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EUROPEAN SEMESTER 2021 AND RECOVERY, TRANSFORMATION AND RESILIENCE PLAN

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ABSTRACT

The Recovery and Resilience Facility (RRF), the centrepiece of the Next Generation EU (NGEU) instrument, has become the European Union (EU) economic policy coordination priority. This has made it necessary to temporarily simplify the European Semester. To gain access to the RRF, the Member States (MSs) have to set out the investments and reforms to which the funds will be assigned in their national recovery and resilience plans (RRPs) and which must be aimed fundamentally at responding to climate change-related challenges, digitalisation, the strengthening of human capital and public sector efficiency. The assessment of these plans by the European Commission (EC) will be central to the EU annual economic policy coordination cycle within the European Semester, which retains the habitual Excessive Deficit and Macroeconomic Imbalance procedures.

Keywords: European Semester, Next Generation EU, Recovery and Resilience Facility, Recovery and Resilience Plan, macroeconomic imbalances, General Escape Clause, structural reforms.

JEL classification: F4, F5, F6, H5, H6, O4.

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Introduction

To offer an immediate response to the economic and health crisis arising from the pandemic and to adapt to a framework that has undergone temporary but probably fundamental changes, the European institutions have restructured the European Semester process in 2021.

First, the EU has launched the temporary instrument Next Generation EU (NGEU), whose central element is the Recovery and Resilience Facility (RRF). This facility has become the European Union (EU) economic policy coordination priority, making it necessary to temporarily simplify the European Semester, which was the instrument used to date for such coordination (see Figure 1). To gain access to RRF funds, which may be up to 5% of EU GDP,[1] the Member States (MSs) have to set out the investments and reforms to which the funds will be assigned in their national plans (Recovery and Resilience Plan, RRP). The measures to be funded have to be implemented before end-2026 and should be structured around six priority policy areas common to all the countries.[2] At least 37% and 20% of the funds have to be respectively earmarked for the ecological and digital transitions. The assessment of these plans by the European Commission (EC) will be central to the EU annual economic policy coordination cycle.

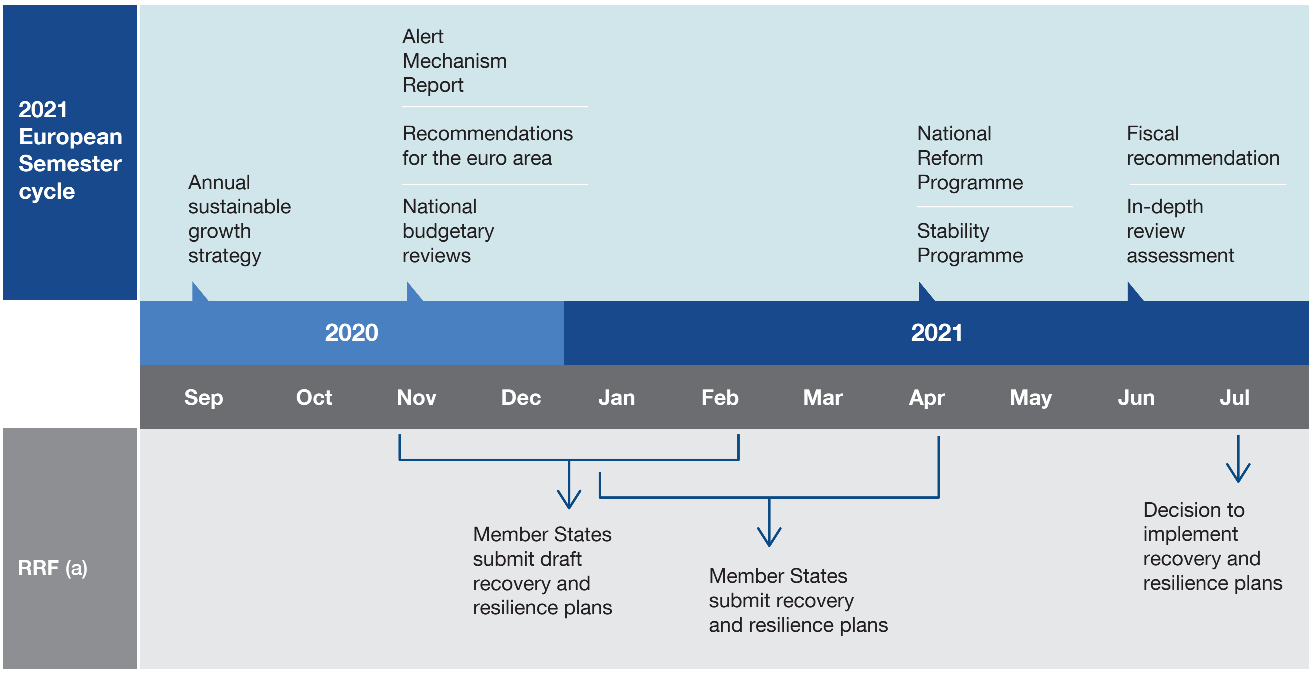
Second, as part of the strategy to swiftly and forcefully respond to the consequences of the pandemic, in March 2020, the EC activated for the first time in its history the General Escape Clause (GEC) of the Stability and Growth Pact (SGP). This clause allows the MSs to temporarily deviate from the path of the main budgetary magnitudes required under the SGP, to contend with periods of serious economic crisis in the euro area or in the EU as a whole, provided that this deviation does not jeopardise their medium-term budgetary sustainability.[3] The GEC will remain active until the EU recovers its pre-pandemic level of economic activity, a landmark which, according to the EC's spring 2021 forecasts, is expected to be reached in 2023. However, it is possible that

1 For more details on the RRF and its funds, see Banco de España (2020 and 2021).

2 The six policy areas are: i) the green transition; ii) digital transformation; iii) smart, sustainable and inclusive growth and jobs; iv) social and territorial cohesion; v) health and resilience; and vi) policies for the next generation, including education and skills.

3 See European Commission (2020a).

Figure 1
THE 2021 EUROPEAN SEMESTER TIMELINE



SOURCE: European Commission.

a RRF = Recovery and Resilience Facility.

after this time it may be necessary to resort to flexibility in the application of the SGP for those MSs that have not yet recovered their pre-crisis level of economic activity.[4]

Against this background, however, the usual monitoring cycle of the European Semester, which includes the habitual Excessive Deficit and Macroeconomic Imbalance procedures, is to be maintained. The second and third sections of this article detail these procedures. The fourth section describes the main characteristics and content of the RRP submitted by Spain, known as the Recovery, Transformation and Resilience Plan (RTRP),[5] and the main messages derived from the analysis of the plans presented so far by the other MSs. Finally, the fifth section draws the main conclusions.

Excessive Deficit Procedure

Given that the activation of the GEC does not suspend SGP procedures, the EC continues to pursue its annual monitoring cycle, assessing compliance with the public deficit and debt criteria in 2020. However, bearing in mind the current

4 See European Commission (2020b).
5 See Spanish Government (2021).

Table 1
EXCESSIVE DEFICIT PROCEDURE 2020

In the current setting, the Commission considers that a decision should not be taken at this time on whether to subject the Member States to the Excessive Deficit Procedure.

	Yes	No
Fulfils the deficit criterion as defined in the Treaty and in Regulation (EC) no. 1467/1997	Bulgaria, Denmark and Sweden	Belgium, Germany, Greece, Spain, France, Croatia, Italy, Cyprus, Hungary, Austria, Portugal, Slovenia, Finland, Bulgaria, Czechia, Estonia, Ireland, Latvia, Lithuania, Luxembourg, Hungary, Malta, Netherlands and Poland
Fulfils the debt criterion as defined in the Treaty and in Regulation (EC) no. 1467/1997	Bulgaria, Czechia, Denmark, Estonia, Ireland, Latvia, Lithuania, Luxembourg, Hungary, Malta, Netherlands, Poland and Sweden	Belgium, Germany, Greece, Spain, France, Croatia, Italy, Cyprus, Hungary, Austria, Portugal, Slovenia and Finland

SOURCE: European Commission.

exceptional circumstances and the additional workload (the result of the launch of the RRF and of the Commission's assessment of the RRPs submitted by the MSs), the EC has published a general report that jointly assesses the fulfilment of the deficit and debt criteria by the MSs.[6] The report does not analyse the position of Romania, which is currently the only MS subject to an excessive deficit procedure (based on 2019 data). In this case the EC has recommended updating the path of adjustment with the aim of correcting the excessive deficit in 2024.

In 2020, the general government deficit stood clearly above the reference value of 3% of GDP in 23 MSs (see Table 1 and Chart A.1), and gross general government debt exceeded the reference value of 60% of GDP in 14 MSs (including Germany, France, Italy and Spain).[7] Against this backdrop, the EC, bearing in mind the greater uncertainty prevailing, the agreed fiscal policy response to counter the COVID-19 crisis and the Council's recommendations for 2021, has decided not to launch an excessive deficit procedure against any MS on the basis of its autumn 2021 economic forecasts (which will be published in November). Also, in the case of the MSs comprising the euro area, the EC will draw on the assessment of the budgetary plans for 2022 (which the MSs have sent to it prior to 15 October 2021).

Macroeconomic Imbalance Procedure

The 2021 Macroeconomic Imbalance Procedure began with the publication of the Alert Mechanism Report (AMR) in November 2020. The AMR is based on a table of indicators which, as usual, uses information relating to the previous year, in this case

6 See European Commission (2021b).

7 Spain and France likewise failed to fulfil the temporary debt rule to which they were subject since less than three years had elapsed since the correction of their excessive deficit.

Table 2
MACROECONOMIC IMBALANCE PROCEDURE 2021

The in-depth review published in June 2021 conclude that Cyprus, Greece and Italy maintain excessive imbalances, and that the imbalances detected do not only persist but have increased owing to the pandemic.

	Euro area	Rest of the EU
Do not require in-depth review	Belgium, Estonia, Latvia, Lithuania, Luxembourg, Malta, Austria, Slovenia, Slovakia and Finland	Bulgaria, Czechia, Denmark, Hungary and Poland
Imbalances	Germany, Ireland, Spain, France, Netherlands and Portugal	Croatia, Romania and Sweden
Excessive imbalances	Greece, Cyprus and Italy	

SOURCE: European Commission.

2019, i.e. before the health crisis (see Table A.1). On this occasion the set of indicators considered by the AMR has been extended, and more up-to-date forecasts and high-frequency data have been taken into account.

Broadly, the AMR highlighted how the health crisis had exacerbated pre-existing problems, in particular those linked to the increase in the debt-to-GDP ratio, identifying the same countries with macroeconomic imbalances as in the previous report (see Table 2). At the same time, the AMR stressed the possibility that risk situations may emerge in several MSs that had not previously been subject to in-depth reviews.

Under the MIP, the national reform programmes (NRPs) set out the specific policies each country will apply to correct the imbalances identified in the in-depth reviews and to comply with the specific country-by-country recommendations.[8]

A further change in the European Semester 2021 has involved the possibility of including NRPs in recovery and resilience plans, of which some countries have availed themselves.[9] In Spain's case, although the economic policy strategy was set in the RTRP, the NRP was still published and it set out the measures adopted that would contribute to compliance with the recommendations made to Spain in 2019 and 2020.

In Spain's specific case, the in-depth review highlights the fact that the country went into the COVID-19 crisis with vulnerabilities linked to the levels of external, private-sector and general government debt, along with high unemployment. Owing to the

8 Regarding the Macroeconomic Imbalance Procedure, see Matea (2012).

9 The countries that have submitted national reform programmes are: Austria, Germany, Hungary, Latvia, Luxembourg, Portugal, Romania, Spain and Sweden.

effect of the crisis and the fiscal policy measures adopted in response to it, public debt increased substantially in 2020; however, a slight reduction is forecast in 2021, in light of the economic recovery and the withdrawal of some of the stimulus measures. Both business and household deleveraging came to a halt in the wake of the COVID-19 crisis. As to external debt, the net international investment position, which remains negative and high, should resume its gradual improvement in 2021. Also, the current account has worsened with the crisis, most adversely impacting tourism, although it is expected to return to equilibrium this year and next. Lastly, the unemployment rate increased in 2020 but has begun to fall and is projected to continue doing so in 2022.

Turning to the other euro area countries with imbalances or excessive imbalances, most have high public debt, except Germany and the Netherlands, where the imbalances are associated with a persistent current-account surplus. In Portugal, Cyprus and Ireland, private debt is also high, while France and Italy evidence a lack of competitiveness and sluggish productivity, respectively.[10] In several countries there is, moreover, a high proportion of non-performing loans (Italy, Portugal, Cyprus and Greece) and still-high unemployment (Italy and Greece).

Unlike previous years, however, in this year's in-depth reviews the EC has not assessed in spring the fulfilment of the recommendations, although headway has been limited.

Recovery and Resilience Plans

The MSs were invited to submit their RRPs before 30 April this year, but they may do so at any time up until mid-2022. As at the cut-off date of this Note, the European Council had approved 19 RRPs of the 22 that had been previously assessed and approved by the EC (see Table A.2). The plans will be revised in 2022 to ensure that the remaining funds are committed before end-2023. The MSs may amend their recovery and resilience plans at any time in the 2021-2023 period, when they submit applications for loans under the RRF framework for reforms or additional investments.

To assess the RRPs, a table of indicators is taken as a reference. The table considers, among other aspects, the alignment of the plan with the six priorities set by the EC for this programme,[11] the contribution to effectively address each country's specific recommendations,[12] the application of the principles of the European social rights

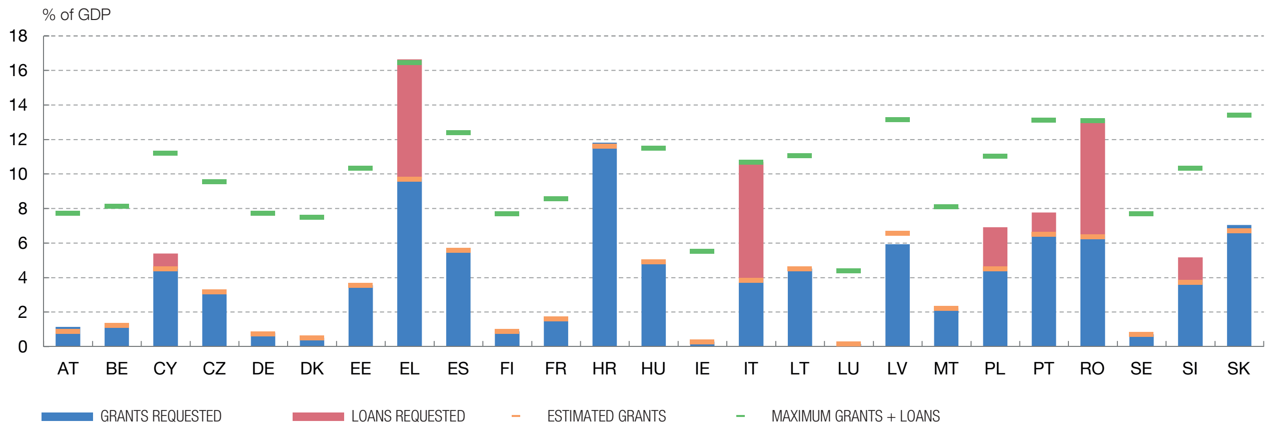
10 See European Commission (2020b).

11 i) Green transition; ii) Digital transformation; iii) Smart, sustainable and inclusive growth, including economic cohesion, employment, productivity, competitiveness, research, development and innovation, and a single market that functions properly with strong SMEs; iv) Social and territorial cohesion; v) Health and economic, social and institutional resilience; and vi) Policies for the next generation, children and youth, including education and skills.

12 For the relevant Specific Recommendations for this assessment, see García Perea et al. (2020).

Chart 1
NEW GENERATION EU GRANTS AND LOANS (a) (b)

With the exception of Latvia, all the countries that have submitted their plans to date applied for the total estimated amount of grants or more, and only seven countries have applied for loans. However, the countries can apply for credit support up to 31 August 2023.



SOURCE: European Commission.

a Estimated RRF grants are drawn from Annex IV of the Regulation on the Recovery and Resilience Facility, based on the Commission´s 2020 autumn forecasts. Under the Regulation, the final amount of the subsidies willl be calculated in mid-2022. Maximum RRF loans: 6.8% of 2019 gross national income at current euro prices.

b AT: Austria, BE: Belgium, CY: Cyprus, CZ: Czechia, DE: Germany, DK: Denmark, EE: Estonia, EL: Greece, ES: Spain, FI: Finland, FR: France, HR: Croatia, HU: Hungary, IE: Ireland, IT: Italy, LT: Lithuania, LU: Luxembourg, LV: Latvia, MT: Malta, PL: Poland, PT: Portugal, RO: Romania, SE: Sweden, SI: Slovenia, SK: Slovakia.

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pillar, and the assignment of at least 37% of the funds to the green transition objective and at least 20% to the digital transition objective (see Table A.3).

With the approval of the first plans and following the EC’s assessment, as at the cut-off date for this Note there had been disbursements equivalent to 13% of the programme’s total. Payments totalling €52.3 billion have been made to 17 countries, including Spain (€9 billion), France (€5.1 billion), Italy (€24.9 billion) and Germany (€2.25 billion). The amount of subsidies applied for by the 9 plans that have still not been approved is €52 billion (15% of the total). These plans are expected to be approved by the Commission and the Council in the coming weeks, with the exception of those of Hungary and Poland, whose assessment has been delayed owing to concerns relating to the rule of law. All the countries that have submitted their plans to date, except Latvia, applied for the total estimated amount of grants, but only 7 countries[13] have applied for loans (see Chart 1).

The national plans evidence different approaches for the assignment of the funds to specific areas of investment. While some countries such as Italy have diversified their investment efforts in several areas, others like Germany have focused their

13 Cyprus, Greece, Italy, Poland, Portugal, Romania and Slovenia.

efforts essentially on green and digital spending (see Chart A.2). A priority area at several MSs is sustainability and smart mobility, with a focus on the renovation of buildings for energy efficiency and electric vehicle charging stations. Germany, for instance, plans to support hydrogen production and artificial intelligence. Several countries are planning large-scale projects, such as those relating to transport infrastructure, combining them with the Cohesion Funds. In addition, all the countries intend to invest in training for the adaptation of labour markets to climate-related and digital challenges.

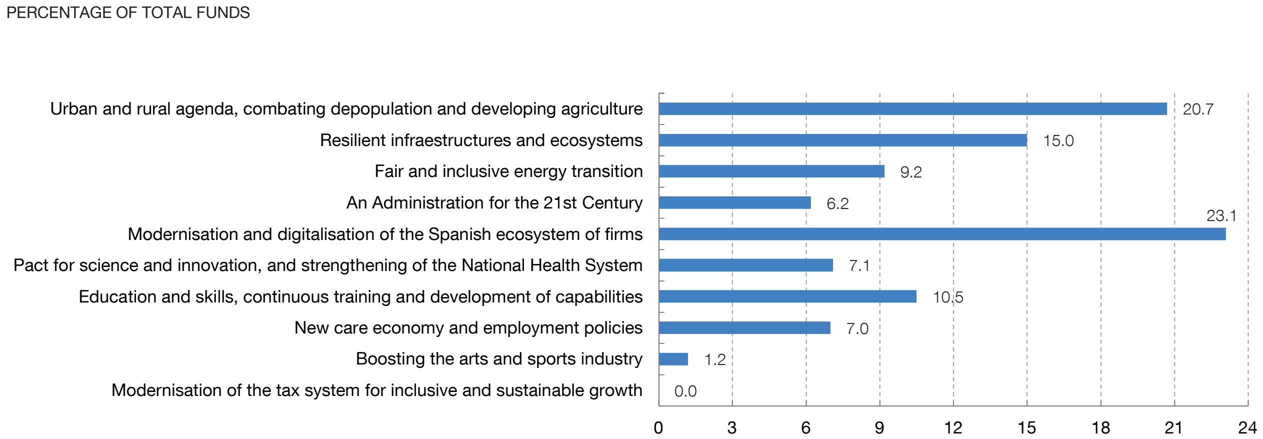
On average, the RRPs submitted to date address 96% of country-specific recommendations (85% significantly and 11% partly). In particular, 7 MSs do not tackle all the recommendations in their plans and only 3 do not cover more than 10% of them (see Table A.4). As to the reforms considered, these focus on aspects such as administrative simplification (Belgium, Greece and Germany), the reform of justice administration (Greece and Italy) and the sustainability of public finances through spending or taxation reviews (Belgium, Italy and Romania). Finally, with regard to the governance of the plans, the countries that receive more funds generally have similar arrangements: an oversight body chaired by the President of the Government (Prime Minister) and implementation by an agency created ad hoc within the Ministry of the Economy. Moreover, countries such as Portugal, Greece, France and Spain carried out public consultations, although in the latter two cases these were confined to certain measures and open solely to social agents and interested parties, and in Italy a specific audit is notably envisaged.

Spain submitted its RTRP on 30 April. This document describes the investments and reforms to be undertaken in the 2021-2026 period under the RRF framework, drawing on the €69.5 billion of grants Spain expects to receive, distributed in half-yearly payments as from the second half of 2021, as and when compliance with the various landmarks and objectives are verified. Specifically, €66,314.8 million will be spent from 2021 to 2023, while €488 million have already been used in 2020 and €2,725 million have been budgeted for the 2024-2026 period. The Government has further announced that it will probably use the loan facilities available under the NGEU in the coming years. In RTRP parlance, the measures to be pursued are grouped into 10 policy levers, covering the so-called components (30 total). These components, in turn, are subdivided into reforms and investments. Chart 2 details the 10 policy levers to which these grants will be assigned and their percentage share, while Table A.5 provides a somewhat more detailed breakdown of envisaged public investments.

The sectors most set to benefit from the investments foreseen under the RTRP are the automobile industry, construction, the telecommunications, information and communication sector, and the energy sector, especially that linked to renewable energy sources. On a secondary plane, other sectors that might benefit are the agrifood sector, the hospitality industry and some tourism-related transport services.

Chart 2
NEXT GENERATION EU IN SPAIN: COURSES OF ACTION BY MAJOR AREA

Total RRF resources in Spain will be earmarked mainly for the green and digital transition, which account for 39% and 29% of the total, respectively, clearly exceeding the stipulated Europe-wide minimum amounts.



SOURCE: Spanish Government.

In terms of composition, investment in technology and green infrastructure accounts, along with the digitalisation drive, for the bulk of investment (39% and 29% of the total, respectively), followed by education and training (10.5%), R+D+i (7%) and the strengthening of social inclusion throughout Spain. At the level of the components, those that will be most endowed – more than 9% of the total grants – will be the housing refurbishment and urban renewal plan, the sustainable, safe and connected mobility component, and the Emergency Action Plan on sustainable, safe and connected mobility in urban and metropolitan areas. These components include projects that may have a multi-year investment component such as social rental housing construction, and the improvement of railway infrastructure, intermodal nodes and electric vehicle recharging infrastructure. Following in importance are the promotion of SMEs (7%), the modernisation of general government (6.2%), the plan for the digitalisation of SMEs, digital connectivity, the promotion of cyber-security and the deployment of 5G (5.8%), the Spain 2030 industrial policy (5.4%) and the National Digital Skills Plan (5.2%). In the case of these components, the most specific investment projects are the improvement of telecommunications infrastructure and the 5G roadmap. Some expenditure items are conditional upon companies' final demand, as is the case with the plan for the digitalisation of SMEs, where €3 billion are earmarked for public-private collaboration projects to digitalise different business processes.

As to reforms, the labour market, tax and pensions system areas are to the fore (see Table 3). In the labour market, three aspects will chiefly be tackled. First, a reduction

Table 3

MAIN REFORMS UNDER THE RECOVERY, TRANSFORMATION AND RESILIENCE PLAN

Notable among the main reforms included in the Recovery, Transformation and Resilience Plan are those relating to the labour market and to the tax and pensions systems.

1	Law on climate change and energy transition
2	Development of a robust and flexible energy system, rollout and integration of renewables
3	Roadmap for renewable hydrogen
4	Resilience and adaptation of ecosystems, development and connectivity of green infrastructures
5	Law on Water and National Plan for Treatment, Sewage, Efficiency, Saving and Re-use
6	Modernisation of agricultural and fisheries policy – Land protection and efficient water use
7	Waste water management policy and promotion of the circular economy
8	Modernisation of the National Science and Innovation Support System
9	Sustainable and connected mobility strategy
10	New housing policy
11	Modernisation of Justice System
12	Modernisation and digitalisation of the Administration
13	Improvement in regulatory quality and the business climate – Reform of insolvency arrangements
14	Modernisation and strengthening of the National Health System
15	Modernisation and strengthening of the education system, Vocational Training and University
16	New public policies on the labour market - Towards a 21st Century Workers´ Statute
17	New care economy
18	Strengthening of inclusion policies and social services
19	Modernisation and progressivity of the tax system
20	Strengthening of the pensions system

SOURCE: Spanish Government.

in the number of different types of employment contract. Second, the presentation of a new permanent mechanism for the internal adjustment of companies based on short-time work schemes supported by reskilling for those cases in which industrial regeneration is required. To finance the benefits and the compensation for the social security contributions resulting from these short-time work schemes, it is planned to create a tripartite (firms, employees and government) fund. The contribution of firms and employees might arise from the surplus contributions it is expected to build up during the years of expansion, while the government contributions may be financed through resort to the NGEU loans. Further, it is sought to reduce the scope of other internal flexibility measures, such as firm-level collective agreements. Third and finally, it is wished to complete the design of the Minimum Income Scheme (MIS), among other things to improve the system of non-contributory economic benefits, to foment the labour activity of individuals benefiting from the MIS and to prevent the poverty trap. To this end, pilot programmes are under consideration which will enable the effectiveness of different aspects of the design on certain beneficiaries to be assessed, with a view to drawing conclusions in 2024. In this connection, it is vital to have a suitable data-gathering system.

In the fiscal policy realm, the RTRP includes reform projects bearing both on public spending and on the design of the tax system. As regards public spending, the main aim is to improve its quality, adjusting its composition and increasing its effectiveness by means of the greater integration into the budgetary process of the recommendations made by the AIReF (the Independent Authority for Fiscal Responsibility), and the strengthening of the public spending review and evaluation process. On the design of the tax system, the a committee of experts[14] has been created. The committee will submit conclusions on the comprehensive reform of the system. Also highlighted is the Government's commitment to draw Spain's public revenues closer to the weighted averages of the tax burden in the EU or euro area economies in order to reduce the structural deficit and ensure the sustainability of pensions. The RTRP identifies environmental and digital taxes as priority areas for raising tax revenue, along with the broadening of tax bases through the elimination of the wide range of exemptions, rebates and deductions which currently erode the system's revenue-raising capacity. This set of measures, according to the RTRP, might entail a permanent increase in general government revenues of up to €60 billion (5% of GDP).

The pensions system-related reforms in the RTRP include the main recommendations of the October 2020 Toledo Pact. Broadly, the proposal is to reinforce the financial sustainability of the Social Security system by means of the assumption by the State of a portion of its expenses, raising the effective retirement age and amending the arrangements for the payment by the self-employed of their social contributions. A further proposal is the resumption of CPI-linked pension revaluation.

Turning to policies relating to the market for products, regulatory improvements are proposed. These are, in particular, to lessen business start-up formalities, to promote access to specific professional services and their exercise, and to modernise the insolvency framework.

In its assessment of the Spanish RRP, the European Commission considers that the areas for reform and investment plans envisaged are tailored to the specific recommendations made to Spain and contribute to effectively tackling a number of the challenges our country faces. According to the EC, the plan earmarks 40% and 28%, respectively, of its total assignment of funds to the ecological and digital transitions. Likewise, the Commission considers that the plan largely responds to the recommendations in respect of digital competencies, research and innovation, health care, active employment policies, support to the long-term unemployed and to households, public procurement and the business climate. However, it will be necessary to await the details of the reforms, once they are approved, to know the EC's definitive assessment.

14 It was set up in April this year. See Ministerio de Hacienda (2021).

Conclusions

The European Council has temporarily altered the European Semester process in 2021. On one hand, it has decided to keep the SGP general escape clause active until the 2019 level of activity has been recovered, whereby MSs need not prematurely correct the budgetary imbalances built up during the crisis. On the other, the European Semester has focused on the correct implementation of the RRF.

Nonetheless, the scale of the imbalances built up within the EU reveals the need to re-activate the usual European coordination mechanisms, i.e. the Excessive Deficit and Macroeconomic Imbalance procedures, once the economic recovery is clearly entrenched in all MSs. The resumption of these mechanisms in the coming years, however, should bear in mind past experience with their implementation in the years prior to the health crisis. The current exceptional situation should be used to reflect on the effectiveness of the normal procedures for economic policy coordination within the EU, amending them if it is deemed necessary by taking advantage of the review set in train in connection with fiscal policy governance.[15] [16] In this respect, the report by the European Court of Auditors on the 2018 macroeconomic imbalance process had already highlighted a low rate of implementation of economic policy recommendations.[17] With the aim of redressing MSs' recurring compliance problems with recommendations made under the European Semester framework, the design of the RRF has been reinforced with new incentives that explicitly link the payment of the European funds to the launch by the MSs of the reforms they have committed to. If the reinforced incentives-based scheme ultimately functions appropriately, it could serve as a model for steering potential reforms of the European Semester mechanisms.

12.11.2021.

15 The EC started a review process in February 2020 which was interrupted by the health crisis and which has been officially re-activated on 19 October 2021.

16 A characteristic of the current rules has been their excessive complexity, which has led to a lack of transparency and predictability, and their inability to prevent the procyclicality of fiscal policies (Alloza et al. (2021)).

17 See European Court of Auditors (2018).

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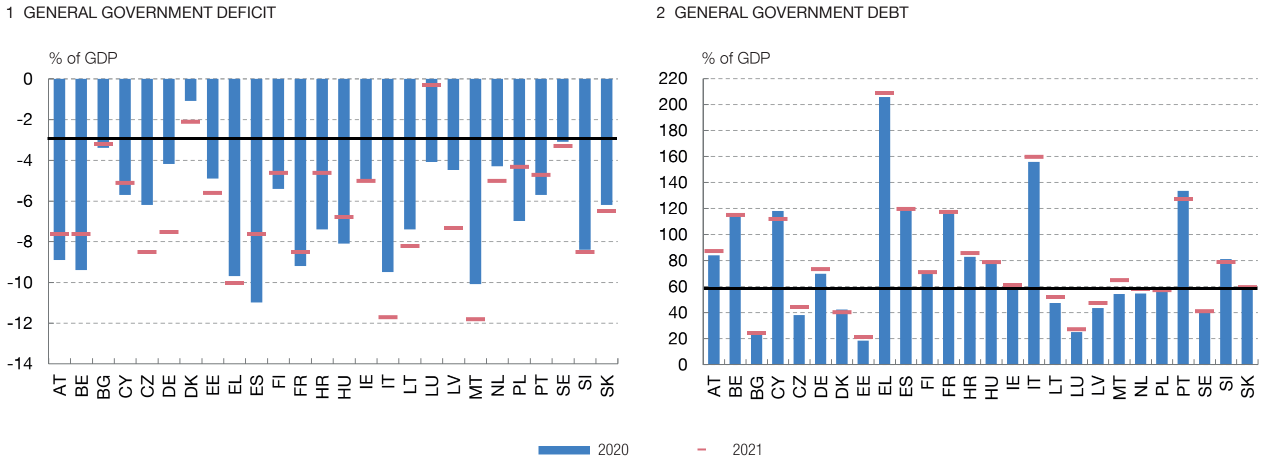
ANNEX

Chart A.1
FULFILMENT OF DEFICIT AND DEBT CRITERIA (a)

In 2020, the general government deficit was clearly above the reference value of 3% in 23 MSs, standing below it solely in Denmark. Gross general government debt as a percentage of GDP exceeded the reference value of 60% at end-2020 in 14 MSs.



SOURCE: European Commission spring forecasts (AMECO).

a AT: Austria, BE: Belgium, BG: Bulgaria, CY: Cyprus, CZ: Czechia, DE: Germany, DK: Denmark, EE: Estonia, EL: Greece, ES: Spain, FI: Finland, FR: France, HR: Croatia, HU: Hungary, IE: Ireland, IT: Italy, LT: Lithuania, LU: Luxembourg, LV: Latvia, MT: Malta, NL: Netherlands, PL: Poland, PT: Portugal, RO: Romania, SE: Sweden, SI: Slovenia, SK: Slovakia.

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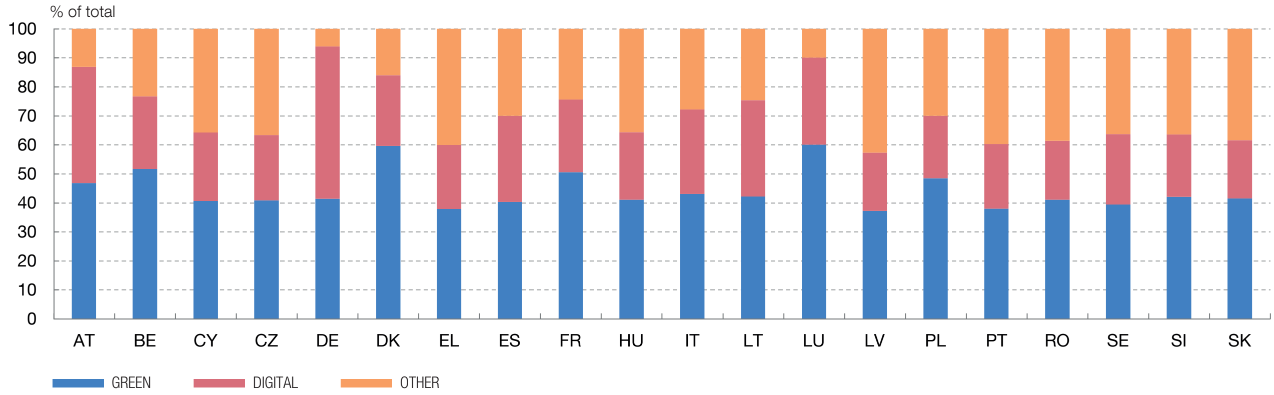
Chart A.2
GENERAL ALLOCATION OF RESOURCES IN NATIONAL RECOVERY AND RESILIENCE PLANS (a)

Generally, the countries that receive relatively minor amounts from the RRF in relation to their GDP submitted plans that focus on green and digital spending (Germany, Luxembourg, Austria and Denmark), while the countries that receive bigger amounts submitted more diverse plans, with higher spending amounts under "other" (non-green and non-digital).



SOURCE: Bruegel.

a AT: Austria, BE: Belgium, CY: Cyprus, CZ: Czechia, DE: Germany, DK: Denmark, EL: Greece, ES: Spain, FR: France, HU: Hungary, IT: Italy, LT: Lithuania, LU: Luxembourg, LV: Latvia, PL: Poland, PT: Portugal, RO: Romania, SE: Sweden, SI: Slovenia, SK: Slovakia.

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Table A.1

BASE INDICATORS FOR THE PREPARATION OF THE *ALERT MECHANISM REPORT 2021* (a)

The *AMR 2021* is prepared on the basis of 14 indicators with data updated to 2019. The report's aim is to detect situations that may endanger the stability of each country and of the EU itself. As it is unbable to reflect the impact of COVID-19, the European Semester 2021 has, exceptionally, been complemented by a higher-than-usual (normally it is annual) frequency.

	External imbalances and competitiveness					Internal imbalances						Employment indicators		
2019	Current account (% of GDP) (3-year average)	Net international investment position (% of GDP)	Real effective exchange rate (42 trade partners; deflator: HICP) (% change in 3 years)	Export share (as % of global exports) (% change in 5 years)	Nominal ULCs (2010 = 100) (% change in 3 years)	Deflated house prices (annual % change (2015 = 100)	Consolidated credit flow to private sector (% of GDP)	Consolidated private sector debt (% of GDP)	Public sector debt (% of GDP)	Unemployment rate (3-year average)	Total financial sector liabilities, unconsolidated (year-on-year % change)	Participation rate (% of total labour force aged 15-64) (3-year change, in pp)	Long-term unemployment rate (% of labour force aged 15-74) (3-year change, in pp)	Youth unemployment rate (% of labour force aged 15-24) (3-year change in pp)
Limit	-4% / +6 %	-35%	±5 % (EA) ±11 % (non-EA)	-6%	±9% (EA) ±12% (non-EA)	6%	14%	133%	60%	10%	16,5%	-0,2 pp	0,5 pp	2 pp
BE	0.1	50.6	2.6	-3.1	5.3	2.5	3.8	179.1	98.1	6.2	4.6	1.4	-1.7	-5.9
BG	2.5	-31.2	4.5	15.4	19.5	4.0	5.6	91.8	20.2	5.2	5.8	4.5	-2.1	-8.3
CZ	0.6	-20.3	9.7	5.1	14.4	6.2	3.1	80.8	30.2	2.4	5.6	1.7	-1.1	-4.9
DK	8.0	76.9	-0.2	2.6	1.4	1.5	11.4	221.2	33.3	5.3	13.1	1.6	-0.4	-2.1
DE	7.4	71.7	2.1	-1.1	7.9	4.3	5.4	105.4	59.6	3.4	7.3	1.3	-0.5	-1.3
EE	1.7	-21.4	6.2	2.0	19.9	4.4	3,8	97.8	8.4	5.2	12.5	1.4	-1.2	-2.3
IE	-1.6	-174.0	-1.4	71.0	-4.4	0.0	-9.1	202.4	57.4	5.8	15.5	0.6	-2.6	-4.3
EL	-2.1	-155.9	0.3	3.7	1.7	6.5	0.8	109.9	180.5	19.4	11.5	0.2	-4.8	-12.1
ES	2.3	-73.9	1.7	2.6	4.0	4.1	1.3	129.4	95.5	15.5	0.9	-0.4	-4.2	-11.9
FR	-0.7	-22.9	1.6	-0.5	1.3	2.3	8.0	153.3	98.1	9.0	7.5	0.3	-1.2	-4.9
HR	2.6	-50.3	1.5	22.5	4.7	8.1	1.7	91.2	72.8	8.8	6.8	0.9	-4.2	-14.7
IT	2.7	-1.5	0.2	-2.6	3.2	-0.6	0.2	106.6	134.7	10.6	3.8	0.8	-1.1	-8.6
CY	-5.2	-122.3	-0.1	13.7	5.2	2.6	2.7	259.1	94.0	8.9	3.9	2.6	-3.7	-12.5
LV	0.1	-41.7	3.7	3.6	17.0	5.8	1.5	67.1	36.9	7.5	4.6	1.0	-1.6	-4.9
LT	1.4	-24.1	3.7	16.8	16.4	4.9	3.0	55.1	35.9	6.5	4.1	2.5	-1.1	-2,6
LU	4.7	56.2	2.0	10.3	11.9	8.0	3.8	318.7	22.0	5.6	3.3	2.0	-0.9	-1.9
HU	0.7	-43.7	0.3	5.9	10.0	12.8	3.2	66.6	65.4	3.8	17.8	2.5	-1.3	-1.5
MT	5.1	54.6	1.3	18.1	8.5	4.0	8.5	123.7	42.6	3.8	4.4	5.3	-1.5	-1.4
NL	10.5	90.0	2.4	0.7	5.9	4.8	0.0	234,0	48.7	4.0	6.1	1.2	-1.5	-4.1
AT	1.8	12.1	2.1	1.4	5.5	3.9	4.5	120.1	70.5	5.0	4.3	0.9	-0.8	-2.7
PL	-0.4	-49.4	2.8	25.1	9.2	6.7	3.3	74.0	45.7	4.0	4.2	1.8	-1.5	-7.8
PT	0.5	-100.3	-0.4	8.5	7.6	8.7	2.2	149.2	117.2	7.5	0.0	1.8	-3.4	-9.7
RO	-4.0	-43.5	0.2	17.9	24.5	-1.7	2.0	46.7	35.3	4.3	10.4	3.0	-1.3	-3.8
SI	5.9	-15.4	1.0	16.0	8.4	4.8	0.8	68.7	65.6	5.4	9.9	3.6	-2.4	-7.1
SK	-2.3	-66.3	2.6	1.9	14.5	6.2	5.0	91.6	48.5	6.8	4.9	0.8	-2.4	-6.1
FI	-0.9	3.6	0.2	4.6	0.8	0.0	7.6	147.5	59.3	7.6	7.6	2.4	-1.1	-2.9
SE	3.3	18.2	-8.3	-5.1	8.2	0.5	9.8	203.9	35.1	6.6	10.6	0.8	-0.4	1.2

SOURCE: European Commission, *Alert Mechanism Report 2021.*

a AT: Austria, BE: Belgium, BG: Bulgaria, CY: Cyprus, CZ: Czechia, DE: Germany, DK: Denmark, EE: Estonia, EL: Greece, ES: Spain, FI: Finland, FR: France, HR: Croatia, HU: Hungary, IE: Ireland, IT: Italy LT: Lithuania, LU: Luxembourg, LV: Latvia, MT: Malta, NL: Netherlands, PL: Poland, PT: Portugal, RO: Romania, SE: Sweden, SI: Slovenia, SK: Slovakia, UK: United Kingdom.

Table A.2
EUROPEAN COMMISSION ASSESSMENT OF NATIONAL RECOVERY AND RESILIENCE PLANS

To date, all the countries except the Netherlands have submitted their plans. The Council has approved the 22 plans that have been assessed, most positively so, by the EC. Most received the top score in all categories, except in that of "justification of costs".

				Criteria										
	Plan submission date	EC assessment date	Council approval date	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]
Austria	1/5/2021	21/6/2021	13/7/2021	A	A	A	A	A	A	A	A	B	A	A
Belgium	1/5/2021	23/6/2021	13/7/2021	A	A	A	A	A	A	A	A	B	A	B
Bulgaria	15/10/2021	Not yet assessed												
Croatia	15/05/2021	8/7/2021	26/7/2021	A	A	A	A	A	A	A	A	B	A	A
Cyprus	17/5/2021	8/7/2021	26/7/2021	A	A	A	A	A	A	A	A	B	A	A
Czechia	2/6/2021	19/7/2021	6/9/2021	A	A	A	A	A	A	A	B	B	A	B
Denmark	30/4/2021	17/6/2021	13/7/2021	A	A	A	A	A	A	A	A	B	A	A
Estonia	18/6/2021	5/10/2021		A	A	A	A	A	A	A	A	B	A	A
Finland	27/5/2021	4/10/2021		A	A	A	A	A	A	A	A	B	A	A
France	29/4/2021	23/6/2021	13/7/2021	A	A	A	A	A	A	A	A	B	A	A
Germany	28/4/2021	22/6/2021	13/7/2021	A	A	A	A	A	A	A	A	B	A	A
Greece	28/4/2021	17/6/2021	13/7/2021	A	A	A	A	A	A	A	A	B	A	A
Hungary	12/5/2021	Not yet assessed												
Ireland	28/5/2021	16/7/2021	6/9/2021	A	A	A	A	A	A	A	A	B	A	A
Italy	1/5/2021	22/6/2021	13/7/2021	A	A	A	A	A	A	A	A	B	A	A
Latvia	30/4/2021	22/6/2021	13/7/2021	A	A	A	A	A	A	A	A	B	A	A
Lithuania	15/5/2021	2/7/2021	26/7/2021	A	A	A	A	A	A	A	A	B	A	A
Luxembourg	30/4/2021	18/6/2021	13/7/2021	A	A	A	A	A	A	A	A	B	A	A
Malta	13/7/2021	16/9/2021	5/10/202	A	A	A	A	A	A	A	A	B	A	A
Netherlands	Not yet submitted													
Poland	3/5/2021	Not yet assessed												
Portugal	22/4/2021	16/6/2021	13/7/2021	A	A	A	A	A	A	A	A	B	A	A
Romania	31/5/2021	27/9/2021		A	A	A	A	A	A	A	A	B	A	A
Slovakia	29/4/2021	21/6/2021	13/7/2021	A	A	A	A	A	A	A	A	B	A	A
Slovenia	1/5/2021	1/7/2021	26/7/2021	A	A	A	A	A	A	A	A	B	A	A
Spain	3/4/2021	16/6/2021	13/7/2021	A	A	A	A	A	A	A	A	B	A	A
Sweden	28/5/2021	Not yet assessed												

SOURCES: Bruegel and European Commission.
NOTES: [1] Comprehensive and balanced response; [2] Country-specific recommendations; [3] Growth, employment, economic, social and institutional resilience; [4] Not significantly harm the environment; [5] Green transition; [6] Digital transition; [7] Lasting impact; [8] Monitoring and implementation; [9] Justification of costs; [10] Prevention of corruption, fraud and conflicts of interests; [11] Coherence. The Commission scores nine of the eleven categories on a scale of three: A when a criterion is largely met; B when it is met to a moderate extent; and C when it is met to a small extent. The exceptions are criteria 4 and 10, which are rated on a scale of two: A = no measure causes significant harm or C = one or more measures cause significant harm in the case of criterion 4, and A = sufficient arrangements or C = insufficient arrangements in the case of criterion 10.

Table A.3
CRITERIA FOR ASSESSING THE RECOVERY AND RESILIENCE PLANS

Criterion	Description	Rating needed
Response to the economic and social situation	The RRP contributes in a comprehensive and suitably balanced fashion to the six pillars, having regard to the specific challenges of the Member State in question and to its financial contribution and the lending assistance requested	Mostly A
Tackles country-specific recommendations	The RRP effectively tackles either a significant sub-set of challenges identified in the country-specific recommendations or challenges in other relevant documents officially adopted by the Commission under the European Semester, and the Recovery and Resilience Plan is an appropriate response to the economic and social situation of the Member State in question	A
Smart, sustainable and inclusive growth	The RRP strengthens growth potential, job creation and the economic, social and institutional resilience of the Member State, contributing to the implementation of the European social rights pillar through the promotion of policies for children and youths, and mitigating the economic and social impact of the COVID-19 crisis, thereby enhancing economic, social and territorial cohesion and convergence within the Union	A
No harm to the environment	No measure causes significant harm to environmental objectives	Mostly A
Green transition	The RRP contains measures that contribute effectively to the green transition, including biodiversity, and addresses the challenges stemming from it. The measures account for an amount that represents at least 37% of the total allocation of the Recovery and Resilience Plan	A
Digital transition	The RRP contains measures that contribute effectively to the digital transition or to addressing the challenges stemming from it. The measures account for an amount that represents at least 20% of the total allocation of the Recovery and Resilience Plan	A
Structural reforms	The RRP has a lasting impact on the Member State in question	Mostly A
Monitoring and implementation	Effective monitoring and application of the RRP is ensured, including the calendar, landmarks and objectives foreseen, and the related indicators	Mostly A
Plausible and reasonable costs	The rationale provided by the Member State on the amount of the total estimated costs of the RRP is reasonable and plausible, in line with the principle of profitability and proportionate to the expected national economic and social impact	Mostly A
Prevention of corruption, fraud and conflicts of interest	The proposed provisions prevent, detect and redress corruption, fraud and conflicts of interest when the funds provided under the RRF are used. This is also the case for the agreements aimed at avoiding double financing of the RRF and other Union programmes	Mostly A
Consistent measures	The RRP contains consistent measures for the implementation of reforms and public investment projects	Mostly A

SOURCE: Own data, based on the European Commission.
NOTES: The European Commission assesses the criteria on a scale of 3, from A (maximum) to C (minimum). The countries require a rating of A for the criteria in rows 2, 3, 5 and 6, and mostly A in the rest.

Table A.4
RECOMENDATIONS IN RECOVERY AND RESILIENCE PLANS, BY COUNTRY

Most of the plans submitted cover all the specific recommendations of each country (partially or significantly). Only seven plans do not tackle any recommendation, and only three of these do not address more than 10% of the recommendations (Belgium, Denmark and Luxembourg).

	Total recommendations	Not covered	Partially covered	Significantly covered	Not covered (%)	Partially covered (%)	Significantly covered (%)	Name of those not covered
Austria	10	0	2	8	0	20	80	
Belgium	17	3	1	13	18	6	76	Better fiscal policy coordination; sustainability of public debt; competition in services
Croatia	16	0	0	16	0	0	100	
Cyprus	9	0	0	9	0	0	100	
Czechia	13	0	2	11	0	15	85	
Denmark	12	3	2	7	25	17	58	Education and skills; anti-money laundering measures
France	20	1	2	17	5	10	85	Complex pensions system
Germany	14	1	2	11	7	14	79	Competition in business services and regulated professions
Greece	19	0	2	17	0	11	89	
Ireland	16	1	3	12	6	19	75	Broadening of the tax base
Italy	12	0	1	11	0	8	92	
Latvia	16	0	4	12	0	25	75	
Lithuania	17	0	2	15	0	12	88	
Luxembourg	16	2	1	13	13	6	81	Address aggressive fiscal plans; lower the obstacles to competition
Portugal	16	1	2	13	6	13	81	Energy interconnection
Slovakia	8	0	0	8	0	0	100	
Slovenia	12	0	0	12	0	0	100	
Spain	21	0	6	15	0	29	71	

SOURCE: European Commission.

Table A.5

DISTRIBUTION OF INVESTMENT AMONG THE DIFFERENT LEVERS AND COMPONENTS

€m and %

The investments included in the RTRP amount to €69,528 million. The bulk of the investments will be in the 2021-2023 period (€66,314.8 million), while €488 million were spent in 2020 and €2,725 million have been budgeted for the 2024-2026 period.

	€m	%
I Urban and rural agenda, combating depopulation and development of agriculture	14,407	20.7
1 Emergency action plan on sustainable, safe and connected mobility in urban and metropolitan areas	6,536	9.4
2 Housing refurbishment and urban renewal plan	6,820	9.8
3 Environmental and digital transformation of the agricultural and fisheries system	1,051	1.5
II Resilient infrastructures and ecosystems	10,400	15.0
4 Conservation and restoration of ecosystems and of their biodiversity	1,642	2.4
5 Conservation of the coastline and water resources	2,091	3.0
6 Sustainable, safe and connected mobility	6,667	9.6
III Fair and inclusive energy transition	6,385	9.2
7 Deployment and integration of renewable energies	3,165	4.6
8 Electricity infrastructure, promotion of smart networks and deployment of flexibility and storage	1,365	2.0
9 Roadmap for renewable hydrogen and its sectoral integration	1,555	2.2
10 Fair Transition Strategy	300	0.4
IV An Administration for the 21st Century	4,315	6.2
11 Modernisation of general government	4,315	6.2
V Modernisation and digitalisation of the industrial base and of SMEs, recovery of tourism and the boosting of Spanish entrepreneurship	16,075	23.1
12 Industrial Policy Spain 2030	3,782	5.4
13 Boosting of SMEs	4,894	7.0
14 Plan to modernise and make the tourism sector more competitive	3,400	4.9
15 Digital connectivity, boosting of cybersecurity and rollout of 5G	3,999	5.8
VI Science and Innovation Pact. Strengthening of National Health System capabilities	4,949	7.1
16 National Artificial Intelligence Strategy	500	0.7
17 Institutional reform and strengthening of the capabilities of the National Science, Technology and Innovation System	3,380	4.9
18 Renewal and extension of National Health System capabilities	1,069	1.5
VII Education and knowledge, continuous training and upskilling	7,317	10.5
19 National Digital Skills Plan	3,593	5.2
20 Strategic Plan to boost Vocational Training	2,076	3.0
21 Modernisation and digitalisation of the education system, including early learning for 0-3 year-olds	1,648	2.4
VIII New care economy and employment policies	4,855	7.0
22 Emergency action plan for the care economy and strengthening of inclusion policies	2,492	3.6
23 New public policies for a dynamic, resilient and inclusive labour market	2,363	3.4
IX Promotion of the arts and sports industry	825	1.2
24 Upgrading of the arts	325	0.5
25 Spain AVS Hub	200	0.3
26 Plan to promote the sports sector	300	0.4
X Modernisation of the tax system for inclusive and sustainable growth	—	—
27 Measures and action to prevent and combat tax fraud	—	—
28 Adapting the tax system to the 21st Century	—	—
29 Improving the efficiency of public spending	—	—
30 Long-term sustainability of the public pensions system under the Toledo Pact	—	—
Total	**69,528**	**100**

SOURCE: Spanish Government.