

# THE NGEU FUNDS IN SPAIN. DO THEY BOOST A CHANGE TOWARDS A NEW PRODUCTIVE MODEL?

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## WORK IN PROGRESS

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#### 1. Introduction

The COVID-19 crisis was an unprecedented challenge for European economies and opened the debate on the need to make it stronger and reduce their vulnerability. This was not only due to the pandemic's consequences but also because weaknesses and deficiencies from former periods were highlighted. The document by the European Commission *On identifying Europe's recovery needs* (European Commission 2020) is a good example of these concerns. Consequently, the response to the pandemic is a package of measures to address the most immediate problems and also to modify the existing productive structure and relaunch objectives that were already in other EU programs such as Europe 2030.

In this scenario, the Commission presented a package of specific recovery measures in late May 2020 (approved by the European Council on July 21, 2020) under the Next Generation EU (NGEU) framework, added to the multiannual financial framework (MFF) budgets. The NGEU Funds have represented a significant change in EU policies, especially compared to what was done in previous crises. Aspect that significantly differentiates the NGEU funds is their amount (bigger than any other program), the financing mechanism, as a joint debt among all EU countries and the fact that final targets are set to receive the aid, which also aims for a structural transformation of economies. The regulation establishing the RRF identifies six relevant areas that should guide projects (European Council 2020a). Each country must present a recovery and resilience plan in line with these areas to receive funds. These plans must include investment projects to finance structural reforms and measures to encourage public investment consistent with the six pre-set areas.

In the case of Spain, the NGEU has special relevance. One reason is its amount, as Spain is one of the countries receiving the most funds. Another is the need for change in the Spanish economy. High levels of unemployment and labour precariousness, the dependence on tourism and construction as main sectoral activities, low productivity, weak welfare state, etc. are issues usually highlighted in the Spanish economy as structural problems and the NGEU presents a good opportunity to change it.

This is the central point of this paper. Our concern is to assess to what extent the NGEU funds can boost changes and transformations, modify the productive structure, improve living conditions and, in the end, address the challenges facing the Spanish economy and society. Thus, with this objective, in next pages we will address the following questions. First, some reflections to contextualize the framework of the NGEU. Secondly, we will focus on the objectives of the RRF in the Spanish case and the mechanisms for their achievement. Afterwards, we will briefly analyse the impact of the NGEU on industrial policy. Conclusions as a final reflection will close the paper.

## 2. The NGEU: general aspects

The problems pointed out by the Commission, which justifies the need for intervention with far-reaching measures through the NGEU, is relatively ambiguous and, to some extent, does not address all the structural problems and its diversity between countries. There is a framework document (European Commission 2020) that diagnoses the main problems that, from their point of view, the European Union has, but it does not consider the fact that these problems can be very different between countries. Good evidence of this is the differential impact of the COVID-19, and also the 2008 crisis. In fact, the EU Commission is talking about challenges for the EU as a whole and not about problems. The set of challenges posed by the Commission is relevant (need to transition to a green economy, digital gap, etc.), but two aspects should be taken into account.

One is that, except for the need for a green economy (and this exception would be with caution), the set of proposed challenges is more aimed at improving productivity and competitiveness than at social cohesion. Clearly, there is a lack of social programs. The second one is that some structural problems that the EU drags maybe will not be resolved with the NGEU program. From other points of view, the dispersed EU productive structure, income imbalances between countries, the lack of clear and more ambitious tertiary and sectoral industrial policies for the entire Union, and the also non-existent social policy, between others, are on the origin of the structural problems in the EU.

The second is the fact that the distribution of investments by countries does not respond to a vision of rebalancing structural problems in the EU. It is more a budgetary rebalancing logic of each country (those with more debt receive more) and maintaining the growth path based on expansive policies. In fact, there is no prior diagnosis of structural problems for the distribution of funds. The allocation criterion is based on GDP decline, unemployment volume during COVID-19, and subsequent GDP recovery. The crises, the COVID-19 one, but also the 2008 one, impact differently among EU countries because their productive structures and Government participation and W-E models are different, and these differences are not considered in the diagnoses made in the context of the NGEU funds.

In terms of reforms, the experience of the 2008 crisis clearly showed the pattern of reforms with more orthodox approaches, which exacerbated the problems of austerity policies in many countries. A novelty of the NGEU funds is that funds will be pay out if reforms are carried out (among other criteria), with the aim of incentivising structural reforms. The aim is that the transformations promoted by the investment programme will be consolidated in the medium and long term, and that the impact of the measures will therefore last over time, even if there are no funds for investments (which will end in 2026).

This point is also crucial to analyse the NGEU funds orientation. The European Commission defines the reform needs in some aspects with a lack of precision that almost anything is possible, and therefore they depend very much on the political orientation of the government in each country. In the case of Spain, these reforms combine fiscal rigour with measures of social nature (labour reform, unemployment benefits, etc.) that would surely have been approached differently under a conservative government. The structure of the NGEU policy program allows enough room for the national governments to oriented the changes in one direction or another, which is an opportunity for progressive measures but also the contrary, depending on the national government political guideline.

## 3. The NGEU program in Spain

The document presented by the Government of Spain (Government of Spain 2021) to obtain the funds indicates the imbalances suffered by the Spanish economy and the future challenges that Spain and the

EU countries as a whole will face (Table 1). The identification of the challenges and problems considered as targets respond to the United Nations Sustainable Development Goals, the priorities of the European Green Pact, those included in the Europe 2030 documents and the structural imbalances indicated in the specific recommendations made to Spain in the framework of the European Semester 2019-2020<sup>1</sup> and the European macroeconomic imbalance procedures (Alonso and De los Llanos 2023). They are also based on plans and strategies already adopted such as the National Integrated Energy and Climate Plan, the Digital Agenda 2025 and the general guidelines of the Spanish industrial policy 2030.

Table 1. Main imbalances and challenges facing Spain	
Social/labour dimension	<ul style="list-style-type: none"> <li>-High structural unemployment</li> <li>-Low female employment rate</li> <li>-Slow increase in per capita income</li> <li>-High labour duality with a very high rate of temporary employment</li> <li>-Low quality and stability of employment</li> </ul>
Fiscal dimension/public sector/macroeconomic imbalances	<ul style="list-style-type: none"> <li>-Public sector with limited room to deploy its stimulus and redistribution function due to its structural imbalances</li> <li>-European Macroeconomic Imbalances Procedure, the financial crisis that began in 2008 generated high levels of public and private indebtedness in the context of an unemployment rate that has remained consistently above the European average in recent decades.</li> </ul>
Productive model	<ul style="list-style-type: none"> <li>-Small companies and low public and private investment in R&amp;D&amp;i and human capital</li> <li>-Low productivity</li> </ul>
Challenges in the near future	<ul style="list-style-type: none"> <li>-Climate change,</li> <li>-Energy transition,</li> <li>-Digital transformation of companies and the Administration,</li> <li>-Population ageing,</li> <li>-Effective equality between men and women</li> <li>-Equality between territories and generations</li> <li>-Territorial vertebration overcoming the urban-rural gap</li> </ul>
Source: Own elaboration based on Government of Spain 2021	

The Spanish government has established four cross-cutting axes, which are structured into 10 areas of intervention, which in turn are broken down into thirty components (Table 2) and, which at the same time, included several detailed interventions. These thirty components have a marked horizontal character, although some of them are aimed at sectors considered to be key drivers (Government of Spain 2021:25) such as trade, tourism, agriculture and food industry, health, automotive and public administration.

Looking in more detail at the proposed areas of intervention, there are several aspects to highlight. One is the budgetary significance. The measures for the modernization and digitalization of the industrial sector and SMEs, recovery of tourism and promotion of an entrepreneurial Spain absorb more than half of the total budget. This area includes part of the digitization programs, the development of 5G and industrial policy. There is a clear vocation to increase the competitiveness of the economy and support key industrial sectors. But this is not the only area that has an impact on competitiveness and economic modernization. The Pact for Science and Innovation is also along these lines. The same can be said of the interventions in the area of Education and Knowledge, Continuous Training and Capacity Building, where

<sup>1</sup> For more information: [Alert mechanism report - European Commission \(europa.eu\)](https://ec.europa.eu/economy_finance/alert_mechanism_report_en)

reforms are proposed to improve the functioning of vocational training and to rationalize the system for recognizing professional skills.

<b>Table 2. Lever policies (area of intervention), budget<sup>2</sup> in the period 2021-2026 and components of each area</b>						
Area of intervention	Total	Transfers	Loans	% Total	% transfers	% loans
<b>Urban and rural agenda, fight against depopulation and development of agriculture</b>	<b>18.817,00 €M</b>	<b>14.557,00 €M</b>	<b>4.260,00 €M</b>	<b>11,5%</b>	<b>18,2%</b>	<b>5,1%</b>
1: Shock plan for sustainable, safe and connected mobility in urban and metropolitan environments 2: Housing rehabilitation and urban regeneration plan 3: Environmental and digital transformation of the agriculture-food and fishing system						
<b>Resilient infrastructures and ecosystems</b>	<b>13.455,00 €M</b>	<b>11.650,00 €M</b>	<b>1.805,00 €M</b>	<b>8,3%</b>	<b>14,6%</b>	<b>2,2%</b>
4: Conservation and restoration of ecosystems and their biodiversity 5: Preservation of the coastline and water resources 6: Sustainable, safe and connected mobility						
<b>Fair and inclusive energy transition</b>	<b>10.581,69 €M</b>	<b>10.581,69 €M</b>		<b>6,5%</b>	<b>13,2%</b>	<b>0,0%</b>
7: Deployment and integration of renewable energies 8: Electricity infrastructures, promotion of smart grids and deployment of flexibility and storage 9: Renewable hydrogen roadmap and its sectoral integration 10: Just Transition Strategy						
<b>An Administration for the 21st century</b>	<b>6.526,05 €M</b>	<b>4.368,80 €M</b>	<b>2.157,25 €M</b>	<b>4,0%</b>	<b>5,5%</b>	<b>2,6%</b>
11: Modernisation of Public Administrations						
<b>Modernisation and digitalisation of the industrial sector and SMEs, recovery of tourism and promotion of an entrepreneurial Spain</b>	<b>90.518,66 €M</b>	<b>18.765,35 €M</b>	<b>71.753,31 €M</b>	<b>55,5%</b>	<b>23,5%</b>	<b>86,3%</b>
12: Industrial Policy Spain 2030 13: Boosting SMEs 14: Plan for the modernisation and competitiveness of the tourism sector 15: Digital connectivity, boosting cybersecurity and development of 5G						
<b>Pact for science and innovation. Strengthening the capacities of the National Health System</b>	<b>6.469,79 €M</b>	<b>5.899,79 €M</b>	<b>570,00 €M</b>	<b>4,0%</b>	<b>7,4%</b>	<b>0,7%</b>
16: National Artificial Intelligence Strategy 17: Institutional reform and strengthening of the capacities of the national science, technology and innovation system 18: Renewal and expansion of the capacities of the National Health System						
<b>Education and knowledge, continuous training and capacity building</b>	<b>7.367,07 €M</b>	<b>7.367,07 €M</b>		<b>4,5%</b>	<b>9,2%</b>	<b>0,0%</b>
19: National Plan for Digital Skills 20: Strategic plan to boost Vocational Training 21: Modernisation and digitalisation of the education system, including early education from 0 to 3 years old						
<b>New care economy and employment policies</b>	<b>6.255,00 €M</b>	<b>5.855,00 €M</b>	<b>400,00 €M</b>	<b>3,8%</b>	<b>7,3%</b>	<b>0,5%</b>
22: Shock plan for the care economy and reinforcement of inclusion policies 23: New public policies for a dynamic, resilient and inclusive labour market						
<b>Boosting the culture and sport industry</b>	<b>2.556,50 €M</b>	<b>825,00 €M</b>	<b>1.731,50 €M</b>	<b>1,6%</b>	<b>1,0%</b>	<b>2,1%</b>
24: Revaluation of the cultural industry 25: Spain audiovisual hub of Europe (Spain AVS Hub) 26: Plan to promote the sports sector						
<b>Modernisation of the tax system for inclusive and sustainable growth</b>	<b>483,00 €M</b>		<b>483,00 €M</b>	<b>0,3%</b>	<b>0,0%</b>	<b>0,6%</b>
27: Measures and actions to prevent and combat tax fraud 28: Adapting the tax system to the reality of the 21st century						

<sup>2</sup> These figures are the initially planned, but they are not exactly the expenditure to be realised. On the one hand, fewer loans have been executed. On the other hand, the July 2023 addendum increased the allocation by €10.300 million with additional funds to the initial budget and with the RepowerEU program. All these new funds have been earmarked for the EERPs.

Table 2. Lever policies (area of intervention), budget <sup>2</sup> in the period 2021-2026 and components of each area						
Area of intervention	Total	Transfers	Loans	% Total	% transfers	% loans
29: Improving the efficiency of public spending						
30: Long-term sustainability of the public pension system in the framework of the Toledo Pact 27						
<b>Total General (in millions €)</b>	<b>163.029,75 €M</b>	<b>79.869,69 €M</b>	<b>83.160,06 €M</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>
<b>Source: Gobierno de España <a href="#">Políticas palanca y componentes   Plan de Recuperación, Transformación y Resiliencia</a> Gobierno de España. (<a href="#">planderecuperacion.gob.es</a>)</b>						

There is another group of interventions that have a more direct impact on environmental problems, along two main lines. On the one hand, measures to preserve the environment, and on the other, measures to transform energy and improve mobility and sustainable transport.

Another block can be related to the public sector, also in a double sense. On the one hand, there is the target of modernization of the public sector, which is to a large extent the digital transformation. Also this area includes measures to improve the energy efficiency of public buildings and reforms to improve mechanisms hire labour and more management efficiency of the public sector. On the other hand, there is a whole series of measures that take the form of reforms (in this case, practically no investments are planned) and are aimed at combating tax evasion, tax reforms to increase public revenues and improve the efficiency of public spending. There is also a line of intervention for the reform of the pension scheme.

Lastly, it is worth highlighting the measures aimed at the labour market and at promoting the social and care economy. In the case of employment policies, the planned investments follow the trend of active employment policies implemented in recent years: activation policies for employment, promotion of gender equality, training policies, social inclusion. Where we find a significant change is in the planned reforms. The proposed program includes 11 reforms, ranging from the regulation of teleworking, the generalization of permanent contracts and the reduction of temporary contracts, the control of working conditions in subcontracting, the improvement of collective bargaining, the regulation of work on digital platforms, etc. In short, these are measures with a clear vocation to improve working conditions. Finally, it should be noted that the measures for the promotion of the care economy, although they are investments and reforms, have neither the budget nor the measures ambitious enough to change the current situation.

The essential question is whether these measures address the inherent structural problems of the Spanish economy. Additionally, it is crucial to determine whether these interventions possess the capability to facilitate a significant transformation in the productive model, resulting in positive outcomes for social welfare. While it remains challenging to offer definitive answers at this juncture, some observations can be done with respect to the design of the NGEU economic policy program.

In our view, the underlying problems of the Spanish economy are not addressed. On the one hand, the high public deficit is partly due to the tax system's inability to collect revenue. Although the reforms include measures designed to enhance public revenue, it is unlikely that the resulting increase will be substantial. More ambitious measures should be taken. In relation to the low competitiveness of companies does not take into account the productive specialisation in low value-added sectors and, with regard to employment conditions, there is no mention at all of labour force management practices and the predominance of regressive business management strategies. Nor is there any analysis of the weaknesses of the public sector and the Welfare State model. The problems of the Spanish economy largely lie in the characteristics of the production model, in a 'peripheral' position within European capitalism and in a welfare state with continuous tensions between service provision and income and with a low capacity to reorient the economy (Banyuls and Recio 2012, 2015).

The environmental problem seems to be only a problem of CO2 emissions and to be solved with the electric car; there is no definition of the environmental problems as a whole (atmospheric pollution, loss of biodiversity, acidification of marine waters, drought, impact of tourism, impact of digitalisation on energy and water consumption, etc.). At no point is there any reference to the sustainability of the growth model as such. The logic that ecological problems can be solved with technical change without altering the productive and social model is fully assumed. At present time, one of the main causes of environmental (and social) problems is over-tourism, a sector that is to be further promoted by partly taking advantage of the NGEU. The proposals on environmental issues as a whole are more an *ad hoc* explanation to favour a certain industrial development and some tertiary activities than a global approach.

## 4. Implementation

### 4.1. Reforms

Some of the proposed reforms have their origin on the recommendations made in 2019-2020 (Table 3) by the excessive debt procedure, but there are also many of them that are specific to the NGEU funds proposal and that go along the lines of consolidating the changes that can be introduced in the productive structure with the investments made.

<b>Table 3. Main reforms in the context of the NGEU plans</b>
<i>Proposals stemming from the excessive debt procedure (2019-2020)</i>
<ul style="list-style-type: none"> <li>-Ensure moderate growth of public expenditure</li> <li>-Preserve the sustainability of the pension system</li> <li>-Reduce the public debt ratio</li> <li>-Ensure that employment and social services are able to provide effective support</li> <li>-Encourage the transition towards permanent contracts</li> <li>-Improve support to families, reduce the fragmentation of the national unemployment assistance system and close the gaps in the coverage of regional minimum income schemes.</li> <li>-Reduce early school leaving and improve educational outcomes, taking into account regional disparities.</li> <li>-Increase co-operation between the education and business sectors with a view to improving skills and qualifications in the labour market.</li> <li>-Focus economic policy investment in promoting innovation; in energy and resource efficiency; in improving rail infrastructure for freight transport; and in extending electricity interconnections with the rest of the Union, taking into account regional disparities.</li> <li>-Improve the effectiveness of policies to support research and innovation.</li> <li>-Make progress in the implementation of the Law on guaranteeing market unity.</li> </ul>
<i>Other reform proposals in the NGEU context</i>
<ul style="list-style-type: none"> <li>- Climate Change and Energy Transition Act</li> <li>-Development of a robust and flexible energy system, deployment and integration of renewables</li> <li>-Renewable Hydrogen Roadmap</li> <li>-Resilience and adaptation of ecosystems, development and connectivity of green infrastructures</li> <li>-Water law and national plan for purification, sanitation, efficiency, savings and reuse</li> <li>-Modernisation of agricultural and fisheries policy. Soil protection and efficient use of water</li> <li>-Waste policy and promotion of the circular economy</li> <li>-Modernisation of the national science system and support for innovation</li> <li>-Sustainable connected mobility strategy</li> <li>-New housing policy</li> <li>-Modernisation of justice</li> </ul>

- Modernisation and digitalisation of the administration
- Improving regulatory quality and business climate.
- Modernisation and reinforcement of the national health system
- Modernisation of the education, vocational training and university system
- New public labour market policies. Towards a statute for 21st century workers
- New care economy
- Strengthening of inclusion policies and social services
- Modernisation and progressivity of the tax system
- Strengthening of the pensions system

Source: Own elaboration from: CEU 2019, CEU, 2020, Gobierno de España 2021

The proposed reforms are very wide-ranging and some of them will probably not be implemented, or will have little scope. What does seem quite clear is that the reforms stemming from the excessive debt procedure will be implemented.

There are two things we wanted to highlight with regard to the reforms. One is their orientation. The fact that at the moment there is a coalition government with a progressive majority means that most of the measures will bring about social improvements, and, up to now, they have the support of the EU COM. An obvious case is the labour reform, or the improvement of unemployment benefits. The labour reform in 2012, that was encouraged by the EU and applied by the right-wing Government, the targets where increase labour flexibility, introduce a more individualized industrial relations model and increase employer's power in the labour management. The result of this reform was an increase in labour precariousness. But now, with a left-wing Government, the labour market reforms promote labour stability and improve the job conditions. And this is happening also in the NGEU framework and supported by the EU COM.

Probably most of these reforms would have been carried out without the existence of the NGEU programmes. The most obvious example is also the labour reform. The direction that this reform has taken was planned before the NGEU funds and in all likelihood it would have been carried out anyway. The interesting aspect is how a win-win game has taken place between the EU-COM and the Spanish Government. The Commission uses the Spanish labour market as a banner of successful NGEU reforms because it has reduced precarious employment and the Government uses the Commission support as tool to legitimate the reform in front of employers and conservative groups and also as a pressure mechanism: if this labour reform is not passed we are not going to get NGEU funds. This example is interesting because it shows that at least in some policies a turn of is possible, depending on the National Government orientation, and also it shows that a room for progressive agenda exist.

#### 4.2. Planned investments

According to the criteria for distribution between countries, Spain can request up to almost 140.000€M (at 2019 prices) in transfers and loans, being the country that receives the most aid in transfers (Spain, Italy and France account for more than half of the transfers established in the funds). There is a strong focus on investments and reforms in the first phase of the Next Generation EU plan, covering the period 2021-2023, in order to boost the recovery and achieve maximum counter-cyclical impact.

The question of how investments have been executed is not straightforward and will be approached from different angles. One issue is that the valuation of investments is complex due to the scattered nature of the information and the different stages of processing. There is a distinction between what was budgeted, what was announced, what was granted, what was awarded, and what was finally executed. A recent

study by Hidalgo et al. (2024) examines the execution of funds by analysing databases containing information on the bidding process, the granting and awarding of aid. From its perspective, it would be necessary to accelerate both the concession process and, especially, the awarding process in order to use all the funds. The government's outlook is more optimistic about the execution of the funds and its assessment is that it will manage to spend the allocated funds. According to the government data ([ELISA: El Plan en cifras | Plan de Recuperación, Transformación y Resiliencia Gobierno de España. \(planderecuperacion.gob.es\)](https://planderecuperacion.gob.es) at 30/June/2024 indicates that of the 69.528 M€ allocated, 68.984 M€ had been called, 40.004 M€ had been resolved, which is a resolution rate of 58,0%. In terms of formalised contracts and grants, 32.052€M, which represents 46% of the total allocated budget. In short, approximately half of the budget has been resolved and formalised by the middle of the period. However, the execution of the funds is diverse depending on the items in question. Those items that have experienced less execution are also more complex (is the case of PERTEs).

The interventions that have been executed more are those directly related to sustainable mobility. In our opinion this is due to two reasons. On the one hand, because most of them are direct tenders of the State in public works and therefore have a simpler and faster awarding mechanism. On the other hand, because the government has had a greater interest in executing with higher priority interventions that have a faster and more direct effect on GDP through the multiplier<sup>3</sup>.

There are also a number of items where implementation is very low, even non-existent. And it is precisely here that the fears of whether it will be possible to implement all of the budget are most clearly expressed. Some of them are possibly under-executed due to their novelty (the case of RePowerEU) but in others the difficulties may lie in their complexity (especially those related to industrial policy, which are articulated through the PERTEs) or the need to carry out parallel investments or those that have a more complex prior planning (for example, training).

Another important aspect is the territorial distribution of funds. The criterion for distribution among the Autonomous Regions has broadly followed the EU criterion for distribution among countries, but, as within the EU, structural problems differ from one Autonomous Region to another. The Autonomous Communities of Valencia, Andalusia, Madrid and Catalonia lead in terms of the amount of funds received. In contrast, regions such as Melilla and Ceuta show a very modest reception of funds. It is also true that, in terms of population, the regions that receive the most are the largest. Nonetheless, there are differences in the perception of investments that are related to the different capacity for administrative management and for launching projects.

An interesting point also is who is receiving the funds. The public sector receives and administers the funds, but does not execute the investments. In fact, according to the study by Hidalgo et al (2024) private companies are the main beneficiaries of the investment as they end up absorbing 70% of the funds (80% if we include publicly owned companies).

Two aspects stand out in this high level of funding received by private companies. One is the strong concentration in a few companies. As these authors point out (Hidalgo et. al. 2024) "if we take the total number of recipients of tenders and grants awarded in our database (some 500,000 excluding the self-employed and individuals) and distribute them according to the total amount of money obtained (adding up everything they have managed to win in one or several concessions), it turns out that the 10% who have obtained the most accumulate more than 90% of the total. And the top 1% actually get 72%. To

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<sup>3</sup> Spanish Central Bank calculated that expenditure related with NGEU increases GDP over 2% of its current value (Delgado 2024)

make matters worse, the top 0.1% (equivalent to just over 154 companies) account for 42%. The second one is its concentration by sector. With data up to 2023, construction (specialised and building construction top the ranking of sectors, followed by civil engineering) and trade (mainly wholesale trade) are the sectors that benefit the most.

## 5. NGEU and PERTEs

Most of the industrial investments are articulated through the innovative mechanism of the PERTEs. The base document that establishes the general lines of industrial policy for Spain dates from 2019 and includes the main guidelines that have been set out in Commission documents and aims to align the interventions in this area by the Spanish government with European guidelines (MICYT 2019).

The PERTEs is an instrument of public-private collaboration<sup>4</sup> and there are currently twelve approved, all with a high potential to promote the competitiveness of Spanish industry: development of the electric and connected vehicle; advanced health; renewable energies, renewable hydrogen and storage; agriculture and food sector; new language economy; circular economy; naval industry; aerospace; digitalization of the water cycle; microelectronics and semiconductors (Chip); social and care economy and industrial decarbonisation. For all of them together, a volume of public investment of 40,093 million euros is reserved (a quarter of the total funds that Spain will receive).

PERTEs are conceived as a mechanism to reinforce “those projects that clearly contribute to the transformation of the Spanish economy by acting on the value chains of strategic sectors for the future” (Government of Spain 2021:116). Looking at the characteristics of the 12 PERTEs that have been approved, we can see that some of them are cross-cutting interventions. In other cases, they focus on specific sectors that are considered key to transforming the production model and also have a high capacity to have an impact on the economy as a whole. These are a series of activities that combine cutting-edge technology sectors (microelectronics and semiconductors, aerospace), sectors that are central to the ecological transition (renewable energies and hydrogen storage), existing sectors that can be improved (maritime, agriculture) and the development of services (care, health) and the circular economy.

Going in more detail in one PERTE to have a clear idea how it works we can focus on Microelectronics and semiconductors (Chip), the PERTE with more public resources. In the context of the European Chip Law, this proposal is regarded as pivotal to the Spanish economy, given its substantial impact on the automotive industry and its potential to ripple through other industrial sectors. PERTE's objective, as outlined by the Government of Spain (2022:11), “is to reinforce the value chain of the Spanish

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<sup>4</sup> The creation of a PERTE requires a series of steps:

1. A State Register of entities interested in PERTEs is created under the Ministry of Finance.
2. Each PERTE must have its own regulation with specific definition, scope, criteria and objectives.
3. PERTEs are to be approved by the Council of Ministers at the proposal of the Minister of Finance.
4. It may be established as a requirement for access to aid, to be registered in the register of entities interested in PERTEs.
5. Requirements for the selection of PERTEs:
  - a) They must be led by 1 large company
  - b) They must include at least 5 companies
  - c) 45% of the companies must be SMEs
  - d) A minimum investment volume of 40 million euros
  - e) The investment must cover at least two Autonomous Communities.

semiconductor industry, encompassing the full spectrum of activities involved in the design and manufacture of chips”.

This PERTE considers four principal axes that articulate the investments. One such axis is the promotion of research, development, and innovation (R&D&I) activities. Another is the promotion of cutting-edge microchip design strategies. A third is the construction of manufacturing plants in Spain. A fourth is the revitalization of the Spanish information and communication technology (ICT) manufacturing industry. A series of specific interventions are outlined within each of these axes, along with detailed objectives and a corresponding budget allocation. As an illustration, the third axis, which expects the revitalization of the manufacturing industry, specifies the technical specifications of the microprocessors to be manufactured, an analysis of the value chain, a business plan, etc. For each proposal, the government issues a call for proposals to which proposals are submitted according to the aforementioned criteria. Subsequently, proposals are evaluated, and depending on the outcome, aid is either granted or not.

On the paper, the intervention model seems interesting insofar as it requires a high level of participation and involvement of enterprises, it also requires the presence of small enterprises and it targets strategic sectors. However, in practice there are some problems that are slowing down its development. For example, R. Xifré (2023) points out that there may be sectoral or regional weaknesses that hinder the absorption of investments linked to the technological innovation associated with the PERTEs, as well as the complexity of their processing that may slow down their application, very tight timeframes for processing and execution, etc.

Interviews with industry trade union representatives also point to these problems and add a few more. One of them is the difficulty of setting up clusters of companies that combine leading companies (usually large companies that are leaders in a sector) and small and medium-sized companies, to which must be added geographical diversity. This is the opposite to the prevailing business culture, which is generally not very collaborative, and with difficulties in establishing horizontal relationships. Added to this is the high level of government controls on how spending is carried out, something to which companies are not very accustomed and are rather reluctant.

One element that the trade unions have taken a negative view of these programs is that the receipt of aid is not linked to working conditions. There is no requirement in the PERTE mechanisms to improve the quality of employment, nor is there any monitoring of employment conditions along the value chain. In this sense, the trade unions point out that their participation in the PERTEs is merely informative, without the capacity to influence even the employment conditions of the participating companies.

Although the idea is interesting, in practice, it is having less success than expected. The creation of a PERTE has a high administrative complexity, the controls on spending are very high (something companies are not used to and often do not want to do), and the participation of SMEs is not always possible. Even so, it is an instrument that must be evaluated for its future continuity when the NGEU funds are no longer available.

## **6. Conclusions and further discussions**

It is clear that the NGEU program marks a significant shift in EU policy, both in terms of its scope and financing model and the manner in which programs are designed. This includes aspects such as the definition of objectives and financing mechanisms, the integration of investment and reform strategies, etc. The NGEU program is not merely a stabilizing economic cycle instrument; rather, it introduces mechanisms for more deep transformations of the European economies. In essence, NGEU funds

establish a novel scenario and offer new possibilities at the national level. After analysing the Spanish case, we will present some conclusions and open questions for discussion.

Are NGEU enough to boost a change in the productive structure? The answer is basically not but with doubts. The measures currently being implemented are, for the most part, appropriate and well-intentioned. However, they are, to some extent, insufficient in addressing the fundamental challenges of the Spanish economy. The instruments and reforms proposed are, at times, disparate and, in some instances, the budgetary allocation is insufficient. In other cases, the impact of the proposed reforms may be limited. Our primary concern is that a shift in the productive model is a highly complex objective, demanding economic policy interventions across numerous sectors and areas, with uncertain and potentially limited outcomes.

A change of model requires a simultaneous change in business mentality, management methods, the manner in which investment is valued by companies, and the valuation of labour, among other factors. The prevailing culture of business management in Spain is more aligned with a short-term, speculative form of capitalism, characterized by a focus on quick profit generation in sectors that require low investment and are compatible with a precarious labour management structure. The model in question shows a distinct lack of industrial vocation, with a pronounced focus on low GVA sectors. Its most pronounced manifestations can be observed in the tourism and construction sectors.

Transitioning to an alternative growth model is a costly and time-consuming process. Regardless of the success of the objectives set out in the NGEU program, the requisite changes will take a much longer time to implement than the program itself will last. However, there are some indicators that point out positive changes. In some sectors, for instance, there has been an increase in R&D investment, and more skilled jobs are also being created. It remains to be seen whether this is due to the effect of the NGEU funds (a portion of which is probably the case), and, above all, whether this dynamic will continue after the aid has been concluded.

It is our contention that the proposal to link reforms and investments in the case of Spain will have a beneficial effect as a whole, although we have already identified a number of limitations to this approach. To combine reforms and investments increases synergy effects: But here, too, doubts arise: To what extent are the reforms going to bring about a change of enough depth to modify business behaviour?

A final aspect that we would like to raise from the analysis of the Spanish experience is related to the capacity of national governments to implement measures and the connection that can be made between the strategy at the EU-COM level and at the national level. In the case of Spain, the government has used the NGEU program as a mechanism to justify the need for progressive reforms, especially in labour matters. This is a radical turnaround from what was done in the 2008 crisis. The current Spanish government uses the shift in EU social policy approaches (eg. minimum wage directive, posted workers directive, etc.) to reverse earlier labour market deregulations of 2010 and 2012. The important fact in itself is that the national government has established a win-win strategy, and the EU-COM has accepted it without excessive reservations. This situation shows that probably there is enough room to introduce positive changes in social terms and it depends on the government orientation.

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