RECOVERY AND RESILIENCE
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No. 7 | March 2022

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COMPARING AND ASSESSING RECOVERY AND RESILIENCE PLANS

ITALY, GERMANY, SPAIN, FRANCE, PORTUGAL, SLOVAKIA, AUSTRIA AND BELGIUM

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Abstract

One year has now passed since the adoption of the RRF Regulation and most of EU Member States have now started to implement their recovery plans. Yet, many questions remain unanswered about the plans' actual capacity to deliver their stated objectives. The complexity and heterogeneity of the plans makes it not only difficult to compare and assess them, but also raises doubts on existing capacity to monitor their implementation. Building on the methodological approach and the experience gained from the previous study we presented in September 2021, this updated paper further expands our initial analysis, including two new countries (Austria and Belgium), and introduces new insights on how far the plans cover entirely new investments or are being simply earmarked for previously budgeted expenditure. This paper is part of the ongoing CEPS Recovery and Resilience Reflection Project.

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1. Introduction

Assessing national recovery and resilience plans (NRRPs) poses a twofold challenge: accessibility and comparability. Firstly, the national plans are significantly long and include multiple annexes. Often, not all the documents attached to the plans are published on the Commission's dedicated website or translated into English. At the same time, the staff working document prepared by the Commission, which assesses the plans based on the recovery and resilience facility (RRF) regulation requirements and accompanies the proposal for the Council's implementing decisions, does not provide a prioritisation of investments or reforms. In terms of comparability, despite each state being required to indicate milestones and targets, as well as the link with the country-specific recommendations (CSRs), plans are structured differently and do not even categorise the investments under the same labels (e.g. green transition, digital transformation) making it difficult to compare them.

The aim of these reviews of the national plans is to provide a detailed and comparable overview of the investments and reforms included in the NRRPs, and to propose a methodological approach for assessing the NRRPs. The aim is not to replicate the European Commission's assessments and do not focus on their compliance with the formal requirements of the RRF or the EU's Country Specific Recommendations (CSRs). The focus is on the quality of the proposed strategies in reinforcing the economic structure and thus the resilience of the member state to future economic challenges.

The focus is on reforms and investments that are particularly relevant and on the rationale behind interventions, enabling the reader to assess (at least in part) the plan and to compare with the other assessments undertaken under this research programme. We assess the strategies behind the NRRPs, identifying the objectives that are prioritised and the relevance and coherence of reforms. In terms of investments, we assess with different methodologies the additionality of RRF investments.

This report refines and expands the information and the number of countries analysed from six (in the Recovery and Resilience Reflection Paper No5, 2021) to eight. It adds Belgium and Austria to Italy, Germany, Spain, France, Portugal and Slovakia.

The following information is included in each country sheet:

- macroeconomic outlook and forecasts: GDP; employment; unemployment; HICP inflation; government balance; debt to GDP;
- country structural challenges before Covid-19 in eight key policy areas: labour market; education and skills; justice; research and innovation; public administration; taxation; product market; social policies;
- country planned expenditure financed under RRF grants/loans;
- NRRP impact on country GDP and employment – deviations from baseline scenario;
- investment distribution across six RRF pillars (green transition; digital transformation; smart, sustainable and inclusive growth; social and territorial cohesion; health, and economic, social and institutional resilience; policies for the next generation);
- 10 strategic projects financed by the RRF (description and timeline);
- key structural reforms across eight policy areas (description and timeline);
- overall assessment.

2. Methodological approach to investments and reforms in NRRPs

Investments are a key component of the recovery and resilience plans. While most of the analyses of the NRRPs focus on measuring whether countries are allocating 37% of funds to the climate and 20% to digital as prescribed, we instead focus on the rationale of the funded projects. A detailed list and description of the projects included in the plans, with the relative targets and timeline for implementation, is provided. Investment projects are classified based on the statistical classification of economic sectors from the national accounts data set, NACE. Finally, a summary table is provided with the 10 most important investment projects in the national plans, including a description of such investments, the expected date of their completion and the economic sector involved.

To assess the reforms in NRRPs, three main criteria are looked at:

- Reforms have to address the needs and problems specific to a country and should be in line with the objectives defined in the RRF. This requires more than just ensuring that the NRRPs take account of the CSRs from the European Semester, some of which may not even be essential for the RRF.
- Reforms need to be credible. From the NRRPs, we should expect solid analysis to understand the present situation and the challenges in reaching a more resilient economy, with reforms clearly linked to the findings. The credibility of the proposed reforms depends on whether they expect to have a lasting impact, namely a structural change in relevant policy areas. The arrangements proposed should also ensure the effective monitoring and implementation of the recovery and resilience plan, including the envisaged timeline and clear and realistic milestones.
- Reforms need to be appropriate for the objectives targeted and coherent with the investments proposed in the plan.
- The CEPS RRF monitor country sheets compiled here provide information on the relevance, effectiveness and coherence of the key structural reforms contained in the plans. A summary table is also provided for each member state with the key structural reforms planned. The following information is provided: key structural challenges before the NRRP’s existence, description of the intervention envisaged, timeline for implementation, (where available) milestones and actors responsible.

3. ITALY

3.1 Macroeconomic outlook and forecasts

The Italian economy has been hit considerably by the Covid-19 pandemic. The depth of the crisis led to an estimated GDP contraction of 8.9% in 2020. During the first and second quarter of 2020, the Italian GDP contracted by 5.8% and 10.9% (q-q change) respectively, recovered in the third quarter by 12.2% and then again contracted in the last quarter of 2020 by 0.7%. The volume of output is projected to return to its pre-crisis level (2019-Q4) in the first quarter of 2022. However, based on the 2022 Commission winter forecast, economic activity in the fourth quarter of 2023 would still remain short of the level that was expected before the pandemic.

To cushion the effects of the pandemic, the Italian government intervened with a series of ad hoc fiscal packages which accompanied traditional automatic stabilizers. Overall, the Covid-19 fiscal package amounted to 35.5% of GDP, the second largest in the EU after Germany. Notably, Italy put in place discretionary expenditure measures for a total amount equal of circa 6% of GDP to support employment (2%) and households (4%). The significant intervention on employment support measures, together with a freeze on layoffs, contributed to keep unemployment under control. Yet, the employment rate significantly dropped in 2020 by 10.3% and is expected to recover only in 2023, which suggests a poor job recovery. In addition to expenditure measures, discretionary revenue measures and tax payment measures (e.g., early refund, tax deferral) were adopted for an amount equal to 1.8% and 1.3% of GDP respectively. However, the largest intervention was in financial instruments (loans and equity) and guarantees that the government put in place, the amount equal to 3.1% GDP and 26.7% of GDP respectively.

Automatic stabilisers, Covid-19-related fiscal measures and the prolonged economic contraction had a heavy impact on both the 2020 and 2021 government budgets, respectively -9.6% of and -9.4% of GDP, thus significantly undermining the fiscal sustainability of Italy. Despite economic recovery, the government budget balance is expected to remain negative until 2024 (-3.4% of GDP), while Italian public debt will be significantly above (152.7% of GDP) to the level of 2019 (134.6% of GDP). As a result, Italy is projected to face high fiscal sustainability risks in both the short and medium term. According to the Commission's debt sustainability analysis (DSA), in the medium term, the high level of the debt-to-GDP ratio (above 155% until 2023) could be mitigated by the positive impact on GDP growth of reforms and investments included in the Italian national recovery and resilience plan (NRRP).

Table 1. Macroeconomic development and forecast Italy

	2019	2020	2021	2022	2023	2024	2025	2026
GDP Growth (y-y % change)	0,4	-8,9	6,5	4,1	2,3	1,8*	n.a.	n.a.
Employment (% change)	0,1	-10,3	5,9	4	2	1,6*	n.a.	n.a.
Unemployment rate (%)	10	9,2	9,8	9,3	9,2	8*	n.a.	n.a.
HICP inflation (% change)	0,6	-0,1	1,9	3,8	1,6	1,4*	n.a.	n.a.
Gov balance (% GDP)	-1,5	-9,6	-9,4	-5,8	-4,3	-3,4*	n.a.	n.a.
Debt to GDP (% GDP)	134,3	155,6	154,4	151,4	151	152,7*	n.a.	n.a.

Source: Own elaboration, based on autumn 2021 and winter 2022 AMECO Forecasts (until 2023) and Italian recovery and resilience plan (for 2024).

3.2 Italy's structural challenges before Covid-19

Italy entered the Covid-19 pandemic with already significant structural problems, which – together with the second highest public debt in the EU – could further deteriorate once emergency measures are phased out, leading to a sluggish economic recovery and further lower productivity. Such problems touch upon different policy areas, from the labour market to product markets, the judicial system, public administration, the taxation system and social policies.

With respect to the labour market, two main problems affect Italy: the first is the prevailing low participation in the labour market. Italy's employment rate in 2019 was comparatively lower than the EU average (63.8% vs 74.1%) and still below its early 2008 level (62.9%) in full-time equivalents. Italy also has one of the highest numbers of involuntary part-time and temporary workers, particularly in the South. Wages are the second problem. Real wage growth was close to zero in 2019, and wages in real terms are still lagging well behind pre-crisis levels. Wage stagnation reflects two additional problems: i) a weak bargaining system, which has 866 national collective agreements without checks on the representativeness of the signatories; and ii) a taxation system that still weighs heavily on labour. Income tax revenues are above the EU average as a share of GDP (21.0% in 2018 against 19.6% in the EU) and Italy has one of the highest implicit income tax rates in the EU (42.7% in 2018 compared with 36.2% in the EU). The combination of stagnant wages and falling working hours results in one of the highest shares of working poor, 12.2% in 2018 (compared with an EU average of 9.5%). Women and young people are the groups hit hardest, with the rate of people not in employment, education, or training (NEET) being the highest in the EU (19.2% in 2018 vs an EU average of 10.5%), and female employment at 53.8% against the EU average of 70.1%. Finally, Italy has one of the weakest active labour market policies in the EU, with poor public employment services (PES) and a lack of training opportunities for unemployed, underemployed, and inactive people (Scarano 2019).

Low labour market performance is in part also related to structural challenges in education and skills. Before the pandemic, early childcare education was characterised by low coverage, uneven geographic distribution, and high cost (OECD 2017; Eurydice Report 2019). This held back demand for services with the dual consequence of creating discrimination within socioeconomic groups and detrimentally impacting female employment rates. Investment in tertiary education is also particularly low, leaving it underfinanced and with an attainment rate that continues to lag behind other EU countries. Enrolment in tertiary education in 2017 was well below the EU average (27.8% against 40.7%) and, worse, the employment rate of tertiary graduates remains low. The average duration of the Italian school-to-work transition for a graduate is 11 months in Italy, compared with 2 months in the United Kingdom and 3 months in Austria and Poland. Italy also performs poorly in training and adult learning participation. Measures for vocational training are in place but their implementation remains sluggish.

On the public administration side, three main problems have affected Italy over the past decade. The first is numerical: as public spending has evolved, turnover has been blocked and the number of public employees in Italy has been significantly reduced. The second problem is related to the ageing of public employees, where the generational turnover has been slow and partial. The third problem is the progressive reduction in the public investment put into upskilling and reskilling public administration employees. This investment almost halved between 2008 and 2019, thus increasing the misalignment between the sets of skills available and those required to develop a modern and prosperous society (digital, ecological, etc.). In addition to these structural problems, the Italian public administration has had to manage a set of extremely articulated and complex rules and procedures that have progressively stratified. These have been poorly coordinated and often conflicting at different administrative levels (national, regional and local). This situation results in high economic costs for citizens and businesses and undermines the ability to grow in the long term. Similarly, significant challenges exist in the judicial system. Italy takes one of the longest times in the EU to resolve civil and commercial litigation. The lengthy duration of trials leads to a negative perception of the quality of the judicial system and to its value being unduly obscured.

With respect to the business environment, Italy performs poorly, especially when it comes to starting a business, dealing with construction permits, getting credit, paying taxes and enforcing contracts (Doing Business 2020). Public works in Italy take lengthy times from the decision on the design to the completion. If the planning and decision-making phases are also considered, the overall duration is considerably lengthened. Despite various attempts to simplify regulatory policies, the removal of constraints and burdens was only partially successful, for two reasons: i) the progressive impoverishment of financial, human and technical resources has weakened the administrative capacity of the public administration; and ii) the adoption of legislative simplification measures has not been accompanied by the necessary organisational interventions. In addition to this, Italy before entering the crisis suffered a problem of public underinvestment. Although before the pandemic, in Italy GFCF amounted still to about 2.5% of GDP, if one considers net instead of gross investment, this would actually show that Italy's fiscal situation before the crisis was already worse than one would judge.

According to the OECD product market regulatory (PMR) index, Italy has a regulatory quality in line with the average of OECD countries but is less competitive than two of its main market competitors: Spain and Germany. Improvements in the PMR index, and therefore higher levels of competition, are related to a more efficient allocation of resources, lower prices for products consumed by households and higher investments.

Finally, the Italian welfare state has been characterised by several vulnerabilities. In 2019, the at-risk-of-poverty or social exclusion (AROPE) rate was among the highest in the EU (25.6%) and was particularly acute for children (27.7%). These challenges are also reflected in the limited poverty-reduction impact of social transfers, which is one of the lowest in the EU (20.2% vs EU average of 32.4%).

Table 2. Country-specific challenges before Covid-19 – Italy

Policy area	Country-specific structural challenges
Labour market	Low work intensity (employment rate in FTE below pre-Great Recession)
	High number of involuntary part-time workers
	Low real wages – High number of working poor
	Weak collective bargaining system (fragmented in multiple collective agreements)
	Weak active labour market policies (notably upskilling and reskilling)
	High NEET rate and low female employment
	High level of undeclared work
	Inefficient PES
Education and skills	Low coverage, uneven geographical distribution, and high-cost childcare (0-3)
	Low investment in tertiary education and low enrolment rate in university
	Long school-to-work transition
	Low adult learning participation
	Inefficient vocational training
Justice	Low administrative capacity (insufficient staff)
	Inefficient judicial system (lack of digitalisation)
	Lengthy duration of trials
Research and innovation	Subdued level of public investment
	National policies to boost R&I benefitting the North
	North-South divide in Competitiveness Index
Public administration	Low turnover and insufficient number of public employees (ageing of public employees)
	Complex and long administrative procedures hampering productivity and investments
	Low investment in upskilling and reskilling in public employees (low digital literacy)
Taxation	Too high income tax wedge
	High level of tax evasion
Product market	Low degree of competition especially in retail and service sectors
	Low ranking for Ease of Doing Business (notably, starting a business, dealing with construction permits, enforcing contracts, getting credit)
	Rigid product market regulation with restricted professions
Social policies	High income inequality (S80/S20)
	Low impact of social transfers (other than pension) on poverty reduction

Source: Own creation, based on the Country Report for Italy (2020).

In addition to structural challenges, Italy faces significant challenges related to the green and digital transition. On the one hand, the greenhouse gas emissions are still 15% above the 2030 climate and energy targets, building energy efficiency is still low, and investments in water infrastructure in the South are still insufficient. The risks of drought seem to be increasing, and significant regional disparities persist in waste management and the circular economy. On the other hand, Italy is ranked last in the EU with respect to the Digital Economy and Society Index (DESI) 2020. Only 42% of people aged 16-74 years have at least basic digital skills (56% in the EU-27), and only 22% have above basic digital skills (31% in the EU-27). Digitalisation of the business sector remains sluggish, and Italy ranked 22nd in the DESI 2020 indicator for the integration of digital technology in the business sector. Italy also ranked 19th in the EU for digital public services.

3.3 The Italian NRRP: key numbers and timeline

The strong impact of the pandemic crisis together with the pre-crisis structural vulnerabilities has led to Italy being the second the largest beneficiary of the RRF grants after Spain. The Italian plan was presented by the end of April 2021, given a positive assessment by the European Commission on 22 June 2021 and approved by the Council on 13 July 2021. The plan includes 129 investments proposal for a total amount of EUR 191.5 billion, made up of EUR 68.9 billion in grants and EUR 122.6 billion in loans. In addition, the Italian NRRP included 60 reforms aimed at addressing the structural problems of the Italian economy and facilitate a quick and smooth absorption of the RRF funds. As illustrated in the table below, Italy frontloads the majority of the reforms in 2021,2022 and 2023.

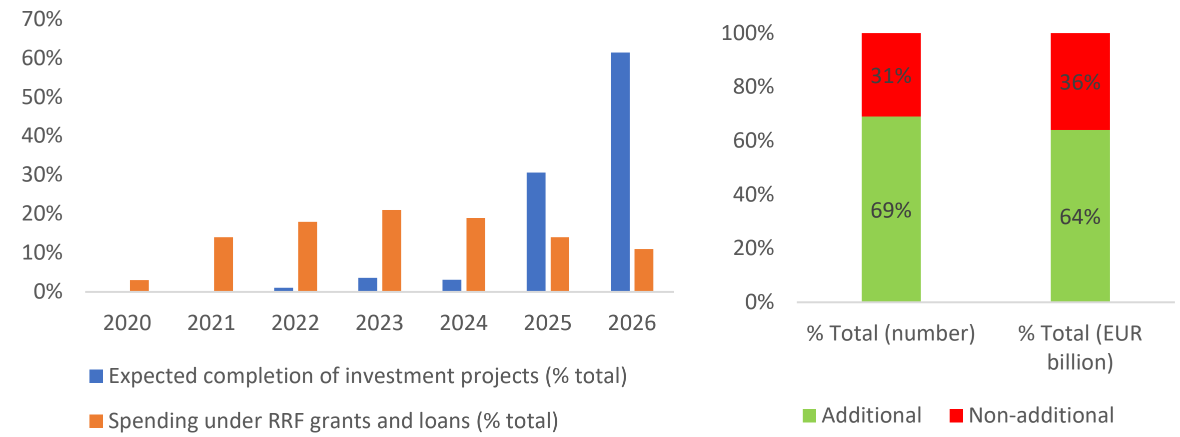
Table 3. Timeline for completion of reforms and investments' projects under Italian NRRP, by year (% total)

	2020	2021	2022	2023	2024	2025	2026	TOT
RRF Investments' projects [number]	0	1	2	6	11	28	81	129
RRF Investments' projects (% total)	0%	1%	2%	5%	9%	22%	63%	100%
RRF Reforms [number]	0	14	16	11	8	3	8	60
RRF Reforms (% total)	0%	23%	27%	18%	13%	5%	13%	100%

Source: Own elaboration, based on Italian NRRP.

Although the largest share of the investments project is expected to be completed towards the end of the RRF, planned expenditure under RRF in Italy starts well before 2025 and 2026. As shown in Figure 1, 75% of the planned recovery spending is evenly distributed across the years. Contrary to other countries, like Spain, Italy does not concentrate the majority of the spending in the early years of the RRF. Such difference can be explained in light of the fact that a large part of the investments envisaged in the Italian plan are additional, namely they will finance projects not previously included in the Italian budgetary law. Overall, in Italy 69% of the investments' projects proposed are new and not previously planned neither they are an extension or continuation of pre-existing programmes. Such percentage slightly decreases if we consider the amounts allocated for new public investments which is around 64%.

Figure 1. Planned Italian expenditure financed under RRF grants and loans and expected completion of investments' projects (left panel) and additionality of public investments (right panel)

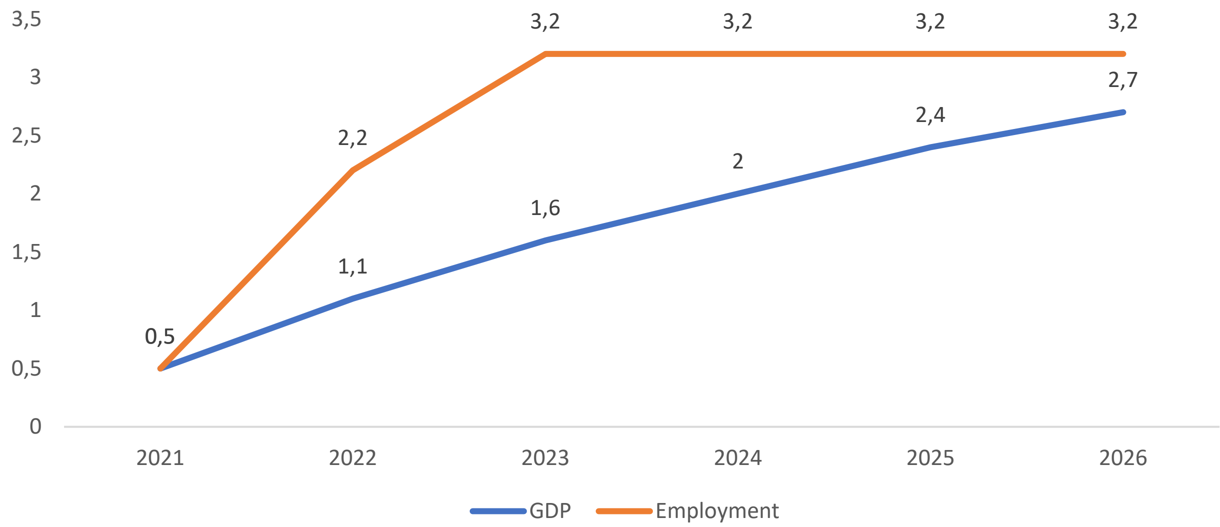


Source: Own elaboration, based on the Italian Stability Programme (Ministry of Economy and Finance 2020 and 2021),Italian NRRP (European Commission, 2021) and Italia Domani.

In terms of governance, the Italian plan is highly centralized in the hands of the prime minister office. The responsibility for the implementation of the plan rests with the government for the duration of the RRF. Law Decree 77/2021 sets up six new bodies to carry it out, namely: i) *Control Room,* that elaborators guidelines and is the main responsible for monitoring; ii) *Permanent table* for economic, social and territorial partnership, as a consulting body; iii) *Technical secretariat,* that coordinates the dialogue with the permanent table; iv) *Unit for rationalization and improvement of regulation*, that identifies the obstacles to the correct implementation of the reforms and investments envisaged by the plan and develops proposal to overcome the dysfunctions detected; v) *Central service for the NRRP,* responsible for the management of the NGEU revolving fund and the resulting financial flows, that is also involved in the monitoring of the plan; and vi) *Audit office of the NRRP,* that verifies the quality and completeness of the monitoring data as well as enhancing and developing transparency and participation initiatives.

According to the stylised impact simulations run by the Italian government with the QUEST macroeconomic model, the NRRP is expected to have a very positive impact both on employment and GDP, especially in the medium term (Figure *2*). Specifically, the plan expects a constant increase in the annual GDP growth rate of 1.1 percentage points (pp.) in 2022 and of 2.7 pp. in 2026 above what it would be compared to the scenario without the NRRP. Regarding the labour market, there is an increase in the level of employment, starting with a plus 2.2 pp. in 2022 and a 3.2 pp. increase in the following years until 2026.

Figure 2. NRRP impact on GDP and employment- deviations from baseline scenario

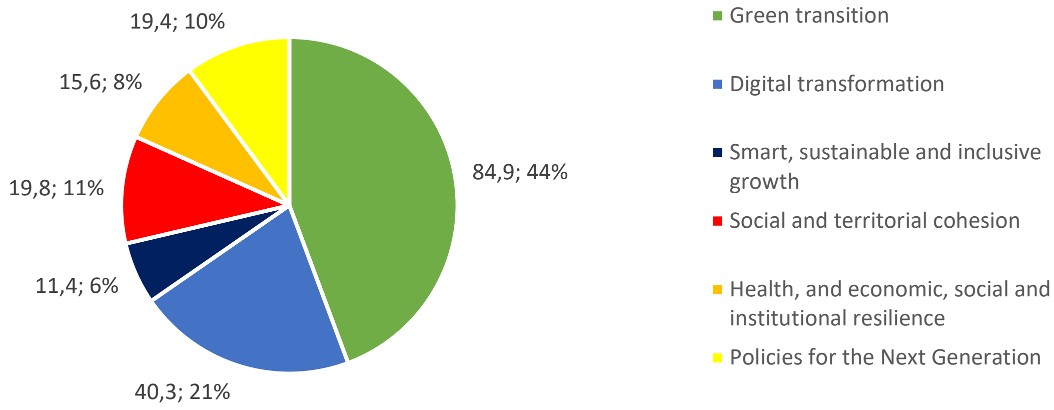


Source: Own creation, based on Italian NRRP (European Commission, 2021).

3.4 Investments in the Italian NRRP

The Italian programme has six missions, but the investments can be recategorised in line with the Commission guidelines, and the Italian NRRP investments can be classified according to the objectives included in the six pillars of the RRF. Based on this classification, Italy focuses 65% of its investments on the *green transition* (44%) and *digital transformation* (21%) pillars of the RRF. The remaining 35% of investments are allocated respectively to the *policies for the next generation* (10%), *smart, sustainable and inclusive growth* (6%), *health, and economic, social and institutional resilience* (8%) and *social and territorial cohesion* (11%) pillars. With respect to the distribution of the funding across economic activities, the Italian plan distributes the resources evenly, with the largest share allocated to the transport and storage sector (19%), healthcare (12.4%), education (12%) and public administration (10%).

Figure 3. Italian investments across the six RRF pillars (EUR billion, % total)



Source: Own creation, based on the Italian NRRP.

A closer look at the breakdown of the Italian investments gives a better understanding of the investment prioritisation (see Table 4).

Under the *green transition* pillar, the programme focuses on four missions: sustainable agriculture and circular economy, energy transition and sustainable mobility, energy efficiency and building renovation, and protection of land and water resources. In this respect, the most relevant projects are investments to strengthen municipalities and local transport, including the renewal of bus and green train fleets (EUR7.24 billion), investments to create smart grids (EUR3.61 billion) and tax incentives for energy efficiency and building security (EUR19.95 billion). Italy then allocates EUR25 billion to support infrastructure for sustainable mobility, of which more than half (EUR13.21 billion) is invested in high-speed rail, EUR3 billion is allocated for strengthening railway nodes, and EUR3 billion for the development of the European rail transport management system. Under the *digital transformation* pillar, two main projects are financed: EUR13.38 billion of tax credit measures to increase productivity, competitiveness and sustainability of Italian businesses and EUR6.71 billion of investments for ultra-fast networks (ultra-wideband and 5G). Under the pillar *policies for the next generation*, Italy includes various projects aimed at strengthening education services (EUR19.44 billion). Of particular relevance is the investment in the construction, redevelopment and safety of kindergartens and preschools (EUR4.6 billion) and the safety plan for school buildings (EUR3.9 billion). Under the *smart, sustainable and inclusive growth* pillar, the plan includes investments to support research and innovation (EUR11.44 billion), of which the most relevant is the plan for innovative models for basic and applied research conducted in synergy between universities and companies (EUR6.91 billion). With respect to the *social and territorial cohesion* pillar, the plan includes three main projects: EUR4.4 billion is invested in active labour market policies, notably for training, EUR5.75 billion is allocated to urban regeneration projects and urban plans, and EUR2.8 billion is invested in the construction of new public housing structures. Finally, under the *health, and economic, social and institutional resilience* pillar, two main projects are financed: EUR4 billion for the modernisation of hospital technology and digitalisation, and an additional EUR4 billion for home care and telemedicine.

Table 4. Italy's 10 strategic projects financed by the RRF and timeline

Strategic investments	EUR billion	Description	Timeline
Tax credit for energy efficiency and building security	13.95	Coping with the long payback times of building renovations, stimulating the construction sector and achieving the challenging energy-saving and emission-reduction objectives for 2030.	Q42025
Tax credit for industry digital transition	13.38	These tax credit measures included in the 4.0 Transition Plan aim at increasing the productivity, competitiveness and sustainability of Italian businesses.	Q22025
Public investment in high-speed rail	13.21	The intervention is divided into two axes: strengthening the Northern railways and improving the railway stations in Southern Italy.	Q22026
Public investment in ultra-fast networks (ultra-wideband and 5G)	6.71	Accelerating the spread of 5G coverage across more than 2,000 km of European transport corridors and 10,000 km of extra-urban roads to enable the development of services to support road safety, mobility, logistics and tourism.	Q22026
Public investment in territory and energy efficiency of the municipalities	6	The investment consists of a heterogeneous set of interventions to be carried out in urban areas. The works will cover the adaptation of buildings to climate change, energy efficiency and public lighting.	Q12026
Early childcare	4.6	Construction, redevelopment and safety of kindergartens and preschools in order to improve the educational offer from early childhood and support families.	Q42025
Active labour market policies (training)	4.4	Reforms and investments in labour policies are complemented by the provision of a national action plan aimed at strengthening the fight against undeclared work in various sectors of the economy.	Q42021
Modernisation of hospital technology and digitalisation	4.05	Digital modernisation of the hospital technology infrastructure.	Q42025
Home care and telemedicine	4	Increasing the volume of services provided for home assistance to 10% of the elderly population by mid 2026.	Q22026
Safety plan and redevelopment of school buildings	3.9	Ensuring the safety of school buildings and favouring a progressive reduction in energy consumption contributing to the climate recovery process.	Q22026

Source: Own creation

3.5 Italian key structural reforms

The reforms aim to contribute to increasing the structural impact of the NRRP in the medium and long term and to reduce bureaucratic burden and remove the constraints that have hitherto slowed down the implementation of investments or reduced their productivity. As such, they are expressly connected to the general objectives of the NRRP, contributing, directly or indirectly, to their realisation. Overall, the Italian plan envisages three types of reforms: **horizontal, enabling** and **sectoral**. Horizontal reforms are defined as structural innovations of the Italian state and include the reform of the public administration and the judiciary system.

Enabling reforms are defined as functional interventions to ensure the implementation of the plan and in general to remove administrative obstacles, regulations and procedures that affect economic activities and the quality of services provided to citizens and businesses. Finally, sectoral reforms consist of specific regulatory innovations related to specific areas of intervention or economic activities, intended to introduce more efficient regulatory and procedural regimes in their respective sectoral areas. Table 5 summarises the main reforms included in the Italian plan.

With respect to public administration, the NRRP reforms focus on four lines of action: improvement of personnel selection mechanisms; simplification of procedures and processes; investments in human capital; and strengthening of digitalisation. These actions, which are largely planned to be implemented by 2021, are outlined in a strategy focused on the generational turnover of public employees, the tools available to them and the way to interface within the public administration and with citizens (digitalisation). With respect to the justice system, the NRRP proposes three main lines of action: complete the Trial Office (*Ufficio del Processo*) and improve the performance of judicial offices by eliminating the backlog and reducing the length of civil and criminal proceedings; strengthen administrative capacity by hiring more staff; and enhance digital infrastructure. For civil trials, the plan promotes the use of instruments for alternative dispute resolution (ADR). With criminal trials, the plan proposes a reduction in the waiting time and its uncertainty before a hearing instruction, as well as a simplification of the hearing procedures and a reduction in the number of appeals to the Supreme Court to allow decisions on tax justice to be made more quickly, as well as adequately. Finally, a general improvement in the efficiency and overall management of human resources also includes a reform of the judicial system through a series of innovations in the organisation of judicial activity.

Of particular relevance are also the enabling reforms in the domain of simplification and competition reforms. On the one hand, the NRRP proposes the simplification of the rules on public procurement, simplification of the rules on environmental regulations, modernisation of the national system of public procurement, introduction of a new Enterprise Resource Planning System, 'InIT', and creation of a single system of accrual economic and asset accounting for public administrations. On the other hand, the main competition reforms include: the creation and management of strategic infrastructures; the removal of barriers to entry into the market; the promotion of competitive dynamics aimed at ensuring the protection of citizens' non-economic rights and interests; the strengthening of antitrust enforcement powers and sectoral regulatory powers; and the introduction of changes to the rules on the supervisory system and product compliance.

With respect to the labour market reforms, two main reforms are included in the plan: a national programme for an employability guarantee and a national new skills plan, both to be adopted by the end of 2021. The employability guarantee aims to overcome the excessive heterogeneity of the services provided at local level. The national new skills plan would support the training of workers in transition and the unemployed. This would be done by strengthening the vocational training system and setting essential quality levels for upskilling and reskilling activities in favour of the beneficiaries of income support schemes and Citizenship Income (*Reddito di Cittadinanza*) and those in short-time work schemes. Finally, in the area of education and skills, two main measures are included: the reform of technical and vocational schools and the reform of the Higher Technical Institutes system. No intervention, by contrast, is envisaged in the area of childcare policies.

Table 5. Key structural reforms

Area	Measure	Description	Timeline
Labour market	National Programme for an Employability Guarantee	The National Programme for an Employability Guarantee (GOL) is adopted by interministerial decree, subject to agreement at the State-Regions Conference, as a national programme for taking charge, providing specific services and personalised professional planning. The new GOL Programme intends to learn from the experience of recent years, trying to overcome – with an approach based on the definition of essential levels of performance – the excessive heterogeneity of the services provided at the local level.	Q42021
	National New Skills Plan	The National New Skills Plan is adopted by the Ministry of Labour and Social Policies in collaboration with the ANPAL and in agreement with the Regions, with the objective of reorganising the training of workers in transition and the unemployed, through strengthening the vocational training system and defining essential quality levels for upskilling and reskilling activities in favour of the beneficiaries of the unemployment benefit, the beneficiaries of the citizenship income and the workers who benefit from extraordinary instruments or in derogation of wage integration. The plan will also integrate other initiatives, concerning measures in favour of young people – such as strengthening the dual system – and NEETs, as well as actions for adult skills, starting with people with very low skills.	Q42021
Education and skills	Reform of technical and vocational schools	The reform, implemented by the Ministry of Education, aims to align the curricula of technical institutes and professionals with the demand for skills that comes from the country's productive fabric. In particular, it orients the technical and professional education model towards the innovation introduced by Industry 4.0, also embedding it in the renewed context of digital innovation. The reform involves 4,324 Technical and Vocational Institutes and will be implemented through the adoption of specific rules.	Q42022
	Reform of the Higher Technical Institutes system	Strengthen the Higher Technical Institutes (ITS) system by enhancing the organisational and teaching model (integrating the training available, introducing rewards and extending paths for the development of enabling technological skills – Enterprise 4.0), consolidating ITS in the tertiary education system, professionalising, and strengthening their active presence in the entrepreneurial fabric of the individual territories. The reform also provides for the integration of ITS courses	Q42023

		with the university system of professional degrees. Coordination between vocational schools, ITS and businesses will be ensured by replicating the 'Emilia Romagna model' where schools, universities and businesses collaborate. The reform will be implemented by the Ministry of Education with the collaboration of the Ministry of University and Research.	
Justice	Interventions on the organisation: *Office of the process* and strengthening of the administration	Eliminate the backlog and reduce the length of civil and criminal proceedings. Strengthening the magistrate's staff with persons capable of assisting in all activity's collateral to the judge temporary recruitment of staff for the NRRP.	Q42021
	Civil process reform	Expand the use of instruments for ADR. Reduce the length of civil proceedings by identifying a wide range of actions to reduce the number of cases coming to courts, simplifying existing procedures, reducing the backlogs and increasing the productivity of courts.	Q42022
		Eliminate potentially unnecessary hearings and reduce the number of cases the court is asked to judge on in collegial composition. Better redefine the decision-making phase, with reference to all degrees of judgments.	Q42022
	Reform of tax justice	Reduce the number of appeals to the Supreme Court, so they can decide more expeditiously and appropriately.	Q42022
	Reform of the criminal process	Reduce the length of criminal proceedings by identifying a wide range of actions, simplifying existing procedures and increasing the productivity of courts.	Q42022
	Reform of the legal process	Improve the efficiency and overall management of human resources, through a series of innovations in the organisation of judicial activity. Guarantee autonomous governance of the judiciary free of external constraints and not based solely on good performance of the justice administration.	Q22021
Public administration	Access to public administration	Create a single platform for recruitment in public administration. Identify a new recruiting process for highly skilled professionals, and for experts for the plan's implementation.	Q42021
	Regulatory simplification procedures for the public administration	Identify the catalogue of new regimes, eliminate unjustified authorisations for imperative reasons of general interest, eliminate unnecessary obligations or banning the use of new technologies. Other areas: the Scia extension, silent consent, communication, and the adoption of uniform regimes shared with Regions and Municipalities.	Q22021
	Upskilling and reskilling of the public administration	Strengthen the National Administration School (SNA), including through the creation of strategic partnerships with other universities and national research bodies.	Q42021
		Reorganise and rationalise the training offer, starting with the preparation of specific online courses (MOOCs) open to public administration personnel on the new skills covered by interventions of the NRRP, with	Q42023

		certified quality standards. These must be complemented by a measurement of the training impact in the short and medium term.	
		Create, for management figures, specific thematic Learning Communities for sharing best practices and resolving concrete administration cases. Develop methods and metrics for rigorous measurement of the training impact in the short to medium term.	Q42026
	Digitalisation of the public administration procedures and services	Information and communication technologies (ICT) procurement: ensure that the public administration can procure ICT solutions in a timelier and more efficient way by streamlining and accelerating the procurement process.	Q42021
		Public administration support structure acquisition: support the digital transformation of all central and local public administrations through the set-up of a dedicated 'Digital PA transformation office'. The transformation office shall consist of a temporary technology competent resource pool that orchestrates and supports the migration effort and centralised negotiation of 'packages' of certified external support.	Q42022
		Introduce guidelines on 'cloud first' and interoperability: remove obstacles to cloud adoption and streamline the bureaucracy that slows down data exchange processes between public administrations.	Q42021
Taxation	–	–	
Product market	Simplification	Improve the effectiveness and quality of regulation; Simplify public contracts; Simplify and rationalise environmental regulations; Simplify in the field of building and urban planning and interventions for urban regeneration; Simplify the rules on investments and interventions in the South; Repeal and review rules that fuel corruption; Enhance digitisation and capacity-building of administration of contracting authorities; Strengthen the spending review and evaluation measures; Reduce payment times; Provide public administrations with a single system of accrual economic and asset accounting.	Not specified – it will be in line with the public administration reform
	Competition	Create and manage strategic infrastructures; Remove barriers to entry into markets; Strengthen antitrust enforcement powers and sectoral regulatory powers.	Q42022
Social policies	Proximity networks, structures and telemedicine for territorial healthcare and the national health, environment and climate network	Implement a new health strategy, supported by defining a suitable institutional and organisational structure, including two main activities: first, the definition of homogeneous structural, organisational and technological standards for territorial assistance; second, the definition by mid-2022 of a new institutional set-up for prevention in the health, environmental and climate fields, in line with the 'One-Health' approach.	Q22022

Source: Own creation

3.6 Overall assessment of the Italian plan

Italy entered the Covid-19 induced slump with an output level that had not yet fully recovered from the post-2009 recession. Structural challenges still negatively affected the Italian economic potential and weakened productivity (see Table 2)

The Italian plan is broad and addresses all the difficult challenges with an ambitious set of structural reforms and targeted investments. The plan also addresses important investment needs for the twin green-digital transitions, research and innovation, to improve access to essential care in a more resilient healthcare system, including the need to fill the infrastructural gap between regions. It also outlines initiatives for longstanding challenges related to the high level of undeclared work and tax evasion.

Reforms are frontloaded in the Italian plan and represent the core of the recovery and resilience strategy. Of particular relevance are the horizontal and enabling reforms, which aim respectively to prepare the Italian public administration and judicial system for absorbing the significant inflows of RRF money and updating the regulatory framework to attract both public and private investment. The envisaged reforms largely address the challenges identified above and provide satisfactory details on the implementation timeline, the milestones, and the actors responsible who will be involved in drafting these reforms. In terms of coherence, the horizontal and enabling reforms are synergetic with the investments proposed and consistent with the objectives of the RRF. Some concerns emerge about the duration of the envisaged horizontal measures, especially those addressing the recruitment and retention of highly skilled public employees. With respect to the enabling reforms, the main concern is about the timely implementation of the agenda, which will require swift political consensus, but at the same time not weakening fundamental control systems. Yet the speed at which the government is currently adopting the reforms envisaged for 2021 represents a very positive signal for successful implementation of the plan.

With respect to the sectoral reforms, of particular importance are the labour market and the education policies. While the intervention is relevant to the extent that pertains to the challenges addressed, some concerns emerge about the effectiveness of the intervention and the coherence with the investments proposed. On the labour market side, the two major initiatives – the Employment Guarantee and the New Skills Plan – are vague with respect to governance, duration and monitoring of these two instruments. On the education policy side, the financial intervention on childcare is relevant, as is the strengthening of the ITS, vocational education and training (VET), and university reform. Yet some concerns emerge. In childcare, the increase in investments is not accompanied by an adequate reform to guarantee access to early and pre-primary education. In higher education, the plan does not touch on the key theme of coordination between ITS and universities and the mutual recognition of educational credits. Moreover, the target set by the plan in terms of expected increase in student numbers in ITS is significantly lower than the demand for qualified professionals from Italian companies between now and 2024.

Overall, the Italian plan is ambitious and set the conditions for a sustainable economic recovery. Yet, for this to happen it is of utmost importance that the horizontal and enabling reforms contained in the plan are successfully implemented. In addition, after years of low cumulative levels (EUR1.2 billion between 2016 and 2019), Italy will significantly accelerate its public investments. According to AMECO forecasts, Italy's net fixed capital formation (NFCF) should increase by about EUR16.4 billion in the period 2019-22, thus accounting for a total acceleration (compared to the period 2016-19) of around EUR15 billion, which is half of the total euro area NFCF acceleration in the same period (EUR32.2 billion). Compared to Germany, which chose to consolidate public finances, with a modest acceleration of public investments, Italy is opting for an 'all in' of reforms and additional investments, leaving the public debt-to-GDP ratio to increase in the years to come and keeping a negative government budget balance. The Italian option is based on the hope that the implementation of reforms and investments should produce a positive and, above all, persistent impact on GDP growth. Public debt close to 160% of GDP will only be sustainable if the growth rate increases in a sustained manner, beyond 2026, rather than just temporary growth induced by the NRRP spending.

4. Germany

4.1 Macroeconomic outlook and forecasts

Germany has been hit hard by the Covid-19 pandemic and the repeated lockdowns, but the depth of the crisis has been comparatively lower than other EU countries. GDP in 2020 has contracted by 4.6% with large swings in economic activities between the first and the second half of the year, with GDP contracting by 1.4% and 9.3% in the first and second quarter respectively, and then increasing by 7.2% and 1.1% in the third and fourth quarter. The soaring number of cases and the reintroduction of stringent measures between the end of 2020 and the beginning of 2021 caused a shrink in GDP of 0.2% in the first quarter of 2021. Yet a marked recovery is being observed already in the second quarter of 2021 (+1.8%), as vaccinations progress and the economy reopens. According to the 2022 winter forecast by the European Commission, Germany has reached its pre-crisis level in the third quarter of 2021.

To cushion the effects of the pandemic, automatic stabilisers and fiscal measures were put in place by the German government. Overall, the Covid-19 fiscal package amounted to 44.4% of GDP, the largest in the EU. A consistent part of the fiscal intervention was directed towards discretionary fiscal measures: income support measures (7% of GDP). Germany's well established short-term work subsidy, *Kurzarbeit*, has played a critical role in retaining jobs. The unemployment rate increased by only 0.7 pp. in 2020 compared to 2019, while the employment rate decreased by only 0.8 pp. That said, most of the job losses to date have been borne by marginally employed workers who are not eligible for *Kurzarbeit*. Most of these workers are employed in hard-hit contact-intensive services, and around two thirds of them are women. Moreover, young workers could suffer negative effects on their earnings and career prospects, while older workers may permanently exit the labour market early.

In addition to discretionary fiscal measures, Germany put in place guarantees for an amount equal to 25.9% of GDP and financial instruments (loans, equity) equal to 6.5% of GDP. Such measures were fundamental in supporting businesses and avoiding bankruptcies, but their budgetary impact was limited in 2020 due to the low-take up (IFI 2021).

The large size of the fiscal intervention had an immediate effect on government budgetary balance, which ran a deficit of around 4.3% of GDP in 2020 and is expected to be around 6.5% of GDP in 2021. As a consequence, the impact on the debt-to-GDP ratio has been significant, with an increase from 58.9% in 2019 to 68.7% in 2020 and 71.4% in 2021 thus far, with a forecast decline again in 2022.

Despite higher deficits and increasing debt, however, risks to fiscal sustainability are limited so far, thanks to the sound starting position of public finances. In addition, Germany is one of the few countries that expect the government budgetary balance to return to 0% of GDP by 2025.

Table 6. Macroeconomic development and forecast Germany

	2019	2020	2021	2022	2023	2024	2025	2026
GDP Growth (y-y % change)	1.1	-4.6	2.8	3.6	2.6	1.2*	1.2*	n.a.
Employment (% change)	0.9	-0.8	0	0.9	0.4	-0.25*	-0.25*	n.a.
Unemployment rate (%)	3.1	3.8	3.6	3.4	3.2	3.75*	3.75*	n.a.
HICP inflation (% change)	1.4	0.4	3.2	3.7	2.1	n.a.	n.a.	n.a.
Gov balance (% GDP)	1.5	-4.3	-6.5	-2.5	-0.5	-0.5*	0*	n.a.
Debt to GDP (% GDP)	58.9	68.7	71.4	69.2	68.1	72*	69.25*	n.a.

Source: Own elaboration, based on autumn 2021 and winter 2022 AMECO Forecasts (until 2023) and German recovery and resilience plan (for 2024 and 2025).

4.2 Germany's structural challenges before Covid-19

While the German economy has performed strongly in recent years and has cushioned the country relatively well from the economic fallout of the Covid-19 crisis, a number of challenges and structural obstacles have emerged and were amplified by the pandemic (see Table 7).

Among the main challenges faced by Germany is the low labour productivity growth, especially in information and communication services, professional, scientific, and technical activities, and in administrative and support services. While public investments in R&D is high and on an upward trajectory, low productivity is mainly related to low private investments in research and development, especially in Small and Medium Enterprises (SMEs).

The barriers to private and public investment and the lack of competition, especially in the service sector, are obstacles to growth. Public investment, especially at municipal level, is hampered by several bottlenecks, including personnel and financing constraints and high regulatory burden, which also affect private investment. In addition, a poorly digitalized Public Administration and a complex and decentralized legal system for public procurement further hamper private investments.

An additional obstacle to productivity is the shortage of skilled labour workforce. Already before the pandemic Germany experienced shortages of teacher in education system, and few students were enrolled in vocational education and training programmes. In addition, significant territorial gaps in the provision of childcare facilities negatively affect female employment in Germany, where the share of involuntary temporary workers among women is particularly high. In this respect, some features of the German tax-benefit system, which is already characterized by one of the highest labour taxations, result in disincentives to work for low-income earners and second-earners, thus further negatively affecting women participation in the labour market, as well as that of vulnerable groups.

While the German welfare state proved to be prepared to tackle the consequences of the pandemic, the German healthcare system presented some problems before the outbreak of the pandemic, including skilled staff shortages in the nursing profession, low levels of digitalization and inequalities in access to healthcare. In addition, Germany presents significant housing problems, whereby house affordability still represents a main concern. Finally, the German pension system appears to be in need of reform taking into consideration the adequacy of the pension level, especially among most vulnerable old-age population.

Table 7. Germany country specific challenges before Covid-19

Policy area	Challenges
Labour market	Shortages of skilled labour
	Low adult learning participation
	Low labour market participation for vulnerable groups (especially migrants)
	High share of involuntary temporary workers among women
Education and skills	Territorial gaps in access to childcare
	Teacher shortages in education system
	Few students enrolled in Vocational Education and Training (VET) programmes
Justice	-
Research and innovation	Lack of private investments in R&D especially in SMEs
Public administration	Low digitalization of PA
	Public procurement in Germany is largely decentralised and subject to a complex legal system
Taxation	Some features of the German tax-benefit system result in disincentives to work in the low-income earners and second earners
	Complex tax system hampering business environment
Product market	Low competition in business services
Social Policies	Staff shortages in the nursing professions
	Inequalities in access to healthcare
	Lack of affordable housing
	Long-term pension system sustainability

Source: Own elaboration, based on the Country Report for Germany (2020).

In addition to structural challenges, Germany experienced some challenges related to the digital transition. In particular, the German PA suffered from a slow implementation of the digitalization of services and open data. Moreover, Germany performs below the EU average in with respect to DESI indicator (European Commission, 2020) on the integration of digital technology.

4.3 The German NRRP: key numbers and timeline

On 13 July 2021, the Economic and Financial Affairs (Ecofin) Council approved the implementing decision on the approval of the German plan, which will be financed by EUR27.9 billion (0.74 % of GDP 2021) in grants. The plan includes 25 investment projects and 15 reforms.

As illustrated in Table 8, the largest share of both reforms and investments' projects is expected towards the end of the RRF period.

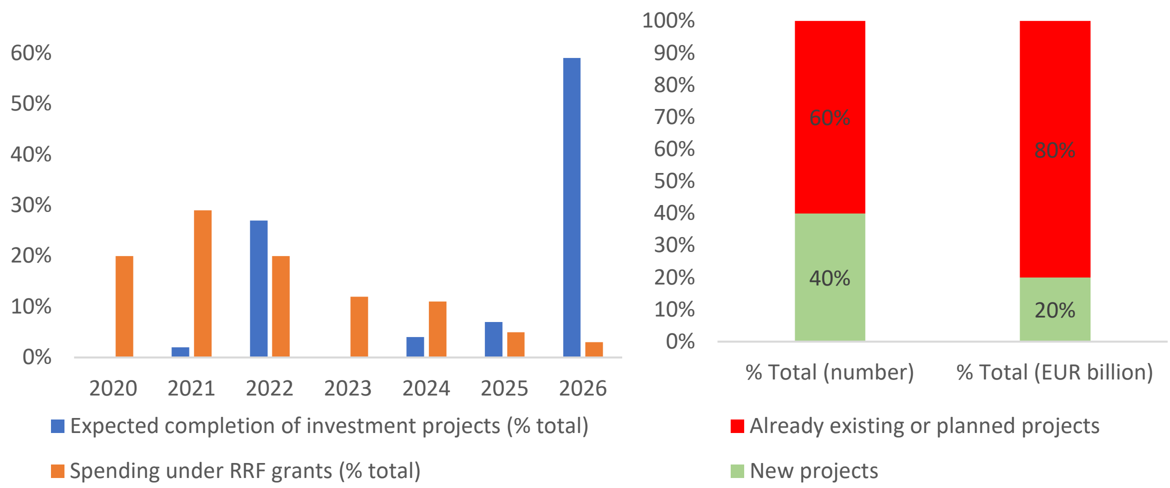
Table 8. Timeline for completion of reforms and investments under German NRRP, by year (% total)

	2021	2022	2023	2024	2025	2026	TOT
RRF Investments' projects [number]	1	4	1	2	5	12	25
RRF Investments' projects (% total)	4%	16%	4%	8%	20%	48%	100%
RRF Reforms [number]	1	2	0	3	2	7	15
RRF Reforms (% total)	7%	13%	0%	20%	13%	47%	100%

Source: Own elaboration, based on German NRRP.

As it is in the case of other countries, the timeline for completion of investments' projects does not imply that Germany will start spending the RRF funding only at the end of the programming period. By contrast, as showed in Figure 4, Germany has already started spending its funding in 2020 and plans to spend already by 2022 the 69% of its RRF grants. This is explained by the fact that - in contrast to other countries, such as Italy - Germany allocates large part of its investments' funding to already planned projects. Overall, in Germany 40% of the investments proposed are new and not previously planned neither they are an extension or continuation of pre-existing programmes. Yet this percentage decreases if we consider the amounts allocated for new public investments which is around 20%.

Figure 4. Planned German expenditure financed under RRF grants and expected completion of investments' projects (% total); Additional investments (% total)

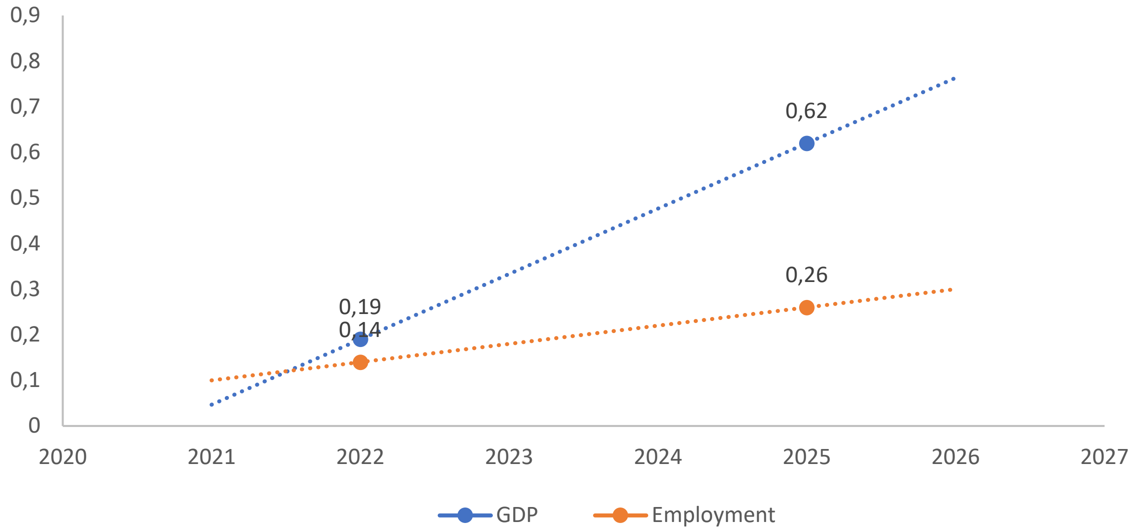


Source: Own elaboration, based on Germany Stability Programme (Federal Ministry of Finance, 2021) and German NRRP (European Commission, 2021)

With respect to the governance of the plan, the Federal Ministry of Finance and the line Ministries are in charge of the implementation, while control is performed independently by different bodies. Internal control units within each Ministry mainly follow current national auditing structures and processes. They are scrutinized by the German Court of Auditors (*Bundesrechnungshof, BRH*) and coordinated by a dedicated central unit within the Federal Ministry of Finance. The latter is composed by a team of economists and budgetary and audit experts. They are responsible for both the monitoring and the implementation of the plan. Finally, an IT system managed by the German Court of Auditors is used for the proper collection, storage and reporting of RRF measures-related data.

According to the stylised impact simulations run by the German government with the QUEST macroeconomic model, the NRRP is expected to have a positive impact both on employment and GDP, especially in the medium term (Figure *5*). Specifically, the plan expects a slight increase in the average annual GDP growth rate of 0.19 percentage points (pp.) in 2022 and of 0.62 pp. in 2026 above what it would be without the NRRP. Regarding labour market, there is a moderate increase in the level of employment, starting with a plus 0.14 pp. in 2022 and a 0.26 pp. increase in the following years until 2026. Yet, such estimates should be treated with caution. Indeed, as observed above, only a minor share of the investments planned by Germany is additional, while the Commission assumes in its estimations an additionality of 100% for the RRF grants.

Figure 5. NRRP impact on GDP and employment - deviations from baseline scenario

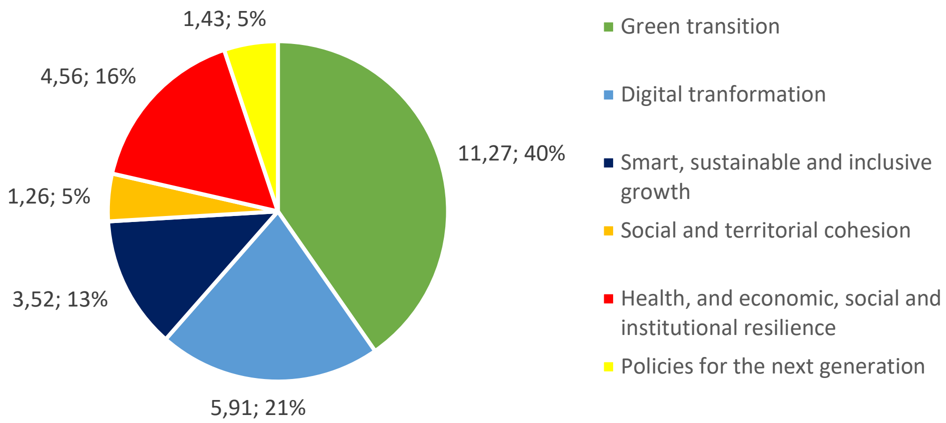


Source: Own elaboration, based on German NRRP.

4.4 Investments in the German NRRP

In line with the Commission guideline, the German NRRP investments are meant to address the objectives included in the six pillars of the RRF. Notably, Germany focuses 61% of its investments on the *green transition* (40%) and *digital transformation* (21%) pillars of the RRF. The remaining 39% of investments are allocated respectively to *policies for the next generation* pillar (5%), *smart, sustainable and inclusive growth* pillar (5%), *health, and economic, social and institutional resilience* pillar (16%) and *social and territorial cohesion* pillar (13%). With respect to the distribution of the funding across economic activities, the plan distributes the resources relatively evenly, with the largest share allocated to the transport and storage sector (28%), healthcare (18.1%), public administration (14.9%) and information and communication (10%).

Figure 6. German investments across the six RRF pillars (EUR billion, % total)



Source: Own creation, based on the German NRRP.

A closer look at the breakdown of the six German missions gives a better understanding of the investment prioritisation:

Under the *green* pillar, Germany includes investments in decarbonisation and notably in hydrogen projects (EUR2.6 billion), tax incentives for building renovation and construction aimed at energy efficiency (EUR2.5 billion), tax incentives for replacing the private vehicle fleet (EUR2.5 billion) and investments in promoting the purchase of public buses with alternative fuels (EUR1 billion).

Under the *digitalisation* pillar, Germany includes two main projects under the Important Projects of Common European Interest (IPCEI), namely Microelectronics and Communication Technologies (EUR1.5 billion) and Cloud Infrastructure and Services (EUR0.75 billion). It is also placing EUR1.9 billion of investments in increasing the competitiveness of the vehicle industry by strengthening the innovative capacity and cooperation of companies in the vehicle industry.

Under the *smart, sustainable and inclusive growth* pillar, the main project consists of a EUR3 billion investment in making public services digitally available, in line with implementing the German Online Access Act.

In the area of *social and territorial cohesion*, the main investments cover expansion of childcare facilities (EUR0.5 billion) and tax incentives for apprenticeship contracts (EUR0.72 billion).

Under the *health, and economic, social and institutional resilience* pillar, Germany allocates all investments to strengthening its healthcare system, with notably EUR3 billion invested in a scheme to digitalise hospitals, and EUR0.81 billion dedicated to digitalising public health authorities.

Finally, under the *policies for the next generation* pillar, Germany includes two main investments in digital support for teachers (EUR0.65 billion) and in creating a single digital platform that will give access to education materials for all levels of institutional and autonomous teaching and learning (EUR0.65 billion).

Another interesting way of looking at the priorities of the country is to list the top 10 strategic projects in the pillars (Table 9). This offers insight on the plan's focus.

Table 9. Germany's 10 strategic projects financed by the RRF and timeline

	EUR billion	Description	Timeline
Programme to modernise hospitals, strengthening the digital and technical resources	3.81	Modernising hospitals to improve their digital infrastructure, emergency capacities, telemedicine, robotics, and IT and cybersecurity.	Q32026
Digitisation of public services	3	Making more than 115 federal and 100 regional public services digitally available by 2022.	Q42022
Support for electric cars	2.5	Helping citizens shift to clean electric vehicles by giving financial support for more than 800,000 decarbonised vehicles.	Q42022
Energy efficiency in residential buildings	2.5	Financing a large-scale renovation programme to increase the energy efficiency of residential buildings.	Q22026
Vehicle manufacturer/ supply industry investment programme	1.9	Strengthening the innovative capacity, cooperation, digitalisation and modernisation of companies in the vehicle industry.	Q32026
Hydrogen leap	1.5	Investing in green hydrogen at all stages of the value chain to help decarbonise the German economy.	Q32026
Investment in microelectronics and communication technologies	1.5	Contributing to a large-scale cross-border European initiative to improve the EU's capabilities in electronics design and to deploy the next generation of low-power processors.	Q32026
Promotion of purchasing buses with alternative propulsion	1.09	Support scheme for the purchase of buses and coaches for passenger transport with alternative propulsion.	Q32026
Next-generation cloud infrastructures and services	0.75	Contributing to a large-scale cross-border European initiative to foster the industrial deployment of smart cloud and edge solutions that are highly innovative, highly secure, energy-efficient and fully compliant with data protection.	Q32026
Apprenticeship support	0.72	Financial incentives to companies to hire and retain apprentices.	Q42022

Source: Own creation.

4.5 Key structural reforms

Together with investments, Germany presented a list of 15 reforms aimed at tackling the structural challenges of the country and ensuring a sustainable and inclusive recovery.

Table 10 summarises the main measures indicated in the plan in the policy areas under consideration. Germany focuses its intervention on three areas: education and skills, public administration, and social policies, while other areas, such as labour market, research and innovation and product market, where intervention is equally needed, are left aside. Most of the reforms included in the German plan have, as the main objective, support for the digital transition.

In the education and skills area, reforms are targeted at increasing adult learning participation, through the launch of the Continuing Education and Training (CET) networks, and at promoting digital skills through the creation of the Centre for Digitisation and Technology Research. In addition, an Education Platform is proposed for an encompassing education area that, with digital means, supports the development of competences by learners throughout their individual learning pathways. All actions are programmed to be launched between 2021 and 2022, while the full implementation is programmed in 2024 and 2025.

The public administration reforms include digitalisation of the public administration through implementation of the Online Access Act and modernisation of the public administration registers. The first reform aims to create a digital administration in Germany that is in line with European standards by 2022. The second reform includes modernisation of public registers and implementation of the European Identity EcoSystem, based on an open and licence-free identity infrastructure and on another measure aimed at the introduction of the once-only principle in public administration.

In addition, the German plan includes the digital pensions portal, which aims to support citizens in their pension planning by providing an overview of their individual pension provisions from all three pension pillars (statutory, company and private pensions) in order to facilitate access to social protection.

Digitalisation is also an essential aspect of the measures to modernise the German health system, reflected in upgrading and connecting all public health offices and linking them with other key institutions for public health surveillance, and in the programme for future-proof hospitals to substantially increase their digital maturity.

The joint programme for a high-performance, citizen- and business-friendly administration aims to promote cooperation between the federal government, the *Länder* and the municipalities. This reform, to be implemented by the end of 2022, has been widely welcomed as an important step to reduce administrative burden, especially at the municipality level, and thus increase both public and private investments.

Finally, the plan includes a Social Guarantee 2021 plan which aims at contributing to preventing a rise in non-wage labour costs, which have remained at a high level in Germany, by capping social security contributions at 40%. Notably, the German federal government provides fiscal transfers for the social security funds to fill their financing gap to avoid increases in social security contributions following Covid-19's financial impacts, which would disproportionately burden low and middle incomes.

Table 10. Key structural reforms

Area	Measure	Description	Timeline
Labour market	–		
Education and skills	Federal programme 'Building continuing education and training networks (CET networks)'	Promoting the participation of small and medium-sized enterprises in continuing and strengthening regional economic and innovation networks. Contributing to establishing CET networks as a common concept of CET organisation in Germany.	Q42022
	Centre for Digitisation and Technology Research	Promoting research at the universities of the Bundeswehr in the areas of digitalisation, and key and future technologies in a secure environment.	Q42023
	Creation of an Education Platform	Making digital education possible for people in the German education system, with concrete benefits and innovations that will improve learning, teaching and training of these people.	Q32024
Justice	–		
Research and innovation	–		
Public administration	Digitisation of administration – implementation of the Online Access Act	Creating a digital administrative service in Germany that is compatible with European standards by 2022. Comprehensive digital services through the 'one for all' principle. Enforcement of user-friendly digital services. Increasing the efficiency of administrative execution and digital processes. Creation of a modern technical infrastructure as a portal network.	Q42022
	Administrative digitisation – implementation of the Register Modernisation	Providing a higher degree of connectivity to the European once-only system.	Q42023
	Joint programme of the federal government and *Länder* for a high-performance, citizen- and business-friendly administration	Promoting cooperation between the federal government, *Länder* and municipalities. Set up individual projects and work together to implement them.	Q42022

Taxation	–		
Product market	–		
Social policies	Social guarantee 2021	The objective of the measure is to avoid the financial impact of Covid-19 triggering extensive social security contribution increases. The federal government will provide fiscal transfers for the social security funds to fill their financing gap, and with this avoid the contribution rate of social security contributions exceeding 40% in 2021.	Q42021
	Launch of future Hospitals Programme	Improving cybersecurity in hospitals and strengthening regional healthcare structures. Provide comprehensive support for hospital projects within a short period of time.	Q42023

Source: Own creation.

4.6 Overall assessment on the German plan

When Germany entered the Covid-19 crisis, its economy was performing strongly, and its resilient welfare states helped cushion the impact of the economic fallout of the crisis relatively well. Yet a few challenges and structural obstacles have emerged and were amplified by the pandemic, especially in terms of skills mismatch, low research and innovation investments, disincentives to work due to the benefit and taxation system, inequalities in access to healthcare services and low competition in business services (see Table 7).

The German plan addresses some of these structural challenges. A positive aspect of the plan is the reform of the public administration, and especially the digitalisation programme – through the Online Access Act and the Register Modernisation –, as well as the joint programme of the federal government and *Länder* for a high-performance, citizen- and business-friendly administration. Particularly relevant is also the launch of the Continuing Education and Training (CET) networks, the creation of the Centre for Digitalisation and Technology Research and the Creation of an Education Platform, which aim to address the challenge of skills mismatch affecting the German labour market. An additional positive contribution of the plan is the alignment with the green and digital objectives of the RRF. For the green dimension, the German NRRP proposed relevant reforms on decarbonisation through renewable energies, e.g. hydrogen, as well as on mobility and building construction. There are also cross-country reforms and investments, e.g., IPCEI Cloud and Data Processing, development and promotion of a high-performance and broad-based European microelectronics industry and strengthening established microelectronics areas in Europe.

Yet, many challenges remain. Indeed, the German plan does not address some important challenges identified in the 2019 CSRs, such as reducing disincentives to work, fostering affordable housing, reducing staff shortages in hospitals (especially nurses), removing barriers to entry in the regulated market, facilitating investments in R&I, reducing teacher shortages, closing territorial gaps in access to childcare and increasing the number of pupils enrolled in VET programmes. Concerns may also emerge in the pension system since the digitalisation of the system, e.g. through the creation of a digital portal, is an accessory reform that does not properly address the issue of sustainability and pension adequacy. At the same time, it is clear that Germany's economic strength reduces the pressure on the state to address those issues as part of the recovery programme.

The German plan provides a clear timeline for reform implementation and a detailed account of the actors responsible, which is expected to increase the effectiveness of the proposed measures. Coherence is also guaranteed between the proposed investments and reforms. This is in part explained by the fact that a large part of the envisaged interventions includes already planned or already completed projects and reforms. In contrast to other NRRPs, Germany has opted for a public finances consolidation strategy by allocating the recovery resources mostly to reduce its current account expenditure, with a modest acceleration in public investment. While this is in line with the past 20 years where public investment cumulative acceleration – measured as net fixed capital formation (NFCF) – has been particularly low, this is also understandable from the point of view that Germany is expected to be a net contributor in terms of servicing the EU recovery plan[1]. Thus, overall, expecting new and 'additional' expenditure is questionable, even if a stronger overall EU recovery is expected to benefit Germany too.

[1] It is important to note, however, that the extent to which Germany will contribute to the reimbursement of the NGEU will also depend on the type and size of any new resources not linked to member states' GNI levels and the economic development of other EU member states.

5. SPAIN

5.1 Macroeconomic outlook and forecasts

The pandemic crisis has impacted Spain harshly compared to other EU member states, with a GDP contraction of 10.8% in 2020 compared to 2019. With Spain ranking first among the OECD members in terms of tourism as a percentage of total GDP and second in terms of employment in tourism, the impact of the pandemic was particularly severe. During the first and second quarters of 2020, the Spanish GDP contracted by 5.8% and 16.1% (q-q change) respectively. According to data from the Bank of Spain (Bank of Spain, 2020) hotels and restaurants, social and cultural services, together with oil refining, were the most affected sectors in terms of a reduction in company turnover with a reduction in turnover of around 55%, 25% and 35% respectively. However, GDP rebounded in the third (+13.7% q-q) and fourth (+0.4% q-q) quarter of 2020. The increasing number of cases and the reintroduction of restrictive measures between late 2020 and early 2021 caused a shrink in GDP of 0.7% in the first quarter of 2021. Yet, a recovery is being observed already in the second quarter of 2021 (+1.2% q-q), as vaccinations progress and the economy reopens. According to 2022 European Commission winter forecast, the Spanish GDP will recover the pre-crisis level only by the first quarter of 2023.

The pandemic crisis disrupted the Spanish labour market, with the employment rate reduced by 7.6% in 2020 and the unemployment rate increasing by 1.4 pp. To cushion the social consequences of the crisis, the Spanish government put in place in 2020 employment support measures, income support instruments for households and healthcare support measures for a total budgetary effort equal to 3% and 1% of GDP respectively. The Covid-19 fiscal package amounted to 21.3% of GDP. This notwithstanding, the employment rate is not expected to recover until 2023. The increase in unemployment and the fall in incomes due to the crisis are also likely to result in long-term unemployment levels and higher poverty rates. With people at risk of poverty or social exclusion already at 25.3% in 2019 – one of the highest in Europe - the crisis is thus expected to further increase this risk for vulnerable groups.

In addition to employment, household support measures a programme of public guarantees (equal to 13.8% of GDP) for new bank loans, tax deferrals, and payment moratoria were put in place to enhance corporate liquidity. As a consequence of the large fiscal effort, the government balance was largely negative in 2020 (- 11% of GDP) and is projected to remain negative in 2021 (- 8.10% of GDP) and 2024 (-3.30% of GDP). At the same time, due to the large government deficit, the severe contraction in GDP, the general government gross debt-to-GDP ratio rose by almost 25 pp from 95.5% of GDP in 2019 to 120% in 2020.

In this context, Spain faces high fiscal sustainability risks in the medium term. The sustainability gap indicators reveal indeed that Spain's structural primary balance would need to improve by 4.9% of GDP in cumulative terms over the five-year period from 2021 to 2027 relative to the baseline scenario to bring the debt-to-GDP ratio to the stability pack value of 60% by 2042. The debt sustainability analysis (European Commission 2021) indicates a gradual return of the structural balance to the forecasted pre-crisis levels. Spain's public debt is projected to stabilize, and slightly decline over the second half of the period, although remaining high (reaching about 117.4% of GDP in 2031).

Table 11. Spain macroeconomic developments and forecasts

	2019	2020	2021	2022	2023	2024	2025	2026
GDP Growth (y-y % change)	2.10	-10.80	5.00	5.60	4.40	2.10*	n.a.	n.a.
Employment (% change)	2.30	-7.60	4.50	2.80	2.30	0.90*	n.a.	n.a.
Unemployment rate (%)	14.10	15.50	15.20	14.30	13.90	n.a.	n.a.	n.a.
HICP inflation (% change)	0.80	-0.30	3.00	3.60	1.10	n.a.	n.a.	n.a.
Gov balance (% of GDP)	-2.90	-11.00	-8.10	-5.20	-4.20	-3.30*	n.a.	n.a.
Debt to GDP (% of GDP)	95.50	120.00	120.60	118.20	116.90	112.10*	n.a.	n.a.

Source: Own elaboration, based on autumn 2021 and winter 2022 AMECO Forecasts (until 2023) and Spanish recovery and resilience plan (for 2024).

5.2 Spanish structural challenges before Covid-19

Spain entered the Covid-19 pandemic after four years of strong GDP growth between 2015 and 2019, accompanied by dynamic job creation. Yet, despite these positive trends, Spain remained characterized by several (though decreasing) imbalances, which touched upon different areas, such as the labour market, product markets, the judicial system, public administration, taxation system and social policies (see Table 12).

As for the labour market, the first challenge is represented by high unemployment rates compared to other EU countries, affecting in particular young people and women. For those who work, the high segmentation facilitates job destruction during downturns, makes employment changes highly pro-cyclical and hurts productivity and social stability. In 2019, almost 22% of the Spanish employees worked under a temporary contract, which was the highest in the EU and twice the EU average. This was also reflected even in the public sector (Bank of Spain, 2019a, European Commission, 2018a). At the same time, the Spanish labour market was characterized by weak active labour market policies, which negatively affected and still affect the reinsertion in the labour of unemployed or inactive people.

With respect to education and skills, the rate of early school leaving and grade repetition, as well as long school-to-work transition periods are at the heart of the Spain's challenges. In 2018, the rate of early school leavers reached 17.9%, the highest rate in the entire European Union, with the consequence that workers entering the labour market are not sufficiently skilled. According to the OECD's "Better Life Index" on education, only 59% of adults have completed upper secondary education, lower than the 78% average of the OECD. In addition, Spain performed among the worst in terms of adult participation to learning and training.

Productivity growth is affected negatively by regulatory fragmentation and other barriers to firm growth. Spain is one of the weakest performers in Single Market Scoreboard. Regulatory fragmentation and barriers in Spain make SMEs less productive and hamper their ability to expand and benefit from economies of scale. Based on the Doing Business data by the World Bank, indicators are weak with respect to the easiness to start a business, deal with the construction permits and access to credit. This is further aggravated by lengthy proceedings to resolve litigious civil and commercial cases at all court instances (EU justice Scoreboard 2019). In addition, the Spanish public administration is affected by various challenges, included a complex bureaucracy, inflexibility, regulatory rigidities, and an under-qualified and ageing workforce.

In the area of research and innovation, Spain suffers from under-investment and weak governance. Public investment in R&D declined from 0.65% to 0.54% of GDP between 2009 and 2018, and they are situated below the EU average (0.69%). Private investment in R&D was 0.7% GDP in 2018, 0.6% lower than the EU average (European Innovation Scoreboard 2019). This may be linked with the low participation of SMEs in innovative projects.

With respect to social outcomes, Spain shows one of the highest shares of people (especially children) at at-risk-of-poverty-rate (20.7%, 3.7 pp above the EU average in 2019) and people in employment at risk-of-poverty (12,9%, 3.5 points above the EU average in 2019). Despite improvements in the pre-crisis years, disposable income inequalities remained one of the highest in the EU and the risk of monetary poverty remained among the highest. In this respect, the low level of family benefits and income guarantee schemes compared to the EU average limit the capacity of social transfers in reducing poverty. Social transfers other than pensions reduced the overall risk of poverty in Spain only by 22.9% in 2018, one of the lowest values in the EU, 10.3 pp below the EU average. In particular, the take up of minimum income schemes was very low and coverage varied significantly across regional differences (EC Country Report 2020).

In addition to the above-mentioned structural challenges, Spain experienced some problems related to the green and digital transition. With respect to the former, water and waste management remain a challenge in Spain, the emission of several air pollutants remains high, the target of 42% of renewables in gross final energy consumption by 2030 is expected to be met only by 2050, and energy renovation of buildings remains a concern. With respect to the latter, Spain is an intermediate performer on the European Commission's Digital Economy and Society Index ('DESI') for 2020. The main problems are represented by a high share of individuals lacking basic or above basic digital skills, an overall low connectivity score, a wide digital gap between urban and rural areas, and an intermediate position regarding the higher education offer of advanced digital skills.

Table 12. Country-specific challenges before Covid-19 – Spain

Policy area	Challenges
Labour market	High share of temporary contracts
	High share of involuntary part-time work and negative incidence of bogus self-employment
	Low female employment and high NEET rate
	Weak active labour market policies
Education and skills	Highest rate of early leavers from education and training in the EU
	Low investment in education, especially tertiary education
	Low level of adult learning
Justice	Lengthy proceedings in civil and commercial litigation cases
Research and innovation	Low investment in research and innovation
	SME participation in innovative projects is low
	No systematic evaluations of public research and innovation policy
Public administration	Low qualification and ageing of personnel
	Weak data management
	Low flexibility and complex bureaucracy
Taxation	Low tax compliance
	Low property taxes
Product market	Restrictiveness and fragmentation of regulation weigh on business environment and prevent companies from benefitting from economies of scale
	High restrictions in retail services
	Regulatory barriers restrict competition in certain professional services
Social policies	High monetary poverty
	In-work poverty very high
	Weak family benefits and income guarantee schemes
	Fragmentation of minimum income protection schemes
	High healthcare out-of-pocket payments and inefficiencies in the purchase and use of pharmacy-dispensed medicines
	Rising number of homeless people

Source: Own creation, based on the Country Report for Spain (2020).

5.3 The Spanish NRRP: key numbers and timeline

The negative impact of the pandemic crisis together with the pre-crisis structural vulnerabilities has placed Spain amongst the largest beneficiaries of the RRF grants. The Spanish plan was presented by the end of April 2021 and was given a positive assessment by the European Commission on 16th June 2021. The Council subsequently approved on 13 July 2021 the implementing decision based on the assessment of the European Commission, thus paving the way to start the disbursement of the financial support. The plan includes investments for a total amount of EUR69.55 billion, consisting entirely of grants, although the plan indicates that it may apply for loans in the period until end 2023, as allowed under the rules of RRF. In addition, the NRRP includes 102 reforms aimed to address the structural problems of the Spanish economy, including measures to facilitate a quick and smooth absorption of the RRF funds. As in the case of Italy and Portugal, Spain frontloads reforms, which are indeed largely concentrated during the years 2021, 2022 and 2023, while the completion of the investments' projects will come later, especially in 2025 and 2026 (see Table 13).

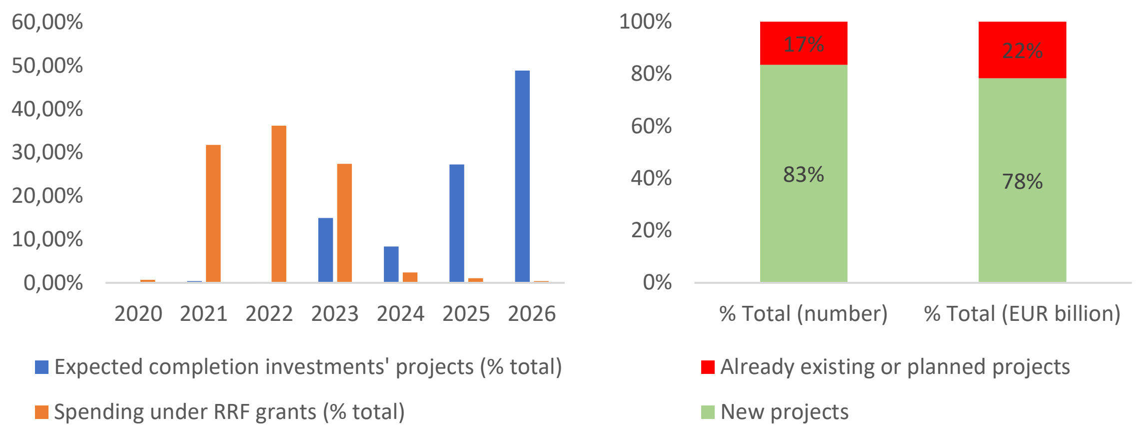
Table 13. Timeline for completion of reforms and investments under Spanish NRRP, by year (% total)

	2020	2021	2022	2023	2024	2025	2026	TOT
RRF Investments' projects [number]	0	1	6	39	12	18	34	110
RRF Investments' projects (% total)	0%	1%	5%	35%	11%	16%	31%	100,00%
RRF Reforms [number]	4	30	36	29	2	0	1	102
RRF Reforms (% total)	4%	29%	35%	28%	2%	0%	1%	100,00%

Source: Own elaboration, based on Spanish NRRP

Similar to other countries, Spain planned expenditure under RRF is expected to start well before 2025 and 2026. As showed in Figure 7 , 83% of the planned recovery spending under the RRF will take place by 2023. The difference in timing between planned expenditure and completion of investments may reflect the necessary period that new investments' projects require to be implemented. In terms of additionality, Spain, like Portugal and Italy, largely invests the RRF grants in new projects. As showed below, the additionality of the Spanish public investments under RRF is quite high (83% of the projects are new and 78% of the total RRF allocation will finance new projects), which is also reflected in a higher macro-impact of the RRF grants transfer on the expected increase in gross fixed capital formation, compared to pre-Covid forecasts (+ 224% in 2022).

Figure 7. Planned Spanish expenditure financed under RRF grants and expected completion of investments' projects (left panel) and additionality of public investments (right panel)



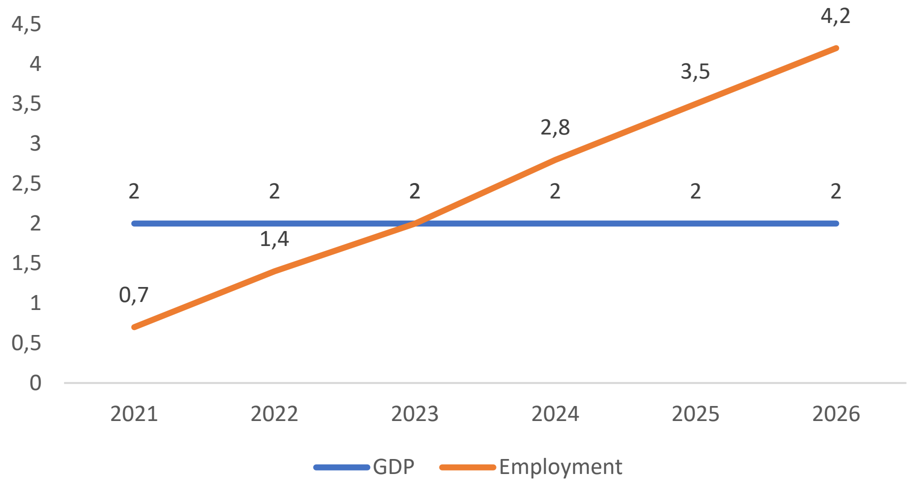
Source: Own elaboration, based on Spain Stability Programme (2021, p. 80) and Spanish NRRP (2021).

Spain, like Italy and Portugal, includes in the plan a centralised governance. Based on Royal Decree-Law 36/2020, the following bodies have been created:

- *Commission for Recovery, Transformation and Resilience*: Headed by the President of the Government and comprising all Ministries. Its function is to direct and coordinate the Plan.
- *Technical Committee*: Maximum of twenty members with skills and experience in the management of European funds. Its function is to help in the management of the Plan.
- *Monitoring Unit*: It reports to the Presidency of the Government. It is responsible for the monitoring of the Plan.
- *Authority responsible for the Mechanism for Recovery and Resilience*: Attributed to the General Secretariat for European Funds of the Ministry of Finance. It will be accountable to the European institutions.
- *Control authority for the Recovery and Resilience Mechanism*: Attributed to the General Comptroller of the central government ('IGAE'). It will implement a financial management control and audit system, fully interoperable with the Community systems.

According to the stylised impact simulations run by the Spanish government with the QUEST macroeconomic model, the NRRP is expected to have a very positive impact on both employment and GDP especially in the medium term (Figure 8). The plan expects a constant increase in the annual GDP growth rate of 2% until 2026 above what it would be compared to the scenario without the NRRP. Regarding labour market, there is an increase in the level of employment, starting with an increase by 1.4 pp. in 2022 and a 4.2 pp. increase in the following years until 2026. Such estimates should be treated carefully, since the main assumption underlying them is that 100% of the grants are used for additional public investments, which – as observed above – does not seem to be the case.

Figure 8. NPRR impact on GDP and employment- deviations from baseline scenario

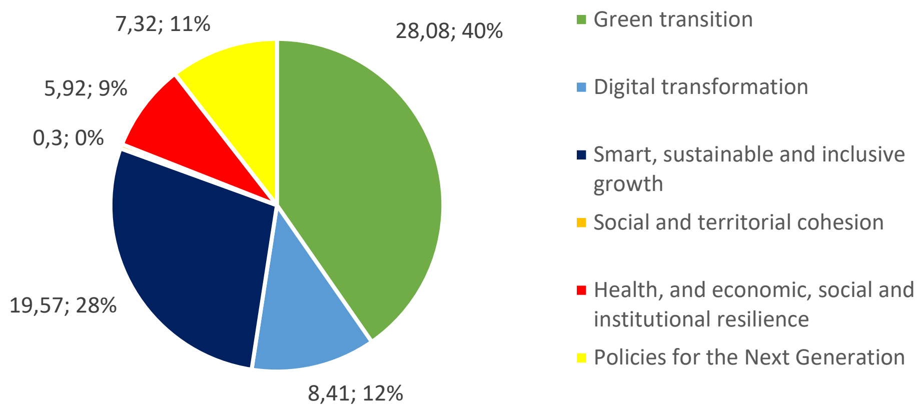


Source: own elaboration, based on Spanish NRRP.

5.4 Investments in the Spanish NRRP

In line with the RRF regulation, Spanish investments can be classified on the basis of the objectives included in the six pillars of the RRF. What emerges is that *green transition* pillar (40%) and *digital transformation* pillar (12%) projects account for close to 52% of the investments. The remaining 48% will go to the *smart, sustainable and inclusive growth* pillar (28%), *health, and economic, social and institutional resilience* pillar (9%) and *policies for the next generation* pillar (11%). With respect to the distribution of the funding across economic activities, the plan distributes the resources relatively evenly, with the largest share allocated to the transport and storage sector (19%), electricity, gas, steam and air conditioning supply (18.5%), professional, scientific and technical activities (11.3%) and education (10%).

Figure 9. Spanish investments across the six RRF pillars (EUR billion, % total)



Source: Own creation, based on the Spanish NRRP.

A closer look at the breakdown of the 10 Spanish missions gives a better understanding of the investment prioritisation (see Table 14). Among the most relevant projects financed to support the *green transition* pillar is EUR3.9 billion allocated to develop innovative renewable energy sources integrated into buildings and production processes, including implementation of the renewable hydrogen roadmap. In addition, EUR3.4 billion is allocated to support more than half a million energy-efficiency renovations in residential buildings to achieve, on average a primary energy demand reduction of at least 30%.

With respect to the *digital transformation* pillar, EUR3.6 billion is allocated to improve the level of digital skills of the population, digitally transform education, and increase the number of information and communication technology specialists, EUR3.2 will be invested in digitalising the public administration, EUR3 billion will be used to support the digital transition of SMEs and the self-employed, EUR3.4 billion will be used to foster the digital transformation of the tourism sector, and EUR2.5 billion is earmarked for the programme to boost competitiveness and industrial sustainability.

In order to tackle labour market segmentation and modernise the active labour market policies, EUR2.4 billion will be allocated to reduce the use of temporary contracts and improve individual support to jobseekers through digitalising the PES, providing training opportunities and better hiring incentives. Some EUR2.1 billion and EUR1.4 billion will be invested respectively in strengthening the vocational training system and digitally transforming the education system. Finally, EUR0.765 billion is allocated for the Action Plan against youth unemployment, which introduces three innovative programmes targeting young jobseekers, including work-based training in public school workshops, a first professional experience in public administrations and professional opportunities for young researchers.

With respect to the distribution of the funding across economic activities, the Spanish plan distributes the resources evenly, with the largest share allocated to transport and storage (18.9%), electricity, gas, steam and air conditioning supply (18.5%), professional, scientific and technical activities (11.3%) and education (10.5%).

Another interesting approach to understanding the top priorities of the country is to list the top 10 strategic projects in the pillars (Table 14). This offers insight on the plan's focus.

Table 14. Spain's 10 strategic projects financed by the RRF and timeline

Projects	EUR billion	Description	Timeline
Innovative renewable energy sources	3.9	Developing innovative renewable energy sources, integrated into buildings and production processes, including implementation of the renewable hydrogen roadmap.	Q22026
Digital skills training	3.6	Improving the level of digital skills of the population, the digital transformation of education, and increasing the number of ICT specialists.	Q42025
Digitalisation of business	3.55	Supporting the digital transition of SMEs and the self-employed.	Q42025
Energy-efficiency residential renovations	3.4	Supporting more than half a million energy-efficiency renovations in residential buildings to achieve on average a primary energy demand reduction of at least 30%.	Q22026
Transformation of the tourism sector	3.4	Increasing the digitalisation and sustainability of the tourism sector.	Q22026
Digitalisation of public administration	3.2	Expanding digital public services for citizens and business, with a special focus on the digital transformation of the health, justice, employment and social services systems.	Q22026
Transformation of urban and metropolitan transport	2.9	Fostering the sustainable and digital transformation of transport services, with the aim of helping reduce the use of private vehicles in urban environments by 35% by 2030.	Q42025
Tackling labour market segmentation and modernisation of active labour market policies	2.4	Reducing the use of temporary contracts and improved individual support to jobseekers through digitalising the PES, providing training opportunities and better hiring incentives.	Q42025
Vocational training	2.1	Reskilling and upskilling the labour force by creating 135,000 new places in VET.	Q42024
Action Plan against youth unemployment	0.765	Introducing three innovative programmes targeting young jobseekers, including work-based training in public school workshops, a first professional experience in public administrations and professional opportunities for young researchers.	Q42025

Source: Own creation.

5.5 Spain's key structural reforms

Spain presented 102 reforms, with the aim of tackling the structural problems of the Spanish economy and, in the same way, contributing to its transformation. The reforms envisaged are expressly related to the general objectives of the plan and, more specifically, to the 10 missions indicated in the plan. Table 15 summarises the main reforms included in the Spanish plan, divided into key policy areas.

In the labour market area, the main reforms include the simplification of contracts to reduce the number of temporary contracts and part-time work and to regulate traineeship and apprenticeships, and the reform of collective bargaining and subcontracting with the aim of prioritising sectoral agreements and bringing the working conditions of subcontractors to the same level as those of employees in the contracting company. Another of the reforms highlighted in the plan refers to the creation of new instruments to enhance internal flexibility within companies to provide 'alternatives to dismissal and high temporality', which aim at establishing as a norm the use of the protection policy of employment implemented during this crisis through the job protection scheme ERTE. Furthermore, the plan includes a reform of active labour market policies and notably a modernisation and digitalisation of the governance and instruments of the PES. Finally, the plan includes references to two reforms, the first concerning the rationalisation of hiring incentives and the second regarding the regulation of teleworking. With respect to the timeline, most of the measures will be implemented by the end of 2021, with the exception of the digitalisation of the PES which is scheduled for the end of 2023.

In the area of education and skills, the plan intervenes in three ways. First, the plan includes two already adopted reforms (in 1Q2021): the national plan for digital competences, which aims to reskill and upskill the labour force linked to professional qualifications, and the education system reforms, which aim at increasing access to early childhood and primary education. Second, the plan includes a reform of the integrated vocational, education and training system aimed at reducing the number of early school-leavers to be adopted by 2Q2022. Third, the plan envisages a comprehensive reform of the university system to be adopted by 2023 including increased scholarships, a reduction in public university fees and a review of the governance of universities.

In the area of social policies, the plan includes reforms of the public health system and the unemployment protection system, both to be implemented by 2023. In addition, measures in the plan aim to improve the coverage and adequacy of minimum income schemes and family support.

The plan includes measures to improve the effectiveness of the judiciary, notably its efficiency through reforming the Codes of criminal procedures, cutting the length of procedures. Of particular relevance is the reform of the insolvency framework, which will introduce preventive debt restructuring and debt relief for natural persons and improve the effectiveness of pre-insolvency and second chance instruments.

With respect to public administration, the plan includes a reform – to be adopted by the end of 2024 – aimed at the modernisation of administrative processes, including digitalisation of the administration, as well as the energy transition of its infrastructure and fleet of vehicles. Measures have also been included to strengthen the public procurement framework and coordination between levels of government, including the wider use of ex ante public policy evaluation. These measures are accompanied by reforms to improve the recruitment process for civil servants and to reduce the share of temporary workers in the public sector.

Particularly relevant is also the adoption of the National Public Procurement Strategy, which is intended as a tool for making public procurement more efficient, by facilitating the effective implementation of the switch to mandatory electronic procurement at all levels of government, as well as better sharing of data between them.

Finally, Spain includes a large number of reforms in its plan to address the problems in the area of taxation. These include reforms to strengthen public revenues in the midterm by combating the shadow economy and fiscal fraud, adapting taxation to the current circumstances and the evolving economy and society, and improving the efficiency of public spending.

Table 15. Key structural reforms

Area	Measure	Description	Timeline
Labour market	Simplification of contracts	Reducing the number of contract types to three (open-ended, temporary and training), as well as the justifications that employers may invoke to use temporary contracts. This should reduce the extended use of temporary contracts in the private sector. Moreover, the plan should contribute to achieving significant progress in reducing the share of temporary contracts in the public administration (notably healthcare).	Q42021
	Modernisation of active labour market policies	Digitisation of management systems to be able to apply artificial intelligence to match supply and demand and to guarantee a personalised training, retraining and employability path for workers.	Q42022
	Permanent mechanism for internal flexibility, job stability and reskilling of workers in transition	Establishing a permanent scheme to adjust to cyclical and structural shocks, by covering the suspension or reduction of working time through an employment regulation plan. Workers under the new scheme should benefit from training to help them cope with technological or demand innovations and facilitate reallocation between sectors and firms, where adjustments may require them.	Q42021
	Digitalisation of the PES for its modernisation and efficiency	Transforming the provision of PES and improving their efficiency for citizens and business.	Q42023
Education and skills	National Digital Competences Plan	Providing digital skills training for the general population, digitalising the education system and developing digital skills for learning, providing digital skills for better employability of private	Q12021

		workers and the unemployed, supporting the digital skills of public workers, developing digital skills in SMEs and increasing the number of ICT specialists.	
	Law regulating the integrated VET system linked to the National Qualifications System	Law regulating the integrated vocational training (VET) system, incorporating the two current separate vocational training systems, one in the education system and one aimed at training for employment.	Q22022
	New organic law on education	Adoption of a new law on education covering early childhood education, compulsory primary and secondary education and the baccalaureate.	Q12021
	Comprehensive reform of the university system	Promoting access to higher education, ensuring good governance of university institutions, promoting research and the transfer and mobility of teaching and research staff, and ensuring the quality of university institutions.	Q22023
Justice	Justice Plan 2030	The Justice Plan 2030 is structured around three strategic axes: access to justice; consolidation of guarantees and rights; and operational efficiency of the public service justice and digital transformation, increasing territorial cohesion and coordination.	Q42022
Research and innovation	Launch of the National AI Strategy	Setting up the framework for implementation of a trustworthy, transparent and inclusive national AI strategy that ensures compliance with fundamental principles and values and takes into account the collective aspirations of citizens.	Q12026
Public administration	Reform for the modernisation and digitalisation of the administration	Addressing weaknesses in employment policies of the public administrations, strengthening cooperation and coordination among different levels of government, and improving how the central government implements public policies. Finally, it aims to reinforce existing instruments for cooperation among different levels of governments in Spain.	Q42024
Taxation	Adoption of the Anti-fraud Law	Strengthening rules against tax avoidance practices that directly affect the functioning of the internal market.	Q42022
	Modernisation of the Tax Agency	Supporting the implementation and annual review of the Strategic Plan 2020-23 which aims at modernising the agency's provision of services to reduce tax fraud and evasion.	Q42021
	Enhanced assistance to taxpayers	Improving assistance to taxpayers. A key element of the Tax Agency's strategy for 2020-23 is to improve services to taxpayers with increased use of electronic platforms.	Q42023

	Reform of tax measures contributing to the ecological transition	Establishment of a tax on depositing waste in landfills and incineration plants; introduction of a tax on non-reusable plastic packaging; amendment of the tax on fluorinated greenhouse gases; and revision of the subsidies for mineral oils used as fuel.	Q22022
	Approval of the digital services tax	Introducing a levy based on the turnover of companies with a net turnover of more than EUR750 000 000 and income from the provision of certain digital services such as online advertisement and intermediation services in Spain.	Q12021
Product market	National public procurement strategy	Finalising the implementation of the public procurement reform provided for in Law 9/2017 on public sector contracts.	Q42022
Social policies	Reform of the public health system	Establishing a general and integrated framework for the provision of public health.	Q22022
	Reforming the regulation of medicines and improving access to medicines	Updating the Spanish regulatory framework for medicinal products and medical devices by amending the Law on guarantees and rational use of medicinal products and medical devices.	Q42023
	Simplification and improvement of unemployment assistance	Extending unemployment protection by filling in some of the coverage gaps of the current system and extending the maximum duration, simplifying the system, currently fragmented into several schemes, linking the benefit to a personalised activation path and facilitating the transition to social protection when the beneficiary does not return to work and is in a vulnerable situation.	Q42023
	Reform of the Social Security contribution system for the self-employed	Equalising the treatment of workers and the self-employed, increasing contributions to the pension system and ensuring that the self-employed receive an adequate pension income.	Q22022

Source: Own creation.

5.6 Overall assessment on the Spanish NRRP

Despite the strong GDP growth and dynamic job creation between 2015 and 2019, Spain entered the Covid-19 crisis with structural weaknesses (see Table 12). The plan represents a significant effort to address some of the challenges affecting the Spanish economy and, at the same time, defines the growth strategy of the years to come within the framework of Next Generation EU. In this respect, the plan pursues a triple objective: (1) to act as a countercyclical lever to contribute to the momentum of the economy in the short term, (2) to address the major structural transformations of the country in the medium term and (3) to transform the growth model towards a more sustainable and resilient model.

The positive aspect of the plan is that it offers a complete diagnosis of Spain's structural problems. It proposes a series of reforms and investments in line with the priorities which fit those identified in the CSRs for Spain. The relevance of the plan is further increased by its alignment with the objectives set out in the RRF regulations. For instance, the plan addresses the reduction in temporary contracts (included in the public administration), and the reinforcement and modernisation of active labour market policies and their connection to the social safety nets. The plan also addresses the existing fragmentation of unemployment protection and improves the coverage and adequacy of minimum income schemes and family support.

However, while pro forma the plan addresses the weaknesses identified, the overall sustainability and impact over time remain questionable. The plan lacks coherence and focus. For example, the labour market reforms seem to be trying to introduce disjointed reforms that could clash. These seem to on the one hand introduce measures to provide 'flexicurity' while on the other reducing flexibility in the labour market. The investment levels in the areas of education also do not match the major weaknesses in the labour market in terms of lack of skills and entrepreneurial capacity, calling into question the actual impact. The dispersed and limited effort in research and innovation will not help in shifting the economic structure of Spain towards high value-added sectors enough, helping diversification and reducing its exposure to economic crises. To put it bluntly, the labour market proposals seem to try to satisfy conflicting wishes and present elements which have already been tried in the past without positive results. How this mixture will work now is not clear.

The focus on the reforms of the public procurement system and taxation, as well as the product market reforms, is welcome. However, measures in the area of fiscal sustainability and economic diversification are missing, representing a missed opportunity to address some structural problems in Spain. Furthermore, the plan falls well short in addressing two key areas for economic growth, namely the public administration and judiciary system.

An aspect that is often hailed as particularly positive in the plan is the alignment with the green and digital objectives of the RRF. In these two areas, the plan in fact includes the most ambitious measures and investments. Of relevance are the measures for the decarbonisation of the transport sector, especially the interurban transport networks. In addition, the plan proposes a new regulatory framework for storage and management of demand, and green hydrogen. Particularly convincing is the plan for energy efficiency and the investments in business digitalisation, especially in artificial intelligence.

Overall, the proposed interventions can be deemed realisable, since the plan is accompanied by both a detailed timeline of the different steps for adopting the reforms and completing the investments, and a clear reference to the actors responsible for the implementation. Yet, for some reforms the envisaged intervention is limited to the adoption of non-binding guidelines, as in the case of the education reforms, or to the establishment of expert groups to study a potential legislative act, which create a lack of clarity on the actual intervention. More importantly, the lack of prioritisation of reforms and investments and the lack of centralised governance of the projects, for which different ministerial actors are made responsible, negatively affect the effectiveness of the intervention. This is particularly problematic in the case of the public administration and justice reforms, which are key for absorbing funds and attracting private investments but will be implemented respectively only by the end of 2024 and end of 2022.

A second concern with the plan regards the efficiency of the proposed measures, which is expected to change significantly across policy areas. The plan proposes a large number of investments covering nearly every possible area or concern. This leads to a lack of focus and a very dispersed use of the financial support. Many interventions are very limited in time and financially small, raising questions on the actual impact of the expenditures for the longer term. How will the programmes be continued, or the benefits sustained? In many areas, the sustainability of the benefits of the programmes over time is questionable.

Concerns arise with respect to the tertiary education reform, where the funds allocated for scholarships will finance an insufficient number of students in need and for a short period. Similarly, the reform of the unemployment benefits will cover only a minor part of the young unemployed.

The efficiency of the plan is further reduced by the misalignment between investments and reforms. Since investments are not always accompanied by adequate reforms, the risk is – in the best scenario – creating conditions for a temporary economic stimulus, while – in the worse scenario – aggravating fiscal deficit. This is the case, for instance, with the public administration and the PES investments which are not accompanied by reforms.

Finally, in some areas, the lack of specificity in the reforms is particularly worrying. Even though the plan focuses much attention on young people and intergenerational justice, there are no reforms in the area of pensions that allow progress towards their sustainability. The programme avoids addressing fiscal sustainability and thus does not address the need to limit the debt burden on future generations. Likewise, in the area of depoliticisation of institutions and appointments, independence of regulatory bodies and economic authorities and modernisation of civil service careers, progress is very limited. To conclude, details are missing on the new green taxation, which is key to generating incentives for investments in this area.

6. FRANCE

6.1 Macroeconomic outlook and forecasts

France has been severely affected by the Covid-19 pandemic and the repeated adoption of strict measures to contain the spread of the virus. Compared with the eurozone average decline in GDP (-6.4%), France recorded a higher decline in 2020 (-7.9% y-y) with a contraction of 4.6% (q-q) and 9.7% (q-q) in the first and second quarter respectively, followed by a rebound (+11.7% q-q) in the third quarter and in the fourth (+0.3% q-q). Although the reintroduction of containment measures in spring 2021 led to a mild contraction in the first quarter 2021 (-1.9% q-q) and a postponement of the French economic recovery, France reached its pre-crisis levels by the end of 2021, according to the 2022 winter forecasts by the European Commission.

To cushion the effects of the pandemic, France put in place a significant fiscal package, equal to 23.1% of GDP, including discretionary expenditure measures to support employment (2% of GDP), households (2% of GDP) and healthcare (1% of GDP). In particular, the extensive use of short-time work (STW) schemes as well as the relaxation of eligibility criteria to access such STW schemes and similar measures (including non-standard workers) contributed to keeping the unemployment rate under control (+1.1 pp. from 2019 to 2020), while the employment rate has already returned to pre-crisis level. In addition to discretionary expenditure, revenue and fiscal measures (e.g., early tax refunds, tax deferrals) equal to 0.1% and 2.4% of GDP respectively were adopted. The largest interventions were in the use of financial instruments (loans and equity) and guarantees that the government put in place, the total equalling 2.4% of GDP and 15.1% of GDP respectively.

Because of the fiscal intervention, the general government budgetary effort worsened in 2020, leading to a deficit for the year of around 4.6% of GDP. The deficit is expected to continue to be around 6.7% of GDP and 5.2% of GDP in 2021 and 2022. At the same time, due to the large government deficit and the severe contraction in GDP, the general government gross debt-to-GDP ratio rose by almost 18 pp. from 97.5% to 115% between 2019 and 2020. It is estimated that it will reach its peak in 2025 (118%). As a result, France is projected to face high fiscal sustainability risks in both the short and the medium term. In the longer term meanwhile, projections indicate that France will likely face medium fiscal sustainability risks. The high French debt-to-GDP ratio represents a real fiscal sustainability risk, according to the Commission's DSA.

Table 16. Macroeconomic development and forecast France

	2019	2020	2021	2022	2023	2024	2025	2026
GDP Growth (% change)	1.80	-7.90	7.00	3.60	2.10	1.60	1.40	1.40
Employment (% change)	1.10	-0.90	1.40	0.60	0.50	0.10	0.20	0.20
Unemployment rate (%)	8.40	8.00	8.00	8.00	7.90	n.a.	n.a.	n.a.
HICP inflation (% change)	1.30	0.50	2.10	2.80	1.70	1.50	1.80	1.80
Gov balance (% GDP)	-3.30	-4.60	-6.70	-5.20	-3.90	-3.90	-3.50	-3.20
Debt to GDP (% GDP)	97.50	115.00	114.60	113.70	112.90	118.00	118.30	118.20

Source: Own elaboration, based on autumn 2021 and winter 2022 AMECO Forecasts (until 2023) and French recovery and resilience plan (for 2024-2026).

6.2 French structural challenges before Covid-19

When entering the Covid-19 pandemic, France was experiencing moderate economic growth. Yet, structural challenges were persisting and negatively affecting competitiveness and productivity.

With respect to the labour market, France showed positive trends before the pandemic. Yet, the unemployment rate remained above the EU average, and a large pool of untapped employment persisted especially for specific groups of workers including migrants, old-age workers and young people aged 15-24. In addition, France's labour market remained highly segmented especially for low-skilled workers. From the early 2000s through to the crisis, the number of temporary contracts significantly increased, especially interim temporary contracts, due notably to the exemptions from social security contributions. The use of these contracts is particularly high among younger workers and increased progressively partly due to the rigidity of open-ended contracts, eventually becoming a necessary choice for many employers to remain competitive. The result was an accentuation of the dualisation of the labour market in France over 25 years, between employees on permanent contracts and employees increasing the number of fixed-term contracts, the duration of which has tended to shorten. In 2017, the proportion of very short-term contracts among fixed-term contracts, lasting less than 1 month, stood at 83%, against 57% in 1998. Employees and intermediary professions in the tertiary sector have the highest probability of signing a very short-term contract, while executives obtain permanent contracts more frequently than other professional categories. Industry and construction have more recourse to temporary workers than to fixed-term contract workers when looking to hire under temporary contracts.

Part of the labour market challenges can be explained by structural problems affecting the French education system, which seems to fail to align with labour market needs. The education system also appears to show significant socioeconomic and territorial inequalities. This is further aggravated by the fact that many education institutes on the periphery of main centres lack qualified and young teachers especially in scientific subjects. The qualification gap of science teachers in disadvantaged schools is wide, with only 26% of science teachers in schools in the lowest socioeconomic quartile being fully certified, against 94% in the top quartile. According to the OECD, lower secondary school headmasters frequently report that the quality of teaching is hindered by: (i) shortages of qualified teachers; (ii) shortages of teachers able to deal with pupils from socioeconomically disadvantaged backgrounds; and (iii) insufficient time with students. As a result, the turnover in these institutes is very high and they have greater recourse to contract workers, who are less trained.

Productivity growth in services is affected negatively by rigidities alongside regulatory barriers in product markets, which lead to weak business activity. Doing Business data from the World Bank for France (2020) (World Bank, 2020) identifies barriers in access to credit and the property market. These restrictions have a negative impact on business activity, competitiveness and the supply of professional services. This also appears to have had a negative bearing on innovation and research and development (R&D) in private sector investment, leading to a GDP share below the EU's 3% target for 2020. France is lagging behind on a global scale compared to the more innovative countries.

Finally, with respect to social outcomes, France is one of the best performing countries in the EU according to all statistics. Yet some challenges have emerged especially in terms of territorial inequalities. Disparities between regions are found in terms of competitiveness and investment, and also in access to social services, notably housing policies (Country Report for France 2020) (European Commission, 2020).

Table 17. Country-specific challenges before Covid-19 – France

Policy area	Challenges
Labour market	Entrenched segmentation and untapped employment for older and low-skilled workers
	High unemployment rate
	Persisting inequalities affecting people with a migrant background
Education and skills	High levels of skills mismatch
	Educational inequalities
Justice	–
Research and innovation	Low investment in R&D
Public administration	–
Taxation	High taxes on production factors
	Complex tax system
Product market	High regulatory restrictions especially in the service sector
	Weak business activity and regulatory barriers
	High share of 'zombie firms'
Social policies	Unmet demand for social housing
	Increase in the risk of poverty share among non-EU born people

Source: Own creation, based on the Country Report for France 2020.

In addition to structural weaknesses, France experiences significant challenges related to the green and digital transition. On the one hand, the current pace of renewable energy deployment seems to be insufficient to meet France's 2020 and 2030 targets. The energy efficiency targets for 2020 have not been met and major challenges for decarbonisation persist. Compared to its ambitious objectives, France has not yet implemented all the necessary steps as regards waste management and it does not meet all air quality standards, especially in its largest agglomerations.

On the digital front, France ranks 15th in the DESI for 2020 (European Commission, 2020). Problems persist with respect to the coverage of fast broadband, especially in rural areas. In addition, the share of people with 'basic or above basic digital skills' remains slightly below the EU average (57% vs 58%) and firms still have a comparatively low uptake of ICT.

6.3 The French NRRP: key numbers and timeline

On 23 June 2021, the European Commission approved the French plan for a total allocation of almost EUR41 billion. The plan includes 70 investment projects, grouped around three missions (Environment, Competitiveness and Cohesion) and a total of 22 reforms. Most of the reforms (almost 55%) will be adopted in the first 3 years, whereas the main part of the investment projects will be completed between 2024 and 2026 (58%).

Table 18. Timeline for completion of reforms and investment projects under the French NRRP, by year (% total)

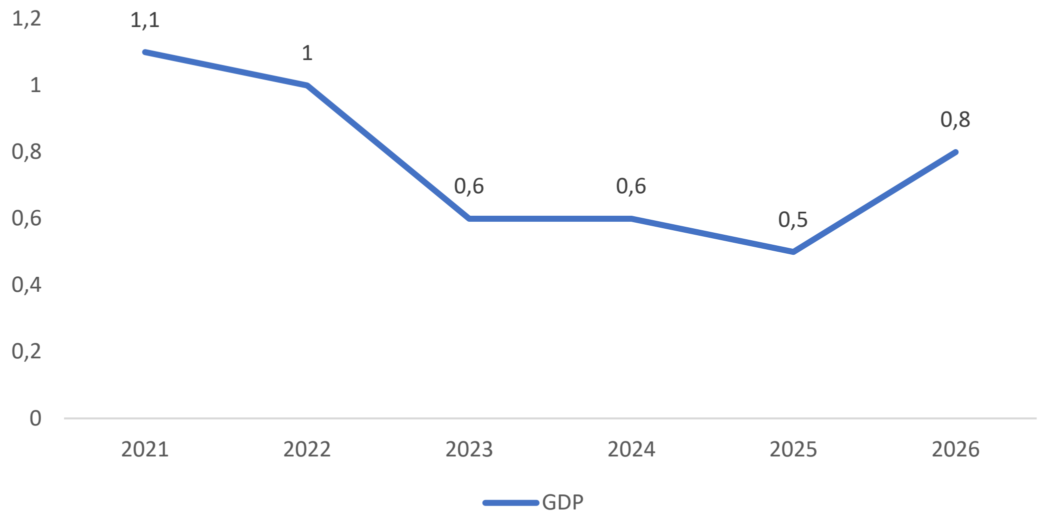
	2020	2021	2022	2023	2024	2025	2026	TOTAL
RRF Investment projects [number]	0.00	6.00	24.00	20.00	9.00	7.00	4.00	70.00
RRF Investment projects (% total)	0%	9%	34%	29%	13%	10%	6%	100%
RRF Reforms [number]	1.00	5.00	6.00	4.00	1.00	4.00	1.00	22.00
RRF Reforms (% total)	5%	23%	27%	18%	5%	18%	5%	100%

Source: Own creation, based on the French NRRP.

The completion of the projects is tied in with the request for payments to the Commission. However, France does not provide information on the annual breakdown of spending under RRF grants, which does not allow for understanding the timeline for the payment disbursements from the Commission.

According to the stylised impact simulations run by the French government with the QUEST macroeconomic model, the NRRP is expected to have a discrete impact on the GDP growth estimates. Notably, the plan expects a slight decrease in the average annual GDP growth rate of 0.5 pp., which will be increased by 0.2 pp. by 2026. However, no information is provided with respect to the estimated impact of the plan on employment growth.

Figure 10. NRRP impact on GDP – deviations from baseline scenario

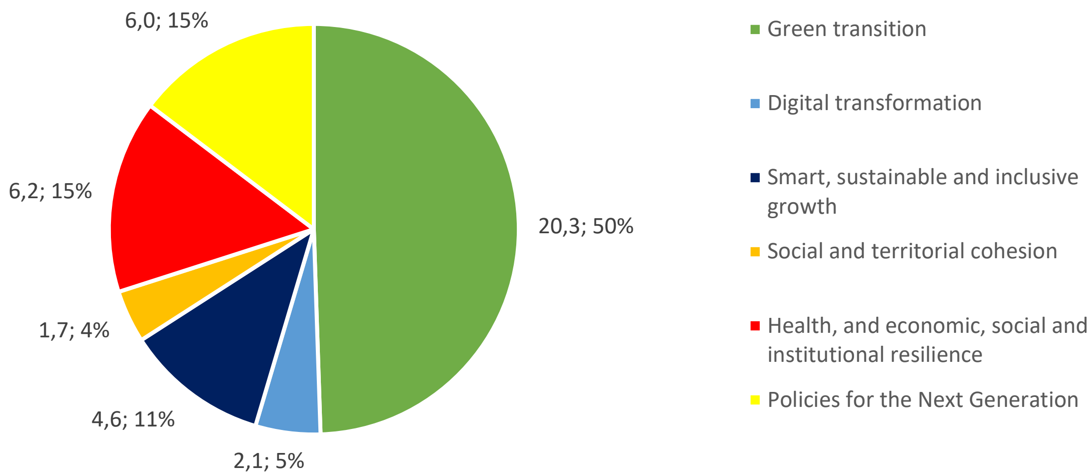


Source: Own creation, based on the French NRRP.

6.4 Investments in the French NRRP

Following the Commission guideline, the French NRRP investments can be classified based on the objectives included in the six pillars of the RRF. In this respect, 50% of the investment projects have as a primary objective fostering the *green transition*, while *health, and economic, social and institutional resilience* accounts for 15% and *policies for the next generation* 15%. The remaining investments are primarily aimed at *smart, sustainable and inclusive growth* policies (11%), *social and territorial cohesion* (4%) and *digital transformation* (5%).

Figure 11. French investments across the six RRF pillars (EUR billion, % total)



Source: Own creation, based on the French NRRP.

A closer look at the breakdown of the six French pillars gives a better understanding of the investment prioritisation. Under the *green transition* pillar, the French plan includes all investments of the mission 'Environment', which is made up of four components dedicated to building renovation, ecology and biodiversity, infrastructure and green mobility, and green energy and technology. Investments in building renovation and energy efficiency (EUR5.8 billion) include projects directed at public buildings (EUR3.8 billion), SMEs (EUR1.4 billion) and social housing (EUR0.5 billion). Under the infrastructure and green mobility component (EUR7.0 billion), the most relevant projects include support to the railway sector (EUR4.3 billion) as well as subsidies for clean vehicles (EUR0.98 billion).

Under the green energy and technology component, the plan includes investments in the development of decarbonised hydrogen (EUR1.92 billion). Under the *policies for the next generation* pillar, France is allocating a large number of resources to facilitate the access of young people to the labour market by giving subsidies for apprenticeships (EUR2.3 billion), *contrats de professionalisation* (EUR0.8 billion) and youth under 26 (EUR0.8 billion). Under *health, and economic, social and institutional resilience*, the French plan covers public investments in the digitalisation of the healthcare system (EUR2.5 billion) and in the renovation of healthcare infrastructure (EUR1.5 billion). The *smart, sustainable and inclusive growth* pillar includes investments in innovative business models (EUR2.55 billion), the creation of innovative ecosystems (EUR0.75 billion) and the National Research Agency (EUR0.43 billion). Finally, of particular relevance are the investments in the *digital transformation*, which include the creation of a digital health information system (EUR2.0 billion) and the digital transition of the public sector (EUR1 billion).

Another interesting way of looking at the priorities of the country is to list the top 10 strategic projects from the different the pillars (Table 19). This offers insight on the plan's focus.

Table 19. France's 10 strategic projects financed by the RRF and timeline

Project	EUR billion	Description	Timeline
Renovation of buildings	5.8	Financing a large-scale renovation programme to increase the energy efficiency of buildings.	Q42024
Modernisation and restructuring of hospitals and digitalisation of health sector	4.5	Renovating hospitals and healthcare facilities, building outpatient facilities, and modernising medical infrastructure and equipment.	Q22026
Support to the railway sector	4.4	Improving the rail network and increasing the use of railway as an alternative to road transport.	Q42025
Hiring subsidies for employers	4.0	Tax incentives for employers for apprentices, professionalisation contracts and recruitment of people under 26.	Q12022
Develop decarbonised hydrogen	1.9	Developing value chains for decarbonised hydrogen. The first sub-measure will consist in establishing a mechanism to support renewable and low-carbon hydrogen production. The second sub-measure will consist in launching and implementing planned Important Projects of Common	Q42020

		European Interest (IPCEIs) on renewable and low-carbon hydrogen, in association with other member states.	
Innovating for the resilience of our business models	1.8	Supporting investments for the development of key digital technologies, e.g. development of quantum technologies, cybersecurity, creative industries, 5G and future telecommunications technology.	Q42024
Support to businesses in the ecological transition	1.7	Launching several green transition acceleration strategies, e.g. decarbonised hydrogen, decarbonisation of industry, sustainable agricultural systems, recycling and reincorporation of recycled materials, sustainable cities and innovative buildings, digitalisation, and decarbonisation of mobility.	Q42023
Support plan for the aeronautics sector	1.7	Helping SMEs and mid-cap companies to invest in new processes and installations; accelerating diversification, modernisation and environmental transformation through direct subsidies and consultancy services; and supporting R&D and innovation in 'green airplane' technologies.	Q42025
Renovation of medico-social establishments.	1.5	Massive property investment plan for medical and social establishments.	Q22026
Digitalisation of public administration and schools	0.6	Providing digital equipment to primary and secondary schools (EUR131 million) and improving the efficiency of the public administration and quality of working environment of public officials (EUR500 million).	Q32023

Source: Own creation.

6.5 France's key structural reforms

Overall, the French national plan contains 21 reforms which are synergistic and interact with public investment and other spending measures included in the plan. Compared to other countries, France includes few structural interventions, and these are mainly focused on the public administration, social policies and research and innovation.

As illustrated in Table 20, with respect to public administration, the plan includes a twofold intervention in public finance governance and public administration simplification. Two reforms are indicated in the plan and aim to put in place a strategy to consolidate the budget in the medium and long term and improve the quality of public expenditure by directing it towards sectors which favour growth while reducing it for those that are inefficient. Other reforms are envisaged to simplify public administration and review the distribution of competences between local authorities and the state with the objective of making the latter more flexible thus facilitating business development and simplifying administrative procedures for individuals. All these reforms are planned to be implemented between 2022 and 2025.

In the area of social policies, it's worth highlighting two main interventions: the adoption of a national strategy for transforming the healthcare system, and the reform of unemployment insurance. The former aims to reform hospital governance, allowing for more flexibility in the organisation and functioning of hospitals, by setting up new local health structures, and providing hospital units with an increased role in the decision-making. The latter by contrast is particularly controversial. The reform introduces some changes in the eligibility criteria to access unemployment benefits, notably the need to have worked 6 out of the last 24 months in a job or 4 out of the last 28 months to make use of unemployment protection. In addition, the reform introduces a modulation of the contributions, making employers pay a malus if they hire on a temporary contract basis, while giving a bonus to those who hire on a permanent basis. Finally, a third intervention relates to the creation of a new branch of social security covering the risk of loss of autonomy, which was however already adopted in 2020.

In the area of research and innovation, the plan includes, through the implementation of the Research Programming Law, a complete overhaul of policies in this field, firstly by increasing the funding of the National Research Agency, and with it the number of funded projects, and secondly by providing fiscal incentives to the private sector investing in R&D.

Table 20. Key structural reforms

Area	Measure	Description	Timeline
Labour market	Provision of services by the unemployment agency (*Pôle Emploi*)	Reorganisation of the provision of services by *Pôle Emploi*, the main PES, with the aim of speeding up the handling and individual analysis of jobseekers' situations and thus facilitating the rapid return of people to the labour market.	Q42022
Education and skills	–		
Justice	–		
Research and innovation	Structural aspects of the Research Programming Law	Strengthening the impact of research, consolidating research funding schemes, and enhancing the attractiveness of scientific jobs and careers.	Q32025
Public administration	Civil service transformation	Improving recruitment and enhancing equal opportunities, in particular in senior civil service jobs.	Q12022
	Public finance governance	Establishment of a multi-year expenditure rule as a steering rule ensuring consistency between the annual budget bills and the multi-year objectives. Implementation of a Covid debt containment scheme in the draft budgetary plan.	Q12023
	Assessment of the quality of public expenditure	Directing public spending towards the most efficient areas in favour of growth, social inclusion and the ecological and digital transition.	Q12024
	Law on accelerating and simplifying public action (*loi ASAP*)	Bringing the administration closer to the citizen, facilitating business development and simplifying administrative procedures for individuals.	Q22025
	Law on differentiation, decentralisation and deconcentration to simplify local public action (4D)	Transferring new powers to local authorities and making relations between the state and local authorities more flexible.	Q12022
Taxation	–	–	–
Product market	–	–	–

Social policies	Reform of unemployment insurance	To accelerate and facilitate the return to sustainable employment of jobseekers by personalising and intensifying support according to needs.	Q22024
	National Strategy for Transformation of the Health System	Improving the relevance of the health system, improving the organisation of work, valuing the work of health professionals and ensuring equal access to the health system.	Q42023
	Creation of a new branch of social security covering the risk of loss of autonomy	Transforming the way in which the risk of loss of autonomy is recognised. Better financing of care for the elderly and the disabled and contributing to improving the quality and equity of care.	Q32020

Source: Own creation.

6.6 Overall assessment of the French plan

France entered the Covid-19 crisis with moderate economic growth, a high debt level and structural challenges, especially in the areas of competitiveness and productivity (see Table 17). The plan addresses some of the challenges affecting the French economy and, at the same time, defines the growth strategy of the years to come within the framework of Next Generation EU. Indeed, the plan pursues a twofold objective: (1) in the short term, supporting the rebound of the economy; (2) in the longer term, supporting the green and digital transformation of the French economy.

One of the positive aspects of the plan is the intervention in public administration and social policies, as the former is a key area for economic growth and the latter has correctly identified the country's structural problems. Still to be seen, by contrast, is the effect of the French plan on the research and innovation area. While the intervention is needed to alleviate the country's problems of low private investments in R&D, the measures envisaged are in line with those already in place (such as *Crédit Impôt Recherche*), which however did not show positive results in previous years. The unemployment benefit reform remains very controversial, as it risks creating a boomerang effect, de facto reducing worker protection, instead of helping the most vulnerable groups, such as temporary workers, access benefits.

The plan lacks any proposal for reforms and investments in equally relevant areas, such as in the field of education, justice, taxation and the product markets.

Overall, the proposed interventions can be expected to be implemented, since the plan is accompanied by a detailed timeline of the different steps for adopting the reforms and completing the investments, and a clear reference to the actors responsible who will be in charge of implementation. However, concerns might emerge with respect to the timing of the reforms, with a large part of the reforms having to be completed as early as 2021 or early 2022, something that might prove difficult given the upcoming 2022 presidential election campaign. In addition, the unemployment benefit reform remains largely disputed, especially after the government decided to adopt it after failed negotiations with social partners.

Another concern is the lack of ambition in the area of labour market reforms. With entrenched segmentation, high unemployment and inequalities affecting people with a migrant background present, there is concern that some of the country's structural problems will remain unresolved.

Coherence of the investments with the envisaged reforms is not always guaranteed in all policy areas. For instance, while the investments in youth employment policies are relevant, no accompanying reforms were envisaged for this.

One area which could raise concerns is public finances, for two reasons: i) despite the complexity of the pension system, there are no details provided in the plan; ii) the dubious timeline for the new public finance programming law, January 2023, i.e., after the presidential election.

In the area of digital transformation, despite compliance with the guidelines set out by the European Commission, there are doubts as to whether France will achieve the digital targets set by the European Commission for 2030. For instance, as mentioned above, the indicator of French people aged 16-74 with basic digital skills (70% by 2030, according to Deloitte's analysis, compared to the 80% target set by the European Commission) could be a cause for concern.

As observed above, most of the investment projects and reforms aim to foster the green transition. Of particular relevance are the measures related to the transformation of ecology and biodiversity regulation: the climate & resilience law and the law on circular economy, the renovation of buildings reforms, the transformation of transport through the mobility law (*loi d'Orientation des Mobilités)* and the creation of a green budget to coordinate expenditure on the green transition. However, while the focus on the green economy seems to be very strong, fiscal and financial stability are not sufficiently addressed. On structural reforms, the French programme is rather weak, even though the stability of the French economy is of paramount importance for the eurozone.

7. PORTUGAL

7.1 Macroeconomic outlook and forecasts

The pandemic crisis has impacted Portugal severely compared to other EU member states, with a GDP contraction of 8.4% in 2020 compared to 2019. During the first and second quarter 2020, the Portuguese GDP contracted by respectively 3.5% and 13.1% (q-q change), then recovered in the third quarter by 10.7% and 0.3% in the last quarter of 2020. The sharp decrease in the economic activities linked to tourism (e.g. -61.3% in guests and -63.0% in overnight stays compared to 2019), a sector representing 8% of the national GDP and 10% of the total workforce (OECD, 2020), significantly contributed to worsening the depth of the crisis. According to the 2022 winter forecast by the European Commission, the Portuguese GDP is projected to return to its pre-crisis level (2019-Q4) by the first quarter of 2022.

To cushion the effects of the crisis, the government put in place a fiscal package of 19.9% of GDP. Fiscal measures accompanied traditional automatic stabilisers and aimed to support households (3% of GDP), employment (1% of GDP) and healthcare (1% of GDP). Thanks to the launch of job retention schemes, the unemployment rate increased only to a limited extent from 6.5% in 2019 to 6.9% in 2020. Yet, the employment rate decreased by 1.8 pp. compared to the previous year and is expected to return to the pre-crisis level by 2022 In addition to discretionary fiscal measures, the government intervened to facilitate the access of companies and the self-employed to working capital, by putting in place loan and guarantee measures totalling an amount equal to respectively 1% of GDP and 7.4% of GDP.

The measures adopted to tackle the Covid-19 crisis, with the exception of those regarding liquidity, had a large impact on public deficit. From a small surplus of 0.1% of GDP in 2019, the budget balance of Portugal worsened, turning into a 5.8% deficit of GDP in 2020 and 4.5% of GDP in 2021, and is projected to remain negative until 2025 (-1.1% of GDP). Similarly, the debt-to-GDP ratio has increased considerably from the level of 2019 (116.6%), peaking at 135.2% in 2020 and projected to decrease to 128.1% of GDP in 2021 and 114.3% in 2025.

As a result, Portugal is expected to face high fiscal sustainability risks both in the short and medium term, according to the Debt Sustainability Monitor (2021) (European Commission, 2020). At the same time, there are mitigating factors for the risks associated with Portugal's public debt position, notably linked to the public debt profile with the lengthening of debt maturities and a diversified and large investor base as well as historically low borrowing costs supported by the euro system's interventions.

Table 21. Macroeconomic developments and forecasts Portugal

	2019	2020	2021	2022	2023	2024	2025	2026
GDP Growth (y-y % change)	2,7	-8,4	4,9	5,5	2,6	2,4*	2,2*	n.a.
Employment (% change)	0,8	-1,9	1,8	0,8	0,5	0,8*	0,8*	n.a.
Unemployment rate (%)	6,5	6,9	6,7	6,5	6,4	6*	5,8*	n.a.
HICP inflation (% change)	0,3	-0,1	0,9	2,3	1,3	1,3*	1,5*	n.a.
Gov balance (% GDP)	0,1	-5,8	-4,5	-3,4	-2,8	-1,6*	-1,1*	n.a.
Debt to GDP (% GDP)	116,6	135,2	128,1	123,9	122,7	117,1*	114,3*	n.a.

Source: Own elaboration, based on autumn 2021 and winter 2022 AMECO Forecasts (until 2023) and Portuguese recovery and resilience plan (for 2024 and 2025).

7.2 Portuguese structural challenges before Covid-19

When Portugal entered the pandemic crisis, some of the structural challenges affecting the country were already addressed during the economic adjustment programme. Reforms in the public administration, the labour and product market regulation in particular proved successful in the years following the Great Recession (European Commission, 2016). This notwithstanding, persisting structural problems remained (see Table 22).

With respect to labour market policies, despite the pre-pandemic positive trends in terms of the increasing employment rate and falling unemployment, Portugal faced several challenges, including high segmentation, a high skills mismatch, declining integration of low-skilled workers, a high gender pay gap and a low level of effectiveness in the PES. The younger generations were penalised quite harshly, with youth unemployment rates among the highest in the EU (18.3% vs 15.3% in 2019). Part of the labour market challenges are also explained by structural problems affecting the Portuguese education system. Despite growing investments in education in the years before the pandemic, Portugal was still far from the levels seen before the economic crisis. High job instability, an ageing population, and underinvestment in upskilling and reskilling teachers negatively affected students' educational outcomes. In 2019, Portugal still had a high rate of early school-leavers (10.6% in 2019), above the EU average (10.2%), and a low participation rate for adult learning (10.3% in 2018 vs 11.1% EU average). In the same year, 48% of the population lacked basic digital skills, including about 26% with no digital skills at all, while the proportion of those having never used the internet was twice the EU average.

Labour market and educational challenges in part negatively affected productivity growth which remained sluggish in Portugal, limiting the economy's potential. In this respect, additional obstacles and barriers to productivity emerged as a result of low public investments, subdued investments in research and innovation, an economic structure anchored in the traditional small and medium-to-small tech sector, and the low level of industry digitalisation. These challenges are further aggravated by regulatory barriers restricting competition for professional and business services, burdensome administrative and taxation elements, bottlenecks in the railway's interoperability as well as regulatory barriers and long-lasting concessions in the management of ports and the provision of port services. In addition, productivity growth in Portugal is still hampered by delays in payment of the public administration as well as administrative burdens in starting a business, dealing with construction permits and getting credit. Portugal has one of the lengthiest judicial proceeding time frames and largest backlog of pending cases in the EU, further negatively affecting investments.

Finally, structural problems characterised the Portuguese welfare state. Despite the efforts of the government to tackle the risks of poverty, Portugal remained one of the countries with the highest AROPE rates, especially in rural areas. In this respect, the poverty-reducing impact of social transfers is comparatively low in Portugal, while minimum income adequacy also remains low. In addition, Portugal was characterised by a high share of material deprivation in large part explained by the increasing housing prices and the traditional weak public investments in housing policies. With respect to the National Health Service, pre-pandemic challenges existed in access to healthcare and out-of-pocket payments, which were among the highest in Europe. The distribution of health resources (facilities and health professionals) was unequal and suboptimal, and there were shortages in specific areas (nurses in general, and specialists in rural areas). The long-term care system was highly fragile with low access rates and a poorly educated workforce.

In addition to structural weaknesses, Portugal experienced significant challenges related to the green and digital transition. First, it is far below the EU average for circular economy and waste management indicators, challenges remain in water management, air quality remains a concern, and building energy efficiency is not picking up. Second, Portugal ranks only 19th amongst EU countries in the Commission's 2020 DESI. The main concerns emerge from the low investment in human capital, the scarce use of internet services, the low digitalisation of SMEs and the overall lower than EU average for digitalisation of businesses and integration of digital technology into businesses.

Table 22. Country-specific challenges before Covid-19 – Portugal

Policy area	Challenges
Labour market	High youth unemployment
	Gender pay gap remains above the EU average
	Low proportion of unemployed people using PES
	Low level of qualifications among the workforce
	Working poor in households with high work intensity and with children is among the highest in the EU
Education and skills	High social segregation between schools
	Digital skills deficit
	Transition to higher education more challenging for upper-secondary VET students
	Problem with ageing teaching workforce and lack of digital skills
Justice	Inefficiency in administrative and tax courts
	Lengthy and increasing duration of trials
	Low investment in intellectual property and R&D

Research and innovation	Economic structure remains anchored in traditional low-tech sectors
	Railway interoperability is a major bottleneck
Public administration	High administrative burden
	Late payments
	Complex tax system and a business-friendly investment environment that falls short
Taxation	Burdensome administrative and taxation elements especially in the retail sector
	VAT policy gap remains high
Product market	Low degree of competition especially in construction and service sectors
	Restrictiveness of regulation for several professions
Social policies	High level of people AROPE among the unemployed, inactive, and elderly (especially in rural areas)
	Limited impact of social transfers on poverty reduction
	Low state investments in social housing

Source: Own creation, based on the Country Report for Portugal 2020.

7.3 The Portuguese NRRP: key numbers and timeline

Portugal was the first European Union member State to submit its national plan for recovery and resilience (NRRP) to the European Commission. The Plan was given a positive assessment by the European Commission on 16 June 2021 and was finally approved by the Council on 13 July 2021. It includes 32 reforms and 83 investments' projects for a total amount of EUR16.6 billion, consisting of EUR14 billion in grants and EUR2.7 billion in loans. Reforms and investment projects are grouped in three missions referred to as *Resilience*, *Climate Transition* and *Digital Transition*, which include respectively 9, 6 and 5 components. As shown in Table 23, most of the reforms are expected to be completed by 2023, while the large share of investment projects is planned to be completed between 2025 and 2026.

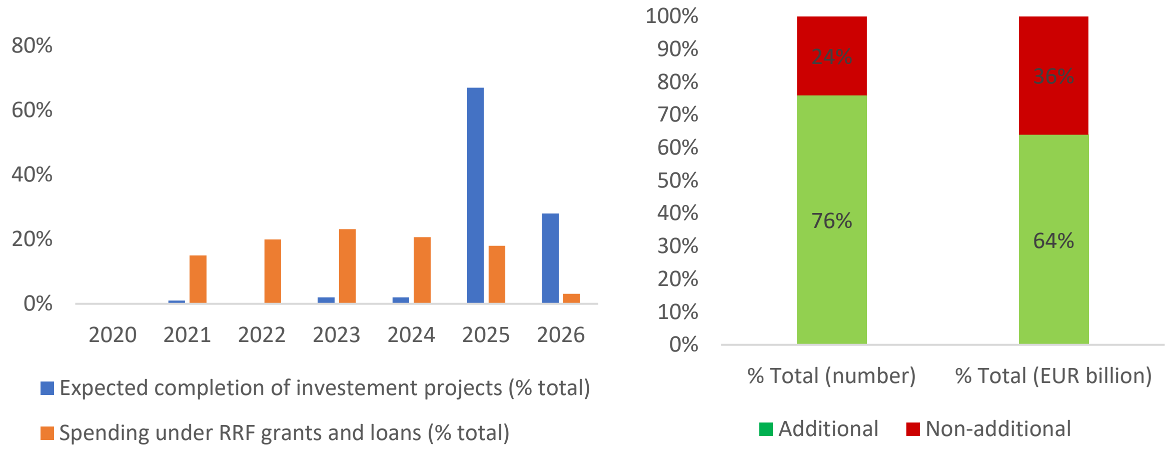
Table 23. Timeline for completion of reforms and investments under Portuguese NRRP, by year (% total)

	2020	2021	2022	2023	2024	2025	2026	TOT
RRF Investments' projects [number]	0	1	0	3	2	61	16	83
RRF Investments' projects (% total)	0%	1%	0%	4%	2%	73%	19%	100%
RRF Reforms [number]	2	14	4	6	2	5	0	32
RRF Reforms (% total)	6%	41%	13%	19%	6%	16%	0%	100%

Source: Own elaboration, based on Portuguese NRRP.

As concerns the reforms, in line with Spain and Italy, Portugal significantly frontloads the completion of the structural reforms. Similarly, the completion of the investments' project under RRF is expected to be concentrated in the end of the programming period. As it happens for other countries, planned expenditure under RRF in Portugal is expected to start before 2025 and 2026. Like Italy, Portugal distributes evenly its spending under RRF over the years. As showed in Figure 12, 76% of the projects (64% of the total spending) is allocated to additional public investments. This is also reflected in the acceleration of Portuguese forecasted net fixed capital formation in 2021 compared to pre-Covid forecasts, which amounts for 2022 to 1.3% GDP.

Figure 12. Planned Portuguese expenditure financed under RRF grants and loans and expected completion of investments' projects (left panel) and additionality of public investments (right panel)



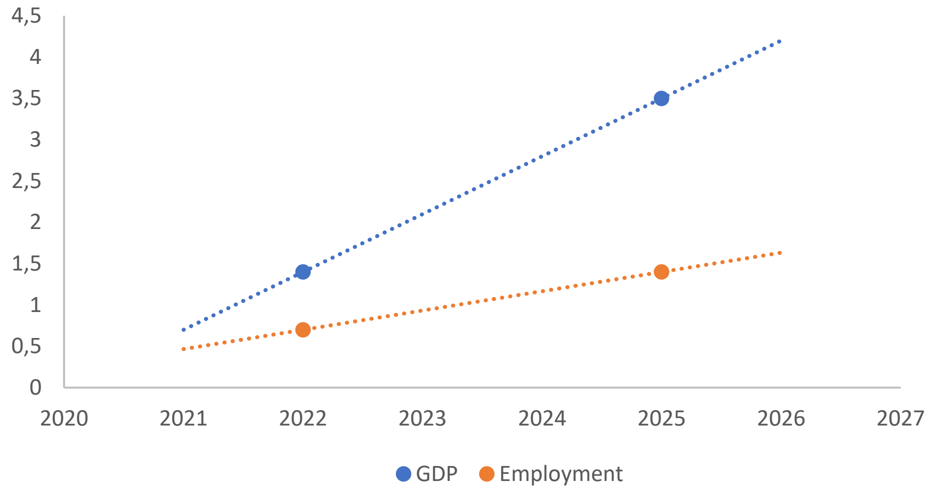
Source: Own elaboration, based on Portugal Stability Programme (European Commission, 2021) and Portuguese NRRP (European Commission, 2021).

The Ministry of Planning, through the 'task force *Recuperar Portugal*' is in charge of the monitoring and implementation of the plan, as defined in the Decreto-Lei n.º 29-B/2021, until the end of the process of the implementation. It consists in a group of arrangements, with a four-level governance model:

- *Inter-Ministerial Commission.* It is chaird by the Prime Minister, and it is in charge of the strategic and policy coordination and the overall political steering.
- *National Monitoring Commission.* It is composed by representatives of the different social and economic partners, and key civil society figures, chaired by an independent person. Its main function is to monitor the implementation of the plan and its results, to promote the dissemination to citizens, businesses and other organisations, to examine any issues affecting its performance and propose recommendations.
- Together with the *Agency of Developing and Cohesion* and the Ministry of Finance , the task force is in charge of the implementation of the plan, supervising the use of the funds and controlling the risk of double funding.
- *Audit and Control Committee (CAC).* It is chaired by the Inspectorate-General of Finance (IGF), and it's responsible of the audit and control activities.

According to the stylised impact simulations run by the Portuguese government with the QUEST macroeconomic model, the NRRP is expected to have a very positive impact on both employment and GDP especially in the medium term (Figure 13). Specifically, the plan expects an increase in the average annual GDP growth rate of 0.7 pp for the next years until 2025. In terms of the labour market, in 2025 the employment rate is expected to be 1.4 pp. above the scenario without the NRRP. As in the case of other countries, such estimates should be treated with caution. Indeed, the low additionality of public investments included in the plan – which the EC assumes as equal to 100% of the grants - might significantly reduce the macroeconomic impact estimated below.

Figure 13. NRRP impact on GDP and employment - deviations from baseline scenario

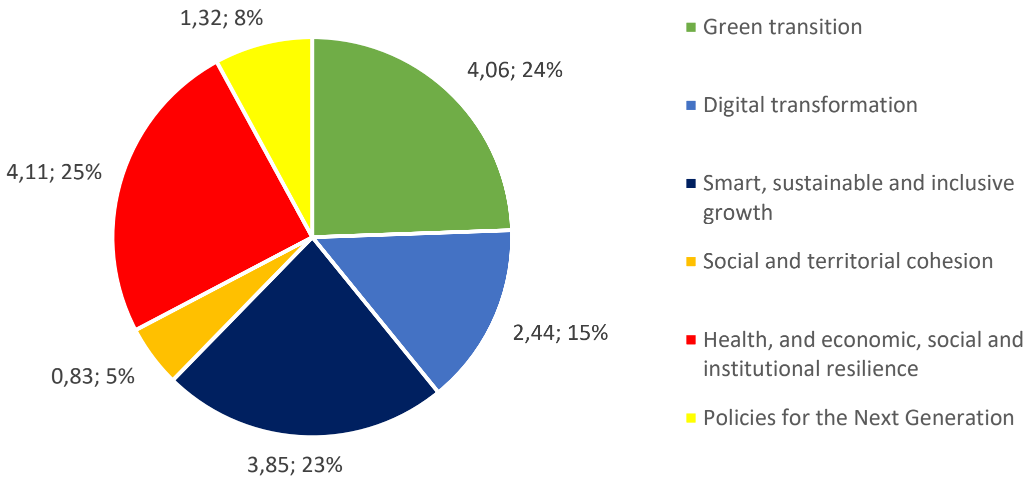


Source: Own elaboration, based on the Portuguese NRRP.

7.4 Investments in the Portuguese NRRP

Following the Commission guideline, the Portuguese NRRP investments are meant to address the objectives included in the six pillars of the RRF. Notably, almost half of the Portuguese plan's funds are under two pillars: health, and economic, social and institutional resilience (25%) and green transition (24%), whereas smart, sustainable and inclusive growth and digital transformation account for respectively 23% and 15% of the investments. The remaining funds are allocated to the policies for the next generation (8%) and social and territorial cohesion (5%) pillars. With respect to the distribution of the funding across economic activities, the Portuguese plan distributes the resources evenly, with the largest share allocated to professional, scientific and technical activities (21.4%), construction (20.6%), human health and social work activities (13.3%) and education (11.3%).

Figure 14. Portuguese investments across the six RRF pillars (EUR billion, % total)



Source: Own creation, based on the Portuguese NRRP.

A closer look at the breakdown of the six Portuguese pillars gives a better understanding of the investments' prioritisation.

Under the *health, and economic, social and institutional resilience* pillar, the most relevant projects include the launch of the Access to Housing Support Programme and other housing actions which account for EUR2.7 billion, as well as measures to support the healthcare sector (EUR1.38 billion), especially primary health and the digital healthcare transition. The *smart, sustainable and inclusive growth* pillar includes investments aimed at increasing the competitiveness and resilience of the Portuguese economy through measures designed to strengthen research, by fostering the transfer of its results to the business sector, thus promoting innovation and investment. Among the most relevant funded projects there are the launch of the Mobilising Agendas/Alliances for Business Innovation and for Green Reindustrialisation (EUR0.92 billion) and the creation and capital reinforcement of the Portuguese National Promotional Bank *(Bank Banco Português de Fomento*) (EUR1.55 billion). Under the *green transition* pillar, the main projects include investments in sustainable mobility, notably the renovation of the metro networks (EUR0.97 billion), tax incentives for industry decarbonisation (EUR0.71 billion) and investments in the energy efficiency of both residential and public administration buildings (EUR0.54 billion). Under the *digital transition* pillar, the most relevant projects include tax credits for companies' digital transition (EUR0.65 billion), and investments in the digitalisation of the public administration (EUR0.58 billion) and of the educational system (EUR0.55 billion). Funds under the *next generation* pillar are dedicated to modernising the provision and establishment of education and vocational training (EUR0.71 billion), incentivising the reskilling of adults and giving impetus to STEAM subjects in higher education (EUR0.35 billion). Finally, the *social and territorial cohesion* pillar includes projects to strengthen, expand, upgrade and reform social services that respond to the challenges of childcare, ageing, long-term care and disabilities (EUR0.42 billion). Table 24 below indicates the 10 largest investments included in the Portuguese NRRP.

Table 24. Portugal's 10 strategic projects financed by the RRF and timeline

Strategic investments	EUR billion	Description	Timeline
Supporting schemes for access to housing programme	2.7	Providing decent and adequate housing for at least 26,000 households in need and increasing housing conditions in the housing stock, with a focus on less developed regions.	Q22026
Establishment of the Portuguese National Promotional Bank	1.55	Providing the Portuguese National Promotional Bank, *Banco Português de Fomento*, with a capital buffer and investing in viable Portuguese firms to address the structural problems of limited access to finance and undercapitalisation.	Q42025
Decarbonisation of industries and business R&D and innovation sector	1.26	Supporting small and medium-sized enterprises in the green transition. Launch of Mobilising Agendas/Alliances for Business Innovation.	Q42025
VET institutions and digitalisation of education	1.21	Upgrading technological laboratories and technical equipment in secondary schools and professional training centres. Digitalisation of education.	Q42025
Digital health transition and primary healthcare	0.77	Modernising the computer systems of the National Health Service and increasing the digitalisation of medical records compliant with appropriate security principles.	Q42024
Digital transition of businesses (digital upskilling)	0.65	Supporting small and medium-sized enterprises and their workers with tailored digital skill trainings and tailored coaching to help them make the best use of digital technologies.	Q32025
Protecting vulnerable forest areas	0.61	Adapting land management to transform the landscape of vulnerable forest territories to prevent fires, increase climate and economic resilience and protect biodiversity.	Q42025
Strengthening the metro network	0.6	Expansion of the Porto Metro Network – Casa da Música-Santo Ovídio and Lisbon Metro Network – Red Line to Alcântara.	Q42025
Energy efficiency in residential buildings	0.3	Financing a large-scale renovation programme to increase the energy efficiency of residential buildings.	Q42025
Modernisation of the justice and business environment	0.27	Removing barriers to investment and increasing the efficiency of administrative and tax courts; simplifying the insolvency framework.	Q42025

Source: Own creation.

7.5 Portugal's key structural reforms

Reforms included in the national plan aim to address some of the key challenges affecting the Portuguese economy and society, and to reduce the obstacles that have hitherto slowed down investment implementation and reduced its productivity. In line with the NRRP priorities in investments, reforms are focused mainly in the area of public administration, education and skills, the product market and social policies.

In the public administration framework, of relevance is the reform of public financial management, which aims to increase transparency in the use of public resources and promote an integrated management system of real estate public assets. In addition, the NRRP includes a reform of the judicial system that establishes the strategic framework for the digital transition of justice and the reduction of the administrative burden on companies. Notably, this reform introduces a legal framework promoting in- and out-of-court settlements, the establishment of a legal framework for voluntary administrative arbitration, and the creation of specialised chambers in superior courts.

In order to tackle the skills mismatch characterising the Portuguese labour market, the NRRP includes two main interventions. The first one is focused on reinforcing vocational and educational training whilst the second one proposes a strengthening of the cooperation between higher education, public administration and enterprises. With respect to educational policies, the plan includes digital education reform which covers strengthening teachers' digital skills, the technological infrastructure of schools, including digital equipment and internet access, and the development of digital educational content.

The plan also includes a decent work agenda aimed at combating precariousness and promoting collective bargaining, active employment policies and training, with a strong focus on the new form of work, e.g. digital platforms for workers and telework.

With respect to the product market, the plan includes liberalisation of highly regulated professions, e.g. lawyers, architects and engineers, and a reduction of regulatory and administrative burden imposed on both professionals and firms. Another relevant reform is the creation of the National Promotional Bank *(Banco Português de Fomento)* which has a twofold purpose: increasing the level of competitiveness of the economy and supporting the development of national productivity. In addition, a review of the insolvency framework strengthens the role of insolvency practitioners and the rights of the lender, introducing compulsory partial apportionment in specific cases.

Finally, in the domain of social policies, the NRRP includes a reform of the housing system through a national housing plan *(Plano Nacional de Alojamento Urgente e Temporário*) which aims to create a structured and transversal response for people who lack emergency or temporary accommodation solutions. The objective of this reform is to develop a legal and regulatory framework for signalling and monitoring people supported by the housing policy. The plan also includes two main reforms in the healthcare area: the first one regards the governance model of public hospitals, i.e. reconfiguring the hospital network according to capacity planning in terms of volume of services, human resources and infrastructure. The second reform instead focuses on primary healthcare through the modernisation and digitalisation of the NHS, especially through investments in the Autonomous Regions of the Azores and Madeira. The table below summarises the main reforms included in the Portuguese plan, divided into key policy areas.

Table 25. Key structural reforms

Area	Measure	Description	Timeline
Labour market	Decent work agenda	Fighting precariousness and segmentation though active labour market policies and the promotion of collective bargaining. One of the objectives is to increase the national minimum wage to EUR750.	Q12023
Education and skills	Reform for digital education	Reinforcing the population's digital competences as an integrated public policy action, and updating and modernising both formal and non-formal education.	Q42025
	Reform of VET	Strengthening the response capacity of the Portuguese education and training system in terms of youth and adult education and training.	Q42025
	Reform of cooperation between higher education and Public Administration and enterprises	Reviewing the legal and institutional framework in force that governs the cooperation of higher education institutions with the Public Administration and enterprises, in order to modernise the incentives for cooperation and support the diversification of training provision and lifelong learning.	Q22021
Justice	Economic justice and business environment	Strengthening the relations of citizens and businesses with the state and reducing the burdens and complexities that inhibit business activity and thus impact on productivity.	Q32025
Public administration	Modernisation and simplification of public financial management	The reform also aims at increasing transparency and efficiency in the use of public resources, through more integrated management of administrative and financial processes across all entities within general government.	Q42025
Taxation	–	–	–
Product market	Reducing restrictions in highly regulated professions	Eliminating restrictions on access in some highly regulated professions and preventing infringements of competition rules in the provision of professional services, as under national and European Union law.	Q22022
	Creation and development of the *Banco Português de Fomento*	The aim of this promotional bank is to (i) support the development of the economy through the provision of financing solutions, and (ii) support the development of the Portuguese business community, bridging market gaps in access to corporate financing, with a focus on SMEs and midcaps.	Q42020
Social policies	Housing	Creating a structured and cross-cutting response for people in need of emergency housing solutions or transitional housing with a view to their protection, autonomy and social inclusion and the fight against inequalities.	Q22021
	Primary healthcare reform	Modernising the entire health system, e.g. promotion of health and healthy lifestyles, integrated management of disease, investments in the qualification and modernisation of primary healthcare facilities and strengthening proximity healthcare responses.	–

Source: Own creation.

7.6 Overall assessment of the Portuguese plan

At the early stages of the pandemic crisis, a positive economic performance and policy effort was helping Portugal to address some of its challenges. Yet, Portugal was still facing various problems, such as shortfalls in investment, a segmented labour market, a high skills mismatch, a still inefficient public administration as well as a rigid product market and ineffective social safety nets.

The plan has been largely built on the 2019 CSRs. It proposes an ambitious set of structural reforms and targeted investments that have many interdependent and complementary objectives.

This is in particular the case with two key areas of social policy reform: the national strategy to combat poverty and the national plan for urgent and temporary accommodation, which address most of the issues related to housing; and the product market reforms, notably the reduction of restrictions in highly regulated sectors and the creation of the *Banco Português de Fomento*. Equally relevant are the reforms regarding the education system, the economic and business environment, justice and the public administration.

An additional positive contribution of the plan is the alignment with the green and digital objectives of the RRF. In particular, on the green side, the Portuguese NRRP proposed relevant reforms in industry decarbonisation as well as sustainable mobility, especially through the reform of the transport ecosystem. On the digital side, the main reforms address the digital gap in the Portuguese public administration, businesses and the educational system, in order to establish a new strategic framework for the digital transition of the economy.

It is worth mentioning that despite tourism playing a key role in the Portuguese economy, it is not included in the NRRP. However, on May 21st, the Ministry of the Economy announced a plan to reactivate tourism (*Plano Reativar o Turismo|Construir o Futuro*) allocating an initial investment of EUR6 billion to the Portuguese tourism sector to reach the goal of EUR27 billion in tourist revenues in 2027. The largest share of the investment, EUR4 billion, will be provided by the *Banco Português do Fomento*, which will channel EUR3 of the EUR4 billion to maintain employment and productivity, and the remaining part to finance businesses in the tourism sector.

On a less positive note, labour market reforms, such as the decent work agenda, are not enough to tackle all the above-mentioned challenges, from high youth unemployment to the lack of effectiveness of PES, and both quantitative and qualitative targets are not mentioned. The only exception is the increase of the national minimum wage up to EUR750 by the 4Q2023.

Concerns also emerge with respect to the qualification and skills area, where the plan allocates the majority of the funds to modernising education buildings. Elsewhere, the Portuguese NRRP falls short in addressing the challenges related to the lengthy duration of trials and the wide VAT gap, i.e. the overall difference between the expected VAT revenue and the amount collected.

Finally, in terms of effectiveness of the proposed interventions, the plan timeline should be guaranteed by the creation of a centralised monitoring unit, the so-called *Recuperar Portugal*. However, the fact that many of the key structural reforms, especially the public administration and justice reforms, are postponed to 2025, might risk slowing down both the absorption of the funds and the economic recovery.

8. Slovakia

8.1 Macroeconomic outlook and forecasts

Slovak economic activity was hit hard by the Covid-19 pandemic and the corresponding lockdown measures, resulting in a sharp fall in real output during the first half of 2020. During the first and second quarter of 2020, Slovak GDP contracted by respectively 3.2% and 6.7% (q-q change). However, GDP rebounded in the third and fourth quarter of 2020 by respectively 8.6% and 1.1%, and by the end of 2020 the GDP contraction was equal to 4.4%, comparatively lower than other EU countries. The increase in Covid cases and the accompanying restrictive measures between late 2020 and early 2021 led to a 2.3% contraction in GDP in the first three months of 2021. In the second quarter of 2021, however, a recovery of 3.9% is observed, linked to progress in vaccination and the reopening of the economy. According to the 2022 European Commission winter forecast, Slovakia reached its pre-crisis level in the second quarter of 2021.

To cushion the effects of the pandemic, the Slovak government put in place a significant package of fiscal measures equal to 5% of its GDP, which accompanied traditional automatic stabilisers. It introduced discretionary expenditure measures to support employment (2% of GDP), healthcare (1% of GDP) and income support instruments for households (1% of GDP). This cushioned the hit, with unemployment in 2020 increasing by only 0.9% and the employment rate decreasing by just 1.9% compared to the previous year, with the latter expected to recover its pre-pandemic levels in 2023. In addition to discretionary revenue measures, fiscal measures and guarantees were adopted, the amount equivalent to 0.5%, 1% and 1.7% of GDP respectively.

Fiscal support measures together with lower tax revenues have largely impacted on the government budget deficit, which amounted to 5.5% of GDP in 2020 and is expected to be around 7.3% of GDP in 2021. The public debt-to-GDP ratio increased to 59.7% in 2020 from 48.1% in 2019. As a result of the severe recession and the fiscal response needed, Slovakia is projected to face both short- and medium-term risk of fiscal stress driven mainly by more adverse macro-financial developments or weaker fiscal improvement. Population ageing also represents a high fiscal sustainability risk for the Slovak public finances in the long term.

Table 26. Macroeconomic development and forecast Slovakia

	2019	2020	2021	2022	2023	2024	2025	2026
GDP Growth (y-y % change)	2.60	-4.40	3.00	5.00	5.10	0.30	n.a.	n.a.
Employment (% change)	1,00	-1.90	0.30	1.20	1,00	0.30	n.a.	n.a.
Unemployment rate (%)	5.80	6.70	6.80	6.40	5.60	4.70	n.a.	n.a.
HICP inflation (% change)	2.80	2.00	2.80	6.40	2.40	2.30	n.a.	n.a.
Gov balance	-1.30	-5.50	-7.30	-4.20	-3.2	n.a.	n.a.	n.a.
Debt to GDP (% GDP)	48.10	59.70	61.80	60,00	59.10	n.a.	n.a.	n.a.

Source: Own elaboration, based on autumn 2021 and winter 2022 AMECO Forecasts (until 2023) and Slovak recovery and resilience plan (for 2024).

8.2 Slovakia's structural challenges before Covid-19

Since its accession to the EU, Slovakia has experienced a progressive catching-up with the EU average in many areas, driven mostly by export-based industrial production, based on attractive labour costs, notably in the automotive sector, and driven by foreign direct investments. This convergence trend slowed down in the years preceding Covid-19, due mostly to a persisting labour productivity gap and increasing domestic labour cost. Structural challenges thus characterised the Slovak economy, mainly in the labour market, education and skills, research and innovation fields and – in part – the product market (see Table 27).

With respect to the labour market, despite an overall positive trend, three main challenges affected Slovakia: i) a high share of long-term unemployment especially among young people and a high NEET rate; ii) low female participation in the labour market, mainly due to a shortage of measures to cope with family obligations, with the proportion of women inactive due to caring responsibilities being 6.3% higher than the EU average (Country Report for Slovakia 2020); and iii) low investments in active labour market policies.

In the area of education and skills, Slovakia is affected by three main challenges that prevent the country from fulfilling its economic potential: i) participation in early childhood education and care (ECEC) is among the lowest in the EU, in particular among vulnerable groups; ii) investment in high-quality and inclusive education (including the teaching profession) and training remains insufficient, affecting educational outcomes across all levels, including vocational training and schemes for upskilling and reskilling workers; and iii) a significantly high rate of early school-leavers (around 8.6%) further accentuating the labour skills mismatch.

An underperforming public administration is a bottleneck for public investment, while low trust in the justice system undermines business confidence and private investment. The low effectiveness of public institutions, administration and the regulatory environment significantly hampers the Slovak business environment. At the same time, complex public procurement procedures, slow procedures to start a business and lengthy processes to get construction permits or to resolve insolvency hinder economic efficiency, affecting the Slovak product market (Doing Business data by the World Bank for Slovakia 2020). In addition, major independence and integrity concerns characterise the judicial system.

Low public and private investment in R&D further hamper the economic potential of the country. The low quality of public research and limited cooperation of universities and research organisations with businesses, partly explained by inefficiencies related to a fragmented governance system, constrain the development and sharing of knowledge and skills. Finally, with respect to social policies, Slovakia has been affected by territorial inequalities, especially between Bratislava and the Eastern regions, in terms of people AROPE. One out of four children coming from socially disadvantaged families faces a risk of poverty or social exclusion (AROPE). Slovakia, in turn, lacks systematic support for children experiencing poverty and disability, has poor access to long-term care, and sees some groups, such as marginalised Roma communities, the elderly and the low-skilled face difficulties in accessing social protection and care services.

Table 27. Country-specific challenges before Covid-19 – Slovakia

Policy area	Challenges
Labour market	High NEET rate
	Low spending on active labour market policies
	Low female employment and persistent high gender pay gap
Education and skills	High inequality in educational outcomes
	Insufficient investment in education and training
	Gaps in the provision of early childhood education and care facilities, aggravating regional and social disparities
	Low adult learning participation
	High rate of early leavers from education and training
Justice	Concerns over the independence and integrity of the justice system
	High administrative workload
Research and innovation	Low investment in R&D
	Complex funding mechanism of the Innovation and Industry Fund
	Low efficiency of public research
Public administration	Underperforming public administration in policy planning, human resources and service delivery
	Burdensome regulatory process
	Low digitalisation of public administration
Taxation	Revenue from income taxes is still the biggest source of tax revenue. Limited portion of property, consumption and environmental taxes
Product market	Supporting entrepreneurship is below the EU average
	Exit policies and the insolvency framework to be improved
Social policies	AROPE rate high in some regions
	Low social mobility
	Low access to long-term care
	High inequality (S80/S20)
	Limited access to social protection and care services for some population groups

Source: Own creation, based on the Country Report for Slovakia (2020).

In addition to structural challenges, Slovakia experienced some challenges related to the green and digital transitions. Slovakia is not meeting the greenhouse gas emissions target; the target of 19.25% of renewables in the energy mix is below the EU 24% threshold, self-fixed targets for energy efficiency are modest, and the performance in waste management is insufficient with low recycling rates and a strong dependence on landfilling. Slovakia also performs far below the EU average in all DESI (European Commission, 2020) index areas, including low connectivity, limited digital literacy, low use of internet service, low integration of digital technology and limited digitalisation of public services.

8.3 The Slovakian NRRP: key numbers and timeline

On 13 July 2021, the ECOFIN Council approved the implementing decision on the approval of the Slovak plan, which will be financed by EUR6.58 billion of grants. The plan includes 55 investment projects and 58 reforms to address the problems in the Slovak economy. While 68.96% of the reforms will already be implemented as early as 2023, 88.52% of the investment projects will be completed in 2025 and 2026 (see Table 28).

Table 28. Timeline for completion of reforms and investments under the Slovak NRRP, by year (% total)

	2020	2021	2022	2023	2024	2025	2026	TOTAL
RRF Investment projects [EUR billion]	0.00	0.00	0.03	0.02	0.71	1.60	4.25	6.61
RRF Investment projects (% total)	0%	0%	0.42%	0.32%	10.74%	24.16%	64.36%	100%
RRF Reforms [number]	0.00	6.00	19.00	15.00	3.00	11.00	4.00	58.00
RRF Reforms (% total)	0.00%	10.34%	32.76%	25.86%	5.17%	18.97%	6.90%	100%

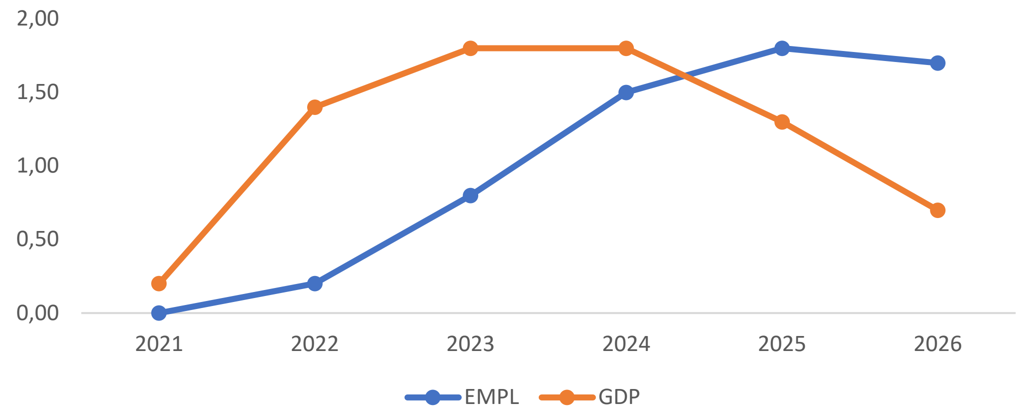
Source: Own creation, based on the Slovak NRRP.

The completion of the projects is tied in with the request for payments to the Commission. In contrast to other member states, however, Slovakia does not provide information on the annual breakdown of spending under RRF grants, which does not allow for understanding the timeline for the payment disbursements from the Commission.

With respect to governance of the plan, the functions and responsibilities of the institutional actors involved in the NRRP are defined by a special law. The implementation of the NRRP will be supervised by the government of the Slovak Republic in the form of a steering authority, together with the National Implementation and Coordination Authority (NIKA) and in liaison with national ministries.

According to stylised impact simulations carried out by the Slovak government with QUEST, the NRRP is expected to have a very positive impact on employment, notably with a subsequent reduction in GDP in the medium term. Specifically, the plan includes an increase in the average annual GDP growth rate of 1.2 pp. through to 2022 and 0.4 pp. to 2024, with a subsequent decline of 0.5 pp. in the years 2025 and 2026. In terms of the labour market, in 2026 the unemployment rate is expected to be 1.5 pp. below the scenario without NRRP.

Figure 15. NRRP impact on GDP and employment – deviations from baseline scenario

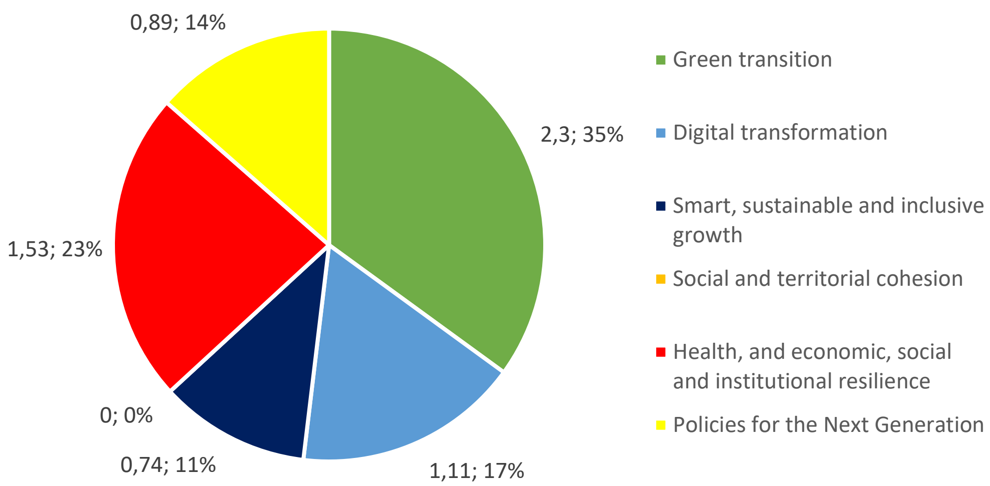


Source: Own creation, based on the Slovak NRRP.

8.4 Investments in the Slovak NRRP

In line with the Commission guideline, the Slovak NRRP investment projects can be classified based on the objectives included in the six pillars of the RRF. Notably, the plan allocates 52% of its investments to the *green transition* (35% of total) and *digital transformation* (17%) pillars of the RRF. The remaining 48% of investments is allocated respectively to the *policies for the next generation* pillar (14%), *smart, sustainable and inclusive growth* pillar (11%) and *health, and economic, social and institutional resilience* pillar (23%). With respect to the distribution of the funding across economic activities, the Slovak plan distributes the resources evenly, with the largest share allocated to human health and social work activities (23.3%), education (13.3%), transportation and storage (12.2%), professional, scientific and technical activities (11.3%) and construction (11.3%).

Figure 16. Slovak investments across the six RRF pillars (EUR billion, % total)



Source: Own creation, based on the Slovak NRRP.

A closer look at the breakdown of the five pillars, in which the Slovak NRRP invests, gives us a better understanding of the investment prioritisation.

Under the *green transition* pillar, Slovakia includes five components on renewable energy sources, renovation of buildings, sustainable transport, decarbonisation of industry and adaptation to climate change. In this respect, the most relevant projects are investments in the development of low-carbon transport infrastructure (EUR0.66 billion), improving the energy efficiency of family houses (EUR0.58 billion), an industry decarbonisation scheme (EUR0.36 billion) and the renovation of historical and listed public buildings (EUR0.21 billion). Under the *digital transformation* pillar, four components are included on improving the business environment, reforming the judicial system, fighting corruption and money laundering, and introducing a digital plan for Slovakia. Among the most relevant projects are investments in the digital transformation of public services delivery (EUR0.13 billion), the renovation and creation of new judicial buildings (0.21 billion) and the digitalisation of public services for citizens and businesses (0.18 billion). Under the *policies for the next generation* pillar, Slovakia includes various projects aimed at improving the availability, development and quality of inclusive education (EUR0.21 billion), creating an education system for the 21st century (EUR0.47 billion) and improving the performance of Slovak universities (EUR0.21 billion). Under the *health, and economic, social and institutional resilience* pillar, the most relevant projects are the construction, reconstruction and equipping of a new hospital network (EUR1 billion) and enhancing community-based social care capacities, to allow patients to be transferred from large-scale facilities to smaller community-type facilities (EUR0.2 billion). Finally, under the *smart, sustainable and inclusive growth* pillar, the main project consists of EUR0.18 billion of investments in supporting cooperation between companies, academia and R&D organisations, in order to mobilise private participation in RDI and increase the share of innovative businesses, and EUR0.13 billion of investments in research and innovation for digitalisation of the economy. The table below summarises the 10 largest investment projects indicated in the Slovak recovery and resilience plan.

Table 29. Slovakia's 10 strategic projects financed by the RRF and timeline

Projects	EUR billion	Description	Timeline
New hospital network	1.00	Improving the quality of medical services, renovating existing hospitals and constructing new ones while ensuring fair geographical distribution and accessibility.	Q42025
Low-carbon transport	0.66	Supporting the roll-out of charging stations for alternative fuels and the modernisation of railways and new cycling infrastructure.	Q22026
Energy efficiency in family houses	0.53	Financing a large-scale renovation wave to improve the energy and green performance of at least 30,000 residential units.	Q22026
Decarbonisation of industry	0.37	Promoting energy efficiency and investing in innovative decarbonisation technologies in industry.	Q22026
Reorganising the judicial system	0.26	Strengthening the efficiency and independence of the justice system and investing in digital infrastructure.	Q42024

Enhancing community-based social care capacities	0.19	Investing in long-term care for those in need through focusing more on community-based solutions.	Q22026
Digital infrastructure in schools	0.19	Financing digital equipment, including for children from socially disadvantaged backgrounds, to enhance digital skills and create a new learning ecosystem which will be further strengthened by curriculum reforms.	Q42024
Better services for citizens and businesses	0.18	Introducing user-friendly e-government solutions for citizens.	Q22026
Climate adaptation	0.16	Increasing the resilience of forests to the impacts of climate change, revitalising watercourses and supporting biodiversity.	Q22026
Investing in childcare	0.14	Promoting access to childcare services by investing in pre-school facilities.	Q22025

Source: Own creation, based on the Slovak NRRP (European Commission, 2021)

8.5 Slovakian key structural reforms

Slovakia's NRRP includes 58 reforms that aim to address the structural problems of the Slovak economy and contribute to the structural impact of the NRRP in the medium to long term. Table 30 summarises the main reforms included in the Slovak plan, divided into key policy areas.

In the labour market area, the main reform consists of amending the legislative provisions governing the recognition of professional qualifications for foreigners, with the aim being to simplify the recognition process. Of particular relevance are the reforms in the education and skills area. The main reforms will be in the financing of pre-school education, making it more transparent and increasing access opportunities, the creation of a working group to identify and address early school leaving, a more in-depth monitoring of school accreditation criteria, creating common criteria, and the professionalisation of university management positions, including bringing them closer to society, with the possibility of participating in selection procedures.

Equally important is the reform of the judicial system, which aims at improving the efficiency and quality of the judiciary, allowing for greater specialisation of judges in criminal, civil, commercial and family justice, paving the way for better and faster court decisions. The main reform in the research and innovation area aims at enhancing the RDI governance structure. Of relevance are also the reforms of public administration with new forms of e-government solutions.

The reform of the pension system aims to make it more sustainable, introducing a new compulsory life cycle-based savings strategy, to be implemented by the first quarter of 2023. In the product market area, the main aim is to improve the business environment, digitalising it and reducing the regulatory burden. Most of the reforms will be implemented by 2023.

Finally, the Slovak plan includes 11 reforms in the social policy area. These reforms mostly deal with healthcare challenges through modernisation of the healthcare system, as well as making it more accessible. The Slovak Ministry of Health will adopt the plan for all health projects and will coordinate all of them. Most of the reforms will be implemented in 2022 and 2025.

Table 30. Key structural reforms

Area	Measure	Description	Timeline
Labour market	Qualification recognition	Simplification of the system for recognising general qualifications and professional qualifications for practising in regulated professions.	Q12022
Education and skills	Legal entitlement to ECEC	Providing conditions for implementation of compulsory pre-primary education for children from the age of 5 and introducing a legal entitlement to a place with kindergarten or other pre-primary education providers from the age of 3.	Q42025
	Early school leaving prevention	Changes to the relevant legislative provisions aimed at increasing the possibility for young people, without completing lower secondary education, to achieve a higher level of education by offering the possibility of completing lower secondary education in secondary vocational schools (NSOV) in a 2- and 3-year combined programme.	Q22025
	New approach to accreditation of higher education	Setting out the new standards and criteria for the accreditation of curricula that tighten the conditions for guaranteeing and delivering study programmes, improve their quality and introduce long-term quality monitoring processes.	Q42022
	Reform of the governance of universities	Increasing the power of rectors and the Board of Directors via the amendment of the Higher Education Act so that it better reflects responsibility and allows greater flexibility within the higher education institution.	Q42021
	A strategic approach to education in digital skills	Drawing up a national strategy for the development of digital skills through lifelong learning. The strategy will be prepared in cooperation with competent ministries and representatives of key stakeholders.	Q42022
Justice	Reorganising the judicial map	Improving the efficiency and quality of the judiciary, allowing for greater specialisation of judges in criminal, civil, commercial and family justice, paving the way for better and faster court decisions. Providing a new network of first instance administrative and ordinary courts (including municipal courts), appeal courts and a Supreme Administrative Court.	Q12023
Research and innovation	Reform of governance, evaluation and support in science, research, and innovation	Amendment of the RDI-relevant legislation, which will enhance the RDI governance structure, and strengthen and professionalise interministerial coordination of RDI policies.	Q32022
Public administration	Anti-corruption and money laundering legislation	Enhancing the fight against money laundering and corruption and improving the legal framework for asset freezing, including setting up an office to manage such assets, and the competence of the police to verify their origin.	Q12022

	e-government	Enabling citizens and businesses to carry out administrative tasks in one location, quickly and easily.	Q42023
Taxation	–	–	–
Product market	Harmonising and digitalising insolvency procedures	Establishing unified and digitalised insolvency and restructuring procedures that improve their transparency, time and cost, and putting in place an improved and harmonised insolvency framework, including early warning tools and insolvency specialisation in business courts.	Q12023
	Public procurement procedures	Simplifying and accelerating procedures while ensuring proper safeguards and improving control by digitalising and automating the awarding and evaluation of contracts, and price collection and analysis.	Q22023
Social policies	Optimising the acute healthcare network and the new definition of emergency healthcare	Addressing the legal changes needed to increase the universal availability of ambulances within 15 minutes for the required 90% and more of the country's population.	Q12023
	Reform of primary care provision for adults, children and youth	Ensuring access to primary care services in those regions that suffer from a deficit in practising general practitioners (GPs) and paediatricians.	Q22022
	Coordinated interministerial cooperation and regulation	Coordinating mental health policy and improving cooperation across different sectors of public administration.	Q22025
	Improving the sustainability of the pension system	Improving the long-term fiscal sustainability of the pension system and increasing transparency by regularly informing people about their expected pensions.	Q12023
	Integration and financing of long-term social and healthcare	Overhauling the structures of long-term social and healthcare to ensure better coordination between types of care and to make financing more effective.	Q42025

Source: Own creation.

8.6 Overall assessment of the Slovak plan

Slovakia entered the pandemic with sustained economic growth (+2.5% of GDP y-y in 2019). However, the fast progress in catching up with EU countries in many areas that characterised the post-accession period experienced a significant slowing down. Structural weaknesses slowed down Slovakia's economic development when the Covid-19 crisis arrived.

The positive aspect of the plan is that it provides a quasi-comprehensive identification of Slovakia's structural problems, and consequently proposes a series of investments and reforms to address them. The proposed interventions are also in line with the priorities identified in the CSRs for Slovakia. The relevance of the plan is increased by its alignment with the objectives set out in the RRF regulations. For example, the plan intervenes in simplifying the system for the recognition of professional qualifications, promoting school desegregation, reorganising the judicial map, modifying governance, evaluation and support in science, research and innovation, digitalising public administration, reducing the regulatory burden for businesses, and modernising and improving access to healthcare. By contrast, the measures in the taxation area are not particularly relevant, which represents a missed opportunity to address some of the country's structural challenges.

In terms of effectiveness, the plan does not appear ambitious enough, insofar as the measures envisaged do not always seem to properly address the challenges. For instance, weaknesses seem to also be present in the social policy area, i.e. the plan is exclusively focused on healthcare, without providing relevant reforms to properly address the high risk of poverty or social exclusion, the high level of inequality and the limited access to social protection for some population groups. In the labour market area, the challenges are not adequately addressed: the interventions do not really address the problems of the high NEET rate, high female unemployment rate and low investments in active labour market policies. In the education and public administration areas, the effectiveness of reforms can be hampered by a lack of clear identification of the bodies involved and responsible and the tight timeline for implementing reforms.

Finally, with respect to the green and digital transitions, the plan is aligned with the RRF's green and digital objectives. Especially in the green area, the plan includes the most ambitious measures and investments. These include measures for the renovation of buildings, such as the harmonisation of support mechanisms for the renovation of family houses, the conversion of public transport, making it more sustainable, the decarbonisation of industry, reducing greenhouse gas emissions, and digitalisation measures, such as managing the digital transformation of economic and social governance.

9. AUSTRIA

9.1 Macroeconomic outlook and forecasts

The impact of the COVID-19 crisis led to a GDP contraction of 6.7 % (y-y change) in 2020, as shown in In the first and second quarters of 2020, GDP decreased by 3 % and 10.7 % (q-q change) respectively, followed by a robust rebound of 11.8 % in the third quarter. However, following the second wave of infections, GDP again mildly contracted by 2.7 % in the fourth quarter of 2020 and in the first quarter of 2021 (-0.5 %). The second quarter of 2021showed a slight recovery (+4 %), mainly due to the easing of travel restrictions and an increase in tourism activity. The volume of output returned to its pre-crisis level (2019-Q4) at the end of 2021.

To cushion the effects of the crisis, automatic stabilisers and fiscal measures were put in place by the government. Overall, the COVID-19 fiscal package amounted to 15.2 % of GDP. Fiscal measures were primarily targeted at supporting employment (2 % of GDP) and the healthcare sector (1 % of GDP). Thanks to the introduction of short-time work schemes, the impact on the unemployment rate was cushioned, only showing close to a 1 percentage point increase from 4.5 % in 2019 to 5.4 % in 2020. The employment rate dropped in 2020 by 1.6 % in turn and, according to the latest autumn 2021 AMECO forecast, was expected to fully recover by the end of 2021. In addition to expenditure measures, discretionary revenue measures were adopted for an amount equal to 4.7 % of GDP. In addition, the government put in place guarantees for an amount equal to 2.5 % of GDP.

Pandemic-related measures had a significant impact on the annual public deficit. From a small surplus of 0.6 % of GDP in 2019, the budget balance of Austria deteriorated drastically, turning into an 8.3 % deficit of GDP in 2020 and 5.9 % in 2021, and is projected to remain negative until 2023 (1.3 %). The debt-to-GDP ratio has increased considerably due to the shock of the pandemic. It increased from 70.6 % in 2019 to 83.2 % in 2020 at its peak. It remained relatively stable at around 83 % in 2021 and is expected to decrease to 77.6 % in 2023.

All in all, Austria is expected to face low fiscal sustainability risks in the short term, and medium risks in the medium term, according to the Debt Sustainability Monitor (2021). Minor concerns in terms of fiscal sustainability emerge due to the share of non-performing loans. However, this risk is mitigated by the high sovereign ratings' ranking and the projected low perception of sovereign risk by market agents, as well as the low borrowing costs and the favourable profile of debt maturities.

Table 31. In the first and second quarters of 2020, GDP decreased by 3 % and 10.7 % (q-q change) respectively, followed by a robust rebound of 11.8 % in the third quarter. However, following the second wave of infections, GDP again mildly contracted by 2.7 % in the fourth quarter of 2020 and in the first quarter of 2021 (-0.5 %). The second quarter of 2021showed a slight recovery (+4 %), mainly due to the easing of travel restrictions and an increase in tourism activity. The volume of output returned to its pre-crisis level (2019-Q4) at the end of 2021.

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Table 31. Macroeconomic development and forecast Austria

Macroeconomic developments and forecasts	2019	2020	2021	2022	2023	2024
GDP Growth (y-y % change)	1.5	-6.7	4.7	4.3	1.9	1.8*
Employment (% change)	1.1	-1.6	1.7	1.9	0.6	0.6*
Unemployment rate (%)	4.5	5.4	5	4.6	4.5	4.5*
HICP inflation (% change)	1.5	1.4	2.8	3.3	2.2	1.7*
Gov balance (% GDP)	0.6	-8.3	-5.9	-2.3	-1.3	-2.5*
Debt to GDP (% GDP)	70.6	83.2	82.9	79.4	77.6	87.6*

Source: Own elaboration, based on autumn 2021 and winter 2022 AMECO Forecasts (until 2023) and Austrian recovery and resilience plan (for 2024).

9.2 Austrian structural challenges before Covid-19

At the start of the COVID-19 pandemic Austria was already experiencing a deterioration of economic sentiment and its industry was weakening. A review of the main challenges facing the country reveals the need to address weaknesses in the labour market, in education, product markets regulation and the functioning of capital markets. The list below presents a summary of the challenges outlined in the Austrian NRRP and other reports which are important for the recovery and resilience process.

With respect to the labour market, regional disparities remain a big challenge. The OECD Economic survey (2019) points to the excess in labour supply in Vienna compared to the remaining regions. Carinthia and Styria are the most affected regions in terms of working-age population decline, and regional heterogeneities with respect to skills are significant (OECD Economic survey, 2019). The increasing mismatch between supply and demand of labour, especially in the construction and services sectors, along with the demographic and structural changes within the population, define the need for a higher participation of female and migrant labour force. The employment gender gap is still far for being closed: according to the International Labour Organization (ILO), the 2019 male employment rate was 81.9 %, as compared to a 72.3 % female employment rate. Another gap which has not been breached yet is the one between native-born and foreign-born workers: ILO reports a difference of 5 % in terms of labour force participation rates between the two groups in 2019. This gap is reflected even with respect to in-work poverty. Another challenge consists in increasing the labour participation of older people: compared to the 50-54 age group rate (87.9 %), the 55-59 age group is underrepresented (76.5 %).

Regarding education and skills, according to the Better Life Index (2021) social inequality indicator (obtained by comparing students' PISA average score in reading, mathematics and science between the top and bottom quartiles of the PISA index of economic, social and cultural status), there is still an important gap between rich and poor students (ranking 29th out of 40 countries). That is confirmed even by PISA 2018 results: the average gap between students with different socio-economic backgrounds in reading performance (defined by the OECD as 'the capacity to understand, use and reflect on written texts in order to achieve goals, develop knowledge and potential, and participate in society') is 93 points, which is above the OECD average (89 points). According to the Education and Training Monitor (2019) and OECD (2016), the division of teacher employment between federal (37 %) and regional (63 %) levels creates rigidities in managing recruitment and is a possible risk of resource misallocation. The number of students differs significantly between regions: while some of them, like Vienna, report an increase in the number of pupils and a shortage of teachers, others face a decline in the number of students (OECD, 2016). In terms of tertiary attainment, the Education and Training Monitor (2019) underlines the presence of disparities not only between regions (43.7 % of eastern Austria as compared to 38.1 % of both south and west Austria), but even between native-born (42.3 %) and foreign-born (36.8 %) citizens in 2018.

In terms of research and innovation, according to the European Innovation Scoreboards (2019) Austria is included in the group of seven EU Members considered as 'strong innovators'. Nevertheless, regional- and gender-based disparities can be improved. With respect to regional disparities, according to Eurostat, gross expenditure for R&D ranges from 1.7 % of GDP in Salzburg to 5.15 % of GDP in Styria in 2019. In the same year, OECD reports underrepresentation of female researchers, with the share of female researchers standing at 30.4 %, which is slightly below the EU average of 32.9 %.

On the administrative side, the European Commission's public administration and governance assessment claims that Austria has still to improve in terms of reducing its administrative burden, in particular in relation to services to business, and progress towards deregulation and simplification (European Commission, 2020) of red tape.

The taxation system reports several shortcomings. According to the Sustainable Governance Indicators (SGI) Taxes Report (2020), Austrian tax policy is unbalanced in terms of equity due to the lack of property and inheritance taxation, and it is biased since tax revenues are mainly collected through a relatively heavy income tax compared to the OECD average. Moreover, its tax system has a relatively marginal redistribution effect, while the national social system is heavily dependent on welfare transfers (SGI, 2020). Regarding energy taxes, the OECD Economic survey (2019) reports that industrial sector emission prices are unevenly distributed, and coal use is taxed at low rates (OECD, 2018). In addition, Austria presents larger differences with respect to comparable countries (Denmark, Germany and Netherlands) relative to the overlap between the EU emission trading scheme (ETS) and national energy taxes.

Based on the 2018 Product Market Regulatory Index (2018), the regulatory framework is overly complex, in particular in relation to its entry requirements and procedures. Furthermore, there is a lack of rules regulating the interaction between public officials and groups of interest. All these factors explain the extremely low rank (127th out of 133 countries) in the 'Starting a Business' category of the Doing Business Report (2020). Another significant weakness is the difficulty for companies of funding themselves through the equity market: as measured by the 'Getting Credit' category of the Doing Business Report (2020), Austria ranks 94th, with a score of 55 out of 100. This is mainly explained by the poor level of protection for borrowers and lenders ensured by the leas on collateral and bankruptcy, as well as by the low number of individuals and companies listed in a credit registry's database.

With respect to social policies, the ageing of the population represents a growing burden in terms of fiscal budget sustainability. According to the European Commission, the measures adopted in the Pension Adjustment Act (adopted in September 2019) undermine the efforts previously made (European Commission, 2020). In particular, the undiscounted pension after 45 contribution years weakens previous attempts to increase the effective pensionable age and raises intergenerational fairness issues (European Commission, 2020). Similarly, the increase of public expenditure devoted to long-term care due to the withdrawal of the recourse to assets (*Pflegeregress*) remains fiscally unsustainable. According to indicators of the Austrian National Bank, house prices are overvalued by more than 10 %, and a similar trend can be seen even in the rent market, suggesting affordability of housing is negatively affected. The rate of children (aged 0-17) at risk of poverty or social exclusion is still high (20.1 % in 2019 according to Eurostat) when compared to the other age groups. The same reasoning can be inferred when looking at the rate of single-parent households (45.1 %).

Table 32. Country specific challenges before COVID-19

Policy area	Challenges
Labour market	Pronounced regional differences
	Emerging labour shortages because of the growing number of vacancies
	Low employment rate for female and people with migrant background
	High in work poverty and over-qualification of foreign-born workers
	Low labour participation rates of older workers
Education and skills	Educational attainment of 15-year-olds influence by socio-economic background
	Teacher shortages
	Regional disparities on the participation in tertiary education
Justice	-
Research and innovation	Regional disparities on cooperation and public-private dialogue on innovation
Public administration	High administrative burden for the service sector
Taxation	Significant disincentives for labour demand and supply due to high labour tax burden
	High disincentives to work longer hours to low-income earners
	Insufficient use of taxes on tobacco, alcohol and of environmental taxes
	Need to increase the level and efficiency of energy taxes
Product market/Business environment	Restricted companies' access to non-bank financing
	Low availability of equity capital, including venture capital
	Low entry rates for new firms, large productivity gap between small and large firms, and lack of digital skills
Social policies	Sustainability risks in the pension and healthcare system
	Staffing challenges in the long-term care system
	Overvalued house prices
	High risk of poverty or social exclusion for certain vulnerable groups
	Variations of the social situation across regions

Source: Own elaboration, based on the Country Report for Austria (2020).

In addition to structural challenges, Austria faces potential consequences related to the fulfilment of green and digital transition targets (namely, the EU's intermediate objective of reducing net greenhouse gas emissions by at least 55 % by 2030, compared to 1990 levels, the 2050 climate neutrality objective, and the four cardinal points of the Digital Compass for the EU's digital decade by 2030). Per capita greenhouse gas emissions are above the 2019 EU average and not on track to achieve the 2030 total GHG emissions target, especially due to the rising emissions share of the transport (from 18 % in 1990 to 30 % in 2019) and the building sectors (European Commission, 2021). Austria's objective to become climate-neutral by 2040 is unlikely to be attained, unless significant private and public investment over a sustained period is carried out (European Commission, 2021). As for the digital transition, the lack of basic digital skills of the population (34 % of the Austrian population between 16 and 74 years do not have basic digital skills in 2021, according to Eurostat), the integration of digital technologies in the business sector (the country performs below the EU average, as stressed by the European Commission, 2021) and the low coverage of fixed very high-capacity networks (39 % of households were covered in 2020, as compared to the EU average of 59 %) are the main challenges to be faced.

9.3 The Austrian NRRP: key numbers and timeline

The Austrian plan was presented at the beginning of May 2021 and was given a positive assessment by the European Commission on 6 June 2021. The Council subsequently approved, on 13 July 2021, the implementing decision based on the assessment of the European Commission, thus paving the way to start the disbursement of the financial support. The plan includes 32 investments for a total amount of EUR 4.5 billion, consisting entirely of grants, although the plan indicates that it may apply for loans by 2023. In addition, the NRRP includes 27 reforms aimed to address the structural problems of the Austrian economy. Austria frontloads reforms, which are indeed largely concentrated during the year 2022, while the completion of the investment projects will come later, especially in 2025 and 2026 (see Table 33).

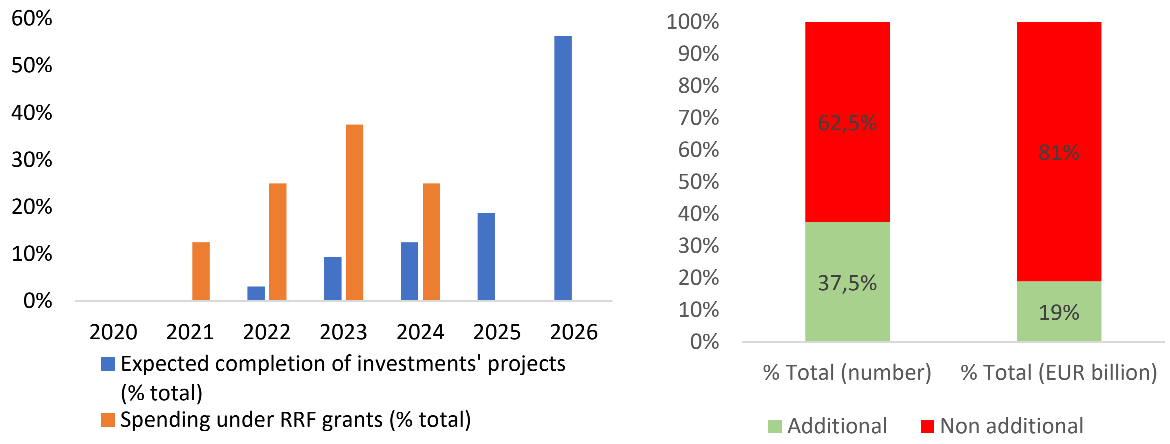
Table 33. Timeline for completion of reforms and investments under Austrian NRRP, by year (% total)

	2021	2022	2023	2024	2025	2026	TOT
RRF Investments [number]	0	1	3	4	6	18	32
RRF Investments (% total)	0%	3%	9%	13%	19%	56%	100%
RRF Reforms [number]	2	13	3	1	6	2	27
RRF Reforms (% total)	7%	48%	11%	4%	22%	7%	100%

Source: Own elaboration, based on Austrian NRRP.

Like other countries, Austria planned expenditure under RRF in Austria is expected to start well before 2025 and 2026. As showed in Table 33, 75% of the planned recovery spending under the RRF will take place by 2023. The difference in timing between planned expenditure and completion of investments may reflect the necessary period that new investments' projects require to be implemented. At the same time, Austria invests the RRF grants in projects that were in large part either already planned or are simply an extension and continuation of existing ones. As showed below in Figure *17*, the additionality of the Austrian public investments under RRF is low, which is also reflected in a lower macro-impact of the RRF grants transfer on the expected increase in gross fixed capital formation, compared to pre-Covid forecasts (+12% in 2022, equal to 0.4% GDP).

Figure 17. Planned Austrian expenditure financed under RRF grants and expected completion of investments' projects (left panel) and additionality of public investments (right panel)



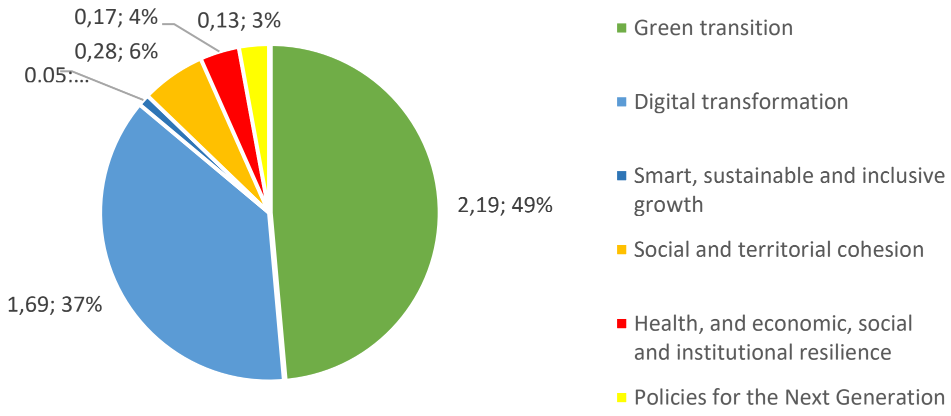
Source: Own elaboration, based on Commission National Reform Programmes and Stability/Convergence Programmes statistical annex (2021, p. 164) and Austrian NRRP (2021).

With respect to the governance of the plan (European Parliament, 2021), the Ministry of Finance coordinates the implementation, monitoring and control processes; tasks are delegated to individual ministries, and guarantees that all the requirements are accomplished. Ministries' operations are scrutinised by their internal audit units and by the national Court of Auditors. The plan defines mechanisms to ensure the traceability of their actions. National monitoring and control mechanisms, as well as the related reporting requirements, are applied when possible. Moreover, the disbursement of funds is enforced following the legal basis of general funding guidelines (*Förderrichtlinien*). Lastly, the plan provides information of the funding documentation scheme to be followed in a transparency dataset, whose aim is to prevent conflict of interest, fraud, corruption, and double funding.

9.4 Investments in the Austrian NRRP

In line with the RRF regulation, Austria focuses 86% of its investments on the *green transition* (49%) and *digital transformation* (37%) pillars of the RRF. The remaining 14% are allocated respectively to *social and territorial cohesion* (6%), *health and economic, social, and institutional resilience* (4%), *policies for the next generation* (3%) and *smart, sustainable, and inclusive growth* (1%) pillars. With respect to the distribution of the funding across economic activities, the Austrian plan distributes the largest share of the resources to information and communication (25%), electricity, gas, steam and air conditioning supply (21%), transportation and storage (19%) and education (13%).

Figure 18. Austrian investments by 6 RRF pillars (EUR billion; % total)



Source: Own elaboration, based on Austrian NRRP.

Under the ***green transition*** pillar, the programme includes various interventions aimed at triggering a sustainable recovery. In this regard, the most relevant projects are investments devoted to build new railways and to electrify regional ones (EUR 0.54 billion), increase the energy efficiency of enterprises (EUR 0.5 billion), introduce buses equipped with zero carbon-emitting technologies (EUR 0.26 billion), create incentives for individuals to replace oil and gas heating system (EUR 0.16 billion) and introduce a bonus system to encourage the repair of electrical and electronic equipment (EUR 0.13 billion).

Under the ***digital transformation*** pillar, two main projects are financed: EUR 0.89 billion of investments for a widespread availability of Gigabit-capable access networks and the introduction of new symmetric Gigabit connections and EUR 0.16 billion for the public administration digitalisation fund.

Under the ***smart, sustainable, and inclusive growth*** pillar, Austria includes various projects aimed at strengthening the national knowledge economy. Of particular relevance is the project funding the re-skilling and up-skilling measures for workers (EUR 0.28 billion), as well as the financing of projects in the areas of microelectronics and connectivity (EUR 0.13 billion).

Under the ***policies for the next generation*** pillar, the plan includes investments to strengthen education services. Among them, the most relevant is relative to the provision of digital devices to students (EUR 0.17 billion).

Under the ***social and territorial cohesion*** pillar, investments are focused mainly on climate-friendly projects, in both the areas of town centre renovations (EUR 0.05 billion) and cultural businesses (EUR 0.02 billion).

Under the ***health and economic, social, and institutional resilience*** pillar, the main investment is related to the funding of primary healthcare projects (EUR 0.1 billion).

A more detailed analysis of the breakdown of investment projects is provided in Table 34 below.

Table 34. Austrian strategic projects financed by the RRF and timeline

Projects	EUR bn	Description	Timeline
Widespread availability of Gigabit-capable access networks and creation of new symmetric Gigabit connections	0.89	Two funding directives, Access and OpenNet, of the Austria Broadband Programme 2030. Both funding directives have the objective to improve broadband availability in those areas of Austria, which, due to what is considered a market failure, are not, or are insufficiently developed by the private sector.	Q32026
Construction of new railways and electrification of regional railway	0.54	Constructing a new railway line (Koralmbahn) between Styria and Carinthia. This new railway line will create a link and additional capacity in rail transport. It also comprises the electrification of existing regional railway lines in the area of Carinthia, which are along the new railway line.	Q42025
Green investments in enterprises	0.50	A 14 % investment premium granted to companies for investments in the priority areas of green transition, such as thermal renovations of buildings, heating optimisation and other energy saving measures, production of renewable energy, photovoltaic and electricity storage systems, zero-emission vehicles, charging stations.	Q12025
Promoting re-skilling and up-skilling	0.28	Funding of re-skilling and up-skilling measures related to basic qualifications, electronics and digital technologies, nursing, social and caregiver professions, environment / sustainability, project oriented transitional workplaces as well as youth coaching. The funding will also concentrate on offering flexible training methods and focuses on supporting women.	Q42024
Zero-emission buses	0.26	Providing funding to switch to buses which will be equipped with zero carbon-emitting technologies. This will be accompanied by the development of the necessary infrastructure for operating the buses in public transportation, including recharging and refuelling points.	Q22026
Provision of digital end user devices to pupils	0.17	The measure consists of a step-by-step rollout of the digital equipment. A programme to provide digital devices to all schoolchildren has started in this 2021/22 school year. This is expected to benefit at least 80 000 pupils per year.	Q42024
Digitalisation of the public administration	0.16	Funding for projects submitted by federal departments and selected by a dedicated task force to improve public IT services. Half of the funds will be allocated to the development of citizen and business services and to accelerate and improve the efficiency of procedures. Examples of possible projects include the electronic identity (e-ID), introduction of a Single Digital Gateway, development of a Business Service Portal and the implementation of the Once Only principle.	Q42023
Replacing oil and gas heating systems	0.16	Support scheme for private individuals to replace fossil fuel heating systems with biomass-based heaters, heat pumps or connectors to a district heating.	Q22026

Promotion of the right to repair electrical and electronic equipment (repair bonus)	0.13	Creating a support programme to incentivise the repair of electrical and electronic equipment. The repair bonus system will provide funding for households in the form of vouchers, which will cover a part of the costs for repairing or renewing electoral and electronic equipment.	Q12026
Microelectronics and Connectivity	0.13	Funding of the projects selected, following a call for expression of interest, in the areas of microelectronics and connectivity. This is part of the IPCEI (Important Projects of Common European Interest).	Q32026

Source: Own elaboration.

9.5 Austrian key structural reforms

Reforms included in the national plan aim to address some of the key challenges affecting the economy and society. They are focused mainly in the areas of education and skills, public administration, taxation, product market and social policies.

In the labour market framework, the plan addresses the problems of inequality and lack of inclusivity by establishing one-stop shops. The ultimate aim is to reduce the share of inactive labour force, in particular of those who are unemployed for long time because of external barriers. With respect to the latter, an education bonus has been set up in order to reduce their risk of unemployment via organised training or qualification sessions.

Relative to the area of education and skills, the objective of the plan is twofold: to improve the digital competences of students on an equal and fair basis and to bridge the skills gap between advantaged and disadvantaged social groups. By ensuring equal opportunities in education, the government expects to increase the rate of pupils completing lower secondary education. Moreover, the plan underlines the need to draw up a national financial education strategy.

In the area of research and innovation, the plan includes a project aimed at strengthening Austria's positioning and become an international innovation leader in the coming 10 years.

With respect to public administration, reforms are intended to digitalise procedures and improve their efficiency, in particular by reducing red tape multiple reporting and introducing actions to implement the 'Once Only' principle. Furthermore, in order to achieve better coordination between stakeholders, the plan seeks to establish a platform which would further simplify procedures.

In the area of public finance, the focus is on climate-related, digital and social spending, supporting investments for climate-friendly technologies and expansion of the circular economy. It also includes spending reviews centred on expenditures in the green and digital transition. In addition, the plan includes an agenda for sustainable finance, whose main objective is to redirect capital towards green investments, manage climate-related risks and define a uniform methodology.

Regarding the product market and business environment, the plan contains several projects, aimed at reducing high entry barriers and burdensome regulatory requirements, as well as improving the access to capital financing. The main interventions comprise the introduction of a new start-up legal framework, the conversion of COVID-19 government loans into equity-instruments as a new form of firms' financing, the creation of investment company holdings and the liberalisation of business regulations. Furthermore, amongst the list of significant projects in the product markets are the establishment of a legal framework for the reuse of plastic products and for a reform of the renewable resources support scheme.

In relation to the area of social policy, the NRRP addresses problems related to social inclusion, health and the pension system. Projects range from the creation of a national plan for primary healthcare, to the improvement of the long-term care system. With respect to pension reform, the plan aims to raise the retirement age by lowering incentives for early retirement, and to implement pension splitting in a two-step process (first automatically for some specific categories, then voluntarily). The objective is to reduce unsustainable spending.

Table 35: Key structural reforms

Area	Measure	Description	Timeline
Labour market	Labour market: one-stop shop	Establishment of one-stop shops for the long-term unemployed facing multiple barriers to placement and inclusion in the labour market.	Q12022
Education and skills	Fair and equal access of pupils to basic digital competence	Supporting actions facilitating digitalisation in schools in a comprehensive manner. Different activities to ensure that teachers are provided with sufficient in-service training course opportunities to improve their digital skills and broaden their knowledge concerning digital means.	Q22025
	National Financial Education Strategy	Establish a national financial education strategy.	Q42022
Justice	-	-	
Research and innovation	Research, Innovation and Technology Strategy 2030 (RTI Strategy 2030)	Design an overarching framework for the research, innovation and technology policy in Austria in the next 10 years.	Q42025
Public administration	Set-up of Platform Internet-infrastructure Austria (PIA) 2030	Creation of the Platform Internet-infrastructure Austria.	Q42023
	Proposed legislation for Once Only: Amendment of the Business Service Portal Act	Amendment of the Business Service Portal Act (Unternehmensserviceportalgesetz) and further relevant legislative measures.	Q42023
Public finance and taxation	Spending review focusing on green and digital transformation	The implementation would follow two steps and aims to improve the orientation of the federal budget. Initially, it is planned to carry out spending reviews for public spending related to the green transition. In a second stage, after the measures of the public administration digitalisation fund have been rolled out, a new spending review for the digital transition would be set up.	Q42025

	Eco-social tax reform	Contribute to the achievement of European and national climate targets. In the first stage, additional incentives for climate-friendly consumer behaviour are necessary. The second stage is an important complement to investment incentives for climate-friendly technologies and support to expand the circular economy by providing preferential tax treatment of low- or zero-emission technologies and products. The measure will introduce a pricing for CO_2 emissions.	Q12022
Product market	Start-up package	New legal form (working title 'Austria Limited').	Q12022
	Strengthening equity capital	Evaluate the equity position of Austrian companies. This consists of converting government-guaranteed loans into equity or equity-like instruments. In addition, a company form for investments in company holdings in the form of a SICAV, a collective investment scheme, will be anchored in Austrian company law. It is intended to make fund shares securitisable and tradable.	Q12022
	Liberalisation of business regulations	Three measures: a) The removal of barriers to business transfers (Grace Period Act) containing several activities that will facilitate the transfer of businesses to new owners (such as to the next generation in a family business). b) The amendment to the Occasional Traffic Act aligning the conditions for taxis and other transport rental businesses, thus enabling the operation of innovative ride-hailing services. c) The facilitation of the authorisation process for recharging points dedicated to electric motor vehicles and photovoltaic systems as part of commercial installations.	Q12022
Social policies	Enhancing primary healthcare	Austrian plan for primary healthcare.	Q22026
	Reform to further develop care provision	Based on the Task Force Care report which proposes objectives for the improvement of the existing care system, dialogues between the federal government, states, cities and municipalities will be undertaken. These dialogues should lead to common approaches and reform projects as part of the preparation for a wider reform of long-term care provision. The key principles will be reflected in the Intergovernmental Fiscal Relations Act starting from 2024.	Q12024
	Increase in effective retirement age	Social Insurance Amendment Act 2020, introducing the 'new early starter bonus'.	Q12022
	Pension splitting	Two parts: 1) the introduction of automatic pension splitting for couples with children; 2) voluntary pension splitting will also be possible for every form of partnership and regardless of parenthood.	Q42022

Source: Own elaboration.

9.6 Overall assessment of the Austrian plan

When the COVID-19 crisis began in Austria, its economy was performing strongly, and its resilient welfare state schemes helped cushion the effects of the economic shock relatively well. However, a series of challenges have emerged and were widened by the pandemic, such as labour market regional differences, gender and socio-economic inequalities, skills mismatch, high administrative burden, taxation system weaknesses, regulatory framework complexity, low availability of equity and venture capital, and fiscally unsustainable social benefits (see Table 32).

The Austrian plan addresses some of the structural challenges outlined. An important component of the plan is the establishment of one-stop shops and of targeted trainings for the most disadvantaged citizens to help them face labour access inequality and reduce the share of inactive labour force. Concerns regarding skills and education are mitigated by improving digital services in schools and raising financial awareness among pupils through a national financial education strategy. Public administration burden is planned to be sensibly reduced thanks to the creation of a centralised Platform Internet-infrastructure Austria (PIA).

The taxation framework will be revised, by including direct public support to green spending in the form of incentives for climate-friendly consumer behaviour and technologies, as well as a pricing system for CO_2 emissions. This is complemented by spending reviews aimed at fostering the green and digital transitions. Another relevant contribution of the plan, in line with the achievement of the climate targets, is the introduction of a first circular economy legal framework and a support scheme for renewables. The necessity for a stronger equity market is addressed by the simplification and liberalisation of business regulations, the conversion of certain public securities into equities and the definition of a clear start-up legal framework. Finally, social issues are faced by focusing especially on pension reform and on strengthening healthcare and long-term care systems.

However, some challenges remain unaddressed. Indeed, the Austrian plan does not include a strategy for the reduction of interregional disparities within the country, in particular with respect to the key area of research and innovation. Moreover, it lacks a proper scheme for affordable housing and the tax framework reform does not attempt to either improve the slight redistribution effects by reducing income tax, or to increase equity by introducing property and inheritance taxes.

Overall, the Austrian plan can be considered as effective and coherent, with a clear identification of the milestones and target implementation timelines and the actors involved in the governance, as well as a defined relationship between reforms and investments.

10. BELGIUM

10.1 Macroeconomic outlook and forecasts

The pandemic crisis impacted Belgium hard, but less severely compared to other EU member states (see the Table below). GDP contracted 5.7 % in 2020 (y-y) and is expected to have grown in 2021 by 6% (y-y). GDP fell significantly during the first and second quarter 2020 (respectively – 3.3% and – 11.9% q-q change) and experienced a significant rebound in the third quarter of 2020 (+11.8%). According to the latest Commission 2021 autumn forecasts, real GDP grew by 1.2% in the first quarter 2021, 1.7% in the second quarter, and by 1.8% in the third quarter, when it reached its pre-crisis level.

To cushion the effects of the pandemic, automatic stabilizers and fiscal measures were put in place by the Belgian government. Overall, the Covid-19 fiscal package amounted to 15.1% of GDP, of which 12% of guarantees to support the liquidity position of enterprises and 2.3% of discretionary measures to support households' income and employment through short-time work (STW) schemes. STW schemes contributed to keep corporate bankruptcies at low levels and have supported employment in 2020 and 2021. The unemployment rate indeed increased by only 0.2 percentage points in 2020 (5.6%) compared to 2019 and is forecasted to have increased to 6.2% in 2021, before being expected to decrease to 5.8% in 2023. The employment rate decreased by 1.6 percentage points in 2020 and is expected to return to pre-crisis levels by 2023.

In line with other member states, the fiscal effort of the Belgian government together with the reduction in revenues, had a direct impact on the government balance, with a deficit of 9.1% of GDP in 2020 and 7.8% of GDP in 2021 (estimated), expected to remain negative throughout the RRF period, with a deficit of 5.2% of GDP expected in 2026. Such trends are reflected also in the debt-to-GDP ratio that has already increased in 2020 by 15 percentage points and is expected to progressively increase in the years to come (see Table 36 below). Such negative trends are reflected in high fiscal sustainability risks in the short, medium and long term due to the influence of the debt requirement in the medium term and the ageing costs in the long term in its budgetary position, as stressed in the Commission debt sustainability analysis (European Commission, 2020).

Table 36. Macroeconomic developments and forecasts Belgium.

Macroeconomic developments and forecasts	2019	2020	2021	2022	2023	2024	2025	2026
GDP Growth (y-y % change)	2,1	-5,7	6,1	2,7	2,2	1,5*	1,3*	1,1*
Employment (% change)	1,6	0	0,9	0,4	1,2	0,9*	0,7*	0,6*
Unemployment rate (%)	5,4	5,6	6,2	6,3	5,8	5,7*	5,5*	5,3*
HICP inflation (% change)	1,2	0,4	3,2	4,3	1,3	n/a	n/a	n/a
Gov balance (% GDP)	-1,9	-9,1	-7,8	-5,1	-4,9	-5,1*	-5*	-5,2*
Debt to GDP (% GDP)	97,7	112,8	112,7	113,1	114,6	118,8*	120,6*	122,6*

Source: Own elaboration, based on autumn 2021 and winter 2022 AMECO Forecasts (until 2023) and Belgian recovery and resilience plan (for 2024-2026).

10.2 Belgian structural challenges before Covid-19

The Belgian economic situation before the COVID-19 crisis was overall positive, with GDP growth in 2019 around 1.4%, close to the EU average (1.5%) and above the Euro area (1.2%). Yet, structural challenges negatively affected the labour and product markets, as well the taxation system and social policies (see Table 37).

Regarding the labour market, Belgium showed a participation slightly lower than the EU average (74.5% vs 78.7%), yet with significant regional disparities, with the Flanders performing much better than Wallonia and Brussels-capital. Particularly affected by low participation to the labour market were the disadvantaged groups, such as Third Country nationals and people with disability. High labour income taxation characterised the labour market, negatively affecting incentives to work and to participate in adult learning (OECD, 2020). Similarly, financial disincentives to labour market participation also remained for beneficiaries of social benefits with a low earning potential. Finally, concerns emerged on the effectiveness of activation policies, whereby despite the high participation in active labour market policies, the country also recorded a low transition rate from unemployment to employment.

As for education and skills, Belgium shows a significant gap in educational outcome linked to socio-economic and migration background, as showed in the PISA 2018 results. Further concerns emerge with respect to the participation in adult learning, which remains low. Only 8.5% of the population (aged 25-64) participated in adult learning (compared to 11.1% in the EU) (European Commission, 2020).

With respect to the business environment, Belgium was underperforming in terms of registering a property and getting electricity, which directly affects SMEs (Doing Business, 2020). Furthermore, despite government efforts, the administrative burden on firms remained heavy, notably in tax and labour law. Heavy administrative burdens, especially regulatory ones on setting new start-ups, which is heavier than the EU average, affected Belgian entrepreneurship (OECD, 2020). There were also additional problems with the Belgian judicial system, notably in terms of digitisation of the system (EU justice Scoreboard, 2019). In the area of research and innovation, Belgium performed well (European Innovation Scoreboard, 2019). According to the OECD product market regulatory (PMR) index, several regulatory barriers are affecting the services and network sectors in particular.

With respect to social outcomes, the risk of poverty or social exclusion for children was 0.8 percentage points higher than the EU average in 2019 (23% vs 22.2% EU average). People with disabilities faced challenges with respect to poverty, educational attainment, and employment outcomes. Further problems regard the unequal access to healthcare, which negatively affected people with a low income particularly. In 2018, 6.8% of the population aged more than 16 years in the lowest income quintile (vs. 2.2% in the total population and 0.5% in the highest income quintile) reported to have experienced a self-reported unmet need for medical care, mainly because of financial constraints. Finally, social housing remains a concern, in particular for those in the private rental market, with the housing cost overburden rate higher for those renting in the private market (33.8% compared to the EU average of 27.4%.) (European Commission, 2020).

Table 37. Country specific challenges before COVID-19, Belgium

Policy area	Challenges
Labour market	Geographical asymmetries in labour marker participation
	Low employment rate of people from disadvantaged groups
Education and skills	Low adult learning participation
	High gap in educational outcomes linked to socio-economic and migration background
	Shortage of well-qualified teachers and need for professionalisation
Justice	Need for improvement in the digitalisation of the justice system
	Significant delays due to shortage of resources for administrative justice cause
Public administration	Low digitalisation of the public administration
R&D	-
Taxation	High labour taxation
Product market	-
Social policies	High AROPE rate for children
	High self-reported unmet need for medical and dental care for people with a low income
	Concern about social housing on the private rental market.

Source: Own elaboration, based on the Country Report for Belgium (2020).

In addition to the above-mentioned structural challenges, the country faced a number of challenges to achieve its objectives for the green transition, the main challenges being the share of energy from renewable resources as well as energy renovation of buildings. With respect to the digital transition, some problems which were represented by low level of digital skills among young people, the provision of e-government services to citizens and the use of open data, remained.

10.3 The Belgian NRRP: key numbers and timeline

The NRRP submitted in early May 2021 was positively assessed by the Commission on 23 June 2021 and approved by the Council on 13 July 2021. The plan includes 88 investment projects for a total amount of EUR 5.9 billion, consisting only of grants, even though the plan indicates that Belgium is planning to ask for loans by 2023. In addition, the plan includes 34 reforms aimed at addressing structural problems in the economy. As in the case for Italy, Portugal and Spain, Belgium frontloads reforms, which are concentrated in the years 2021, 2022 and 2023, while the completion of investment projects will take place between 2025 and 2026 (see Table *38*).

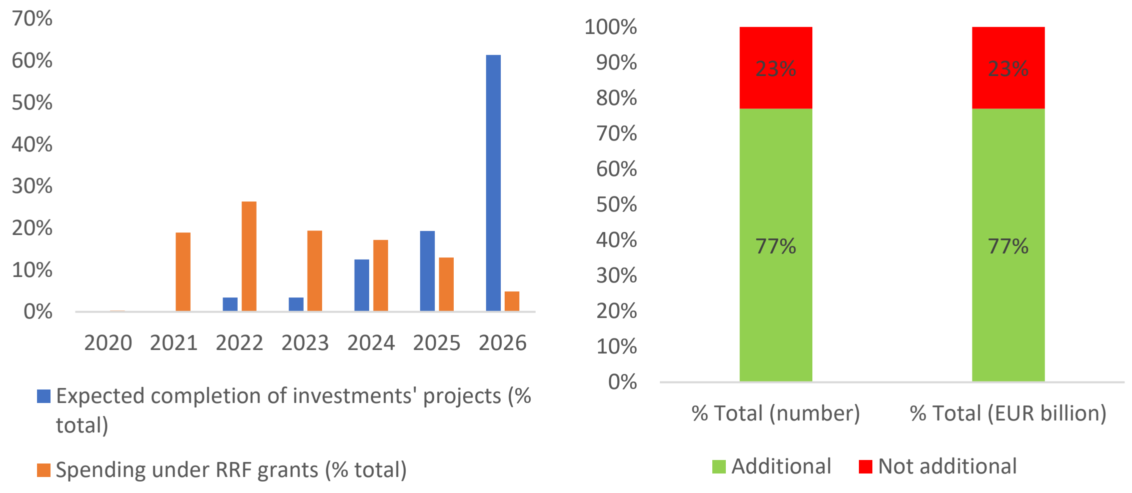
Table 38. Timeline for completion of reforms and investments under the Belgian NRRP, by year (% total)

	2020	2021	2022	2023	2024	2025	2026	TOT
RRF Investments [number]	0	0	3	3	11	17	54	88
RRF Reforms [number]	0	5	13	8	8	0	0	34
RRF Reforms	0%	15%	38%	24%	24%	0%	0%	100,00%
RRF Investments	0%	0%	3%	3%	13%	19%	61%	100,00%

Source: Own elaboration, based on Belgian NRRP.

Although large share of the investments is expected to be completed at the end of the RRF period, the expenditure under RRF is expected to start well before 2026. The difference in timing between planned expenditure and completion of investments may reflect the necessary period that new investment' projects require to be implemented. In terms of the additionality of investments, Belgium will invest a large share of the RRF grants (77%) in new projects, i.e., in projects that were neither previously planned nor are an extension or continuation of pre-existing programmes (similar to Italy).

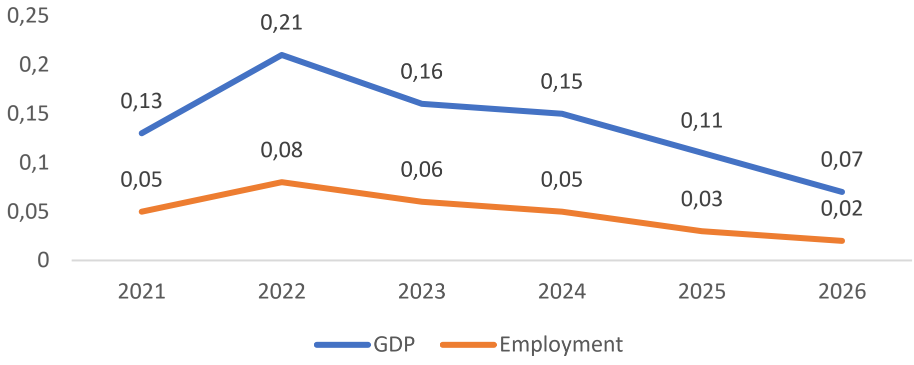
Figure 19. Planned Belgian expenditure financed under RRF grants and expected completion of investment' projects (left panel) and additionality of public investments (right panel)



Source: Own elaboration, based on Belgian NRRP (2021).

According to the stylised impact simulations run by the Belgian government with the QUEST macroeconomic model, the NRRP is expected to have a minor positive impact on both employment and GDP in the short term, and no impact is expected in the medium term (Figure 20).

Figure 20. NPRR impact on GDP and employment- deviations from baseline scenario

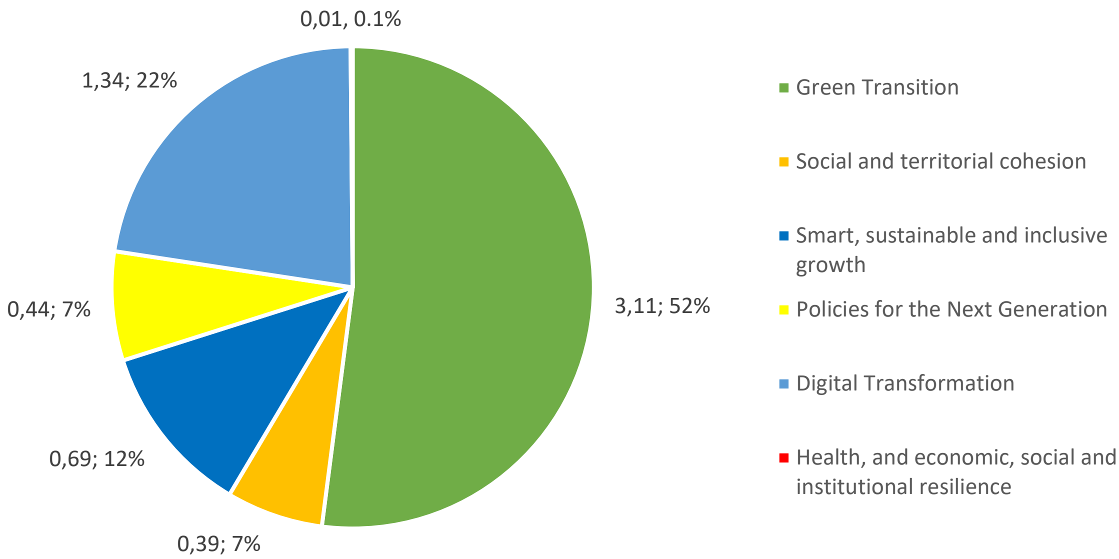


Source: own elaboration, based on Belgian NRRP.

10.4 Investments in the Belgian NRRP

In line with the RRF regulation, investments can be classified on the basis of the objectives included in the six pillars of the RRF. Based on the recorded investments, *green transition* (52%) and *digital transformation* (22%) projects account for a total of 74% of the investments. The remaining 26% will go to *smart, sustainable, and inclusive growth* (12%), *social and territorial cohesion* (6%), *health and economic, social, and institutional resilience* (0.1%) and *policies for the next generation* (7%).

Figure 21. Belgian investments by 6 RRF pillars (EUR billion)



Source: Own elaboration, based on Belgian NRRP.

The most important investment projects under *green transition* are the construction of new cycle paths (EUR 0.35 billion), the strengthening of rail transport (EUR 0.28 billion) and public building renovation towards better energy efficiency (EUR 0.75 billion).

The investments under *digital transformation* are also significant for the federal and regional public administrations (EUR 0.58 billion).

Under *smart, sustainable, and inclusive growth*, the most important projects will focus on innovation and development, by increasing the number of projects to be funded and linking them to the ecological transition (EUR 0.28 billion) and by a renovation of the infrastructures (EUR 0.09 billion). In addition, under the *social and territorial cohesion* pillar, social policies will also benefit as the plan includes an increase in the supply of housing for vulnerable groups (EUR 0.17 billion).

Finally, under *Policies for the Next Generation,* an expansion of digital resources in schools, both for students and teachers (EUR 0.44 billion) will be the main investment project.

With respect to the distribution of funding across economic sectors, the largest share of the resources is allocated to construction (43%), professional, scientific, and technical activities (17%), public administration (16%) and education (9%).

Table 39 below summarises the 10 largest investment' projects included in the Belgian plan.

Table 39. Belgium 10 strategic projects financed by RRF and timeline

Projects	EUR bn	Description	Timeline
Renovation of public buildings	0.65	Renovation of public and historical buildings, support the renovation of them and improve their energy performance through concrete proposals adapted to each of the regions.	Q22026
Cycling infrastructure	0.41	Building new cycle paths, refurbishing and upgrading existing ones and building new bicycle parking spaces.	Q22026
Digitalisation of the healthcare system	0.7	Digitalisation of the Social Security services, extension of the e-prescription capabilities, improvement of the quality of prescriptions and cost reductions through clinical decision support systems and digital transformation of the Office de la Naissance et de l'Enfance (ONE).	Q22026
Digitalisation of education	0.36	Provide all schools with a digital device for each student, provide teachers with effective learning tools and training to improve their digital skills and support schools in digitalising their curricula by setting up a central knowledge and advisory centre, strengthening connectivity, and standardising and consolidating the IT environment of education in a sustainable manner by providing the necessary infrastructure and IT support, school and teacher management and by promoting IT skills/training for pupils and teachers.	Q22026
Strengthen R&D	0.34	Three different axes are foreseen. A first axis will target R&I projects in areas where Flanders already performs well, with a focus on sustainable, digital- and health-related activities. Under the same axis R&D on bio-economy will be financed, and a part of the budget will be dedicated to support SMEs and young enterprises. Projects related to the green transition will also be part of this axis. A second axis will target investment in state-of-the-art research and technological infrastructure. For example, it is foreseen to finance an	Q22026

		incubator for the startups in the bio-economy sector, or some pilot facilities related to the digitalisation of the manufacturing industry. The third axis will focus on current instruments targeting R&D support to companies. Under this axis R&D projects can for example relate to the pharmaceutical sector, and to 3D printing technology. The support for the participation to the planned IPCEI on micro-electronic is also foreseen. Under the measure at least 220 projects will be awarded covering all areas of intervention of the measure. In addition, investments in aeronautics, space and nuclear power projects are foreseen.	
Improved energy subsidy schemes	0,31	Several sub-measures are envisaged: (i) reform of the subsidies for energy efficiency and renewable energy and subsidies by target groups for improving housing quality which will be integrated into a single scheme. The new one-stop-shop, user-friendly and transparent system will be available from 2022 and is expected to support the energy efficient renovation of 202 000 dwellings; (ii) revision of the energy label scheme which is expected to support the energy efficiency renovation of 8 400 dwellings; (iii) introduction of a demolition reconstruction grant complementing the federal reduced VAT scheme which is expected to support the reconstruction of 1 760 dwellings; (iv) revision of the renovation support scheme for smart control of heat pumps, electrical boilers, electric storage heating and home battery intended which is expected to support 8 400 households; (v) reform and merge the energy bonuses and housing renovation premiums into a single regional mechanism for individuals, and (vi) create incentives for the implementation of energy saving measures and the reduction of carbon dioxide emissions for existing residential buildings.	Q12022
Industrial value chain for energy transition	0 29	Various demonstration projects related to the production and use of hydrogen under the competence of the federal government, supporting the transition to a sustainable hydrogen industry in Flanders through investment and project financing and sub-projects (mostly in the field of research and development and first industrial development) covering the whole green hydrogen production value chain, as well as developing various applications of hydrogen as an energy carrier and the adaptation of devices (such as engines), that enable the use and valorisation of hydrogen.	Q22026
'Blue Deal'	0.29	Nine different sub-actions are supported, addressing diverse actors, including industry, farmers, and municipalities. The actions cover: (A) landscape projects for drought mitigation, (B) a research programme in agriculture, (C) two projects on waterway pumps and locks, (D) a water management support scheme for companies that invest in innovative water-saving technologies, (E) urban green-blue projects with 15 municipalities, (F) innovative projects on circular water use and digital monitoring and smart water data systems, (G) implementation of nature-based solutions in four defined areas, (H) 30 projects for green-blue waterways and (I) wetland restoration projects.	Q22026
Rail- efficient network	0.28	Upgrading 36 rail sections in the overall network, modernising 24 dedicated rail freight infrastructures,	Q42024

		removing six infrastructure bottlenecks that hinder the performance of the Brussels–Luxembourg line (Euro cap rail), removing four rail bottlenecks in Brussels and development of an IT module for traffic management.	
Construction of social housing and infrastructure	0.23	Construction and energy efficiency renovation of low-rent housing, of inclusive and solidarity-based housing, of homeless accommodation places and of childcare places.	Q32026

Source: Own elaboration.

10.5 Belgium key structural reforms

The NRRP includes a total of 34 reforms. Table 40 below summarises the main interventions included in the plan. Although the plan formally addresses a large share of the country specific recommendations, details are not always provided.

In the area of public finance, and in particular budget stability, the plan contains a commitment to introduce spending reviews at different government levels with the aim to improve the composition and efficiency of public expenditure. Furthermore, an intervention is envisaged to guarantee the financial sustainability of the social security system and public finances and improve the adequacy and social fairness of the pension system.

In the area of the labour market, various interventions are included in the plan; these are intended to strengthen the effectiveness of active labour market policies, in particular for the low-skilled, older workers and people with a migrant background, and to address skills mismatches. Most of the reforms will be implemented by the end of 2023, although some were planned already for 2021 and 2022.

To improve the business environment, the plan includes reforms aimed at reducing the regulatory and administrative burden to encourage entrepreneurship and remove barriers to competition in services, particularly telecommunication, retail, and professional services. Furthermore, a simplification of the administrative procedures is envisaged through the digital transformation of government services and accelerating different procedures for enterprises and citizens.

Finally, additional sectoral reforms are included in the plan with the aim to foster green and digital investments. In particular, such reforms aim to improve energy subsidy schemes, make federal fiscality more climate friendly, promote further the mobility budget as an alternative for company cars and emission-free transport, promote the circular economy and remove obstacles to the introduction of 5G and better internet accessibility.

Table 40. Key structural reforms

Area	Measure	Description	Timeline
Labour market	'Re-qualification strategy' of the Brussels-Capital Region	Adoption of three regulatory texts intended to: (1) introduce systematic digital and language skills assessment and/or a development pathway for Brussels jobseekers, (2) introduce a specific bonus scheme to support employers in the recruitment of jobseekers with disabilities and (3) establish institutional steering of the existing training provision and its reorientation.	Q32023
	'An inclusive labour market' of Flemish Community	Developing an integrated trajectory to support newcomers (migrants who are not EU nationals) in their integration into society and in particular into the labour market and strengthening the non-discrimination policy at sector level, including by enhanced monitoring, and setting up of specific actions, such as trainings on how to deal with discrimination and actions specific to disadvantaged groups.	Q42023
	'Cumulation regime and mobility to sectors with shortages' of the Federal State	The first reform strand is to make employment more rewarding for those benefiting from unemployment benefits or an integration income. This will be done by ensuring that, in the case of a combination of (part-time) work and receipt of (partial) unemployment benefit or (part-time) integration income, it is financially and socially more advantageous for the person concerned to increase their part-time working time. For the second reform strand, the objective of the measure is to promote labour mobility of workers made redundant in a given sector towards sectors where there are shortages of skilled workers, by making the necessary training sufficiently rewarding.	Q42023
	'Reform of support to jobseekers in Wallonia' of the Walloon Region	New coaching and solution-oriented support for jobseekers, through a legislative decree.	Q32021
Education and skills	'Digisprong' of the Flemish Community	Actions related to four pillars: (1) ICT education, media literacy and computational thinking reforms, (2) promoting effective ICT school policies, by strengthening the role of ICT coordinators, (3) digitally skilled teachers and trainers for teachers and (4) creation of a knowledge and advisory centre to support schools in digitalising their educational provision.	Q32022
	'Higher education advancement fund' of the Flemish Community	Deliver a vision paper that will define a new profile for higher education in Flanders to ensure that higher education institutions are state of the art and develop a vision on lifelong learning.	Q42023
	'Global action plan against early school leaving' of the French Community	Comprehensive strategy covering three strands - prevention, intervention, compensation- and development in a coherent and concrete manner, based on a new (reinforced) coordination of stakeholders active in different fields and of different support services.	Q42022
Justice	'Optimisation of procedures: Faster permit and appeal	Simplification of the environmental permit procedures, including by introducing conditions on the possibility to appeal decisions. It will consist in a review of the existing regulation, with the objective to reduce the time needed	Q42022

	procedures' of the Flemish Region	to process a case and to provide greater legal certainty. At the end of the review, a report will be published providing an overview of new and reviewed measures.	
Research and innovation	'Widening the innovation base' of the Flemish Region	Review of the existing instruments stimulating innovation that is more easily accessible and adapted to the needs of SMEs. At the end of the review, a report will be published providing an overview of new and reviewed measures.	Q42022
Public administration	'Simplification of administrative procedures: e-government for businesses, simplification of administrative procedures' of the Federal State	Administrative simplification notably by fully digitalising the procedure for the creation, alteration, and dissolution of a legal person.	Q42023
	'E-government: Tendering procedure' of the Federal State	Coherent set of measure to expand the use of eProcurement including a new Royal Decree, which will adapt the federal regulatory framework for conducting tendering procedures.	Q42024
Public finance	'Spending reviews' of the Federal State	Conduct spending reviews in a structural way at the federal level and in the social security sector.	Q42024
	'Spending reviews – Flemish general revision and spending norm' of Flanders	Development of an expenditure norm and the Vlaamse Brede Herovering (VBH), which aims to structurally anchor spending reviews in the Flemish budgetary process in the coming year. Adoption of an expenditure norm.	Q42024
	'Spending Reviews – Zero-based budget' of the Walloon Region	Zero-based budgeting exercise and spending reviews covering all expenditures and revenues structured around seven policy fields and covering all departments of the Walloon administration as well as 170 public administration units.	Q42024
	'Spending review' of the Brussels Capital Region	Conduct and finalise two pilot spending reviews and the subsequent integration of spending reviews in the budgetary process of the Brussels region.	Q42024
	'Spending reviews' of the French Community	Conduct pilot spending reviews and the subsequent integration in the budgetary process of the French Community.	Q42024
Product market	'Brussels Regional Strategy for the Economic Transition' of the Brussels Capital Region	Design a regional strategy for economic transition by mobilising all regional economic policy instruments, achieving a better coordination and cooperation between public actors, as well as active participation of the private sector. Its operational objectives are to be based on the results of 10 working groups.	Q12022
Social policies	'End of career and pensions' of the Federal State	Law reforming the pension system and action plan with proposals for concrete measures.	Q22024

Source: Own elaboration.

10.6 Overall assessment on the Belgian NRRP

Before the outbreak of the pandemic, the overall dynamic of the Belgian economy was positive. Yet, some structural challenges remained to be addressed, notably in the labour market, education and skills, justice, public administration and social policies.

Overall, the plan addresses most of the country's challenges with a concrete set of reforms and a broad set of investment projects. Furthermore, it tackles the green and digital challenges by including several reform projects aimed at: improving connectivity, adapting public transport to make it more sustainable, modifying the regulation of the carbon dioxide and oxygen markets, making it more comprehensive, and encouraging the transition to a circular economy through strategies both at the federal and regional levels.

In the labour market area, the plan intervenes by reinforcing activation policies, with a specific focus on vulnerable groups. In contrast, the plan does lack a comprehensive strategy to strengthen participation in lifelong learning. With regard to education and skills, the plan intervenes in a twofold direction, by strengthening the digitalisation of public education institutions and by putting in place targeted strategies to prevent early school leaving. Important interventions are also envisaged in the area of justice, where the plan address the problems related to trial' delays and justice inefficiencies, notably through the simplification of existing procedures, while the digitalisation of the judicial system is included in the broader reform of the public administration.

With respect to social policies, the plan only partially addresses the challenges identified in the Country Specific Recommendations. In particular, the plan positively addresses the problem of social housing, while it leaves unaddressed the problems of increased levels of poverty and social exclusion, notably among children and the sustainability of the pension system.

Finally, with respect to public finance, the plan introduces important reforms to improve fiscal sustainability, notably though the introduction of a spending review mechanism. By contrast, no intervention is envisaged either to address the problem of high labour taxation or to remove the existing competition barriers in services, in particular for regulated professions.