Council of the
European Union

Brussels, 13 June 2023
(OR. en)

9830/1/23
REV 1

ECOFIN 520
UEM 146
SOC 387
EMPL 265
COMPET 529
ENV 573
EDUC 216
RECH 236
ENER 292
JAI 727
GENDER 99
ANTIDISCRIM 97
JEUN 134
SAN 312

NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
No. prev. doc.:	9774/23 - COM(2023) 609 final
Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2023 National Reform Programme of Spain and delivering a Council opinion on the 2023 Stability Programme 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(2023) 609 final.

Recommendation for a

COUNCIL RECOMMENDATION

on the 2023 National Reform Programme of Spain and delivering a Council opinion on the 2023 Stability Programme 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) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 5(2) 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,

Whereas:

[1] OJ L 209, 2.8.1997, p. 1.
[2] OJ L 306, 23.11.2011, p. 25.

(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 investments, entailing a fiscal impulse financed by the EU. In line with the European Semester priorities, it contributes to economic and inclusive recovery and to the implementation of sustainable and growth-enhancing reforms and investments, in particular to promote the green and digital transition 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. The maximum financial contribution per Member State under the Recovery and Resilience Facility was updated on 30 June 2022, in accordance with Article 11(2) of Regulation (EU) 2021/241.

[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).

(2) On 22 November 2022, the Commission adopted the 2023 Annual Sustainable Growth Survey[4], marking the start of the 2023 European Semester for economic policy coordination. The European Council endorsed the priorities of the survey around the four dimensions of competitive sustainability on 23 March 2023. On 22 November 2022, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the 2023 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 Spain's 2023 draft budgetary plan. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which the Council adopted on 16 May 2023, as well as the proposal for the 2023 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 13 March 2023.

(3) While the EU economies are showing remarkable resilience, the geopolitical context continues to have a negative impact. As the EU stands firmly with Ukraine, the EU economic and social policy agenda is focused on reducing the negative impact of energy shocks on both vulnerable households and companies in the short term, and on keeping up efforts to deliver on the green and digital transition, support sustainable and inclusive growth, safeguard macroeconomic stability and increase resilience in the medium term. It also focuses heavily on increasing the EU's competitiveness and productivity.

[4] COM(2022) 780 final.

(4) On 1 February 2023, the Commission issued the Communication *A Green Deal Industrial Plan for the Net-Zero Age*[5] to boost the competitiveness of the EU's net-zero industry and support the fast transition to climate neutrality. The plan complements ongoing efforts under the European Green Deal and REPowerEU. It aims to provide a more supportive environment for scaling up the EU's manufacturing capacity for the net-zero technologies and products required to meet the EU's ambitious climate targets as well as ensuring access to relevant critical raw materials, including by diversifying sourcing, by properly exploiting geological resources in Member States and by maximising the recycling raw material. The plan is based on four pillars: a predictable and simplified regulatory environment, speeding up access to finance, enhancing skills, and open trade for resilient supply chains.
On 16 March 2023, the Commission also issued the Communication *Long-term competitiveness of the EU: looking beyond 2030*[6], structured along nine mutually reinforcing drivers with the objective to work towards a growth enhancing regulatory framework. It sets policy priorities aimed at actively ensuring structural improvements, well focused investments and regulatory measures for the long-term competitiveness of the EU and its Member States. The recommendations below help address those priorities.

5 COM(2023) 62 final.
6 COM(2023) 168 final.

(5) In 2023, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Recovery and Resilience Facility. Fully implementing the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in recent years. The 2019, 2020 and 2022 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.

(6) The REPowerEU Regulation[7] adopted on 27 February 2023 aims to rapidly phase out the EU's dependence on Russian fossil fuel imports. This will contribute towards energy security and the diversification of the EU's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. The Regulation enables Member States to add a new REPowerEU chapter to their national recovery and resilience plans in order to finance key reforms and investments that will help achieve the REPowerEU objectives. They will also help boost the competitiveness of the EU's net-zero industry as outlined in the Green Deal Industrial Plan for the Net-Zero Age and address the energy-related country-specific recommendations issued to the Member States in 2022 and, where applicable, in 2023. The REPowerEU Regulation introduces a new category of non-repayable financial support, made available to Member States to finance new energy-related reforms and investments under their recovery and resilience plans.

[7] 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).

(7) On 8 March 2023, the Commission adopted a communication providing fiscal policy guidance for 2024. It aims to support the preparation of Member States' stability and convergence programmes and thereby strengthen policy coordination[8]. The Commission recalled that the general escape clause of the Stability and Growth Pact will be deactivated at the end of 2023. It called for fiscal policies in 2023–2024 that ensure medium-term debt sustainability as well as raise potential growth in a sustainable manner. Member States were invited to set out in their 2023 stability and convergence programmes how their fiscal plans will ensure that the 3% of GDP deficit reference value is adhered to as well as plausible and continuous debt reduction, or for debt to be kept at prudent levels in the medium term. The Commission invited Member States to phase out national fiscal measures introduced to protect households and firms from the energy price shock, starting with the least targeted ones. It indicated that, if support measures needed to be extended because of renewed energy price pressures, Member States should target such measures much better than in the past towards vulnerable households and firms. The Commission proposed that the fiscal recommendations would be quantified and differentiated. Moreover, as proposed in its Communication on orientations for a reform of the EU economic governance framework[9], the fiscal recommendations would be formulated on the basis of net primary expenditure. It recommended that all Member States should continue to protect nationally financed investment and ensure the effective use of the Recovery and Resilience Facility and other EU funds, in particular in light of the green and digital transition and resilience objectives. The Commission indicated that it will propose to the Council to open deficit-based excessive deficit procedures in spring 2024 on the basis of the outturn data for 2023, in line with existing legal provisions.

[8] COM(2023) 141 final.
[9] COM(2022) 583 final.

(8) On 26 April 2023, the Commission presented legislative proposals to implement a comprehensive reform of the EU's economic governance rules. The central objective of the proposals is to strengthen public debt sustainability and promote sustainable and inclusive growth in all Member States through reforms and investments. In its proposals, the Commission aims at improving national ownership, simplifying the framework and moving towards a greater medium-term focus, combined with effective and more coherent enforcement. According to the Council Conclusions adopted on 14 March 2023, the objective is to conclude the legislative work in 2023.

(9) 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]. 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.

---

[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).

(10) On 28 April 2023, Spain submitted its 2023 National Reform Programme and, on 28 April 2023, its 2023 Stability Programme, in line with Article 4(1) of Regulation (EC) No 1466/97. To take account of their interlinkages, the two programmes have been assessed together. In accordance with Article 27 of Regulation (EU) 2021/241, the 2023 National Reform Programme also reflects Spain's biannual reporting on the progress made in achieving its recovery and resilience plan.

(11) The Commission published the 2023 country report for Spain[11] on 24 May 2023. It assessed Spain's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2022 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.

11 SWD(2023) 609 final.

(12) The Commission carried out an in-depth review under Article 5 of Regulation (EU) No 1176/2011 for Spain and published its results on 24 May 2023[12]. It concluded that Spain is experiencing macroeconomic imbalances. In particular, vulnerabilities related to high private, government and external debt, which have cross-border relevance, are receding but remain present. External debt and especially private debt ratios declined over the 2010s' and, after a temporary interruption in 2020, resumed their decline in 2021 and are expected to continue declining favoured by economic growth. However, they remain at still elevated levels. 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 exports and of the higher energy prices in 2022. The government debt remains high. In 2022, it has resumed the downward trajectory that delivered improvements before the pandemic driven by strong nominal GDP growth, but remains above pre-pandemic levels. At a more moderate pace, prospects are for a continuation of this reduction in 2023 and 2024, underpinned by policy measures in the RRP. The financial system showed resilience in face of the recent shocks induced by the pandemic and the energy crisis. Unemployment has been decreasing again, but it still stands high and pockets of vulnerability remain, including very high long-term and youth unemployment. Potential risks affecting the further narrowing of vulnerabilities relate mainly to the impact of the tightening of financial conditions on households and firms' financial positions as well as on the medium to long-term sustainability of government debt in face of the current market conditions and population ageing. Policy progress has been favourable and continuing implementing the RRP should deliver further improvements.

[12] SWD(2023) 632 final.

(13) Based on data validated by Eurostat,[13] Spain's general government deficit decreased from 6.9% of GDP in 2021 to 4.8% in 2022, while general government debt fell from 118.3% of GDP at the end of 2021 to 113.2% at the end of 2022. On 24 May 2023, the Commission published a report under Article 126(3) TFEU;[14] the report discussed the budgetary situation of Spain, as its general government deficit in 2022 exceeded the 3% of GDP Treaty reference value. The report concluded that the deficit criterion was not fulfilled. In line with the Communication of 8 March 2023,[15] the Commission did not propose to open new excessive deficit procedures in spring 2023; in turn, the Commission stated that it would propose to the Council to open deficit-based excessive deficit procedures in spring 2024, on the basis of the outturn data for 2023. Spain should take account of this in the execution of its 2023 budget and in preparing the Draft Budgetary Plan for 2024.

(14) The general government balance has been impacted by the fiscal policy measures adopted to mitigate the economic and social impact of the increase in energy prices. In 2022, such revenue-decreasing measures included the reduction of VAT on electricity and gas, the reduction of the special tax on electricity and the suspension of the tax on the value of electricity production; while such expenditure-increasing measures included the generalised vehicle fuel rebate of 20 cents per litre, income support to households and energy-intensive industries, higher benefits through the energy social voucher and price discounts for using public transport. The Commission estimates the net budgetary cost of these measures at 1.6% of GDP in 2022. At the same time, the estimated cost of COVID-19 temporary emergency measures dropped to 0.5% of GDP in 2022, from 3.1% in 2021.

---

13 Eurostat-Euro Indicators, 47/2023, 21.4.2023.
14 COM(2023) 631 final, 24.5.2023.
15 COM(2023) 141 final, 8.3.2023.

(15) On 18 June 2021, the Council recommended that in 2022 Spain[16] use the Recovery and Resilience Facility to finance additional investment in support of the recovery, while pursuing a prudent fiscal policy. Moreover, Spain should preserve nationally financed investment. The Council also recommended Spain to limit the growth of nationally financed current expenditure.

(16) According to the Commission estimates, the fiscal stance[17] in 2022 was supportive, at -2.5% of GDP. As recommended by the Council, Spain continued to support the recovery with investments to be financed by the Recovery and Resilience Facility. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 1.1% of GDP in 2022 (1.2% of GDP in 2021). Nationally financed investment provided an expansionary contribution of 0.3 percentage points to the fiscal stance.[18] Spain therefore preserved nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) provided an expansionary contribution of 2.7 percentage points to the fiscal stance. This significant expansionary contribution included the additional impact of measures to mitigate the economic and social impact of the increase in energy prices (additional net budgetary cost of 1.5% of GDP). At the same time, higher spending on intermediate consumption and social transfers in kind also contributed to the growth in net primary current expenditure. The significant expansionary contribution of nationally financed current expenditure was only partially due to the measures to address the economic and social impact of the increase in energy prices. Spain therefore did not sufficiently limit the growth in nationally financed current expenditure.

---

16 Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Stability Programme of Spain, OJ C 304, 29.07.2021, p. 38.

17 The fiscal stance is measured as the change in primary expenditure (net of discretionary revenue measures), excluding Covid-19 crisis-related temporary emergency measures but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term potential growth. For more details see Box 1 in the Fiscal Statistical Tables.

18 Other nationally financed capital expenditure provided a contractionary contribution of 0.3 percentage points of GDP, due to the gradual adjustment to the pre-pandemic levels:

(17) The macroeconomic scenario underpinning the budgetary projections in the Stability Programme is in line with the Commission 2023 spring forecast for 2023 and more favourable thereafter. The government projects real GDP to grow by 2.1% in 2023 and 2.4% in 2024. By comparison, the Commission 2023 spring forecast projects slightly lower real GDP growth of 1.9% in 2023 and 2.0% in 2024, mainly due to a lower expected contribution from private consumption in both 2023 and 2024, as well as more moderate investment growth in 2024. The more favourable outlook set out in the Stability Programme reflects also a stronger projected impact of the Recovery and Resilience Plan on activity over the forecast horizon.

(18) In its 2023 Stability Programme, the government expects that the general government deficit will decrease to 3.9% of GDP in 2023. The decrease in 2023 mainly reflects the lower cost of measures taken in response to the increase in energy prices compared to 2022. According to the programme, the general government debt-to-GDP ratio is expected to decrease from 113.2% at the end of 2022 to 111.9% at the end of 2023. The Commission 2023 spring forecast projects a government deficit of 4.1% of GDP for 2023. This is in line with the deficit projected in the Stability Programme. The Commission 2023 spring forecast projects a lower general government debt-to-GDP ratio, of 110.6% at the end of 2023, due to a lower stock-flow adjustment.

(19) The government balance in 2023 is expected to continue to be impacted by the measures adopted to mitigate the economic and social impact of the increase in energy prices. They consist of measures extended from 2022 (in particular: the reduction of VAT on electricity and gas, the reduction of the special tax on electricity, the suspension of the tax on the value of electricity production income support to households and energy-intensive industries, higher benefits through the energy social voucher and price discounts for using public transport) and new measures such as the vehicle fuel rebate of 20 cents per litre now targeted to road and maritime transport and to the agriculture and fishing sectors and a lump sum subsidy of EUR 200 for low-income households. The cost of these measures is partly offset by a levy on windfall profits of large energy suppliers. Taking these revenues into account, the net budgetary cost of the support measures is projected in the Commission 2023 spring forecast at 0.6% of GDP in 2023[19]. Most measures in 2023 do not appear targeted to the most vulnerable households or firms, and many of them do not fully preserve the price signal to reduce energy demand and increase energy efficiency. As a result, the amount of targeted support measures, to be taken into account in the assessment of compliance with the recommendation for 2023, is estimated in the Commission 2023 spring forecast at 0.2% of GDP in 2023 (compared to 0.5% of GDP in 2022). Finally, the 2023 government balance is expected to benefit from the phasing out of COVID-19 temporary emergency measures of 0.5% of GDP.

[19] The figure represents the level of annual budgetary cost of those measures, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

(20) On 12 July 2022, the Council recommended[20] 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[21], 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 should stand ready to adjust current spending to the evolving situation. 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.

[20] 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. 70.

[21] Based on the Commission 2023 spring forecast, the medium-term (10-year average) potential output growth of Spain is estimated at 5.5% in nominal terms.

(21) In 2023, the fiscal stance is projected in the Commission 2023 spring forecast to be expansionary (- 0.3% of GDP). This follows an expansionary fiscal stance in 2022 (- 2.5% of GDP). The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide a broadly neutral contribution of 0.2 % of GDP to the fiscal stance. Therefore, the projected growth of nationally financed primary current expenditure is in line with the recommendation of the Council. The projected broadly neutral contribution of nationally financed primary current expenditure is due, in substance, to the reduced net costs of the support measures (targeted and untargeted) to households and firms most vulnerable to energy price hikes (by 1.0% of GDP). The main drivers of growth in nationally financed primary current expenditure (net of new revenue measures) are the increase in social transfers, driven by the relinking of pensions to past inflation, and higher spending on intermediate consumption. Expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to amount to 1.6% of GDP in 2023, while nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.1 percentage points[22]. Therefore, Spain plans to finance additional investment through the Recovery and Resilience Facility and other EU funds, and it is projected to preserve nationally financed investment.[23] It plans to finance public investment for the green and digital transitions, and for energy security, such as the reinforced industrial policy "España 2030", the Plan for housing rehabilitation and urban regeneration or the impulse given to cybersecurity and 5G connectivity, which are funded by the Recovery and Resilience Facility and other EU funds.

---

[22] Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0.2 percentage points of GDP.

[23] Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 1.6% of GDP in 2023, while nationally financed investment provided an expansionary contribution to the fiscal stance of 0.2 percentage points. Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0.2 percentage points of GDP.

(22) According to the Stability Programme the general government deficit is expected to decline to 3.0% of GDP in 2024. The decrease in 2024 also reflects the phase out of energy measures. The programme expects the general government debt-to-GDP ratio to decrease to 109.1% at the end of 2024. Based on policy measures known at the cut-off date of the forecast, the Commission 2023 spring forecast projects a government deficit of 3.3% of GDP in 2024. This is in line with the deficit projected in the programme. The Commission 2023 spring forecast projects a similar general government debt-to-GDP ratio, of 109.1% at the end of 2024.

(23) The Stability Programme envisages the phasing out of energy support measures in 2024, except for the levy on windfall profits for energy companies. The Commission also assumes the phasing out of almost all energy support measures in 2024 (net revenue of 0.1% of GDP in 2024). These estimates hinge upon the assumption of no renewed energy price increases.

(24) Council Regulation (EC) No 1466/97 calls for an annual improvement in the structural budget balance toward the medium-term objective by 0.5% of GDP as a benchmark.[24] Taking into account fiscal sustainability considerations and the need to reduce the deficit to below the 3% of GDP reference value, an improvement in the structural balance of at least 0.7% of GDP for 2024 would be appropriate, according to the Commission. To ensure such an improvement, and in accordance with the Commission's methodology, the growth in net nationally financed primary expenditure[25] in 2024 should not exceed 2.6%, as reflected in the recommendation.

[24] Cf. Article 5 of Council Regulation (EC) No 1466/97, which also requires an adjustment of more than 0.5% of GDP for Member States with a government debt exceeding 60% of GDP, or with more pronounced debt sustainability risks.

[25] Net primary expenditure is defined as nationally financed expenditure net of discretionary revenues measures and excluding interest expenditure as well as cyclical unemployment expenditure.

At the same time, the remaining energy support measures (currently estimated by the Commission at 0.6% of GDP in 2023) should be phased out, contingent on energy market developments and starting from the least targeted ones, and the related savings should be used to reduce the government deficit.

(25) Assuming unchanged policies, the Commission 2023 spring forecast projects net nationally financed primary expenditure to grow at 1.4% in 2024, which is below the recommended growth rate.

(26) According to the programme, government investment (excluding investment financed by the Recovery and Resilience Facility) is expected to decrease from 2.7% of GDP in 2023 to 2.6% of GDP in 2024. The programme refers to reforms and investments that are expected to contribute to fiscal sustainability and sustainable and inclusive growth. These include a permanent framework that ensures improvements in the quality of public spending, measures preventing and combating tax fraud and tax evasion and the reform of the tax system to make it more inclusive, sustainable and capable to foster the medium and long-term sustainability of public finances, which are also part of the Recovery and Resilience Plan.

(27) The Stability Programme outlines a medium-term fiscal path until 2026. According to the programme, the general government deficit is expected to gradually decline to 2.7% of GDP in 2025 and to 2.5% by 2026. The general government deficit is therefore planned to decrease below 3% of GDP in 2025. According to the programme, the general government debt-to-GDP ratio is expected to decrease from 109.1% at the end of 2024 to 106.8% by the end of 2026.

(28) 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. The implementation of Spain's recovery and resilience plan has so far been well underway. Spain has submitted 3 payment requests, corresponding to 121 milestones and targets in the plan and resulting in an overall disbursement of EUR 28 000 000 000. Spain has been among the Member States most advanced in the implementation of the plan. On 6 June 2023, Spain submitted an amendment of its plan, revised with new measures to more than double its size. This should be accompanied by sufficient administrative capacity as to ensure the effective and efficient absorption of the recovery and resilience and other EU and national available funds. In particular, Spain will benefit from a higher Recovery and Resilience Facility grant allocation. The revised plan includes a REPowerEU chapter, to be funded partially by the additional REPowerEU grants. The inclusion of the new REPowerEU chapter in the recovery and resilience plan will allow additional reforms and investments to be financed in support of Spain's strategic objectives in the field of energy and the green transition. In accordance with Article 14(6) of Regulation (EU) 2021/241, Spain also submitted its request for EUR 84 000 000 000 of additional loan support under the Recovery and Resilience Facility. The systematic and effective 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.

(29) The Commission approved all of Spain's cohesion policy programming documents in 2022. Proceeding with the swift implementation of the cohesion policy programmes in complementarity and synergy with the recovery and resilience plan, including the REPowerEU chapter, is key to achieving the green and digital transition, increasing economic and social resilience as well as achieving balanced territorial development in Spain.

(30) Beyond the economic and social challenges addressed by the recovery and resilience plan and cohesion policy programmes, Spain faces a number of additional challenges related to the green transition, energy interconnections and social and affordable energy-efficient housing.

(31) Despite low direct exposure to Russian fossil fuels, the surge in energy prices experienced in 2022 underlines the need for Spain to accelerate its transition towards clean energy. Spain is progressing in the deployment of renewables, and is one of the Member States with the highest installed capacity of wind and solar power, with approximately 49.8 GW. Some improvements to the permitting procedures, in particular for self-consumption, have helped it make further progress in deploying these technologies. However, Spain has been facing a large backlog of applications for new renewable energy plants. Network capacity constraints limit the further integration of renewables into the electricity grid. Spain is one of the countries with the highest share of smart meters, but additional investments in network infrastructure and storage would be needed to integrate additional renewable electricity. Measures to accelerate the deployment of renewable energy could include further streamlining and digitalising permitting procedures, allocating network capacity to projects faster and supporting the work of authorities in processing permits by ensuring appropriate skills and staffing in permitting authorities as well as improving coordination among all levels of government. Furthermore, Spain's cross-border electricity interconnection level in 2022 (5.4%) is still significantly below the interconnection targets for 2020 (10%) and 2030 (15%).

(32) Spain's consumption of natural gas has dropped by 10.8%[26] in the period August 2022 March 2023, compared with the average gas consumption over the same period in the preceding 5 years, above its 7% reduction target[27]. Spain is encouraged to pursue efforts to temporarily reduce gas demand until 31 March 2024[28]. Further investment in energy-efficient housing would help alleviate affordability challenges. The significant loss of purchasing power, the sustained growth of rental prices and higher mortgage payments have aggravated affordability problems, particularly for vulnerable households. The supply of affordable and social housing remains constrained and is significantly lower than the EU average. The current Spanish national energy and climate plan envisages achieving 1.2 million renovations of residential buildings by 2030, with the recovery and resilience plan covering around a third of them. Deploying additional energy-efficient housing in areas with pronounced shortages and stressed markets, including through renovation and electrification, can help contain energy consumption and address the green transition, as well as support vulnerable households more exposed to energy poverty. Well-targeted social and affordable rental housing provided in cooperation with the private sector can help limit the fiscal impact.

26 The 10.8% drop includes consumption of natural gas to produce electricity in Spain, which has been exported to a neighbouring Member State.

27 Spain has been granted a derogation therefore their target is 7% instead of 15% in case of a Mandatory demand reduction in the event of a Union alert per article 5(7) of Council Regulation (EU) 2022/1369.

28 Council Regulation (EU) 2022/1369 and Council Regulation (EU) 2023/706.

(33) Transport remains heavily reliant on oil fuels. The sector accounts for a large share of greenhouse gas emissions and also contributes to air pollution, which is above the EU average. Insufficient infrastructure and access to public transport remains a concern in rural areas. Electro-mobility deployment is underdeveloped both from the supply and demand side. Completing the core high-speed rail network, including cross-border, by 2030 will accelerate the transition towards climate neutrality and make transport less reliant on fossil fuels. Measures included in the recovery and resilience plan have the potential to transform urban/metropolitan transport and strengthen the Trans-European Transport Network, helping introduce digitalisation and new technologies to the sector.

(34) Labour and skills shortages in sectors and occupations key for the green transition, including manufacturing, deployment and maintenance of net-zero technologies, are creating bottlenecks in the transition to a net-zero economy. High-quality education and training systems that respond to changing labour market needs and targeted upskilling and reskilling measures are key to reducing skills shortages and promoting labour inclusion and reallocation. To unlock untapped labour supply, these measures need to be accessible, in particular for individuals and in sectors and regions most affected by the green transition. In 2022, labour shortages were reported in Spain for several occupations that required specific skills or knowledge for the green transition, such as electronics engineering technicians.

(35) In light of the Commission's assessment, the Council has examined the 2023 Stability Programme and its opinion[29] is reflected in recommendation (1) below.

---

[29] Under Articles 5(2) and 9(2) of Council Regulation (EC) No 1466/97.

(36) In view of the close interlinkages between the economies of euro area Member States and their collective contribution to the functioning of the Economic and Monetary Union, the Council recommended that euro area Member States take action, including through their recovery and resilience plans, to (i) preserve debt sustainability and refrain from broad-based support to aggregate demand in 2023, better target fiscal measures taken to mitigate the impact of high energy prices and reflect on appropriate ways to wind down support as energy price pressures diminish; (ii) sustain high public investment and promote private investment to support the green and digital transition; (iii) support wage developments that mitigate the loss in purchasing power while limiting second-round effects on inflation, further improve active labour market policies and address skills shortages; (iv) improve the business environment and ensure that energy support to companies is cost-effective, temporary, targeted to viable firms and that it maintains incentives for the green transition; and (v) preserve macro-financial stability and monitor risks while continuing to work on completing the Banking Union. For Spain, recommendations (1), (2) and (3) contribute to the implementation of the first, second and third euro area recommendations.

(37) In light of the Commission's in-depth review and this assessment, the Council has examined the 2023 National Reform Programme and the 2023 Stability Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendation (1) below. Policies referred to in recommendation (1) help address vulnerabilities linked to high government debt. Recommendation (2) contributes to addressing recommendation (1). Policies referred to in recommendation (1) contribute to both addressing imbalances and implementing the recommendations for the euro area, in line with recital 36.

HEREBY RECOMMENDS that Spain take action in 2023 and 2024 to:

1. 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. Should renewed energy price increases necessitate new or continued support measures, ensure that these are targeted at protecting vulnerable households and firms, fiscally affordable and preserve incentives for energy savings.

   Ensure prudent fiscal policy, in particular by limiting the nominal increase in nationally financed net primary expenditure in 2024 to not more than 2.6%[30].

   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.

2. Maintain the momentum in the steady implementation of its recovery and resilience plan and, following the recent submission of the addendum, including the REPowerEU chapter and the additional loan request, rapidly startthe implementation of the related measures. Ensure continued sufficient administrative capacity in view of the planned increase in the size of the plan. Proceed with the speedy implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan.

---

[30] Which is estimated to correspond to an annual improvement in the structural budget balance of at least 0,7% of GDP for 2024, as described in recital 24.

3. Reduce reliance on fossil fuels. Accelerate the deployment of renewable energy, including by further streamlining and digitalising permitting procedures, supporting the work of 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 social and affordable energy-efficient housing, including through renovation, accelerate the electrification of buildings and the penetration of electromobility. Step up policy efforts aimed at the provision and acquisition of skills and competences needed for the green transition.

Done at Brussels,

For the Council
The President