

THE ECONOMIC IMPACT OF EU AID ON EU ECONOMIES

Policy Brief

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ODI Europe



As the European Commission prepares to release its draft proposal for the next Multiannual Financial Framework (MFF), new economic modelling confirms that Official Development Assistance (ODA) significantly benefits the EU economy.

Between 2020 and 2022, EU institutions provided an average of US\$27.4 billion (€24.2 billion¹) of external aid annually. In return, simulations show that EU exports are expected to rise by US\$27.6 billion (€24.4 billion), surpassing the amount of aid provided. This projected growth in exports is driven by the impact of EU aid in helping recipient countries reduce trade barriers, improve infrastructure, and stabilise their economies, ultimately creating more open and accessible markets for EU goods and services.

The model also suggests that EU aid could boost the EU's GDP by 0.08%, equivalent to an additional US\$12.1 billion (€10.7 billion) in annual economic output – roughly equal to the entire annual budget of the EU's main international cooperation instrument, the Neighbourhood, Development and International Cooperation Instrument (NDICI). This return represents approximately 44% of the aid provided during that period. In effect, for every euro spent on aid, nearly half is expected to flow back into the EU economy through increased trade and related economic activity, redeeming half of the cost outright, on top of the trade benefits.

Main findings

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EU GDP is expected to rise by 0.08%, equivalent to an additional US\$12.1 billion (€10.7 billion) in annual economic output – roughly equal to the entire annual budget of the EU's main international cooperation instrument, the NDICI. For every euro spent on aid, nearly half is expected to flow back into the EU economy in the form of increased income as a result of trade relationships with partner countries.

These findings highlight that the projected economic gains from ODA exceed the initial outlay: aid is not only a powerful instrument for global development, but also serves as a strategic lever for the EU's economic prosperity. This analysis provides timely evidence to help inform the design and ambition of the next MFF.

¹ Exchange rate used: 1 USD = 0.8824 EUR, as of May 6, 2025

Context

In summer 2025, the European Commission will release its draft proposal for the next MFF alongside the sectoral instruments that will guide future spending priorities. This comes at a particularly challenging time for the EU, which faces annual repayments on loans under the Next Generation EU, estimated at around €25-30 billion annually. Additionally, the EU is providing ongoing financial support for Ukraine, renewing its focus on defense spending, and grappling with sluggish economic growth.

In this constrained fiscal environment, some governments have opted to reduce development spending, often viewing it as a politically low-cost area to cut. The EU took a similar approach during the mid-term review of the current Multiannual Financial Framework. However, this short-term thinking overlooks the long-term consequences: heightened instability, increased disease burdens, and reduced global resilience – all of which carry real costs for Europe. It also disregards a less widely recognised but well-evidenced fact: development aid delivers significant economic benefits for donor economies themselves. Cutting is therefore a false economy – a miscalculation that ignores decades of evidence on the economic returns of ODA.

This analysis reinforces why ODA must remain a strategic investment, not a budgetary afterthought. Commissioned by the Pandemic Action Network (PAN), shaped by PAN in collaboration with ODI Europe, and modeled by ODI Global using the Global Trade Analysis Project (GTAP), it aims to inform the upcoming MFF negotiations by adding evidence that EU aid is a smart, forward-looking investment that advances shared prosperity and delivers tangible economic returns for the EU.

Modelling the economic effects of EU aid

GTAP is a widely respected analytical tool that enables a comprehensive assessment of how changes in trade, consumption, and capital flows can impact both recipient countries and donor economies. By capturing the complex interconnections between economies, GTAP provides invaluable insights into the broader economic impacts of aid, supporting evidence-based policy decisions. The model and its findings are detailed in this [technical report](#).

The model was used to simulate the economic impact of US\$27.4 billion (€24.2 billion) in EU ODA – the EU's average annual aid spending between 2020 and 2022 – on exports, GDP, and trade dynamics.

The results show that EU exports are expected to increase by US\$27.6 billion (€24.4 billion) and EU GDP is expected to grow by 0.08%, highlighting the spillover benefits of aid.

The US\$27.6 billion (€24.4 billion) increase in EU exports – which is greater than the volume of aid simulated – largely stems from the impact of EU aid in improving the trade capacity of recipient countries. By reducing trade costs (e.g., simplifying customs procedures or cutting red tape), improving infrastructure (such as roads, ports, or digital infrastructure), and enhancing trade facilitation (e.g., improved logistics or streamlined regulations), aid enables partner countries to participate more effectively in global markets. This, in turn, boosts demand for EU goods and services.

The impact of EU aid on exports disaggregated by EU Member State

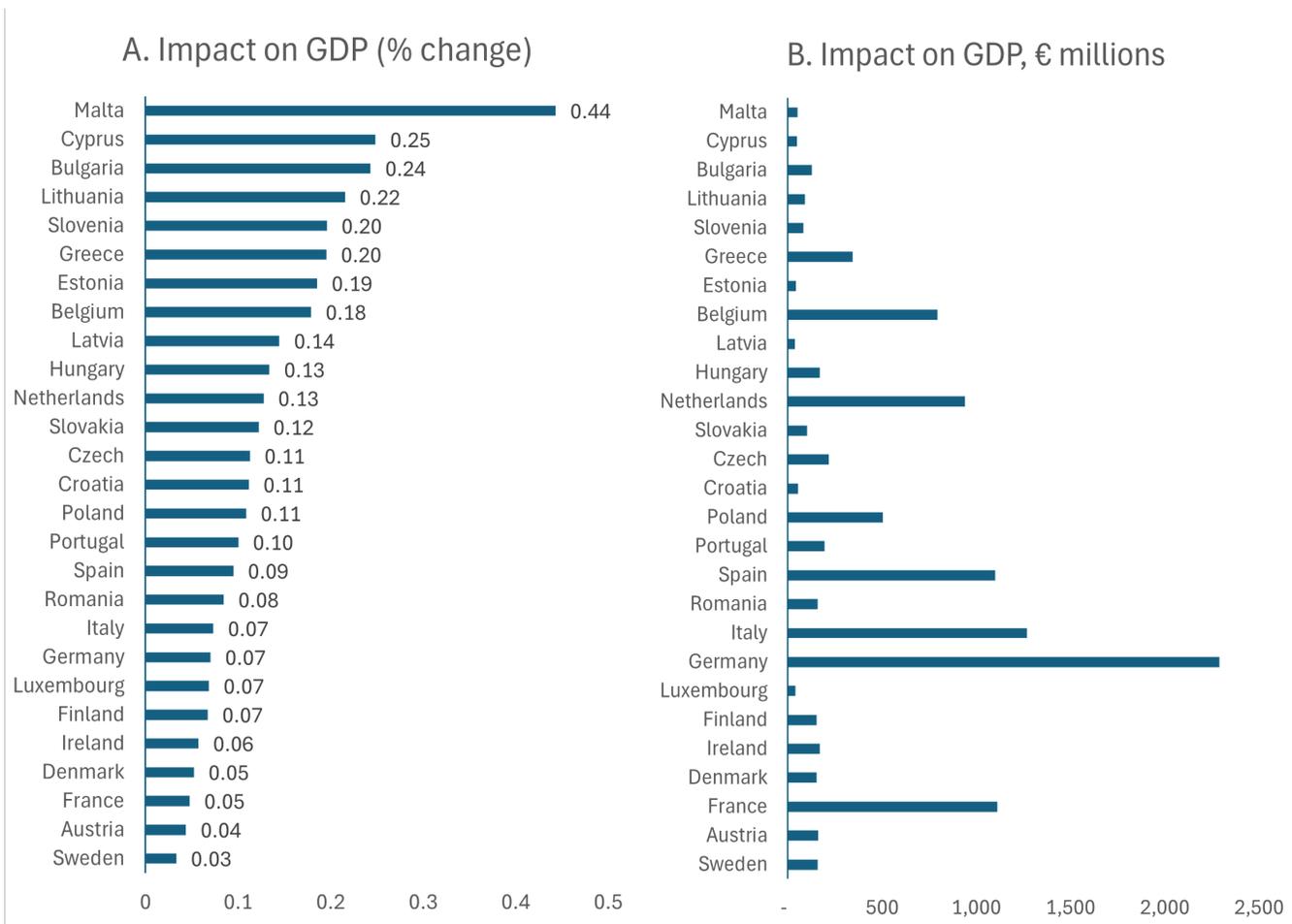
COUNTRY	INCREASE IN EXPORTS - USD	INCREASE IN EXPORTS - EUR
France	US\$6,760,000,000	€5,964,000,000
Italy	US\$6,476,000,000	€5,715,000,000
Germany	US\$6,155,000,000	€5,431,000,000
Spain	US\$3,636,000,000	€3,208,000,000
Netherlands	US\$1,253,000,000	€1,105,000,000
Sweden	US\$877,000,000	€774,000,000
Austria	US\$783,000,000	€691,000,000
Belgium	US\$708,000,000	€624,000,000
Denmark	US\$494,000,000	€436,000,000
Finland	US\$416,000,000	€367,000,000
Czech Republic	US\$400,000,000	€353,000,000
Ireland	US\$380,000,000	€334,000,000
Poland	US\$361,000,000	€318,000,000
Portugal	US\$351,000,000	€310,000,000
Hungary	US\$217,000,000	€192,000,000
Romania	US\$184,000,000	€162,000,000
Slovakia	US\$122,000,000	€108,000,000
Luxembourg	US\$107,000,000	€94,000,000
Bulgaria	US\$50,000,000	€44,000,000
Croatia	US\$46,000,000	€41,000,000
Slovenia	US\$40,000,000	€35,000,000
Estonia	US\$24,000,000	€21,000,000
Lithuania	US\$24,000,000	€21,000,000
Latvia	US\$23,000,000	€20,000,000

Malta	US\$6,000,000	€5,000,000
Greece	US\$-21,000,000	-€19,000,000
Cyprus	US\$-28,000,000	-€25,000,000

Source: GTAP simulation results - note that these country specific tables are based on country disaggregated models and do not compare strictly to the EU number.

The projected 0.08% increase in EU GDP – equivalent to about US\$12.1 billion (€10.7 billion) – reflects the broader economic ripple effects of this expanded trade (more exports, cheaper imports).

The impact of EU aid on GDP disaggregated by EU Member State



Source: GTAP simulation results

As exports grow, EU companies expand production, hire workers, and invest in new capacity. This, in turn, stimulates activity across supply chains, raises incomes, and drives economic output. Though ODA is spent abroad, the resulting demand ultimately circles back into the EU economy. In this way, EU aid functions as an economic catalyst: by fostering growth overseas, it generates tangible returns at home.

While Aid for Trade plays a crucial role in enhancing trade facilitation and reducing trade costs, other forms of aid also contribute significantly to its overall effectiveness. Investments in quality education and vocational training equips workers with the necessary skills to thrive in evolving labor markets. A well-trained workforce boosts competitiveness, fosters innovation, and enables industries to integrate into regional and global value chains. Similarly, strong healthcare systems contribute to a healthy and resilient workforce, minimising illness-related disruptions and increasing overall labor market participation.

In essence, by helping partner countries trade more effectively and by strengthening their human capital, the EU creates stronger, more open markets for its own exporters, while also laying the foundations for long-term prosperity in both the EU and its partner countries.

These findings on the benefits of aid to donor countries align with a wealth of robust evidence from previous studies, which consistently show that aid not only fosters growth in recipient countries but also delivers substantial economic returns to donor nations.

Importantly, the modelling results are likely to be an underestimate of the economic effects of aid. For instance, while the GTAP model does not separately account for foreign direct investment (FDI), EU aid can play a critical role in unlocking new investment opportunities. By improving trade governance, infrastructure, and human capital, aid fosters a more favourable business environment in recipient countries, making them more attractive to external investors. This can lead to increased FDI from EU-based companies, which benefit from enhanced growth prospects and higher overseas profits, ultimately boosting tax revenues for European governments and potentially supporting higher employment levels within the EU. These FDI-related effects are not captured in the model and would come in addition to the gains quantified in the simulation. In short, ODA contributes to EU prosperity not only through trade, as modeled, but also by enabling new channels for investment and global economic engagement.

While this study focuses on economic impacts, it is equally important to recognise the broader public goods that EU aid helps provide – many of which directly benefit the EU. These include strengthening global health security, promoting environmental sustainability, and advancing human rights and democracy. For example, aid directed at strengthening global health systems helps prevent pandemics, benefiting both recipient and donor countries. Support for human rights and democracy can reduce conflicts and migration pressures, contributing to global stability. Additionally, aid aimed at climate change mitigation and environmental sustainability helps mitigate risks such as extreme weather events and biodiversity loss, directly benefiting donor countries by protecting them from environmental degradation and related economic impacts. ODA plays a critical role in building global resilience to challenges that increasingly cross borders, from disease outbreaks to displacement, environmental degradation, and conflict. These investments help reduce volatility and reinforce a more stable international order, which serves the EU's strategic interests and long-term security.

Implication for the MFF

Alongside investments in human capital – from health and education to social protection, gender equality, and skills development – ODA helps build a more sustainable and cooperative global environment, as well as open and stable trade relationships. These outcomes deliver direct benefits to the EU and reinforce its long-term strategic interests.

The findings align with the EU's Strategic Agenda, highlighting ODA's role in strengthening international partnerships and boosting competitiveness through access to fast-growing markets. Africa, in particular, is central to this future: its population is set to double by 2050, transforming the continent's economies and reshaping global dynamics. With a rapidly expanding entrepreneurial base and a young, dynamic population, Africa is emerging as a key driver of global economic growth.

GTAP simulations show that in this context, EU ODA is strategic foresight. Smart, sustained investment through aid strengthens partnerships such as EU-Africa, opens vital new markets for EU exporters, builds more stable regional economies, and secures reliable import partners. It also promotes shared prosperity in a way that benefits both sides.

Crucially, these simulations capture only what GTAP can measure. They do not account for broader spillover effects, such as increased foreign direct investment, or non-economic benefits like strengthened global health security. The full return on investment in ODA is therefore likely to be even higher than the model suggests.

As the EU navigates a challenging landscape shaped by economic recovery, climate transition, and geopolitical instability, it must recognise ODA as a strategic asset. To fully seize this opportunity, the next Multiannual Financial Framework must reflect greater ambition: the EU must harness its aid investments to safeguard its prosperity, resilience, and global standing.

**EU aid advances
shared prosperity
and delivers
tangible economic
returns for the EU**



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