Council of the European Union

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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
No. prev. doc.:	11076/24 - COM(2024) 609 final
Subject:	COUNCIL RECOMMENDATION on the economic, social, employment, structural and budgetary policies of Spain

Delegations will find attached the above-mentioned draft Council Recommendation, as revised and agreed by various Council committees and finalized by the Economic and Financial Committee, based on the Commission Proposal COM(2024) 609 final.

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Spain

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97[1], and in particular Article 3(3) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

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1 OJ L 2024/1263, 30.4.2024 ELI: http://data.europa.eu/eli/reg/2024/1263/oj.
2 OJ L 306, 23.11.2011, p. 25. ELI: http://data.europa.eu/eli/reg/2011/1176/oj.

Whereas:

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[3], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support to the Member States for the implementation of reforms and investment, entailing a fiscal impulse financed by the EU. In line with the European Semester priorities, it helps achieve the economic and social recovery and implement sustainable reforms and investment, in particular to promote the green and digital transitions and make the Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the EU and support the continued implementation of the European Pillar of Social Rights.

(2) The REPowerEU Regulation[4], adopted on 27 February 2023, aims to phase out the EU's dependency on Russian fossil fuel imports. This would help achieve energy security and diversify the EU's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. Spain added a new REPowerEU chapter to its national recovery and resilience plan in order to finance key reforms and investments that will help achieve the REPowerEU objectives.

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[3] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17) ELI: http://data.europa.eu/eli/reg/2021/241/oj.

[4] Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1) ELI: http://data.europa.eu/eli/reg/2023/435/oj.

(3) On 16 March 2023, the Commission issued a Communication on the 'Long-term competitiveness of the EU: looking beyond 2030'[5], in order to inform policy decisions and create the framework conditions for increasing growth. The Communication frames competitiveness along nine mutually reinforcing drivers. Among these drivers, access to private capital, research and innovation, education and skills, and the single market emerge as paramount policy priorities for reform and investment to address current productivity challenges as well as to build up the long-term competitiveness of the EU and its Member States. On 14 February 2024, the Commission followed this Communication with the Annual Single Market and Competitiveness Report[6]. The report details the competitive strengths and challenges of Europe's Single Market, tracking yearly developments according to the nine competitiveness drivers identified.

(4) On 21 November 2023, the Commission adopted the 2024 Annual Sustainable Growth Survey[7], marking the start of the 2024 cycle of the European Semester for economic policy coordination. The European Council endorsed the priorities of the survey around the four dimensions of competitive sustainability on 22 March 2024. On 21 November 2023, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the 2024 Alert Mechanism Report, in which it identified Spain as one of the Member States that may be affected or may be at risk of being affected by imbalances, and for which an in-depth review would be needed. On the same date the Commission also adopted an opinion on the 2024 draft budgetary plan of Spain. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which the Council adopted on 12 April 2024, as well as the proposal for the 2024 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which the Council adopted on 11 March 2024.

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[5] COM(2023) 168 final.
[6] COM(2024) 77 final.
[7] COM(2023) 901 final.

(5) On 30 April 2024, the EU's new economic governance framework came into force. The framework includes the new Regulation of the European Parliament and of the Council (EU) 2024/1263 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97. It also includes amended Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure and the amended Directive 2011/85/EU on requirements for the budgetary frameworks of Member States[8]. The objectives of the new framework are to promote sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments, and prevent excessive government deficits. It promotes national ownership and has a greater medium-term focus, combined with more effective and coherent enforcement. Each Member State should submit to the Council and to the Commission a national medium-term fiscal-structural plan. National medium-term fiscal-structural plans contain the fiscal, reform and investment commitments of a Member State, covering a planning horizon of 4 years or 5 years depending on the regular length of the national legislature. The net expenditure[9] path in the national medium-term fiscal-structural plans should comply with the requirements of Regulation (EU) 2024/1263, including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period at the latest, or for it to remain at prudent levels below 60% of GDP, and to bring and/or maintain the government deficit below the 3% of GDP reference value over the medium term.

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8 Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L, 2024/1264, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1264/oj) and Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (OJ L, 2024/1265, 30.4.2024, ELI: http://data.europa.eu/eli/dir/2024/1265/oj).

9 Net expenditure as defined in Article 2 of Council Regulation (EU) 2024/1263 of 29 April 2024 (OJ L 2024/1263, 30.4.2024. ELI: http://data.europa.eu/eli/reg/2024/1263/oj). Net expenditure means government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on programmes of the Union fully matched by Union funds revenue, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure, and (vi) one-offs and other temporary measures.

Where a Member State commits to a relevant set of reforms and investments in accordance with the criteria set out in Regulation (EU) 2024/1263, the adjustment period may be extended by 3 years at most. For the purpose of supporting the preparation of those plans, on 21 June 2024, the Commission published guidance on the information to be provided by Member States in their plans and in their annual progress reports. In accordance with Articles 5 and 36 of Regulation (EU) 2024/1263, the Commission transmitted to the Member States reference trajectories and technical information, where applicable. Member States should submit their medium-term fiscal-structural plans by 20 September 2024, unless the Member State and the Commission agree to extend the deadline by a reasonable period of time. In accordance with their national legal frameworks, Member States may debate their draft medium-term plans with their national parliaments, may ask the independent fiscal institutions to issue an opinion, and may conduct a consultation of social partners and other national stakeholders.

(6) In 2024, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Recovery and Resilience Facility. The full implementation of the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent years. The 2019, 2020, 2022 and 2023 country-specific recommendations remain equally relevant also for recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(7) On 30 April 2021, Spain submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines of Annex V to that Regulation. On 13 July 2021, the Council adopted its Decision on the approval of the assessment of the recovery and resilience plan for Spain[10], which was amended on 10 October 2023 following Article 18(2) of Regulation (EU) 2021/241 to update the maximum financial contribution for non-repayable financial support, as well as to include the REPowerEU chapter[11]. The release of instalments is conditional on a decision by the Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241, that Spain has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

(8) The Commission published the 2024 country report for Spain[12] on 19 June 2024. It assessed Spain's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2023 and took stock of Spain's implementation of the recovery and resilience plan. Based on this analysis, the country report identified gaps with respect to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges. It also assessed Spain's progress on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.

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10 Council Implementing Decision of 13 July 2021 on the approval of the assessment of the recovery and resilience plan for Spain (ST 10150/21; ST 10150/21 ADD 1; ST 10150/21 ADD 1 REV 1; ST 10150/21 ADD 1 REV 2; ST 10150/21 COR 1).

11 Council Implementing Decision of 10 October 2023 amending the Implementing Decision of 13 July 2021 on the approval of the assessment of the recovery and resilience plan for Spain (ST 13695 2023 INIT).

12 SWD(2024) 609 final.

(9) The Commission carried out an in-depth review under Article 5 of Regulation (EU) No 1176/2011 for Spain and the main findings of the Commission's staff assessment of macroeconomic vulnerabilities for Spain for the purposes of that Regulation were published in March 2024[13]. On 19 June 2024, the Commission concluded that Spain is no longer experiencing macroeconomic imbalances. Significant progress has been made in reducing vulnerabilities, which had cross-border relevance, related to high private and external debt, and there have been reductions in government debt. After an interruption brought about by the COVID-19 pandemic, private sector debt and the negative net international investment position (NIIP) ratios resumed their decline in 2021, helped by strong nominal GDP growth, and, in the case of the NIIP, by continued current account surpluses. Both are expected to continue improving in the coming years, albeit more gradually than recently as nominal GDP growth is expected to be less supportive. The current account has been in surplus for a decade and increased further in 2023 reflecting fast-growing exports as well as lower energy prices. The high government debt-to-GDP ratio has been declining, driven by strong nominal GDP growth, but more muted improvements are expected this year and next, reflecting still relatively high yet receding fiscal deficits and the less supportive nominal GDP growth. The unemployment rate has been on a downward trend for a decade and is forecast to continue falling. The banking sector has remained resilient amidst tighter financing conditions for borrowers. Significant policy progress has been achieved to address the identified vulnerabilities, including in recent years thanks to the implementation of the recovery and resilience plan, but more effort is needed especially to reduce the high government debt.

13 SWD(2024) 80 final.

(10) Based on data validated by Eurostat[14], Spain's general government deficit decreased from 4.7% of GDP in 2022 to 3.6% in 2023, while the general government debt fell from 111.6% of GDP at the end of 2022 to 107.7% at the end of 2023. As announced in the fiscal policy guidance for 2024[15], the Commission is taking the first step for the opening of deficit-based excessive deficit procedures on the basis of the outturn data for 2023, in line with existing legal provisions. On 19 June 2024, the Commission adopted a report under Article 126(3) of the TFEU[16]. That report assessed the budgetary situation of Spain, as its general government deficit in 2023 exceeded the reference value of 3% of GDP. The report concluded that in the light of this assessment, and after considering the opinion of the Economic and Financial Committee as established under article 126(4) TFEU, the Commission will not propose in July to open an excessive deficit procedure for Spain.

(11) On 12 July 2022, the Council recommended[17] that Spain ensure in 2023 a prudent fiscal policy, in particular by limiting the growth of nationally financed primary current expenditure below medium-term potential output growth[18], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. At the same time, Spain was recommended to stand ready to adjust current spending to the evolving situation.

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14 Eurostat-Euro Indicators, 22.4.2024.

15 COM(2023) 141 final.

16 Report from the Commission, prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, 19.6.2024, COM(2024) 598 final.

17 Council Recommendation of 12 July 2022 on the National Reform Programme of Spain and delivering a Council opinion on the 2022 Stability Programme of Spain, OJ C 334, 1.9.2022, p. 77.

18 Based on the Commission 2024 spring forecast, the medium-term potential output growth of Spain in 2023 is estimated at 7.2% in nominal terms, based on the 10-year average real potential growth rate and the 2023 GDP deflator.

Spain was also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds. In 2023, according to the Commission estimates, the fiscal stance[19] was broadly neutral, at -0.2% of GDP. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 provided a contractionary contribution to the fiscal stance of 0.3% of GDP and was in line with the Council recommendation. The contractionary contribution of nationally financed primary current expenditure was due to the reduced costs of the emergency support measures (targeted and untargeted) to households and firms in response to energy price hikes (by 0.6 percentage points of GDP). The main drivers of growth in nationally financed primary current expenditure (net of revenue measures) were social benefits other than in kind, driven by the revaluation of pensions, and intermediate consumption, driven by spending in defence. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 1.3% of GDP in 2023. Nationally financed investment amounted to 2.3% of GDP in 2023, with an annual increase of 0.1 percentage points. Spain financed additional investment through the Recovery and Resilience Facility and other EU funds. It financed public investment for the green and digital transitions, and for energy security, such as the digital toolkit, the PERTE[20] for electric and connected vehicles, new vocational education and training places and investments in the area of green hydrogen, which are funded by the Recovery and Resilience Facility and other EU funds.

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19 The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures (and excluding temporary emergency measures related to the COVID-19 crisis) and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds. A negative (positive) sign of the indicator indicates an expansionary (contractionary) fiscal policy.

20 Proyectos estratégicos para la recuperación y transformación económica (Strategic projects for economic recovery and transformation).

(12) The Update of the Macroeconomic and Fiscal Projections sent by Spain to the Commission on 30 April can be summarised as follows. The macroeconomic scenario underpinning the budgetary projections foresees real GDP to grow by 2.0% in 2024 and 1.9% in 2025, while it projects the GDP deflator to grow at 3.5% in 2024 and 2.8% in 2025. The general government deficit is expected to decrease to 3.0% of GDP in 2024 and 2.5% of GDP in 2025, while the general government debt-to-GDP ratio is set to decrease to 105.5% by the end of 2024 and 104.1% by the end of 2025. The projections submitted by Spain do not include budgetary projections beyond 2025.

(13) The Commission Spring 2024 Forecast projects real GDP to grow by 2.1% in 2024 and 1.9% in 2025, and HICP inflation to stand at 3.1% in 2024 and 2.3% in 2025.

(14) The Commission Spring 2024 Forecast projects a government deficit of 3.0% of GDP in 2024, while the general government debt-to-GDP ratio is set to decrease to 105.5% by the end of 2024. The decrease of the deficit in 2024 mainly reflects the gradual phase out of measures to mitigate the social and economic impact of the past energy crisis. Based on the Commission's estimates, the fiscal stance is projected to be neutral at 0.0% of GDP in 2024.

(15) Expenditure amounting to 1.3% of GDP will be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2024, compared to 0.7% of GDP in 2023, according to Commission Spring 2024 Forecast. Expenditure financed by Recovery and Resilience Facility grants will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Spain. Expenditure amounting to 1.0% of GDP in 2024 is expected to be backed by loans from the Recovery and Resilience Facility, compared to 0.0% of GDP in 2023, according to the Commission Spring 2024 Forecast.

(16) On 14 July 2023, the Council recommended[21] that Spain ensure a prudent fiscal policy, in particular by limiting the nominal increase in net nationally financed primary expenditure[22] in 2024 to not more than 2.6%. When executing their 2023 budgets and preparing their Draft Budgetary Plans for 2024, Member States were invited to take into account that the Commission would propose to the Council the opening of deficit-based excessive deficit procedures based on the outturn data for 2023. According to the Commission Spring 2024 Forecast, Spain's net nationally financed primary expenditure is projected to increase by 3.8% in 2024[23], which is above the recommended maximum growth rate. This excess spending over the recommended maximum growth rate in net nationally financed primary expenditure corresponds to 0.5% of GDP in 2024. This risks being not in line with what was recommended by the Council.

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21 Council Recommendation on the 2023 National Reform Programme of Spain and delivering a Council opinion on the 2023 Stability Programme of Spain, OJ C 312, 1.9.2023, p. 77.

22 Net primary expenditure is defined as nationally financed expenditure net of (i) discretionary revenue measures, (ii) interest expenditure, (iii) cyclical unemployment expenditure, and (iv) and one-offs and other temporary measures.

23 This takes into account 0.2% of GDP one-off measures in 2024, relating to court rulings for the government to refund citizens and companies the excess of personal income and corporate income taxes in the past.

(17) Moreover, the Council recommended that Spain take action to wind down the emergency energy support measures in force, using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. The Council further specified that, should renewed energy price increases necessitate new or continued support measures, Spain should ensure that these were targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings. According to the Commission Spring 2024 Forecast, the net budgetary cost[24] of emergency energy support measures is estimated at 0.9% of GDP in 2023 and projected at 0.2% in 2024, and -0.1% in 2025. Among others, the reduction of VAT on gas, the special tax on electricity, public transport subsidies and the compensation to the electricity providers to cover costs and avoid deficit are assumed to remain in force for part of 2024. If the related savings were used to reduce the government deficit, as recommended by the Council, these projections would imply a fiscal adjustment of 0.7% of GDP in 2024, whereas net nationally financed primary expenditure[25] provides a contractionary contribution to the fiscal stance of 0.3% of GDP in that year. The emergency energy support measures have been wound down in 2023 and 2024. This is in line with what was recommended by the Council. However, the related savings are not projected to be fully used to reduce the government deficit. This risks being not in line with the Council recommendation.

[24] The figure represents the level of the annual budgetary cost of those measures, including revenue and expenditure and, where applicable, net of the revenue from taxes on windfall profits of energy suppliers.

[25] This contribution is measured as the change in general government primary expenditure, net of (i) the incremental budgetary impact of discretionary revenue measures, (ii) one-offs, (iii) cyclical unemployment expenditure and (iv) expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential nominal GDP growth rate, expressed as a ratio to nominal GDP.

(18) In addition, the Council also recommended that Spain preserve nationally financed public investment and ensure the effective absorption of Recovery and Resilience Facility grants and other EU funds, in particular to foster the green and digital transitions. According to the Commission Spring 2024 Forecast, nationally financed public investment is projected to increase to 2.4% of GDP in 2024 from 2.3% of GDP in 2023. This is in line with what was recommended by the Council. In turn, public expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to increase to 1.6% of GDP in 2024 (from 1.3% of GDP in 2023).

(19) Based on policy measures known at the cut-off date of the forecast and on a no-policy-change assumption, the Commission Spring 2024 Forecast projects a government deficit of 2.8% of GDP in 2025, with net expenditure growing by 4.0% in 2025. The general government debt-to-GDP ratio is set to decrease to 104.8% by the end of 2025.

(20) Within the EU's new economic governance rules, Spain will need to develop a medium-term fiscal-structural plan to reduce the deficit and lower government debt. This plan could combine the adoption of revenue and expenditure measures with investments and reforms to promote more robust and sustainable economic growth. Spain is a high debt country with a decentralised governance structure. In its national fiscal framework, the central government sets targets for regions in terms of structural balance and the debt-to-GDP ratio as well as in relation to the maximum growth rate of nominal expenditure (expenditure rule). To ensure that the new EU economic governance rules are complied with, the national fiscal framework may need to be updated. Demographic developments are expected to lead to a significant increase in public expenditure related to healthcare, long-term care and pensions. On pensions, fiscal sustainability gaps over the medium and long term, should they emerge, can be addressed through the application of the 'closure clause' introduced by the 2023 reform. Tax reforms should be a central part of the fiscal consolidation strategy. In this regard, reforms included in the recovery and resilience plan, building on recommendations from experts provided in the meantime, aim to: (i) make the taxation system more effective and modern, and adapt it to new trends; (ii) support the green transition; and (iii) increase revenue and promote fairness. Also, Spain would have scope to collect more environment-related tax revenues (1.5% of GDP in 2022 against 2.0% for the EU aggregate), including by strengthening the application of the 'polluter pays' principle. Action to deliver on the objectives of the recovery and resilience plan could also include the increase of consumption taxes while protecting vulnerable individuals with targeted compensatory measures; this would also strengthen the capacity of social transfers to reduce inequality and poverty, which remain high and particularly affect children. The implementation of recommendations by the Spanish independent fiscal authority (AIReF) remains key to improving the quality and efficiency of government spending, which can also benefit from an ambitious implementation of the framework of expenditure reviews. This is particularly relevant for healthcare, to improve cost-effectiveness and address regional access and quality disparities, as well as the significant investment needs in primary care.

(21) Also, building on measures in the recovery and resilience plan, additional efforts could further increase economic resilience and support potential growth, helping underpin the adoption of a more gradual fiscal path. This includes the area of regulatory burden and business climate. In particular, the reform of size-dependent regulation in the fields of labour, auditing and taxation with the aim of improving efficiency in capital and labour allocation, supporting investment and helping to increase productivity. Addressing existing shortfalls in judicial efficiency would also reduce economic distortions. The time to resolve civil and commercial cases continues to be long and the prolonged non-renewal of the Council of the Judiciary causes bottlenecks for nominating top judges. There is also scope for further supporting innovation. Increasing R&D investment and stronger links with the scientific ecosystem can boost the productivity of firms. At 1.4% of GDP in 2022, Spain's R&D intensity has remained stagnant compared to 2021 and remains well below the EU average of 2.2%, mainly due to the gap in private expenditure (0.8% of GDP, significantly below the EU average of 1.5%). Despite the measures in the revised recovery and resilience plan and the adopted European Regional Development Fund programmes, further efforts seem warranted to support private R&D spending and knowledge transfer between private and public research bodies. Specific measures could include: (i) making public research organisations more performance-based and professional; and (ii) improving the coordination of the science, technology and innovation system in designing and implementing research and innovation policies across different levels of government.

(22) In accordance with Article 19(3), point (b), and Annex V, criterion 2.2 of Regulation (EU) 2021/241, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. These are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, proceeding swiftly with the effective implementation of the plan including the REPowerEU chapter is essential to boost Spain's long-term competitiveness through the green and digital transition, while ensuring social fairness. To deliver on the commitments of the plan by August 2026, it is essential for Spain to continue the implementation of reforms and to accelerate investments by addressing relevant challenges while ensuring strong administrative capacity. The size and complexity of the plan call for specific actions to ensure that reforms and investments can be fully completed on time. The same goes for challenges linked to absorption capacity. Investments are highly concentrated towards the end of the period for implementing the recovery and resilience plan and merit special attention. There is also scope to strengthen the coordination among different levels of the administration, while streamlined procedures would accelerate the reception of funds by final beneficiaries. These elements are particularly relevant to overcome challenges related to absorbing the sizeable amount of funds managed via financial instruments set in the modified recovery and resilience plan. The systematic involvement of local and regional authorities, social partners and other relevant stakeholders remains important for the successful implementation of the recovery and resilience plan, as well as other economic and employment policies going beyond the plan, to ensure broad ownership of the overall policy agenda.

(23) As part of the mid-term review of the cohesion policy funds, in accordance with Article 18 of Regulation (EU) 2021/1060, Spain is required to review each programme by March 2025, taking into account, among other things, the challenges identified in the 2024 country-specific recommendations, as well as its national energy and climate plan. This review forms the basis for the definitive allocation of the EU funding included in each programme. Spain has made progress in implementing cohesion policy and the European Pillar of Social Rights, but challenges remain. GDP per capita remains below 75% of EU average in eight Spanish regions. Accelerating the implementation of cohesion policy programmes and strengthening administrative capacity across all levels is crucial. The priorities agreed in the programmes continue to be relevant. Beyond administrative capacity measures, it is particularly important to see fast implementation of investments into business innovation and R&D capabilities, especially in the industries identified by regional smart specialisation strategies. Investments in the green transition, in line with the national energy and climate plan, particularly those in water management, the circular economy, climate change adaptation and mitigation, remain key, especially in the territories most affected such as Canarias and coastal areas in the east and south of Spain. Investments making regions facing demographic decline more attractive and competitive are instrumental for convergence. Furthermore, it is still necessary to promote the (re-)integration of long-term unemployed people and older workers into the labour market, strengthen career guidance, address skills mismatches and implement the European Child Guarantee. These measures would also contribute to supporting upward social convergence, in line with the Commission services' second-stage analysis based on the features of the Social Convergence Framework[26] that was piloted in 2024. In line with Article 3(3), point (b), of Regulation (EU) 2024/1263, the European Semester shall include the surveillance of the implementation of the employment guidelines by the Commission, inter alia via a framework to identify risks to social convergence. Spain could also make use of the Strategic Technologies for Europe Platform initiative to support industrial transformation, in particular by investing in the development and manufacturing of strategic technologies and their respective value chains, especially in the areas of deep tech innovation, clean and resource-efficient technologies, agriculture and health-related biotechnologies.

[26] SWD(2024)132 final.

(24) Beyond the economic, social and environmental challenges addressed by the recovery and resilience plan and other EU funds, Spain faces additional challenges related to significant and increasing water scarcity and stress. As has been seen in 2023 and 2024, drought periods and water scarcity situations in certain regions are increasing in frequency and no longer limited to summer months. Anticipating and managing the adverse effects of climate change, such as floods, coastal and soil erosion, desertification, droughts, heat waves and forest fires, remains a core challenge in Spain, which is one of the countries most affected in the EU. Climate change is expected to increase the frequency and severity of droughts and floods, negatively affecting people, biodiversity, public finances and competitiveness. While the modified recovery and resilience plan and other EU funds include measures to improve the situation of the water sector in Spain, further efforts are needed, especially in sustainable water management. Further infrastructure investment would help improve water management, including in the agricultural sector, which is the main consumer of water, in line with the CAP Strategic Plan of Spain[27]. Measures that have the potential to be scaled up include investments in collecting and treating wastewater, water reuse, reducing leaks in networks and the general water supply, increasing the use of climate resilient crops, improving monitoring, and promoting nature-based solutions, flood prevention and river restoration. In addition, mechanisms for better coordination among the different levels of government, including on effective implementation and enforcement would help the existing measures reach their full potential.

(25) In view of the close interlinkages between the economies of euro area Member States and of their collective contribution to the functioning of the Economic and Monetary Union, in 2024 the Council recommended that the euro area Member States take action, including through their recovery and resilience plans, to implement the recommendation on the economic policy of the euro area. For Spain, recommendations (1), (2) and (3) help implement the first, second and fourth euro area recommendations.

[27] C(2022) 6017 final.

HEREBY RECOMMENDS that Spain take action in 2024 and 2025 to:

1. Submit the medium-term fiscal-structural plan in a timely manner. In line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure[28] in 2025 to a rate consistent with, inter alia, putting the 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. Ensure 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.

2. Strengthen administrative capacity to manage EU funds, accelerate investments and maintain momentum in the implementation of reforms. Address relevant challenges to allow for a continued, swift and effective implementation of the recovery and resilience plan, including the REPowerEU chapter, ensuring completion of reforms and investments by August 2026. Accelerate the implementation of cohesion policy programmes. In the context of their mid-term review, continue focusing on the agreed priorities, while considering the opportunities provided by the Strategic Technologies for Europe Platform initiative to improve competitiveness.

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[28] According to Article 2(2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.

3. Improve 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 drought risk reduction and sustainable water management in agriculture, water efficiency and infrastructure investments, and by supporting the development of nature-based solutions.

Done at Brussels,

For the Council

The President