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The 2023 European Semester and the Recovery and Resilience Facility

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Rationale

Since 2020, the European Semester has been immersed in a large-scale restructuring process, to adapt to an environment in constant change. At the same time, it has continued to adapt to the implementation of the Recovery and Resilience Facility. Moreover, in 2024, coinciding with the deactivation of the general escape clause of the Stability and Growth Pact, a new fiscal governance framework will have to be adopted, which will continue to be integrated in the European Semester.

Takeaways

- The main new feature in the current cycle is the European Commission's legislative proposal for reform of the European Union's fiscal rules, which should pave the way for the adoption of a new fiscal governance framework integrated in the European Semester.
- To facilitate the transition towards the future fiscal rules and to take into account the present challenges, some elements of the proposal have been incorporated into the current fiscal surveillance cycle, via country-specific recommendations.
- The recommendations for Spain for 2024 include a quantitative requirement that limits nationally financed nominal primary expenditure to 2.6%, as well as qualitative guidance on investment and energy measures.

Keywords

European Semester, NextGenerationEU, Recovery and Resilience Facility, Recovery, Transformation and Resilience Plan, macroeconomic imbalances, general escape clause, fiscal governance framework.

JEL classification

F4, F5, F6, H5, H6, O4, O52.

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Introduction

Since 2020, the European Semester has been immersed in a large-scale restructuring process, to adapt to an environment in constant change. During the 2023 cycle, economic and employment policy coordination has been resumed. The European Semester has also continued to adapt to the implementation of the Recovery and Resilience Facility (RRF). Moreover, in 2024, the general escape clause of the Stability and Growth Pact (SGP) is set to be deactivated, once the exceptional circumstances that warranted its activation are deemed to have ended.

In this setting, in November 2022 the European Commission published a Communication putting forward its orientations for a reform of the European fiscal framework, which gave rise to the legislative proposal presented on 26 April 2023.[1] The main aim of this proposal is to enhance debt sustainability and promote sustainable, inclusive and resilient growth in all Member States, via reforms and investment. The medium-term fiscal-structural plans to be designed and presented by the Member States are the cornerstone of the proposal. At the same time, the deficit-based excessive deficit procedure (EDP) is to be maintained, while the debt-based EDP is to be strengthened. Lastly, review of the Macroeconomic Imbalance Procedure (MIP) is also proposed, with an approach similar to that used for the fiscal rules, to afford greater importance to long-term trends and to adopting measures to correct imbalances. The new fiscal surveillance process will remain integrated in the European Semester, which will continue to be the central framework for economic and employment policy coordination, ensuring the complementarities between the medium-term fiscal-structural plans, the investment and reforms included in the Recovery and Resilience Plans (RRPs) and the cohesion policy programmes.

The next two sections of this article describe the European Semester's standard surveillance procedures – the EDP and MIP – for the 2023 cycle. They are followed by respective sections on the European Commission's recommendations for the euro area in general and for Spain in particular, and on the main new features in the implementation of the RFF. The article ends with a summary of the conclusions drawn.

Excessive deficit procedure

Given that the SGP's procedures are not on hold despite the activation of the general escape clause, the European Commission has continued to conduct the annual surveillance cycle of national fiscal plans, assessing the degree of compliance with the debt and deficit criteria in 2022. As has been customary since the launch of the RRF, owing to the current exceptional circumstances the Commission has published a general report assessing each Member State's compliance with

1 https://economy-finance.ec.europa.eu/publications/new-economic-governance-rules-fit-future_en

Table 1
2022 Excessive Deficit Procedure

	Yes	No
Compliance with the deficit criterion as laid down in the Treaty and in Regulation (EC) 1467/1997	Croatia, Cyprus, Denmark, Finland, Greece, Ireland, Lithuania, Luxembourg, Netherlands, Portugal and Sweden	Austria, Belgium, Bulgaria, Czech Republic, Germany, Estonia, France, Hungary, Italy, Latvia, Malta, Poland, Slovakia, Slovenia and Spain
Compliance with the debt criterion as laid down in the Treaty and in Regulation (EC) 1467/1997	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Germany, Greece, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain and Sweden	Finland, France and Italy

SOURCE: European Commission.

the debt and deficit criteria.[2] In particular, this year's report analyses the situation of sixteen Member States (see Table 1): ten whose general government deficit in 2022 exceeded 3% of GDP (the Treaty reference value) (see Chart 1.a);[3] five whose deficit is forecast to exceed 3% of GDP in 2023;[4] and one (Finland) for failure to meet the debt criterion.

The Commission also analyses compliance with the debt rule, which requires that the government debt-to-GDP ratio is below 60% of GDP, or that its excess over the reference value is declining, so as to converge at a linear pace at that level within a period of 20 years. Of the countries analysed in the report, general government gross debt at end-2022 exceeded 60% of GDP in nine Member States: Austria, Belgium, Finland, France, Germany, Hungary, Italy, Slovenia and Spain (see Chart 1.b). However, compared with 2021, the debt ratio fell in all these countries except in Finland, and the 2022 data show that it diminished sufficiently in Austria, Belgium, Germany, Hungary, Slovenia and Spain. By contrast, in Finland, France and Italy, general government gross debt did not respect the debt reduction benchmark in 2022 and, therefore, on the debt criterion, these three Member States are running an excessive deficit (see Table 1).

Nevertheless, as has become customary since the pandemic, in spring 2023 the European Commission decided not to open new excessive deficit procedures, owing to the prevailing exceptional circumstances as a consequence of the Russian invasion of Ukraine and the persistent macroeconomic and budgetary repercussions of the COVID-19 crisis. As regards the Member States whose debt exceeded 60% of GDP, the Commission considers, within its assessment of all relevant factors, that compliance with the debt reduction benchmark could imply a too demanding frontloaded fiscal effort that could jeopardise growth. Therefore, in the view of the Commission, compliance with the debt reduction benchmark is not warranted under the present economic conditions.

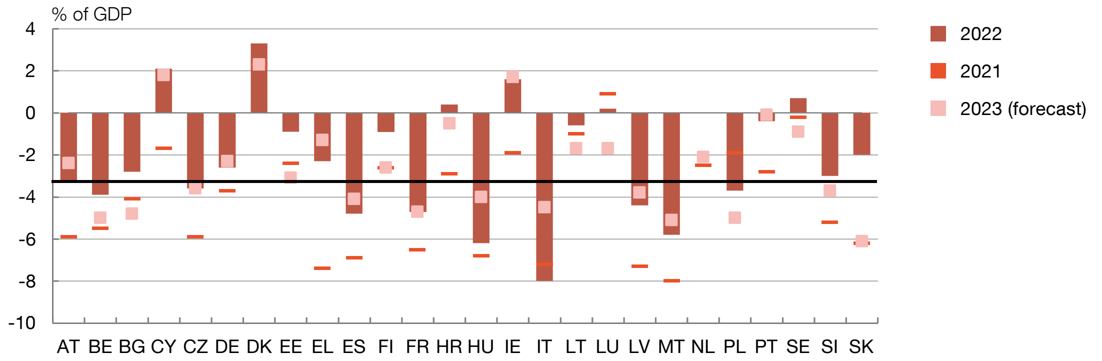
2 European Commission (2023a).

3 Austria, Belgium, Czech Republic, France, Hungary, Italy, Latvia, Malta, Poland and Spain.

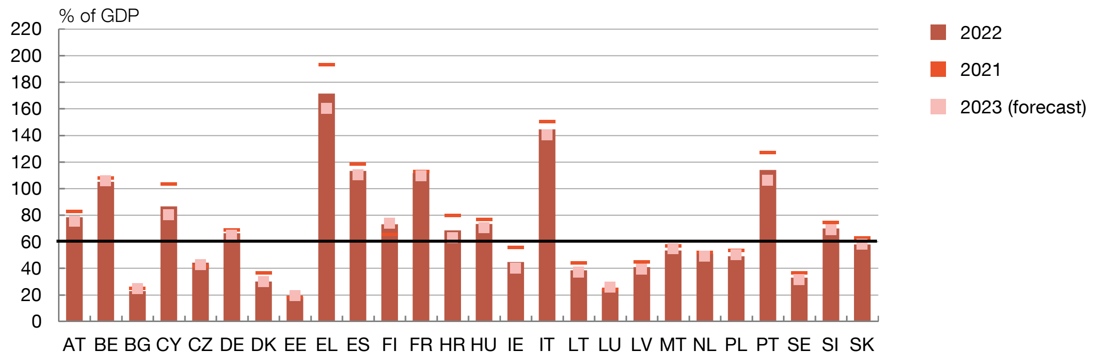
4 According to the stability or convergence programmes, the projected deficit for 2023 in Bulgaria, Estonia, Germany, Slovakia and Slovenia is over 3% and, therefore, the Commission considers that they do not meet the deficit criterion. However, according to the Commission's latest forecasts, Germany will meet the deficit criterion in 2023 (see Chart 1.a).

Chart 1
Compliance with the debt and deficit criteria (a)

1.a General government deficit



1.b General government debt



SOURCE: European Commission spring forecasts (AMECO).

a AT: Austria; BE: Belgium; BG: Bulgaria; CY: Cyprus; CZ: Czech Republic; 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; SE: Sweden; SI: Slovenia; SK: Slovakia.

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Macroeconomic imbalance procedure

Publication of the *Alert Mechanism Report 2023 (AMR)*[5] in November 2022 marked the start of the twelfth annual MIP cycle,[6] corresponding to 2023. The aim of the report is to identify Member States for which in-depth reviews should be undertaken, to determine and assess the severity of their possible macroeconomic imbalances. The AMR analysis is based on the economic reading of a scoreboard of indicators and other analytical tools that provide prima facie evidence of possible risks and vulnerabilities. The European Commission's forecasts of these indicators are used to detect the risks of emerging imbalances.

In general, the report concluded that the EU economy has moved from a recovery following the COVID-19 pandemic to a slowdown in growth amid high inflationary pressures. The

5 European Commission (2022a).

6 On the MIP, see Matea (2012).

Table 2
In-depth reviews: sources of imbalance

	Euro area	Rest of EU
External debt	Cyprus, Germany, Greece, Netherlands, Portugal, Spain	Hungary, Romania
Competitiveness and/or productivity/potential growth	France, Greece, Italy, Portugal	Romania
Household debt and/or house prices	Cyprus, Netherlands, Portugal, Spain	Sweden
Corporate debt	Cyprus, Portugal, Spain	
Public debt/fiscal risk	Cyprus, France, Greece, Italy, Portugal, Spain	Hungary, Romania
Financial sector/non-performing loans	Cyprus, Greece, Italy	Hungary
Labour market mismatches	Greece, Italy, Spain	

SOURCE: European Commission.

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correction of macroeconomic imbalances was stalled by the energy crisis. After the onset of the war in Ukraine, growth declined, inflation rose unevenly and global financial conditions deteriorated. In that setting, seventeen countries were selected for in-depth review: the ten identified as having imbalances or excessive imbalances in 2022 (Cyprus, France, Germany, Greece, Italy, Netherlands, Portugal, Romania, Spain and Sweden), plus seven showing particular or fresh risks (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Luxembourg and Slovakia).

This year's in-depth reviews[7] have been marked by great uncertainty in light of the high inflation. In many cases, the risks and vulnerabilities have the same sources as before the pandemic (see Table 2). Thus, although public, private and external debt imbalances have resumed their downward path, the risks have increased as financing conditions have tightened, while cost competitiveness could be undermined by inflation differentials, should they become persistent. Declining energy prices are expected to boost current account balances in 2023. For their part, house prices, which climbed sharply in several Member States in 2022, have started to edge down and expectations of price corrections are mounting. Lastly, the banking sector has come through the pandemic well and non-performing loans have continued to decrease.

The European Commission concluded from the in-depth reviews that Czech Republic, Estonia, Latvia, Lithuania, Luxembourg and Slovakia have no imbalances (see Table 3), as their vulnerabilities appear to be contained, while Cyprus, France, Germany, Hungary, Netherlands, Portugal, Romania, Spain and Sweden continue to have imbalances. In the case of Hungary and Romania, the imbalances may become excessive if urgent measures are not adopted. Meanwhile, vulnerabilities are diminishing in France, Germany, Portugal and Spain, to the extent that, should these trends continue next year, these countries would be considered to have no imbalances. Lastly, Greece and Italy have excessive imbalances, but their vulnerabilities appear to be receding, among other reasons owing to policy progress.

7 European Commission (2023b).

Table 3
2023 Macroeconomic Imbalance Procedure

	Euro area	Rest of EU
In-depth review not required	Austria, Belgium, Croatia, Finland, Ireland, Malta, Slovenia	Bulgaria, Denmark, Poland
No imbalance	Estonia, Latvia, Lithuania, Luxembourg, Slovakia	Czech Republic
Imbalance	Cyprus, France, Germany, Netherlands, Portugal, Spain	Hungary, Romania, Sweden
Excessive imbalance	Greece, Italy	

SOURCE: European Commission.

Specifically for Spain, the vulnerabilities relate to continuing high – albeit declining – levels of private, public and external debt, aggravated by the fact that these have cross-border relevance.[8] Economic growth should prompt a continued decline in external and private debt, although both remain high. The external position has benefited from a current account that has been in surplus for a decade, even if it has narrowed more recently, reflecting the impact of the pandemic on tourism and of higher energy prices. In 2022 the government debt-to-GDP ratio resumed its downward trajectory, driven by strong nominal GDP growth, but remains above pre-pandemic levels. This decline is expected to continue, albeit at a more moderate pace in 2023 and 2024, underpinned by the Recovery, Transformation and Resilience Plan (RTRP) measures. The financial system has shown resilience in the face of recent shocks stemming from the pandemic and the energy crisis. Unemployment has decreased again, although it is still high and pockets of vulnerability remain, including very high long-term and youth unemployment. Potential risks affecting the further narrowing of vulnerabilities mainly relate to the impact of the tightening of financial conditions on households and firms and on the medium to long-term sustainability of government debt in light of the current market conditions and population ageing.

Country-specific recommendations and the new fiscal governance framework

Building on the analysis contained in the country reports, the European Commission's proposals for the 2023 country-specific recommendations (CSRs) provide guidance to Member States on tackling key economic and social challenges that are only partially addressed or not addressed by the RRPs. Thus, the new CSRs address a limited number of additional reform and investment challenges, as the Member States must primarily focus on the full and timely implementation of the RRPs. Specifically, the Commission proposes that the Council address to all Member States whose RRP has been approved: a recommendation on fiscal policy, including fiscal and structural reforms, where relevant; a recommendation to continue or accelerate implementation of the RRPs, including their revisions and the integration of the REPowerEU chapters, taking into account potential country-specific implementation risks, and to swiftly implement the adopted

8 For a more in-depth view of the Spanish economy in 2022, and a broader picture of the challenges facing Spain, see Banco de España (2023c).

cohesion policy programmes; an updated recommendation on the clean energy transition in line with the REPowerEU objectives; and, where relevant, an additional recommendation on outstanding and/or newly emerging economic or employment challenges.

As regards content, the four dimensions of the EU's competitive sustainability – environmental sustainability, productivity, fairness and macroeconomic stability – remain at the heart of this guidance. The proposed recommendations emphasise the need to ensure prudent fiscal policy in 2023-2024, in particular by phasing out the less targeted energy support measures currently in force and reducing debt in the medium term. The recommendations also call on the Member States to steadily continue, or in several cases accelerate, the implementation of their RRPs in view of the 2026 deadline and to proceed with the swift implementation of cohesion policy programmes, in close coordination with the RRPs, including by ensuring adequate administrative capacities. The proposed recommendations also outline the energy-related reforms and investment challenges that Member States should address under REPowerEU and their national energy and climate plans.[9] Notable both at the overall EU level and in the case of Spain are the recommendations related to the green transition, including the reskilling and upskilling of the workforce (see Chart 2).

It is important to emphasise that the recommendations have been made against a backdrop of reform of the EU's fiscal governance framework. On 26 April the European Commission published a proposal for a regulation to reform the EU fiscal framework in which the 3% of GDP reference value for the deficit is complemented by a limit on the growth of net primary expenditure to ensure that the public debt ratio is put on a downward path or kept at a prudent level (see Figure 1). The legislative proposal retains and details many of the elements included in the Communication of 9 November 2022,[10] including the use of a net primary expenditure path as an operational indicator, anchored on debt sustainability analysis; the definition of fiscal-structural plans with an adjustment period of four years (extendible by a further three years to facilitate investments and reforms); and a greater role for national independent fiscal institutions in assessing economic and fiscal forecasts and compliance with fiscal policy objectives.[11] It also introduces additional safeguards to ensure that public debt is on a sufficiently downward path and that fiscal adjustments are not back-loaded to the end of the life of the fiscal-structural plans.[12] However, some doubts persist as to the criteria that the reforms and investments must meet in order for an extension of the adjustment period to be granted.

To facilitate the transition towards the future fiscal rules and to take into account the present challenges, some elements of the Commission's reform orientations that are consistent with the current legislation under the SGP have been incorporated into the 2023 fiscal surveillance

9 For more information on the challenges facing Spain and the EU in general in tackling the energy crisis, see Banco de España (2023a).

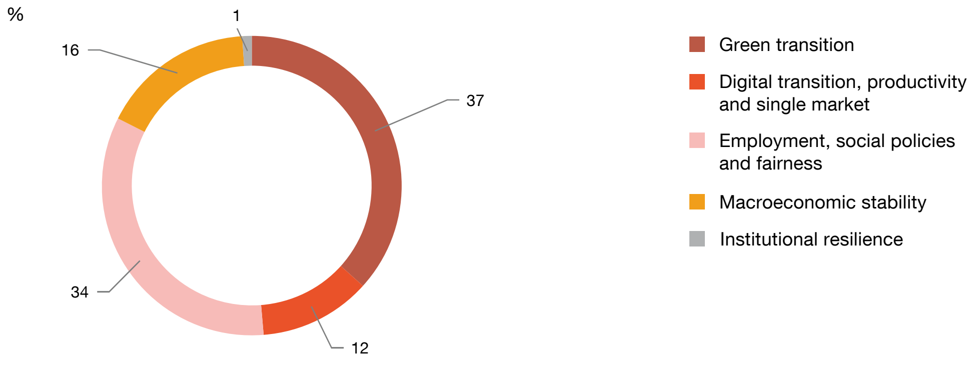
10 European Commission (2022b).

11 For more information on the reform of the European fiscal rules and governance framework, see Banco de España (2023b).

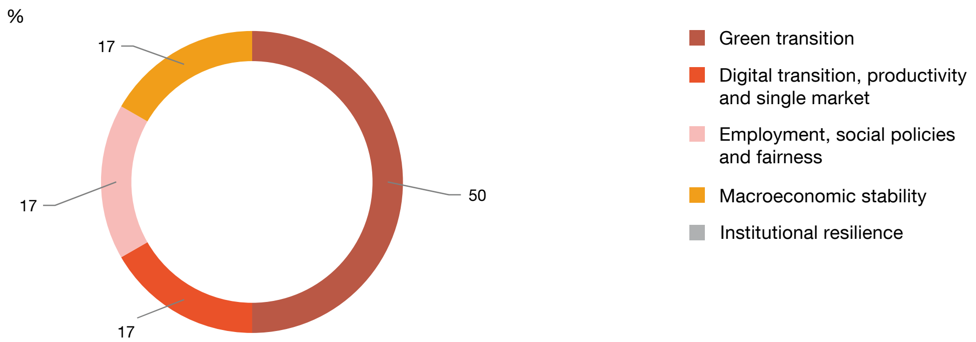
12 Some Member States have expressed concern that the bilateral negotiations could lead to overly lax requirements for high-debt Member States. In early April, Germany published a technical non-paper outlining its ideas for numerical rules that would guarantee a minimum debt adjustment.

Chart 2
Country-specific recommendations for 2023 (a)

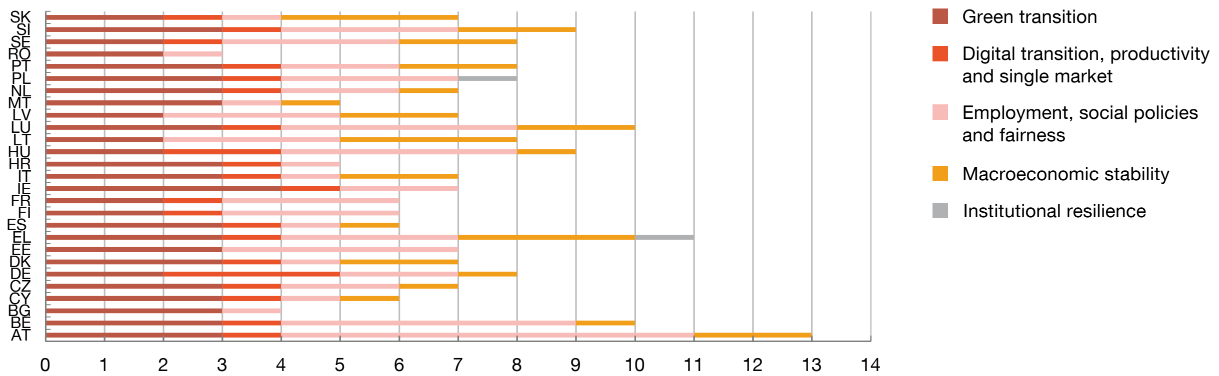
2.a EU



2.b Spain



2.c Recommendations for EU countries, by thematic area (b)



SOURCE: European Commission.

a The charts show the number (or percentage) of recommendations in 2023 by thematic area, according to the Commission's classification.

b AT: Austria; BE: Belgium; BG: Bulgaria; CY: Cyprus; CZ: Czech Republic; 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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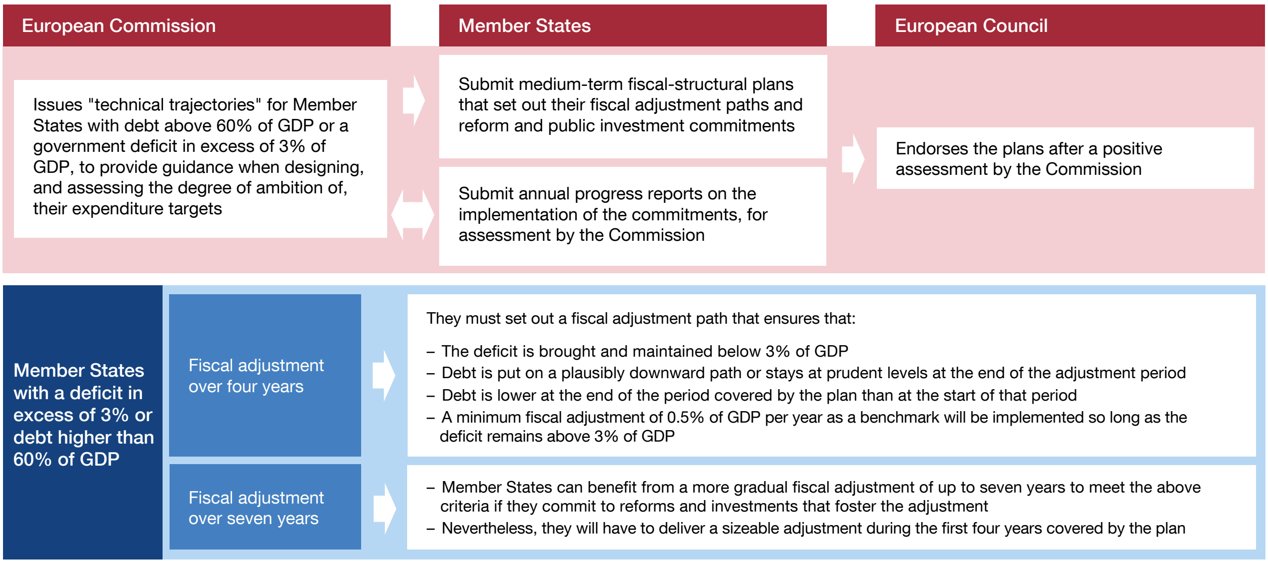
Figure 1
Proposed reform of the EU fiscal governance framework



SOURCE: European Commission.

cycle. Thus, the Commission has issued CSRs on fiscal policy for 2024 that include a quantitative requirement limiting the nominal growth of nationally financed primary expenditure (net of discretionary revenue measures), as well as qualitative guidance on investment and energy measures. Based on Commission forecasts, Belgium, Croatia, Finland, France and Portugal will need to adjust their spending if they are to comply with this recommendation (see Chart 3).

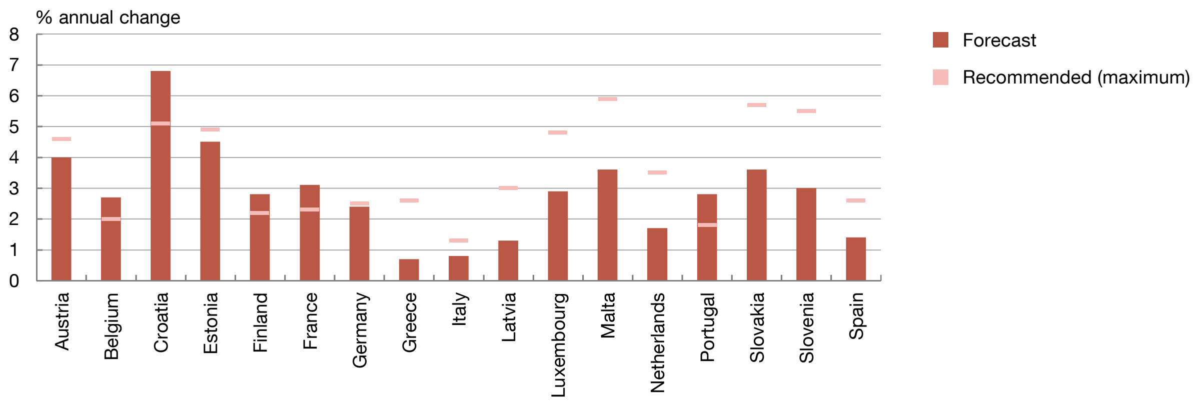
Spain has received three specific recommendations for 2024 (see Figure 2). The first is to wind down the energy support measures in force, and use the related savings to reduce the government deficit. Should renewed energy price increases necessitate support measures, they should be targeted towards the most vulnerable households and firms, be fiscally affordable and incentivise energy savings. In this respect, nominal growth in nationally financed primary expenditure in 2024 should not exceed 2.6%.[13] However, Spain should preserve nationally financed public investment, ensure effective absorption of EU funds and continue to pursue prudent fiscal policy guidance in the medium term. The second recommendation is to continue implementation of the RTRP, which calls for adapting administrative capacity to the additional funds requested in the addendum to the RTRP,[14] and for proceeding with the speedy implementation of the measures linked to the addendum. Lastly, the third recommendation is to reduce reliance on fossil fuels. The measures proposed in this respect include streamlining and digitalising the permitting procedures for renewable energy, increasing the availability of

13 Assuming an annual improvement in the structural budget balance of at least 0.7% of GDP for 2024.

14 The addendum modifies the RTRP with a view to accessing the new funds corresponding to Spain in connection with both REPowerEU and the final estimate of the NGEU grants, and requesting the NGEU loans not requested in July 2021 (Spanish Government, 2023).

Chart 3

Nominal growth of nationally financed primary expenditure in 2024



SOURCES: AMECO and European Commission.

Figure 2

Council Recommendation on the 2023 National Reform Programme of Spain

CSR	RECOMMENDED MEASURES
CSR 1	— Wind down the emergency energy support measures in force and use the related savings to reduce the government deficit, as soon as possible in 2023 and 2024 — Should renewed energy price increases necessitate new support measures or the continuation of the existing measures, ensure that these are targeted at protecting vulnerable households and firms, are fiscally affordable and preserve incentives for energy savings — Ensure prudent fiscal policy, limiting the nominal increase in nationally financed net primary expenditure in 2024 to no more than 2.6% — Preserve nationally financed public investment and ensure the effective absorption of RRF grants and other EU funds, in particular to foster the green and digital transitions — For the period beyond 2024, continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investments and reforms conducive to higher sustainable growth, to achieve a prudent medium-term fiscal position
CSR 2	— Maintain the momentum in the implementation of its RRP and, following the recent addendum, include the REPowerEU chapter and the additional loan request, to rapidly start implementation of the related measures — Ensure continued sufficient administrative capacity in view of the planned increase in the size of the RRP — Speedily implement cohesion policy programmes, in close complementarity and synergy with the RRP
CSR 3	— Reduce reliance on fossil fuels — Accelerate the deployment of renewable energy, including by further streamlining and digitalising the permitting procedures, supporting the work of the permitting authorities, improving access to the grid and investing in energy storage, electricity transmission and distribution, and cross-border electricity interconnections — Increase the availability of affordable social energy-efficient housing, including through renovation, and accelerate the electrification of buildings and the penetration of electromobility — Step up the initiatives aimed at the provision and acquisition of the skills needed for the green transition

SOURCE: European Commission.

energy-efficient social housing, and stepping up the efforts to provide the labour force skills needed for the green transition.

Recovery and Resilience Facility: implementation and new developments

At the cut-off date for this article, the RRPs of all EU Member States have been approved, and 18 Member States have submitted at least one payment request.[15] In total, 27 payment requests have been submitted, 23 of which have been approved by the Commission and the Council. The Commission has so far disbursed around €153.38 billion to the Member States, two-thirds of which in the form of grants. The largest recipients of RRF funds to date are Italy (€67 billion), Spain (€37 billion), France (€13 billion) and Greece (€11 billion). Since the NextGenerationEU (NGEU) programme was launched in June 2021, the Commission has issued €338.21 billion in long-term bonds and €96.55 billion in EU-Bills to finance the RRF. Green bonds account for around 20% of the debt issued (€35.5 billion).[16] The interest costs associated with this part of the debt lie with the EU budget. Although interest rates were at historic lows when this programme was launched, they have risen sharply over the past two years. Consequently, a recent report by the European Parliament suggests that, because of the high current and expected levels of interest rates, such costs could be twice as high as was initially estimated at the start of the EU's 2021-2027 budget cycle.[17]

Several European countries have postponed their disbursement requests, and some countries have submitted their payment requests after the indicative dates given in the operational arrangements (see Chart 4.a). In addition, most of the payments approved thus far are associated with the introduction of legislative reforms, which are generally easier to implement than investments (see Chart 4.b). A case in point is Spain, which has implemented close to 60% of the reforms but completed less than 10% of the investments. In some cases, the required structural reforms have been delayed, and as these are preconditions for paying out the funds, there has been a knock-on effect on the schedule for payments. At the same time, by not submitting payment requests, Member States can avoid a negative assessment by the Commission of their fulfilment of the milestones and targets. In this respect, in March 2023 the Commission activated a payment suspension procedure for Lithuania, as it found that two important milestones linked to a payment request had not been satisfactorily fulfilled.[18]

The RRPs are currently being revised on account of the inclusion of a REPowerEU chapter and the requests for additional loan support. Member States have the option to modify their RRPs by including a chapter with measures to reduce their dependency on fossil fuel imports. Plans may also be revised owing to the significant price hike. Indeed, ten Member States (including Spain) have expressed their intention to request additional loan support totalling €147 billion under the

15 See European Commission (2022 and 2023a) for an assessment of the implementation of the RRF.

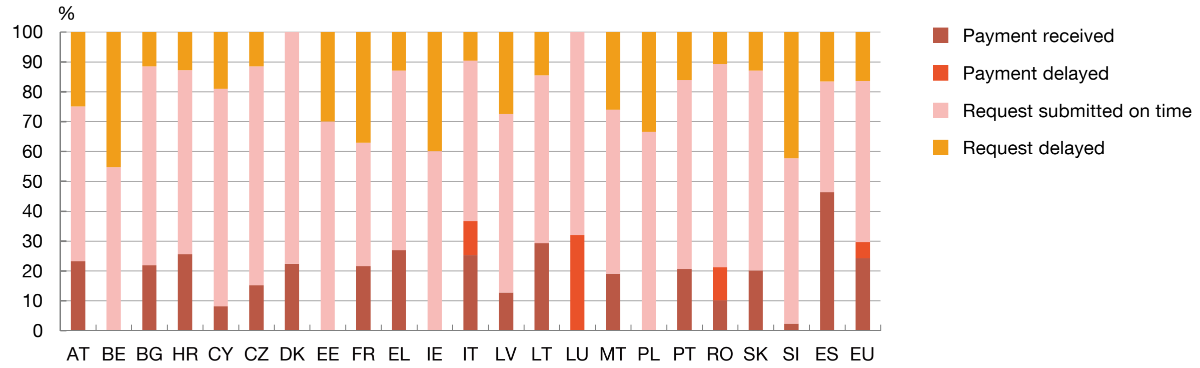
16 For more details on the NGEU and the RRF, see Alonso, Kataryniuk, Moreno and Pérez (2022).

17 European Parliament (2023).

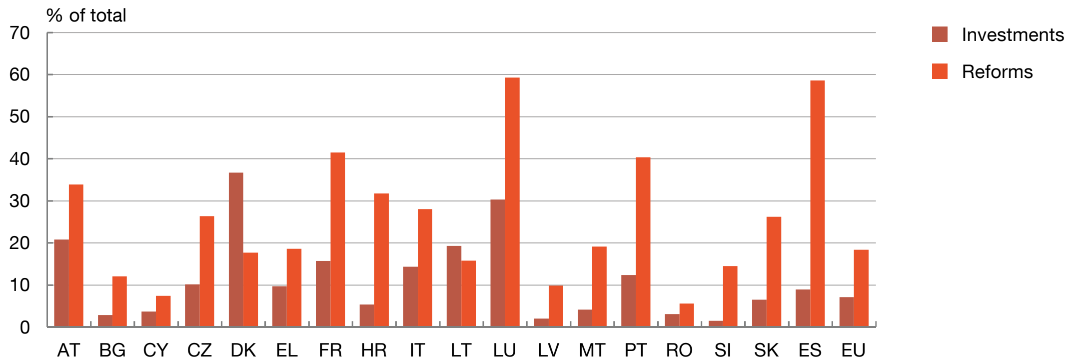
18 The milestones are related to taxation. For more information, see the Communication from the European Commission. In May a partial disbursement was approved for the milestones and targets that had been satisfactorily fulfilled; see European Commission.

Chart 4
Progress in implementation of the RRF (a)

4.a Schedule for payments and requests



4.b Implementation of investments and reforms (b)



SOURCE: European Commission.

a AT: Austria; BE: Belgium; BG: Bulgaria; CY: Cyprus; CZ: Czech Republic; 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.
b The chart depicts the percentage of milestones and targets fulfilled out of the total envisaged for each category.

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RRF.[19] Consequently, of the €225 billion of loan resources left from when the original RRPs were agreed, somewhat less than €80 billion currently remain available.[20] To date, revised RRPs have been submitted by Estonia, France, Luxembourg, Malta and Slovakia (already approved by the Commission), and more recently by Austria and Slovenia.

The pattern of downward revisions to the absorption of the funds suggests there is a significant risk of the RRF investment targets not being fully met in 2026. Although the revisions to the plans are expected to impact the disbursement schedule of RRF funds in 2023 and beyond, they also represent an opportunity to address issues in administering funds and to increase absorption capacity. Thus, Member States will be able to get back on track in 2024 and catch up on the

19 European Commission (2023a).

20 Member States have until 31 August 2023 to request additional loans.

Table 4
Public investment in Spain's strategic projects for economic recovery and transformation (€m)

PERTE (a)	Grants RTRP Phase 1	Addendum				Total (RTRP Phase 1 plus addendum)
		Additional grants	Loans	REPowerEU	Total	
Chip	275	1,225	10,750		11,975	12,250
Renewable energy, green hydrogen and storage	6,600	1,555	1,295	2,644	5,494	12,094
Electric and connected vehicles	2,870	250	1,000		1,250	4,120
Industrial decarbonisation	450	1,020	1,700		2,720	3,170
Digitalisation of the water cycle	430	1,250	1,805		3,055	3,485
Social care economy	766	1,000			1,000	1,766
Cutting-edge health technology	810	500	330		830	1,640
Agrifood	747	150	460		610	1,357
Circular economy	192	600			600	792
New language economy	324		401		401	725
Aerospace	591	100	240		340	931
Naval	150					150
Total	14,205	7,650	17,981	2,644	28,275	42,480

SOURCE: Spanish Government.

a Strategic project for economic recovery and transformation.

disbursement schedule, enabling the current under-execution of NGEU investments to be offset in subsequent years, particularly in 2025 and 2026. However, this may be increasingly unrealistic, especially for countries that have incurred delays.

In late March 2023, Spain received a third payment of NGEU funds, for €6 billion, having satisfactorily fulfilled 121 milestones and targets of the 416 initially committed to in the RTRP, i.e. 29%. As a result, it has now received 53% of the €69.5 billion of the initial grant allocation. In June 2023, the Spanish Government submitted an addendum to the RTRP, requesting €7.7 billion in additional grants,[21] €2.6 billion in REPowerEU grants and €84 billion in soft loans. A significant amount of these additional resources (€28 billion, including the €10.3 billion in grants) will be used to strengthen the 12 strategic projects for economic recovery and transformation (PERTEs, by their Spanish abbreviation) that are already under way (see Table 4). In addition, loans amounting to €20 billion will be earmarked for the Regional Resilience Fund to finance the regional governments' sustainable investment projects, while a further €26.5 billion will be channelled through the Official Credit Institute (ICO) for businesses to fund sustainable investment projects, rental social housing and business growth. The remainder of the loans will be earmarked for various funds to support the business sector, expand the tax incentives for energy transition investments made by households and firms and strengthen social cohesion mechanisms. The reforms set out in the addendum aim to accelerate the green transition and digital transformation so as to boost the deployment of renewable energies, promote

21 The direct grants were initially estimated with a commitment to revise them in the light of the impact of COVID-19 on European economies. On 2020 and 2021 GDP data, the grants corresponding to Spain rose from an initial allocation of €69.5 billion to €77.2 billion in June 2022. This €7.7 billion increase has been requested in the addendum, along with the funds corresponding to Spain from REPowerEU and the NGEU loans not yet requested.

sustainable mobility, reduce dependency on fossil fuels and strengthen the different dimensions of strategic autonomy. They also envisage action to strengthen productive capital.

Conclusions

The main new feature in this cycle of the European Semester is the legislative proposal to reform the EU's fiscal governance framework, presented by the Commission on 26 April.[22] The ongoing revision of the fiscal rules should pave the way for the adoption of a new fiscal governance framework in the coming months, which will remain integrated in the European Semester. Thus, it will continue to be the central framework for economic and employment policy coordination, ensuring the complementarities between the medium-term fiscal-structural plans, the investment and reforms included in the RRPs and the cohesion policy programmes. In this respect, the full and timely implementation of the RRPs, including the full absorption of the NGEU funds, is considered essential.[23] Although implementation was on the right track in late 2022, some Member States are beginning to have difficulties in administering the funds, owing in part to limited administrative capacity and investment bottlenecks. The ongoing revision of the RRPs represents an opportunity to address these issues and increase the capacity to absorb the RRF funds. Lastly, given the high amounts of investment envisaged for 2023-2026, particularly in Italy and Spain, absorption capacity will need to be monitored in 2023 and beyond, also taking into account the significant impact expected on these countries' macroeconomic outlook.

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22 For a more detailed explanation of the proposal, see Banco de España (2023b).

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