BANCO DE ESPAÑA
Eurosistema

ECONOMIC BULLETIN
2023/Q1

The 2022 European Semester and the Recovery and Resilience Facility

NumeroDOI

Article 04
29/12/2022

Rationale

As a result of the pandemic and with the aim of adapting to a constantly changing environment, the European Semester has been immersed in an important restructuring process since 2020. The launch of the Recovery and Resilience Facility (RRF), a central element of the Next Generation EU (NGEU) temporary instrument, has made it necessary to adapt the European Semester to avoid overlaps and eliminate unnecessary administrative burdens.

Takeaways

- For the 2022 cycle, the European Semester preserves its main purpose of broad economic and employment policy coordination, while taking into account the implementation requirements of the RRF.
- One of the key developments this year is the reintroduction of country reports and country-specific recommendations. A new recommendation included aims to reduce dependence on fossil fuels, in line with the REPowerEU objectives.
- In the case of Spain, the recommendations are to: (i) ensure a prudent fiscal policy, (ii) continue implementing the Recovery, Transformation and Resilience Plan, (iii) increase recycling rates, and (iv) reduce dependence on fossil fuels.

Keywords

European Semester, Next Generation EU, Recovery and Resilience Facility, Recovery, Transformation and Resilience Plan, macroeconomic imbalances, general escape clause.

JEL classification

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

Authors:

Daniel Alonso
International Economics and Euro Area Department. Banco de España

María de los Llanos Matea
Structural Analysis and Microeconomic Studies Department. Banco de España

Introduction

Since its launch in 2011, the European Semester has experienced substantial changes aimed at broadening its content. As a result of the pandemic and with the aim of adapting to a constantly changing environment, the European Semester has been immersed in an important restructuring process since 2020. The launch of the Recovery and Resilience Facility (RRF), a central element of the Next Generation EU (NGEU)[1] temporary recovery instrument, has required a temporary adjustment of the European Semester to avoid overlaps and eliminate unnecessary administrative burdens (see Figure 1). With its broader scope and multilateral surveillance, the aim is for the European Semester to help drive Member States' reform and investment agendas linked to the implementation of the recovery and resilience plans (RRPs).

For the 2022 cycle, the European Semester preserves its main purpose of broad economic and employment policy coordination, while taking into account the implementation requirements of the RRF.[2] One of the key developments this year is the reintroduction of country reports and country-specific recommendations (CSRs), including one which aims to reduce dependence on fossil fuels, in line with the REPowerEU objectives for each Member State. These recommendations also serve as guidance for Member States to integrate dedicated REPowerEU chapters in their existing RRPs. A further recommendation is the extension to 2023[3] of the general escape clause of the Stability and Growth Pact (SGP) – which was activated in March 2020 in the wake of the pandemic – warranted by the heightened uncertainty and strong downside risks to economic growth in the context of the war in Europe, unprecedented energy price hikes and continued supply chain disruptions.[4]

The lessons learned in the past decade, coupled with the experience of linking the reforms and funds received for investment established by the RRF, have served as a basis for the European Commission (EC)'s recent proposal for a new fiscal rule framework under the SGP.[5] The EC suggests establishing country-specific adjustment paths, maintaining the deficit and public debt reference values of 3% and 60%, respectively, as long-term goals, but eliminating the obligation to reduce debt by one-twentieth of the excess above 60% of GDP.[6] Meanwhile, the excessive deficit procedure (EDP) based on the deficit criterion would be maintained, while the EDP based on the debt criterion would be reinforced. Lastly, a review of the macroeconomic imbalances procedure (MIP) is proposed, with a similar approach to that of the fiscal rules,

1 For more details on NGEU and the RRF, see Alonso et al. (2022).

2 This will remain its purpose in the 2023 cycle, which was launched in November.

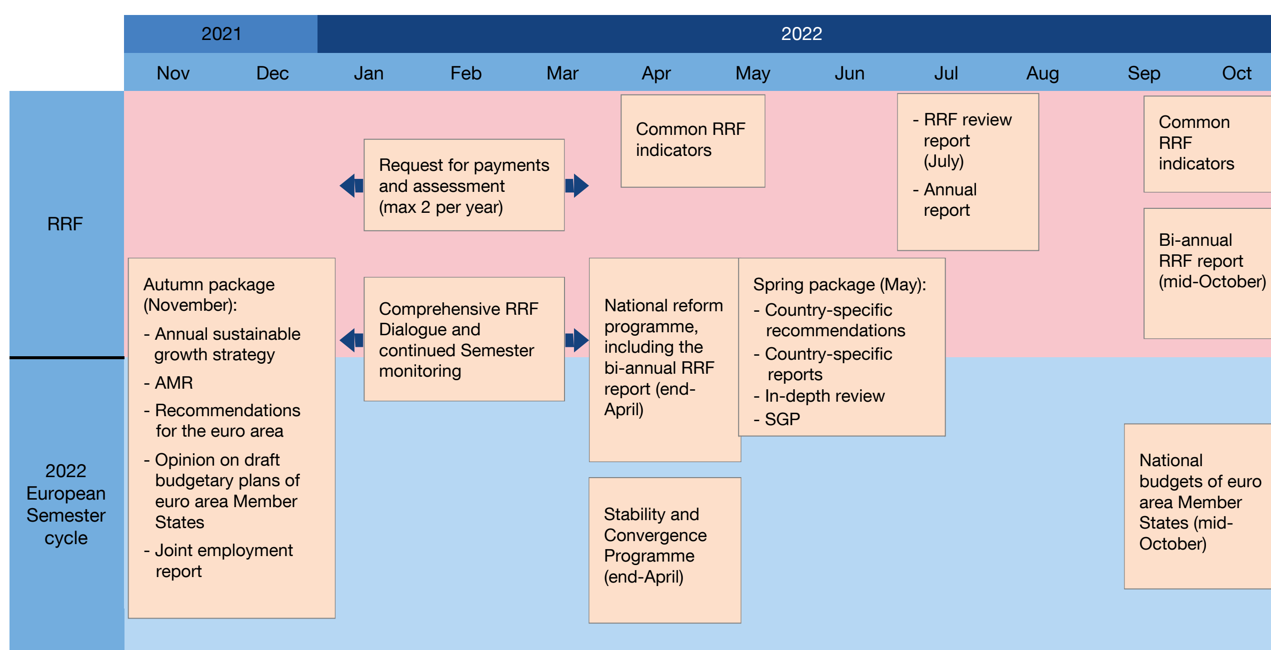
3 It will be deactivated from 2024.

4 European Commission (2020).

5 European Commission (2022a).

6 To date, countries with a debt ratio in excess of 60% of GDP are subject to the SGP's corrective mechanisms, unless the ratio moderates at a satisfactory pace, meaning that in the three years prior to the assessment the debt must be cut by one-twentieth of the excess above the 60% of GDP reference value.

Figure 1
Timeline of the 2022 European Semester



SOURCE: European Commission.

which would attach more importance to changes in trends and to the adoption of measures to correct imbalances.

The rest of the article is structured as follows. The second and third sections detail the European Semester's customary surveillance procedures (EDP and MIP) for the 2022 cycle. The fourth section includes the EC's recommendations for the euro area in general and for Spain in particular. The fifth section sets out the main developments in the implementation of the RRF. The last section presents the main conclusions.

Excessive deficit procedure

Since activation of the general escape clause does not suspend the SGP's procedures, the EC continues to conduct the annual cycle of surveillance, assessing compliance with the government deficit and debt criteria in 2021. Nonetheless, as occurred last year, the current exceptional circumstances have prompted the EC to publish a general report jointly assessing Member States' compliance with the deficit and debt criteria.[7] In particular, this year's report analyses the situation of 18 Member States (Austria, Belgium, Bulgaria, Czechia, Estonia, Finland, France,

7 European Commission (2022b).

Table 1
2021 Excessive Deficit Procedure

	Yes	No
Compliance with the deficit criteria as laid down in the Treaty and in Regulation (EC) 1467/1997	Croatia, Cyprus, Denmark, Finland, Ireland, the Netherlands, Portugal and Sweden	Austria, Belgium, Bulgaria, Czechia, Germany, Estonia, France, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Malta, Poland, Slovenia and Spain
Compliance with the debt criteria as laid down in the Treaty and in Regulation (EC) 1467/1997	Austria, Bulgaria, Croatia, Czechia, Cyprus, Denmark, Estonia, Germany, Greece, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Slovenia, Spain and Sweden	Belgium, Finland, France, Hungary and Italy

SOURCE: European Commission.

Germany, Greece, Hungary, Italy, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia and Spain). The report assesses compliance with the deficit criterion in all these countries, except Finland, for which it assesses compliance with the debt criterion. In the case of Lithuania, Estonia and Poland, the report was prepared due to a planned deficit in 2022 exceeding the 3% of GDP Treaty reference value, whereas the other Member States had a general government deficit in 2021 exceeding 3% of GDP (see Table 1 and Chart A1.1).

Also, general government gross debt exceeded the reference value of 60% of GDP in Austria, Belgium, Finland, France, Germany, Greece, Hungary, Italy, Slovakia, Slovenia and Spain.[8] The data for 2021 show that Austria, Germany, Greece and Slovenia complied with the debt reduction benchmark or, in the case of Spain, progressed sufficiently to do so. By contrast, Belgium, Finland, France, Hungary and Italy did not comply with the debt reduction benchmark in 2021. Slovakia did not fulfil the 60% of GDP reference value at end-2021, having recorded a debt ratio below 60% of GDP the previous year (see Table 1 and Chart A1.1). Therefore, these six countries (Belgium, Finland, France, Hungary, Italy and Slovakia) had excessive deficit under the debt criterion.

However, the EC decided not to open new EDPs in spring 2022.[9] The reason is that the COVID-19 pandemic continued to have an extraordinary macroeconomic and fiscal impact that, together with Ukraine's invasion by Russia, generated exceptional uncertainty, including for designing a detailed path for fiscal adjustment. The relevance of opening new EDPs was reassessed in November, with the launch of the 2023 cycle of the European Semester. As in spring, the current exceptional uncertainty was taken into account and the EC considered that a decision to place other Member States under the EDP should not be taken at this stage.[10]

8 In Croatia, Cyprus and Portugal government debt was also above 60% of GDP at end-2021. However, these Member States are not analysed in the report, as their general government deficits in 2021 and 2022 were (and are expected to remain) below 3% of GDP and they complied with the debt reduction benchmark in 2021.

9 Romania has been subject to an EDP since spring 2020. The procedure has been held in abeyance since autumn 2021. The EC will reassess compliance with the requirements established in the Council's recommendation in spring.

10 In spring 2023 the EC will reassess the relevance of launching EDPs based on the outturn data for 2022 and the plans for 2023, in particular taking into account compliance with the budgetary recommendations issued by the Council to the Member States.

Macroeconomic imbalances procedure

The publication of the Alert Mechanism Report (AMR) in November 2021 marked the start of the 11th annual cycle of the MIP[11] relating to 2022. The AMR's analysis is based on an economic reading of a series of indicators and other assessment tools to identify those Member States for which an in-depth review is required in order to determine and assess the seriousness of their possible macroeconomic imbalances. The scoreboard of indicators used contained data up to 2020 (see Table A1.1). However, as in 2021, on this occasion the EC's forecasts and the most up-to-date high-frequency data were used.

The AMR generally noted that the COVID-19 crisis interrupted the correction of macroeconomic imbalances related to the high public, private and external debt observed in recent years.[12] The recession and the growing indebtedness to mitigate the fall in activity led to a sharp rise in the government and private sector debt-to-GDP ratios in 2020. The external accounts were less affected, but deterioration was significant in countries with a high share of cross-border tourism. Meanwhile, a higher risk of house price overvaluation was observed in some Member States. As a result, the report recommended conducting in-depth reviews for the same 12 Member States which were experiencing imbalances (Croatia, France, Germany, Ireland, the Netherlands, Portugal, Romania, Spain and Sweden) or excessive imbalances (Cyprus, Greece and Italy) in February 2021.

This year's in-depth reviews have been marked by a strong economic recovery in the wake of the COVID-19 crisis and by growing uncertainty relating to the war in Ukraine and its impact on energy prices. In most cases, private, public and external debt has returned to a gradually declining path after the sharp increases in 2020, although they remain very high (see Table 2). Likewise, external rebalancing remains incomplete. Although the current accounts of large debtor countries with significant cross-border tourism have improved, they remain below their pre-COVID-19 levels, while large current account surpluses in some Member States persist despite their reduction during the pandemic and the recent surge in energy prices. At the same time, in many countries house prices are growing at their fastest pace in over a decade. Overall, vulnerabilities have fallen in several countries below their pre-pandemic levels, to the point where Croatia and Ireland are no longer experiencing imbalances. However, seven Member States (France, Germany, the Netherlands, Portugal, Romania, Spain and Sweden) continue to experience imbalances and three others (Cyprus, Greece and Italy) continue to experience excessive imbalances (see Table 3).

In the specific case of Spain, the vulnerabilities are related to the high levels of external, government and private debt, in a setting of high unemployment and exacerbated by its cross-border significance, given other Member States' exposure (through their trade and financial links) to adverse shocks affecting Spain's economy.

The main new development in the 2022 cycle is the dual role that the national reform programmes (NRPs) will now play. Thus, besides being used for national authorities to detail the specific

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

12 European Commission (2021).

Table 2
In-depth reviews: sources of imbalance

	Euro area	Rest of EU
External debt	Cyprus, Germany, Greece, the Netherlands, Portugal, Spain	Romania
Competitiveness and/or productivity/potential growth	France, Greece, Italy, Portugal	Romania
Household debt and/or house prices	Cyprus, the Netherlands, Portugal, Spain	Sweden
Corporate debt	Cyprus, Portugal, Spain	
Public debt/fiscal risk	Cyprus, France, Greece, Italy, Portugal, Spain	Romania
Financial sector/non-performing loans	Cyprus, Greece, Italy	
Labour market mismatches	Greece, Italy, Spain	

SOURCE: European Commission.

Table 3
2022 Macroeconomic Imbalance Procedure

	Euro area	Rest of EU
In-depth review not required	Austria, Belgium, Estonia, Finland, Latvia, Lithuania, Luxembourg, Malta, Slovakia, Slovenia	Bulgaria, Czechia, Denmark, Hungary, Poland
No imbalance	Ireland	Croatia
Imbalance	France, Germany, the Netherlands, Portugal, Spain	Romania, Sweden
Excessive imbalance	Cyprus, Greece, Italy	

SOURCE: European Commission.

policies they will adopt to correct the imbalances detected in the MIP, they will serve for Member States to submit one of the two bi-annual reports required under the RRF framework. Further details on the NRP submitted by Spain are provided in the fifth section.

Country-specific recommendations

As noted earlier, one of the main developments this year is the reintroduction of CSRs. Also, the high energy prices resulting from Ukraine's invasion by Russia have led to the inclusion of a new country-specific recommendation tailored to each Member State with the aim of reducing dependence on fossil fuels, in line with the REPowerEU objectives. The recommendation takes into consideration the need for Member States to accelerate the deployment of renewable energy and the necessary infrastructure, as well as increasing energy efficiency to reduce energy consumption overall. It also considers the need and potential to increase the capacity of interconnections across the EU.

The reports identify key outstanding or newly emerging challenges not sufficiently covered by commitments undertaken in the RRPs, which are the basis for this year's CSRs. This "gap analysis" and the related recommendations notably take into account the need to reduce energy dependencies following Russia's invasion of Ukraine, in line with the REPowerEU priorities, and to properly address the related socio-economic implications.

Given the comprehensiveness of the RRPs, the new country-specific recommendations address a limited number of additional reform and investment challenges, since the Member States must mainly focus on the timely implementation of the RRPs. Therefore, the EC proposes that the Council address to all Member States whose RRPs have been approved: (i) a recommendation on fiscal policy, including fiscal-structural reforms where relevant; (ii) a recommendation on the implementation of the RRP and the cohesion policy programmes; (iii) a recommendation on energy policy in line with the objectives of REPowerEU; and (iv) where relevant, an additional recommendation on outstanding and/or emerging structural challenges based on the gap analysis. These changes in the reform and investment priorities to respond to the challenges deriving from the energy crisis are reflected in the recommendation policy areas. Thus, both in the EU as a whole and in the case of Spain the recommendations associated with the green transition and those addressing the related socio-economic consequences stand out. The scope of the recommendations is broader for those Member States whose RRPs were not approved as at May, such as Hungary, the Netherlands and Poland (see Chart 1).

Turning to the fiscal policy recommendations, despite the extension of the general escape clause, the EC has shifted its stance by calling on all highly indebted countries to exercise restraint in their current government expenditure in 2023. In particular, it recommends limiting the growth of nationally financed primary current expenditure below medium-term potential output growth, albeit taking into account the impact of support to households and firms to mitigate the effects of energy prices and the costs associated with the war in Ukraine.[13] This recommendation can be viewed as a prelude to the new spending rule proposed by the EC, part of the fiscal policy reforms that have been suspended since the onset of the pandemic.

Regarding the assessment of compliance with the recommendations made in 2019 and 2020, some progress at least has been made, with 63% of the recommendations implemented (see Chart A1.3). As compared with last year's assessment, substantial progress has been achieved both in terms of the 2019 recommendations (which were more structural) and those of 2020 (more geared towards addressing the crisis). The headway in Spain exceeds the EU average, with at least some implementation progress made in 72% of the recommendations.

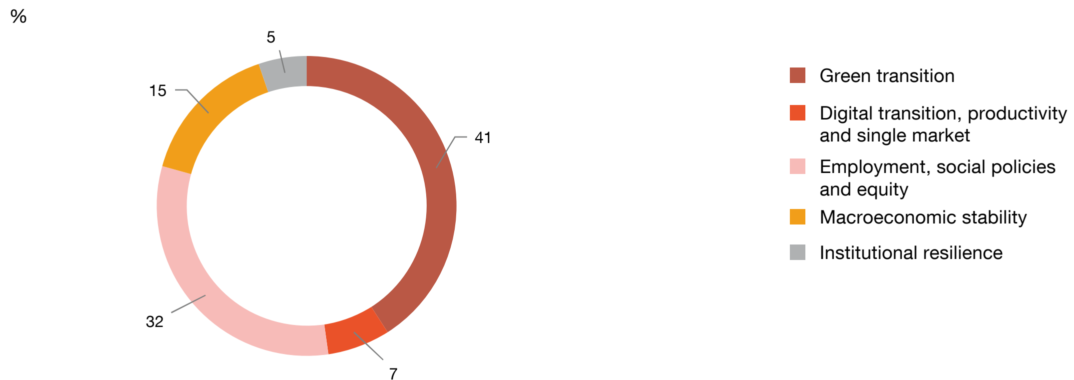
Spain has received four specific recommendations for 2023 (see Figure 2). The first, as discussed above, focuses on ensuring prudent fiscal policy by limiting the growth of current expenditure (thus safeguarding gradual debt reduction and fiscal sustainability over the medium term) and using the RRF and REPowerEU funds to expand public investment to benefit the digital and green

---

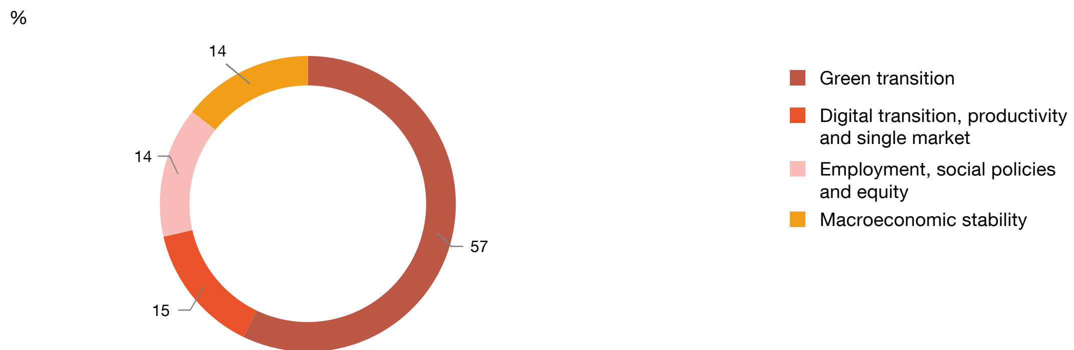
13 The Council Recommendation of 12 July 2022 takes into account the temporary and targeted support to households and firms most vulnerable to energy price hikes and the cost of helping people fleeing Ukraine.

Chart 1
Country-specific recommendations for 2022 (a)

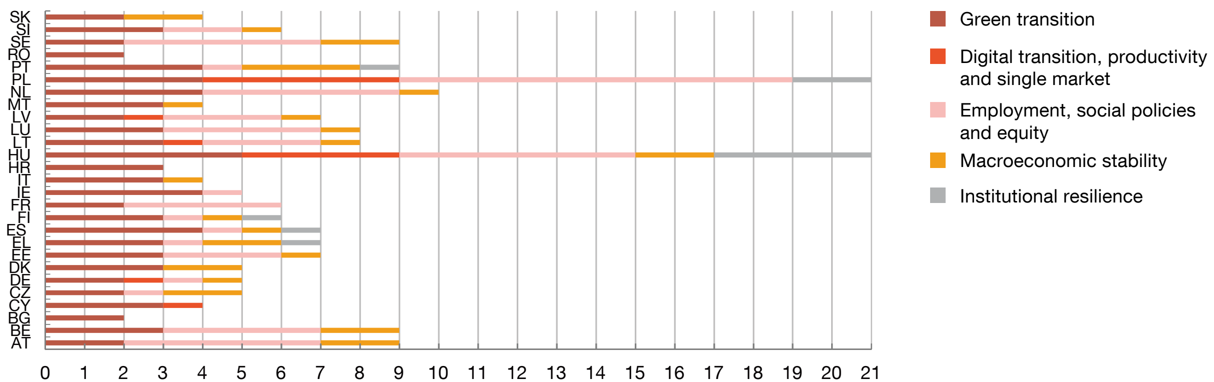
1.a European Union



1.b Spain



1.c Recommendations for EU countries, by policy area (b)



SOURCE: European Commission.

a The charts show the number (or percentage) of recommendations in 2022 by policy area, according to the EC classification.
b AT: Austria, BE: Belgium, BG: Bulgaria, CY: Cyprus, CZ: Czechia, DE: Germany, DK: Denmark, EE: Estonia, EL: Greece, ES: Spain, FI: Finland, FR: France, HR : Croatia, HU: Hungary, IE: Ireland, IT: Italy, LT: Lithuania, LU: Luxembourg, LV: Latvia, MT: Malta, NL: the Netherlands, PL: Poland, PT: Portugal, RO: Romania, SE: Sweden, SI: Slovenia, SK: Slovakia.

Figure 2
Council Recommendation on the 2022 National Reform Programme of Spain

CSR	RECOMMENDED MEASURES
CSR 1	— Limit the growth of nationally financed current expenditure below medium-term potential output growth, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine — Expand public investment for the green and digital transitions, and for energy security — Pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring credible and gradual debt reduction and fiscal sustainability in the medium term
CSR 2	— Proceed with the implementation of the RRP — Submit the 2021-2027 cohesion policy programming documents and begin their implementation
CSR 3	— Increase recycling rates to meet EU targets — Promote the circular economy by encouraging better coordination between different levels of government and new investments to fulfil obligations regarding separate waste collection and recycling, and to foster water reuse
CSR 4	— Reduce overall reliance on fossil fuels — Accelerate the development of renewable energy, with emphasis on decentralised installations and self consumption, streamlining permitting procedures and improving access to the grid — Support complementary investment in storage, network infrastructure, the electrification of buildings and transport, and renewable hydrogen — Increase energy interconnection capacity — Increase the availability of energy-efficient social and affordable housing, particularly through renovation

SOURCE: European Commission.

transitions and energy security. The second recommendation is to proceed with the implementation of the country's Recovery, Transformation and Resilience Plan (RTRP), and to submit the 2021-2027 cohesion policy programming documents with a view to starting their implementation. The third focuses on increasing recycling rates to meet EU targets and promote the circular economy. Lastly, the fourth recommendation aims to reduce reliance on fossil fuels by (i) streamlining permitting procedures and improving access to the grid for decentralised installations and self-consumption, (ii) supporting investment in energy interconnection, storage, network infrastructure, the electrification of buildings and transport and renewable hydrogen, and (iii) increasing the availability of energy-efficient social and affordable housing.

Recovery and Resilience Facility: implementation and new developments

The RRF entered into force in 2021 following the preparation and submission of the RRPs by the Member States. The implementation phase is in full swing in 2022, progressing in line with the timetable of reforms and investments established by the Member States. At the date of this paper going to press, only Hungary's plan[14] has not yet been approved by the European Council

14 Hungary's plan was recently approved by the EC, but subject to the implementation of a series of measures related to the rule of law.

and 21 countries have received payments amounting to €137 billion: €92 billion in grants (out of a total of €338 billion) and €45 billion in loans (out of a maximum of €385.8 billion).[15] Further, seven Member States have received the first disbursements (€80 billion) conditional on the satisfactory fulfilment of the milestones and targets set out in the RRPs.[16] To date, all payment requests have received positive assessments from the EC and, broadly speaking, in a timely manner. However, most of the payments approved thus far are associated with the introduction of legislative reforms, which are generally easier to implement than investments (see Chart 2). There are also indications of some investments falling behind schedule.[17]

Administrative bottlenecks and supply-side disruptions are emerging as key challenges for implementation of the RRPs. All reforms and investments must be completed before end-2026. Given the attendant complexities and the limited time horizon, RRP implementation is testing governments' capabilities, particularly in the main recipient countries. Bottlenecks are also emerging in the private sector, amid persistent supply-side disruptions and higher investment costs. Specifically, the green and digital transition-related investments are highly intensive in certain critical equipment and commodities that are in global shortage (e.g. semiconductors and metals). Other projects seem to be affected by the current scarcity of skilled labour in some sectors, such as construction.

Second, the measures agreed in the RRPs may be revised following the update of the Member States' grant allocation. The pandemic has hit economic activity harder than had been anticipated in late 2020. As a result, Spain and five other Member States will receive more funds than initially envisaged, nineteen will receive less funds and two will receive the same amount as initially anticipated (see Chart 3). In particular, Spain's allocation is now €77.2 billion (up 11%), accounting for 22.9% of all funds assigned, compared with 20.6% before the update. The other countries whose allocation has been revised up are Portugal (by 11.5%), Germany (9.4%), Austria (8.6%), Czechia (8.4%) and Italy (0.1%), while 13 Member States have seen their amounts reduced by more than 10%, including Belgium and the Netherlands (both down by more than 20%). The measures agreed in the RRPs could be revised as a result of these allocation changes, which might delay plan implementation. Further, the RRPs could also be revised as a result of the adoption of the EC's proposal to redirect the remaining RRF loans with a view to financing measures that will help end the EU's dependence on Russian energy imports (the REPowerEU plan).

Despite the implementation risks, the RRF seems to be having more success in driving the necessary reforms and aligning national policy plans with the EU's political priorities than the European Semester itself over the past decade. The EC reports that just 6% of the CSRs issued under the European Semester between 2011 and 2019 have been fully implemented (see Chart A1.2). Moreover, according to the Organisation for Economic Co-operation and Development (OECD), the reforms envisaged in the RRPs can have a positive effect on the functioning of

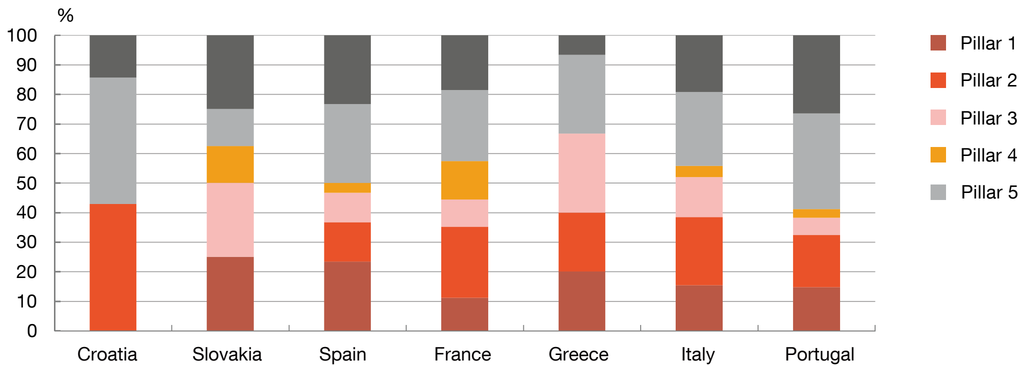
15 The RRF has a budget of up to €723.8 billion to support investments and reforms in the period 2021-2026. This total is divided into non-repayable grants from the EC to Member States (up to €338 billion) and loans to Member States (up to €385.8 billion if used in full).

16 The remaining 42% is pre-financing, i.e. unconditional grants equivalent to 13% of the total requested by each country.

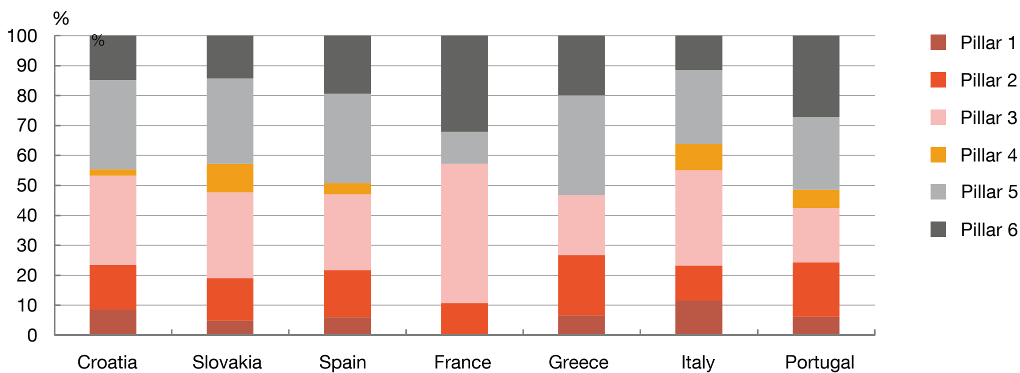
17 ECB (2022).

Chart 2
Progress in fulfilment of the RRP milestones and targets (a) (b)

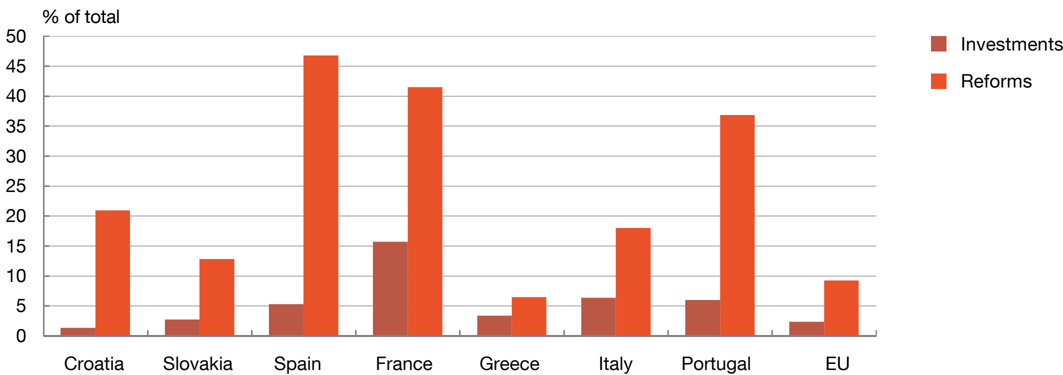
2.a Investments completed, by EC pillar



2.b Reforms implemented, by EC pillar



2.c Implementation of investments and reforms

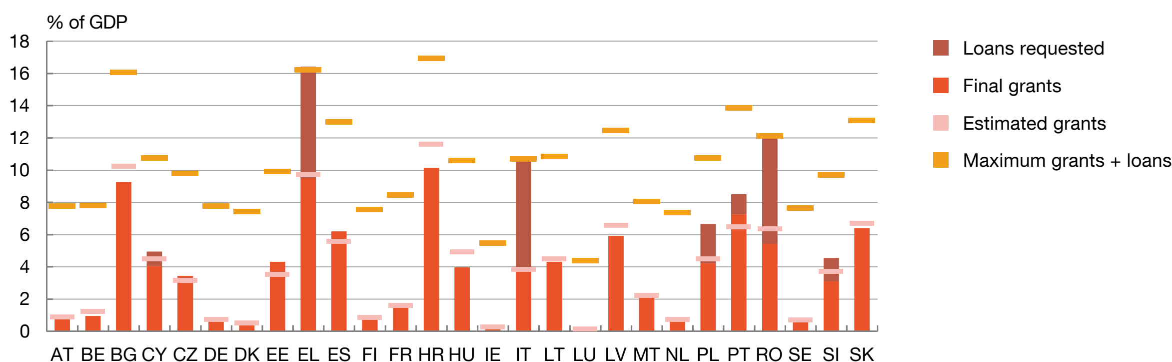


SOURCE: European Commission.

a Multi-year implementation assesses the degree of compliance from the time the recommendations were adopted to February 2020. The EC provides the data for the EU and the Member States separately. Estimates for the euro area are made drawing on individual data. Recommendations with at least some progress are those classified as "some progress" at a minimum. The progress assessment does not include the degree of compliance with the SGP.

b In the multi-year 2011-2019 assessment of EU countries with imbalances or excessive imbalances, the countries at any time in this category from 2011 to 2019 are taken.

Chart 3
Grants and loans from the RRF (a) (b)



SOURCE: European Commission.

a Final grants data published by the EC on 30 June 2022. Estimated RRF grants are drawn from Annex IV of the Regulation on the Recovery and Resilience Facility, based on the EC's 2020 autumn forecasts. Under the Regulation, the final amount of the subsidies will be calculated in mid-2022. Maximum RRF loans: 6.8% of 2019 gross national income at current euro prices.

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

product and service markets, thus helping to promote competition, which in turn fosters productivity, employment and investment.[18] However, implementation will be key and not all reforms can be considered additive, since some were already planned or implemented before to the RRPs were adopted.[19]

In late April Spain submitted its 2022 NRP, which set out the measures adopted to fulfil the milestones and targets envisaged in the RRP. A new payment of NGEU funds (€12 billion) was approved based on this new plan.[20] Spain's NRP envisages the fulfilment of 40 milestones and targets, which, together with the 52 milestones and targets fulfilled in 2021 H1, represents nearly 25% of the commitments undertaken as part of the RTRP.

The main milestones reached include headway in reforms to the pension system and the labour market. In the case of the pension reforms, purchasing power has been safeguarded by indexing pensions to CPI, incentives for later retirement have been introduced and the sustainability factor approved in 2013 has been replaced by a new intergenerational equity mechanism. Further, the RTRP envisages additional changes to complement the pensions reform, with a view to guaranteeing the system's financial sustainability, the adequacy and sufficiency of pension benefits and intergenerational equity. Certain measures have been approved over the course of the year (e.g. a new contributions system for the self-employed and a reform to foster occupational pension schemes), while others remain under discussion (such as changes to the regulatory base

18 OECD (2022). Analysis based on the quantification approach developed by Égert and Gal (2017).

19 For a discussion of the importance for the Spanish economy of taking full advantage of the implementation of the NRP, and the challenge that this poses, see, for example, Banco de España (2022) and Cuadrado et al. (2022).

20 Gobierno de España (2022).

calculation period and a higher maximum contribution base coupled with changes in the maximum pension). The operational arrangements of the RTRP include a commitment to complete the pension system reform by 2022 Q4, when projections will have to be published showing how the changes implemented ensure the system's long-term sustainability. As for the labour reforms, the available contract types have been amended to promote permanent hiring and training, the RED mechanism[21] has been set up to bolster employment stability and firms' internal flexibility, and temporary employment in the public sector has been reduced. The modernisation of the vocational training system and the regulation of delivery work through digital platforms will also help improve labour market performance.

Regarding the green and digital transitions, the Government has approved (i) a law on waste and contaminated land for the circular economy, (ii) a roadmap for offshore wind and other marine energy, (iii) the secure, sustainable and connected mobility strategy, and (iv) a charter of digital rights, with fiscal measures also adopted to accelerate the roll-out of the 5G network. Also relevant here are the enactment of the General Law on Telecommunications (in late June) and the General Law on Audiovisual Communication (early July), although both came into force after the publication of the NRP. Initiatives have also been set in train to strengthen resilience, economic growth and territorial cohesion, such as the modernisation of the State tax revenue service, the Primary and Community Care Action Plan and measures to improve the functioning of the food supply chain. Significant headway has been made in terms of entrepreneurship and microfirms, with the Create and Grow Law, the Startup Law and the reform of the Insolvency Law. Meanwhile, the Housing Law is currently before parliament.

Conclusions

The European Semester and the implementation of the RRPs provide the framework for EU policy coordination. As a result of the pandemic, and to adapt to an ever-changing environment, the European Semester is currently undergoing significant restructuring to avoid overlaps and eliminate unnecessary administrative burdens stemming from the launch and implementation of the RRF. The European Semester, with its broader scope and multilateral surveillance, complements the implementation of the NRPs that will drive the Member States' reforms and investment agendas over the coming years. The two processes will therefore remain intrinsically linked. In this respect, the comprehensive reform plans fuelled by the RRF contrast with the European Semester's weak reform momentum over the last decade. They also appear to be enjoying greater success in aligning national political plans with the EU's political priorities.[22]

The European Semester's emphasis on coordinating and financing national policies highlights the absence of a truly European fiscal policy. The lessons learned from the political responses to the recent economic disruptions, including the relationship between reforms and investment under

21 A new type of furlough scheme for economic, technical, organisational or production reasons, allowing firms to reduce working hours during crisis situations or cyclical changes in demand.

22 A 2018 report by the European Court of Auditors on the macroeconomic imbalances procedure found a low level of economic policy recommendation implementation (European Court of Auditors, 2018).

the RRF, have provided the basis for the Commission's proposed reforms of the fiscal rules framework.[23] The proposed reforms are also shaped by higher levels of public debt and the need to facilitate investments in the EU's common priorities, in particular to ensure the ecological and digital transitions and shore up energy security in the years ahead.

Fiscal rules are essential in a monetary union. Countries must maintain prudent fiscal policy and undertake reforms to drive up their productivity and safeguard the sustainability of their debt, thus providing them with greater fiscal headroom to tackle the next crisis. Any improvement to this framework is therefore to be welcomed.[24] However, no permanent fiscal capacity is included in the proposal, not even a modest one. The common challenges facing the Member States as a whole cannot be addressed with national measures alone, particularly in a setting as uncertain as the current one. Supranational instruments and institutions are also required.

REFERENCES

Alonso, Daniel, Iván Kataryniuk, Carlos Moreno and Javier J. Pérez. (2022). "El programa Next Generation EU: características y claves para su éxito". *Revista de Economía - Información Comercial Española (ICE),* 924, pp. 77-97.

Alloza, Mario, Javier Andrés, Pablo Burriel, Iván Kataryniuk, Javier J. Pérez and Juan Luis Vega. (2021). "The reform of the EU's fiscal governance framework in a new macroeconomic environment". *Occasional Papers - Banco de España,* 2121.

Banco de España. (2022). "Challenges and policies for sustainable and balanced growth of the Spanish economy". Banco de España, *Annual Report 2021,* pp. 135-188.

Cuadrado, Pilar, Mario Izquierdo, José Manuel Montero, Enrique Moral-Benito and Javier Quintana. (2022). "The potential growth of the Spanish economy after the pandemic". *Occasional Papers – Banco de España,* 2208.

ECB. (2022). "The economic impact of Next Generation EU: a euro area perspective". *ECB Occasional Paper Series,* 291.

Égert, Balázs, and Peter Gal. (2017). "The quantification of structural reforms in OECD countries: A new framework", *OECD Journal: Economic Studies,* vol. 2016/1.

European Commission. (2020). *Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact,* COM(2020), pp. 123 final.

European Commission. (2021). *Alert Mechanism Report,* COM(2021), pp. 741 final.

European Commission. (2022a). *Communication on orientations for a reform of the EU economic governance framework,* COM(2022), pp. 583 final.

European Commission. (2022b). *Report on compliance with the deficit and debt criteria,* COM(2022), pp. 630 final.

European Court of Auditors. (2018). *Audit of the Macroeconomic Imbalance Procedure (MIP),* Special Report, 03.

Gobierno de España. (2022). *Programa nacional de reformas 2022,* 15 April.

Matea, María de los Llanos (2012). "Nuevo marco de vigilancia de los desequilibrios macroeconómicos de la UE". *Boletín Económico – Banco de España,* March, pp. 45-56.

OECD. (2022). *Assessment of the links between the European National Recovery and Resilience Plans and the OECD Product Market Regulation Indicators.* ECO/CPE/WP1(2022)11.

23 European Commission (2022a).

24 The present rules have been characterised by excessive complexity, leading to limited transparency and predictability, and an inability to avoid the pro-cyclicality of fiscal policies (Alloza et al., 2021).

How to cite this document

Alonso, Daniel, and María de los Llanos Matea. (2023). “The 2022 European Semester and the Recovery and Resilience Facility”. *Economic Bulletin - Banco de España, 2023/Q1*, 04. https://doi.org/10.53479/24997

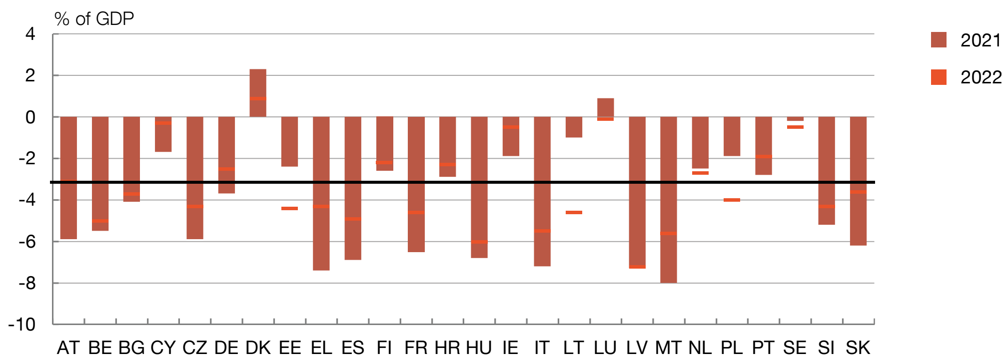
Reproduction for educational and non-commercial purposes is permitted provided that the source is acknowledged.
© Banco de España, Madrid, 2023
ISSN 1695 - 9086 (online edition)

Annex 1

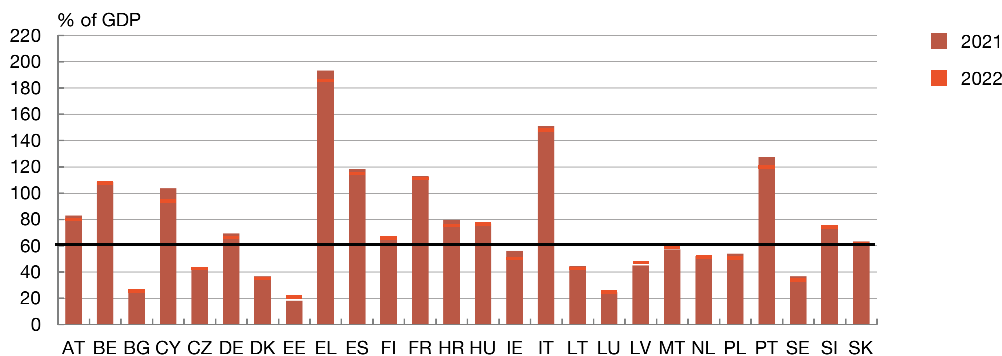
Chart A1.1

Compliance with deficit and debt criteria (a)

A1.1.a General government deficit



A1.1.b General government debt

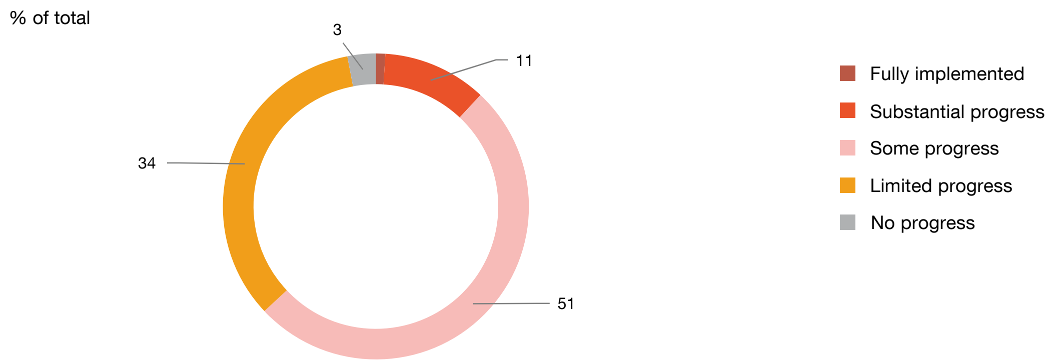


SOURCE: European Commission Spring Forecast (AMECO).

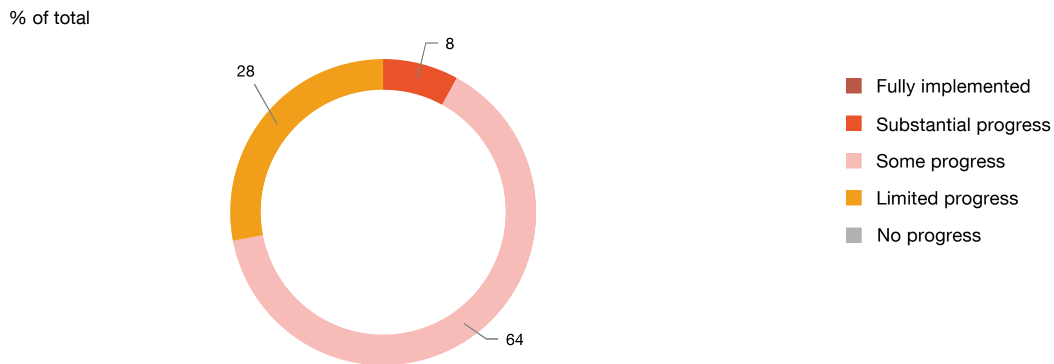
a AT: Austria; BE: Belgium; BG: Bulgaria; CY: Cyprus; CZ: Czechia; DE: Germany; DK: Denmark; EE: Estonia; EL: Greece; ES: Spain; FI: Finland; FR: France; HR: Croatia; HU: Hungary; IE: Ireland: IT: Italy; LT: Lithuania; LU: Luxembourg; LV: Latvia; MT: Malta; NL: Netherlands; PL: Poland; PT: Portugal;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

Chart A1.2
Progress in compliance with the recommendations (a)

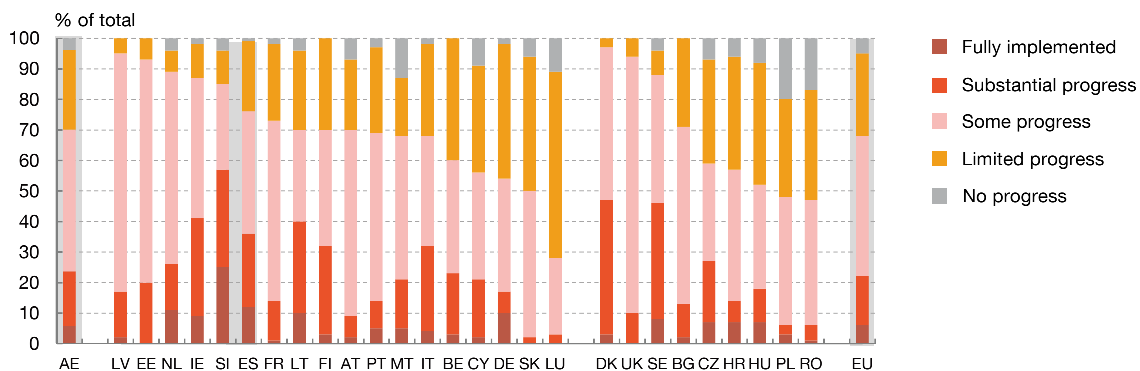
A1.2.a EU. Implementation of 2019-2020 recommendations



A1.2.b Spain. Implementation of 2019-2020 recommendations



A1.2.c Multi-year implementation of specific recommendations, by country (2011-2019) (b) (c)



SOURCE: European Commission.

a Multi-year implementation assesses the degree of compliance from the time the recommendations were adopted to February 2020. The EC provides the data for the EU and the Member States separately. Estimates for the euro area are made drawing on individual data. Recommendations with at least some progress are those classified as “some progress” at a minimum. The progress assessment does not include the degree of compliance with the SGP.

b In the multi-year 2011-2019 assessment of EU countries with imbalances or excessive imbalances, the countries at any time in this category from 2011 to 2019 are taken.

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

Table A1.1
Base indicators for the preparation of the 2022 Alert Mechanism Report (a)

2019	External imbalances and competitiveness					Internal imbalances						Employment indicators		
	Current account (% of GDP) (3-year average)	Net international investment position (% of GDP)	Real effective exchange rate (42 trading partners; deflator: HICP) (% change in 3 years)	Export share (as % of global exports) (% change in 5 years)	Nominal ULCs (2010 = 100) (% change in 3 years)	Deflated house prices (2015 = 100) (annual % change)	Flow of credit to consolidated private sector (% of GDP)	Consolidated private sector debt (% of GDP)	Public sector debt (% of GDP)	Unemploy-ment rate (3-year average)	Financial sector total liabilities, non-consolidated (y-o-y rate of change)	Participation rate (% total population 15-64 years) (3-year change, in pp)	Long-term unemployment rate (% labour force 15-74 years) (3-year, change, in pp)	Youth unemployment rate (% labour force 15-24 years) (3-year change, in pp)
Limit	-4 / +6%	-35%	±5% (EA) ±11% (non-EA)	-6%	±9% (EA) ±12% (non-EA`	6%	14%	133%	60%	10%	16.5%	-0.2 pp	0.5 pp	2 pp
BE	0.1	44.4	2.5	10.9	7.5	3.6	1.1	192.0	112.8	5.7	8.8	0.6	-1.2	-4.0
BG	0.8	-26.3	7.1	16.0	20.4	5.2	4.2	94.3	24.7	4.8	11.1	0.9	-1.1	1.3
CZ	1.5	-12.5	5.6	10.1	19.2	5.5	2.4	81.9	37.7	2.3	3.4	0.5	-0.4	0.1
DK	8.1	68.8	0.9	11.5	6.2	4.6	4.8	220.9	42.1	5.2	5.7	1.1	-0.3	-0.8
DE	7.4	61.7	2.4	1.3	11.1	7.1	6.0	120.1	68.7	3.4	11.3	1.1	-0.5	0.6
EE	1.0	-21.5	5.3	17.6	17.1	6.9	3.6	104.4	19.0	5.5	17.5	0.5	-0.7	5.8
IE	-5.8	-174.0	-1.2	50.0	-6.3	-0.2	-1.8	188.9	58.4	5.5	7.2	-0.8	-1.7	0.9
EL	-3.7	-175.0	0.4	-10.1	6.4	5.5	5.4	125.3	206.3	17.6	27.4	-0.9	-4.7	-8.6
ES	1.6	-85.5	1.1	-6.8	11.0	2.2	4.4	146.4	120.0	15.0	9.5	-1.7	-2.7	-0.3
FR	-1.0	-30.2	2.7	-6.9	4.6	4.4	13.0	173.7	115.0	8.5	11.6	-0.5	-1.3	-1.9
HR	1.6	-47.8	0.5	0.1	13.7	7.3	1.3	98.0	87.3	7.5	7.3	0.7	-2.5	-6.3
IT	3.2	2.4	0.6	-2.8	5.5	2.2	4.1	118.9	155.6	9.9	6.8	-1.3	-1.8	-5.3
CY	-6.6	-136.7	0.1	28.5	5.8	0.7	-2.6	260.5	115.3	7.7	-2.5	1.9	-2.4	-6.5
LV	0.7	-34.7	5.9	18.2	18.4	2.7	-1.8	66.5	43.2	7.3	10.8	1.2	-1.1	-2.1
LT	3.7	-15.8	6.9	39.3	18.3	6.4	0.3	54.7	46.6	7.0	28.5	2.6	-0.2	6.3
LU	4.5	39.9	1.5	20.6	11.1	13.8	44.5	316.8	24.8	6.0	-3.6	2.0	-0.4	7.8
HU	-0.7	-48.1	-4.9	8.2	13.2	1.9	7.7	76.4	80.1	3.8	55.3	1.6	-0.6	2.1
MT	3.0	60.3	2.1	13.2	19.7	2.2	9.0	139.1	53.4	3.9	1.9	4.9	-0.9	0.3
NL	9.1	113.9	3.8	7.4	14.0	6.0	-1.3	233.7	54.3	3.7	3.3	1.2	-1.0	0.2
AT	1.6	9.3	3.2	5.2	12.2	6.2	4.7	131.2	83.2	4.9	10.6	0.2	-0.5	0.7
PL	0.7	-44.5	1.1	36.9	12.3	7.1	1.5	75.9	57.4	3.5	11.7	1.4	-0.9	-4.0
PT	0.0	-106.4	0.0	-0.9	16.2	7.7	4.4	163.7	135.2	6.8	7.2	-0.4	-2.2	-1.3
RO	-4.9	-48.3	3.4	20.6	26.1	2.3	1.3	48.5	47.4	4.4	13.4	1.9	-0.5	-1.0
SI	6.4	-15.2	1.9	20.2	14.9	5.2	-0.9	69.7	79.8	4.9	14.0	0.4	-1.2	3.0
SK	-1.8	-65.7	5.3	8.1	16.4	7.2	3.7	95.3	59.7	6.3	9.9	0.3	-1.9	0.4
FI	-0.4	-5.3	2.3	12.3	6.1	1.3	6.5	155.2	69.5	7.3	7.7	1.6	-0.9	1.3
SE	4.6	16.4	-4.8	4.5	9.4	3.0	11.6	215.7	39.7	7.2	11.2	0.0	-0.1	6.0

SOURCE: European Commission, 2021 AMR.

a The shaded figures are higher than the reference values. AT: Austria; BE: Belgium; BG: Bulgaria; CY: Cyprus; CZ: Czechia; DE: Germany; DK: Denmark; EE: Estonia; EL: Greece; ES: Spain; FI: Finland; FR: France; HR: Croatia; HU: Hungary; IE: Ireland: IT: Italy; LT: Lithuania; LU: Luxembourg; LV: Latvia; MT: Malta; NL: Netherlands; PL: Poland; PT: Portugal; RO: Romania; SE: Sweden; SI: Slovenia; SK: Slovakia; UK: United Kingdom.