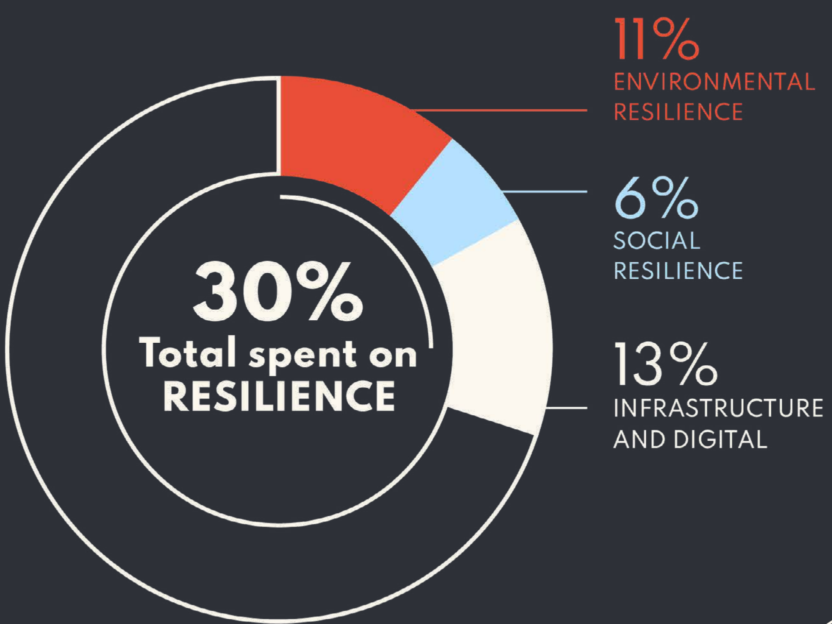
rethink the recovery

"ESPAÑA PUEDE": TRANSFORM ITS ECONOMY OR RETURN BACK TO BUSINESS AS USUAL?

Spanish Recovery Plan Analysis:
«España Puede – Plan de Recuperación, Transformación y Resiliencia»

Of the €72 billion Spanish Recovery Budget:



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Finance Watch
Making finance serve society

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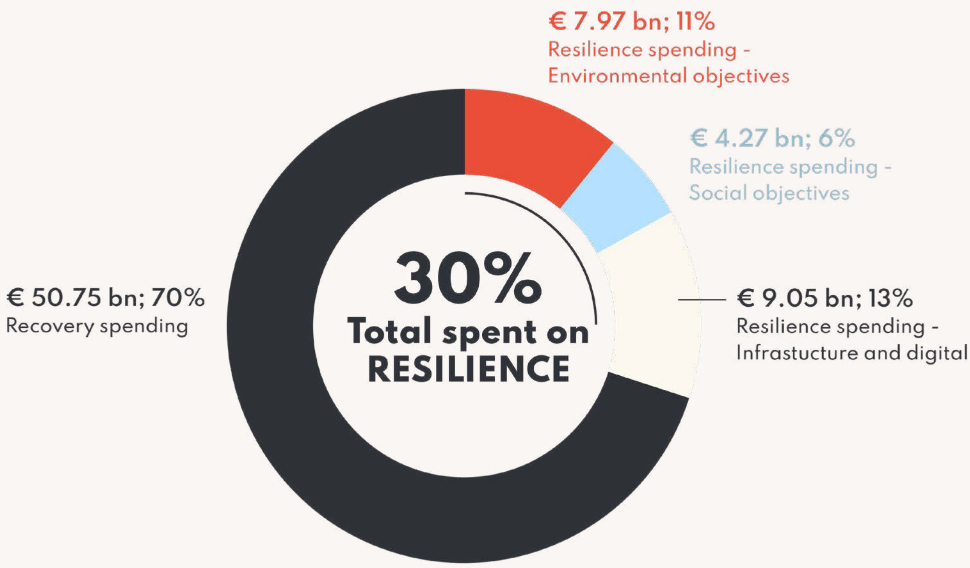
EXECUTIVE SUMMARY

Finance Watch has analysed the Spanish fiscal plan **"España Puede - Plan de Recuperación, Transformación y Resiliencia"** put in place by the Spanish government to help repair the immediate economic and social damage brought about by the coronavirus pandemic as well as make the economy more sustainable and resilient to future shocks. **Presented officially in June 2020**, the plan will be partially financed by the funds provided by the Next Generation EU Recovery and Resilience Facility (RRF) in accordance with the criteria defined by the RRF Regulation text.

Finance Watch assessed the proposed Spanish policy measures on their environmental and social sustainability as well as contribution to economic recovery versus resilience objectives. For this, the time horizon over which the measures are expected to have their effect (long-term vs short-term), and the alignment with strategic objectives were taken into account. Such objectives include, among others, the reduction of greenhouse gas emissions, energy transition, digital transformation, social sustainability.[1] **Resilience measures** were defined as long-term oriented and expected to have transformative economic effects rather than restore the pre-crisis economic situation, which is the main objective of recovery-oriented measures.

Based on the analysis, the **breakdown of the total fiscal plan spending of €72** billion is as follows:



1 Expert judgement was used to execute the assessment. No account of the starting conditions in the country was taken, which might accelerate or slow down the transition towards sustainability and resilience.

Summarizing the results of the Finance Watch review:

- Resilience-oriented measures account for 30% of the planned budget, while 70% of measures are short-term and driven by the pandemic emergency situation with the aim of reviving the economy.
- More than 60% of the budgeted funds are dedicated to the short-term social objectives aimed to support the demand side of the economy, such as unemployment benefits and social security exemptions.
- The cohesion objectives within the plan dominate over economic transformation goals. In addition to above mentioned social spending, cohesion includes Covid-19-related funds provided to Spain's autonomous regions – 22% of the overall budget.
- The long-term measures received high environmental sustainability scores in our assessment; however, the relatively small size of these measures might hinder their transformative effects.
- Case evidence suggests that the funds have already been used to the benefit of powerful industry players rather than to transform the economy structure and ensure its resilience to future shocks:
  - Loan guarantees for the hotel chain NH Hotels
  - Loan and loan guarantees for airlines Iberia & Vueling
  - Loan for football club Real Madrid

The measures put in place as per the plan should be viewed in the broader **context of the** EU economic governance and fiscal framework. The framework is composed of a complex architecture of rules constraining Member States' fiscal policy, combined with a system of governance and tools aimed at enforcing these rules. The most significant of these rules are the 60% limit on the government debt-to-GDP ratio and the 3% limit on the budget deficit-to-GDP ratio, including the corresponding adjustment mechanisms in case of limit deviations. These limits do not properly account for the economic cycle, quality of spending and impacts that environmental and social imbalances have on long-term debt sustainability. Thus, the existing **fiscal framework reinforces policy short-termism and prevents the EU countries from reaching their social and environmental goals.** Even though the rules were temporarily suspended due to the pandemic situation, potential return to fiscal austerity could **break the recovery.**

Conclusions reached by Finance Watch are consistent with...

→ the following expert assessments and databases:

- Institute for Sustainable Development and International Relations (IDDRI) analysis
- Greenness of Stimulus Index produced as part of the Finance for Biodiversity Initiative (F4B) to assess if the global pandemic stimulus measures will help boost global resilience to climate and biodiversity risks
- Green Recovery Tracker by Wuppertal Institute and E3G – Third Generation Environmentalism (summary)
- IMF database summarising key fiscal measures governments have announced or taken in selected economies in response to the Covid-19 pandemic

→ and opinions:

- Alfons Pérez from the association Observatory on Debt in Globalisation (ODG)
- Ecologists in Action (jointly with ODG)

COUNTRY PLAN'S CONTEXT

Prime Minister Pedro Sánchez presented on the 7th of October 2020 high-level headlines of Spain's Covid-19 recovery plan "España Puede – Plan de Recuperación, Transformación y Resiliencia". According to the plan, €72 billion of transfers to Spanish regions are expected between April 2021 and 2023. The plan covers four themes: ecological transition, digital transformation, gender equality and social and territorial cohesion.

MAIN TAKEAWAYS

Focused more on cohesion than resilience, Spain's proposed economic stimulus plan foresees future success largely from cohesion measures amounting to €50 billion. Among those measures, a Covid-19 fund of €16 billion for autonomous regions reflects the role of the autonomous regions in the institutional landscape.

From a sustainability perspective, the plan builds in 800,000 jobs created in Spain by 2030, half of which result from the plan's commitments to energy transition. More needs to be done, however, on sustainability related policies. Streamlining of environmental subsidies and taxation may be timely in the context of the 2050 climate neutrality goals and the EU Green Deal. With respect to social sustainability, unlocking sustainable jobs in the post-Covid-19 period should be considered a complementary approach to the stimulus plan to tackle inequalities, in particular given that education and skills development measures only account for 6% of the plan's budget.

With the priority given to regional cohesion, future resilience relies on the continuity of the cohesion-related measures and the guarantees that jobs will be created. The sheer size of the investments in energy transition relies upon the availability of international financing. On the part of sustainability assessment, job creation questions arise as jobs are to be concentrated in a few critical sectors of the economy, namely energy and automobile sectors.

RESILIENCE ASSESSMENT

Country assessment finds most measures recovery focused. Key resilience gaps highlighted below reflect the definition of resilience that Finance Watch outlined in the report "10 Principles for a Sustainable Recovery" presented on the 2nd of October 2020 (see Annex 1 for details):

- From a resilience lens, a missing link appears between the planned cohesion spending and climate and social objectives. One third of plan funding orients towards resilience with two thirds focusing on recovery.
- The plan claims that it will lead to significant job creation, but more details are expected together with indications of a plan social dialogue.

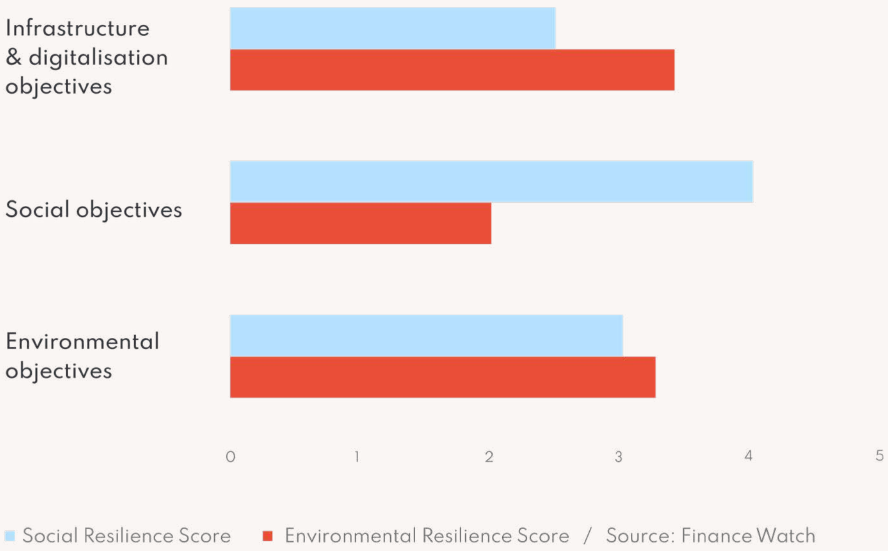
Assessment of the resilience dimension of measures presented in the Spanish plan provides a first step towards an integrated fiscal policy. Indeed, the next 10 years will be crucial when it comes to achieving societal cohesion. And, as recommended by Finance Watch, fiscal sustainability requires a more proactive public debt management under an integrated climate and fiscal stance at EU level.[2]

Sustainability assessment of the resilience measures

To understand the sustainability component of the measures, the scores below shed light on the measures considered as both long-term oriented and resilient. Annex 2 provides more details on the budgeted funds for the respective group of objectives – environmental, social, infrastructure & digital. By definition, this score does not include the measures exclusively oriented towards recovery. ▼

2 https://www.finance-watch.org/publication/10-principles-for-a-sustainable-recovery/

Graph 1: Sustainability scores of Spanish fiscal measures / 1-5



Source: Finance Watch

COUNTRY DETAILED ASSESSMENT

Thirty percent of the Spanish plan is oriented towards resilience, with 70% focusing on recovery. A total of €21 billion of measures have been estimated as resilient in the field of health spending, renewables and hydrogen infrastructure. The Spanish plan is therefore predominantly focused on recovery.

Social and cohesion measures. Strong public support is aimed to prevent a sharp decline in consumption with two flagship recovery measures – €18 billion in temporary unemployment benefits (Prestación "ERTES") and social security exemptions provided to support the final consumption of goods and services. In addition, Spanish deputies voted on a €16 billion Covid-19 fund for the autonomous regions.

Case illustration: Regional dimension in the Spanish fiscal plan. Spain's regional dimension could be seen as a strength of the fiscal plan. However, out of the €16 billion, €9 billion will be directed to health spending, €5 billion – to support regional budgets and mitigate reduced income due to the drop in economic activity. Only the remaining €2 billion will be dedicated to education, as per government sources. The Covid-19 fund for the autonomous regions is mostly driven by the short-term pandemic emergency and is not expected to contribute to the resilience of regional economies.This measure has been assessed as being recovery-driven.

Environmental measures. A **"just and inclusive energy transition"** is embedded in Spain's stimulus plan with a focus on hydrogen, smart grids and renewables. Sustainability proofing is guaranteed by the National Energy and Climate Plan, which has a horizon until 2030.

The long-term measures identified in the plan have been assigned above average environmental sustainability scores (see Graph 1). Targets on green mobility echo EU Green Deal and the 2050 climate neutrality goals. However, the review did not find any clear sustainability assessment being attached to the investment measures on transportation, mobility and renewables energies.

> **Case illustration: Financing of the energy transition and Spain's expansion into the hydrogen value chain.** Alongside private investment from Spanish utility group Iberdrola, the Spanish government is looking to allocate more than €1.5 billion from the European Recovery Fund to the development of renewable hydrogen by 2023, in accordance with the statement made by the Prime Minister Pedro Sanchez on the 19th of November 2020. Public-private partnerships constitute an essential guiding tool to raise investment capacity of tractor projects and mobilize companies and social agents. Spain counts on utilising international financing instruments such as public-private investment funds for R&D, start-ups and digitization to emphasize the importance of collaboration with the private sector.[3]

The plan incorporates the United Nations 17 Sustainable Development Goals and emphasises some vulnerable areas when it comes to achieving the 2030 Sustainable Agenda.

3 In its forecasts it has assumed a degree of private leverage in line with international experience in this type of project, of 1: 4 (4 private euros invested for each public euro).

CONCLUSIONS AND WAY FORWARD

- **Just energy transition** is embedded in the stimulus plan towards 2030. The green dimension of the "Transition energetica justa et inclusiva" provides stimulus to develop renewable energy, renewable hydrogen, grids and smart grids projects, for which €5 billion have been earmarked. In its National Energy and Climate Plan 2021-2030, Spain has put forward citizen participation in leading local renewable projects and collaborative forms of energy supply and services by establishing dedicated forms of energy services contracts. A unique dimension, it may benefit from an extension at EU level.

- **Climate objectives.** Spain's final National Energy and Climate Plan sets an economy-wide 2030 reduction target of 23% for greenhouse gas emissions compared to 1990 level.[4] The aim for 2050 is climate neutrality or at least 90% reduction in greenhouse gas emission compared to 1990. The final plan confirms the intention of phasing out coal as an energy source and decommissioning remaining coal power plants by 2030. To ensure a just and fair energy transition, the plan estimates 348,000 jobs created by 2030. Hereby the plan also refers to biodiversity protection and potentially links to the just transition dimension of the European Green Deal. A more detailed biodiversity protection plan would be relevant in order to enhance the plan's total resilience.

- **Plan long-term execution.** A proactive execution and coordination of the plan towards its long-term milestones are necessary for the plan to succeed over the long term and for a just transition to occur. Post-Covid-19 reforms and investments should further incorporate cohesion policies over the long-term planning horizon of 2030-2050 via additional plans and policies. Execution challenges have been raised in the past as Spain demonstrated below average funding absorption capacities. [5]

- **Financing of the investment plan.** Any grants and loans instruments that may be drawn from the EU's Recovery and Resilience Facility will require alignment with the Do No Harm Principle under Article 17 of the EU Taxonomy Regulation.

- **EU economic coordination and governance** will be on the political agenda in 2021 and debate will take place on the EU spending rules and conditionality (EU fiscal rules).[6] In this context, the national recovery and resilience plans (NRRPs) submitted by the Member States to the European Commission represent an opportunity to embed ex-ante long-term sustainability criteria. The Spanish national stimulus plan represents an opportunity to provide a reference pathway in the process alongside plans of the other EU Member States.

4 Excluding Land Use Land Use Change and Forestry - LULUCF.

5 European Court of Auditors, Opinion No 6/2020 - Spain's absorption capacity has been one of the lowest among the EU countries with 39% between 2014 and 2020, https://www.eca.europa.eu/Lists/ECADocuments/OP20_06/OP20_06_EN.pdf

6 Conditionality or macro conditionality are the rules linking EU spending to the Rule of Law or other challenges identified in a national macro assessment.

ANNEX 1: FINANCE WATCH ASSESSMENT PRINCIPLES

The Finance Watch review includes an assessment of the individual measures within fiscal plans announced in 2020 by France, Germany and Spain. Finance Watch assessed the proposed policy measures on the subject of their contribution to environmental and social sustainability, as well as contribution to economic recovery versus resilience objectives. For this, Finance Watch took into account the time horizon – long-term versus short-term – over which the measures are expected to have their effect and the alignment with the strategic objectives. Such objectives include, among others, the reduction of greenhouse gas emissions, energy transition, digital transformation and social sustainability. In analysing each of the fiscal measures, Finance Watch differentiated between two sets of measures:

- measures that improve **resilience** of the economy and society,
- measures that are of short-term or emergency nature and therefore considered as **recovery-driven.** These measures are mostly targeted at restoring the pre-crisis economic situation.

Each individual investment or reform measure has been characterized as being either resilient or driven by recovery considerations. Resilience measures were defined to be long-term oriented and expected to have transformative economic effects beyond 2021 up until 2030-2050. As a result, resilience-based measures relate to investments, which enhance the ability of economies and societies to withstand future shocks and thus be more prepared to minimize environmental risks and maximize social justice. This assessment can be seen as a decomposition of each fiscal plan into two sub-parts: the resilience part and the recovery part, as illustrated in Annex 2.
For more information, the methodological note can be provided as a reference.

ANNEX 2: FINANCE WATCH MATRIX – SPAIN

Breakdown of national recovery resilience plans

Source: Finance Watch

Amounts (Million Euros)	Environmental sustainability objectives (Pillar 1)	Social sustainability objectives (Pillar2)	Infrastructure & digitalisation objectives (Pillar 3)	Plan based Resilience - Recovery Mix (%)
Spain - Plan de Recuperación, Transformación y Resiliencia	14,031	48,892	9,115	-
Resilience	7,971	4,267	9,051	30%
Recovery	6,060	44,625	65	70%

ANNEX 3: SPAINISH COUNTRY FORECAST – ANNUAL GROWTH SURVEY

	2020	2021	2022
GDP % change	-12.4	5.4	4.8
Unemployment rate (%)	16.7	17.9	17.3
General government balance[7] as % of GDP	-12.2	-9.6	-8.6
General government debt as % of GDP	120.2	122.0	123.9

Source: European Commission - Country forecasts - Annual Growth Survey - 2020[8]

Investments are not expected to be back to their 2019 levels before 2022, as private consumption and gross domestic product (GDP) will have a slow recovery pace. GDP is forecast to decline by 12.4% in 2020 compared to 2019. Unemployment rates will be 16.7% in 2020, 17.9% in 2021 and 17.3% in 2022. According to European Commission's economic forecasts, Spain's public debt will exceed 120% by year-end 2020 due to the large government deficit and severe GDP contraction.

Link to the Plan "España Puede"

7 General government balance includes the balance of the central government, state/regional governments (applicable in Belgium, Germany, Spain, Austria and Switzerland), local governments and social security funds.

8 https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-performance-country/spain/economic-forecast-spain_en

About Finance Watch

Finance Watch is an independently funded public interest association dedicated to making finance work for the good of society. Its mission is to strengthen the voice of society in the reform of financial regulation by conducting advocacy and presenting public interest arguments to lawmakers and the public. Finance Watch's members include consumer groups, housing associations, trade unions, NGOs, financial experts, academics and other civil society groups that collectively represent a large number of European citizens. Finance Watch's founding principles state that finance is essential for society in bringing capital to productive use in a transparent and sustainable manner, but that the legitimate pursuit of private interests by the financial industry should not be conducted to the detriment of society. For further information, see www.finance-watch.org

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