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

COUNCIL OPINION

on the Economic Partnership Programme of Spain

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013[1] on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area, and in particular Article 9(4) thereof,

Having regard to the proposal of the European Commission,

Whereas:

(1) The Stability and Growth Pact (SGP) aims at securing budgetary discipline across the Union and sets out the framework for preventing and correcting excessive government deficits. It is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth underpinned by financial stability, thereby supporting the achievement of the Union's objectives for sustainable growth and jobs.

(2) Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area sets out provisions for enhanced monitoring of budgetary policies in the euro area and for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the SGP and the European Semester. Since purely budgetary measures might be insufficient to ensure a lasting correction of the excessive deficit, additional policy measures and structural reforms may be required.

(3) Article 9 of Regulation (EU) No 473/2013 sets out the modalities for Economic Partnership Programmes, to be submitted by euro area Member States under an Excessive Deficit Procedure. Setting out a roadmap of measures to contribute to an effective and durable correction of the excessive deficit, the Economic Partnership Programme should detail in particular the main fiscal-structural reforms, notably those referring to taxation, pension and health systems and budgetary frameworks, which will be instrumental to correct the excessive deficit in a lasting manner.

[1] OJ L 140, 27.5.2013 p. 11.

(4) On 27 April 2009, the Council adopted a decision according to Article 104(6) of the Treaty, whereby Spain is placed in an excessive deficit procedure. On 21 June 2013 the Council adopted a revised recommendation under Article 126(7) in the context of an excessive deficit which was opened before the entry into force of Regulation (EU) No 473/2013.

(5) On 1 October 2013, and thereby within the time frame established by Article 9(3), and 17(2) of Regulation (EU) No 473/2013, Spain presented to the Commission and to the Council an Economic Partnership Programme, setting out in particular fiscal-structural reforms that aim at ensuring an effective and lasting correction of the excessive deficit. The Economic Partnership Programme includes measures aimed at implementing the Country Specific Recommendations (CSRs) addressed to Spain by the Council on 9 July. These are grouped under the following objectives: i) differentiated and growth-enhancing fiscal repair (CSR#1 and 2); ii) restoring lending to the economy (CSR #3); iii) fight against unemployment and the social consequences of the crisis (CSR # 4, 5 and 6); iv) fostering competitiveness and growth (CSR # 7 and 8) and v) modernising public administration (CSR # 9).

(6) The fiscal structural measures that Spain plans to implement are the following: i) strict monitoring of budgetary developments at regional and local levels; ii) the creation of an independent fiscal institution; iii) the reduction in healthcare and public administration spending; iv) the elimination of commercial arrears in the public sector; v) the reduction of price inertia in public expenditures and revenues; vi) pension sustainability; vii) the simplification and strengthening of the efficiency of Spain's tax system; viii) the fight against the informal economy and ix) the increase in the efficiency of public administration. If effectively implemented, these measures can be expected to contribute to the lasting correction of Spain's excessive deficit situation.

(7) Spain's Economic Partnership Programme also takes stock of the progress made in improving the monitoring of regional finances in accordance with the Budgetary Stability Organic Law (BSOL), the Region's Liquidity Fund and the Suppliers' Payment Scheme. However, it 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. through 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.

(8) The creation of an independent fiscal institution in accordance with the requirements of Regulation (EU) No 473/2013 should contribute to an enhanced monitoring of Spain's public finances and to an early detection of deviations from budgetary targets. The independent fiscal institution will also advice on the activation of the preventive, corrective and enforcement measures provided for in the BSOL as well as on the definition of regions' fiscal targets. However, some institutional provisions to secure the functional and operational independence of the council should be made stronger in the existing draft, notably as regards the relatively short term of office of the president.

(9) Even though the Economic Partnership Programme stops short of presenting plans for a comprehensive systematic review of major spending items, as recommended in the CSRs by March 2014, measures to rationalise spending on health, employment policy (see also recital 14 on fighting tax fraud) and on public administration give information on some key expenditure items. Regarding health expenditure, the revision of the basket of benefits and of reference prices of pharmaceutical products and the introduction of a centralised purchasing platform for health supplies, could result in a more efficient use of public

resources. Regarding public administration, reforms are expected to generate savings over a three-year period from increasing overall efficiency, notably by eliminating duplicated administrative structures, streamlining overheads, rationalising the so-called "institutional" administration, as well as reforming local entities. Strict monitoring and enforcement of all these measures will be required to realise expected savings. Regional ownership of the public administration reform is also critical to securing efficiency gains over the medium term.

(10) The on-going revision of the BSOL aims at strengthening the Ministry of Finance's monitoring powers over the cash and arrears situation of the various general government levels. The goal is to eliminate public sector arrears in commercial debt, and to avoid the accumulation of commercial debt from creating risks to the financial sustainability of any given public administration. As such, the draft law strengthens fiscal discipline on all general government sub-sectors.

(11) The dis-indexation draft law aims at discontinuing indexation schemes in administered prices and fees. Existing mechanisms on collective bargaining, financial sector instruments and on pensions are excluded from its scope, schemes on pensions being the object of a separate reform (see below). Following its entry into force, the law is likely to generate some fiscal savings, while at the same time, contribute to reducing second round effects on prices while supporting purchasing power and competitiveness.

(12) Recent and 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.

(13) 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, which will be evaluated by the government at a later stage. The document also presents measures (such as the new tax on fluoride gas) in response to the recommendation to take additional steps on environmental taxation.

(14) The Economic Partnership Programme also refers to measures to fight tax fraud and undeclared work, including among others, an annual plan on tax and customs controls to be adopted at the beginning of 2014, as well as the continued implementation of the plan against fraud in employment and in social security). These efforts are expected to yield additional revenues, thus contributing to the fiscal consolidation effort.

(15) Significant attention is devoted in the Economic Partnership Programme to labour market issues, including the evaluation of the 2012 labour market reform, 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. However, there are no concrete plans for the further modernisation of public employment services, beyond the co-operation with private employment agencies. Moreover, following the evaluation of the 2012 labour market reform, the Economic Partnership Programme does not foresee measures for a further strengthening of the reform. That said, the reform seems to have fostered firms' internal flexibility and wage moderation, hence limiting, *ceteris paribus*, employment losses.

(16) Reforms on product and services markets are also going in the right direction. The Economic Partnership Programme gives information on measures such as the draft law on

the guarantee of market unity, the draft professional services law and the entrepreneurship law. In addition, the Economic Partnership Programme underlines the measures to reduce the electricity tariff deficit. The reform, which is still to be completed, could help contain the accumulation of an electricity tariff debt and the associated contingent liability for public finances,

HAS ADOPTED THIS OPINION:

The Economic Partnership Programme of Spain presented to the Commission and to the Council on 1 October 2013 includes a broadly adequate set of fiscal-structural reforms, which would be supportive of an effective and lasting correction of the excessive deficit. 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 gives in some cases more detail on the content of measures and their expected timeline. Some recommendations by the Council, however, are so far only partly backed by concrete measures. This is the case, for example, of the systematic review of major spending items with a view to improving the efficiency of public expenditure (under CSR 1). Moreover, regarding the review of the tax system (CSR 2), the Economic Partnership Programme mainly refers to the conclusions of a group of tax experts scheduled for February 2014. 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. The Commission and the Council will monitor the execution of the reforms in the context of the European Semester.

Done at Brussels,

For the Council
The President