 0.25. (The maximum possible score is 1.) Sweden, Denmark, and Finland occupied the top of the ranking. Romania, Greece, and Bulgaria were found to be the least resilient.

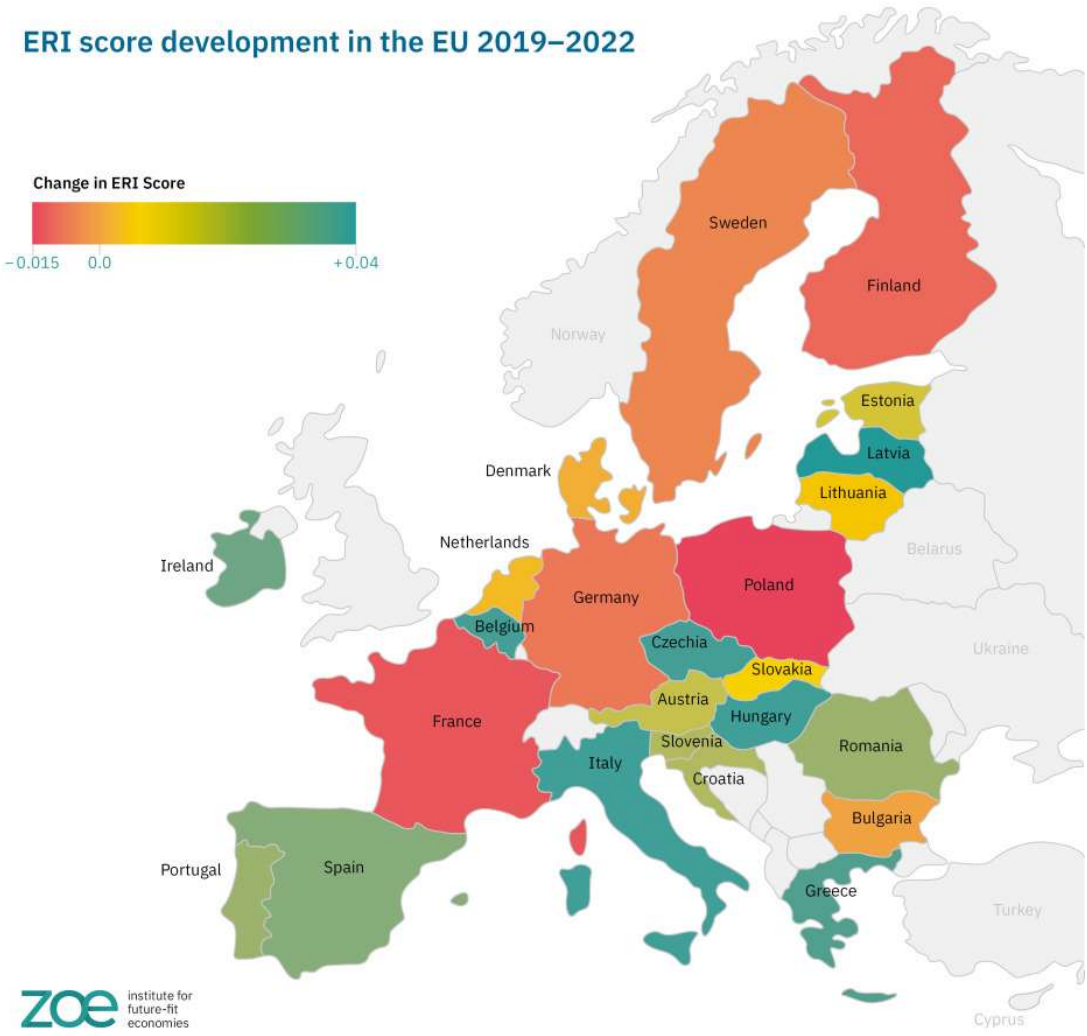
EU economic resilience 2019-22

Now ZOE Institute has again assessed the economic resilience of EU economies using the ERI. In the 2024 edition, they assess how Member State economies evolved between 2019 and 2022 – a period characterised by multiple crises.

Whilst there is little movement in the overall ranking – Sweden, Denmark and Finland still occupy the top three places, and Romania, Bulgaria and Greece the bottom three – there are changes within the table, and an overall convergence trend. EU economies with initially weaker economic resilience scores gained on countries with initially higher scores.

Latvia and Italy were able to increase their economic resilience, measured by the ERI, the most. Poland and France were subject to the biggest losses in economic resilience.

The overall stability and convergence trends mask disparity between the 'dimensions' that contribute to holistic economic resilience. Production Capacity, and Education & Skills saw declines, whilst Social Progress & Cohesion stagnated.


ERI score development in the EU 2019–2022
Change in ERI Score
−0.015
0.0
+0.04
Sweden
Finland
Norway
Estonia
Latvia
Lithuania
Denmark
Belarus
Netherlands
Ireland
Germany
Poland
Belgium
Czechia
Ukraine
Slovakia
Austria
Hungary
France
Slovenia
Romania
Italy
Croatia
Bulgaria
Portugal
Spain
Greece
Turkey
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Changes in the ERI ranking in the EU

Country	ERI Score 2022	Δ ERI Score 2019 to 2022	Δ to Rank 2019
Sweden	0.724	-0.002	0
Denmark	0.703	0.005	0
Finland	0.67	-0.005	0
Netherlands	0.631	0.006	0
Slovenia	0.573	0.024	1
Ireland	0.565	0.028	1
Germany	0.562	-0.004	-2
Belgium	0.561	0.036	2
Austria	0.554	0.022	-1
Estonia	0.525	0.016	1
France	0.514	-0.011	-2
Czechia	0.512	0.036	0
Portugal	0.452	0.026	0
Spain	0.449	0.027	0
Latvia	0.44	0.040	1
Hungary	0.433	0.038	2
Croatia	0.429	0.024	3
Lithuania	0.418	0.010	-3
Italy	0.417	0.038	2
Slovakia	0.406	0.014	-1
Poland	0.377	-0.015	-4
Romania	0.315	0.026	1
Bulgaria	0.313	0.004	-1
Greece	0.298	0.030	0

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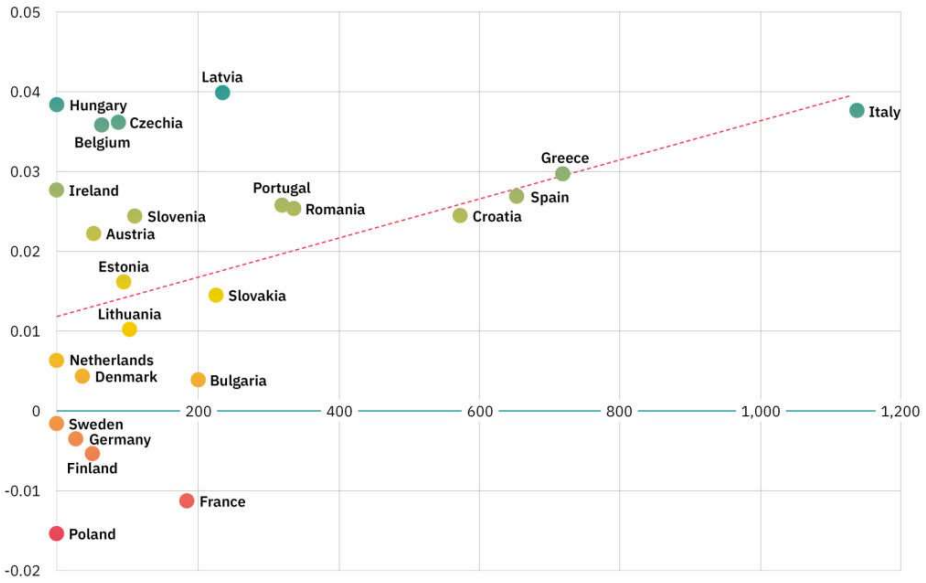
The era of the RRF

In 2020, in response to the Covid-19 pandemic and its economic fall-out, the EU agreed a first-of-its kind financial instrument explicitly aimed at bolstering economic resilience. The €723 billion Recovery and Resilience Facility (RRF) provided grants and loans to assist Member State economies to recover in the short-term whilst also becoming more resilient in the long-term.

Three years on from the RRF's entry into force in February 2021, the ZOE Institute study finds a positive correlation between the amount of RRF funds disbursed per capita and the improvement of countries' ERI scores between 2019 and 2022.

RRF disbursement per capita in € until 2022 in relation to the change in ERI score 2019–2022



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For example, Spain submitted plans for €80 billion in grants and another €83 billion in loans from the RRF. At the end of 2023 it was the country with the third highest per capita disbursement of funds (after Italy and Greece), and had already met nearly one third of its milestones and targets. Spain is the 8th most improved country in terms of ERI score.

The analysis shows that the impact of the RRF funding on economic resilience hinges on the quality of the planned reforms and investments, not only on the amount of funding per capita. Spain's plans are comprehensive and integrated with a high number of measures designed to target employment, skills, and social inclusion.

Individual countries

Social and cohesion policies are crucial to enhance economic resilience, yet often remain overlooked in policy discourse. A closer look at three Member States showcases to what extent social and cohesion policies are incorporated into their national spending plans, the National Recovery and Resilience Plans (NRRPs).

Germany: Germany's Recovery and Resilience Plan primarily focuses on education and childcare, and lacks measures for regional cohesion. The plan shows a limited level of policy integration and a low potential for systemic change, the latter indicating that structural causes of societal challenges are rarely addressed.

Romania: Romania's NRRP prioritises education and childcare as well as social inclusion and protection, with explicit consideration for regional cohesion. Romania's plan exhibits a high degree of policy integration and a moderate potential to contribute to systemic change.

Spain: Spain's NRRP is characterised by a distinct focus on employment and skills and social inclusion and protection. Spain's measures show a high degree of policy integration, addressing multiple policy areas simultaneously, and possess a high potential for systemic change.

Implications

On the third anniversary of the entry into force of the Recovery and Resilience Facility, EU governments need to look beyond 2026 and make sure a follow-up instrument for enhancing long-term economic resilience is in place. The EU needs to avoid a return to a situation in which only certain Member States can implement resilience-enhancing reforms and investments. Increasing collective economic resilience requires building the resilience of the least resilient Member States.

The European Commission should make sure its evaluation of the RRF is based on a holistic definition of economic resilience, to bolster the broad range of dimensions necessary for economies to thrive. A follow-up instrument should include targets for social spending, in addition to the existing targets for green spending.

Speaking about the findings, **Lukas Bertram, economist at ZOE Institute, said:**

"Economic policymakers need to run a sprint and a marathon at the same time – dealing with short-term shocks whilst also transitioning to a green, stable, more prosperous economy in the long-term. In this context, a holistic measure of economic resilience is needed to guide decisions.

"EU economies have performed surprisingly well given the difficulties they've faced in the last years. But this stability masks some neglected areas which could harm resilience in the future – notably a lack of measures to address social cohesion.

"The EU's cash injection to bolster economic resilience after the pandemic seems to be working. Now the EU needs to think beyond 2026 and make sure continued funding for economic resilience is in place for all Member States."

The European Commission's own mid-term assessment of the impact of the Recovery & Resilience Facility is expected to be published later this month.

The report 'Building back better' Economic resilience in the era of the Recovery & Resilience Facility' is available at: https://zoe-institut.de/en/publication/building-back-better/

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