National Recovery and Resilience Plan
Spain
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National Recovery and Resilience Plan: Spain

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Abstract

Although still carrying substantial deficits from the 2008 housing crisis, Spain's economy was experiencing a gradual recovery prior to the Covid-19 pandemic. This drastically changed with the health-care emergency, leaving Spain among the hardest hit Member States in the EU. The financial assistance provided by the EU in the context of the NextGenerationEU recovery plan represents a golden opportunity, not only to invest in the areas most affected by the pandemic, but perhaps more importantly, to target prevailing deficiencies in the Spanish economy and make it more resilient to future threats. This contribution studies the National Recovery and Resilience Plan presented by Spain to access the NGEU financial support. It focuses particularly on the social and labour reforms presented therein and puts these in the broader context of the EU governance and political framework. The contribution concludes with some final considerations.

Keywords: Spain, NextGenerationEU, National Recovery and Resilience Plan, Labour Law Reform, Social Europe.

1. Introduction.

Before the Covid-19 pandemic struck, the Spanish economy was experiencing upward growth, beginning in 2014. Despite the obvious improvements since then, it still dragged behind its substantial imbalances inherited from the housing crisis of 2008, primarily in terms of public debt, unemployment – much higher than the European average – and unequal income distribution. The Spanish labour market is strongly marked by a duality of the labour market with very high levels of temporary work (22 per cent, double the EU average and the highest in the Union),[1] which reduces the quality and stability of employment, and has a strong impact on household consumption, investment and savings.

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[1] Eurostat, 'temporary employment' (2022).

The gradual post-crisis recovery abruptly stopped with the health-care emergency, during which – particularly in the months with the heaviest restrictions – Spain experienced a drastic drop in economic activity. The structural weaknesses related to temporary employment accentuated an increase in unemployment. According to the Bank of Spain,[2] hotels, restaurants, social and cultural services, as well as oil refining businesses experienced a turnover reduction of 35–55 per cent and the employment rate overall was reduced by 7.5 per cent in 2020. Moreover, Spain's relatively higher number of small and medium-sized enterprises (SMEs) compared with the EU, made its economy more vulnerable to economic shocks, because these suffered more during the health-care crisis. Even though the government invested in buffering the social impact of the crisis through employment and income support instruments for households – which equated to 3 per cent and 1.3 per cent of GDP, respectively – the employment rate is not expected to recover until 2024. Although such efforts have been successful in mitigating the immediate effects of the crisis, these and other developments put pressure on the government at the end of 2020 with an 11 per cent fall in GDP.[3] The sharp increase in unemployment and falling incomes as a consequence of the crisis are expected to lead to long-term unemployment and higher poverty rates – especially among vulnerable people – in a country where the number of people at risk of poverty was already among one of the highest in the EU (25.3 per cent in 2019). Research shows that in order to overcome Spain's high fiscal sustainability risk, its structural primary balance would need to improve by almost 5 per cent of GDP over the next few years.[4]

Against this background, the political situation in the country leading up to EU action and the NextGenerationEU (NGEU) recovery plan was highly receptive, even when the internal politics could be characterised as conflictual and unstable. In 2020 came Spain's first coalition government, beginning with the investiture of socialist president Pedro Sanchez. Much like in other countries, the Covid-19 pandemic led to the establishment of a state of emergency, implemented under three decrees adopted in March and October. Among other things this led to the postponement of regional elections and an unsuccessful censorship motion presented by VOX in October (298 voted against and 52 voted in favour). Together with some frictions between the government and the judiciary, domestic politics in 2020 were fairly fraught and controversial.[5] Considering the socioeconomic situation, however, there was little controversy regarding the need for EU action and the adoption of NGEU was received very positively. An exception was Spain's position against the macroeconomic conditionality criteria. After some debate, the European Council decided not only to introduce a condition on the macroeconomic soundness of the proposed reforms into NGEU, particularly with regard to the challenges included in the country-specific recommendations (CSRs), but also the possibility to stop a grant when there are serious

[2] Blanco R., Mayordomo S., Menéndez A., Mulino M., *El impacto de la crisis del COVID-19 sobre la vulnerabilidad financiera de las empresas españolas,* Bank of Spain Occasional Papers, 2119, 2020.
[3] Corti F., Núñez Ferrer J., De La Ossa R., Regazzoni P., *Comparing and assessing recovery and resilience plans- Italy, Germany, Spain, France, Portugal and Slovakia,* CEPS Recovery and Resilience Reflection Papers, 5, 2020.
[4] Corti et al., *see* nt. (3), 26.
[5] López-Nieto L., Fernández-Pasarín A., Redondo J., *Spain: Political Developments and Data in 2020*, in *European Journal of Political Research Political Data Yearbook*, 60, 1, 2021, 371–480.

deviations from the established targets.[6] Together with Italy, Spain had to accept a higher degree of conditionality than desired in the NextGenerationEU plan.[7]

On the other hand, whereas in the past Spain has been more conservative regarding the digital and green transitions – particularly the latterdomestic political positioning of green parties has supported these EU priorities. However, Spain was a proponent of more flexibility, through grants rather than loans, than was eventually agreed in the negotiations, although this did not prevent Spain from requesting only grants —and loans in case the original plan is insufficient—in its Recovery and Resilience Plan (RRP). Overall, Spain and other southern European countries, were quite successful in the negotiations, although this might be linked primarily to exogenous factors, in particular the fact that they were hit hard(est) by the Covid-19 pandemic, affecting their health care systems and economies.[8]

To accommodate the changes envisioned in the RRP, the Spanish government was quick to incorporate internal changes – leading to a third government reshuffle – and to adopt several legislative instruments to ensure compliance with the requirements for accessing NGEU financial assistance. The latter included labour reforms, a guarantee of pension sustainability, an annual budget, a subsistence minimum income and a law on animal rights.[9]

2. The Spanish Recovery and Resilience Plan in a nutshell.

2.1. General overview.

The Spanish RRP is one of the most ambitious plans financed by the NGEU recovery instrument, containing the largest grants. This allocation amounts to €69.5 billion (9.6 per cent of the entire Recovery and Resilience Facility, which equals 5.6 per cent of Spanish GDP. In addition, this budget is supplemented with €27 billion from the general state budget investment and €12.4 billion from the REACT-EU funds, the latter geared mostly to investment in health care and education, and the 2021–2027 Multiannual Financial Framework funds. In August 2021, following the Council's approval of the RRP, the Commission disbursed roughly 13 per cent of the approved funds (€9 billion) in pre-financing.

The RRP is composed of 112 investments and 102 reforms, grounded in four cross-cutting axes: the green and digital transitions, social and territorial cohesion, and gender balance. The common goal of the measures presented in the RRP is to make Spain more sustainable, resilient and better prepared for the challenges and opportunities of the green and digital transitions. These measures are distributed across 30 components, grouped under

6 European Council, Special meeting of the European Council (17, 18, 19, 20 and 21 July 2020) – Conclusions.
7 De la Porte C., Dagnis Jensen M., *The next generation EU: An analysis of the dimensions of conflict behind the deal,* in *Social Policy and Administration,* 55, 2, 2021, 388–402 and 393.
8 De la Porte C., Dagnis Jensen M., *see* nt. (7), 398.
9 Delgado Sotillos I., Fernández-Pasarín A., Bohigues A., *Spain: Political Developments and Data in 2021: From the State of Alarm to the Recovery Plan*, in *European Journal of Political Research Political Data Yearbook*, 2022, 1–12.

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10 different headings: (1) urban and rural agenda, the fight against depopulation and the development of agriculture; (2) resilient infrastructures and ecosystems; (3) just and inclusive energy transition; (4) an administration for the twenty-first century; (5) modernisation and digitisation of the industrial fabric and SMEs, recovery of tourism and the economy; (6) a pact for science and innovation, strengthening the capacities of the national health system; (7) education and knowledge, lifelong learning and capacity building; (8) a new care economy and employment policies; (9) boosting culture and sport; and (10) modernisation of the tax system for inclusive and sustainable growth.[10]

Overall, there is a strong focus on the green and digital transitions, but social and labour concerns, gender and the efficiency of the administration are important levers that can be found across practically all components. The measures presented in the plan are supposed to be completely implemented by 2026. The RRP is expected to increase Spain's domestic product from 1.8 to 2.4 per cent (in addition to a 0.4 per cent increase in spillover for the RRP from other Member States) by 2024 and to provide about 250,000 jobs.

2.2. Main social and labour investments and reforms.

Regarding social and labour reforms, the RRP identifies the high unemployment rate – especially among young people – and the high share of fixed-term contracts as among the major macroeconomic bottlenecks in Spain (component 23 of the RRP). To tackle this issue, Spain recently introduced a major labour reform.[11] This is complemented by various other social and labour reforms contemplated in the RRP. This section discusses the main social and labour investments and reforms.

2.2.1. Labour reform.

The main pillars of this reform are the provisions tackling temporary employment in Spain, but there is also an emphasis on correcting collective bargaining imbalances and providing companies with some necessary flexibility in times of economic difficulty. In this regard, the reform builds on three axes: reorganising contractual modalities by generalising permanent contracts and simplifying and reducing the number of temporary contracts; modifications of collective agreements; and measures for companies' internal flexibility. Regarding temporary contracts, the labour reform introduces two types of fixed-term contract: structural, which need to respond to either production or replacement needs, and fixed-term training contracts. In sectors in which problematic fixed-term contracts were common, such as construction, permanent contracts will become the rule. Accordingly, once the assigned work or service has been completed, the company will have to relocate the

[10] Spanish Government, *Plan de Recuperación, Transformación y Resiliencia*, 2021.
[11] Ley 20/2021 de 28 de Diciembre, *de medidas urgentes para la reducción de la temporalidad en el empleo público*, BOE no. 312, 29 December 2021.

worker to another site. When this is not possible or is rejected by the company, the contract will be terminated, and the worker will receive compensation of 7 per cent of the wage laid down in the collective agreement.

As for the new modalities, structural contracts may be used to deal with fluctuating demand, thus allowing companies some flexibility when extra support is needed. But this flexibility comes with certain limitations. Companies' needs can be covered with temporary contracts for a maximum and non-continuous period of 90 days over the course of a year. Notably, companies need to inform trade unions about the next annual forecast in the last quarter of the year. The goal is to combat abuses of temporary hiring and encourage the use of permanent discontinuous contracts for seasonal tasks, which provides for indefinite – albeit intermittent– working situations, giving workers more stability. In this way, workers are guaranteed work during specific times of the year and will accumulate seniority for the entire period of their employment relationship, not only the periods during which they work. The second modality refers to fixed-term training contracts, which can be used as alternating (only for those combining it with their studies and occupational practice (limited to students up to 30 years of age for a maximum of two years).

In addition, these legislative changes are reinforced by a strengthening of the control framework to discourage fraudulent or abusive practices. First, the reform establishes a presumption of permanent employment for those who, during a period of 24 months, spent 18 of them in the same job or in different jobs at the same company or group of companies through two or more fixed-term contracts or through temporary agency companies. Secondly, when fixed-term workers are terminated before a period of 30 days, companies will be subject to a surcharge in social security contributions. Thirdly, existing fines have been increased for fraud in the use of fixed-term contracts.[12]

On top of fighting temporary employment, the labour reform also aims at strengthening collective agreements. Accordingly, multiservice companies, like many temporary work agencies, which had the power to set employment conditions on their own terms until the reform, now have to comply with the sectoral agreement governing the activity they carry out. Another crucial aspect of the labour reform – overturning one of the most controversial aspects of the labour reform approved by the right-wing Popular Party in 2012 – concerns 'ultra-activity'. According to the earlier reform, once a collective agreement s expired, it would be valid only for another year. This weakened the position of workers, because often talks to renew an expired agreement were purposefully sabotaged for over 12 months, de facto making the previous agreement invalid and allowing the company to carry out a substantial modification of working conditions. The reform removes this limitation, effectively extending the validity of the expired agreement until its renewal is agreed, or a new one is signed in its place. Furthermore, the sectoral agreement recovers – as was the case before the right-wing Partido Popular's reform in 2012 – its prevalence over company agreements on wages and number of working hours. Accordingly, company agreements may

[12] It is worth mentioning that the labour reform was in the pipeline before the NGEU negotiations and was, in fact, one of the key campaign promises in previous elections. Nevertheless, NGEU provides the necessary fiscal flexibility to enable countries to implement such ambitious reform.

not establish wage or working time conditions lower than those provided for in the sectoral regulation. However, other aspects, such as the distribution of working time, planning of annual holidays, the choice between payment or compensation for overtime, the adaptation of occupational classification or family reconciliation measures will remain in the company agreement.

The last part of the labour reform concerns measures for companies' internal flexibility, which was used as the bargaining chip for granting sectoral agreements predominance in the abovementioned areas. This reform adds two new scenarios to the ordinary legislation, allowing the triggering of temporary redundancy proceedings (short-term work protection schemes, known as ERTE in Spanish), to the pre-existing one of cases of *force majeure*: ERTE covers limitations or impediments. This system allows companies to assign or remove workers, depending on the company's activity or workload. The processing of ERTEs is made more flexible, especially for SMEs. Moreover, the new changes provide for specific exemptions from employer social security contributions on the ground of common contingencies and joint collection items – such as unemployment, the Wage Guarantee Fund and occupational training – established for these ERTEs, provided that the companies provide their staff with training.

Besides the ERTEs, the labour reform also introduces the RED Mechanism for Employment Flexibility and Stabilisation, to which companies in crisis will be able to resort, acting as a structural lifeline. There will be two modalities: cyclical, when a general macroeconomic situation is observed that suggests the adoption of additional stabilisation instruments, which will last for one year; and sectoral, when permanent changes are observed that generate retraining needs and professional transition processes for workers, with a maximum duration of one year, and the possibility of two extensions of six months each. It is worth noting that the mechanism cannot be triggered by companies themselves, as is the case with the ERTEs. It will be activated by express agreement of the Council of Ministers, following information and consultation with trade unions and employers' associations. In the case of the sectoral modality, this request must be accompanied by a retraining plan for the people affected. If the request goes ahead, the company would, in principle, receive exemptions from social security contributions that are yet to be defined. And the worker would receive a benefit during their suspension.

2.2.2. Other social investments and reforms.

Before the labour reform, a different agreement was also reached between the social partners and the government to regulate platform delivery work and introduce some transparency regarding the use of artificial intelligence (AI) in platform work when this affects platform workers' working conditions.[13] This was even before the NGEU plan was

[13] Real Decreto-ley 9/2021 de 11 de Mayo, *por el que se modifica el texto refundido de la Ley del Estatuto de los Trabajadores, aprobado por el Real Decreto Legislativo 2/2015, de 23 de octubre, para garantizar los derechos laborales de las personas dedicadas al reparto en el ámbito de plataformas digitales*, BOE no. 113, 12 May 2021.

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agreed —partly following a Supreme Court ruling—,[14] Although the NGEU gives Spain additional fiscal capacity. This also shows the current left-wing government's social orientation. The recent Commission proposal on improving platform workers' working conditions seems to have followed this same model.[15]

In addition to labour reform, the RRP also includes measures directed towards reinforcing economic and social resilience. This includes measures to foster an effective and inclusive education system aimed at lowering the early school leaving rate, enhancing skills acquisition aligned with current and future labour market needs (with an emphasis on the digital and green transitions), and measures to improve young people's employability. There have also been substantial investments to upskill and reskill workers (€2.1 billion) and to modernise vocational training. In the area of active labour market policy, the plan also promises to reform the system of hiring incentives – one of the weaker points of the labour market, as stressed in earlier CSRs – by developing individual pathways for counselling, reinforcing adult learning and modernising public employment services. Other changes include a Royal Decree for the recognition and accreditation of occupational competences acquired through work experience[16] and a new educational curriculum, focused on students' skills, to be implemented in the academic year 2022–2023. Investments to increase people's employability, particularly vulnerable groups, and enhancing skills will be key to empowering the active population (components 19, 20, 21 and 23).

Other important measures with a social character have also been approved. These include, for example, regulations establishing a subsistence minimum income for vulnerable people,[17] a Royal Decree establishing a special protection framework for consumers and users in situations of social or economic vulnerability,[18] flexibilisation of access to the Youth Guarantee System[19] and, notably, a new pension supplement, aimed at covering contribution gaps as a consequence of maternity and paternity.[20] The latter aims, among other things, at reducing the gender pay gap and, interestingly, is the only RRP reforming pensions without taking a regressive approach.[21] This, as discussed below, might become one of the EU's fiscal pressure points in the years to come.

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[14] Supeme Court Judgment (social chamber) 25 September 2020, STS 2924/2020, ECLI:ES:TS:2020:2924; Aranguiz A., *Spain's platform workers win algorithm transparency,* in *Social Europe*, 18 March 2021, https://socialeurope.eu/spains-platform-workers-win-algorithm-transparency.

[15] European Commission, *Proposal for a directive of the European Parliament and of the Council on improving working conditions in platform work*, 9 December 2021, COM(2021)762 final.

[16] Real Decreto 142/2021 de 9 de Marzo, *por el que se modifica el Real Decreto 16/2019, de 25 de enero, por el que se crea y regula la Comisión Interministerial de coordinación y seguimiento de las medidas adoptadas por la Comisión de Defensa del Congreso de los Diputados*, BOE no. 59, 10 March 2021.

[17] Ley 19/2021 de 20 de Diciembre, *por la que se establece el ingreso mínimo vital*, BOE no. 304, 21 December 2021.

[18] Real Decreto-ley 1/2021 de 19 de Enero, *por el que se establece un marco de protección especial para los consumidores y usuarios en situación de vulnerabilidad social o económica*, BOE no. 17, 20 January 2021.

[19] Resolución de 24 de Junio de 2021, de la Secretaría de Estado de Empleo y Economía Social, *por la que se publica el Acuerdo del Consejo de Ministros de 8 de junio de 2021, por el que se aprueba el Plan Garantía Juvenil Plus 2021–2027 de trabajo digno para las personas jóvenes*, BOE no. 151, 25 June 2021.

[20] Real Decreto 46/2021 de 26 de Enero, *sobre revalorización de las pensiones del sistema de la Seguridad Social, de las pensiones de Clases Pasivas y de otras prestaciones sociales públicas para el ejercicio 2021*, BOE no. 23, 27 January 2021.

[21] Note, however, that the pension reform also includes incentives to remain longer at the labour market and limits to early retirement.

In addition, component 22 is aimed at modernising and strengthening social services and inclusion policies with an investment of €2.4 billion. The focus is a long-term model that can cope with the aging population. The goal is to move towards community care based on a better understanding of people's needs and preferences, while ensuring support for the caring families. This will lead to a framework regulation guaranteeing common standards for social services to ensure some degree of territorial cohesion. New legislation will also be adopted for the protection of families, taking into consideration various family compositions to determine entitlements and services based on their needs and income levels. This is expected to reduce child poverty and strengthen the position of vulnerable families in society. To support vulnerable groups, other actions are aimed at supporting victims of gender violence and the reception system for asylum seekers.

Notably, there are measures to improve public procurement and make it more efficient, as well as to improve communications and efficiency among different levels of government and administrations (component 11). This includes regulatory changes to strengthen human resource management (including to reduce the number of temporary contracts), digitalisation of public administration (in key areas related to health care, employment, public employment services, justice, social security and inclusion policies) and actions to strengthen coordination between different levels of government.

Alongside these transversal efforts, the RRP is also aimed at modernising the tax system (component 27–29) and a number of pension system reforms are directed towards preserving pension adequacy and long-term sustainability. Whereas the final design was left open in the RRP, as it was subject to the outcome of social dialogue, the reform focuses on revising the indexation system, providing incentives for late retirement and discouraging early retirement (unless preconditions apply).[22] How the two goals of adequacy and sustainability can be reconciled may be subject to criticism, particularly in view of the scepticism shown by the Council and the Commission towards revising the indexation system (see below).

There are also various investments and reforms geared to strengthening the health sector (components 17–18, €1 billion) targeting the capacity of health care systems, professional skills and reducing temporary contracts

A different component with strong social potential is the housing rehabilitation and urban regeneration plan, which includes several reforms aimed at: establishing decent housing, expanding the existing social housing market and addressing the depopulation of small (rural) areas. This is in fact one of the biggest investments in the RRP, amounting to 10 per cent of the requested budget.

[22] Ley 21/2021 de 28 de Diciembre, *de garantía del poder adquisitivo de las pensiones y de otras medidas de refuerzo de la sostenibilidad financiera y social del sistema público de pensiones*, BOE no. 312, 29 December 2021.

3. The RRP in context.

3.1 Embedding of the plan within the European Semester.

Overall, both the Commission and Council responded positively to the RRP presented by Spain, particularly considering the massive challenges confronting the country. Accordingly, they considered that the plan represents a balanced response to Spain's socio-economic situation. From the aspects affecting social and labour policies, they particularly welcomed measures aiming at improving youth employability and the reduction of the early school leaving rate. They took the view, in general terms, that the ambitious labour reform signified a step forward as regards the high levels of temporary employment, and particularly welcomed the efforts to target the abuse of using fixed-term contracts. Together with investment to upskill and reskill workers and in vocational education, as well as specific active labour market measures, the EU institutions considered that Spain is implementing past recommendations made in the context of the European Semester.

In fact, much of the structural reform agenda set out in the RRP is based on the recommendations issued to Spain within the European Semester mainly in 2019 and 2020. These are simultaneously aligned with the strategic agendas for the ecological transition (European Green Deal), digitalisation (Digital Strategy), EU agricultural policy, cohesion policy and the European Pillar of Social Rights (EPSR).

Regarding past CSRs,[23] the RRP addresses a substantial part of the social and economic challenges outlined in them in previous years, particularly in the areas of employment, active labour market policies, social policies, the capacities of public services and investment in strategic sectors, labour market segmentation and public procurement. In more general terms, the RRP addresses the necessary investment in the green and digital transitions, strategic sectors and research, development and innovation recommended over the past few years. In addition, it includes measures aimed at improving the business climate, such as reform of the insolvency framework or establishment of the flexibility mechanisms mentioned above. It also incorporates repeated concerns in the area of public finances, including reform of public procurement, the tax system and a pension reform aimed at preserving adequacy and medium- to long-term sustainability in an aging population.

Regarding employment recommendations, the plan addresses CSRs regarding long-standing concerns of (long-term and youth) unemployment, as well as labour market duality and precarity. It specifically addresses concerns regarding the abuse of fixed-term contracts in both the private and public sector within the framework of labour reform.

More recent CSRs have been particularly concerned with the lack of strategy regarding youth unemployment, and overall the insufficient effort to enhance active labour market

[23] European Commission, *Recommendation for a Council Recommendation on the 2019 National Reform Programme of Spain and delivering a Council opinion on the 2019 Stability Programme of Spain,* 5 June 2019, COM(2019)509 final; European Commission, *Recommendation for a Council Recommendation on the 2020 National Reform Programme of Spain and delivering a Council opinion on the 2020 Stability Programme of Spain*, 20 May 2020, COM(2020)509 final.

policies. As we have seen, the RRP incorporates a number of specific measures precisely to this purpose, which the Council and the Commission welcomed.

3.2 Implementation of the European Pillar of Social Rights in the Plan.

As already mentioned, besides the incorporation of some concerns of past CSRs, Spain's RRP also includes concrete measures to implement the EPSR and its more recent Action Plan. Clearly, a variety of efforts are being made to improve youth employability and reduce the early school leaving rate, as well as to enhance upskilling and reskilling, and modernise vocational education (principle 1 EPSR). There is, moreover, the dedicated plan to tackle youth unemployment (principle 13 EPSR). The government also plans to increase participation in childcare, an indicator in which Spain is already among the best performers (principle 11 EPSR). Regarding childcare, the new child benefit for low-income families is aimed at improving support. In addition, the new Family Law envisaged in the RRP is expected to further strengthen material support for vulnerable children and to be complemented with a review of support for families through the tax system. In this respect, Spain plans to invest at least €527 million from the European Social Fund Plus (ESF+) in implementation of the European Child Guarantee.[24] The changes related to active labour inclusion policies represent an important social component to create hiring incentives, improving coordination between different systems and providing adequate (individual) counselling (principle 4 EPSR). In addition, the RRP envisions several reforms and investments geared towards improving health care (principle 16 EPSR). Particular attention is also drawn to social housing with the 'affordable rental housing plan', which is aimed at finding a structural solution to the lack of social housing (principle 19 EPSR). Moreover, there are dedicated measures to facilitate access to minimum income schemes, particularly for vulnerable people, (principle 14 EPSR) and to strengthen social protection networks and coordination between administrations in this regard (principle 12 EPSR). Long-term care is also one of the strategies adopted to address the aging population (principle 18 EPSR), which is complemented with the pension reform (principle 15 EPSR). Moreover, the overall architecture and a number of specific measures are directed towards ensuring gender equality and equal opportunities (principles 2 and 3).

Taken together,[25] therefore, the RRP seems to be fully consistent and fairly mindful of the three chapters of the EPSR, as it includes, in cross-cutting fashion, virtually all areas targeted in the Pillar. This being said, it cannot be forgotten that the vast majority of reforms

[24] Council of the European Union, Council Recommendation (EU) 2021/1004 of 14 June 2021 *establishing a European Child Guarantee*, OJ L 223, 22 June 2021.
[25] In annex 4 of Spain's national reform programme in 2022, one can find a detailed list of all the national efforts to implement each of the 20 principles enshrined in the European Pillar of Social Rights. Note that this table does not include regional efforts and that it includes efforts beyond the scope of the recovery and resilience plan.

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and investments will be dedicated to the energy and digital transitions, and as such, social and labour issues are relegated – also in terms of financing – to second place.

3.3 Role of the social partners in adopting the RRP.

In the past few years, the role of the social partners in Spain has been considerably enhanced, and the process of adopting the RRP, as well as many other measures adopted to date are no exception. In fact, most of the decisions reached in the context of the RRP have been at the hands of the dialogue roundtable set up by the government, whose objective is to serve as a forum for consultation and a channel for monitoring progress between the government and the social partners. The roundtable is headed by the prime minister and is made up of two deputy prime ministers and five ministers, the president of CEOE (main employers' association), the president of CEPYME (SME employers' association) and the general secretaries of UGT and CCOO (the two main nationwide trade unions).

Eurofound recently assessed the quality of involvement of social partners during the consultation rounds of the recovery and resilience plans and, regrettably, fewer than ten Member States were given a positive assessment. Spain was among those that performed positively, together with the Nordic countries, Belgium, Czechia and (to a lesser extent) Bulgaria, Cyprus and France. The rest of the Member States presented only low-quality social-partner involvement, with deficiencies in the timeliness of, and feedback from, consultation.[26] Trade unions and employers' associations reported, moreover, that they had participated on an equal footing. The study found, in addition, that only in Spain did social partners and public authorities agree to summarise the social partners' views in the RRP itself. Whereas the outcome and the social partners' overall satisfaction during this process were good, there were complaints regarding the scant amount of time social partners had to prepare for the meetings. Reportedly the schedule was rather intense, for example, because the government did not hand over the necessary background information in sufficient time. As a result, the social partners often found it challenging to prepare for work sessions.

4. Looking forward: the RRP since its adoption.

It is too soon to tell whether the Spanish RRP will have the desired effect and tackle important challenges adequately, including those in the social and labour dimensions, and whether the social interests, measures and investments highlighted in the above sections will fall victim to economic pressures a few years down the road. For now, it is worth looking at the more recent follow-up on Spain (2021–2022), including the in-depth report, the National Reform Programme, the Country report and the CSR.

[26] Eurofound, *Involvement of social partners in the national recovery and resilience plans*, Publications Office of the European Union, Luxembourg, 2022.

Over the annual cycle of surveillance under the Macroeconomic Imbalances Procedure in 2021, the Commission identified macroeconomic imbalances in Spain related to high external and internal debt (public and private) in the context of high unemployment. Following this, the 2022 Alert Mechanism Report concluded that a new in-depth review was needed, analysing the persistence or unwinding of such imbalances.[27] In general in this in-depth report, the Commission acknowledged the value of the measures undertaken by the Spanish government during the Covid-19 pandemic to contain (if not to alleviate) the effects of the health-care emergency. Moreover, it praised the comprehensiveness of the RRP, thereby recognising its 'unique opportunity to foster policy progress in the areas affected by macroeconomic imbalances.'[28] According to the CSR, the RRP is intended to tackle wide-ranging policy reforms and investments that cover the major bottlenecks in diverse policy areas. Particularly important for reducing imbalances, the Commission recognised, are interventions in public and private finance, business productivity and the labour market. These include measures aimed at fostering business competitiveness[29] and actions undertaken to reduce dependency on energy imports and external debt, both in the context of the green transition and as an action plan addressing the Russian invasion of Ukraine.[30]

The in-depth report also welcomed the efforts of the RRP to increase the share of state revenue, coupled with improving the efficiency of the tax system, specifically referring to measures to be adopted by the beginning of 2023 regarding tax reform and combating tax fraud.

Regarding the labour market reforms, the 2022 in-depth report highlights the concerns of previous CSRs regarding the vulnerability created by labour segmentation, marked by temporary contracts, which makes Spain vulnerable to exogenous shocks and 'undermines the accumulation of human capital', which has negative consequences for productivity. The Commission recognised, in this vein, the relevance of the labour reform envisaged in the RRP, which is expected to target some of these concerns by, on one hand, limiting the use of temporary contracts and, on the other, extending the short-term work protection schemes (ERTEs) and creating RED mechanisms. The Commission expects the former to correct labour market duality, while the second can target unemployment and enhance economic adjustment, which should in turn increase social cohesion and alleviate poverty.

In the Country Report, the Commission also welcomed the new national income scheme and child benefit, as measures with a potential impact on reducing the current depth of

[27] European Commission, *In-depth review for Spain in accordance with Article 5 of Regulation (EU) No 2011/1176 on the prevention and correction of macroeconomic imbalances*, 22 July 2022, SWD(2022) 631 final.
[28] European Commission, nt. (27), 7.
[29] See, for example, 'Compañia Española de Reafirmamiento', which allows SMEs to access long-term financing and working capital, thereby helping to reduce their debt overhang. The Plan also includes a set of actions aimed at facilitating preventive debt restructuring and debt relief for natural persons, with the goal of preventing insolvency and facilitating resource reallocation.
[30] On 29 March 2022 the government approved a Response Plan with five main lines of action to reduce energy prices, support the most vulnerable sectors and groups, protect price and financial stability, strengthen security of supply and cybersecurity, and speed up the deployment of the Recovery Plan, especially with regard to the energy transition. Real Decreto-ley 6/2022 de 29 de marzo, *por el que se adoptan medidas urgentes en el marco del Plan Nacional de respuesta a las consecuencias económicas y sociales de la guerra en Ucrania*, BOE no. 76, 30 March 2022.

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poverty. Nevertheless, the report also noted that existing coverage is still incomplete and that many regions have yet to introduce top-ups to complement the national scheme with their own.[31] It also remarked the existing disparities between regions in primary and health care investment. These were marked as areas in which Spain would have to introduce new social policies to ensure that the 2030 poverty goal is achieved.[32]

Hence, in general, the Commission was fairly supportive of the RRP also in the in-depth report, encouraging rather than limiting many of the measures put forward by the Spanish legislator to enhance the labour market and the productivity of the Spanish economy. The in-depth report, however, was more cautious towards other areas of social expenditure foreseen in the RRP. In particular, the Commission reported that a necessary step to stabilise the national debt is to address the unfavourable budgetary position and future budgetary pressures that stem from the aging population, particularly as regards health care and long-term care expenditure. In this respect, the in-depth report shows some hesitation regarding the measures that relink pensions to inflation. These are necessary to ensure their adequacy, but according to the Commission they may pose further challenges to long-term sustainability. Accordingly, the proposed measures in the RRP regarding discouragement of early retirement and the fostering of late retirement will not be sufficient to counter the budgetary risks and Spain will have to introduce new measures 'forceful enough' to mitigate them.

The 2022 CSR, following a very similar position, is favourable to most RRP social and labour measures except the long-term public expenditure plans. In fact, the CSR recommends that Spain adopt a 'prudent fiscal policy', in particular by limiting the growth of nationally-financed expenditure that is below medium-term potential output growth, although here the Commission did not refer directly to pensions.[33]

All the above considered, it seems that the pattern to recovery from the post-Covid-19 crisis is very different from those of previous crises, this time driven by decent employment paired with investment in key areas towards a resilient economy, such as the green and digital transitions, support for struggling sectors such as culture and tourism, and support for SMEs. With the RRP, Spain is targeting historically weak parts of its economy – as evidenced by the stress put in these areas on past CSRs – in a structural and strategic manner. In this respect, in its National Reform Programme, the Spanish government considers that the short, medium and long-term response measures adopted both in the context of the early pandemic and later with the RRP show how differently this government is managing the crisis as compared with the past housing crisis, managed by the right-wing Popular Party. It is worth noting that the positive effects of such management were already noticeable in 2021 and

[31] In 2021, only about 28 per cent of the potential beneficiaries received it according to simulations run by the European Commission Joint Research Centre, based on the EUROMOD model / EU-SILC.
[32] European Commission, *2022 Country Report – Spain. Accompanying the document 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*, 23 May 2022, SWD(2022) 610 final.
[33] European Commission, *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*, 23 May 2022, COM(2022)610 final.

intensified in 2022.[34] The strategic investment and structural reforms are aimed particularly at enhancing education, science, public administration, the business climate and well-functioning markets. The Spanish government emphasised that the bulk of the RRP measures are aimed at maximising any counter-cyclical impact and 'achieving a material impact on the main levers of growth, boosting human, natural, technological and cultural capital, R&D, investment in disruptive technologies, the digitalisation of companies and public administration, improving the welfare state and reducing inequalities'. It is also significant that, in response to rising gas and oil prices, which translate into electricity prices, in March 2022 the government approved a Response Plan with five main lines of action to reduce energy prices, support the most vulnerable sectors and groups, protect price and financial stability, strengthen security of supply and cybersecurity, and speed up the deployment of the Recovery Plan, especially with regard to the energy transition. The plan mobilises €16 billion in direct assistance, tax reductions and liquidity measures.[35]

5. Final considerations.

In general terms, one can be cautiously positive about the RRP and its approach to social and labour protection policies. As discussed in the different sections of this chapter, the RRP puts a strong emphasis on efforts towards advancing in the labour and social dimension, with significant investments and reforms in various areas. Some of the main concerns posed by previous CSRs are addressed by some of these reforms, particularly regarding temporary employment and (youth) unemployment. At the same time, virtually all the principles of the EPSR have been translated into implementing actions in the RRP. More transversal changes, including the efficiency of the public administration, the tax system and employment services are also an important part of the plan. No less importantly, the two main axes of the plan, the green and digital transitions, are also expected to boost the economy in a sustainable and inclusive manner (for example by improving the [social] housing market and the population's digital skills), which should also bring a positive outcome to the social and labour dimensions. The positive involvement of the social partners in the planning and monitoring of the RRP not only supports this analysis, but brings some hope regarding future implementation of the RRP.

Notwithstanding these positive developments, there remain, however, a number of problematic or unclear points. Not unimportantly, the RRP fails to clarify how funds will be distributed regionally. This clarification is not only crucial to ensure that funds are distributed by prioritising areas in greater need, particularly considering the great divergences that exist between the different autonomous communities,[36] but also in terms of the competences of

[34] Delgado M., *Los fondos europeos y la recuperación de España tras la pandemia*, Banco de España, 2022.
[35] Real Decreto-ley 6/2022 de 29 de marzo, *por el que se adoptan medidas urgentes en el marco del Plan Nacional de respuesta a las consecuencias económicas y sociales de la guerra en Ucrania*, BOE no. 76, 30 March 2022.
[36] General information on this can be found on the website of the Bank of Spain: https://www.bde.es/webbde/es/estadis/infoest/temas/sb_deuccaa.html, accessed 8 July 2022.

each community as regards implementing the various investments and reforms. Another important aspect related to a fair internal distribution of the plans concerns the manpower of big companies. In order to access government funding to boost economic activity or enjoy some of the private investments, companies will have to come up with a plan. In this vein, it is to be expected that bigger or more powerful companies will have the necessary resources and human capitalto develop well-rounded plans than smaller enterprises, which are the ones that would benefit the most. This may enhance already strong businesses while endangering the survival of SMEs in particular.

By contrast, taking the 2022 European Semester into consideration, it can be expected that future recommendations will slow down, or even completely paralyse public investment in key social areas, particularly pensions, as an expedient for ensuring fiscal sustainability in the long-term. This emanates particularly from the concerns shown in the in-depth report regarding the relinking of pensions to indexation, a measure that is key to ensuring that pensions remain adequate to ensure human dignity.

Although there are good reasons to be positive in terms of how Spain plans to approach the current crisis, one should also be wary about the potential risks to its implementation and the future of macroeconomic surveillance. Moreover, internal political tensions cannot be ignored, with the recent rise of the right in the Andalusian elections and the reluctance of these parties not only to implement social and labour reforms, but also measures addressing the green and digital transitions.