IN-DEPTH ANALYSIS

European Parliament

Economic Dialogue with Spain

ECON on 13 July 2021

This note presents selected information on the current status of the EU economic governance procedures and related relevant information in view of an [Economic Dialogue](#) with Nadia Calviño, [Minister of Economic Affairs and Digital Transformation](#) in Spain, in the ECON committee of the European Parliament. The invitation for a dialogue is in accordance with the EU economic governance framework. The last exchange of views with the Spanish authorities took place in [November 2012](#), [January 2014](#), [November 2016](#) and [22 January 2019](#).

1. Introduction

1.1 The Ministry and the Minister

Minister Calviño took office as Ministerio de Asuntos Económicos y Transformación Digital on 7 June 2018. The Ministry is responsible for executing the government economic, competitiveness, industrial development, telecommunications, media and communication policies, the Digital Agenda and support to companies. The Minister is in charge of a Government delegated committee (Comisión Delegada de Asuntos Económicos) comprising the Ministers dealing with policies affecting the Spanish economy or relevant sectors within it, namely, finance infrastructures, education, labour, migration, social security, industry, trade and tourism, agriculture, fisheries, territorial policy, ecological transition (including energy), education, science and innovation. By its breath, the committee enables the Minister to have an important coordinating role within the Government and facilitates tasks assigned to it, such as the preparation of the National Recovery and Resilience Plan.

The Ministry also oversees the agencies in charge of money laundering prevention (Comisión de Prevención del Blanqueo de Capitales e Infracciones Monetarias), securities markets (Comisión Nacional del Mercado de Valores), statistics (Instituto Nacional de Estadísticas) and the national promotional bank (Instituto de Crédito Oficial). The Ministry is responsible for insurance and pensions markets' oversight. The executive national resolution authority (FROB - Fondo de Reestructuración Ordenada Bancaria) is also under the remit of the Ministry, and in turn, is the main shareholder of SAREB (Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, SA), the so-called Spanish bad bank.

1.2 Economic situation

As it is summarised in the recent European Commission Summer 2021 economic forecast, despite the decline of real Gross Domestic Product (GDP) in the first quarter 2021 (by -0.4% due to containment

Economic Governance Support Unit (EGOV)
Authors: J. Angerer, C. Dias, K. Grigaite, K. Komazec, M. Magnus and A. Zoppè.
Directorate-General for Internal Policies
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measures and meteorological disruptions), on an annual basis, real GDP is expected to grow by 6,2% in 2021 and 6,3% in 2022. Inflation is projected to rise to 2,1% in 2021 and subside to 1,4% in 2022.

Such positive *"faster than in the spring"* growth outlook improved other indicators, including business and consumer sentiment, and job creation. As the European Commission claims, *"this suggests a solidification of the recovery in the second quarter"*, with private consumption and investment expected to rebound strongly in 2021 and 2022, and significantly contribute to the recovery. Moreover, based on the Commission forecast, *"private consumption is projected to benefit from positive developments in the labour market ... meanwhile, the implementation of the Recovery and Resilience Plan is expected to strengthen private and public investment and provide a further impulse to economic recovery"*.

According to the Commission Spring 2021 forecast[1], the general government deficit widened by more than 8 percentage points to 11.0% of GDP in 2020. In 2021, the deficit is projected to narrow to around 7.6% of GDP, also as a result of the expected positive impact on growth of the implementation of the Recovery and Resilience Plan (RRP) of Spain. Thanks to an expected impact on economic growth from the RRP in 2022, the deficit is projected to narrow to 5.2% of GDP in 2022. The general government gross debt-to-GDP ratio rose by almost 25 percentage points from 95.5% of GDP in 2019 to 120% in 2020. As a result of expected resuming growth and narrowing deficit, the debt ratio is expected to gradually come down to around 116.9% of GDP by the end of 2022.

Also, despite the generous government fiscal mitigation measures, the situation in the labour market worsened in 2020 and is projected to improve after the pandemic shock, with employment levels starting to increase as of 2021 and unemployment level starting to decrease as of 2022 (after reaching the highest projected unemployment level of 15,7% in 2021). As the Commission highlighted *"impaired [corporate] profitability could lead to the materialisation of corporate insolvencies with risks for productive capacity and employment"*.

2. European Semester developments and recommendations

2.1 Public finances

On 18 June 2021, the Council adopted the final texts of its opinions on the 2021 Stability and Convergence Programmes. These opinions reflect the continuation of the general escape clause and are based on Commission recommendations for Council opinions of 2 June 2021. The opinion on the Spanish Stability Programme concludes with the following recommendations:

1. In 2022, use the Recovery and Resilience Facility to finance additional investment in support of the recovery while pursuing a prudent fiscal policy. Preserve nationally financed investment.

2. When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential.

3. Pay particular attention to the composition of public finances, both on the revenue and expenditure sides of the budget, and to the quality of budgetary measures, to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth enhancing investment, notably supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where

[1] The European Commission publishes its economic forecasts four times a year. In their Spring and Autumn publications, the European Commission publishes projection updates for extensive list of indicators, while the Summer and Winter publications are only interim and include projection update only for GDP and Inflation (HICP).

relevant, by strengthening the coverage, adequacy, and sustainability of health and social protection systems for all.

Note that the expression "where relevant" in the last sentence of recommendation 3 was added for Spain and all other 25 Member States under the preventive arm of the SGP by the Council in comparison to the Commission proposal of 2 June 2021. The Council argues in its 'comply or explain' note, in line with EU legislation, that the modification allows Member States to take into account past progress and to tailor policy measures to country-specific circumstances.

Table 1. Selected data on public finances in Spain - COM forecast - spring 2021[1] - no policy change scenario[2]

Year	Nominal budget balance (% of GDP)	Structural budget Balance[3] (% of GDP) *In brackets and italics: y-o-y change*		Debt (% of GDP)	GDP growth (% of GDP)	Fiscal Stance (excl. crisis-related temporary emergency measures)[4] (% of GDP)
2022	-5.2	-5.2	*(-0.3)*	116.9	6.8	-0.5
2021	-7.6	-4.9	*(-0.7)*	119.6	5.9	-2.6
2020	-11.0	-4.2	*(-0.5)*	120.0	-10.8	-0.4

Table notes: [1] Source: statistical annex to the COM spring 2021 Forecast. [2] See COM spring 2021 Forecast Box I.4.1 (page 55) "*Some technical elements behind the forecast*". [3] The structural budget indicator is measured as % of potential GDP. The figures in italics and brackets are the year on year changes of the structural balance in percentage points of potential GDP, which can be regarded as a proxy for the *"fiscal effort"*. [4] The fiscal stance indicator is taken from the statistical annex of the Commission assessments of the 2021 Stability and Convergence Programmes. It is defined as follows: "*It measures the change in primary expenditure (net of discretionary revenue measures, but including changes in expenditure financed by the RRF and other EU grants), but, taking into account the exceptional circumstances created by the impact of the COVID-19 pandemic, excluding crisis-related temporary emergency measures, relative to the 10-year average potential growth rate.*" A negative sign of the indicator corresponds to an excess of the primary expenditure growth compared with medium-term economic growth, which indicates an expansionary fiscal policy.

2.2 Macroeconomic imbalances

Under the Macroeconomic Imbalance Procedure (MIP) framework, Spain has experienced **macroeconomic imbalances** since 2011, due to high external and internal debt (both public and private), in a context of high unemployment and fragile banking sector. According to the Commission, most imbalances in Spain have cross-border relevance.

The 2021 Alert Mechanism Report published in November 2020 concluded that a new in-depth review (IDR) should be undertaken for Spain, with a view to assess the persistence or unwinding of imbalances (see the EGOV note on MIP implementation note for details).

The in-depth-reviews were published on 2 June, as part of the "Spring economic package"; for Spain, it was included in the respective Country Report. The Commission's analysis shows that vulnerabilities remain, while noting that the evolution of the pandemic, the strength of the recovery, and possible structural implications of the crisis are all still surrounded by high uncertainty, requiring caution in the assessment. In general, policy action in 2020 focused on cushioning the impact of the pandemic shock and facilitating the recovery; this has added to indebtedness, but should support adjustment in the medium-term, possibly in line with the national RRP. After significant progress in reducing imbalances in previous years, the pandemic crisis has led to an increase in debt ratios, to a substantial extent due to the decline in GDP. According to the Commission, vulnerabilities linked to external, private sector and government debt remain.

- As for the **external imbalances**, Spain's net international investment position is worryingly negative, at 84% of GDP by end 2020: the stock of net external liabilities had gradually declined before the pandemic, thanks to current account surpluses of about 2% of GDP in recent years, but it still exceeded prudential and fundamental-based benchmarks. The reduction of Spain's external net debtor position in terms of

GDP came to a halt in the first half of 2020, mainly due to the contraction in GDP. The current account surplus declined to 0.7% of GDP in 2020, and is forecast to turn slightly negative in 2021, before turning positive again in 2022.

- As for the **private sector debt**, it had been reduced from a peak of 204% of GDP in 2009 to 130.6% of GDP at the end of 2019. At the end of 2020, private debt was 147% of GDP, of which debt accumulated by non-financial corporations accounted to 84.9% of GDP and households' liabilities amounted to 62.5% of GDP (reduced because of savings due to the lockdowns). The increase of private sector debt reflects both the increase of indebtedness in the corporate sector and, to a larger extent, the sizeable fall in GDP experienced by Spain throughout 2020.

The Spanish economy could be a source **of spill-over effects** to the rest of the EU, due to its relatively large size and its level of integration with other Member States, especially those with which Spain has significant trade links, such as Portugal, and financial and/or banking linkages, such as Luxembourg. The negative impact of the COVID-19 pandemic on tourism has been very significant and will also be felt in 2021.

Since the MIP inception, policy action to reduce Spanish macroeconomic imbalances was limited across most policy areas. The table below provides a quantitative overview of the implementation of the Country Specific Recommendations.

Table 2. Implementation of CSRs to Spain, 2011 - 2021

Year	Number of CSRs	Number of MIP CRSs	Implementation		
			Full/Substantial progress	Some progress	Limited/no progress
2011	7	7	-	-	-
2012	8	5	0	6	2
2013	9	8	1	8	0
2014	8	7	0	7	1
2015	4	4	1	2	1
2016	4	4	0	1	3
2017	3	3	0	1	2
2018	3	3	0	0	3
2019	4	4	0	0	4
2020	4	3	-	-	-
2021	3	0	-	-	-

Source: EGOV database on CSRs, based on Commission. The implementation of the 2020 CSRs will be part of the monitoring process of the national RRP. In 2021, CSRs related to the fiscal situation only.

More specifically, the Commission notes the limited or no progress regarding:

- measures to reduce labour market segmentation by fighting the abuse of temporary contracts;
- the area of fiscal governance;
- reforms aimed at reducing skills mismatches, fostering research and innovation and improving the business environment; and
- public administration, with its complex administrative procedures and regulatory restrictions imposed on service providers, weighing on business environment.

Furthermore, the Commission is concerned by the relinking of pensions to inflation, which risks worsening long-term fiscal sustainability, unless the planned offsetting measures are sufficiently ambitious. Part of the concerns raised above are addressed in the Spanish RRP (see Section 3).

2.3 Implementation of the European Semester Recommendations

According the latest Country Report under the European Semester by the Commission services on Spain (published In February 2020), Spain has overall made limited progress in addressing the 2019 country-specific recommendations (see Box 1 below).

Box 1: Commission's assessment of Spain progress on 2019 country-specific recommendations

There has been **some progress**:

- in ensuring that employment and social services have the capacity to provide effective support;
- in increasing cooperation between education and businesses with a view to improving the provision of labour market relevant skills and qualifications, in particular for information and communication technologies;
- in fostering investment-related economic policy on energy efficiency and extending electricity interconnections with the rest of the Union, taking into account regional disparities.

Spain has made **limited progress**:

- in strengthening public procurement at all levels of government'
- in fostering transitions towards open-ended contracts, including by simplifying the system of hiring incentives;
- in improving support for families, reducing fragmentation of national unemployment assistance and addressing coverage gaps in regional minimum income schemes;
- in reducing early school leaving and improving educational outcomes, taking into account regional disparities;
- in focusing investment-related economic policy on fostering innovation, resource efficiency and upgrading rail freight infrastructure;
- in enhancing the effectiveness of policies supporting research and innovation;
- in furthering the implementation of the Law on Market Unity by ensuring that, at all levels of government, rules governing access to and exercise of economic activities, in particular for services, are in line with the principles of that Law and by improving cooperation between administrations.

No progress has been made:

- in taking measures to strengthen the fiscal framework;
- in preserving the sustainability of the pension system.

The Commission has not published its assessments on the implementation of the 2020 CRS as no Country Reports were published in 2021 due to the streamlined Semester during the COVID-pandemic. The Commission has, nevertheless, assessed how CSRs addressed to Spain in 2019 and 2020 are taken into account and how well they are envisaged to be addressed through investments and reforms presented in the Spanish RRP. The Commission concluded that the Spanish RRP addresses to a significant extent the 2019 and 2020 CSRs (for an overview of this assessment, please see Annex 3, also a dedicated EGOV briefing regarding 2019, 2020 and 2021 draft CSRs).

3. Recovery and Resilience Plan

Spain presented its RRP on 30 April. In its RRP, Spain requested a total of €69.5 billion in grants under the Recovery and Resilience Fund (RRF); Spain signals in its RRP that it may require loans at a later stage. According to the Commission, the Spanish plan is structured around four pillars: green transformation;

digital transformation; social and territorial cohesion; and gender equality. It includes measures in sustainable mobility, energy-efficiency in buildings, clean power, digital skills, digital connectivity, support to the industrial sector and SMEs, and social housing. Projects in the plan focus primarily on the period 2021-2023. The plan proposes projects in all seven European flagship areas. A specific website contains links to the relevant RRP-related documents (available here).

On 16 June, the Commission adopted its assessment of the Spanish plan. The Commission assessment is composed of a draft Council Implementing Decision (CID) and an annex, and a staff working document (SWD). As set out in the Recovery and Resilience Facility Regulation (RRFR), the CID should be adopted by the Council 4 weeks after submission of Commission assessment; the Commission assessment of the Spanish plan is currently foreseen for the 13 July Ecofin (the Council Implementing Decision and Annex were disclosed on 6 July). For an overview of Member States' RRPs and their adoption procedures, see specific EGOV briefing.

The Spanish Fiscal Board endorsed, on 30 April, the government macroeconomic scenario underpinning the Spanish Stability Programme. Whilst agreeing with the government forecast that the RRP is estimated to have, on average, a 2 percentage point impact on the GDP growth during the 2021-2023 period, it notes the uncertainty surrounding such forecast. The Spanish Fiscal Board stressed that for the RRP to have the maximum potential effect, it is necessary to focus on the quality of the projects and accompany it by adequate structural reforms.

Commission simulations are shown in the box below.

Box 2: Commission's stylised New Generation EU (NGEU) impact simulations with QUEST

Model simulations conducted by the European Commission using the QUEST model show that the economic impact of the NGEU in Spain could lead to an increase of GDP of between 1,8% and 2,5% by 2024. [1] **After 20 years, GDP could be 0,8% higher. Spill-overs account for an important part of such impact.**

According to these simulations, this would translate into 250 000 additional jobs. Cross border (GDP) spill-overs account for 0,4 pps in 2024, showing the value added of synchronised expenditure across Member States (line 2). Even in a scenario with a lower productivity of NGEU funds, it would still lead to a significant impact (line 3). [2]

Table A. QUEST simulation results (%-deviation of real GDP level from non-NGEU case, linear disbursement assumption over 4 years)

Scenario	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2040
Baseline	1,3	2,3	2,4	2,5	1,9	1,2	1,3	1,3	1,3	1,3	0,8
of which spillover	0,3	0,4	0,4	0,4	0,4	0,3	0,2	0,2	0,1	0,1	0,0
Low productivity	1,1	1,9	1,8	1,8	1,1	0,4	0,5	0,5	0,5	0,5	0,3

This stylised scenario does not include the possible positive impact of structural reforms, which can be substantial. A model-based benchmarking exercise shows that undertaking structural reforms that would result in halving the gap vis-à-vis best performers in terms of indicators of structural reforms could raise Spain's GDP by 10% in 20 years' time, in line with findings for the EU average. [3]

Due to the differences in the assumptions and methodology, **the results of this stylised assessment cannot be directly compared to the numbers reported in Section 4 of Spain's RRP.**

[1] RRF amounts to roughly 90% of NGEU, which also includes ReactEU, Horizon, InvestEU, JTF, Rural Development and RescEU.
[2] Technically, the low productivity scenario considers a significantly reduced output elasticity of public capital.
[3] Varga, J, in 't Veld J. (2014), "The potential growth impact of structural reforms in the EU: a benchmarking exercise ", European Economy Economic Papers no. 541.
http://ec.europa.eu/economy_finance/publications/economic_paper/2014/pdf/ecp541_en.pdf.

Source: Commission SWD, box 4.3.1, p. 64.

In accordance with the Commission assessment, the Spanish plan complies with all the 11 assessment criteria under the RRFR, with a B rating only in the costing dimension (see table below and recital 45 of the draft CID); other Member States also have a B rating on their costing estimates.

Table 3. Commission's assessment and rating of the recovery and resilience plan of Spain

(1) Balanced Response	(2) CSRs	(3) Growth, jobs...	(4) DNSH	(5) Green target	(6) Digital target	(7) Lasting impact	(8) M & T	(9) Costing	(10) Control Systems	(11) Coherence
A	A	A	A	A	A	A	A	B	A	A

Source: Commission SWD, p. 6

As explained in the Commission SWD, the Spanish plan covers 10 policy areas and overall 30 components, split into 211 measures (grouped as 102 reforms and 109 investments by the Commission), and addressing all the six pillars of the RRF (see annex 2). Table 4 below provides an overview of the Spanish plan components and policy areas, together with the estimated costs.

Table 4. Overview of the Spanish plan - components and estimated costs

Policy Area	Component ***(shortened names)***	Estimated costs (EUR m)
01. Urban and rural agenda, combating depopulation and developing agriculture	01. Sustainable mobility (urban)	6 536
	02. Renovation	6 820
	03. Agri-food and fisheries	1 051
02. Resilient infrastructures and ecosystems	04. Ecosystems and biodiversity	1 642
	05. Coast and water resources	2 091
	06. Sustainable mobility (long-distance)	6 667
03. Fair and inclusive energy transition	07. Renewables	3 165
	08. Electricity infrastructure	1 365
	09. Hydrogen	1 555
	10. Just transition	300
04. An administration for the XXI century	11. Public administration	4 239
05. Modernisation and digitalisation of the industrial and SME fabric, restoring tourism and boosting Spain's entrepreneurial nation	12. Industrial policy	3 782
	13. Support to SMEs	4 894
	14. Tourism	3 400
	15. Digital connectivity	3 999
06. A pact for science and innovation. Capacity building of the National Health System	16. Artificial Intelligence	500
	17. Science, technology and innovation	3 457
	18. Reform of health system	1 069
07. Education and knowledge, continuing training and skills development	19. Digital skills	3 593
	20. Vocational training	2 076
	21. Education	1 648
08. New care economy and employment policies	22. Care economy, equality and inclusion	2 492
	23. Labour market	2 363
09. Boosting the culture and sport industry	24. Cultural industry	325
	25. Audiovisual	200
	26. Sports	300
10. Modernisation of the tax system for inclusive and sustainable growth	27. Prevention of tax fraud	-
	28. Tax system	-
	29. Effective public spending	-
	30. Pension system reform	-
TOTAL		**69 528 [[2]]**

Source: Commission SWD, p. 25

In its assessment of the Plan[3], the Commission notes that:

- "*Arrangements have been set up to involve key actors to implement the plan*" notably by setting up a sectoral Conference (to channel cooperation between regions, local entities and central government in implementing the plan) and by providing that the government will report quarterly on the progress of the RRP to the Joint Parliamentary Committee for the European Union; the Commission further notes that "*Ownership of the plan by regions will be key for effective delivery, since they play a key role in the design and implementation of many policies and investments*";
- the Spanish RRP has a "*strong focus on gender equality, which is one of the cross-cutting axes guiding the Spanish recovery process*";

[2] As explained by the Commission, this amount is marginally in excess of the plan's total allocation of EUR 69 512 589 611. The plan's total allocation corresponds to the financial contribution in the form of non-repayable support available to Spain after deduction of Spain's proportional share of the expenses of Article 6(2) of Regulation (EU) 2021/241, calculated in accordance with the methodology of Article 11 of that Regulation.
[3] Quotations below are from the Commission SWD.

- the RRP includes measures expected to contribute to progress on existing or future cross-border or multi-country projects, notably in what respects transport (TEN-T), connectivity (EUR 125 million to improve digital connectivity by means of submarine cables), research and innovation (R&I partnerships in Horizon 2020 and Horizon Europe, pan-European research infrastructures) and health purposes. The plan also includes measures to facilitate the participation of Spanish firms in planned cross-border or multi-country projects, notably relating to projects on renewable hydrogen, industrial value chains, secure satellites communications, next generation cloud and edge computing and microprocessors.

4. Ex-post surveillance

The European Stability Mechanism (ESM) programme for the recapitalisation of the Spanish banking sector expired on 31 December 2013. Spain is since then subject to post programme surveillance (PPS), with the latest (virtual) mission taking place in April 2021.

The latest PPS report was published on 2 June, together with the European Semester Spring Package. It concludes, *inter alia*, that Spain experienced a sharp economic downturn in 2020, but a strong rebound is expected for 2021, even if the forecasts remain highly uncertain. GDP is set to grow by 5.9% in 2021 according to the Commission spring 2021forecast, on the back notably of increased internal consumption and the impacts of the RRF (for an overview of the RRF impact estimates see section 3 above). Tourism is expected to approach its 2019 level only in 2022. The Commission also notes that government policies have mitigated the short term impact of the pandemic and permanent scarring effects that would have undermined long term sustainability and have helped mitigate the impact of the crisis on the banking sector. The Commission points that credit activity has been mainly supported by the expansion of lending to non-financial corporations backed by state guarantees, signaling that although no cliff effects are expected, a more marked deterioration in asset quality is likely to emerge once support measures are phased out (for an overview of the Spanish banking sector assessment, see section 5 below). The Commission concludes that Spain retains the capacity to service its ESM debt. See also separate EGOV briefing on macro-financial assistance to EU Member States.

5. Banking issues

According to the Commission's PPS Report of Spring 2021, the Spanish authorities implemented since the beginning of the pandemic several measures to support borrowers and corporates that indirectly also helped the financial sector.

Two government guarantee programs managed by the public development bank (Instituto de Crédito Oficial, ICO) have been used extensively by the corporate sector: According to the ICO, bank funding backed by **government guarantees represented around 34% of total new loans** to non-financial corporations in 2020. That percentage neared 60% in the case of SMEs for the period after the outbreak of the pandemic.

At the end of February 2021, financing granted to cover liquidity needs amounted to more than EUR 117 billion (nearly exploiting the related total envelope), while loans granted to cover investment needs amounted to EUR 3.4 billion (the **take up for investment is low**; so far only a small percentage of the related total envelope was used).

In November 2020, the authorities **extended the maximum grace period** of the loans granted to cover liquidity needs from 12 to 24 months and the maximum maturity from 5 to 8 years, to soften potential cliff-edge effects. In May 2021, they also extended the deadline to apply for these loans to 31 December 2021.

The PPS Report also states that further progress has been made with the financial sector reforms, as the **consolidation** in the banking sector has gained momentum in the second half of 2020. The merger between CaixaBank and Bankia created the largest credit institution in the Spanish market, aiming for improved efficiency and profitability (in April 2021, CaixaBank announced that it plans to reduce its workforce by nearly 20%, and that it aims to close some 1.500 branches, or 27% of its branch network. Other Spanish banks, like Banco Santander, Banco Sabadell, BBVA etc., also plan to reduce their workforce and branch network, all arguing that in a context of low interest rates which is expected to continue, banks have to cut costs by reducing the number of branches rendered unnecessary by the growth of online banking). In addition, in December 2020 the managing boards of Unicaja Banco and Liberbank approved the terms of their merger, which will create the fifth-largest bank in Spain with roughly EUR 110 billion assets.

The pandemic has put additional strain on SAREB's already meagre performance (**SAREB is the bad bank** of the Spanish government that was formed in 2012 to manage and disinvest the non-performing loans and assets taken over from four nationalized Spanish financial institutions). The **accumulation of losses has now eroded SAREB's capital base**. Despite measures adopted by the authorities to soften the accounting treatment of impairments on its assets, SAREB has recorded losses throughout its lifetime, resulting in negative own funds of EUR 0.84 billion at the end of 2020. SAREB therefore plans to **convert the remaining EUR 1.4 billion of subordinated debt into equity** in 2021.

On 7 May 2021, Mr Echegoyen, the Executive Chairman of Sareb, informed the company's Board of Directors of his intentions to stand down for personal reasons, after seven years in the role. According to Reuters, Spanish banks are considering exiting the capital structure of Spain's bad bank, as SAREB reconsiders its role given the sustained losses it has booked in recent year.

Eurostat advised the Spanish authorities in 2021 that, given the sizeable accumulated losses and a clarification of accounting rules that since entered into force, **SAREB should be reclassified inside the general government** (at inception in 2012, SAREB was classified as a private financial institution not controlled by government). The basic implication of reclassifying SAREB is that the public debt of Spain will rise by approximately EUR 35 billion.

Contact: egov@ep.europa.eu

Annex 1: Euro area - Key macroeconomic indicators

	2017	2018	2019	2020	2021[f]	2022[f]
Real GDP growth – *% change on previous year*						
Spain	3.0	2.4	2.0	-10.8	5.9	6.8
Euro Area	2.6	1.9	1.4	-6.5	4.3	4.4
GDP per capita – *% change on previous year*						
Spain	2.8	2.0	1.1	-11.3	5.4	6.2
Euro Area	2.4	1.6	1.0	-6.7	4.1	4.2
General government budget balance – *% of GDP*						
Spain	-3.0	-2.5	-2.9	-11.0	-7.6	-5.2
Euro Area	-0.9	-0.5	-0.6	-7.2	-8.0	-3.8
General government structural budget balance – *% of potential GDP*						
Spain	-2.7	-2.8	-3.7	-4.2	-4.9	-5.2
Euro Area	-1.0	-1.0	-1.2	-3.6	-6.2	-3.7
General government primary budget balance – *% of GDP*						
Spain	-0.5	-0.1	-0.6	-8.7	-5.5	-3.2
Euro Area	1.0	1.4	1.0	-5.7	-6.6	-2.6
General government gross debt – *% of GDP*						
Spain	98.6	97.4	95.5	120.0	119.6	116.9
Euro Area	89.7	87.7	85.8	100.0	102.4	100.8
Interest expenditure on general government debt – *% of GDP*						
Spain	2.5	2.4	2.3	2.2	2.1	2.0
Euro Area	1.9	1.8	1.6	1.5	1.4	1.3
Inflation (HICP) – *% change on previous year*						
Spain	2.0	1.7	0.8	-0.3	1.4	1.1
Euro Area	1.5	1.8	1.2	0.3	1.7	1.3
Unemployment – *% of labour force*						
Spain	17.2	15.3	14.1	15.5	15.7	14.4
Euro Area	9.0	8.1	7.5	7.8	8.4	7.8
Total employment in persons - *% change on previous year*						
Spain	2.6	2.3	2.2	-4.2	0.2	2.0
Euro Area	1.6	1.6	1.2	-1.6	0.0	1.2
Current-account balance – *% of GDP*						
Spain	2.8	1.9	2.1	0.7	-0.1	0.3
Euro Area, adjusted[3]	3.2	3.0	2.3	2.2	3.1	3.1
Exports – *% change on previous year*						
Spain	5.5	2.3	2.3	-20.2	10.4	12.8
Euro Area	5.5	3.6	2.5	-9.3	8.7	6.5
Imports – *% change on previous year*						
Spain	6.8	4.2	0.7	-15.8	11.7	11.7
Euro Area	5.2	3.7	3.9	-9.0	8.0	6.9
Total investments – *% change on previous year*						
Spain	6.8	6.1	2.7	-11.4	9.6	12.7
Euro Area	3.8	3.2	5.7	-8.2	6.7	5.3
Labour productivity (real GDP per occupied person) – *% change on previous year*						
Spain	0.1	-0.1	-0.3	-3.6	1.3	4.7
Euro Area	1.1	0.3	0.1	-3.7	3.0	3.0
Unit labour cost - nominal – *% change on previous year*						
Spain	0.6	1.1	2.4	5.2	-0.8	-2.6
Euro Area	0.7	1.9	1.9	4.4	-0.7	-0.6
Non-performing loans ratio in the banking sector (EBA) – *% of total loans*						
Spain	4,5	3,8	3,2	2,9	n.a.	n.a.
European Union	4.1	3.2	2.7	2.6	n.a.	n.a.

Source: all indicators and forecasts (f) are European Economic Forecasts Spring 2021, if not indicated differently, with data extracted on 07/07/2021; the euro area is defined as variable composition (EA18-2014, EA19); the euro area general government gross debt is non-consolidated for intergovernmental loans.

Annex 2 - Coverage of the six pillars of the Facility by the Spanish RRP components

	Green transition	Digital transformation	Smart, sustainable & inclusive growth	Social and territorial cohesion	Health, and economic, social and institutional resilience	Policies for the next generation
01. Sustainable urban mobility	●	○	○	○		
02. Renovation	●		●	●		○
03. Agri-food and fisheries	●	○		○		
04. Ecosystems and biodiversity	●	○		○	●	
05. Coast and water resources	●	○		○	●	
06. Sustainable long-distance mobility	●	○	○	○		
07. Renewable energy	●		○	○		
08. Electricity infrastructure	●	●	○			
09. Hydrogen	●		○			
10. Just transition	●		○	●		
11. Public administration	○	●	●	○	●	
12. Industrial policy	●	●	●		●	
13. Support to SMEs		●	●	○	●	
14. Tourism	○	●	●	●		
15. Digital connectivity		●	●	●		
16. Artificial Intelligence		●	●			
17. Science, technology and innovation	○		●			○
18. Reform of health system		○			●	○
19. Digital skills		●	○			●
20. Vocational training	○	○	○	○		●
21. Education		○		○		●
22. Care economy, equality and inclusion		●		●	●	○
23. Labour market reform	○	○		●		○
24. Cultural industry		○	●			
25. Audiovisual		○	●			
26. Sports	○	○			○	
27. Prevention of tax fraud					●	
28. Tax system reform	●				●	
29. Effective public spending					●	
30. Pension system reform				●		

Key: "●" investments and reforms of the component significantly contribute to the pillar; "○" the component partially contributes to the pillar
Source: Commission SWD (table 4.1, p. 35-36).

Annex 3: Assessment of how national RRP addresses 2019-2020 CSRs

Notes: "●" investments and reforms of the component significantly address the challenge; "○" the component partially addresses the challenge.
Colour codes in the table are attributed subjectively by EGOV, in cases where 50% or more of associated components are assessed as significantly addressing the challenge, it is marked as green, while in remaining cases, it is marked orange.

ES	CSR text under the European Semester of 2019 and 2020	Country challenges as identified by the Commission	Components, Investments and Reforms as identified in the national RRP	Commission assessment
	2019 CSR 1: 1. Ensure that the nominal growth rate of net primary government expenditure does not exceed 0,9 % in 2020, corresponding to an annual structural adjustment of 0,65 % of GDP. Take measures to strengthen the fiscal and public procurement frameworks at all levels of government. Preserve the sustainability of the pension system. Use windfall gains to accelerate the reduction of the general government debt ratio.	Fiscal policy and fiscal governance	Component 1 - Sustainable urban mobility	○
			Component 11 - Public administration	○
			Component 27 - Prevention of tax fraud	○
			Component 28 - Tax system reform	○
			Component 29 - Effective public spending	○
		Long-term sustainability of the public finances	Component 1 - Sustainable urban mobility	○
			Component 11 - Public administration	○
			Component 27 - Prevention of tax fraud	○
			Component 28 - Tax system reform	○
			Component 29 - Effective public spending	○
			Component 30 - Pension system reform	○
		Strengthen public procurement frameworks	Component 11 - Public administration	●
	2019 CSR 2: 2. Ensure that employment and social services have the capacity to provide effective support. Foster transitions towards open-ended contracts, including by simplifying the system of hiring incentives. Improve support for families, reduce fragmentation of national unemployment assistance and address coverage gaps in regional minimum income schemes. Reduce early school leaving and improve educational outcomes, taking into account regional disparities. Increase cooperation between education and businesses with a view to improving the provision of labour market relevant skills and qualifications, in particular for information and communication technologies.	Employment protection and framework for contracts and incentives to work and create jobs	Component 11 - Public administration	●
			Component 18 - Reform of the health system	●
			Component 23 - Labour Market Policies	○
			Component 28 - Tax system reform	○
			Component 29 - Effective public spending	○
		Unemployment benefits	Component 22 - Care economy, Equality and Inclusion	○
			Component 23 - Labour Market Policies	●
		Active labour market policies	Component 19 - Digital skills	○
			Component 20 - Vocational training	○
			Component 22 - Care economy, Equality and Inclusion	○
			Component 23 - Labour Market Policies	●
			Component 28 - Tax system reform	○
			Component 29 - Effective public spending	○
		Reduce early school leaving and improve educational outcomes, taking into account regional disparities	Component 19 - Digital skills	●
			Component 20 - Vocational training	●

			Component 21 - Education	●
		Increase cooperation between education and businesses	Component 17 - Science, technology and innovation	●
			Component 20 - Vocational training	●
			Component 21 - Education	●
		Improve support to families	Component 2 - Renovate	●
			Component 19 - Digital skills	●
			Component 21 - Education	●
			Component 22 - Care economy, Equality and Inclusion	●
			Component 28 - Tax system reform	○
		Ensure that social services have the capacity to provide effective support	Component 22 - Care economy, Equality and Inclusion	●
		Improve adequacy and coverage of minimum income schemes	Component 22 - Care economy, Equality and Inclusion	●
			Component 23 - Labour Market Policies	●
	2019 CSR 3: 3. Focus investment-related economic policy on fostering innovation, resource and energy efficiency, upgrading rail freight infrastructure and extending electricity interconnections with the rest of the Union, taking into account regional disparities. Enhance the effectiveness of policies supporting research and innovation.	Enhance effectiveness of policies on research and innovation	Component 17 - Science, technology and innovation	●
			Component 21 - Education	○
		Focus investment on fostering innovation	Component 1 - Sustainable urban mobility	●
			Component 12 - Industrial policy	●
			Component 13 - Support to SMEs	●
			Component 14 - Tourism	●
			Component 16 - Artificial Intelligence	●
			Component 17 - Science, technology and innovation	●
			Component 18 - Reform of the health system	○
			Component 19 - Digital skills	○
			Component 20 - Vocational training	○
			Component 21 - Education	●
		Green and digital transition	Component 1 - Sustainable urban mobility	●
			Component 2 - Renovate	●
			Component 3 - Agri-food and fisheries	●
			Component 4 - Ecosystem and biodiversity	●
			Component 5 - Coast and water resources	●
			Component 6 - Sustainable long-distance mobility	●
			Component 7 - Renewable energy	●
			Component 8 - Electricity infrastructure	●
			Component 9 - Hydrogen	●
			Component 10 - Just transition	●
			Component 11 - Public administration	●

			Component 12 - Industrial policy	●
			Component 13 - Support to SMEs	●
			Component 14 - Tourism	●
			Component 15 - Digital connectivity	●
			Component 16 - Artificial Intelligence	●
			Component 17 - Science, technology and innovation	●
			Component 18 - Reform of the health system	●
			Component 19 - Digital skills	●
			Component 20 - Vocational training	●
			Component 21 - Education	●
			Component 22 - Care economy, Equality and Inclusion	○
			Component 23 - Labour Market Policies	○
			Component 24 - Cultural Industry	●
			Component 25 - Audiovisual	●
			Component 26 - Sports	●
			Component 27 - Prevention of tax fraud	○
		Transport	Component 1 - Sustainable urban mobility	●
			Component 6 - Sustainable long-distance mobility	●
		Energy	Component 2 - Renovate	●
			Component 6 - Sustainable long-distance mobility	●
			Component 7 - Renewable energy	●
			Component 8 - Electricity infrastructure	●
			Component 9 - Hydrogen	●
			Component 10 - Just transition	●
			Component 12 - Industrial policy	●
			Component 28 - Tax system reform	●
	2019 CSR 4: 4. Further the implementation of the Law on Market Unity by ensuring that, at all levels of government, rules governing access to and exercise of economic activities, in particular for services, are in line with the principles of that Law and by improving cooperation between administrations.	Further implementation of the Law on Market Utility	Component 13 - Support to SMEs	○
		Improve coordination across levels of government	Component 2 - Renovate	○
			Component 11 - Public administration	○
			Component 12 - Industrial policy	○
			Component 13 - Support to SMEs	○
			Component 17 - Science, technology and innovation	○
			Component 22 - Care economy, Equality and Inclusion	○
	2020 CSR 1: 1. Take all necessary measures, in line with the general escape clause of the Stability and Growth Pact, to effectively address the COVID-	Fiscal policy and fiscal governance	Component 1 - Sustainable urban mobility	○
			Component 11 - Public administration	○
			Component 27 - Prevention of tax fraud	○
			Component 28 - Tax system reform	○

	19 pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Strengthen the health system's resilience and capacity, as regards health workers, critical medical products and infrastructure.		Component 29 - Effective public spending	○
		Health care and long-term care	Component 18 - Reform of the health system	○
			Component 22 - Care economy, Equality and Inclusion	○
			Component 26 - Sports	○
		Long-term sustainability of the public finances	Component 1 - Sustainable urban mobility	○
			Component 11 - Public administration	○
			Component 27 - Prevention of tax fraud	○
			Component 28 - Tax system reform	○
			Component 29 - Effective public spending	○
			Component 30 - Pension system reform	○
	2020 CSR 2: 2. Support employment through arrangements to preserve jobs, effective hiring incentives and skills development. Reinforce unemployment protection, in particular for atypical workers. Improve coverage and adequacy of minimum income schemes and family support, as well as access to digital learning.	Employment protection and framework for contracts and incentives to work and create jobs	Component 11 - Public administration	●
			Component 18 - Reform of the health system	●
			Component 23 - Labour Market Policies	○
			Component 28 - Tax system reform	○
			Component 29 - Effective public spending	○
		Unemployment benefits	Component 22 - Care economy, Equality and Inclusion	○
			Component 23 - Labour Market Policies	●
		Access to digital learning	Component 3 - Agri-food and fisheries	○
			Component 13 - Support to SMEs	○
			Component 14 - Tourism	○
			Component 16 - Artificial Intelligence	○
			Component 19 - Digital skills	●
			Component 20 - Vocational training	●
			Component 21 - Education	●
			Component 24 - Cultural Industry	○
		Improve support to families	Component 2 - Renovate	●
			Component 19 - Digital skills	●
			Component 21 - Education	●
			Component 22 - Care economy, Equality and Inclusion	●
			Component 28 - Tax system reform	○
		Improve adequacy and coverage of minimum income schemes	Component 22 - Care economy, Equality and Inclusion	●
			Component 23 - Labour Market Policies	●
	2020 CSR 3: 3. Ensure the effective implementation of measures to provide liquidity to SMEs and the self-employed, including by avoiding late payments. Front-load mature public	Focus investment on fostering innovation	Component 1 - Sustainable urban mobility	●
			Component 12 - Industrial policy	●
			Component 13 - Support to SMEs	●
			Component 14 - Tourism	●
			Component 16 - Artificial Intelligence	●

	investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on fostering research and innovation, clean and efficient production and use of energy, energy infrastructure, water and waste management and sustainable transport.		Component 17 - Science, technology and innovation	●
			Component 18 - Reform of the health system	○
			Component 19 - Digital skills	○
			Component 20 - Vocational training	○
			Component 21 - Education	●
		Green and digital transition	Component 1 - Sustainable urban mobility	●
			Component 2 - Renovate	●
			Component 3 - Agri-food and fisheries	●
			Component 4 - Ecosystem and biodiversity	●
			Component 5 - Coast and water resources	●
			Component 6 - Sustainable long-distance mobility	●
			Component 7 - Renewable energy	●
			Component 8 - Electricity infrastructure	●
			Component 9 - Hydrogen	●
			Component 10 - Just transition	●
			Component 11 - Public administration	●
			Component 12 - Industrial policy	●
			Component 13 - Support to SMEs	●
			Component 14 - Tourism	●
			Component 15 - Digital connectivity	●
			Component 16 - Artificial Intelligence	●
			Component 17 - Science, technology and innovation	●
			Component 18 - Reform of the health system	●
			Component 19 - Digital skills	●
			Component 20 - Vocational training	●
			Component 21 - Education	●
			Component 22 - Care economy, Equality and Inclusion	○
			Component 23 - Labour Market Policies	○
			Component 24 - Cultural Industry	●
			Component 25 - Audiovisual	●
			Component 26 - Sports	●
			Component 27 - Prevention of tax fraud	○
		Transport	Component 1 - Sustainable urban mobility	●
			Component 6 - Sustainable long-distance mobility	●
		Energy	Component 2 - Renovate	●
			Component 6 - Sustainable long-distance mobility	●
			Component 7 - Renewable energy	●
			Component 8 - Electricity infrastructure	●

			Component 9 - Hydrogen	●
			Component 10 - Just transition	●
			Component 12 - Industrial policy	●
			Component 28 - Tax system reform	●
		Enhance measures to provide liquidity to SMEs and self-employed	Component 13 - Support to SMEs	○
	2020 CSR 4: 4. Improve coordination between different levels of government and strengthen the public procurement framework to support recovery in an efficient manner.	Strengthen public procurement frameworks	Component 11 - Public administration	●
		Improve coordination across levels of government	Component 2 - Renovate	○
			Component 11 - Public administration	○
			Component 12 - Industrial policy	○
			Component 13 - Support to SMEs	○
			Component 17 - Science, technology and innovation	○
			Component 22 - Care economy, Equality and Inclusion	○