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The 2024 European Semester and the Recovery and Resilience Facility

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Rationale

In June, the European Commissions presented the Spring Package of the current European Semester cycle, which includes the fiscal and macroeconomic imbalance procedures and the country-specific recommendations. In the next cycle, the European Union (EU) will have to fully adopt the new economic governance framework approved in April.

Takeaways

- The current European Semester cycle is marked by the reinstatement of the European Union's fiscal surveillance mechanism, with the opening of excessive deficit procedures against seven Member States (Belgium, France, Italy, Hungary, Malta, Poland and Slovakia).
- The country-specific recommendations have also been approved. In the case of Spain, these include the fiscal policy requirements under the new governance framework and strengthening the implementation of the Recovery, Transformation and Resilience Plan.
- This year represents a transition towards the full implementation of the new governance framework in 2025. The first step is the submission by Member States of their national medium-term fiscal structural plans, including the multi-year net primary expenditure path.

Keywords

European Semester, Recovery and Resilience Facility, cohesion policy, macroeconomic imbalances, economic governance framework, fiscal and structural plans, fiscal rules.

JEL classification

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

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Introduction

Over the last few years the European Semester, an annual exercise that coordinates the European Union's (EU) budgetary, economic, social and employment policies, has been key in responding to recent crises and supporting a sustainable economic recovery. In turn, dialogue and cooperation with the European institutions have helped Member States to identify and plan the reforms and investments needed to address their economic challenges, thereby enabling a better implementation of cohesion policies and the Recovery and Resilience Facility (RRF).

The 2024 European Semester cycle, which began with the publication of the Autumn Package in November 2023,[1] has been marked by two important events. First, the deactivation on 31 December 2023 of the general escape clause of the Stability and Growth Pact (SGP), which had been in force for four years, during which the application of the EU's fiscal governance framework – namely of the government deficit and debt targets – was effectively suspended. Second, the entry into force on 30 April 2024 of the new EU economic governance framework, to be implemented from 2025 on the basis of the new medium-term fiscal structural plans, which must be submitted by the Member States by 15 October at the latest. Thus, 2024 marks a transition in the European Semester fiscal surveillance cycle,[2] as the requirements based on the new fiscal rules will only have to be fully met from 2025.

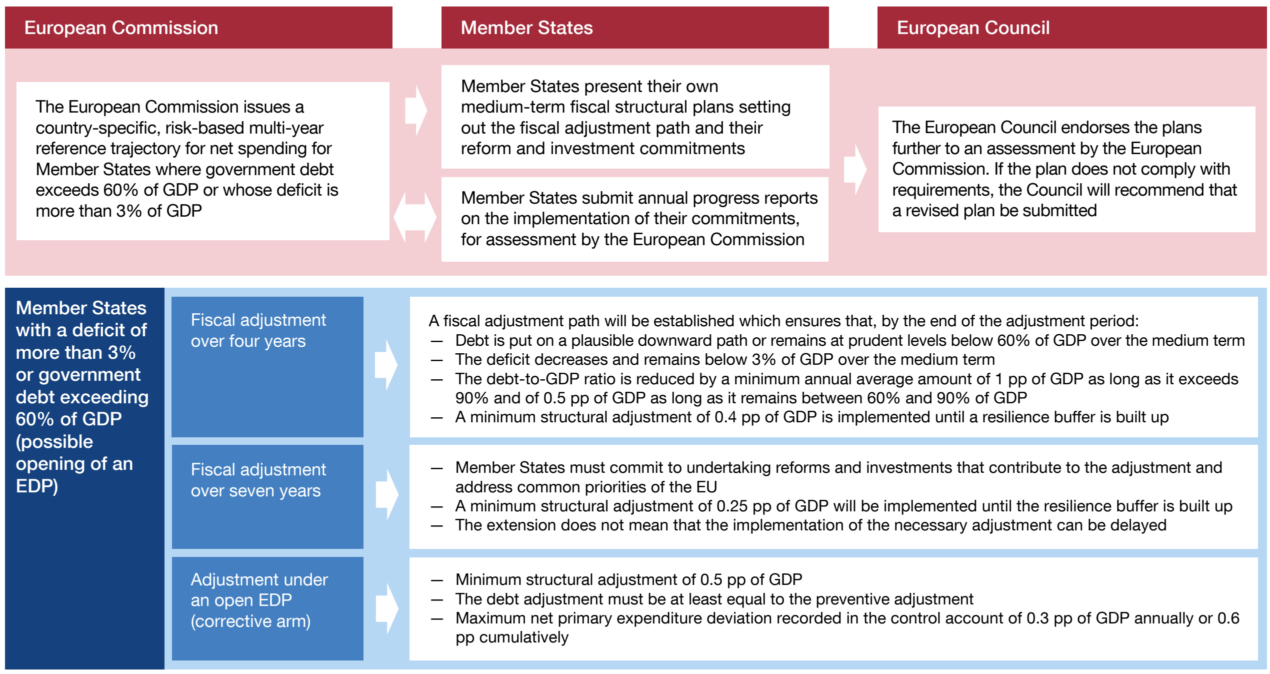
The new fiscal surveillance process will remain integrated in the European Semester, which will therefore remain the EU's key economic and labour market policy coordination framework, ensuring complementarity between the medium-term fiscal structural plans, the investment and reforms included in the Recovery and Resilience Plans (RRPs) and the cohesion policy programmes. However, the new framework introduces some changes to the EU's fiscal surveillance process, in particular as regards the preventive and corrective arms of the SGP.

The remainder of this article is structured as follows. The next section summarises the main elements of the EU's new economic and fiscal governance framework. Two sections are then devoted to detailing the usual European Semester processes for fiscal surveillance (the excessive deficit procedure or EDP) and macroeconomic surveillance (the macroeconomic imbalances procedure or MIP) for 2024. 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.

1 The Autumn Package sets out the EU's social and economic priorities and provides strategic guidance to Member States. The Spring Package has a more national focus, providing specific surveillance and advice to each Member State building on the broader priorities included in the Autumn Package. The Semester concludes in October with the submission of Member States' draft budgetary plans.

2 The guidance issued by the European Commission in March 2023 applies in 2024 (European Commission, 2023a).

Figure 1
The EU's new economic governance framework



SOURCE: European Commission.

Main elements of the European Union's new economic and fiscal governance framework

The new economic governance framework, approved on 30 April,[3] is based on the legislative proposal presented by the European Commission on 26 April 2023[4] (see Figure 1). Its key objectives are to strengthen the sustainability of Member States' government debt – ensuring a realistic, gradual and steady debt reduction path when it exceeds 60% of GDP – and to promote sustainable and inclusive growth through priority investments and reforms that preserve the ownership and commitment of national governments. The new rules aim to provide surveillance that is more country-specific, as well as to increase the space for counter-cyclical policies and addressing macroeconomic imbalances and structural challenges. In addition, the work of the national independent fiscal institutions is strengthened, making them more independent and bolstering their ability to enforce their recommendations.

It should be noted that the new governance framework maintains the EDP and the MIP as the basic pillars of its surveillance policy, although the new rules adopted in April represent a de facto revision of the former. Both procedures are complementary. Thus, when a Member State faces fiscal imbalances, surveillance and recommendations should be channelled through the SGP by

3 See Regulation (EU) 2024/1263 of the European Parliament and of the Council, published in the Official Journal of the European Union on 30 April.

4 European Commission (2023c) and Alonso and Matea (2023).

opening an EDP. If there are other additional macroeconomic risks, the MIP should complement the surveillance of the EDP under the SGP. Only where the macroeconomic vulnerabilities are outside the fiscal domain would the MIP be the primary tool for effective surveillance.

The new framework maintains the previous thresholds for government deficit (3% of GDP) and debt (60% of GDP) as reference values for fiscal surveillance, in particular when assessing the opening of an EDP. However, these will be applied less automatically, taking into account the individual fiscal position of each Member State.[5]

The new governance framework substantially changes how the preventive arm of the SGP works. The cornerstone of the new framework is the national medium-term fiscal structural plans developed by the Member States. These contain their budgetary policy objectives, including, if applicable, a fiscal adjustment path expressed in terms of multi-annual net expenditure, the planned priority reforms and investments and the measures to correct potential macroeconomic imbalances during the fiscal adjustment period.

Prior to the submission of the national plans, Member States will hold a technical dialogue with the European Commission on the multi-annual net expenditure path. To frame this discussion, the European Commission will submit in advance a reference path for Member States with government debt above 60% of GDP or a government deficit exceeding 3% of GDP.[6] The resulting fiscal adjustment path, which will be made public as an essential part of the plan, should comply with a number of criteria and safeguards, as described below.

To enhance the simplicity and transparency of the new framework and make it easier to enforce, surveillance of the national medium-term plans – in particular, the fiscal adjustment path – will focus on monitoring a single operational indicator: the trajectory of nationally financed net primary expenditure. This indicator is calculated as government expenditure less interest expenditure, discretionary revenue measures, national expenditure in programmes fully or partially financed by the EU, cyclical elements of unemployment benefit expenditure and other one-off and temporary measures.[7] A control account shall be set up in each Member State to monitor the annual deviation of net expenditure from the agreed path.

Fiscal adjustment paths will be country-specific, taking into account the different levels of government debt and economic challenges in each country, and will set multi-year targets over a

5 The European Commission does not mechanically assess fiscal sustainability based on strict compliance with the deficit and debt criteria, but takes into account multiple factors, including the Member States' medium-term budgetary and macroeconomic positions and how they change over time, as well as the implementation of reforms and investments.

6 Upon request, the European Commission may also provide guidance on fiscal prudence in the form of technical information to Member States that do not exceed the debt and deficit reference values. The national plans should include the reference path proposed by the European Commission and, if it is below that of the plan, the arguments justifying the difference. Following their publication, the European Commission will assess these national plans. The assessment will include a summary of the previous technical dialogue and a recommendation will be issued to the Council for approval.

7 Net expenditure is calculated excluding the new discretionary fiscal measures. This means that Member States may exceed the expenditure limit if the additional expenditure is financed through new revenue-raising measures. Moreover, in the event of a temporary economic shock that increases unemployment and, consequently, spending on unemployment benefits, governments would not be forced to reduce their spending on other items, helping automatic stabilisers to function effectively.

default four-year adjustment period.[8] These targets should ensure that, by the end of the adjustment period, government debt is put on a plausibly downward path or stays at prudent levels (below 60% of GDP) over the medium term, and that the deficits are below the 3% of GDP threshold and remain so over the medium term.

The new framework also introduces some flexibility, allowing adjustment paths to be more gradual and to be extended by an additional three years, up to a total of seven, if they are backed by credible reform and investment commitments, which should be verifiable, consistent with the RRPs and in line with the country-specific recommendations issued under the European Semester.[9]

In order to strengthen compliance with the fiscal targets, the adjustment path must comply with two safeguards: (i) a debt sustainability safeguard, to ensure a minimum average annual debt reduction of 0.5 percentage points (pp) of GDP as long as the debt ratio remains between 60% and 90% of GDP, and of 1 pp of GDP as long as it exceeds 90% of GDP; and (ii) a deficit resilience safeguard, to achieve a deficit level that provides a common safety margin (fiscal buffer) in structural terms of 1.5% of GDP, through a minimum annual structural adjustment of 0.4 pp of GDP, which will be reduced to 0.25 pp of GDP if the adjustment period is extended to seven years (see Figure 1).

As regards the corrective arm of the SGP, the reform of the governance framework updates the EDP, which focuses on actual deviations from the committed net expenditure path.[10] The opening of a deficit-based EDP requires the Member State to maintain a corrective net expenditure path consistent with a minimum annual structural adjustment of 0.5% of GDP, for as long as the deficit exceeds the 3% of GDP threshold.[11] If a debt-based EDP is opened, the net expenditure adjustment path should be at least as stringent as that agreed in the medium-term national plan and compatible with correcting the deviations in the control account.[12]

Transparency is key to the new fiscal governance framework delivering the desired results.[13] To this end, all aspects of the surveillance process should be transparent, from the content and submission of national medium-term fiscal structural plans to their assessment, approval and monitoring, including the publication of the information needed to assess the net expenditure path throughout the adjustment period.

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8 This period will be five years if that is the normal parliamentary term of the Member State concerned.

9 Further flexibility is provided by the general escape clause in periods of severe economic downturn for the euro area or the Union as a whole and the country-specific escape clause, which allows for a deviation from the net expenditure path in exceptional circumstances outside the control of the Member State concerned, provided that this deviation does not endanger fiscal sustainability in the medium term.

10 See Regulation (EU) 2024/1264 of the European Parliament and of the Council, published in the Official Journal of the European Union on 30 April.

11 The deficit-based EDP has remained unchanged from the previous framework, although the European Council decided that the European Commission could take into account, during the 2025-2027 transitional period, the increase in interest expenditure when calculating the required fiscal adjustment in an EDP.

12 This repeals the previous rule setting an annual debt reduction target of one-twentieth of the debt in excess of the 60% of GDP threshold.

13 The European Central Bank's latest monetary policy statement on 12 September made special reference to the need for the new EU economic governance framework to be implemented fully, transparently and without delay, with the aim of steadily reducing budget deficits and debt ratios.

Under this new governance framework, the current European Semester Spring Package calls on Member States to present their medium-term fiscal structural plans, which should address the priorities identified in the country-specific recommendations, including the recommendations on net expenditure growth based on each country's specific government deficit and debt situation. Member States should also describe the necessary reforms and investments, taking into account the RRPs, and explain how these measures address the challenges identified in their specific recommendations.

Excessive deficit procedure

Following the fiscal policy guidance for 2024 approved by the European Council,[14] the European Commission prepared the report assessing compliance with the government deficit and debt criteria,[15] in accordance with Article 126(3) of the Treaty on the Functioning of the European Union. This is the first such report prepared by the European Commission since deactivation in December 2023 of the general escape clause, which had suspended the application of fiscal rules following the COVID-19 crisis.[16]

The report included 12 countries, ten of which (Belgium, Czech Republic, Estonia, Spain, France, Italy, Hungary, Malta, Poland and Slovakia) had a deficit above the 3% of GDP reference value in 2023. The other two (Finland and Slovenia) were included because they had a planned deficit for 2024 above that threshold (see Table 1 and Chart 1).

As regards the debt criterion, the general government gross debt-to-GDP ratio at end-2023 exceeded the 60% reference value in 13 countries: Belgium, Germany, Greece, Spain, France, Croatia, Italy, Cyprus, Hungary, Austria, Portugal, Slovenia and Finland (see Table 1 and Chart 1). However, the European Commission considered that, without a net expenditure path approved by the Council, compliance with the debt criterion could not be fully assessed at that time according to the new governance framework criteria.

Following its assessment, the European Commission concluded that only seven out of the 12 countries examined in the report (Belgium, France, Hungary, Italy, Malta, Poland and Slovakia) did not comply with the deficit criterion. It therefore proposed that the Council open the respective EDPs, which were approved on 26 July.[17] The European Commission decided not to open an EDP

14 See footnote 2.

15 European Commission (2024d). The deficit criterion is fulfilled if the general government deficit for the previous year (2023, in this case) and the planned deficit for the current year (2024) do not exceed 3% of GDP. If either does, the European Commission examines whether the deficit ratio has declined substantially and continuously and comes close to the reference value and whether the deficit in excess over the reference value is exceptional and temporary, and remains low. The debt criterion is fulfilled if the general government gross debt at the end of the year does not exceed 60% of GDP, unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace. This condition is considered to have been met if the Member State concerned respects its net expenditure path as set by the European Council.

16 In 2023 the European Commission decided not to open any new EDPs in view of the ongoing fiscal and macroeconomic impact of previous years' shocks, while persistent uncertainty made it impossible to design of a detailed and reliable fiscal adjustment path.

17 Romania has been under an EDP since 2020. The European Commission considers that it has not taken the necessary actions, in response to the recommendations issued by the European Council in 2022, to correct this situation.

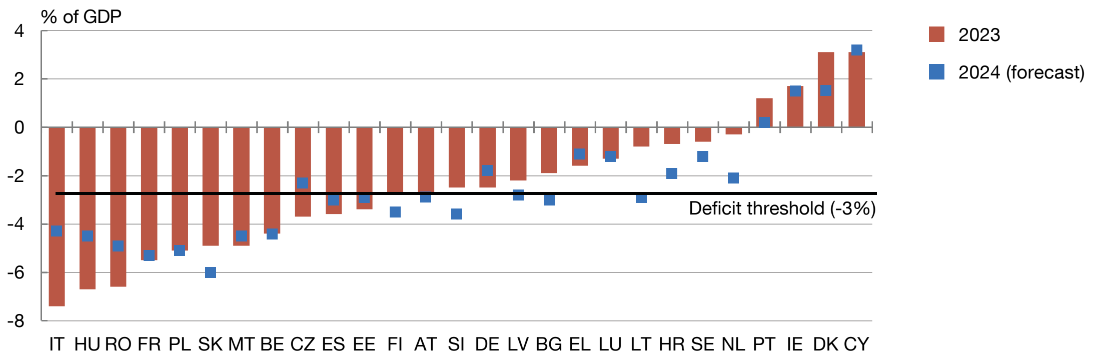
Table 1
Excessive deficit procedure 2024

	Yes	No
Complies with the deficit criterion as defined in the Treaty and Council Regulation (EC) No 1467/1997	Bulgaria, Denmark, Germany, Estonia, Ireland, Greece, Croatia, Cyprus, Latvia, Lithuania, Luxembourg, Netherlands, Austria, Portugal and Sweden	Belgium, Czech Republic, Estonia, Spain, France, Italy, Hungary, Malta, Poland, Slovakia, Slovenia and Finland
Complies with the debt criterion as defined in the Treaty and Council Regulation (EC) No 1467/1997	Bulgaria, Czech Republic, Denmark, Estonia, Ireland, Spain, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Slovakia and Sweden	Belgium, Germany, Greece, Spain, France, Croatia, Italy, Cyprus, Hungary, Austria, Portugal, Slovenia and Finland
Opening of an EDP (following the assessment by the European Commission)		Belgium, France, Italy, Hungary, Malta, Poland and Slovakia

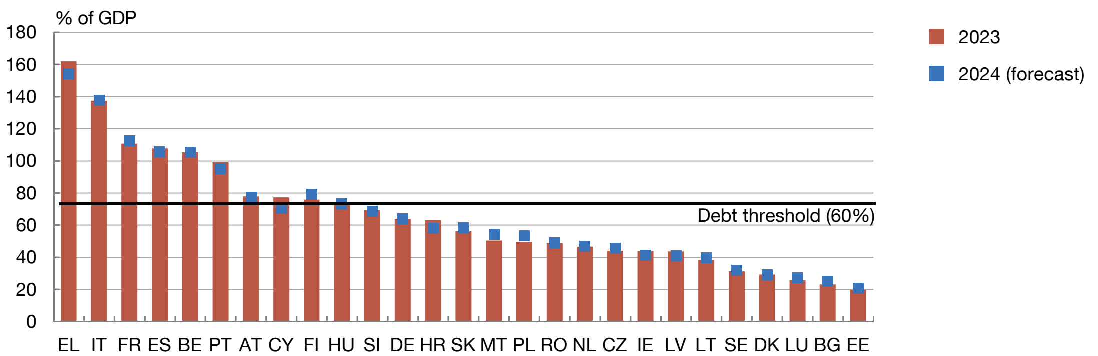
SOURCE: European Commission.

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

1.a General government surplus (+) or deficit (-)



1.b General government debt



SOURCES: Eurostat and Spring 2024 Economic Forecast (European Commission).

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

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against Spain, as it considers that its current excessive deficit is only temporary[18] and that the deficit will be below the reference value in 2024 and 2025.

The next step is the joint assessment by the European Commission of Member States' medium-term fiscal structural plans and draft budgetary plans for 2025, to be submitted by 15 October at the latest.[19] This ensures consistency between the required fiscal adjustments under the EDPs and those envisaged in the medium-term fiscal structural plans.[20]

Macroeconomic imbalance procedure

Publication of the Alert Mechanism Report (AMR) 2024[21] in November 2023 initiated the thirteenth annual round of implementation of the MIP.[22] The aim of the AMR is to identify Member States that need an in-depth review, to determine and assess the severity of their possible macroeconomic imbalances.[23]

The 2024 AMR assessed potential macroeconomic imbalances amid high but declining inflation and the prospect of a gradual recovery in economic activity. The report considered that the key risks stem from an external environment characterised by changing geopolitical tensions. In particular, 12 countries were selected for an in-depth review: the same 11 countries identified as experiencing imbalances or excessive imbalances in the previous cycle (Germany, Greece, Spain, France, Italy, Cyprus, Hungary, Netherlands, Portugal, Romania and Sweden) plus Slovakia.

The in-depth reviews released in March 2024[24] indicated that the evolution of vulnerabilities had been diverse across Member States but that in many cases the vulnerabilities had receded as economic conditions adjusted to high – but falling – inflation.

Imbalances or excessive imbalances were identified in nine out of the 12 Member States for which an in-depth review was carried out, but overall macroeconomic imbalances had declined (see Table 2). Specifically, Spain, France and Portugal were no longer experiencing imbalances. Greece and Italy were found to be experiencing imbalances after experiencing excessive imbalances previously. Germany, Cyprus, Hungary, Netherlands and Sweden continued to

18 As in the case of Spain, the European Commission considered that the excessive deficit identified in Slovenia, Estonia, Finland and the Czech Republic was temporary and would be corrected over 2024-25.

19 The European Commission set 20 September as the deadline for submitting the national plans, but it has shown flexibility at this early stage of the process, allowing it to be extended to 15 October at the latest (i.e. the deadline for submission of the draft budgetary plans). Spain has announced that it will delay the submission of its plan until that date.

20 If medium-term plans are not submitted in time, and in order to avoid a misalignment in the fiscal surveillance process, the budgetary requirements under the EDP will be based on the reference deficit paths issued by the European Commission. This timeline is considered exceptional during the transition to the new economic governance framework and will not set a precedent.

21 European Commission (2023b).

22 For information on the MIP, see Matea (2012).

23 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 early the risks of emerging imbalances.

24 European Commission (2024e).

Table 2
Macroeconomic imbalance procedure 2024

		2024		
		No imbalance	Imbalance	Excessive imbalance
2023	Excessive imbalance		Greece, Italy	Romania
	Imbalance	Spain, France, Portugal	Germany, Cyprus, Hungary, Netherlands, Sweden	
	No imbalance	Belgium, Bulgaria, Czech Republic, Denmark, Estonia, Ireland, Croatia, Latvia, Lithuania, Luxembourg, Malta, Austria, Poland, Slovenia, Finland	Slovakia	

SOURCE: European Commission.

experience imbalances. Lastly, only two countries had deteriorated: Romania was now found to be experiencing excessive imbalances, and Slovakia was now found to be experiencing imbalances.

Specifically, in Spain's in-depth review[25] it was noted that significant progress had been made in reducing vulnerabilities related to high private and external debt. However, given the persistence of budget deficits, risks to fiscal sustainability were considered to remain high over the medium term. Pressures on household balance sheets had increased, particularly for lower-income households. Meanwhile, the share of financially vulnerable firms had continued to decline and the banking sector had remained resilient. The unemployment rate had fallen sharply over the last decade and was expected to remain on a downward trend in the coming years.

With regard to policies implemented by Spain (see Table 3), the report considers that substantial progress has been made over the past decade, but that further policies are still needed, above all to achieve a sound fiscal position and improve fiscal sustainability overall, to address the low share of investment in research and development by firms, and to address skills mismatches and skills shortages in the labour market. In addition, the report mentions that boosting the competitiveness of the goods segment, given the high import intensity of domestic demand, particularly durable consumption and investment, could help improve Spain's net international investment position.

Country-specific recommendations

The European Commission's reports and country-specific recommendations (CSRs) for 2024 analyse social and economic developments in the Member States, while focusing on challenges to competitiveness. Like last year, this year's CSRs focus on ensuring the timely implementation of the objectives and commitments contained in the RRPs, as well as the priorities set out in

25 European Commission (2024b).

Table 3
Progress made in the main MIP policies in Spain

Vulnerability	Enacted policies since January 2023	Policies under way since January 2023
External sustainability	Review of the National Energy and Climate Plan to 2030 Continued investments to develop the Strategic Projects for the Economic Recovery and Transformation (PERTEs), improve digitalisation and innovation at SMEs, strengthen the research, development and innovation system and support sustainable tourism	Application of the amended RTRP, which strengthens the strategic investments (PERTEs) and includes the REPowerEU chapter
Household debt	Entry into force of the new Housing Law, which includes actions aimed at increasing the supply of affordable and social housing Implementation of the fresh-start procedure for natural persons under the new insolvency framework	
Debt of non-financial corporations	Financial guarantees provided by CERSA to support small enterprises	Application of the amended RTRP, which includes financial instruments for private investment: green and entrepreneurial ICO facilities, the Next Tech fund for scale-up companies and the Regional Resilience Fund managed by the EIB
Government debt	Approval of measures to modernise and digitalise general government Adoption of measures to ensure the financial sustainability and preserve the sufficiency of the pension system Publication of the reports on the third stage of AIReF's spending review	Phasing out of the emergency energy support measures adopted since 2021
Unemployment	Entry into force of the new Employment Law and review of the hiring incentives with the aim of improving employability and reducing unemployment Approval of the new Organic Law on the University System with the aim of improving the relevance of higher education in the labour market Creation of new vocational training places	Action plan for the development of university micro-credentials under the amended RTRP

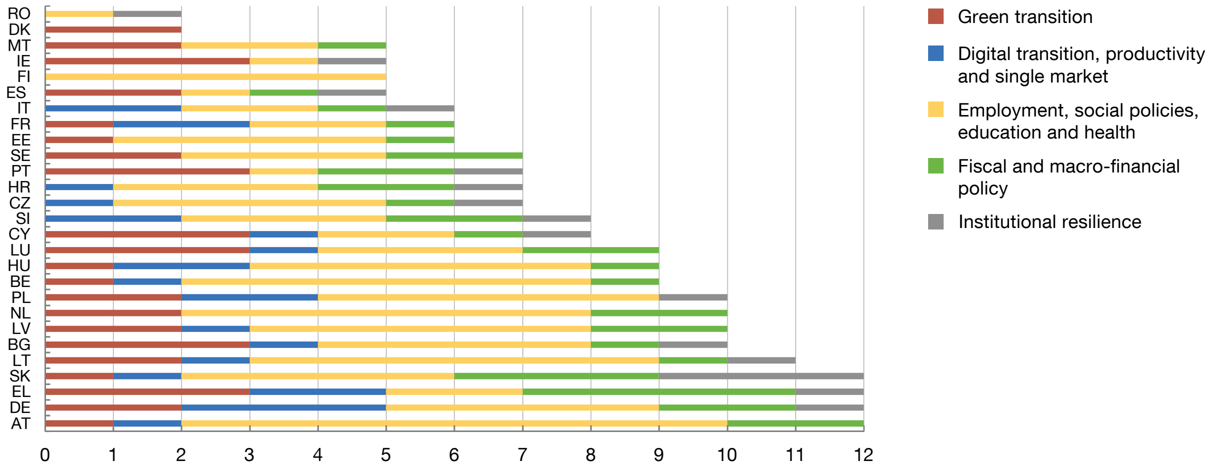
SOURCE: European Commission.

REPowerEU. In addition, as the CSRs coincide with the mid-term review of the cohesion policy programmes, they provide an opportunity to identify new challenges and priorities for policies, investments and reforms that could be addressed consistently in the new medium-term fiscal structural plans.

Broadly speaking, for each Member State, the CSRs include: a recommendation on fiscal policy and on any necessary fiscal and structural reforms; a recommendation on the implementation of the RRPs and the cohesion policy programmes; and, where applicable, new recommendations on pending and/or emerging challenges, with an emphasis on boosting competitiveness.

In the fiscal sphere, the recommendations aimed at eliminating the special measures to support households and firms in response to the energy shock and rising living costs are noteworthy. In addition, for 2025 and beyond, a prudent fiscal policy is recommended to ensure that net

Chart 2
CSRs for 2024, by thematic area (a) (b)



SOURCE: European Commission.

a The chart depicts, for each EU Member State, the number of thematic (sub)areas for which recommendations have been issued, following the European Commission's classification.
b BE: Belgium, BG: Bulgaria, CZ: Czech Republic, DK: Denmark, DE: Germany, EE: Estonia, IE: Ireland, EL: Greece, ES: Spain, FR: France, HR: Croatia, IT: Italy, CY: Cyprus, LV: Latvia, LT: Lithuania, LU: Luxembourg, HU: Hungary, MT: Malta, NL: Netherlands, AT: Austria, PL: Poland, PT: Portugal, RO: Romania, SI: Slovenia, SK: Slovakia, FI: Finland, SE: Sweden.

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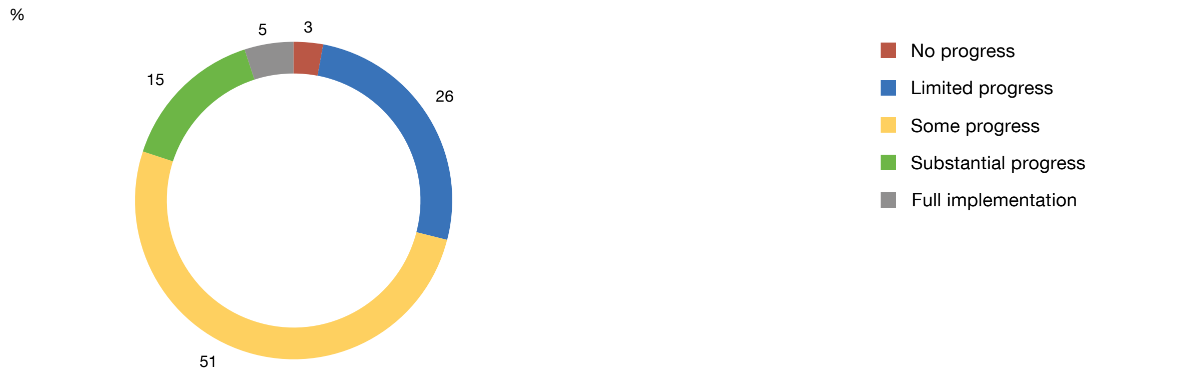
expenditure growth is consistent with the fiscal adjustment required under the new governance framework. Maintaining, and even increasing, the level of government investment to face current and future challenges is also recommended.

Meanwhile, recommendations to address the challenges arising from the energy and digital transitions as well as their socio-economic consequences are prominent both for the EU as a whole and for Spain. At the same time, the recommendations aimed at addressing the issues of productivity and competitiveness take on particular importance. These include: (i) deepening the single market; (ii) implementing a coherent and comprehensive industrial policy and a trade policy that preserves competition and openness, while strengthening economic security and strategic autonomy; (iii) promoting investment and R&D activities; and (iv) improving employment and the competencies and skills of the labour force, including improving the quality of education (see Chart 2).

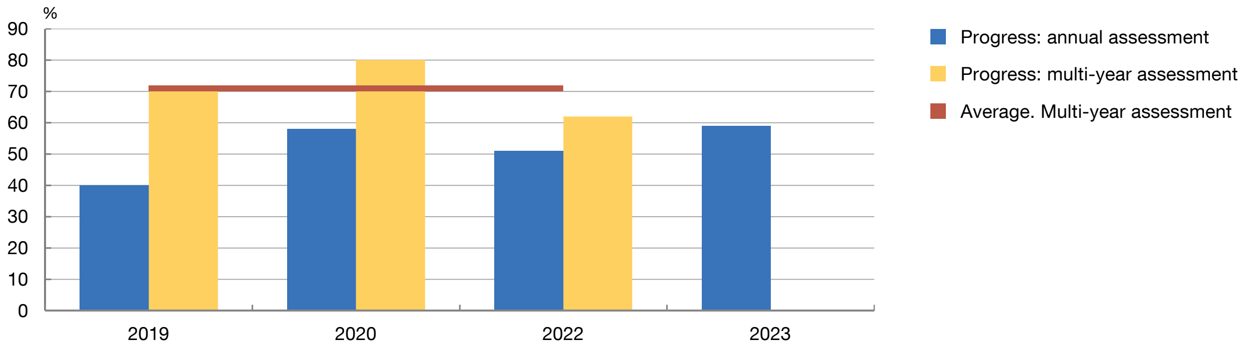
The reports also review progress in implementing previous years' CSRs and the fulfilment of other socio-economic objectives related to the European Pillar of Social Rights and the Sustainable Development Agenda. Specifically, the European Commission acknowledges "at least some progress" in the implementation of 71% of the CSRs issued in the period 2019-2022, although in only 20% of cases is this progress "at least substantial". So far significant progress has been made in the measures issued in July 2023, as there has been "at least some progress" in 59% of the cases (see Chart 3). However, implementation is proving uneven across thematic areas: on the one hand, it is greater in financial services, anti-money laundering, the labour market, budgetary frameworks and fiscal governance; on the other, slower and shallower in areas such as

Chart 3
Implementation of the CSRs

3.a Implementation of the CSRs adopted in 2019-2022 (a)



3.b Percentage of CSRs adopted in 2019-2023 with "at least some progress" in implementation (b)



SOURCE: European Commission.

a Degree of implementation of the CSRs from initial adoption to present (Progress: multi-year assessment).
b The CSRs for 2021 only refer to tax policy and are no longer deemed relevant for the assessment. "Progress: annual assessment" depicts the progress in implementing the CSRs during the year following their adoption, while "Progress: multi-year assessment" refers to the progress from adoption to present.

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tax policy, tax authorities, tax evasion, equal opportunities, pension systems and the housing market.

Spain has received three specific recommendations for 2024 and 2025 (see Figure 2). The fiscal policy recommendation includes three areas of action: presenting a medium-term fiscal structural plan, limiting net spending in 2025 to a rate compatible with putting general government debt on a downward trend and with bringing the government deficit below 3% and ensuring fiscal sustainability. Regarding the implementation of the RRPs and cohesion policy programmes, the recommendation is to strengthen administrative capacity to manage EU funds, accelerate investments and maintain momentum in the implementation of reforms so as to ensure the delivery of the reforms and investments by August 2026. Finally, the third recommendation addresses water management, by improving coordination among all levels of government and scaling up existing solutions for sustainable water management in agriculture, water efficiency and infrastructure investments.

Figure 2
Council Recommendation to Spain for 2024 and 2025

CSR	RECOMMENDED MEASURES
CSR 1	— Submitting the medium-term fiscal structural plan in a timely manner — In line with the requirements of the reformed SGP, limiting the growth in net expenditure in 2025 to a rate consistent with putting general government debt on a plausibly downward trajectory over the medium term and reducing the general government deficit below the 3% of GDP Treaty reference value — Ensuring fiscal sustainability including by: (i) reviewing and simplifying the tax system to support economic growth and employment, cohesion and the green transition; and (ii) improving the quality, efficiency and equity of public spending
CSR 2	— Strengthening administrative capacity to manage EU funds, accelerate investments and maintain momentum in the implementation of reforms — Addressing emerging delays to allow for a continued, swift and effective implementation of the RTRP, including the REPowerEU chapter, ensuring completion of reforms and investments by August 2026 — Accelerating the implementation of cohesion policy programmes — In the context of their mid-term review, continuing to focus on the agreed priorities, while considering the opportunities provided by the Strategic Technologies for Europe Platform initiative to improve competitiveness
CSR 3	— Improving water management to better address the adaptation to present and future effects of climate change and ensure long-term economic, social and environmental resilience, by improving coordination among all levels of government and administration and scaling up existing solutions for sustainable water management in agriculture, water efficiency and infrastructure investments, and by supporting the development of nature-based solutions

SOURCE: European Commission.

Recovery and Resilience Facility: implementation and new developments

At the end of 2023, the net lending position of the Recovery and Resilience Facility (RRF) was set at €648 billion, consisting of €357 billion in the form of grants and €291 billion in the form of loans.[26] At the time of writing this article, the Commission had provided financing to the EU Member States through the RRF worth around €265 billion (41% of the total available), of which two-thirds (around €170.8 billion) were disbursed in the form of grants and the remainder (€94.6 billion) in the form of loans. The largest recipients of RRF funds to date are Italy (€113 billion), Spain (€48 billion), France (€31 billion) and Greece (€17 billion).

Since the launch of NextGenerationEU (NGEU), of which the RRF is the cornerstone,[27] the Commission has financed the programmes linked to this recovery instrument through debt issuance.[28] Specifically, since June 2021, the European Commission has issued a total of

26 This figure differs from the maximum amount of €723 billion established in the RRF Regulation for two reasons: (i) the amendment of the RRF Regulation in February 2023 increased the total grants available from the original €338 billion to the final €357 billion, after the grants under the Emissions Trading System (€17.3 billion) and the Brexit Adjustment Reserve (€1.6 billion) were included, and (ii) only €291 billion of the €385 billion of loans available had been committed by the cut-off date of 31 August 2023 for Member States to request loan support.

27 NGEU is essentially structured around two instruments: the RRF and REACT-EU (Recovery Assistance for Cohesion and the Territories of Europe), which has an envelope of €47.5 billion. In addition, NGEU finances with much smaller amounts other associated programmes, such as the Just Transition Fund, the European Agricultural Fund for Rural Development, InvestEU, Horizon Europe and rescEU.

28 This debt has also been earmarked for financing the EU macro-financial assistance (MFA) programmes and loans to Ukraine, among others.

€387 billion in long-term bonds, of which €60 billion are green bonds linked to NGEU (15% of the total) and €160 billion are EU-Bills.[29]

Implementation of the RRF has been uneven across countries, with some Member States lagging slightly behind in submitting disbursement requests and delays in the approval of the disbursements themselves, mainly due to delays in investments committed in the RRPs and, to a lesser extent, in the approval of structural reforms.[30] However, the review of national plans launched in 2023 is expected to provide impetus to its implementation. In this regard, as the reviews progressed, payment requests rose in 2023 H2, to €82 billion at end-2023, up 11% compared with the previous year. For their part, the disbursements approved between January and August 2024 have amounted to €44.6 billion and, according to the Commission's forecast based on the payment requests submitted, they could total €100 billion by the end of 2024.[31]

In the case of Spain,[32] in February 2024 €1,383 million of pre-financing in relation to the Addendum to the Recovery, Transformation and Resilience Plan (RTRP) was received,[33] of which €1,043 million were non-repayable grants and €340 million an advance on the loans. In March 2024, the Government sent an amendment to the RTRP,[34] which was approved by the European Council in May and enabled, at the end of July, albeit with a delay, the European Commission to disburse €9.9 billion of the fourth instalment of the NGEU funds, as it confirmed that Spain had satisfactorily fulfilled 60 (34 reforms and 26 investments) of the 61 milestones and targets linked to the fourth disbursement. However, the European Commission retained some €158 million because Spain was unable to meet the objective of investing €90 million in the Agents of Change Programme for the digitalisation of SMEs. Spain has six months to meet this objective and thus receive the retained funds. The fifth disbursement of €7.2 billion should have been requested in the first half of 2024. Spain has so far received 60% of its share in non-repayable grants. According to data from the National Audit Office (IGAE), by the end of June 2024 58%, or €40 billion, of the total amount of the tenders announced had been allocated.

Conclusion

The 2024 European Semester has been marked by the deactivation of the SGP's general escape clause and the adoption of the EU's new economic governance framework, which will be fully implemented in 2025. From then onwards, Member States will have to comply with the fiscal adjustment requirements based on the new fiscal rules and medium-term fiscal structural plans.

29 See European Commission (2024a) for a more detailed analysis of the (six-monthly) implementation of the Commission's issuance policy. Up-to-date EU debt issuance data are available on the European Commission's website.

30 See Alonso and Matea (2023) for a more detailed analysis.

31 European Commission (2024f).

32 Spain's RRP is called the Recovery, Transformation and Resilience Plan (RTRP).

33 In October 2023, the European Commission approved the Addendum to the RTRP, which requested additional soft loans and grants to the RTRP.

34 The amendments affected 16 measures. In the amended RTRP, Spain explained that for seven of the measures the type of indicators used for the assessment of satisfactory fulfilment should be modified, that for nine measures better alternatives for their implementation existed in order to achieve the original ambition of the measure and that one measure was no longer achievable because of insufficient demand due to recent developments in the electricity market (European Commission, 2024c).

Following the Spring Package, the European Council approved, on a proposal by the European Commission, the opening of excessive deficit procedures for seven countries (Belgium, France, Hungary, Italy, Malta, Poland and Slovakia) while macroeconomic imbalances tended to decrease in most Member States. Lastly, implementation of the RRF is proving uneven across countries, with some Member States lagging slightly behind in submitting disbursement requests and delays in the approval of the disbursements themselves, mainly due to delays in investments committed in the RRPs and, to a lesser extent, in the approval of structural reforms.

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