

Cristina Herrero states that it will be necessary to evaluate the effectiveness of Spain's Recovery and Resilience plan and that the achievement of milestones will not suffice

She notes that the available information makes it difficult to analyse the macroeconomic and fiscal implications of the Plan

The President of the Independent Authority for Fiscal Responsibility (AIReF), Cristina Herrero, appeared today before the Commission of the Report on the socioeconomic and employment situation in Spain of the Spanish Economic and Social Council (Spanish acronym: CES) and stated that it will be necessary to evaluate the effectiveness of the Recovery, Transformation and Resilience Plan (RTRP), since the achievement of milestones will not suffice.

During her speech, Cristina Herrero reviewed the European mechanisms put in place to address the effects of the COVID-19 pandemic and highlighted that the Next Generation EU funds constitute the EU's largest stimulus package to date. Spain, in particular, is one of the countries that will benefit the most and will receive an unprecedented amount in the period between 2021 and 2023. In total, adding up all the funds, Spain will receive about €35 billion a year from the EU over that period. From the Next Generation EU, it will receive transfers worth €69.5 billion until December 2026, and will be the leading recipient.

The funds will be channelled through the RTRP. Although AIReF has not had a specific role within the planned architecture for execution, monitoring and control of the plan, it has incorporated the plan into its mandatory reports as it affects the macroeconomic forecasts that AIReF must endorse and the fiscal references, as well as the sustainability of the public finances on which it must report. In addition, the plan has had a specific impact on AIReF's activity with the strengthening of the institution's evaluation capacity through the creation of the evaluation division in AIReF, the launch of the third phase of the Spending Review, the incorporation into the decision-making process of the evaluation recommendations and the new public spending review process for the period 2022-2026.

Macroeconomic and fiscal impact

Regarding the estimated macroeconomic impact of the RTRP, the President of AIReF noted that the institution had already made a statement in October 2020 when reporting on the macroeconomic forecasts presented in the GSB for 2021, before the RTRP was approved. As the pace of execution in 2021 was slower than expected, the impact needed to be revised. And it will be re-evaluated again for the Report on the 2022-2025 Stability Programme Update.

At a budgetary level, Cristina Herrero stated that the analysis of the implications of the RTRP is not easy for several reasons, such as the lack of full integration of the RTRP in the budgetary documents, the difficulty in accessing public information provided by the Autonomous Regions and the neutrality of the RTRP in terms of national accounts determined by Eurostat.

Despite accounting neutrality, AIReF believes that the RTRP will have an impact on the underlying position of public finances in the long term. It may have a positive impact on the structural balance if it manages to increase potential growth in the long term and if it generates fiscal spaces through structural reforms and the evaluation of public expenditure. And it may have a negative impact on the structural balance if it generates permanent increases in expenditure. In addition, the RTRP will have an impact on public debt dynamics, with a reduction

in the ratio of between 3 and 6 points in 2024. However, AIReF considers that without a medium-term fiscal strategy, debt would remain on a growing path without stabilising.

A major challenge for the General Government

Cristina Herrero noted that the receipt of EU funds represents a paradigm shift in the basic operating scheme that allows for quicker execution. However, given the decentralised management, AIReF believes that some adjustments to the incentives will be unavoidable in order to ensure absorption within the planned timescale. It believes that it is likely that these incentives will need to be strengthened through the Council on Fiscal and Financial Policy or the Sectoral Conference of the Plan. According to the President, there is a major challenge facing the Autonomous Regions, which will need to manage RTRP, REACT and traditional funds within the same time period.

Regarding evaluation, the President noted that the RTRP does not provide for a specific evaluation, but only for monitoring and control systems. However, evaluation does arise at a regional level as part of the necessary accountability to Parliament and the Council. In her opinion, all the information from the RTRP's control systems could be used to propose evaluations that would help improve effectiveness and efficiency and redefine public policies.

In conclusion, AIReF's President insisted that the Next Generation Funds and the RTRP offer a great opportunity to transform the economy. She also reiterated the recommendations that have been made to design a medium-term fiscal strategy, as well as better integration of the information and impact of the RTRP in the Stability Programme and the Budgetary Plan.