Spain and the EU Recovery Plan: expectations for growth, hopes for change

At this time, the only public document that describes how Spain aspires to manage the European reconstruction funds is this one, titled "España puede" or "Spain can". Following the same Obama influence, it could have also have been titled "Hope"

This blog entry is not about Brexit, but since it is the first one after the UK has left the EU, it feels appropriate to start it with a Brexit-inspired thought. If you have attended a Euroconstruct conference in the recent past and the programme included a presentation by an Irish analyst, you will surely remember that at some point the presenter has shown disbelief at how little attention Brexit was getting during the session. The Irish audience had reasons to feel deceived because Brexit ranked high on the list of threats for their economy. But at the same time it was a more distant problem seen from the eyes of, for example, a German analyst. This permeated not just Euroconstruct conferences but the whole Euroconstruct Country Report where, apart from the chapters dedicated to the UK and Ireland, Brexit scarcely deserved a mention from the rest of countries.

In the last November conference, I experienced firsthand the kind of disappointment that the Irish have felt before. I listened to every speaker, waiting expectantly for insights regarding an issue that has become crucial for the Spanish construction market: the Next Generation EU plan. The truth is that the EU recovery facility went pretty much unnoticed during the whole proceedings. And this contrasts sharply with the atmosphere in Spain, where the recovery strategy has become a true trending topic.

Manufacturing countries are being less impacted by the new crisis than those focused on services. Economies such as Spain, with a tertiary sector strongly focused on tourism (50M less foreign visitors in 2020) are in a very fragile position. In such a context, the European Recovery Facility has the capacity not just to bring into the country a significant amount of funds, but also a motivation for making some necessary structural changes. The Ministry of Economy has forecasted that the recovery plan will provide an extra boost as high as 2.6 percentual points in the GDP of 2021. This may be a best-case scenario (the Bank of Spain estimates only 1.3 pp) but it reveals the amount of expectation created by the new EU funds, apparently higher than in the rest of European countries, judging from what I perceived in the Euroconstruct conference.

The expectations are high indeed, but deploying the new wave of funds will be a true challenge. Last October, the government published a document to lay the foundations of the national Recovery, Transformation and Resilience Plan, but despite being 58 pages long, it still left many questions unanswered. Companies who already have mature projects wanted more detail about how to apply and how their proposals will be judged. Right now the application process seems complicated but it is just a reflection of the administrative structure of the country, with responsibilities shared between the central government and the regions. On the other hand, it is clear from the outset that the decisions will not be taken at regional level, or even at ministry level, but by the office of the Prime Minister itself. This should also streamline the administrative procedures for screening the projects before submitting them to Brussels and will speed up the flow of the funds. There is also some debate about the kind of project profile that may be more successful, with some in favor of choosing a handful of very large projects ("tractor projects") while others are open to smaller projects. Probably the final formula would be a mix of both.

Not every project will involve the construction sector, but so far there are no fears about construction not getting its share of the EU funds. A month ago, the Spanish Association of Infrastructure Contractor and Concessionaires (Seopan) delivered a report that included a +2000 list of public investment projects that fit in with the EU policies, from building renovation to sustainable infrastructures, and most of them are "shovel-ready" awaiting tendering or in some stage of preliminary study. They would need 100,000 MEUR of investment, but if they are financed as PPP, they would only consume 12,000 MEUR from the European fund. In order to attract enough private capital, Seopan would welcome a change in the current law that constrains the profitability in long term public contracts.

There is no denying that there are still details to be sorted out, but this seems a byproduct of how quickly the EU has reacted in this crisis. Regarding the construction forecast, the impact on the growth rates may not seem particularly strong in the tables of the current Euroconstruct report. First of all, we must take into account that New Generation EU is definitely not influencing new building, just building renovation and civil engineering. But perhaps the crux of the matter is that we as market analysts could be somewhat blinded by those foreseeable teething problems and we could be underestimating the potential of the recovery plan once in motion (particularly if the health situation improves more quickly and so does the economy).

Apart from the effects on the production figures, the recovery fund could also bring some structural changes to the Spanish construction sector. It could jump-start private investment in infrastructure after a long period of very low profile. And there is plenty of room for growth in the renovation market in Spain, particularly in the niche of renovation for energy efficiency improvement: before the pandemic, the production per capita in building renovation in Spain was roughly half of that in Western Europe. If New Generation EU contributes to reduce this gap, consolidates the demand for building renovation and brings back some PPP into the Spanish market, there would be enough reasons to call it a success.

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