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Recommendation for a

COUNCIL RECOMMENDATION

on the 2022 National Reform Programme of Spain and delivering a Council opinion on the 2022 Stability Programme of Spain

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Recommendation for a

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THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 5(2) thereof,

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

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[3], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It contributes to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transition, while strengthening the resilience and potential growth of the Member States' economies. It also helps strengthen sustainable public finances and boost growth and job creation in the medium and long term. The maximum financial contribution per Member State under the Recovery and Resilience Facility [was] updated on [XX] June 2022, in line with Article 11(2) of Regulation (EU) 2021/241.

(2) On 24 November 2021, the Commission adopted the Annual Sustainable Growth Survey, marking the start of the 2022 European Semester for economic policy

1 OJ L 209, 2.8.1997, p. 1.
2 OJ L 306, 23.11.2011, p. 25.
3 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

coordination. It took due account of the reaffirmed joint commitment of the Porto Social Summit of May 2021 to further implement the European Pillar of Social Rights proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. The European Council endorsed the priorities of the 2022 Annual Sustainable Growth Survey on 25 March 2022. On 24 November 2021, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the Alert Mechanism Report, in which it identified Spain as one of the Member States for which an in-depth review[4] would be needed. On the same date, the Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which was adopted on 5 April 2022 by the Council, as well as the proposal for the 2022 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which was adopted by the Council on 14 March 2022.

(3) Russia's invasion of Ukraine, in the wake of the global pandemic, has significantly altered the geopolitical and economic context. The impact of the invasion on Member States' economies has been felt for example through higher energy and food prices and weaker growth prospects. The higher energy prices weigh particularly on the most vulnerable households experiencing or at risk of energy poverty. The EU is also seeing an unprecedented inflow of people fleeing Ukraine. In this context, on 4 March 2022, the Temporary Protection Directive was triggered[5] for the first time, granting displaced persons from Ukraine the right to legally stay in the EU, as well as access to education and training, labour market, healthcare, housing and social welfare.

(4) Taking account of the rapidly changing economic and geopolitical situation, the European Semester resumes its broad economic and employment policy coordination in 2022, while evolving in line with the implementation requirements of the Recovery and Resilience Facility, as outlined in the 2022 Annual Sustainable Growth Survey. The implementation of the adopted recovery and resilience plans is essential for the delivery of the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in the 2019 and 2020 Semester cycles. The 2019 and 2020 country-specific recommendations remain equally relevant also for recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241, in addition to any country-specific recommendations issued up to the date of submission of the modified plan.

(5) The General Escape Clause has been active since March 2020[6]. In its Communication of 3 March 2021[7], the Commission set out its view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the EU or euro area compared to pre-crisis levels (end-2019) as a key quantitative

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4 Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances, OJ L 306, 23.11.2011, p. 25.

5 Council Implementing Decision (EU) 2022/382 of 4 March 2022 establishing the existence of a mass influx of displaced persons from Ukraine within the meaning of Article 5 of Directive 2001/55/EC, and having the effect of introducing temporary protection, OJ L 71, 4.3.2022, p. 1.

6 Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact, Brussels, 20.3.2020, COM(2020) 123 final.

7 Communication from the Commission to the Council on one year since the outbreak of COVID-19: fiscal policy response, Brussels, 3.3.2021, COM(2021) 105 final.

criterion. Heightened uncertainty and strong downside risks to the economic outlook in the context of war in Europe, unprecedented energy price hikes and continued supply chain disturbances warrant the extension of the general escape clause of the Stability and Growth Pact through 2023.

(6) Following the approach in the Council opinion of 18 June 2021 on the 2021 Stability Programme, the fiscal stance is currently best measured as the change in primary expenditure (net of discretionary revenue measures), excluding COVID-19 crisis-related temporary emergency measures but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term potential growth[8]. Going beyond the overall fiscal stance, in order to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions, attention is also paid to the evolution of nationally financed[9] primary current expenditure (net of discretionary revenue measures and excluding COVID-19 crisis-related temporary emergency measures) and investment.

(7) On 2 March 2022, the Commission adopted a Communication providing broad guidance for fiscal policy in 2023, aiming at supporting the preparation of Member States' Stability and Convergence Programmes and thereby strengthening policy coordination[10]. The Commission noted that, based on the macroeconomic outlook of the 2022 winter forecast, transitioning from an aggregate supportive fiscal stance in 2020-2022 to a broadly neutral aggregate fiscal stance would appear appropriate in 2023, while standing ready to react to the evolving economic situation. The Commission announced that the fiscal recommendations for 2023 should continue to differentiate across Member States and take into account possible cross-country spillovers. The Commission invited the Member States to reflect the guidance in their Stability and Convergence Programmes. The Commission committed to closely monitor the economic developments and adjust its policy guidance as needed and at the latest in its Semester spring package of late May 2022.

(8) With respect to the fiscal guidance provided on 2 March 2022, the fiscal recommendations for 2023 take into account the worsened economic outlook, the heightened uncertainty and further downside risks, and the higher inflation compared to the winter forecast. Against these considerations, the fiscal response has to expand public investment for the green and digital transition and energy security, and sustain the purchasing power of the most vulnerable households so as to cushion the impact of the energy price hike and help limit inflationary pressures from second round effects via targeted and temporary measures; fiscal policy has to remain agile so as to adjust to the rapidly evolving circumstances, and be differentiated across countries depending on their fiscal and economic situation, including as regards the exposure to the crisis and the inflow of displaced persons from Ukraine.

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8 The estimates on the fiscal stance and its components in this recommendation are Commission estimates based on the assumptions underlying the Commission 2022 spring forecast. The Commission's estimates of medium-term potential growth do not include the positive impact of reforms that are part of the Recovery and Resilience Plan and that can boost potential growth.

9 Not financed by grants from the Recovery and Resilience Facility and other EU funds.

10 Communication from the Commission to the Council: Fiscal policy guidance for 2023, Brussels, 2.3.2022, COM(2022) 85 final.

(9) On 30 April 2021, Spain submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines of Annex V to that Regulation. On 13 July 2021, the Council adopted its Decision on the approval of the assessment of the recovery and resilience plan for Spain[11]. The release of instalments is conditional on a decision by the Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241, that Spain has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

(10) On 30 April 2022, Spain submitted its 2022 National Reform Programme and, on 29 April 2022, its 2022 Stability Programme, in line with the deadline established in Article 4 of Regulation (EC) No 1466/97. To take account of their interlinkages, the two programmes have been assessed together. In accordance with Article 27 of Regulation (EU) 2021/241, the 2022 National Reform Programme also reflects Spain's bi-annual reporting on the progress made in achieving its recovery and resilience plan.

(11) The Commission published the 2022 country report for Spain[12] on 23 May 2022. It assessed Spain's progress in addressing the relevant country-specific recommendations adopted by the Council in 2019, 2020 and 2021, and took stock of Spain's implementation of the recovery and resilience plan, building on the Recovery and Resilience Scoreboard. Based on this analysis, the country report identified gaps with respect to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges, including those emerging from Russia's invasion of Ukraine. It also assessed Spain's progress on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.

(12) The Commission carried out an in-depth review under Article 5 of Regulation (EU) No 1176/2011 for Spain and published its results on 23 May 2022[13]. The Commission concluded that Spain is experiencing imbalances. In particular, vulnerabilities relate to high external, government and private debt, in a context of high unemployment, and have cross-border relevance.

(13) On 23 May 2022, the Commission issued a report under Article 126(3) TFEU. This report discussed the budgetary situation of Spain, as its general government deficit in 2021 exceeded the 3% of GDP Treaty reference value. The report concluded that the deficit criterion was not fulfilled. In line with the Communication of 2 March 2022, the Commission did not propose to open new excessive deficit procedures in spring 2022 and it will reassess the relevance of proposing to open excessive deficit procedures in autumn 2022.

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11 Council Implementing Decision of 13 July 2021 on the approval of the assessment of the recovery and resilience plan for Spain (ST 10150 2021 INIT and ST 10150 2021 ADD 1 REV 2).

12 SWD(2022)610 final.

13 SWD(2022)631 final.

(14) On 20 July 2020, the Council recommended Spain to take in 2020 and 2021 all necessary measures, in line with the general escape clause, to effectively address the pandemic, sustain the economy and support the ensuing recovery. It also recommended Spain to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. In 2021, based on data validated by Eurostat, Spain's general government deficit fell from 10.3% of GDP in 2020 to 6.9% in 2021. The fiscal policy response by Spain supported the economic recovery in 2021, while temporary emergency support measures declined from 3.9% of GDP in 2020 to 2.8% in 2021. The measures taken by Spain in 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 were mostly temporary or matched by offsetting measures. At the same time, some of the discretionary measures adopted by the government over the period 2020-2021 were not temporary or matched by offsetting measures, mainly consisting of current transfers to regions to cover new healthcare needs. Based on data validated by Eurostat, general government debt stood at 118.4 % of GDP in 2021.

(15) The macroeconomic scenario underpinning the budgetary projections in the 2022 Stability Programme is realistic. The government projects real GDP to grow by 4.3% in 2022 and 3.5% in 2023. By comparison, the Commission's 2022 spring forecast projects a lower real GDP growth of 4.0% in 2022 and 3.4% in 2023. In its 2022 Stability Programme, the government expects that the headline deficit will decrease to 5.0% of GDP in 2022 and to 3.9% in 2023. The decrease in 2022 mainly reflects the strong growth in economic activity, the tax revenue increase and the unwinding of most emergency measures. According to the Programme, the general government debt-to-GDP ratio is expected to decrease to 115.2% in 2022, and to decline to 112.4% in 2023. Based on policy measures known at the cut-off date of the forecast, the Commission 2022 spring forecast projects a government deficit for 2022 and 2023 of 4.9% of GDP and 4.4% respectively. This is in line with the deficit projected in the 2022 Stability Programme. The Commission 2022 spring forecast projects a similar general government debt-to-GDP ratio, of 115.1 % in 2022 and 113.7 % in 2023. The difference is partly due to the higher primary deficit projected for 2023.

Based on the Commission spring 2022 forecast, the medium-term (10-year average) potential output growth is estimated at 0.8%. However, this estimate does not include the impact of the reforms that are part of the Recovery and Resilience Plan and can boost Spain's potential growth.

(16) In 2022, the government phased out the majority of measures taken in response to the COVID-19 crisis, such that the temporary emergency support measures are projected to decline from 2.8% of GDP in 2021 to 0.4% in 2022. The government deficit is impacted by the measures adopted to counter the economic and social impact of the increase in energy prices, which in the Commission spring 2022 forecast are estimated at 0.4% of GDP in 2022 and 0.0% of GDP in 2023.[14] These measures mainly consist of social transfers to households, cuts to indirect taxes on energy consumption, subsidies to energy production and transfers to affected industries. These measures have been announced as temporary. However, in case energy prices remain elevated also in 2023 some of these measures could be continued. Some of these measures are

[14] The figures represent the level of annual budgetary costs of those measures taken since autumn 2021, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

not targeted, notably the suspension of the tax on energy production or the reduction of the special tax on electricity. The government deficit is also impacted by the costs to offer temporary protection to displaced persons from Ukraine, which in the Commission 2022 spring forecast are projected at 0.1% of GDP in 2022 and 0.1% in 2023.[15]

(17) On 18 June 2021, the Council recommended that in 2022 Spain[16] should use the Recovery and Resilience Facility to finance additional investment in support of the recovery while pursuing a prudent fiscal policy. Moreover, it should preserve nationally-financed investment. It also recommended Spain to pursue, when economic conditions allow, a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term, and at the same time, to enhance investment to boost growth potential.

(18) In 2022, based on the Commission's 2022 spring forecast and including the information incorporated in its 2022 Stability Programme, the fiscal stance is projected to be supportive at -2.2% of GDP.[17] Spain plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment as recommended by the Council. The positive contribution to economic activity of expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to increase by 0.9 percentage points of GDP compared to 2021. Nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.4 percentage points in 2022.[18] Therefore, Spain plans to preserve nationally financed investment, as recommended by the Council. At the same time, the growth in nationally-financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide an expansionary contribution of 1.2 percentage points to the overall fiscal stance. This significant expansionary contribution includes the additional impact of the measures to address the economic and social impact of the increase in energy prices (0.3% of GDP) as well as the costs to offer temporary protection to displaced persons from Ukraine (0.1% of GDP), while the higher increase in consumer prices compared to the GDP deflator is projected to affect the expansionary contribution of nationally financed primary current expenditure in 2022 by increasing spending on government consumption of goods and services. Based on the Commission's forecast, these measures are not fully matched by offsetting measures.

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15 The total number of displaced persons from Ukraine to the EU is assumed to gradually reach 6 million by the end of 2022, and their geographical distribution is estimated based on the size of the existing diaspora, the relative population of the receiving Member State, and the actual distribution of displaced persons from Ukraine across the EU as of March 2022. For budgetary costs per person, estimates are based on the Euromod microsimulation model of the Commission's Joint Research Centre, taking into account both cash transfers people may be eligible for as well as in-kind benefits such as education and healthcare.

16 Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Stability Programme of Spain, OJ C 304, 29.07.2021, p. 40.

17 A negative (positive) sign of the indicator corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term economic growth, indicating an expansionary (contractionary) fiscal policy.

18 Other nationally-financed capital expenditure is projected to provide a contractionary contribution of 0.3 percentage points of GDP, due to the gradual return to the pre-pandemic levels.

(19) In 2023, the fiscal stance is projected in the Commission 2022 spring forecast at 0.0% of GDP on a no-policy change assumption.[19] Spain is projected to continue using the grants from the Recovery and Resilience Facility in 2023 to finance additional investment in support of the recovery. The positive contribution to economic activity of expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to remain stable in 2023 compared to 2022. Nationally-financed investment is projected to provide a contractionary contribution to the fiscal stance of 0.1 percentage point in 2023.[20] At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2023 is projected to provide a broadly neutral contribution of +0.1 percentage point to the overall fiscal stance. This includes the impact from the phasing out of the measures addressing the increased energy prices (0.4% of GDP).

(20) In the 2022 Stability Programme, the general government deficit is expected to gradually decline to 3.3% of GDP in 2024 and to 2.9% by 2025. Therefore, the general government deficit is planned to go below 3% of GDP by 2025. According to the Programme, the general government debt-to-GDP ratio is expected to decrease by 2025, specifically with a decrease to 110.8% in 2024 and a further decline to 109.7% in 2025. Based on the Commission's analysis, debt sustainability risks appear high over the medium term.

(21) In accordance with Article 19(3), point (b) of Regulation (EU) 2021/241, and Annex V, criterion 2.2, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. These help address all or a significant subset of the economic and social challenges outlined in the country-specific recommendations addressed to Spain by the Council in the European Semester in 2019 and 2020, in addition to any country-specific recommendations issued up to the date of adoption of a plan. In particular, the recovery and resilience plan is expected to contribute substantially to addressing the country-specific recommendations on promoting public and private investment to help the recovery. In doing so, it is expected address the country-specific recommendations on investment in innovation and the digital and green transition of the country. The plan also includes measures to reduce the high share of temporary contracts in the private and public sectors and to reinforce active labour market policies. The plan is expected to help address the existing fragmentation of unemployment assistance, which resulted in gaps. It is also expected to contribute to the provision of labour market-relevant skills and qualifications that are expected to accompany Spain's green and digital transition. Access to digital learning can be significantly boosted by the plan through investment in devices and skills, but also by developing online courses. Educational outcomes may also improve as a result of investments at various stages of the education cycle. Measures in the plan also have the potential to help address country-specific recommendations asking Spain to improve the coverage and adequacy of its minimum income schemes and family support. The plan is also expected to strengthen public procurement frameworks and contribute to a better business environment. Moreover,

[19] A negative (positive) sign of the indicator corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term economic growth, indicating an expansionary (contractionary) fiscal policy.

[20] Other nationally-financed capital expenditure is projected to provide an expansionary contribution of 0.2 percentage points of GDP.

measures in the plan seeking a more effective public spending and tax system may contribute to fiscal sustainability.

(22) The implementation of the recovery and resilience plan of Spain is expected to contribute to making further progress on the green and digital transition. Measures supporting the climate objectives in Spain account for 40% of the plan's total allocation, while measures supporting digital objectives account for 28% of the plan's total allocation. The fully-fledged implementation of the recovery and resilience plan, in line with the relevant milestones and targets, will help Spain swiftly recover from the fallout of the COVID-19 crisis, while strengthening its resilience. The systematic involvement of social partners and other relevant stakeholders remains important for the successful implementation of the recovery and resilience plan, as well as other economic and employment policies going beyond the plan, to ensure broad ownership of the overall policy agenda.

(23) Spain has not yet formally submitted the Partnership Agreement and the other cohesion policy programming documents[21]. In line with Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021, Spain shall take into account the relevant country-specific recommendations in the programming of the 2021-2027 cohesion policy funds. This is a prerequisite for improving the effectiveness and maximising the added value of the financial support to be received from cohesion policy funds, while promoting the coordination, complementarity and coherence between these funds and other Union instruments and funds. The successful implementation of the Recovery and Resilience Facility and cohesion policy programmes also depends on the removal of bottlenecks to investment to support the green and digital transition and balanced territorial development.

(24) Beyond the economic and social challenges addressed by the recovery and resilience plan, Spain faces a number of additional challenges related to accelerating the green transition, energy interconnections, social and affordable energy-efficient housing and the circular economy. Policies to increase recycling rates and promote the circular economy can help limit the import of goods, contributing to improve external imbalances. In the medium and long run, meeting renewable and energy-efficiency targets and increasing energy interconnections can also be conducive to reducing dependence on fossil fuels and the high external debt.

(25) Spain would benefit from further decoupling economic growth from resource use to meet more ambitious EU targets, including the Fit-for-55 package. In this regard, the country's recycling rate for municipal waste and circular material use rate fall below the EU average, while the share of waste being landfilled is well above it. Sustained coordination across different levels of government and additional investment can help Spain meet separate collection and recycling obligations. Achieving recycling targets has been cascaded downwards to lower levels of government. However, instruments to enforce them may not be sufficiently effective. Hence, additional reforms could reinforce coordination between the different levels of government, including for a common interpretation of provisions and for the planning and use of waste treatment

[21] Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy. OJ L 231, 30.6.2021, p. 159.

infrastructure. Further support from the Technical Support Instrument can help spread best practice. Additional investments to strengthen Spain's recycling capacity may be warranted, including to promote the circular economy in specific sectors. Moreover, innovation and investment to promote the circular economy are key to ensuring higher resource efficiency. Spain also suffers from water scarcity and needs to develop further the potential of water reuse, including from a circular economy perspective.

(26) In response to the mandate by the EU Heads of State or Government set out in the Versailles Declaration, the REPowerEU plan aims to phase out the European Union's dependence on fossil fuel imports from Russia as soon as possible. For this purpose, the most suitable projects, investments and reforms at national, regional and EU level are being identified in dialogue with the Member States. These measures aim to reduce overall reliance on fossil fuels and shift fossil fuel imports away from Russia.

(27) According to 2020 data, Spain's dependence on Russia is at 2% for oil and 10% for gas, well below EU averages (26% and 44%, respectively). Spain's dependence on Russian coal is similar to the rest of the EU (55%), but in a context where the share of solid fossil fuels in the energy mix (2.8%) is much lower than the EU average[22]. Although it has limited exposure to Russian oil and gas, the current geopolitical situation and high energy prices increase the urgency for Spain to further step up its efforts to meet the renewables targets laid down in its National Energy and Climate Plan. Building on the Plan, additional measures to support renewable deployment (with a focus on decentralised installations and self-consumption, including by further streamlining permitting procedures and improving access to the grid) and complementary investment (in storage, network infrastructure, electrification of buildings and transport, and renewable hydrogen) can help further decarbonise the economy, including industry, transport and housing, and reduce both reliance on fossil fuels and exposure to international prices. The effective integration of Spain into the single energy market requires increasing its energy interconnections. In particular, further electricity interconnections with neighbouring countries could support greater integration of renewable capacity of the Iberian Peninsula in the single energy market. Additional cross-border hydrogen-ready gas infrastructure may further contribute to diversify gas supply in the internal market and help tap into the long-term potential for renewable hydrogen. New infrastructure and network investments related to gas are recommended to be future-proof where possible, in order to facilitate their long-term sustainability through future repurposing for sustainable fuels.

(28) Further progress in decentralised renewable energy production and deep renovations in both residential and non-residential buildings, particularly in mid-size cities, could be achieved by putting in place appropriate financing schemes, upskilling and training of workers in the construction sector, awareness raising campaigns and technical assistance to support the use of grants and financial instruments for renovations. Also, deploying additional energy efficient social and affordable housing, notably in areas with pronounced shortages and stressed markets, could be helpful for containing energy consumption, more decisively addressing the green transition and supporting vulnerable households. Further increase in ambition for reducing greenhouse gas emissions and increasing renewable energy and energy efficiency will be needed for Spain to be in line with the 'Fit for 55' objectives.

[22] Eurostat (2020) share of Russian imports over total imports of crude oil, natural gas, and hard coal. For the EU27 average, the total imports are based on extra-EU27 imports. For Spain, total imports include intra-EU trade. Crude oil does not include refined oil products.

(29) While the acceleration of the transition towards climate neutrality and away from fossil fuels will create significant restructuring costs in several sectors, Spain can make use of the Just Transition Mechanism in the context of cohesion policy to alleviate the socio-economic impact of the transition on the most affected regions. In addition, Spain can make use of the European Social Fund Plus to improve employment opportunities and strengthen social cohesion.

(30) In the light of the Commission's assessment, the Council has examined the 2022 Stability Programme and its opinion[23] is reflected in recommendation (1) below.

(31) In view of the close interlinkages between the economies of euro area Member States and their collective contribution to the functioning of the Economic and Monetary Union, the Council recommended that the euro area Member States take action, including through their recovery and resilience plans, to implement the recommendation on the economic policy of the euro area. For Spain, this is reflected in particular in recommendations (1) and (2) below.

(32) In the light of the Commission's in-depth review and this assessment, the Council has examined the 2022 National Reform Programme and the 2022 Stability Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1), (2), and (4) below. The recommendations (1) and (2) also contribute to the implementation of the Recommendation for the euro area, in particular the first and fourth euro area recommendations. Fiscal policies referred to in recommendation (1) help inter alia address imbalances linked to high government debt. Policies referred to in recommendation (2) help inter alia the reduction of government, private, and external debt as the full implementation of the recovery and resilience plan will support growth while strengthening the resilience of the economy. Policies referred to in recommendation (4) help inter alia address vulnerabilities linked to high external debt in the longer term, in a context of high unemployment.

HEREBY RECOMMENDS that Spain take action in 2022 and 2023 to:

1. In 2023, ensure prudent fiscal policy, in particular by limiting 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. Stand ready to adjust current spending to the evolving situation. Expand public investment for the green and digital transition and for energy security, including by making use of the RRF, RePowerEU and other EU funds. For the period beyond 2023, 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 through gradual consolidation, investment and reforms.

2. Proceed with the implementation of its recovery and resilience plan, in line with the milestones and targets included in the Council Implementing Decision of 13 July 2021. Submit the 2021-2027 cohesion policy programming documents with a view to finalising their negotiations with the Commission and subsequently starting their implementation.

3. Increase recycling rates to meet EU targets and promote the circular economy by enhancing coordination among all levels of government and undertaking further

[23] Under Article 5(2) of Council Regulation (EC) No 1466/97

investment to meet separate collection of waste and recycling obligations, as well as to enhance water reuse.

4. Reduce overall reliance on fossil fuels. Accelerate the deployment of renewable energy, with a focus on decentralised installations and self-consumption, including by further streamlining permitting procedures and improving access to the grid. Support complementary investment in storage, network infrastructure, electrification of buildings and transport, and renewable hydrogen. Expand energy interconnection capacity. Increase the availability of energy-efficient social and affordable housing, including through renovation.

Done at Brussels,

For the Council
The President