The impact of cohesion policy on domestic public spending: A dynamic analysis at the EU regional level

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Extended abstract

The additionality of European structural funds relative to domestic fiscal spending is a crucial issue in the debate on the effectiveness of EU cohesion policy. While cohesion policy aims to stimulate additional investment and reduce territorial disparities, existing evidence provides mixed conclusions on whether EU transfers complement or substitute domestic public spending.

Recent evidence indicates that EU funds may have led to crowding-out of government expenditure, particularly in CEE countries (Fiuratti et al., 2025). Similarly, a crowding-out effect was found in Italian regions for some thematic areas of spending (Mazzola and Gambina, 2025). However, a systematic empirical evidence assessing to what extent cohesion policy may displace domestic fiscal spending at the EU regional level remains quite limited.

To address this gap, this paper investigates the dynamic impact of cohesion policy expenditures on domestic public spending and the sources of heterogenous effects (based for example on different business cycle position and typology of funds).

The analysis is particularly relevant in light of recurring economic crises, which may have led national and local governments to use cohesion funds to replace domestic fiscal expenditure under budgetary constraints and austerity policies (which, in turn, may adversely affect territorial disparities (Agnello and Pizzuto, 2025)).

The empirical strategy employs the local projection approach (Jorda, 2005) which allows to estimate impulse-response functions and flexible modelling of heterogeneous and nonlinear dynamics across regional characteristics. To identify plausibly exogenous variation in cohesion policy expenditures, the analysis adopts a leave-one-out predicted disbursement instrument based on Kraay (2014) and Fiuratti et al. (2025).

Our work provides relevant insights regarding the introduction of the additionality principle in the forthcoming 2028-34 cohesion policy cycle and has implications also for Next Generation EU, which is exposed to similar issues as cohesion policy regarding its complementarity, substitutability or neutrality relative to domestic fiscal spending.

References

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Keywords

EU cohesion policy; domestic spending; impulse-response functions; EU NUTS-2 regions