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Recommendation for a

COUNCIL RECOMMENDATION

endorsing the national medium-term fiscal-structural plan of Spain

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Recommendation for a

COUNCIL RECOMMENDATION

endorsing the national medium-term fiscal-structural plan of Spain

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 121 thereof,

Having regard to Regulation (EU) 2024/1263, and in particular Article 17 thereof,

Having regard to the recommendation from the European Commission,

Whereas:

GENERAL CONSIDERATIONS

(1) A reformed EU economic governance framework entered into force on 30 April 2024. Regulation 2024/1263 of the European Parliament and of the Council (EU) on the effective coordination of economic policies and on multilateral budgetary surveillance,[1] together with the amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure,[2] and the amended Council Directive 2011/85/EU on the budgetary frameworks of Member States[3] are the core elements of the reformed EU economic governance framework. The framework aims at ensuring public debt sustainability and sustainable and inclusive growth through reforms and investments. It promotes national ownership and has a medium-term focus, combined with an effective and coherent enforcement of the rules.

(2) The national medium-term fiscal-structural plans that Member States submit to the Council and to the Commission are at the centre of the new economic governance framework. The plans are to deliver on two objectives: i) ensuring that, by the end of the adjustment period, general government debt is on a plausibly downward trajectory, or stays at prudent levels, and that the government deficit is brought and maintained below the reference value of 3% of GDP over the medium term, and ii) ensuring the delivery of reforms and investments responding to the main challenges

[1] Regulation (EU) 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 (OJ L, 2024/1265, 30.4.2024, ELI: ttp://data.europa.eu/eli/dir/2024/1265/oj).

[2] 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).

[3] 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).

identified in the context of the European Semester and addressing the common priorities of the EU. To that end, each plan is to present a medium-term commitment to a net expenditure[4] path, which effectively establishes a budgetary constraint for the duration of the plan, covering 4 or 5 years (depending on the regular term of legislature in a Member State). In addition, the plan is to explain how the Member State will ensure the delivery of reforms and investments responding to the main challenges identified in the context of the European Semester, in particular in the country-specific recommendations (including those pertaining to the macroeconomic imbalances procedure (MIP), if applicable), and how the Member State will address the common priorities of the Union. The period for fiscal adjustment covers a period of four years, which may be extended by up to three years if the Member State commits to delivering a set of relevant reforms and investments that satisfies the criteria set out in Regulation (EU) 2024/1263.

(3) Following the submission of the plan, the Commission is to assess whether it complies with the requirements of Regulation (EU) 2024/1263.

(4) Upon a recommendation from the Commission, the Council is to then adopt a recommendation to set the net expenditure path of the Member State concerned and, where applicable, endorses the set of reform and investment commitments underpinning an extension of the fiscal adjustment period.

CONSIDERATIONS CONCERNING SPAIN

(5) On 15 October 2024, Spain submitted its national medium-term fiscal-structural plan to the Council and to the Commission. The submission took place following an extension of the deadline set out in Article 36(1), point (a) of Regulation (EU) 2024/1263, as agreed with the Commission in view of the reasons provided by Spain.

Process prior to the submission of the plan

(6) On 21 June 2024 the Commission sent, according to Article 9 of the Regulation (EU) 2024/1263, the reference trajectory[5] to Spain. The Commission published the

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4 Net expenditure as defined in Article 2 of Regulation (EU) 2024/1263, namely government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on Union programmes fully matched by revenue from Union funds, (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.

5 Prior guidance transmitted to the Member States and Economic and Financial Committee includes trajectories without and with an extension of the adjustment period (covering 4 and 7 years, respectively). It also includes the main initial conditions and underlying assumptions used in the Commission's medium-term government debt projection framework. The reference trajectory was calculated on the basis of the methodology described in the Commission's *Debt Sustainability Monitor 2023* (https://economy-finance.ec.europa.eu/publications/debt-sustainability-monitor-2023_en). It is based on the European Commission Spring 2024 Forecast and its medium-term extension up to 2033, and long-term GDP growth and ageing costs are in line with the joint Commission-Council *2024 Ageing Report* (https://economy-finance.ec.europa.eu/publications/2024-ageing-report-economic-and-budgetary-projections-eu-member-states-2022-2070_en).

reference trajectory on 15 October 2024[6]. The reference trajectory is risk-based and ensures that, by the end of the fiscal adjustment period and in the absence of further budgetary measures beyond the adjustment period, general government debt is on a plausibly downward trajectory or stays at prudent levels over the medium term, and the general government deficit is brought below 3% of GDP over the adjustment period and maintained below that reference value over the medium term. The medium term is defined as the ten-year period after the end of the adjustment period. In accordance with Articles 7 and 8 of Regulation (EU) 2024/1263, the reference trajectory is also consistent with the debt sustainability safeguard and the deficit resilience safeguard.

The reference trajectory of Spain sets out that, based on the Commission's assumptions and assuming a 7-year adjustment period, net expenditure should not grow by more than the values provided in Table 1. This corresponds to average net expenditure growth of 2.8% over the adjustment period (2025-2031) and of 2.9% over the period covered by the plan (2025-2028).

Table 1: Reference trajectory provided by the Commission to Spain on 21 June 2024

	2025	2026	2027	2028	2029	2030	2031	Average 2025-2028	Average 2025-2031
Maximum net expenditure growth (annual, %)	3.2	2.8	2.7	2.7	2.7	2.6	2.5	2.9	2.8

Source: Commission's calculations.

(7) In line with Article 12 of Regulation (EU) 2024/1263, Spain and the Commission engaged in a technical dialogue from July to October 2024. The dialogue centred on the net expenditure path envisaged by Spain and its underlying assumptions (in particular the use of data driven updates), the envisaged set of reform and investment commitments to underpin an extension of the adjustment period including reforms and investments such as budgetary measures in the fields of taxation and public expenditure, as well as the envisaged delivery of reforms and investments responding to the main challenges identified in the context of the European Semester and the common priorities of the Union in fair green and digital transition, social and economic resilience, energy security and the build-up of defence capabilities.

6 https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/national-medium-term-fiscal-structural-plans_en#spain

(8) The plan submitted by Spain does not report on a consultation process with relevant national stakeholders (including social partners) prior to submission.

(9) The Spanish independent fiscal institution, AIReF, delivered an opinion on the macroeconomic forecast and the macroeconomic assumptions underpinning the multi-annual net expenditure path. The macroeconomic scenario 2024 to 2026 serving as the starting point for the macroeconomic projections and debt sustainability analysis was endorsed by AIReF.

Other related processes

(10) On 21 October 2024 the Council addressed to Spain a series of country-specific recommendations (CSRs) in the context of the European Semester[7].

COMMISSION'S ASSESSMENT OF THE PLAN

(11) In line with Article 16 of Regulation (EU) 2024/1263, the Commission assessed the plan as follows:

Macroeconomic and fiscal situation and outlook

(12) Economic activity in Spain grew by 2.7% in 2023, driven by robust labour market developments which sustained private consumption, as well as by the contribution from net exports and public consumption. According to the European Commission Autumn 2024 Forecast, the economy is expected to grow by 3.0% in 2024, on the back of the positive evolution of public and private consumption, upheld by dynamic job creation and real income gains for households, and by the contribution from tourism activity. In 2025, real GDP is set to increase by 2.3%, as consumption growth and the expected broad-based pick-up in investment, notably on equipment and housing, are projected to underpin economic activity. In 2026, real GDP is, at this stage, expected to increase by 2.1%, as domestic demand is set to support the economic expansion. Over the forecast horizon (i.e. 2024-2026), potential GDP in Spain is expected to decrease slightly, from 2.4% in 2023 to 2.3% in 2026, as the labour contribution to potential growth softens. The unemployment rate stood at 12.2% in 2023 and is projected by the Commission to amount to 11.5% in 2024 and 11.0% in 2025 and 10.7% in 2026. In 2024, inflation (GDP deflator) is decreasing from 6.2% in 2023 to 3.1% in 2024, and is set to reach 2.4% in 2025 and 2.0% in 2026.

[7] Council Recommendation on economic, budgetary, employment and structural policies of , not yet published.Spain

(13) Regarding fiscal developments, in 2023 Spain's general government deficit amounted to 3.5% of GDP. According to the European Commission Autumn 2024 Forecast, it is set to reach 3.0% of GDP in 2024 and to decline further to 2.6% of GDP in 2025 and, on a no-policy change basis, to broadly stabilise (2.7%) in 2026. The European Commission Autumn 2024 Forecasts does not include Spain's draft budget for 2025, not yet adopted by the Spanish government at the date of their publication. General government debt was 105.1% of GDP at end-2023. According to the European Commission Autumn 2024 Forecast, the debt ratio is expected to decline to 102.3% of GDP at end-2024. It is projected to decline to 101.3% of GDP at end-2025 and to 101.1% at end-2026. The fiscal forecast by the Commission does not consider the policy commitments in the medium-term plans as such, until they are underpinned by credibly announced and sufficiently specified concrete policy measures.

Net expenditure path and main macroeconomic assumptions in the plan

(14) Spain's national medium-term fiscal-structural plan covers the period 2025-2028 and presents a fiscal adjustment over seven years.

(15) The plan contains the information required by Article 13 of Regulation (EU) 2024/1263.

(16) The plan commits to the net expenditure path indicated in Table 2, corresponding to average net expenditure growth of 3.4% over the years 2025-2028. In addition, Spain commits to a set of reforms and investments with the view to extending the adjustment period to 7 years (2025-2031), over which the average net expenditure growth is planned to be 3.0%.

The average net expenditure growth reported in the plan over the adjustment period (2025-2031) is higher than the reference trajectory transmitted by the Commission on 21 June 2024.

The plan assumes potential GDP growth to increase from 1.9% to 2.1% in 2025-2027 and thereafter decrease gradually to 1.1% by 2031. In addition, the plan expects the growth rate of the GDP deflator to decrease to 2.7% in 2025 from 3.1% in 2024, before decreasing further to 2.4% in 2026-2028 and 2.3% in 2029-2031.

Table 2: Net expenditure path and main assumptions in Spain's plan

						Extension of the adjustment period				
	2024	2025	2026	2027	2028	2029	2030	2031	Average over the	Average over the

									period of validity of the plan 2025-2028	adjustment period 2025 – 2031
Net expenditure growth (annual, %)	5.3	3.7	3.5	3.2	3.0	3.0	2.5	2.4	3.4	3.0
Net expenditure growth (cumulative, from base year 2023, %)	5.3	9.2	13.0	16.6	20.1	23.7	26.8	29.9	n.a.	n.a.
Potential GDP growth (%)	1.9	2.0	2.1	1.8	1.6	1.6	1.2	1.1	1.9	1.6
Inflation (GDP deflator growth) (%)	3.1	2.7	2.4	2.4	2.4	2.3	2.3	2.3	2.5	2.4

Source: Medium-term fiscal-structural plan of Spain and Commission's calculations

Implications of the plan's net expenditure commitments for general government debt

(17) If the net expenditure path committed to in the plan and the underlying assumptions materialise, general government debt would gradually decrease from 102.5% in 2024 to 90.6% of GDP at the end of the adjustment period (2031), according to the plan, as per the following table. After the adjustment, over the medium term (i.e. until 2041), the general government debt would continue to gradually decrease, according to the plan, reaching 76.8% of GDP by 2041.

Table 3: General government debt and balance developments in Spain's plan

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2041
Government debt (% of GDP)	105.0	102.5	101.4	100.1	98.4	96.6	94.8	92.8	90.6	76.8
Government balance (% of GDP)	-3.5	-3.0	-2.5	-2.1	-1.8	-1.6	-1.5	-1.2	-0.8	-2.0

Source: Medium-term fiscal-structural plan of Spain

Thus, according to the plan, the general government debt ratio would be put on a downward path by the end of the adjustment period (2031). This is plausible as, based on the plan's assumptions, debt is projected to decline over the ten years following the adjustment period under all deterministic stress tests of the Commission's Debt

Sustainability Analysis, and the stochastic projections indicate that debt would decline with a sufficiently high probability.

Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the requirement for debt as set out in Articles 6, point (a), and 16(2) of Regulation (EU) 2024/1263.

Implications of the plan's net expenditure commitments for general government balance

(18) Based on the plan's net expenditure path and assumptions, the general government deficit would stand at 3.0% in 2024 and gradually narrow to reach 0.8% in 2031.

Thus, according to the plan, the general government balance would not exceed the 3% of GDP reference value at the end of the adjustment period (2031).

In addition, in the ten years following the adjustment period (i.e. until 2041), the government deficit would not exceed 3% of GDP.

Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the requirement for the deficit as set out in Articles 6, point (b), and 16(2) of Regulation (EU) 2024/1263.

Time profile of the fiscal adjustment

(19) The time profile of the fiscal adjustment, measured as the change in the structural primary balance, as described in the plan, is linear, as required by Article 6, point (c) of Regulation (EU) 2024/1263. In addition, the fiscal adjustment over the first four years of the plan is proportional to the total adjustment effort.

Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the no-backloading safeguard clause set out in Article 6, point (c) of Regulation (EU) 2024/1263.

Table 4: Structural primary balance developments in Spain's plan

	2023	2024	2025	2026	2027	2028	2029	2030	2031
Structural primary balance	-0.9	-0.6	-0.2	0.2	0.7	1.1	1.5	1.9	2.3

(% of GDP)									
Change in structural primary balance (pps.)	n.a.	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4

Source: Medium-term fiscal-structural plan of Spain

Consistency of the plan with the deficit resilience safeguard

(20) In accordance with Article 8 of Regulation (EU) 2024/1263, the annual adjustment in the structural primary balance should not be less than 0.25% of GDP if the structural deficit remained above 1.5% of GDP in the preceding year, to achieve a common resilience margin in structural terms of 1.5% of GDP. The fiscal adjustment that results from the plan's policy commitments and macroeconomic assumptions is 0.4% of GDP in each year from 2025 to 2031 Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the deficit resilience safeguard.

Consistency of the plan with the debt sustainability safeguard

(21) In accordance with Article 7 of Regulation (EU) 2024/1263, as general government debt will be above 90% of GDP over the adjustment period according to the plan, the debt ratio is required to decline by at least 1 percentage point on average per year until it falls below 90%, after which it should decline by 0.5 percentage points on average. This average decline is calculated over the period 2024-2031 and amounts to 1.7 percentage points (see Table 3). Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the debt sustainability safeguard.

The macroeconomic assumptions of the plan

(22) The plan is based on a set of assumptions which differs from the Commission's assumptions transmitted to Spain on 21 June 2024. In particular, the plan uses different assumptions for six variables, namely the starting point (i.e., the fiscal and macroeconomic conditions in 2024), potential GDP growth, GDP deflator growth, real GDP growth and output gap closure, the nominal implicit interest rate, and revenue assumptions. A careful assessment of these differences in assumptions is necessary, especially as average net expenditure growth in the plan is higher than the reference trajectory.

The differences in assumptions with the most significant impact on average net expenditure growth are listed below, together with an assessment of each difference considered in isolation.

- The plan relies on different potential GDP assumptions compared with the prior guidance. Revisions to the past level of potential GDP imply a smaller positive output gap in 2024, implying in turn a higher structural primary balance in that year. Moreover, potential GDP growth over the adjustment period 2025-2031 is higher than in the Commission's assumptions of spring 2024, by 0.2 percentage points on average. This contributes to higher average net expenditure growth over the adjustment period in the plan than according to the reference trajectory. The higher potential GDP growth over the adjustment period results from an update of potential GDP series, performed by Spain, based on the EU commonly agreed methodology. This update integrates Spain's short-term macroeconomic projections in the plan, which are slightly more favourable than in the prior guidance but broadly in line with the European Commission Autumn 2024 Forecast. Spain's shorter-term projections also include the upward revision of historical real GDP growth series following the statistical revision issued by Eurostat in its mid-term review, and the update of Eurostat population projections. Consequently, this assumption is deemed to be duly justified.
- The plan differs from the prior guidance on two aspects regarding the assumption for GDP deflator growth. First, based on increasing labour unit costs, the plan includes a GDP deflator growth for 2025 that is higher by 0.4 percentage points than in the prior guidance. This is 0.3 percentage points higher than both the European Commission 2024 Autumn Forecast and the forecast of the Spanish independent fiscal council (AIReF)[8]. Therefore, this assumption is deemed not to be duly justified. Second, as from 2026, the GDP deflator growth converges faster and to a lower level (2.2%) than what would be required under the common DSA framework (2.6% in the prior guidance, and 2.4% based on updated market expectations in September 2024). Hence, this assumption is more prudent and deemed to be duly justified. Overall, the average GDP deflator growth over the entire projection period (2025-2041) is lower in the plan than according to the Commission's assumptions, at 2.3% compared to 2.4%. The assumptions on GDP deflator growth contributes to a lower average net expenditure growth in the plan than under the Commission's assumptions.
- In the plan, the projections for the cost of ageing, and particularly of pension expenditure, remain fully in line with the common DSA framework, which relies on the 2024 Ageing Report. However, the plan deviates from the 'no-fiscal-policy-change' assumption applied beyond the adjustment period. Under the common DSA framework, social contributions projections, including those paid into the pension system, are assumed to remain constant as a ratio to GDP during the ten years that follow the end of the adjustment period, i.e. from 2032 to 2041. By contrast, the plan internalises the impact of compensatory revenue

8 https://www.airef.es/wp-content/uploads/2024/11/INFORME-PLAN-FISCAL-LINEAS-FUNDAMENTALES/AIReF_Informe-Lineas-Fundamentales-2025.pdf

measures legislated in 2023 (along with the pension reform) that will continue to materialise after 2031. This leads to a cumulative increase in social contributions of 1.8 percentage points of GDP over those ten years, which improves the debt dynamics. Therefore, these measures lower the adjustment required to put debt on a plausibly downward path and enable a higher average net expenditure growth over the adjustment period in the plan than according to the Commission's assumptions. This assumption relies on the description of legislated measures in Spain's Country fiche accompanying the 2024 Ageing Report[9]. Therefore, this assumption is deemed to be duly justified.

The remaining differences in assumptions do not have a significant impact on average net expenditure growth compared to the Commission's assumptions.

On balance, the joint impact of more cautious assumptions and differences in assumptions that are considered as duly justified outweighs the differences in assumptions that are not considered as duly justified. This implies that the difference between the net expenditure path in the plan and the reference trajectory is explained by differences in assumptions that overall can be accepted, in line with Article 13, point (b), of Regulation (EU) 2024/1263.

Overall, all the differences in assumptions taken together lead to an average net expenditure growth in the plan that is higher than the reference trajectory.

The Commission will take into account the above assessment of the plan's assumptions in future assessments of compliance with the net expenditure path.

Fiscal strategy of the plan

(23) The plan does not include an indicative fiscal strategy to implement the net expenditure path of the plan, as that path is only set as a technical ceiling that Spain commits not to exceed. The information on the fiscal adjustment on the measures justifying the extension shows that, in addition to the planned direct budgetary measures creating savings from revenues and expenditures, a large part of the fiscal consolidation need is expected to be covered through the indirect fiscal impact of the broad set of growth enhancing measures in the plan. The precise specification of the relevant policy measures with direct budgetary effects is to be confirmed or adjusted and quantified in the annual budgets.

Set of reform and investment commitments to underpin an extension of the fiscal adjustment period

[9] https://economy-finance.ec.europa.eu/publications/2024-ageing-report-economic-and-budgetary-projections-eu-member-states-2022-2070_en

(24) In the plan, Spain commits to a set of reforms and investments, aiming to improve potential growth and fiscal sustainability, to underpin an extension of the fiscal adjustment period from 4 to 7 years.

The set of reforms and investments underpinning an extension of the adjustment period is composed of some commitments from Spain's recovery and resilience plan (RRP); several commitments from the RRP with additional specifications; as well as some new reforms and investments. This includes the following measures (see also Annex II):

Reforms in the area of digital transformation: the measures are linked to Component 19 (investment on the digital transformation of education) included in the RRP, whose final milestones and targets are due by Q4-2025. The includes commitments linked to Component 17 (reform of the Science, Technology and Innovation Law) in the RRP, whose final milestones and targets have already been implemented by the time of the submission.

Reforms in the area of green transition: the measures are linked to Component 7 (reform on the regulatory framework for the promotion of renewable generation) included in the RRP, whose final milestones and targets have already been implemented by the time of the submission.

Reform in the area of taxation: the measures aim at increasing government revenues and modernise the tax system and include additional specifications linked to Component 28 (adapting the tax system to the reality of the twenty-first century) of the RRP to deliver by Q4-2025 a permanent increase in government revenues by Q4 -2028, assessed through monitoring reports. The key steps are expected to be completed by Q4-2025 and Q4-2028.

Reforms in the area of public expenditure: the measures are additional specifications linked to Component 29 (reform establishing a permanent public spending review and evaluation process) included in the RRP. The measures in the plan strengthen the follow-up of the recommendations with additional commitment to adopt reforms resulting from completed and ongoing spending reviews and reducing yearly expenditure by 2028, assessed through monitoring reports. The key steps are expected to be completed by Q4-2026, Q2-2027 and Q1-2028.

Reforms in the area of human capital: additional commitments aimed at promoting dual vocational training and at facilitating the recognition of the professional qualifications and skills (with special regard to university education) of the foreign-born population, to increase their productivity and contribution to economic growth. The corresponding key steps are expected to be completed by Q4-2025, Q4-2027 and Q4-2028 respectively.

Reforms in the area of physical capital and productivity: the measures are linked to Component 13 (reform improving the business regulation and climate) included in the RRP, whose final milestones and targets have already implemented by the time of the submission. The plan includes additional commitments aimed at increasing the supply of affordable rental housing, as well as the creation of a common framework which eliminates the disparity of administrative requirements between autonomous communities and local entities. The corresponding key steps are expected to be completed by Q2-2026 and Q4-2027, respectively.

Reforms in the area of the fight against tax fraud: the measures are linked to Component 27 (reform on the adoption of the Anti-Fraud law) included in the RRP, whose final milestones have already been implemented by the time of the submission.

Reforms in the area of public expenditure of health services: additional commitments aimed at improving the management of temporary disability benefit, to increase the efficiency of public spending. The corresponding key step is expected to be completed by Q4-2025.

(25) In line with Article 14(3) of Regulation (EU) 2024/1263, each reform and investment underpinning an extension of the adjustment period is sufficiently detailed, front-loaded, time-bound and verifiable. The budgetary measures on taxation and spending reviews have not been specified in the plan.

(26) The RRP commitments underpinning the extension contain significant reforms and investments aimed at improving fiscal sustainability and enhancing the growth potential of the economy. In addition, Spain commits to continuing the reform effort over the period covered by the medium-term fiscal-structural plan and maintaining the nationally financed investment levels realised over the period covered by the RRP (see below, Table 5). The commitment will be monitored through the implementation phase of the plan. Accordingly, commitments under the RRP can be taken into account for the extension of the adjustment period as provided by Article 36(1) point (d) of Regulation (EU) 2024/1263.

(27) The set of reforms and investments underpinning the extension is expected to improve the growth and resilience potential of Spain's economy in a sustainable manner as required by Article 14(2), point (a) of Regulation (EU) 2024/1263.

The different reforms and investments have been grouped in the plan into four major axes, each impacting the level of potential GDP through different channels:

1. Green transition: reforms and investments aimed at reducing dependence on the use of fossil fuels, thereby improving the competitiveness and attractiveness of the Spanish economy.
2. Digital transformation: measures aimed at fostering the digitalisation of the Spanish economy and increasing the penetration of new technologies, increasing productivity and incentivising the transition to a higher value added economy.
3. Human capital: policy measures aimed at expanding both the amount and quality of labour supply in Spain, including those related to vocational training

measures, and the simplification of the system for the homologation of diplomas.

4. Physical capital and productivity: this axis aims to expanding the capital stock installed in Spain as well as total factor productivity. It includes measures aimed at reducing bureaucratic barriers for businesses, and expanding the housing stock.

The reforms and investments of the medium-term plan which underpin the extension are estimated by Spain to increase potential growth by 3.3 percentage points compared to the macroeconomic baseline scenario, out of which 1.7 percentage points are due to reforms and investments included in the RRP and 1.6 percentage points from additional measures, with the overall impact concentrated in the years after the end of the recovery plan (2.1 percentage points between 2026 and 2031). Several of these reforms and investments are included in Annex II.

Spain estimates the impact on growth and resilience with calibrated dynamic stochastic general equilibrium models. These models use a number of assumptions for calibrating the impact of the policy measures. These include amongst others: the change in the duration of contracts, the reduction in recruitment and redundancy costs, the change in the skills composition of the workforce, lowering business barriers and improvement in the demand and supply of renewable energy sources and fossil fuels. It is prudent and credible to expect that the overall impact of these reforms and investment on growth and resilience is substantial. It should however be noted that the underlying calibration is prone to risks and uncertainty. These relate in particular to the assumed scope and timing of the impact of the measures.

(28) The set of reforms and investments underpinning the extension is expected to support fiscal sustainability as required by Article 14(2), point (b) of Regulation (EU) 2024/1263.

The plan illustrates the evolution of the debt-to-GDP ratio in several scenarios based on the DSA underlying the plan (2025-2041): the policy scenario underlying the plan shows debt declining to 76.8% of GDP by 2041 while in the adverse ‘r-g’ scenario the decline would be somewhat slower with debt reaching 85.1% of GDP by 2041. In contrast, the constant tax revenue scenario would lead to debt increasing to 119.2% of GDP by 2041, highlighting the importance of an ambitious structural fiscal adjustment. Overall, the estimates reported in the plan are deemed plausible.

Additional considerations about the impact of the reforms underpinning the extension can be made. In this respect the plan reports that overall these measures improve the structural primary balance by 2.4 percentage points of GDP by 2031, reflecting the combination of the direct impact of some budgetary measures and the indirect fiscal effect of several reforms and investment leading to higher economic activity. Budgetary measures underpinning the extension overall are expected to contribute by 0.6 percentage point of GDP. Tax measures are expected to increase revenues by 0.5 percentage points of GDP. Furthermore, the future spending reviews are expected to improve the review processes and implement measures to lower the level and improve the efficiency of public spending with a positive impact on fiscal sustainability, reducing expenditure by 0.1 percentage points of GDP during the adjustment period. The plan also mentions other budgetary measures including the fight against tax fraud and measures aimed at temporary incapacity. For several of these measures, the fiscal impact is not defined. Moreover, the plan shows an indirect, second round, budgetary impact of all the other measures justifying the extension over the four remaining five policy pillars, totalling savings of 1.4 percentage points of GDP by 2031 as follows: i) human capital (0.4 percentage points of GDP), ii) physical capital and productivity (0.3 percentage points of GDP), green transition (0.4 percentage points of GDP) and iv) digital transformation 0.3 percentage points of GDP). Several of these reforms and investments are included in Annex II.

(29) The set of reforms and investments underpinning the extension address the common priorities of the EU as required by Article 14(2), point (c) of Regulation (EU) 2024/1263. In particular, the plan includes reforms and investments aimed at reducing dependence on the use of fossil fuels and contributing to a fair green transition and ensuring energy security, through a regulatory framework for the promotion of renewable generation. The investments aiming at the digital transformation of education are expected to contribute to a fair digital transition by fostering the digitalisation of the Spanish economy and the penetration of new technologies. In addition, investments aiming to expanding the quality of labour supply in Spain and to increase the supply of social rental housing contribute to social and economic resilience, including the European Pillar of Social Rights, by ensuring a fairer and more inclusive recovery. The economic resilience is further strengthened by a set of direct budgetary measures.

(30) The set of reforms and investments underpinning the extension addresses the relevant[10] CSR issued as part of European Semester as required by Article 14(2), point (d) of Regulation (EU) 2024/1263 and aim to improve the quality, efficiency and equity of public spending, notably by introducing public spending reviews and expenditure rationalisation and tax measures aimed at improving efficiency, sufficiency and at making the tax system more just (see also above). The adoption of reforms aimed at strengthening and improving the regulation and business climate in Spain, with a particular focus on SMEs addresses the 2019 and 2020 CSRs on innovation and the improvement of economic activity regulation. These reforms also contribute to the 2020 CSR to improve administrative cooperation, additionally underpinned through measures to simplify the system for the homologation of diplomas. The 2019, 2020, 2022 and 2023 CSRs focused on energy efficiency, the deployment of renewable energy and the reduction of the overall reliance on fossil fuels are addressed through the establishment of a regulatory framework for the promotion of renewable generation. Measures aimed at improving the management of temporary incapacity benefits contribute to the CSR requests of 2020 and 2021 to

[10] Country-specific recommendations considered 'relevant' are recommendations: i) adopted by the Council from 2019 onwards, ii) for which the Member State has not yet made 'full' or 'substantial' progress in addressing them and are not outdated (assessed as 'Not Assessed / No Input to Add '), as assessed in the latest European Semester surveillance exercise (available in CeSaR (europa.eu)), iii) not linked to purely fiscal SGP-related and iv) not covering the same challenge but in a rephrased manner.

improve the health system's resilience and sustainability. The 2019, 2020 and 2023 CSRs for the development of skills are supported through reforms and investments aiming to expanding the quality of labour supply in Spain, including those related to vocational training measures, and the simplification of the system for the homologation of diplomas. Measures aimed at the promotion of affordable housing through the transfer of land to investors contribute to the 2019, 2022 and 2023 CSRs to offer support for families and increase the availability of energy-efficient social and affordable housing.

(31) The plan ensures that the planned overall level of nationally financed public investment realised on average over the period covered by RRP is maintained, as required by Article 14(4) of Regulation (EU) 2024/1263.

Table 5: Nationally financed public investment in the plan (% of GDP)

Average level over the period covered by the RRP (2021 to 2026)	2025	2026	2027	2028	Average over the duration of the plan
2.4	2.5	2.6	2.6	2.7	2.6

Source: Medium-term fiscal-structural plan of Spain and Commission's calculations.

(32) Finally, the set of reform and investment commitments underpinning an extension can be regarded as consistent with the commitments in the RRP and the Partnership Agreement agreed under the Multiannual Financial Framework as required by Article 14(4) of Regulation (EU) 2024/1263. The additional specifications to the tax reform and spending reviews stem directly from commitments taken under the RRP; several of the remaining measures are unmodified RRP commitments.

(33) In conclusion, the set of reforms and investments underpinning the extension of the adjustment period is assessed as fulfilling, taken altogether, the criteria in Article 14 of Regulation (EU) 2024/1263. As a result, the adjustment period can be extended from 4 to 7 years, as put forward in the plan.

Other reforms and investments responding to the main challenges identified in the context of the European Semester and addressing the common priorities of the Union

(34) Besides the set of reforms and investments underpinning an extension of the adjustment period, the plan describes policy intentions concerning other reforms and investments to respond to the main challenges identified in the context of the European Semester, especially in the CSRs, and to address the common priorities of the EU. The plan includes 44 reforms and investments.

(35) Concerning the common priority of a fair green and digital transition, including the climate objectives set out in Regulation (EU) 2021/1119, the plan includes a reform (included in the RRP) to introduce a National Digital Competences Plan, as well as investments destined to improve the level of digital skills of the population. The plan includes reforms and investments aimed at reducing dependence on the use of fossil fuels and contributing to a fair green transition and ensuring energy security, through an updated National Energy and Climate Plan with measures related to energy storage, deployment of renewables, promotion of self-consumption and energy efficiency. The measures are expected to address the 2019, 2020 and 2021 CSRs related to the green transition, digital transformation, social and territorial cohesion, smart, sustainable, and inclusive growth and policies for the next generation. The plan does not include other reforms and investments aimed to address the 2022 and 2024 CSRs on water management and adaptation to climate change as well as waste management and circular economy.

(36) Concerning the common priority of social and economic resilience, including the European Pillar of Social Rights, the plan includes reforms such as the modernisation of active labour market policies, with the aim of strengthening the Spanish labour market, addressing significant structural challenges, including high levels of structural and youth unemployment, excessive temporary contracts, low employment rates, and economic and social inequality. The measures respond to the 2019 and 2020 CSRs related to the functioning of the labour market, including framework for labour contracts, undeclared work, active labour market policies, incentives to work and labour market participation. The plan does not include other reforms and investments aimed to address the 2019 and 2020 CSRs on the improvement of public procurement frameworks.

(37) Concerning the common priority of energy security, the plan includes a reform to promote the development of energy storage solutions. Additionally, the plan includes measures to deploy energy storage through the launch of support and investment initiatives to develop large-scale storage and promote storage behind the meter and integrated on a sectoral level. The measures intend to address the 2019, 2020, 2022 and 2023 CSRs related to reducing the reliance on fossil fuels, by accelerating the deployment of renewable energy with a focus in investment on the green and digital transition. The plan does not include other reforms and investments aimed to address the 2022 and 2023 CSRs to expand the cross-border electricity interconnections.

(38) Concerning the common priority of defence capabilities, the plan does not include other reforms and investments.

(39) The plan provides information on the consistency and where appropriate, complementarity, with Spain’s RRP. The plan briefly indicates that reforms and investments included in the plan respond to the main challenges identified in the context of the European Semester and address the common priorities of the Union, and are in continuity with the actions adopted in the RRP.

(40) The plan provides an overview of the public investment needs of Spain related to the common priorities of the EU. In relation to the fair green and digital transition, the plan highlights the need for investments in energy efficiency, renewable energy deployment, electrification, energy storage, circular economy, and resilience across all economic sectors, as well as in advanced technologies like artificial intelligence and data analytics and improve digital connectivity nationwide. In relation to social and economic resilience, the plan highlights the need for investment in inclusive and sustainable growth, by modernizing education, boosting employability, strengthening social protection systems, supporting SMEs with resources and funding, and enhancing competitiveness at both national and EU levels. In relation to energy security, the plan highlights the need to reduce fossil fuel dependency, by investment aimed at the development of energy infrastructure, improvement of efficiency across sectors. In relation to building up defence capabilities, the plan highlights Spain's alignment with NATO commitments.

Conclusion of the Commission's assessment

(41) Overall, the Commission is of the view that Spain's plan fulfils the requirements of Regulation (EU) 2024/1263.

OVERALL CONCLUSION

(42) In accordance with Article 17 of Regulation (EU) 2024/1263, the net expenditure path as set in the plan should be recommended by the Council to Spain, and the set of reforms and investments underpinning the extension of the adjustment period to 7 years should be endorsed.

HEREBY RECOMMENDS that Spain

1. Ensure that net expenditure growth does not exceed the maxima established in Annex I to this Recommendation.

2. Implement the set of reforms and investments that underpins the extension of the fiscal adjustment period to seven years, as established in Annex II to this Recommendation, by the indicated deadlines.

In addition, the Council invites Spain to ensure the delivery of other reforms and investments responding to the main challenges identified in the context of the European Semester, in particular in the CSRs, and addressing the common priorities of the Union.

ANNEX I

Maximum growth rates of net expenditure
(annual and cumulative growth rates, in nominal terms)
Spain

Years		2025	2026	2027	2028
Growth rates (%)	Annual	3.7	3.5	3.2	3.0
	Cumulative (*)	9.2	13.0	16.6	20.1

(*) The cumulative growth rates are calculated by reference to the base year of 2023.

ANNEX II

Set of reforms and investments that underpins an extension of the adjustment period to 7 years
Spain

	Main objective	Description and timing of key steps	Monitoring indicator(s)
Tax Reform (RRP measure– C28.R3.388 and adding to RRP measure)	Entry into force of tax reforms aiming at increasing government revenues and modernise the tax system.	Step 1: By Q3 2023, delivery of milestones 388 of Spain's RRP, permanently increasing government revenues by 0.3 % of GDP. Step 2: By Q4 2025, delivery of an additional permanent increase of 0.1% of GDP of revenues by Q4 2028, totalling a cumulative 0.4% of GDP by Q4 2028. Step 3: By Q4 2028, delivery of a report showing the permanent increase in revenues between 2024 and 2028.	Step 1: Satisfactory fulfilment of milestones C28.R3.M388 of Spain's RRP. Revenues resulting from an unchanged structure of the PIT between 2020 and 2028 shall not be accounted for assessment of compliance. Step 2: Annual monitoring report prepared by the Ministry of Finance on the fiscal impact of revenue measures. In assessing compliance with the 0.4% of GDP target, any increase in revenues resulting from an unchanged structure of the PIT between 2025 and 2028 can be accounted for

			up to 0.1% of GDP. Revenues resulting from an unchanged structure of the PIT between 2020 and 2024 shall not be accounted for assessment of compliance. Step 3: Delivery of a report showing the permanent increase in revenues of 0.4% of GDP target in line with Step 2.
Tax Benefits Reform (Adding to RRP measure C28.R2.M386)	Entry into force of tax reforms aiming at increasing government revenues and modernise the tax system.	By Q4 2025, delivery of milestone 386, permanently increasing government revenues by at least 0.1 % of GDP.	Satisfactory fulfilment of milestone C28.R2.M386 of Spain's RRP.
Spending reviews (Adding to RRP measure C29.R1)	To strengthen the evaluation of public spending	Step 1: By Q4 2021, approval by the Council of Ministers of the new cycle of spending reviews (2022-2026) to be commissioned to AIReF. Step 2: By Q4 2026, adoption of a new cycle by the Ministry of Finance which envisages an intervention for each spending area over the time frame of the Plan. Step 3: By Q2 2027, adoption of reforms resulting from completed and ongoing spending reviews and reducing yearly expenditure by 2028 by at least 0.1% of GDP on a permanent basis, contributing to the sustainability of public finance. Step 4: By Q1 2028, the publication of the annual monitoring report by the Ministry of Finance on the	Step 1: Provision of the agreement of the Council of Ministers indicating its entry into force. Step 2: Evaluation plan prepared by the Ministry of Finance. The current (2022-2026) and new cycles of spending reviews would cover a spending area equal up to 10% of the spending allocated to policies under the direct responsibility of central administration. Step 3: Entry into force of the relevant measures; and copy of their impact assessment, justifying the expected permanent

		implementation of public expenditure reviews will include the assessment of actual yearly expenditure savings since 2025 from the implementation of adopted measures following spending reviews. It shall show the achievement by 2028 of permanent yearly savings of at least 0.1% of GDP against unchanged policies.	annual and cumulative savings to be achieved in the concerned budget lines up to 2031 compared with the expenditure projections at unchanged policies in the same budgetary lines. Step 4: Publication of the annual monitoring report prepared by the Ministry of Finance. The report shall also illustrate the adoption of at least one action per spending area to the sustainability of public finances.
Entry into force of the Law against **Tax Evasion and Fraud** (Existing RRP measure – C27.R1.M376)	The objectives of this reform are to modernise the Spanish tax system to ensure tax fairness and increase the collection effectiveness of the tax system.	By Q2 2022, entry into force of a law against tax evasion and fraud (‘*Ley de medidas de prevención y lucha contra el fraude fiscal*’) which: - Enlarges the perimeter of transactions where e-payments are compulsory (firms & professionals) and set legal thresholds for cash payments - Updates the list of tax havens according to transparency, no taxation and harmful tax regimes criteria. - Implements changes to the rules for listing people with tax arrears. - Implements a ban on “double-use software”. - Introduces a reference value for the tax base in property taxation.	Satisfactory fulfilment of the relevant RRP milestone 376 (C27.R1).
Better regulation and business climate (Existing RRP measure – C13.R1.M190, M191)	The objectives of the reform are to improve the framework in which economic activity takes place by ensuring a better	Step 1: By Q2 2022, entry into force of the reform of the ‘Insolvency Law’. Step 2: By Q4 2022, entry into force of the new ‘Law on Business Creation and Growth’ to simplify procedures for setting up a business and to promote a diversified sources of finance for business	Satisfactory fulfilment of the relevant RRP milestones 190 and 191 (C13.R1).

	regulation and business climate that facilitates the creation and growth of businesses, and their restructuring if necessary.	growth.	
Regulatory framework for the **promotion of renewable generation** (Existing RRP measure – C7.R1.M102, M103, M104, M105, T106, T107)	The objective of this measure is to strengthen the regulatory framework for the promotion of renewable generation, in order to increase certainty and encourage private investment in renewable energy, to remove barriers to the deployment of renewables and to improve their integration in the environment, the electrical system and into different sectors	Step 1: By Q4 2020, • Entry into force of Royal Decree Law 23/2020 (energy measures) • Entry into force of Royal Decree 960/2020 (economic regime for renewable energy) • Entry into force of Royal Decree 1183/2020 (connection of renewables to the electricity grid) Step 2: By Q2 2021, entry into force of Law on Climate Change and Energy Transition. Step 3: By Q4 2023, • additional production capacity for renewable energy (at least 6000 MW) cumulative additional renewable energy capacity installed in Spain (at least 6000 MW).	Satisfactory fulfilment of the relevant RRP milestones 102, 103, 104, 105 and targets 106 and 107 (C7.R1).
Digital Transformation of Education (Existing RRP measure – C19.I2.M289, M290, T291)	Enhance access to digital learning through the provision of portable devices to students from vulnerable groups in schools. Equip	Step 1: By Q4 2021, approval of a programme to equip public and publicly subsidised schools with digital tools. Step 2: By Q4 2025, • completion of actions for the digital transformation of education, including the preparation or revisions of	Satisfactory fulfilment of the relevant RRP milestones 289, 290 and target 291 (C19.I2).

	interactive digital systems (IDS) classrooms to enable distance and blended learning, support the preparation or revision of a digital strategy and the digital training of teachers	digital strategies in at least 22 000 school and the digital training of 70 000 teachers Provision of connected digital devices in public and publicly subsidised schools to bridge the "digital divide", and equip a minimum of 240 000 classroom	
Dual vocational training (new measure)	Promote the in-company training for student in vocational training	Step 1: By Q4 2027, complete an awareness campaign reaching at least 60% of all students that intend to start vocational training or have started in the past 6 months a non-dual vocational training; and capacity building in providing vocational training to any company interested in providing dual vocational training. Step 2: By Q4 2028, provide a monitoring report showing that at least 80% of all vocational training students in the first half of 2028 have been enrolled in dual vocational training	Step 1: Produce a report on the scope and reach of the awareness campaign and of the capacity building activity. Step 2: Copy of the monitoring report.
Deployment of Scheme 20 (new measure)	Creation of a new common framework that eliminates the disparity of administrative requirements between autonomous communities and local entities and, at the same time, reduces procedures, in view of	Step 1: By Q4 2025, approval in (multi)sectoral conference(s) of a sectoral impact assessment (in cooperation with Autonomous Communities and City Councils), which defines priority areas needing standardization and simplification of procedures across regions and local authorities. Step 2: By Q2 2026, publication of a Strategic plan for the sectoral conferences approved by (multi)sectoral conference(s). specifying annual measures,	Step 1: Link to the publication of the sectoral impact assessment approved by (multi)sectoral conference(s). Sep 2: Link to the publication of the strategic plan approved by (multi)sectoral conference(s). Step 3: Link to the

	supporting business activity.	responsible actors and monitoring indicators, to be fully implemented by 2027. Step 3: By Q4 2027, publication of a report which monitors the implementation of the Strategic plan and proposes corrective measures in case of deviations. The report should also assess the impact of the measures already implemented in previous years.	publication of the report.
Electronic Invoice (new measure)	Development of the mandatory B2B electronic invoicing system. Establishment of a more secure and efficient B2B electronic invoicing system with the aim to shorten the average payment period and reduce tax fraud.	Step 1: By Q4 2026, entry into force of a royal decree establishing the technical and information requirements of the system. Step 2: By Q1 2027, establishment of an electronic invoice platform, managed by the Tax Agency, which will provide a basic, free service to all companies and professionals who wish to use it.	Step 1: Entry into force of the royal decree. Step 2: Copy of the '*acta de recepción'* relevant to the electronic invoice platform.
Measures to improve the **manageme nt of temporary disability** (new measure)	Improve the management of temporary incapacity benefits for common contingencies to reduce their expenditure for all public administrations	Step 1: By Q4 2025, signature and entry into force of partnership agreements between the Ministries of Health of the Autonomous Communities, mutual societies and Social Security.	Step 1: Signature and entry into force of partnership agreements.
Simplificati	Facilitate the	Step 1: By Q4 2025, entry into	Step 1: Entry into force of

on of the system for the **homologation of diplomas** (new measure)	recognition of the professional qualifications and skills (with special regard to university education) of the foreign-born population, to increase their productivity and contribution to economic growth	force of legislation detailing streamlined processes for the recognition of qualifications of foreign-born population. Step 2 (by Q4 2028): assessment monitoring the implementation of the reform. The report should include key indicators as the total number of applications processed under the simplified system and average processing time for homologation requests.	the legislation facilitating the recognition of the professional qualifications of foreign-born population. Step 2: Publication of the assessment report
Reform of the **work and job search visa system** (new measure)	Facilitate the regular entry of working and job-seeking migrants, aimed at improving migrant workforce productivity	Step 1: By Q4 2024, entry into force of a royal decree regulating work and job seeking visas for migrants.	Step 1: Entry into force of a royal decree regulating work and job seeking visas for migrants.
Project Vienna (new measure)	Increase the supply of affordable housing	Step 1: By Q4 2025, launch of tenders to provide public land to private promoters for the construction of affordable housing units. Step 2: By Q2 2026, assessment monitoring the implementation of the reform. The report should describe the evolution and impact of the project and include key indicators as planned houses to be developed, and total units of public land transferred to private promoters.	Step 1: Link to the publication of the call for tenders. Step 2: Publication of the assessment report.
Entry into force of	Strengthen the regulatory	Step 1: By Q2 2022, entry into force of the modification of the	Step 1: Satisfactory fulfilment of the relevant

the amendment of Law 14/2011 on Science, Technology and Innovation (Existing RRP measure – C17.R1.254)	framework for the science, technology and innovation sector, in order to enhance the governance and coordination of the sector, create an attractive scientific career, and improve the knowledge transfer from research to applied products/services for the society.	Law on Science, Technology and Innovation improving the coordination among different levels of government of science, research and innovation policies, enhancing the governance and coordination of the Spanish Science Technology and Innovation system, introducing a new scientific career and improving knowledge transfer.	RRP milestone 254 (C17.R1).

Done at Strasbourg,

For the Council
The President