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To:	Mr Uwe CORSEPIUS, Secretary-General of the Council of the European Union

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Delegations will find attached document SWD(2013) 603 final.

This document is aimed for discussion in the **Eurogroup**.

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**COMMISSION STAFF WORKING DOCUMENT**

**Analysis of the Draft Budgetary Plan of SPAIN**

*Accompanying the document*

**COMMISSION OPINION**

**on the Draft Budgetary Plan of SPAIN**

{C(2013) 8003 final}

# **COMMISSION STAFF WORKING DOCUMENT**

## **Analysis of the Draft Budgetary Plan of SPAIN**

### *Accompanying the document*

## **COMMISSION OPINION**

### **on the Draft Budgetary Plan of SPAIN**

#### **1. INTRODUCTION**

Spain has submitted its Draft Budgetary Plan (DBP) for 2014 on 15 October 2013 in compliance with Regulation (EU) No 473/2013 of the Two-Pack together with a report on effective action and an Economic Partnership Programme as recommended by the Council in June 2013.

Spain is currently subject to the corrective arm of the Pact. The Council opened the Excessive Deficit Procedure for Spain on 27 April 2009 and recommended to correct the excessive deficit by 2012. On 21 June 2013, the Council concluded that Spain had taken effective action but adverse economic events with major implications on public finances had occurred, and issued revised recommendations. Spain was given a deadline of 1 October 2013 to take effective action to ensure a sustainable correction of the excessive deficit by 2016.

Section 2 of this document presents the macroeconomic outlook underlying the Draft Budgetary Plan and provides an assessment based on the Commission 2013 Autumn Forecast. The following section presents the recent and planned fiscal developments, according to the Draft Budgetary Plan, including an analysis of risks to their achievement based on the Commission 2013 Autumn Forecast. In particular, it also includes an assessment of the measures underpinning the draft budgetary plans. Section 4 assesses the recent and planned fiscal developments in 2013-2014 (also taking into account the risks to their achievement) against the obligations stemming from the Stability and Growth Pact. Section 5 provides an analysis of the fiscal structural reforms presented in the Economic Partnership Programme, as requested in the latest Council recommendations. Section 6 summarises the main conclusions of the present document.

#### **2. MACROECONOMIC DEVELOPMENTS UNDERLYING THE DRAFT BUDGETARY PLAN**

The Draft Budgetary Plan is based on a macroeconomic scenario, in which the Spanish economy is emerging from recession in the second half of 2013, returning to positive, but still moderate, annual real GDP growth in 2014 (see Table 1). Having contracted by 1.6% in 2012 and by an expected 1.3% in 2013, real GDP is forecast to grow by 0.7% in 2014. Growth is expected to be driven primarily by net exports, with domestic demand gradually exerting less of a drag on growth, as the DBP foresees a strengthening especially of gross fixed capital formation in 2014. The slight upward revision of real GDP growth in 2014 compared with the Stability Programme (from 0.5% to 0.7%) is largely due to stronger domestic demand, in particular, gross fixed capital formation which is expected to record positive annual growth in

2014. The contraction of employment is expected to slow down, with the annual growth rate rising from -3.4% in 2013 to -0.2% in 2014, more or less unchanged compared with the Stability Programme. HICP inflation is expected to rise from 1.3% in 2013 to 1.5% in 2014. The scenario in the Draft Budgetary Plan is based on the sizeably revised national accounts data published by the Spanish National Statistics Institute on 27 August 2013. The 2012 nominal GDP was lower by 2% compared to previous data.

The macroeconomic scenario in the DBP for 2014 appears slightly favourable compared with the Commission 2013 Autumn Forecast. Real GDP growth in 2014 is expected to be slightly stronger and the growth composition to be more revenue-friendly, as the DBP foresees a stronger recovery in domestic demand and especially in gross fixed capital formation. Moreover, employment is projected to shrink less in 2014 compared with the Commission forecast and the Draft Budgetary Plan is assuming the GDP deflator to increase at almost double the pace.

### **Box 1: The macro economic forecast underpinning the budget in Spain**

The macroeconomic forecast in Spain's Budgetary Plan for 2014 has been prepared by the Directorate General for Macroeconomic Analysis and International Economy within the Ministry of Economy. As from 2014, the macroeconomic forecasts underpinning the 2015 budget and the DBP will be assessed by an independent fiscal council (the *Autoridad Independiente de Responsabilidad Fiscal-AIRF*), whose creation is planned before the end of 2013. Based on the information available to the Commission at this stage, a draft organic law providing for the set-up of the new body is currently being discussed in Parliament, with adoption expected by mid-November 2013<sup>1</sup>. The approval of the Authorities' statute by the Council of Ministers is also expected before the end of 2013 (see Section 5).

The following provisions<sup>2</sup> of the draft organic law aim at ensuring independence and functional autonomy of the AIRF:

- i) The Authority is a public entity with legal personality and full public and private capacity (Art. 1);
- ii) it has organic and functional independence (Art. 7.1) to carry out its duties; iii) its President and staff cannot take instructions or ask for instructions from any other public or private entity (Art. 7.1);
- iv) while the Authority is appended to the Ministry of Finance, the draft organic law clarifies that this is without prejudice to the Authority's functional autonomy and independence (Art. 7.2); v) the Authority will have access to economic and financial information it needs to carry out its duties (Art. 4); vi) the Authority will have its own assets (*patrimonio*), which will be independent from the State's assets (Art. 11.1) and will be able to count on sufficient economic and human resources to carry out its duties (Art. 11.2); vii) its president is appointed by the Council of Ministers, with his/her appointment validated by the absolute majority of the relevant parliamentary committee.

The draft law currently foresees a term of office of the president of three years, which is the lowest among equivalent institutions across the EU, and organisationally appends the AIRF to the Ministry of Finance.

In addition to the assessment of the government's macroeconomic forecasts, the AIRF will be entrusted with the drawing up of reports falling into the following few categories (Arts. 14-22): i) assessment of the Stability Programme; ii) assessment (before 15 July of each year) on the degree of compliance with fiscal targets of all general government sub-entities; iii) proposal of definition of regions' fiscal targets; iv) assessment of the quality of regions' economic and financial plans; v)

<sup>1</sup> Regulation (EU) No 473/2013 on draft budgetary plans sets a deadline of 31<sup>st</sup> October to set up a compliant independent body.

<sup>2</sup> Articles in this box refer to the current draft organic law.

evaluation of the draft budget bills of the various levels of general government. Moreover, the AIRF will issue opinions on matters such as i) budgetary execution; ii) long term financial sustainability and iii) any other matter provided for by law. Last, the AIRF will produce studies commissioned by the Government, the Financial and Fiscal Policy Council, the National Committee for Local Administration and the Social Security Financial Committee (Art. 5.3).

**Table 1. Comparison of macroeconomic developments and forecasts**

	2012	2013			2014		
	COM	SP	DBP	COM	SP	DBP	COM
Real GDP (% change)	-1.6	-1.3	-1.3	-1.3	0.5	0.7	0.5
Private consumption (% change)	-2.8	-2.5	-2.6	-2.6	0.0	0.2	0.1
Gross fixed capital formation (% change)	-7.0	-7.1	-6.3	-6.6	-0.9	0.2	-2.4
Exports of goods and services (% change)	2.1	4.1	5.7	4.5	5.9	5.5	5.2
Imports of goods and services (% change)	-5.7	-3.7	-0.3	-1.9	2.6	2.4	1.5
<i>Contributions to real GDP growth:</i>							
- Final domestic demand	-4.1	-3.7	-3.2	-3.4	-0.8	-0.4	-0.8
- Change in inventories	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Net exports	2.5	2.4	1.9	2.1	1.3	1.2	1.3
Output gap <sup>1</sup>	-5.1	-4.5	-5.3	-5.2	-3.2	-3.5	-3.4
Employment (% change)	-4.2	-3.5	-3.4	-3.4	-0.2	-0.2	-0.6
Unemployment rate (%)	25.0	27.1	26.6	26.6	26.7	25.9	26.4
Labour productivity (% change)	3.3	2.4	2.2	2.4	0.6	1.0	1.2
HICP inflation (%)	2.4	1.7	1.3	1.8	1.6	1.5	0.9
GDP deflator (% change)	0.0	1.4	1.0	0.4	1.4	1.3	0.6
Comp. of employees (per head, % change)	0.2	1.1	0.5	1.0	0.4	0.3	0.1
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	-0.6	1.9	2.3	2.4	2.9	3.4	3.3
<p><b>Note:</b></p> <p><sup>1</sup>In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.</p> <p><b>Source:</b></p> <p><i>Stability programme (SP); Draft Budgetary Plan (DBP); Commission services' 2013 Autumn Forecast (COM); Commission services' calculations.</i></p>							

### 3. RECENT AND PLANNED FISCAL DEVELOPMENTS

#### 3.1. Deficit developments

The Draft Budgetary Plan expects the 2013 general government deficit to decrease to 6.8% of GDP from 10.6% of GDP in 2012. When excluding the impact of bank recapitalisations carried out in the framework of the financial sector programme, the deficit is expected to reach 6.5% of GDP (see Table 2), in line with the revised EDP recommendation. This is broadly in line with the Commission 2013 Autumn Forecast, also as regards individual revenue and expenditure categories. However, there are significant risks to both the Commission forecast and the DBP. Notably, should revenues not come in as strongly as currently expected or expenditure restraint, notably at regional level, not be as strict as planned in the last quarter of the year, the full-year target would be in jeopardy.

Following data revisions, the 2012 deficit (excluding bank recapitalisations) has been revised down to 6.8%<sup>3</sup> from 7.0% of GDP, mostly reflecting a better-than-expected outcome at local

<sup>3</sup> The deficit of 6.8% of GDP in 2012, net of bank recapitalisation costs, is corrected for the one-off direct budgetary impact of capital injections to banks recorded as deficit-increasing (3.8% of GDP) in the

government level. Nominal GDP has also been revised down, with the 2012 level being 2% lower after the revision. These revisions imply a base effect from 2012 of around +¾ percentage point on both the revenue and expenditure side. Hence, in level terms, the revisions in the DBP compared with the stability programme are much more limited.

For 2014, the DBP targets a general government deficit of 5.8% of GDP. This is in line with the revised target adopted by the Council in June 2013. The deficit reduction in 2014 is expected to be achieved by a combination of expenditure restraint and higher revenues. The expenditure ratio is projected to fall by 0.5 percentage points (excluding bank recapitalisations in 2013), reflecting mainly lower compensation of employees and intermediate consumption, while interest expenditure is still rising. The revenue ratio is forecast to increase by 0.3 percentage points reflecting higher revenues mainly from income taxes due to an improved macroeconomic outlook and some further discretionary measures. In the stability programme, the deficit reduction was expected to stem exclusively from lower expenditure as the revenue ratio was foreseen to contract slightly.

The Commission 2013 Autumn Forecast foresees a general government deficit of 5.9% of GDP in 2014, slightly higher than the DBP. This reflects essentially slightly more cautious nominal GDP growth and employment assumptions in the Commission forecast, implying weaker revenue growth. Moreover, there are some implementation risks, in particular regarding regional revenue measures and the effect of measures to fight fraud.

In the DBP, the structural deficit<sup>4</sup> is expected to decrease by 1.1 percentage point to reach 4.3% of potential GDP in 2013, which is unchanged from the stability programme. In 2014, it is expected to increase to 4.5% of potential GDP, which represents an upward revision of 0.6 percentage points compared with the stability programme. The strong upward revision in the 2014 structural deficit is mainly due to the stronger real GDP growth in 2014 and a faster closure of the output gap. The Commission 2013 Autumn Forecast estimates the structural balance to decrease by 1.1 percentage points to reach 4.1% of potential GDP in 2013 and to increase slightly to 4.2% in 2014. The assessment of the compliance with the required structural adjustment follows in Section 4.

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context of the on-going financial sector programme for recapitalisation of financial institutions in Spain. When taking into account also the impact of financial sector support operations on the revenue side, the deficit excluding the support for financial institutions was 6.9% of GDP.

<sup>4</sup> services on the basis of the information provided in the Draft Budgetary Plan, using the commonly agreed methodology.

**Table 2. Composition of the budgetary adjustment**

(% of GDP)	2012		2013			2014			Change: 2012-2014
	SP	COM	SP	DBP	COM	SP	DBP	COM	DBP
<b>Revenue</b>	<b>36.4</b>	<b>37.1</b>	<b>37.0</b>	<b>37.9</b>	<b>37.8</b>	<b>36.8</b>	<b>38.2</b>	<b>37.8</b>	<b>1.1</b>
<i>of which:</i>									
- Taxes on production and imports	10.2	10.4	10.8	11.2	11.2	10.8	11.3	11.2	0.9
- Current taxes on income, wealth, etc.	10.1	10.2	10.4	10.6	10.2	10.5	10.9	10.4	0.7
- Capital taxes	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.0
- Social contributions	12.9	13.0	12.5	12.6	12.9	12.3	12.5	12.7	-0.5
- Other (residual)	2.8	3.1	2.9	3.1	3.1	2.9	3.1	3.1	0.0
<b>Expenditure</b>	<b>47.0</b>	<b>47.8</b>	<b>43.3</b>	<b>44.8</b>	<b>44.6</b>	<b>42.3</b>	<b>44.0</b>	<b>43.8</b>	<b>-3.8</b>
<i>of which:</i>									
- Primary expenditure	44.1	44.7	40.0	41.4	41.2	38.8	40.4	40.2	-4.3
<i>of which:</i>									
Compensation of employees	11.1	11.2	10.9	11.4	11.4	10.4	11.0	11.1	-0.2
Intermediate consumption	5.7	5.7	5.4	5.5	5.3	5.2	5.2	5.1	-0.5
Social payments	18.8	19.0	18.9	19.4	19.5	18.9	19.3	19.5	0.3
Subsidies	1.0	1.0	1.1	1.1	1.1	1.0	1.1	1.0	0.1
Gross fixed capital formation	1.7	1.7	1.5	1.4	1.4	1.5	1.4	1.2	-0.3
Other (residual)	5.9	6.1	2.2	2.6	2.5	1.9	2.4	2.2	-3.7
- Interest expenditure	3.0	3.0	3.3	3.4	3.4	3.5	3.6	3.6	0.6
<b>General government balance (GGB)</b>	<b>-10.6</b>	<b>-10.6</b>	<b>-6.3</b>	<b>-6.8</b>	<b>-6.8</b>	<b>-5.5</b>	<b>-5.8</b>	<b>-5.9</b>	<b>4.8</b>
<b>Primary balance</b>	<b>-7.7</b>	<b>-7.6</b>	<b>-3.0</b>	<b>-3.4</b>	<b>-3.3</b>	<b>-2.0</b>	<b>-2.2</b>	<b>-2.4</b>	<b>5.4</b>
One-off and other temporary measures	-2.7	-3.0	0.0	-0.3	-0.2	0.0	0.0	-0.1	3.0
<b>GGB excl. one-offs</b>	<b>-7.9</b>	<b>-7.6</b>	<b>-6.4</b>	<b>-6.5</b>	<b>-6.5</b>	<b>-5.4</b>	<b>-5.8</b>	<b>-5.8</b>	<b>1.8</b>
Output gap <sup>1</sup>	-4.7	-5.1	-4.5	-5.3	-5.2	-3.2	-3.5	-3.4	1.6
Cyclically-adjusted balance <sup>1</sup>	-8.4	-8.2	-4.2	-4.3	-4.3	-3.9	-4.1	-4.3	4.1
<b>Structural balance (SB)<sup>2</sup></b>	<b>-5.7</b>	<b>-5.2</b>	<b>-4.3</b>	<b>-4.0</b>	<b>-4.1</b>	<b>-3.9</b>	<b>-4.1</b>	<b>-4.2</b>	<b>1.0</b>
<i>Change in SB</i>	<i>1.5</i>	<i>2.1</i>	<i>1.4</i>	<i>1.2</i>	<i>1.1</i>	<i>0.4</i>	<i>-0.1</i>	<i>-0.1</i>	-
<i>Two year average change in SB</i>	<i>0.8</i>	<i>1.1</i>	<i>1.5</i>	<i>1.6</i>	<i>1.6</i>	<i>0.9</i>	<i>0.5</i>	<i>0.5</i>	-
Structural primary balance <sup>2</sup>	-2.7	-2.1	-1.0	-0.6	-0.6	-0.4	-0.5	-0.6	1.6
<i>Change in structural primary balance</i>	<i>2.0</i>	<i>2.6</i>	<i>1.7</i>	<i>1.5</i>	<i>1.5</i>	<i>0.6</i>	<i>0.1</i>	<i>0.0</i>	-
<b>Expenditure benchmark</b>									
Applicable reference rate <sup>3</sup>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-
Deviation <sup>4</sup> (% GDP)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-
Two-year average deviation (% GDP)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-

Notes:

<sup>1</sup>Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

<sup>2</sup>Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

<sup>3</sup>Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A lower rate applies as long as the country is adjusting towards its MTO, including in year t. The reference rates applicable to 2014 onwards have been updated in 2013.

<sup>4</sup>Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A positive sign implies that expenditure growth exceeds the applicable reference rate.

Source:

Stability programme (SP); Draft Budgetary Plan (DBP); Commission services' 2013 Autumn Forecast (COM); Commission services' calculations.

### 3.2. Debt developments

After four years of steep increase in the government debt, the Draft Budgetary Plan foresees the upward trend in gross debt to continue in 2013 and 2014, with the debt ratio reaching 94.2% in 2013 and 98.9% in 2014. This is an upward revision of around 2¾ pps in both years compared to the Stability Programme, driven mainly by an upward revision of stock-flow adjustments in 2013, but also to some extent by a lower GDP deflator and a higher primary deficit. The latter is mainly explained by further bank recapitalisation of 0.3 pp. In 2014, a somewhat more negative primary balance and slightly higher interest expenditure than was foreseen in the Stability Programme is offset by higher nominal GDP growth and lower stock-flow adjustment. Sizeable stock-flow adjustments partly reflect the payment of overdue regional and local commercial debt as part of the supplier payment schemes in the years 2012-14 (see Section 5). However, the DBP does not provide a breakdown of the various components of the stock-flow adjustment and the revisions.

Compared to the DBP, the Commission 2013 Autumn Forecast has a higher debt profile, which for both 2013 and 2014 mainly reflects a lower GDP deflator and, in the case of 2014, slightly lower GDP growth. In 2014, the Commission forecast foresees the debt ratio to approach 100% of GDP, one percentage point higher than in the DBP.

**Table 3. Debt developments**

(% of GDP)	2012	2013			2014		
		SP	DBP	COM	SP	DBP	COM
<b>Gross debt ratio<sup>1</sup></b>	<b>86.0</b>	<b>91.4</b>	<b>94.2</b>	<b>94.8</b>	<b>96.2</b>	<b>98.9</b>	<b>99.9</b>
Change in the ratio	15.5	5.4	8.2	8.8	4.7	4.7	5.1
<i>Contributions<sup>2</sup>:</i>							
<b>1. Primary balance</b>	<b>7.6</b>	<b>3.0</b>	<b>3.5</b>	<b>3.3</b>	<b>2.0</b>	<b>2.2</b>	<b>2.4</b>
<b>2. “Snow-ball” effect</b>	<b>4.2</b>	<b>3.1</b>	<b>3.5</b>	<b>4.2</b>	<b>1.8</b>	<b>1.7</b>	<b>2.5</b>
<i>Of which:</i>							
Interest expenditure	3.0	3.3	3.3	3.4	3.5	3.6	3.6
Growth effect	1.2	1.1	1.1	1.1	-0.5	-0.7	-0.5
Inflation effect	0.0	-1.2	-0.8	-0.4	-1.2	-1.3	-0.6
<b>3. Stock-flow adjustment</b>	<b>3.7</b>	<b>-0.8</b>	<b>1.2</b>	<b>1.2</b>	<b>1.0</b>	<b>0.8</b>	<b>0.2</b>
<i>Of which:</i>							
Cash/accruals difference		n.a.	n.a.		n.a.	n.a.	
Net accumulation of financial assets		n.a.	n.a.		n.a.	n.a.	
<i>of which privatisation proceeds</i>		n.a.	n.a.		n.a.	n.a.	
Valuation effect & residual		n.a.	n.a.		n.a.	n.a.	
<b>Notes:</b>							
<sup>1</sup> End of period.							
<sup>2</sup> The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.							
<b>Source:</b>							
Stability programme (SP); Draft Budgetary Plan (DBP); Commission services’ 2013 Autumn Forecast (COM); Commission services’ calculations.							

### 3.3. Measures underpinning the draft budgetary plan

The Draft Budgetary Plan reports an incremental (from one year to the next) consolidation effect of discretionary measures of 3¼% and 1½% of GDP in 2013 and 2014, respectively (see Table 4). In 2013, the bulk of the effect stems from revenues measures (2¼% of GDP), including in particular the full impact of an increase in VAT rates in 2012 and the increase in some excise duties. In 2014, the effect is evenly distributed on the revenue and expenditure side. On the revenue side this includes some limited additional hikes in excise duties, some further reduction in tax exemptions for corporate income tax and some revenue-increasing measures by regional authorities. On the expenditure side, the retrenchment in 2013 and 2014 is supported by the continuation of public sector wage and hiring freezes, structural reforms to improve the efficiency of spending in health and education, public administration reforms and reforms to early retirement and pension indexation (see Section 5).

The Commission 2013 Autumn Forecast takes into account incremental consolidation measures of 3¼% of GDP in 2013 and about 1½% of GDP in 2014, as some of the measures, notably measures to fight fraud and regional measures, carry implementation risks, also in light of the track record in 2012. The fiscal consolidation in 2014 as envisaged in the Draft Budgetary Plan does not rely on one-offs to any large extent, but it relies heavily on a one-year extension of the higher personal income tax rates introduced in 2012, which were still



foreseen to expire by the end of 2013 when the revised EDP recommendation was issued, and a one-year delay in reversing measures foreseen to be temporary, in corporate taxation.

Measures to improve the efficiency of public expenditure in key areas, including the reform of public administration at different levels of government, as well as the pension system reform, are in line with the country-specific recommendations (CSR) addressed to Spain. Moreover, a review of the tax system is being prepared, with a group of experts due to deliver a report in February 2014 (see also Section 5). However, a non-negligible part of the planned expenditure consolidation is driven by savings on investment expenditure, which makes the overall consolidation less growth-friendly.

**Table 4. Main discretionary measures reported in the DBP<sup>5</sup>**

Components	Budgetary impact (% GDP) (as reported by the authorities)	
	2013	2014
Taxes on production and imports	2	2.3
Current taxes on income, wealth, etc.	1.2	1.6
Capital taxes	0	0
Social contributions	0.4	0.4
Property Income	0.9	0.8
Other	-0.9	-0.8
Total	3.6	4.3
<b>Note:</b> The budgetary impact in the table is the aggregated impact of measures as reported in the DBP, i.e. by the national authorities. A positive sign implies that revenue increases as a consequence of this measure. <b>Source:</b> <i>Draft Budgetary Plan</i>		
<b>Discretionary measures taken by General Government - expenditure side</b>		
Components	Budgetary impact (% GDP) (as reported by the authorities)	
	2013	2014
Compensation of employees	-0.4	-0.5
Intermediate consumption	-0.6	-0.7
Social payments	-0.5	-0.7
Interest Expenditure	0	0
Subsidies	-0.6	-0.6
Gross fixed capital formation	-0.8	-1
Capital transfers	-0.2	-0.2
Other	-0.7	-0.9
Total	-3.8	-4.6
<b>Note:</b> The budgetary impact in the table is the aggregated impact of measures as reported in the DBP, i.e. by the national authorities. A positive sign implies that expenditure increases as a consequence of this measure. <b>Source:</b> <i>Draft Budgetary Plan</i>		

<sup>5</sup> The table reports the cumulative annual budgetary impact of main discretionary measures. The DBP reports also the incremental annual impact, however, not according to ESA95 breakdown.

#### **4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT: COMPLIANCE WITH EDP RECOMMENDATIONS**

##### **4.1. Budgetary implementation in 2013**

For 2013, both the DBP and the Commission 2013 Autumn Forecast project the headline deficit to decrease to 6.8% of GDP, above the EDP deficit target of 6.5% of GDP. However, the general government deficit net of the costs of bank recapitalisation carried out in the framework of the financial sector programme is forecast to decrease to 6.5% of GDP from a revised 6.8% of GDP in 2012<sup>6</sup>. This consolidation is taking place against the backdrop of a still sharply declining real GDP and continued employment destruction, even though the fall in real GDP and the growth composition seem to be turning out slightly better than expected at the time of the EDP recommendation. As regards the latest budgetary execution, in the first half of the year the general government deficit (adjusted for bank recapitalisation costs) dropped by 0.2 pp compared to the same period in 2012<sup>7</sup>. Despite major revenue consolidation measures having taken effect in the second half of 2012 (e.g. VAT rate hikes) total general government revenue remained broadly flat at the level of the previous year due to weak tax bases. The scope for additional budgetary improvement in the second half of 2013 appears to be limited given that the positive base effect from the previous year's consolidation measures, including the suspension of the public sector Christmas bonus, is petering out. At the current economic juncture, with the economy expected to have reached a turning point in the business cycle, the uncertainty surrounding the budgetary outcome for 2013 is still very high<sup>8</sup>. Considering the development in the first half of 2013, achieving the nominal EDP target will crucially depend on stronger revenue performance and the government successfully curbing expenditure in the remaining months of the year.

The revised EDP recommendation requires Spain to achieve an improvement in the structural balance of 1.1 pp. in 2013. The Commission 2013 Autumn Forecast points to an expected improvement in the structural balance of 1.1 pp., in line with the revised EDP recommendation. Accounting for revisions to the potential output growth estimate and unexpected revenue windfalls since the time of the EDP recommendation, the estimated corrected change in the structural balance amounts to 0.9 pp., below the effort required in the EDP recommendation<sup>9</sup>.

The revised EDP recommendation did not require Spain to adopt additional measures in 2013, further to the measures already announced in the July 2012 package, the multi-annual budget

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<sup>6</sup> In the September 2013 EDP notification to Eurostat, the deficit outcome for 2012 was revised down from 7% of GDP to 6.8% (net of bank recapitalisation costs). At the same time, the bank recapitalisation costs were revised up from EUR 38.3bn to EUR 39.1bn. The overall deficit outcome of 10.6% of GDP remained unchanged.

<sup>7</sup> The cumulative deficit (net of bank recapitalisation costs) of the central government, autonomous communities, and social security (excluding local governments) reached 4.8% of GDP at the end of August. However, it is difficult to interpret the budgetary execution given the lack of corresponding time series for 2012.

<sup>8</sup> The recent wide-ranging data revisions affecting both 2012 and 2013 further add to the uncertainty, complicating the interpretation of the budgetary execution data so far in the year.

<sup>9</sup> The result is largely driven by the fact that revenues net of discretionary measures and adjusted for unexpected revisions compared to the forecast underlying the recommendations are expected to fall by 1bn less than at the time of the EDP recommendation.

plan for 2013-14 presented in August 2012, and the 2013 Budget bill<sup>10</sup>. Nevertheless, the government adopted some further limited tax hikes in June 2013 which together with a reassessment of the implementation of existing revenue measures are estimated to have a budgetary impact of around ½% of GDP in 2013. This contributes to the total incremental impact of discretionary measures in 2013, which is expected to be about ¾% of GDP, of which about 2% of GDP is on the revenue side and 1¼% of GDP on the expenditure side

However, a bottom-up assessment which estimates the size the fiscal effort for 2013 on the basis of the additional discretionary revenue measures and the expenditure developments under the control of the government<sup>11</sup> between the EDP scenario and the Commission 2013 Autumn Forecast, shows that Spain has not taken additional measures for 2013, as underlying higher expenditure increases have offset the ½% of GDP of new and reassessed revenue measures. This amount is in line with the amount of measures deemed necessary to reach the structural targets spelled out in the EDP recommendation.

## **Box 2. Council recommendations addressed to Spain**

**On 21 June 2013, the Council recommended Spain under Art 126(7) of the Treaty to correct its excessive deficit by 2016.** To this end:

- Spain should put an end to the present excessive deficit situation by 2016.
- Spain should reach a headline deficit target of 6.5% of GDP in 2013, 5.8% of GDP in 2014, 4.2% of GDP in 2015, and 2.8% of GDP in 2016, which, based on the Commission services' 2013 Spring Forecast extended to 2016, is consistent with an improvement of the structural balance of 1.1%, 0.8%, 0.8%, and 1.2% of GDP in the years 2013-2016 respectively.
- Spain should implement the measures adopted in the 2013 budget plans at all levels of government and stand ready to take corrective action in case of deviations from budgetary plans. The authorities should reinforce the medium-term budgetary strategy with well-specified structural measures for the years 2014-16 that are necessary to achieve the correction of the excessive deficit by 2016.
- The Council establishes the deadline of 1 October 2013 for the Spanish government to take effective action and, in accordance with Article 3(4a) of Council Regulation (EC) No 1467/97, to report in detail the consolidation strategy that is envisaged to achieve the targets.

Furthermore, the Spanish authorities should (i) strengthen the effectiveness of the institutional framework by raising further the transparency in implementation of the Budgetary Stability Law as well as by establishing an independent fiscal council to provide analysis, advice and monitor compliance of fiscal policy with national and EU fiscal rules, (ii) undertake concrete steps to rein in the increasing structural deficit in the social security system, and (iii) give a greater emphasis to the growth friendliness of the consolidation, including by conducting systematic reviews of expenditure and the tax system.

**On 9 July 2013, the Council also addressed recommendations to Spain in the context of the European Semester.** In particular, in the area of public finances the Council recommended to Spain to:

<sup>10</sup> For a detailed description of the measures see: *Commission Staff Working Document accompanying the document Recommendation for a Council Recommendation with a view to bringing an end to the situation of an excessive government deficit in Spain [COM(2013) 383 final]*.

<sup>11</sup> Excluding notably unemployment benefit payments related to the evolution of the number of unemployed and changes in interest expenditure related to interest and exchange rate changes.

- Deliver the structural fiscal effort as required by the Council recommendation under the EDP to ensure correction of the excessive deficit by 2016. To this end, implement the measures adopted in the 2013 budget plans at all levels of government, reinforce the medium-term budgetary strategy with sufficiently specified structural measures for the years 2014-16. A durable correction of the fiscal imbalances is predicated upon the credible implementation of ambitious structural reforms which would increase the adjustment capacity and boost potential growth and employment. After achieving the correction of the excessive deficit, pursue the structural adjustment at an appropriate pace so as to reach the medium term objective by 2018. Ensure a strict and transparent enforcement of the preventive and corrective measures provided for in the Budgetary Stability Organic Law. Establish an independent fiscal authority before the end of 2013 to provide analysis, advice and monitor compliance of fiscal policy with national and EU fiscal rules. Improve the efficiency and quality of public expenditure at all levels of government, and conduct a systematic review of major spending items by March 2014. Increase the cost effectiveness of the health-care sector, while maintaining accessibility for vulnerable groups, for example by reducing hospital pharmaceutical spending, strengthening coordination across types of care and improving incentives for an efficient use of resources. Take measures to reduce the outstanding amount of government arrears, avoid their further accumulation and regularly publish data on outstanding amounts. Adopt the dis-indexation law to reduce the degree of price inertia in public expenditures and revenues, in time to have it in force by the beginning of 2014 and consider additional steps to limit the application of indexation clauses. Finalise by end-2013 the regulation of the sustainability factor so as to ensure the long-term financial stability of the pension system, including by providing that the retirement age will rise in line with gains in life expectancy.

- Conduct a systematic review of the tax system by March 2014. Consider further limiting tax expenditure in direct taxation, explore the scope to further limit the application of the reduced VAT rates and take additional steps in environmental taxation, notably as regards fuel taxes. Take further measures to address the debt bias in corporate taxation. Intensify the fight against the shadow economy and undeclared work.

- Adopt in line with the presented timetable the reform of the local administration and define by October 2013 a plan to enhance the efficiency of the overall public administration

#### **4.2. Budgetary outlook for 2014**

For 2014, the headline balance forecast in the Draft Budgetary Plan is in line with the EDP target of 5.8% of GDP. According to the Commission 2013 Autumn Forecast, the general government deficit is forecast to decrease to 5.9% of GDP in 2014, marginally higher than the EDP target. Nominal revenues are projected to rise by only slightly more than 1% y-o-y, despite real GDP growth turning positive and certain revenue measures being extended that were initially set to expire by the end of 2013 (see Section 3.3). On the expenditure side, increased nominal spending in particular on social transfers and interest are set to be offset by a decline in other spending items (compensation of employees, intermediate consumption, subsidies, other current expenditure and investment) leaving overall expenditure broadly flat. The projected small budgetary deviation compared to the target in the Draft Budgetary Plan is largely due to the somewhat more cautious nominal growth and employment assumptions in the Commission's forecast, implying weaker revenue growth (see section 3.1) and some implementation risks, in particular regarding regional revenue measures and the effect of the fight against fraud.

The revised EDP recommendation requires Spain to achieve a structural fiscal consolidation of 0.8% of GDP in 2014. The Commission 2013 Autumn Forecast projects the structural deficit to deteriorate by 0.1 pp. Correcting for the change in the estimated potential growth between the projections underlying the revised EDP recommendation and the 2013 Autumn

Forecast, the estimated fiscal effort would be around 0.1 pp lower. Adjusting for revenue shortfalls unexpected at the time of the EDP recommendation (notably of direct taxes and social contributions due to less tax-rich growth composition and a stronger deterioration in the labour market) would improve the effort by 0.5 pp to 0.3% of GDP. This remains below the recommended structural effort. Nevertheless, given the improvement in the macroeconomic outlook for 2014 relative to the EDP scenario, the nominal deficit target may be within reach despite a smaller structural effort. There are also significant uncertainties surrounding the estimation of potential growth and output gaps in an economy like Spain facing profound structural transformation. In particular, the estimated very strong closure of the output gap in 2014 might over-estimate the extent to which the nascent economic recovery translates into an actual improvement of the budgetary position.

The bottom-up estimate of the fiscal effort is around 1¾% of GDP. This amount falls somewhat short of the about 2% of GDP of measures deemed necessary to reach the structural targets spelled out in the EDP recommendation<sup>12</sup>.

### **4.3. Budgetary outlook for 2015 and 2016**

For 2015 and 2016, the headline deficit targets set in the Draft Budgetary Plan are in line with the EDP targets of 4.2% and 2.8% of GDP, respectively. However, the DBP does not present a detailed adjustment path over the same period. As highlighted by the Commission 2013 Autumn Forecast the expected economic recovery alone will not be sufficient to generate the budgetary improvement required to correct the excessive deficit situation. Moreover, on the back of potentially expiring temporary tax measures, the general government deficit is projected to widen further to 6.6% of GDP in 2015, before dropping to 5.6% of GDP in 2016. Therefore, the risks to achieving the EDP targets at this stage are high given the insufficient amount of measures currently specified for 2015 and 2016.

The revised EDP recommendation requires Spain to achieve a structural fiscal consolidation of 0.8% and 1.2% of GDP in 2015 and 2016 respectively. However, according to the Commission 2013 Autumn Forecast, the structural deficit is projected to deteriorate by 1.6 pps in 2015 and 0.4 pp. in 2016. Correcting for the change in the estimated potential growth between the projections underlying the revised EDP recommendation and the 2013 Autumn Forecast as well as adjusting for unexpected revenue developments leaves the adjusted structural effort about 2 pps in 2015 and 1¼ pps in 2016 short of the levels required by the revised EDP recommendation.

## **5. ANALYSIS OF THE ECONOMIC PARTNERSHIP PROGRAMME**

### **5.1. Overview**

The scope of Spain's Economic Partnership Programme is broader than fiscal-structural aspects. The Economic Partnership Programme presents the on-going efforts to implement structural reforms, listing legislative proposals which have been brought on the way or planned to address the 2013 country-specific recommendations (CSRs).

The Economic Partnership Programme confirms the reform agenda (for fiscal and other structural reforms) included in the 2013 National Reform Programme (NRP) and the Stability

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<sup>12</sup> The total addition effort includes a revenue effort of 1.3% of GDP and an expenditure effort of 0.4% of GDP.

Programme (SP). All 9 CSRs to Spain are broadly covered in the Economic Partnership Programme. While it does not contain any additional elements relative to the above-mentioned documents, in some cases it gives more detail (in terms of content and / or deadlines).

With some exceptions (see below), the measures listed in the Economic Partnership Programme appear to be concrete, both in terms of description of objectives and content and dates / deadlines for adoption. The programme also underlines that implementation of key reforms is advancing.

## **5.2. Fiscal structural reforms presented in the Economic Partnership Programme**

The Economic Partnership Programme enumerates structural reforms in response to the so-called fiscal CSRs (CSR 1 and 2). These are summarised in table 1. The reforms presented could help correct Spain's excessive deficit situation, either via fiscal savings or improved budgetary frameworks.

- First, planned changes in the pension system are significant. The proposed regulation of the sustainability factor and the new pension indexation formula – together with the early retirement reform adopted in March – are important steps to improve the sustainability of public finances and to rein in fast-rising pension expenditure.
- Second, measures to improve efficiency of health care expenditure, e.g. including an updated price list for drugs, centralised procurement for health supplies, implementation of a new health identity card<sup>13</sup>, the revision of the basket of health care benefits and services, the on-going reform of the system of assistance to dependent people and the creation a registry of providers of medical services, could result in a more efficient use of public resources and in enhanced transparency. The government has estimated savings from these measures at EUR 7 billion in total, with implementation having yielded EUR 4.2 billion to date.
- Third, based on the information available to the Commission at this stage, the independent fiscal institution (AIRF), to be created before the end of 2013, will assess macroeconomic forecasts for the budget, monitor fiscal performance and advise the government on fiscal policy matters. The AIRF is expected to contribute to an enhanced monitoring of Spain's public finances and to an early detection of deviations from fiscal targets, including at sub-central government level (see box no. 1 for a detailed list of duties to be carried out by AIRF). The draft law that has been submitted to Parliament sets the term of office of the president at three years, which is the lowest among equivalent institutions across the EU, and organisationally appends the AIRF to the Ministry of Finance.
- Fourth, the on-going amendments to the Budgetary Stability Organic Law (BSOL) aim at strengthening the Ministry of Finance's monitoring powers over the cash and commercial arrears of the various public administrations<sup>14</sup>, so that arrears do not undermine the

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<sup>13</sup> The new health identity card has a unified format and is interoperable in all regions. Once implemented, the health identity card will give practitioners nation-wide electronic access to the medical history of patients.

<sup>14</sup> For that, all public sector entities will publish their own average payment period. Should it be above the thresholds provided for in the law, preventive and then corrective measures will be activated, consisting of freezes in budgetary appropriations and State authorisations of the debt operations of the non-complying administration. Should the measures fail to reduce the average payment period of the administration concerned, the Ministry of Finance will pay the commercial debt directly to the creditor and at the same time, withhold the amounts due to the non-compliant administration under the existing financing system.

financial sustainability of the administration concerned. As such, it strengthens fiscal discipline on all general government sub-sectors. The amendments build on the past two years' experience in reducing large public sector arrears. Indeed, as of May 2013, the Ministry of Finance had paid down EUR 28.5 billion of overdue regional and local commercial debt originating before 1 January 2012. A new supplier's payment scheme was launched in June 2013 to eliminate regional and local administration commercial arrears from invoices due as of 31 May 2013.

- Fifth, the government counts on fiscal savings of EUR 8 bn over 2014 to 2019 from the implementation of the draft law on local administration reform, currently in Parliament. Among others, the draft law i) incorporates the principles of budgetary stability and financial sustainability into the legislation on local entities; ii) aims at reducing the number of local entities<sup>15</sup>; iii) clarifies the list of competencies than can be taken on by municipalities (i.e., proper, delegated and exceptionally, "improper" competencies), with a view to rationalising resources, and iv) creates incentives for the efficient provision of services by municipalities<sup>16</sup>. Expected savings could be on the high side though, in particular for 2015, due to uncertainties surrounding the implementation of provisions on mergers of municipalities, on the coordination of "essential" and "non-essential services" of smaller municipalities by provincial councils, as well as on the take-on by regions of education, social and health services currently rendered by local entities.
- Sixth, the public administration reform (CORA) is assumed to bring nearly EUR 2 bn savings over a three-year period in addition to those originating from other public-sector related reforms (implying total savings of around EUR 6 bn from various public sector reforms over this period)<sup>17</sup>. Regional ownership of the reform is critical to securing efficiency gains over the medium term, in areas such as the elimination of duplicated administrative structures and the implementation of measures currently planned only for the central government sector<sup>18</sup>.
- Seventh, the dis-indexation law, submitted to parliament at the end of September 2013 could also contribute to reducing the drift of public expenditure. Upon adoption, the law is expected to discontinue current indexation schemes on administered prices and public sector contracts. It will be voluntarily applicable also to indexation mechanisms on privately agreed prices, but not to collective bargaining, financial sector instruments or pensions (the indexation of the latter being addressed by the dedicated instrument discussed above). In addition to generating fiscal savings, the dis-indexation law can contribute to reducing second round effects in prices and fostering nominal stability.

<sup>15</sup> In particular, the so-called sub-municipal entities while limiting the creation of legal entities depending on municipalities.

<sup>16</sup> This is done through various measures: i) it benchmarks the so-called effective costs for the provision of services by municipalities, ii) it enhances the role of provincial councils (*diputaciones provinciales*) in coordinating the provision of such services for smaller local entities and iii) gives fiscal incentives to the merger of municipalities. Other than that, the draft law aims at strengthening the role of the control function of municipalities by enhancing the selection procedure (at nation level) of civil servants working for local entities (representing currently 1% of the local administration's workforce only) and by strengthening the role of the local comptroller, who will report its findings to the *Cour de Comptes*. It also subjects the economic activities of municipalities to the principles of budgetary stability and financial sustainability. At the same time, it aims at simplifying business licensing and provides for a number of caps to the wage bill of local entities.

<sup>17</sup> Planned measures fall into the following five main categories: i) horizontal measures; ii) reduction in duplicated administrative structures; iii) administrative burden reduction measures; iv) streamlining of overheads and v) rationalisation of the so-called "institutional" administration.

<sup>18</sup> To illustrate, regarding planned reforms to streamline central government overheads, Chapter VI of the report on public administration reform (*subcomisión de gestión de servicios communes*) acknowledges that the recommendations are addressed to the central government. However, the report invites regional governments to apply the recommendations as necessary.

- Eighth, the Economic Partnership Programme also summarises measures to fight tax fraud and undeclared work (including an annual plan on tax and customs controls to be adopted at the beginning of 2014, increased exchange of information on subsidies between the tax authorities (AEAT) and the government's accountability office (IGAE) as well as the continued implementation of the plan against fraud in employment and in social security). According to the Spanish authorities, these efforts are expected to yield additional EUR 1 billion revenues in 2013 and again in 2014.

However, the Economic Partnership Programme does not give much detail on the following aspects of CSRs 1 and 2:

- The Economic Partnership Programme takes stock of the progress made in improving the monitoring of regional finances in accordance with the BSOL, the Region's Liquidity Fund and the Suppliers' Payment Scheme, but does not consider additional steps to strengthen the strict and transparent enforcement of the preventive and corrective measures provided for in the BSOL (including e.g. timely publication of the quarterly assessment reports of region's economic and financial plans (EFP) and the reasons for the activation or not of sanctions to non-compliant entities).
- The Economic Partnership Programme does not present plans for a comprehensive systematic review of major spending items, as recommended in the CSRs by March 2014. However, measures to rationalise spending on health, employment policy and on public administration provide information on some key expenditure items (see above).
- Regarding the systematic review of the tax system (CSR 2), the Economic Partnership Programme refers to the conclusions of a group of experts to be presented in February 2014 and to be evaluated by the government at a later stage. Some additional steps (e.g., a new tax on fluoride gas) have been taken to further strengthen environmental taxation. The entrepreneurship law provides certain fiscal incentives to foster the creation of new companies, investments in R&D+I and the development of business angels. Concrete steps to reduce tax expenditures in direct taxation, as recommended in the CSR, remain to be addressed in the forthcoming review of the tax system.

### **5.3. Other structural reforms in the Economic Partnership Programme**

Finally, significant attention is devoted in the Economic Partnership Programme to reforms of product and factor markets:

- Regarding labour market issues, the Economic Partnership Programme recalls the evaluation of the 2012 labour market reform undertaken by the government and does not present concrete plans to introduce amendments. The 2012 reform, together with the 2012 social partners' agreement, appears to have fostered firms' internal flexibility and wage moderation, hence limiting, *ceteris paribus*, employment losses. However, it remains to be seen whether the reform will deliver a fast recovery in job creation and less labour market duality once economic growth returns solid.
- The Economic Partnership Programme also refers to the on-going reform of active labour market policies, the implementation of the Youth Entrepreneurship and Employment Strategy and the introduction of public-private partnerships in placement services. It remains however, silent on concrete measures on the modernisation of public employment services, other than co-operation with private employment agencies and the implementation of a single job portal. Moreover, the Economic Partnership Programme does not give much detail on reforms in the social sector.



- Regarding education and training, the Economic Partnership Programme refers to the law on quality of the education, which is expected to be implemented in the school year 2014-2015, and the finalisation of the dual vocational training strategy. As in the case of other reforms, including notably ALMP, the implementation of the measures depends on the smooth cooperation between central and regional governments.
- On product and services markets, the Economic Partnership Programme refers to on-going and completed reform efforts such as the draft law on the guarantee of market unity, the draft professional services law, the recently adopted entrepreneurship law and the electricity reforms:
  - An ambitious law on market unity could reduce barriers to the free movement of goods and services in Spain, increase competition and allow companies to reap efficiency gains via economies of scale, once fully implemented.
  - The second law aims at further liberalising professional services, namely by simplifying entry requirements and aiming at the repeal of activities reserved in exclusivity to specific providers. As such, and if the degree of ambition of the draft law is maintained, the reform could moderate prices to the benefit of the many users of professional services.
  - The recent law on entrepreneurship aims *inter alia* at addressing some of the apparent shortcomings of the insolvency framework for corporates, namely by introducing a possibility of a "fresh start", as well as to foster company creation. In addition, it limits entrepreneur's personal liability in the event of insolvency proceedings.
  - Last, the Economic Partnership Programme also reports on measures to reduce the electricity tariff deficit, i.e. the gap between fast-rising regulated electricity costs, and mandated tariffs for end-consumers. To tackle the deficit, in early July, the government presented a reform package, which envisages a limited increase in tariffs, a reduction in different regulated costs (including support for renewable energy production), and a limited annual transfer from the central government budget. The reform appears to be comprehensive and may potentially (including via an automatic rebalancing mechanisms) eliminate the electricity tariff deficit and the associated contingent liability for public finances. However, as of early November 2013, some relevant parameters, such as the remuneration to RES producers were to be finalised.

**Table 5: Correspondence between measures in Spain's Economic Partnership Programme and the 2013 fiscal CSRs**

CSR#	2013 CSR	Measures in Economic Partnership Programme ()
1	Strict and transparent enforcement of the preventive and corrective measures provided for in the Budgetary Stability Organic Law	<ul style="list-style-type: none"> <li>• Monthly follow up on regions' budgetary execution, including regions having submitted an Economic and Financial plan (i.e., for regions having missed the 2012 deficit target) or for those getting funding through the Regional Liquidity Fund or the Suppliers' Payment scheme.</li> </ul>
1	Establish an independent fiscal authority before the end of 2013	<ul style="list-style-type: none"> <li>• Organic law and statutes of the Independent Fiscal Council to be adopted before end 2013.</li> </ul>

CSR#	2013 CSR	Measures in Economic Partnership Programme ()
1	Improve the efficiency and quality of public expenditure at all levels of government, and conduct a systematic review of major spending items by March 2014.	<ul style="list-style-type: none"> <li>• Publication of CORA report on the reform of public administration and quarterly monitoring of implementation.</li> <li>• No references in Economic Partnership Programme to spending reviews of major spending items (other than in healthcare and public administration).</li> </ul>
1	Increase the cost effectiveness of the health-care sector, while maintaining accessibility for vulnerable groups, for example by reducing hospital pharmaceutical spending, strengthening coordination across types of care and improving incentives for an efficient use of resources	<ul style="list-style-type: none"> <li>• List of efficiency enhancing measures in healthcare sector, including: <ul style="list-style-type: none"> <li>○ Updated price list for drugs</li> <li>○ Centralised procurement for health supplies</li> <li>○ Implementation of the health identity card (giving practitioners nation-wide electronic access to the medical history of patients)</li> <li>○ On-going reform of the system of assistance to dependent people.</li> </ul> </li> </ul>
1	Reduce the outstanding amount of government arrears, avoid their further accumulation and regularly publish data on outstanding amounts.	<ul style="list-style-type: none"> <li>• 2013 Suppliers' Payment Scheme, to eliminate arrears in regional and local governed originating from invoices due as of 31 May 2013.</li> <li>• Amendments to the Budgetary Stability Organic law, to eliminate arrears in public sector commercial debt, to get parliamentary approval before year-end.</li> </ul>
1	Adopt the dis-indexation law to reduce the degree of price inertia in public expenditures and revenues, in time to have it in force by the beginning of 2014 and consider additional steps to limit the application of indexation clauses.	<ul style="list-style-type: none"> <li>• Dis-indexation law to get parliamentary approval before year-end.</li> </ul>
1	Finalise by end-2013 the regulation of the sustainability factor so as to ensure the long-term financial stability of the pension system, including by providing that the retirement age will rise in line with gains in life expectancy.	<ul style="list-style-type: none"> <li>• Law regulating the sustainability factor to get parliamentary approval before end-2013.</li> </ul>
2	Conduct a systematic review of the tax system by March 2014. Consider further limiting tax expenditure in direct taxation, explore the scope to further limit the application of the reduced VAT rates and take additional steps in environmental taxation, notably as regards fuel taxes. Take further	<ul style="list-style-type: none"> <li>• Group of tax experts appointed on 5 July 2013 to submit proposal by end-February 2014.</li> <li>• Limited tax measures were adopted in June 2013, including increases in</li> </ul>

CSR#	2013 CSR	Measures in Economic Partnership Programme ()
	measures to address the debt bias in corporate taxation.	indirect taxes on alcohol, tobacco and fluoride gas, as well as the broadening of the corporate income tax base.
2	Intensify the fight against the shadow economy and undeclared work.	<ul style="list-style-type: none"> <li>• Approval of an annual plan on tax and customs controls at the beginning of 2014.</li> <li>• Application in 2013 of the 2012 plan to plan against fraud in employment and in social security.</li> </ul>
9	Adopt in line with the presented timetable the reform of the local administration and define by October 2013 a plan to enhance the efficiency of the overall public administration.	<ul style="list-style-type: none"> <li>• Law on local administration reform to get parliamentary approval before year-end.</li> <li>• Publication of CORA report on the reform of public administration and quarterly monitoring of implementation.</li> </ul>

## 6. SUMMARY

Based on the Commission 2013 Autumn Forecast, the headline budgetary deficit is expected to decrease to 6.8% of GDP in 2013 (6.5% net of the costs of bank recapitalisation within the framework of the financial sector programme) and to drop further to 5.9% of GDP in 2014. However, for 2013 the uncertainty surrounding the budgetary outcome is still high, in particular regarding revenue performance and adherence to strict expenditure control at all levels of government. For 2014, the Draft Budgetary Plan is based on somewhat favourable growth assumptions, posing some risks to meeting the headline target. The improvement in the structural balance, corrected for revisions in potential output growth and for unexpected revenue windfalls/shortfalls, falls short of the efforts required by the Council, especially in 2014. Compared to the baseline scenario in the EDP recommendation, based on bottom-up calculations, no additional consolidation measures have been taken in 2013; in 2014 the planned consolidation is underpinned by additional consolidation measures of around 1¾% of GDP. For 2014 the amount of additional measures specified in the Draft Budgetary Plan falls somewhat short of what was deemed necessary to reach the structural targets spelled out in the EDP recommendation. For 2015 and 2016, Spain has not yet taken the measures necessary to underpin the EDP headline deficit targets.

The Economic Partnership Programme confirms the reform agenda and timetable for fiscal and other structural reforms included in the 2013 National Reform Programme and the Stability Programme and it gives in some cases more detail on the content of measures and their expected timeline. Some CSRs, however, are so far only partly backed by concrete measures. In most cases, the reforms still remain to be adopted and / or fully implemented, swift and full implementation being key for the success of the Economic Partnership Programme.

## Annex. EDP related tables

**Table A1. Baseline scenario underlying the EDP recommendation**

% of GDP	2013	2014	2015	2016
Revenues	36.8	35.9	36.1	36.1
Current revenues	36.6	35.4	35.6	35.5
Discretionary measures with impact on current revenue (EUR bn)	15.8	-11.3	2.1	0.0
Expenditure	43.3	42.9	42.2	41.6
Real GDP growth (%)	-1.5	0.9	1.4	1.9
Nominal GDP growth (%)	0.1	2.0	2.6	3.2
Potential GDP growth (%)	-1.4	-1.5	-0.1	0.6
Structural balance	-4.4	-5.5	-5.7	-5.9
General government balance	-6.5	-7.0	-6.0	-5.6
<i>p.m CAB methodology revenue elasticity</i>	1.0	1.0	1.0	1.0
<i>p.m Apparent revenue elasticity</i>	-24.4	1.0	1.1	0.9
<i>p.m Output gap (% of pot. Output)</i>	-4.6	-2.3	-0.8	0.6
<i>Source: Commission Staff Working Document accompanying the document Recommendation for a Council Recommendation with a view to bringing an end to the situation of an excessive government deficit in Spain (COM(2013) 383 final)</i>				

**Table A2. EDP scenario underlying the EDP recommendation**

% of GDP	2013	2014	2015	2016
Real GDP growth (%)	-1.5	-0.5	0.7	0.9
Potential GDP growth (%)	-1.4	-1.5	-0.1	0.6
Structural balance	-4.4	-3.6	-2.8	-1.6
General government balance	-6.5	-5.8	-4.2	-2.8
<i>p.m Output gap (% of pot. output)</i>	-4.6	-3.8	-2.9	-2.6
<i>Source: Commission Staff Working Document accompanying the document Recommendation for a Council Recommendation with a view to bringing an end to the situation of an excessive government deficit in Spain (COM(2013) 383 final)</i>				

**Table A3. Current estimates of the macroeconomic and fiscal developments**

% of GDP	2013	2014	2015	2016
Revenues	37.8	37.8	36.6	37.0
Current revenues	37.6	37.7	36.5	36.8
Discretionary measures with impact on current revenue (EUR bn)	20.0	6.0	-11.9	4.4
Expenditure	44.6	43.7	43.2	42.5
Real GDP growth (%)	-1.3	0.5	1.7	1.9
Nominal GDP growth (%)	-0.9	1.1	2.4	3.0
Potential GDP growth (%)	-1.3	-1.2	-1.0	-0.1
Structural balance	-4.1	-4.2	-5.7	-6.1
General government balance	-6.8	-5.9	-6.6	-5.6
<i>p.m CAB methodology revenue elasticity</i>	1.0	1.0	1.0	1.0
<i>p.m Apparent revenue elasticity</i>	4.9	-0.3	0.9	0.9
<i>p.m Output gap (% of pot. Output)</i>	-5.2	-3.5	-0.9	1.1
<i>Source: Commission 2013 Autumn Forecast extended to 2016</i>				

**Table A4. Changes in structural balance corrected for revisions in potential output gap and revenue windfalls/shortfalls**

Uncorrected fiscal effort ( $\Delta S$ )				Corrected fiscal effort ( $\Delta S^*$ )				Required fiscal effort in the latest Council recommendation (R)				Deadline for correction
2013	2014	2015	2016	2013	2014	2015	2016	2013	2014	2015	2016	
1.1	-0.1	-1.6	-0.4	0.9	0.3	-1.1	-0.1	1.1	0.8	0.8	1.2	2016

**Table A5. Adjustment of apparent structural effort for the revision in potential growth – details of calculation**

	Pot. growth assumptions underlying the June 2013 recommendation (%) (1)	Pot. growth (COM 2013 AF) (%) (2)	Forecast error (%) (3)=(2)-(1)	Structural expenditure (% of pot. GDP) (COM 2013 AF forecast) (4)	Correction coefficient $\alpha$ (% of nominal pot. GDP) (5)=[(3) x (4)]/100
2013	-1.4	-1.3	0.2	41.8	0.1
2014	-1.5	-1.2	0.2	42.1	0.1
2015	-0.1	-1.0	-0.9	42.8	-0.4
2016	0.6	-0.1	-0.7	43.1	-0.3

**Table A6. Adjustment of the apparent structural effort for revenue shortfalls/windfalls as compared to standard elasticities – details of calculation**

CAB methodology revenue elasticity $\varepsilon^*=1$	Change in current revenues (yoy) (EUR bn)		Discretionary revenues measures (EUR bn)		Nominal growth assumptions (%)		Current revenues in t-1 (EUR bn)		Revenue gap (EUR bn)		Correction coefficient $\beta$
	June 2013 reco. (1)	2013 AF (1')	June 2013 reco. (2)	2013 AF (2')	June 2013 reco. (3)	2013 AF (3')	June 2013 reco. (4)	2013 AF (4')	(5)=[(1')-(2')- $\varepsilon^*x$ (3') x (4')]- [(1)-(2)- $\varepsilon^*x$ (3) x (4)]		=(5) expressed in % of nominal pot. GDP
2013	2.2	3.4	15.8	20.0	0.1	-0.9	381.3	380.5	1.0		0.1
2014	-4.1	4.6	-11.3	6.0	2.0	1.1	383.4	384.0	-5.4		-0.5
2015	12.6	-3.1	2.1	-11.9	2.6	2.4	379.3	388.6	-1.0		-0.1
2016	11.6	14.8	0.0	4.4	3.2	3.0	391.9	385.5	0.0		0.0