STABILITY PROGRAMME UPDATE

KINGDOM OF SPAIN

2016 - 2019

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1. EXECUTIVE SUMMARY

The 2016-2019 Stability Programme Update presents a prudent and realistic macroeconomic framework based on conservative assumptions. The Independent Authority for Fiscal Responsibility (AIReF) supports macroeconomic projections in this Stability Programme, based on the exogenous assumptions on which it is built on and the associated fiscal paths. The Government acknowledges the recommendations received in relation to the purpose of the report.

In line with the forecasts of the main national and international organisations, an average growth of approximately 2.5% is forecasted, and this will be significantly higher than that of the Eurozone and one of the highest among the advanced economies. This robust growth will be particularly intensive in job creation. In addition, over the coming years, there will be a sustained progress in the correction of the most important macroeconomic imbalances cumulated in the past.

Structural reforms undertaken in recent years are decisively contributing to place the Spanish economy on the way for sustainable economic growth and job creation. At the same time, the reforms have allowed to leverage exogenous factors, such as the oil price reduction and the euro depreciation. In addition, the tax reform continues to contribute to the recovery of consumer purchasing power and company investment. As a result, in late 2016 the Spanish economy will have recovered pre-crisis income levels.

Growth sustainability is based on a strong domestic demand, with all its components in positive rates, including investment in construction, which consolidated its recovery in 2015 after the deep adjustment suffered in the past seven years. On the other hand, the external sector will remain dynamic, helped by increasing competitiveness gains of the Spanish economy, anticipating positive current account balances of approximately 1.5% of GDP and a net lending to the rest of the world above 2% of GDP in the coming years. This will allow further progress to improve the international investment net position and the external net debt reduction.

Structural improvements achieved with the 2012 labour market reform and the active employment policies implemented have been crucial to reduce the growth threshold needed to create jobs, bringing it below 0.7% of GDP. The Spanish economy has created almost one million jobs between late 2013 and late 2015 and the number of unemployed fell by a similar amount. During the forecast horizon, around half a million net jobs per year will be created and the unemployment rate will fall progressively, reaching 14% of the labour force by 2019.

As regards the current year and the coming ones, the commitment to reduce the public deficit is maintained, including the new budgetary path set by the Government in this Update. This path is compatible with the economic growth and with the job creation. The deficit target for all Public Administrations is set at 3.6% of GDP in 2016, 2.9% in 2017, 2.2% in 2018 and 1.6% in 2019.

In compliance with the Autonomous Recommendation submitted by the European Commission (EC) and to ensure the fulfilment of the spending rule and the new path of fiscal consolidation, the Government has started to implement the preventive, corrective and coercive measures contained in the Organic Law on Budgetary Stability. On the other hand, on 29th April the Council of Ministers approved an Agreement of Non-Availability (known as AND in Spanish) of credit for the State in 2016, amounting to € 2.0 billion, which is not expected to generate additional expenditure in subsequent years. It should be noted that in 2015, for the first time since the start of the crisis, the public debt to GDP ratio fell, and this trend is expected to continue in the coming years.

The remarkable effort of fiscal consolidation undertaken in the past four years, with a public deficit decrease of more than four points of GDP, is especially significant taking into account the deep recession suffered by the Spanish economy and the negative impact that much lower inflation rates than initially expected had on public revenues.

In short, a realistic macroeconomic scenario based on conservative assumptions is presented, confirming the recovery path of the Spanish economy in the context of an economic policy that combines the fiscal consolidation and structural reforms. This policy will foster growth and job creation capacity. Control of public accounts will result in strengthening of the institutional framework set forth in the Spanish Constitution, which is crucial to consolidate this context of stability and growth, and lends credibility to the Spanish economy.

2. INTRODUCTION

The macroeconomic scenario in this Stability Programme Update presents a situation of sustained economic growth based on prudent and conservative external assumptions. It is a realistic exercise, which projects the evolution of the key macroeconomic variables for the period 2016-2019. This Stability Programme Update responds in content and form to the provisions of the Code of Conduct of the Stability and Growth Pact.

The Spanish economy recovery process started in mid-2013 consolidated in 2015. The structural reforms carried out in recent years have been crucial to achieve a sustainable, balanced and job-creating economic growth, as the main international economic organisations admitted. In this regard, the labour market reform, the restructuring of the financial sector and the tax reform, provide the Spanish economy with a greater growth capacity. These reforms facilitate leveraging the external factors derived from oil price reduction, improved financial conditions and the euro depreciation.

The correction of the most important macroeconomic imbalances has significantly progressed. On the one hand, the external imbalance has been redressed, the current account balance registering a surplus in 2015 for the third consecutive year, something unprecedented in our recent economic history. This improvement in the current balance, boosted by gains in competitiveness and increasing internationalisation of our companies, has allowed our economy to register net lending to the rest of the world over the past four years.

On the other hand, the necessary reduction of private debt continues, and it fell by 45 percentage points (p.p.) of GDP from the peak registered in 2010, thus converging towards the EU average. This deleveraging process is being supported by the recovery of financing to businesses and households, in a context of low interest rates and a solvent banking sector, which is ready to finance the real sector activity.

Envisaged evolution of the labour market deserves a special mention, in which the labour reform of 2012 facilitated job creation from the initial stages of the recovery, and it has reduced the growth threshold needed to generate net employment to less than 0.7%.

The macroeconomic scenario reflects the consolidation of the Spanish economy recovery, with real GDP growth standing at approximately 2.5%. Domestic demand will keep dynamic, showing a profile of slight moderation, mainly driven by private consumption and productive investment. In this sense, households' consumption will maintain the expansionary path as a result of the good performance of the labour market, price suppression, reduced tax burden resulting from the tax reform, reduced interest rates and financial wealth increase, although at a more moderate pace as of 2017.

A similar performance is seen in investment, as it maintains a rising profile that will slow down until 2017, but will rebound as of 2018. This investment trend is explained by the increasing demand, both domestic and external, as well as by favourable financial conditions and improved economic prospects. For the first time since the beginning of the crisis, investment in construction recorded a positive growth rate (5.3%) in 2015, which will remain stable throughout the time horizon. Finally, the slight negative contribution of the external sector to GDP growth will moderate until registering a null contribution in the last two financial years.

In line with the forecast growth path, job creation is expected to continue at rates close to 2.5% in the forecast horizon, and the unemployment rate will decline reaching 14% of the labour force in 2019

Regarding inflation, the decline resulting from the fall in oil prices since mid-2014 has continued in 2015 and it is expected to continue at negative levels in 2016, recording positive growth rates as of 2017. On the other hand, the GDP deflator is expected to stand at approximately 1% this year and the coming one, starting a gradual convergence towards 2% in 2018.

As regards the public sector, a considerable effort of fiscal consolidation has been carried out in recent years, reducing the public deficit by more than four points of GDP between 2011 and 2015, in a context of recession during the first years and with inflation rates below the ones forecasted.

This Stability Programme Update is committed to reducing the public deficit, with a new budgetary path compatible with an intensive economic growth in job creation. In compliance with the Autonomous Recommendation submitted by the EC and to ensure the fulfilment of the spending rule, the Government adopted the necessary measures to implement the preventive, corrective and coercive measures contained in the Organic Law on Budgetary Stability. On the other hand, on 29th April the Council of Ministers approved an Agreement of Non-Availability (known as AND in Spanish) of credit for the State in 2016, amounting to € 2.0 billion, which is not expected to generate additional expenditure in subsequent years.

The Update is divided into eight sections. After the executive summary and this introductory section, the third section describes the recent evolution and the 2016-2019 macroeconomic scenario for the Spanish economy, on which the mid-term budgetary projections are based.

The paths of the public deficit and public debt, as well as the measures to be taken at various levels of public administrations to achieve the public deficit targets are described in section four.

Section five compares this Stability Programme Update with the previous one and explains the differences. In this section sensitivity exercises are carried out, analysing effects of changes in interest rates, growth of our major trading partners and oil price in the deficit path, compared to the assumptions underlying the macroeconomic scenario.

Sections six and seven respectively analyse long-term sustainability of public finances and their quality. The Update ends with section eight, on the institutional framework of the fiscal policy.

3. MACROECONOMIC PROSPECTS

3.1. Recent evolution of the Spanish economy

3.1.1. International environment

A slowdown of the world economy was observed in the first quarter of 2016, in a context of greater uncertainty and financial volatility. The slowdown of the Chinese economy, the decline of raw materials prices, particularly oil prices, the volatility of international financial markets, the low interest rates and the high debt levels are among the main factors affecting the global economic environment. In this context, the latest forecasts of the International Monetary Fund revised the global growth rate downward, setting it at 3.2% in 2016 and at 3.5% in 2017.

The economic recovery continues at a moderate pace in the Eurozone, registering the GDP q-o-q profile a slight slowdown during 2015, from rates standing at 0.6% in the first quarter of the year, and going down to 0.3% in the last two quarters. The GDP ended last financial year with an average annual increase of 1.5%, the highest since 2011, largely based on domestic demand. Several factors have boosted the activity in the Eurozone, among which the decline in oil prices, the depreciation of the euro and the expansionary monetary policy should be highlighted.

The latest information seems to indicate that the pace of progress of the activity in the Eurozone in the first quarter of 2016 is being maintained. Growth continues being supported on domestic demand and exports have lost momentum. Inflation is close to zero and the effects of the oil price fall are affecting the less volatile components of the harmonised index of consumer prices. In this context, the main international organisations have revised downward their growth rate forecasts. The IMF projects a GDP growth in the Eurozone of 1.5% for 2016 and 1.6% for 2017, similar to that provided by the European Central Bank (1.4% and 1.7%, respectively).

Per country in the Eurozone, the economic activity slowdown in the last quarter of 2015 was widespread, although certain heterogeneity was observed. Germany and France grew by 0.3% q-o-q, and Italy rose at a more moderate rate, 0.1%.

In Germany, recent indicators point to an activity moderation in the first months of 2016, the IMF revising its growth forecasts slightly downwards in comparison to those published in January, by two tenths in 2016, down to 1.5%, and by one tenth in 2017, down to 1.6%. In its winter forecasts, the EC projected a German GDP growth rate of 1.8% for both this year and for the coming one.

The GDP in France increased 1.2% in 2015, one point higher compared to the one recorded in 2014. The EC foresees a slight GDP acceleration in 2016, up to 1.3%, and a more pronounced acceleration in 2017, up to 1.7%.

After falling in the previous three years, Italy's GDP increased by 0.8% in 2015, driven by private consumption and investment. In its winter forecasts, the EC envisaged a 1.4% growth this year and at 1.3% for the coming one.

Outside the Eurozone, the slowdown in advanced economies was widespread in the past financial year. The UK GDP grew by 2.3% in 2015, six tenths less compared to the previous year, due to a negative contribution of the external sector partially offset by the dynamism of private consumption and equipment investment. The EC forecasts a growth of 2.1% for 2016 and 2017 for the UK. On the other hand, the US GDP growth in 2015 reached 2.4% as in the previous financial year, the IMF foreseeing rates standing at approximately 2.5% for both 2016 and 2017.

Regarding the main emerging economies, China's GDP continued the path of gradual slowdown in 2015, growing at an annual rate of 6.9%. According to the IMF, the moderation path is expected to continue, to 6.5% in 2016 and 6.2% in 2017. In Russia, a fall of the growth rate is projected in 2016, while in Brazil the decline in the growth rate is expected to continue to be sharp, giving way to a slight recovery in 2017 for both countries. On the other hand, the growth in India is expected to reach 7.5% this year and the coming one, according to the IMF.

3.1.2. Recent evolution and adjustment of macroeconomic imbalances in Spain in 2015

In 2015 the Spanish economy consolidated the recovery process started in mid-2013, in which the GDP registered a strongly expansionary trend, with q-o-q rates of approximately 1%, a figure that has not been reached since 2007. In the year as a whole, the GDP grew by 3.2%, more than double that of the Eurozone (1.5%). In this regard, the In-Depth Review of the EC (IDR), published last 26th February, recognised the remarkable progress made by Spain in correcting the macroeconomic imbalances. As proof of this, the Commission excluded Spain from the category of countries "with excessive imbalances" and included it in the category of countries with "imbalances", along with Germany and Ireland, among others.

The main driver of the Spanish economy has been the domestic demand that contributed positively to the q-o-q GDP growth since the last quarter of 2013, after three consecutive years of falls. In 2015 as a whole, domestic demand contributed with 3.7 percentage points to growth, more than double to the amount in 2014 (1.6 percentage points). By components, the dynamism of private consumption expenditure and productive investment was remarkable.

Private consumption accelerated almost two points, recording a rate of 3.1%, boosted by the favourable performance of employment and real gross disposable income of households. The role played by rising wage incomes, the price moderation, the tax rebate and the best financial and credit access conditions have contributed to the dynamism of private consumption. The household savings rate fell slightly in 2015, by two tenths compared to the figure registered in 2014, reaching 9.4% of the gross disposable income.

The final consumption expenditure of the Public Administrations rose by 2.7% in real terms last year, after a more than 7% drop accumulated in the previous three years. The Spanish economy continued the fiscal consolidation process, reducing the net borrowing of the Public Administrations by 0.8 percentage points, reaching 5% of GDP (excluding the financial sector assistance).

The investment dynamism has also contributed to the expansion of the domestic demand. The gross fixed capital formation started an expansionary trend in the first quarter of 2014 that continued and was consolidated in 2015, ending the year with an annual growth rate of 6.4%, almost three points higher than the previous year. This acceleration affected its main components and, in particular, the equipment investment, which recorded a y-o-y increase exceeding 10% for the second consecutive year. On the other hand, construction investment experienced an annual increase of 5.3% in 2015, representing the first positive rate since the beginning of the crisis. In turn, the construction investment growth, in a general context of low interest rates, is explained by the evolution of housing investment, which grew 2.4% after seven years of uninterrupted falls and, especially, of investment in other constructions, which accelerated almost seven points, registering a rate of 7.5%.

The considerable deleveraging process of the private sector is continuing its trend, with a decrease of its debt ratio by 45 percentage points of GDP from its peak reached in mid-2010. The non-consolidated debt of the non-financial private sector stood at 172.1% of GDP in the fourth quarter of 2015 (153.2% of GDP on a consolidated basis) the same levels of early 2006 and close to the EU average. The deleveraging of companies and households was compatible with the credit reactivation, with new operations registering an annual increase of 12.1%, leading to a stronger economic growth.

In the past financial year, external demand subtracted five tenths to the GDP growth due to an increase in imports of goods and services exceeding that of exports. Real imports of goods and services increased by 7.5%, a rate 1.1 points higher compared to that of 2014, in line with the robust growth of final demand. At the same time exports accelerated four tenths, up to 5.4%, driven by the dynamism of export markets and by the competitiveness gains. On the other hand, the real effective exchange rate against developed countries measured with manufacturing unit labour costs depreciated by 3.4% in 2015, both due to the depreciation of the nominal effective exchange rate and to the decline in relative unit labour costs.

According to the figures published by the EC, the Spanish export markets for goods and services accelerated 0.4 points last year, recording a 3.7% growth. By destination, and using Customs data, sales in volume to the EU grew by 5.5%, one point and a half more than in 2014, while those to the rest of the world moderated the growth rate in an equal magnitude, pointing to a stabilisation. Within the EU, the general trend was of acceleration, with nominal growth rates over 10% in exports to the United Kingdom. In the rest of the world, exports to India, Mexico and the Middle East also recorded rates exceeding 10%, while those to Russia, Venezuela and Brazil registered the highest drops.

The solid growth of the Spanish economy was consistent with the progress in the adjustment of external imbalances. In 2015 the current account registered a surplus for the third consecutive year, equivalent to 1.4% of GDP, and the Spanish economy presented a net lending to the rest of the world exceeding 2% of GDP. These results helped to reduce the debit balance of the international investment position, standing at 90.5% of GDP at the end of 2015, five percentage points lower than the previous year. On the other hand, the Spanish external debt amounted to 167.9% of GDP at the end of the last financial year, a level similar to that registered by the EU countries.

The economic growth also implied an intensive job creation. Data from the Labour Force Survey (LFS) confirm the progressive recovery of the Spanish labour market. During 2015, the number of employed increased by over half a million (525,000), almost one third of the total increase of the Eurozone as a whole. Unemployment fell by approximately 680,000 people, which is the largest reduction of the time series. At the end of last financial year, the unemployment rate stood at 20.9% of the labour force, 2.8 points less compared to that of a year earlier and the lowest since the second quarter of 2011.

This better performance of the labour market, mainly as a result of the labour reform and the moderation of labour costs, allowed intensifying the recovery process of the Spanish economy, with the consequent positive impact on job creation. In the first quarter of 2016, the Social Security covered workers and registered unemployment figures confirm the continuation of the recovery process in the labour market. Likewise, the LFS data for the first quarter reflect a very favourable performance of employment, which increased by 574,800 people compared to a year earlier. This represents an acceleration of three tenths, up to 3.3% y-o-y, being the highest rate since the third quarter of 2007.

With regard to inflation, its evolution was affected by the decline in energy and oil prices. The Consumer Price Index registered an average annual rate of -0.5% last year, three tenths lower than in 2014 (-0.2%), while core inflation accelerated six tenths, up to 0.6%. The inflation differential against the Eurozone remained favourable to our country, reaching six percentage tenths in 2015, with the consequent competitiveness gains and the positive impact on our exports. On the other hand, the negative inflation rates had an adverse effect on tax collection and on public accounts.

Thus, a significant correction of the macroeconomic imbalances of the Spanish economy can be observed. Not only commercial, financial and employment flows recovered a sustainable trend, but also the high stocks accumulated during the previous expansionary stage are decreasing rapidly.

3.2. Macroeconomic assumptions

Table 3.2.1 summarizes the main assumptions used for the macroeconomic scenario included in this Stability Programme Update. These have been developed using mainly the common assumptions considered by the European Commission (EC) in mid-April, available for 2016 and 2017, as well as the latest forecasts published by the European Central Bank (ECB) and own estimates by the Ministry of Economy and Competitiveness.

Table 3.2.1. Basic assumptions of the Macroeconomic Scenario 2016-2019
Year-on-year % change unless otherwise specified

	2015 (A)	2016 (F)	2017 (F)	2018 (F)	2019 (F)
Short-term interest rates (3-month Euribor)	0.0	-0.3	-0.3	-0.2	0.0
Long-term interest rates (10-year debt, Spain)	1.7	1.7	1.9	2.2	2.5
Exchange rate (USD/euro)	1.1	1.1	1.1	1.1	1.1
Nominal effective exchange rate of the Eurozone (% change)	-6.8	1.2	-0.2	0.0	0.0
World GDP growth, excluding EU	3.2	3.4	3.7	3.8	3.9
Euro-zone GDP growth	1.6	1.4	1.7	1.8	1.9
World import volume, excluding EU	0.8	2.2	3.5	4.0	4.5
Spanish export markets	3.7	4.1	4.9	5.0	5.1
Oil price (Brent, Dollars/barrel)	52.2	39.7	45.3	45.3	45.3

(A) Advance; (F) Forecast.
Sources: European Central Bank, European Commission and Ministry of Economy and Competitiveness.

According to the European Commission, the global economy, excluding the EU, will advance progressively until reaching growth rates close to 4% at the end of the forecast period. In this context, the Eurozone economy will progressively consolidate the recovery, with growth rates standing at approximately 2% as of 2017.

In relation to the evolution of exchange rates, since the end of 2015, the euro appreciated against the US dollar by more than 4%, the exchange rate standing at approximately $ 1.1 per euro in April. It is expected that the exchange rate will remain at this level throughout the whole projection period.

Regarding interest rates, the monetary policy of the European Central Bank's (ECB) is expected to contribute to maintain reduced public debt rates in the medium term, although a slight rise is expected over the forecast horizon consistent with the eventual normalisation of the monetary policy in the Eurozone.

The global oil market is mired in a high level of uncertainty, after reaching the minimum value since 2003 in mid-February. Based on this, an average level of $ 40/barrel is anticipated in 2016 from future oil prices, starting a slight recovery from 2017 to reach $ 45.3/barrel at the end of the forecast period.

Finally, the growth of Spanish export markets shows an upward trend, in line with that of the world GDP.

3.3. 2016-2019 macroeconomic prospects

The macroeconomic forecasts of this Stability Programme Update have been endorsed by the Independent Authority for Fiscal Responsibility (AIReF) based on exogenous assumptions and the defined policies. The macroeconomic scenario has been carried out under the assumption of a constant policy as of 2017.

The forecasts reflect a profile of slight slowdown of the real GDP growth up to 2017, followed by a slight acceleration in 2018 and the maintenance of the growth rate in 2019, observing a sustained growth throughout the whole forecast horizon. These projections are based on the favourable employment evolution, the credit access improvement and a context of moderate prices and interest rates.

Table 3.3.1. Macroeconomic prospects

Chain-linked volume indices

2010=100, unless otherwise specified

	ESA Code	2015 (A)	2015 (A)	2016 (F)	2017 (F)	2018 (F)	2019 (F)
		Level	year-on-year % change				
1. Real GDP	B1*g	99.2	3.2	2.7	2.4	2.5	2.5
2. Nominal GDP. Thousands of millions of Euros	B1*g	1081.2	3.8	3.7	3.7	4.0	4.4
Components of real GDP							
3. Private consumption expenditure (*)	P.3	95.3	3.1	3.2	2.6	2.4	2.4
4. Government consumption expenditure	P.3	95.0	2.7	1.0	0.9	0.7	0.7
5. Gross fixed capital formation	P.51	92.9	6.4	5.6	4.6	4.7	4.8
6. Change in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	53.7	0.2	0.0	0.0	0.0	0.0
7. Exports of goods and services	P.6	125.4	5.4	5.3	5.7	5.6	5.7
8. Imports of goods and Services	P.7	106.1	7.5	7.0	6.7	6.3	6.1
Contributions to real GDP growth							
9. Domestic final demand		-	3.6	3.1	2.6	2.5	2.5
10. Change in inventories and net acquisition of valuables	P.52 + P.53	-	0.1	0.0	0.0	0.0	0.0
11. External balance of goods and services	B.11	-	-0.5	-0.4	-0.2	0.0	0.0

(*) It also includes households and non-profit institutions serving households (ISFLSH).

(A) Advance; (F) Forecast.

Sources: National Institute of Statistics and Ministry of Economy and Competitiveness.

The growth pattern shows a strong dynamism of domestic demand, which is the driver of growth, although its contribution moderates gradually until becoming stable at approximately 2.5 percentage points at the end of the time horizon. On the other hand, the external sector recorded slightly negative contributions in 2016 and 2017 and null in the following two years.

In line with the lower dynamism of the activity, the pace of job creation is expected to moderate in terms of full-time equivalent jobs during the first two years and to reach 2.3% in 2018 and 2019. The unemployment rate will continue to decline gradually, reaching 14% of the labour force in the last year of the projection period.

As a result of the expected evolution of employment and GDP, the increasing apparent productivity per full-time employed equivalent remains stable at 0.2% during the entire analysed horizon. At the same time, and derived from the dynamics of the labour market itself and of productivity and wages evolution, unit labour costs will follow a path of gradual acceleration, registering a rate of 1.7% in 2019.

Table 3.3.2. Labour Market developments (*)

	ESA Code	2015 (A)	2015 (A)	2016 (F)	2017 (F)	2018 (F)	2019 (F)
		Level	year-on-year % change				
1. Total employment (Thousands of persons)		18,490.8	2.9	2.7	2.4	2.5	2.5
2. Full-time equivalent employment (Thousands of persons)		16,852.0	3.0	2.5	2.2	2.3	2.3
3. Employed (Thousands of hours worked)		31,273.2	2.5	3.0	2.7	2.8	2.8
4. Labour productivity per employee (Thousands of Euros)		58.0	0.3	0.0	0.0	0.0	0.1
5. Labour productivity, full-time equivalent (Thousands of Euros)		63.6	0.2	0.2	0.2	0.2	0.2
6. Productivity for hour worked (Euros)		34.3	0.7	-0.3	-0.3	-0.3	-0.3
7. Compensation per employee (**) (Thousands of Euros)	D.1	35.1	0.5	0.8	1.3	1.6	1.9
8. Labor unitary cost		-	0.3	0.5	1.1	1.4	1.7
9. Compensation of employee (Million Euros)		509,894.0	3.9	3.4	3.7	4.0	4.4
10. Unemployment rate (% of labour force)		-	22.1	19.9	17.9	15.8	14.0

(*) National Account data, except for unemployment rate.
(**) Compensation per employee, full-time equivalent.
(A) Advance; (F) Forecast.
Sources: National Institute of Statistics and Ministry of Economy and Competitiveness.

The gradual moderation of the contribution of domestic demand to the GDP growth is explained by the evolution of its main determinants. Private consumption, following the acceleration expected for 2016 (one tenth, up to 3.2%), will follow a slight slowdown path, registering rates of 2.4% in 2018 and 2019. On the other hand, the gross fixed capital formation will lose momentum in 2016 and 2017, starting a rising profile with rates close to 5% as of 2018.

As for the evolution of the equipment investment and cultivated assets, it will maintain an expansionary path, with certain moderation in the growth pace in the first two years, and a smooth acceleration in 2018 and 2019. The investment decisions will be conditioned by the evolution of exports, the deleveraging process of the private sector and the credit recovery, among other factors. Construction investment will keep stable with growth rates slightly lower than 5% throughout the whole forecast period.

Regarding the external sector, the dynamism of exports and the progressive slowdown in imports stands out, in line with the expected evolution of domestic demand. In this context, the economy will show a net lending to the rest of the world exceeding 2% of GDP throughout the entire forecast horizon.

Exports will remain robust in the forecast horizon, in line with the expected evolution for our export markets and the real effective exchange rate.

Table 3.3.3. Price developments

	ESA Code	2015 (A)	2015 (A)	2016 (F)	2017 (F)	2018 (F)	2019 (F)
		Level	year-on-year % change				
1. GDP deflator		100.9	0.6	0.9	1.2	1.5	1.8
2. Private consumption deflator (*)		105.6	-0.5	-0.2	1.1	1.4	1.7
3. Public consumption deflator		99.1	0.4	0.3	0.4	0.6	0.8
4. Gross fixed capital formation deflator		95.3	1.4	0.8	0.7	1.1	1.4
5. Exports prices deflator (goods and services)		103.6	0.3	0.5	0.3	0.9	1.1
6. Imports prices deflator (goods and services)		107.8	-1.4	-2.0	-0.9	-0.1	0.0

(*) It includes households and non-profit institutions serving households.
(A) Advance; (F) Forecast.
Sources: National Institute of Statistics and Ministry of Economy and Competitiveness.

Price stability continues to play an important role. Despite the momentum of domestic demand, the growth rate of private consumption deflator will be maintained below the inflation target of 2% set by the European Central Bank for the Eurozone during the period 2016-2019.

The absence of inflationary pressures will continue to drive the competitiveness gains, favouring exports performance and affecting positively both wage moderation and households' real disposable income. The forecasted decline in oil prices in 2016 will push down the private consumption deflator, although its impact on the GDP deflator will be offset by the decline in the imports deflator. As oil prices stabilise, private consumption deflator growth is expected to converge with the GDP deflator.

However, a negative evolution in prices also has effects on other macroeconomic variables, especially in the fiscal and financial areas. Tax revenues are negatively affected by falling prices. Likewise, it has an adverse impact on the deleveraging process.

Table 3.3.4. Sectorial balances

% del PIB	ESA Code	2015 (A)	2016 (F)	2017 (F)	2018 (F)	2019 (F)
1. Net lending (+) / Net borrowing (-) vis-à-vis the rest of the world	B.9	2.1	2.4	2.2	2.2	2.3
- Balance on goods and services		2.5	2.8	2.9	3.1	3.4
- Balance of primary incomes and transfers		-1.1	-1.1	-1.4	-1.6	-1.7
- Capital account		0.7	0.7	0.7	0.6	0.6
2. Net lending (+) / Net borrowing (-) of the private sector	B.9	7.2	6.1	5.2	4.4	3.9
3. Net lending (+) / Net borrowing (-) of the General Government	EDP B.9	-5.1	-3.6	-2.9	-2.2	-1.6

(*) 2015 figure includes financial assistance.
(A) Advance; (F) Forecast.
Sources: National Institute of Statistics and Ministry of Economy and Competitiveness.

From a sectorial point of view, the evolution of the net lending of the Spanish economy is partly explained by the decreasing public deficit, which fell from 5.1% of GDP in 2015, including financial sector assistance, to 1.6% of GDP in

2019. On the other hand, the private sector moderates its net lending throughout the forecast period. In the case of households, the saving rate is expected to stabilise during the projection horizon at pre-crisis levels.

Methodological aspects of the 2016-2019 Macroeconomic Scenario

This box is included for the first time in the Stability Programme in order to inform about the methodological aspects that have been used to develop the macroeconomic framework, in line with the recommendations made by the AIReF in this regard. The methodology used, as well as the basic assumptions and external assumptions on which the macroeconomic scenario is based are detailed below.

Methodology

The forecasts made on the evolution of the different macroeconomic variables of the scenario presented, were prepared using predictive equation models in the short and long term, including co-integration ratios in error correction models. Therefore, a long-term balance relationship between economic variables and the existence of imbalances in the short term is admitted, so they are gradually corrected through partial adjustments in the correction term.

These individual equations are integrated into a model of simultaneous equations in order to ensure the consistency of the main macroeconomic aggregates forecasts.

The set of explanatory variables includes indicators of the different hypothesis of the scenario presented, indicators on credit evolution and a comprehensive set of auxiliary variables such as confidence indices and labour market and prices indicators, among others. The extrapolation of the behaviour of these variables in the medium term requires the provision of single-equation prediction models for each component. The models are regularly updated with data from the National Accounting and auxiliary variables.

In the short-term prediction, multifactorial models have been used to obtain the growth of Gross Domestic Product (GDP) for the Spanish economy and transfer functions based on the Synthetic Activity Indicator (known in Spanish as ISA) for the Spanish economy, developed and published by the Ministry of Economy and Competitiveness[1]. These models use the available information from a wide range of monthly activity indicators that summarise the global economic evolution in Spain.

These short-term growth estimates are incorporated into the predictive models in the mid and long term, feeding the initial dynamics as well as the start of the evolution of the independent variables included in the hypotheses.

[1] See methodology in http://serviciosede.mineco.gob.es/indeco/

To estimate the effects of the different measures affecting public spending and revenue and structural reforms, as well as to carry out the sensitivity exercises included in the Stability Programme, the main tool used is the REMS[2] model. The REMS model is a general balance model for the Spanish economy, with a system of microeconomically based equations, which includes several nominal and real constraints and allows analysing its dynamic evolution in the presence or absence of a structural change. It describes a small and open economy, where households, companies, some of them operating in imperfect competition, economic authorities and external sector interact. In the production factors market, the physical capital and energy are exchanged in a perfectly competitive context

Basic assumptions and external hypothesis

Dollar/euro exchange rate

For the years 2016 and 2017, the assumptions regarding the evolution of the dollar/euro exchange rate forecast by the EC were used. In 2018 and 2019, the exchange rate assumptions remained constant at the level of 2017.

Brent oil price

The assumptions about the Brent oil price for 2016 and 2017 coincide with those considered by the EC. In 2018 and 2019 the oil exchange rate remains constant at the level of 2017.

Short- and long-term interest rates

The three-month Euribor rates forecasts of the first two years were provided by the EC and those of the last two years came from the data published by Eurex on the exchange rate in the futures market. The forecasts for the 10-year interest rates of the State debt arise from the implicit rates of the State debt by 31st December of each of the years considered in the scenario.

World GDP excluding the EU

The 2016 and 2017 world GDP growth forecasts excluding the EU are those provided by the EC, projecting acceleration for the next two years in line with the projections of the International Monetary Fund for the world GDP in its latest outlook report.

[2] Boscá, J. E., Díaz, A., Doménech, R., Ferri, J., Pérez, El. y Puch, L. (2011) "A rational expectations model for simulation and policy evaluation of the Spanish economy", en Boscá, J.E., Doménech, R., Ferri y Varela, J. (Eds.) *The Spanish Economy: a General Equlibrium Perspective*, Palgrave Macmillan.

Eurozone GDP

For 2016 and 2017, the hypotheses about the GDP growth in the Eurozone coincide with those published by the European Central Bank in March 2016The GDP growth in the Eurozone in the remaining years is expected to describe a similar profile to the one anticipated by the IMF, the growth being moderated by one tenth in 2018, to 1.6% and remaining at that level in 2019.

World imports volume, excluding the EU

The EC hypothesis on evolution of this aggregate is incorporated for 2016 and 2017. In the rest of the projection period, a path consistent with the projections of global imports and EU GDP is anticipated.

Spain's Export Markets

Export markets were calculated as a weighted average of imports of goods and services in volume for the different countries to which our exports were sent, considering the weights of the Spanish exports to those countries. In 2016-2017, the Spanish export markets were assumed to evolve according to the EC Winter Forecasts for 2015. For 2018 and 2019, it is expected that markets will continue to accelerate, in line with the IMF's projections for imports of goods and services of advanced countries and emerging economies.

4. PUBLIC DEFICIT AND PUBLIC DEBT

4.1. The Public Administrations in 2015

In 2015, the General Government recorded a deficit of 5.0% of GDP in terms of National Accounts, excluding the financial assistance for the recapitalisation of the financial system. This deficit outturn was 0.80 percentage points higher than the Recommendation on the Excessive Deficit Procedure of the Council of the EU (4.2% of GDP) and 0.79 percentage points lower than the deficit recorded in 2014 (5.79% of GDP).

It should be noted that the deficit figure for 2015 includes certain extraordinary expenditure transactions, among which the following stand out: the allocation to that year of investments for several contracts of Public Private Partnerships carried out in the past decade, amounting to € 2.0 billion; the expenditure associated with Hepatitis C treatments, with a cost of € 1.1 billion; and the allocation to 2015 of revenues derived from auctions of frequency bands of the radio broadcasting space made in 2011, as operators started to use the new assigned frequencies last year. This operation was recorded as a lower capital use of net acquisition of non-produced non-financial assets (€ 1.6 billion). Likewise, another extraordinary factor that influenced the deficit evolution and needs to be highlighted is the recovery of part of the 2012 extra pay recorded in 2015.

On the other hand, a factor that could largely explain the deviation of the General Government deficit in 2015 from the nominal target is the negative deviation of the Spanish inflation from the EC 2013 forecast when it made the Recommendation to Spain (see the following box).

Analysis of the impact of low inflation on the Spanish public deficit

In its 2015 Report on Public Finances, the EC acknowledged the negative impact that a lower-than-expected inflation has on the public accounts of the European economies. The purpose of this box is to provide a quantitative estimate of the impact on the Spanish budget balance in 2015 of the negative deviation of the Spanish inflation versus the EC 2013 estimate, when it set the Spanish budgetary targets in the Recommendation. To this end, the methodology used by the community institution, which has an essentially qualitative nature, has been analysed in detail.

In the last three years, inflation in the Eurozone was persistently below the ECB's price stability target. This anomalous situation was expressly acknowledged by the ECB, which launched monetary expansionary measures, including the use of unconventional instruments to ensure the return of inflation to levels close to the medium-term objective. The inflation dynamics in the Eurozone also influenced the prices evolution in Spain. It should be noted that, in order to end the external deficits registered in the past, and the continued external borrowing necessary to finance them, it was necessary to maintain an inflation differential favourable to our country against the Eurozone, in order to regain competitiveness and to correct the appreciation of Spain's real effective exchange rate. Since the European inflation recorded very low levels, this negative differential was only possible to the extent that Spain was able to record negative price variation rates: the average of the Spanish harmonised CPI in the last three years up to 2015, corrected from indirect taxes and other tax measures recorded a 0.2% yearly fall.

The Spanish inflation accumulated in the 2013-2015 period was slightly lower than that projected by the EC at the time of the Recommendation. This deviation ranged between 2.2 and 3.1 percentage points, depending on the inflation measure used. The magnitude of these forecasting errors more than offsets the positive surprises of the real GDP, resulting in a nominal GDP in 2015 1% lower than the figure estimated by the EC in 2013.

This dynamics of the Spanish inflation had a negative impact on public finances through various transmission channels. On the one hand, the negative inflation dilutes a significant part of the positive effects on the tax revenues often associated with the recovery of economic activity and employment. On the other hand, a lower inflation does not necessarily imply a lower nominal spending, since the main items on the expenditure side are not indexed with the inflation as a result of the structural reforms implemented in recent years. However, the lower inflation does have an upward impact on the public spending/GDP ratio due to its effect on the denominator. As a result, the budget balance, both in levels and in percentage of GDP, worsens in a context of low inflation, especially if inflation is negative.

In this quantitative estimation, we use and consider in detail the methodology used by the EC in its Report on Public Finance. Firstly, the time horizon is extended from one to three years in order to include the negative inflation surprises recorded between 2013 and 2015. Thus, instead of analysing the effect of a negative inflation shock of one percentage point in 2014, as the EC does in its report, the impact on the fiscal variables is estimated assuming the inflation forecasts for Spain in the 2013-2015 period published by the EC in 2013 are met. Secondly, OECD elasticities are used and complemented with other estimates that consider more accurately the specificities of the Spanish tax system. Thirdly the shock on inflation is defined in greater detail, considering that it affects wages and corporate profits, which allows using more precise elasticities for each fiscal variable. Finally, several alternative approaches are presented to estimate elasticities, thus ensuring that the results obtained are robust. The aggregated elasticities obtained with these three methodologies are consistent and are in line with those used by the EC for countries with tax systems similar to the Spanish one, as is the case of France and Italy.

Tax revenues elasticities

	Method 1. Regression	Method 2. OECD elasticities (1)	Method 3. Tax parameters (2)	Average of alternative methods	Weight over GDP (3)
Income tax	1.12	1.04	1.31	1.16	8.1
Corporate tax	1.16	1.32	1.00	1.16	2.1
Indirect taxes	1.17	1.00	0.97	1.05	8.8
Social Security contributions	1.00	0.59	1.00	0.86	12.4
Non-tax revenue	0.00	0.00	0.00	0.00	6.8
Aggregate elasticity	0.90	0.71	0.88	0.83	
Total weight of revenue over GDP					38.2

(1) Methodology based on OECD estimates of tax to base elasticities and ad-hoc calibrations of base to inflation elasticities.

(2) Methodology based on the calibration employed by Spain's tax agency.

(3) Weights are based on year 2013 figures.

Expenditure items elasticities

	Calibrated elasticity	Weight over GDP
Compensation of employees	0.00	11.1
Intermediate consumption	1.00	5.3
Social transfers in kind	0.00	2.7
Social transfers other than in kind	0.15	16.5
Interest payments	2.00	3.3
Subsidies	0.00	1.1
Transfers to EU	1.00	1.0
Gross fixed capital formation	1.00	2.2
Other capital expenditure	1.00	1.0
Other expenditure	0.00	0.8
Aggregate elasticity	0.41	
Total weight of expenditure over GDP		45.1

Based on this detailed analysis of public revenues and public expenditure and their elasticities to inflation, it is estimated that the General Government net borrowing as a percentage of the GDP would have been approximately 0.7 percentage points lower in 2015 if the inflation observed would have coincided with the EC triennial forecasts published in 2013 (the year in which the EU Council set the target of 4.2% of GDP for 2015). This analysis was completed with a second scenario that assumed an observed inflation of 2% in the Eurozone and 1.5% in Spain. In this case it is estimated that the Spanish General Government deficit as a percentage of GDP would have been approximately one percentage point lower than the figure registered in 2015. Therefore, these estimates as a whole are in line with those obtained by the Commission for other European economies, such as France and Italy, and they confirm that the low inflation dynamics were a difficulty, very significant quantitatively, when it came to achieving the fiscal consolidation objectives in Spain in recent years.

By subsectors, the 0.79 percentage point fall in the public deficit in 2015 (excluding financial assistance) compared to that of 2014 is explained by the deficit reduction of the Central Government (1.05 p.p.) and, to a lesser extent, by the decline in the deficit of the Regional Governments (0.09 p.p.), while the Social Security Funds increased their deficit by 0.21 p.p. and Local Corporations moderated their surplus by 0.13 p.p. (Table 4.1.1).

Table 4.1.1. Balance of the General Government in 2015
% of GDP

	2014	2015	2015 Target
Central Government (1)	-3.57	-2.53	-2.9
Regional Governments	-1.75	-1.66	-0.7
Local Governments	0.57	0.44	0.0
Social Security	-1.04	-1.26	-0.6
Total General Government (1)	**-5.79**	**-5.00**	**-4.2**
Net cost linked to the restructuring of the banking sector	*-0.10*	*-0.08*	
Total General Government	**-5.89**	**-5.08**	

(1) Excluding net costs related to the restructuring of the banking sector.

Source: General State Comptroller (IGAE).

If the financial assistance to financial institutions is included, for an amount equal to 0.08% of GDP, the deficit stands at 5.08% in 2015, compared to the 5.89% recorded in 2014, when the effect of bank restructuring on public deficit was 0.10% of GDP (Table 4.1.1).

The General Government balance improvement in 2015 was due to the increase of non-financial resources (2.9%), higher than the figure registered by uses (1.2% excluding the financial assistance). On the revenue side, the tax revenues increased by 5.2% due to the boost of tax bases, which registered a positive rate for the second consecutive year, after six years of uninterrupted falls. This increase in tax revenues occurred despite the inflation rate being lower than the one initially estimated and the impact on the collection of tax reductions included in the reform of direct tax which came into force at the beginning of 2015, and the application of RDL 9/2015 of July, which brought forward part of the tax cuts planned for 2016.

Table 4.1.2. The General Government in 2015

	2014	2015	year-on-year % change	2014	2015	Difference
	Million €			% of GDP		
Revenues	**401,722**	**413,456**	**2.9**	**38.58**	**38.24**	**-0.3**
Tax revenues	230,398	242,265	5.2	22.13	22.41	0.3
Direct taxes	111,089	115,751	4.2	10.67	10.71	0.0
Indirect taxes	119,309	126,514	6.0	11.46	11.70	0.2
Social security contributions	130,063	132,333	1.7	12.49	12.24	-0.3
Other revenues	41,261	38,858	-5.8	3.96	3.59	-0.4
Expenditures	**463,041**	**468,421**	**1.2**	**44.47**	**43.32**	**-1.1**
Compensation of employees	114,938	118,699	3.3	11.04	10.98	-0.1
Intermediate consumption	54,957	56,389	2.6	5.28	5.22	-0.1
Social benefits	170,655	170,311	-0.2	16.39	15.75	-0.6
Interests	35,291	33,122	-6.1	3.39	3.06	-0.3
Subsidies	11,400	12,536	10.0	1.09	1.16	0.1
Social transfers in kind (market production)	28,092	28,489	1.4	2.70	2.63	-0.1
VAT and GNI based EU own resources	9,570	9,210	-3.8	0.92	0.85	-0.1
Gross fixed capital formation	21,889	26,545	21.3	2.10	2.46	0.4
Investment grants and other capital transfers	7,945	6,857	-13.7	0.76	0.63	-0.1
Other expenditures	8,304	6,263	-24.6	0.80	0.58	-0.2
Net lending (+) / Net borrowing (-)	**-61,319**	**-54,965**	**-10.4**	**-5.89**	**-5.08**	**0.8**
Net cost linked to the restructuring of the banking sector		*-853*	*-14.4*	*-0.10*	*-0.08*	*0.0*
Net lending (+) / Net borrowing (-) (1)	**-61,319**	**-54,112**	**-10.3**	**-5.79**	**-5.00**	**0.8**
Memo items:						
Public debt	**1,033,737**	**1,072,183**	**3.7**	**99.29**	**99.17**	**-0.1**
Implicit interest rate (%)	3.65	3.20				

(1) Excluding net costs related to the restructuring of the banking sector.

Sources: General State Comptroller (IGAE), Bank of Spain and National Institute of Statistics.

Within the tax revenues, direct taxes increased by 4.2% mainly driven by the increase in household income as a result of increased job creation. Indirect taxes increased by 6% due to a higher aggregate nominal spending, in a context of greater dynamism of private consumption. On the other hand, revenues from social security contributions increased 1.7% thanks to the strong job creation, contributing to the dynamism of total non-financial revenues.

As for General Government non-financial uses, they increased by 1.2% last year. The evolution of uses and resources in 2015 was affected by extraordinary expenditure operations, such as the reallocation of public investments from previous financial years, the expenditure associated with Hepatitis C treatments and the allocation to 2015 of revenues derived from auctions of frequency bands of the radio broadcasting space made in 2011, an operation that has been recorded as a lower capital use of net acquisitions of non-produced non-financial assets. Among the primary expenditure, final consumption expenditure of General Government grew 3.1% due to the increase of its main variables. Among these, the rises in the compensation of employees (3.3%), intermediate consumption (2.6%) and social transfers in kind acquired from market producers (1.4%) stood out. On the other hand, gross fixed capital formation grew by 21.3%, a rate that falls down to 12% if the reallocation of investments made in previous years is excluded. Among the items which fell, interests and other capital transfers stand out, as they decreased by 6.1% and

39.2%, respectively, as well as net acquisitions of non-produced non-financial assets, which went from registering € 674 million in 2014 to € -1.1 billion in 2015, mainly due to the revenues derived from the auction of the radio broadcasting space initially allocated to 2011.

At the end of 2015, public debt of the General Government, according to the methodology of the Excessive Deficit Procedure (EDP), amounted to € 1.072 billion (99.2% of GDP), compared to € 1.034 billion (99.3% of GDP) recorded at the end of the previous year, representing a reduction of one tenth of GDP, compared to the increase of 5.6 percentage points in 2014.

As for the different subsectors that integrate the Spanish Public Administrations, the Central Government deficit in 2015 (Table 4.1.3), according to the National Accounts and excluding the financial assistance for the restructuring of the financial system, stood at 2.53% of GDP, compared with a deficit of 3.57% recorded in 2014, and the committed target of -2.9% of GDP.

Table 4.1.3. The Central Government in 2015

	2014	2015	year-on-year % change	2014	2015	Difference
	Million €			% of GDP		
Revenues	**186,291**	**192,560**	**3.4**	**17.89**	**17.81**	**-0.1**
Tax revenues	147,478	155,715	5.6	14.16	14.40	0.2
Direct taxes	64,395	66,406	3.1	6.18	6.14	0.0
Indirect taxes	83,083	89,309	7.5	7.98	8.26	0.3
Social security contributions	10,548	10,749	1.9	1.01	0.99	0.0
Current transfers within General Government	10,461	13,137	25.6	1.00	1.22	0.2
Other revenues	17,804	12,959	-27.2	1.71	1.20	-0.5
Expenditures	**224,500**	**220,736**	**-1.7**	**21.56**	**20.42**	**-1.1**
Compensation of employees	23,251	23,756	2.2	2.23	2.20	0.0
Intermediate consumption	8,160	8,725	6.9	0.78	0.81	0.0
Social benefits	15,581	16,229	4.2	1.50	1.50	0.0
Interests	31,900	29,989	-6.0	3.06	2.77	-0.3
Current transfers within General Government	112,516	110,453	-1.8	10.81	10.22	-0.6
VAT and GNI based EU own resources	9,570	9,210	-3.8	0.92	0.85	-0.1
Gross fixed capital formation	6,840	7,843	14.7	0.66	0.73	0.1
Investment grants and other capital transfers	4,057	3,321	-18.1	0.39	0.31	-0.1
Other expenditures	12,625	11,210	-11.2	1.21	1.04	-0.2
Net lending (+) / Net borrowing (-)	**-38,209**	**-28,176**	**-26.3**	**-3.67**	**-2.61**	**1.1**
Net cost linked to the restructuring of the banking sector	*-997*	*-853*	*-14.4*	*-0.10*	*-0.08*	*0.0*
Net lending (+) / Net borrowing (-) (1)	**-37,212**	**-27,323**	**-26.6**	**-3.57**	**-2.53**	**1.0**
Memo items:						
Public debt	**895,716**	**940,516**	**5.0**	**86.03**	**86.99**	**1.0**
Implicit interest rate (%)	3.81	3.35				

(1) Excluding net costs related to the restructuring of the banking sector.

Sources: General State Comptroller (IGAE), Bank of Spain and National Institute of Statistics.

The lower deficit of the Central Government in 2015 is due to the increase in non-financial resources (3.4%) and to the fall of uses (-1.7%). Within revenues, tax revenues increased by 5.6% due to increases in revenues from direct taxes (3.1%) and indirect taxes (7.5%), which together with the higher current transfers received from other Public Administrations (25.6%), due to the settlement of the financing system of 2013, largely explains the progress of non-financial revenue. Among the groups that fell on the revenue side, the interests received by the Central Government stand out, as they dropped by 53%, since, as of 1st January 2015, the outstanding loans granted under the Regional Liquidity Fund and the Fund for Financing Payments to Suppliers do not accrue interests, while in 2014 these amounted to € 1.6 billion and € 963 million, respectively.

On the other hand, the expenditure of the Central Government decreased by 1.7% in 2015 largely due to the decline in interests (-6%), the lower transfers to other Public Administrations (-1.8%), the final settlement of the financing system of 2013, the fall of the other capital transfers (-43.5%) and the lower net acquisitions of non-produced non-financial assets (€ -1.5 billion compared to € 264 registered in 2014). Excluding the financial assistance to the financial system and interests, non-financial uses recorded a 0.9% decline. Among the groups that rose, gross fixed capital formation (14.7%), intermediate consumption (6.9%), compensation of employees (2.2%) and social benefits other than social transfers in kind (4,2%) stand out.

Table 4.1.4. The Regional Governments in 2015

	2014	2015	year-on-year % change	2014	2015	Difference
	Million €			% of GDP		
Revenues	**146,447**	**152,104**	**3.9**	**14.07**	**14.07**	**0.0**
Tax revenues	48,086	51,127	6.3	4.62	4.73	0.1
Direct taxes	36,102	38,288	6.1	3.47	3.54	0.1
Indirect taxes	11,984	12,839	7.1	1.15	1.19	0.0
Current transfers within General Government	79,384	81,786	3.0	7.62	7.56	-0.1
Other revenues	18,977	19,191	1.1	1.82	1.77	0.0
Expenditures	**164,629**	**170,066**	**3.3**	**15.81**	**15.73**	**-0.1**
Compensation of employees	68,495	71,235	4.0	6.58	6.59	0.0
Intermediate consumption	26,428	27,499	4.1	2.54	2.54	0.0
Interests	7,672	4,219	-45.0	0.74	0.39	-0.3
Social transfers in kind (market production)	25,779	26,190	1.6	2.48	2.42	-0.1
Current transfers within General Government	13,599	15,562	14.4	1.31	1.44	0.1
Gross fixed capital formation	9,287	12,473	34.3	0.89	1.15	0.3
Investment grants and other capital transfers	3,296	3,002	-8.9	0.32	0.28	0.0
Other expenditures	10,073	9,886	-1.9	0.97	0.91	-0.1
Net lending (+) / Net borrowing (-)	**-18,182**	**-17,962**	**-1.2**	**-1.75**	**-1.66**	**0.1**
Memo items:						
Public debt	**236,820**	**261,456**	**10.4**	**22.75**	**24.18**	**1.4**
Implicit interest rate (%)	3.66	1.78				
Sources: General State Comptroller (IGAE), Bank of Spain and National Institute of Statistics.						

In 2015, the Regional Governments´ deficit, in National Accounts terms, stood at 1.66% of GDP, a figure 0.96 percentage points above the deficit target (0.7% of GDP) and 0.09 percentage points below the deficit of 2014 (Table 4.1.4). Regional Governments non-financial resources rose by 3.9% mainly due to the increase in tax revenues (6.3%) and the higher current transfers received from other public administrations (3%).

On the other hand, uses rose by 3.3% primarily due to the increases in gross fixed capital formation (34.3%, an increase that falls down to 15.2% if the allocation in 2015 of public investment made in previous financial years for € 1.8 billion is not taken into account); in compensation of employees (4%, driven by the recovery of part of the 2012 bonus pay); in current transfers to other Public Administrations (14.4% mainly due to increased payments on account by the Adequacy Fund and the Guarantee Fund, as well as due to the effect of the financing system settlements); of intermediate consumption (4.1%, an increase that includes most of the expenditure associated with Hepatitis C treatments, amounting to € 1.1 billion); and to a lesser extent, in social transfers in kind acquired from market producers (1.6%, including € 39 million associated with the Hepatitis C treatments). If the expenditure extraordinary operations related to the reallocation of investments made in previous years, the recovery of part of the 2012 extra pay and the cost associated with the Hepatitis C treatment are not taken into account, the Regional Governments deficit stands at 1.31% of GDP.

Regarding Local Corporations (Local Governments, Council Offices, Town Councils and Island Councils), they decreased their surplus down by 0.13 p.p. in 2015, to 0.44% of GDP, so they amply comply with the balanced budget target committed for the whole year. This reduction of its balance is explained by an increase of the non-financial resources (0.5%) lower than that recorded by the uses (2.4%). The Local Corporations' rising revenues is due to an increase in tax revenues (1.7%) and in current transfers from other Public Administrations (3%).

On the other hand, uses rose largely driven by the increases in current transfers to other Public Administrations (12%), in the compensation of employees (2.4%, an increase entirely due to the recovery of part of the 2012 extra pay) and in gross fixed capital formation (8.8%, affected both by the sixth additional Provision of the Organic Law on Budgetary Stability and Financial Sustainability - known in Spanish as LOEPSF- which allows those Local Corporations with a surplus to allocate part of it to finance financially sustainable investments, and by the allocation in 2015 of public investments made in previous financial years, amounting to € 256 million). Among the items that fell, the following stand out: intermediate consumption, which dropped by 0.6%, and interests, which fell by 44.5% due to the reduction of their debt thanks to the surplus and to the fact that, as of 1st January 2015, the outstanding loans granted under the Fund for Financing Payments to Suppliers do not accrue interests, while in 2014 € 307 million were recorded for loans from this Fund. If the expenditure extraordinary operations related to the reallocation of investments made in previous years and the recovery of part of the 2012 extra pay are not taken into account, the Local Corporations surplus stands at 0.51% of GDP.

Table 4.1.5. The Local Entities in 2015

	2014	2015	year-on-year % change	2014	2015	Difference
	Million €			% of GDP		
Revenues	**67,821**	**68,156**	**0.5**	**6.51**	**6.30**	**-0.2**
Tax revenues	34,834	35,423	1.7	3.35	3.28	-0.1
Direct taxes	10,592	11,057	4.4	1.02	1.02	0.0
Indirect taxes	24,242	24,366	0.5	2.33	2.25	-0.1
Current transfers within General Government	21,513	22,159	3.0	2.07	2.05	0.0
Other revenues	11,474	10,574	-7.8	1.10	0.98	-0.1
Expenditures	**61,883**	**63,391**	**2.4**	**5.94**	**5.86**	**-0.1**
Compensation of employees	20,660	21,156	2.4	1.98	1.96	0.0
Intermediate consumption	19,122	19,006	-0.6	1.84	1.76	-0.1
Interests	1,197	664	-44.5	0.11	0.06	-0.1
Subsidies	1,499	1,434	-4.3	0.14	0.13	0.0
Current transfers within General Government	10,041	11,247	12.0	0.96	1.04	0.1
Gross fixed capital formation	5,595	6,088	8.8	0.54	0.56	0.0
Other expenditures	3,769	3,796	0.7	0.36	0.35	0.0
Net lending (+) / Net borrowing (-)	**5,938**	**4,765**	**-19.8**	**0.57**	**0.44**	**-0.1**
Memo items:						
Public debt	**38,330**	**35,147**	**-8.3**	**3.68**	**3.25**	**-0.4**
Implicit interest rate (%)	2.84	1.73				

Sources: General State Comptroller (IGAE), Bank of Spain and National Institute of Statistics.

Finally, in a context of growing dynamism in economic activity, Social Security Funds recorded a deficit of 1.26% of GDP in 2015, 0.21 percentage points higher than the figure registered in 2014 and 0.66 p.p. above the committed target (a deficit of 0.6% of GDP). Social Security Funds revenues fell by 2.1% mainly as a result of the fall in current transfers received from other Public Administrations (-15.3%), despite the increase in social security contributions (1.7%), which approximately constitute 80% of total revenues. The number of covered workers registered in the System, which has a direct impact on the social contributions, increased by more than half a million people in 2015, in the context of the implementation of RDL 3/2014 of 28th February, which approved a € 100 flat fee in contributions for permanent contracts that imply a net job creation, and of RDL 1/2015, of 27th February, which exempts firm from contributing on the first € 500 of salary in new permanent contracts.

On the other hand, expenses dropped by 0.2% mainly due to the 0.5% fall of social benefits other than social transfers in kind. This in turn is explained by the decline in spending on unemployment benefits included in this group, which decreased by 16.2% as a result of the fall in the number of beneficiaries (Table 4.1.6).

Table 4.1.6. The Social Security Administrations in 2015

	2014	2015	year-on-year % change	2014	2015	Difference
	Million €			% of GDP		
Revenues	**149,363**	**146,255**	**-2.1**	**14.35**	**13.53**	**-0.8**
Social security contributions	118,908	120,948	1.7	11.42	11.19	-0.2
Current transfers within General Government	27,659	23,424	-15.3	2.66	2.17	-0.5
Other revenues	2,796	1,883	-32.7	0.27	0.17	-0.1
Expenditures	**160,229**	**159,847**	**-0.2**	**15.39**	**14.78**	**-0.6**
Compensation of employees	2,532	2,552	0.8	0.24	0.24	0.0
Intermediate consumption	1,247	1,159	-7.1	0.12	0.11	0.0
Social benefits	150,869	150,045	-0.5	14.49	13.88	-0.6
Subsidies	2,003	2,079	3.8	0.19	0.19	0.0
Current transfers within General Government	2,861	3,244	13.4	0.27	0.30	0.0
Other expenditures	717	768	7.1	0.07	0.07	0.0
Net lending (+) / Net borrowing (-)	**-10,866**	**-13,592**	**25.1**	**-1.04**	**-1.26**	**-0.2**
Memo items:						
Public debt	**17,188**	**17,188**	**0.0**	**1.65**	**1.59**	**-0.1**

Sources: General State Comptroller (IGAE), Bank of Spain and National Institute of Statistics.

4.2. The General State Budget for 2016

The favourable economic situation in which the Budgets for 2016 is framed has a reflection both in revenues, due to the strong dynamism shown by the tax revenues, and in the statement of expenditure, as a result of the decrease of unemployment spending resulting from the labour market improvement. The savings generated in the item of interests of the public debt due to the continuous improvement of Spain's credit quality must be added to this.

The analysis below is based on the macroeconomic scenario considered in the preparation of the General State Budget for 2016.

On the revenue side, the macroeconomic scenario forecasted for 2016, with a nominal GDP growth of 4%, is favourable for tax collection growth. This allows the tax reform to conclude with the General State Budget for 2016, reducing and redistributing the tax burden of direct taxation, increasing the disposable income given to households, encouraging consumption and investment and improving competitiveness of the Spanish companies. All this is reflected in a widening of the tax bases and consequently a higher collection.

On the expenditure side, the following news should be highlighted:

- A significant increase of the resources transferred to the Territorial Administrations under the financing system framework is forecast. This will improve the fiscal position of the Regional Governments and Local Corporations in the financial year 2016, facilitating the fulfilment of its budgetary stability objectives. The increase of transfers to the Territorial Administrations is complemented by an increased funding via income. In total, the Territorial Administrations as a whole will receive an increase of resources from the financing system totalling € 8.0 billion in 2016, representing 7.8% more than in 2015.

- Public employment measures are incorporated:

  - Public employee remunerations may be increased up to a maximum of 1% compared to the remunerations of 31st December 2015.

  - In 2016 public employees will recover the remaining 50% of the bonus pay suspended in December 2012.
  - The public employment reinstatement rate rises to 50% in general and will be of 100% in priority sectors in order to strengthen the teams fighting against fiscal and labour fraud, teachers, Law Enforcement Forces and Agencies and Armed Forces, among other essential groups.

- The Growth, Competitiveness and Employment Plan (Known in Spanish as CRECE), which was already incorporated into the General State Budget for 2015, continues. This plan aims to align the objectives of EU funds with the national investment needs, concentrating investments in key sectors that attract private investment and ensuring the widest application of the EU funds.

- A significant reduction occurs in the transfers to the Public State Employment Service and to the public debt interests, as a result of the labour market and the market confidence improvements, respectively.

As reflected in Table 4.2.1, tax revenues recorded an increase of 0.3% in the General State Budget for 2016 in comparison to the budget for 2015, due to advance forecast in direct taxes, which will increase by 1.5%. On the other hand, indirect taxes will decrease by 1.5%. As for the expenditure, it will drop by 3%, mainly as a result of the decrease in current and capital transfers and in interests. Likewise, it should be noted that the State Budget for 2016, for the first time since the beginning of the crisis, show a primary surplus.

Table 4.2.1. The State Budget for 2016

	2015	2016	year-on-year % change
	Initial budget		
	Millions €		
	1	2	3=2/1
Total revenues	**133,712**	**134,773**	**0.8**
Tax revenues	112,554	112,880	0.3
Direct taxes	68,398	69,404	1.5
Personal Income Tax	40,215	39,610	-1.5
Corporate tax	23,577	24,868	5.5
Others	4,606	4,926	6.9
Indirect taxes	44,156	43,476	-1.5
VAT	32,529	31,334	-3.7
Excise duties	8,092	7,922	-2.1
Others	3,535	4,220	19.4
Other revenues	21,158	21,893	3.5
Total expenditures	**161,992**	**157,189**	**-3.0**
Personnel expenditure	16,047	16,808	4.7
Current expenditure on goods and services	3,122	3,082	-1.3
Interests	35,519	33,514	-5.6
Current transfers	91,784	88,812	-3.2
Contingency Fund	2,595	2,468	-
Real investment	3,421	3,632	6.2
Capital transfers	9,506	8,873	-6.7
Budgetary balance	**-28,280**	**-22,416**	**-20.7**
Source: Ministry of Finance and Public Administrations.			

State revenue budget

The remaining part of the tax reform came into force in 2016, and it intends to complete the fall in rates that began in 2015. The General Tax Act reform will also come into force this year and it includes a set of new provisions that will streamline the tax system, aiming to improve its operation and facilitate the fight against fiscal fraud.

With regards to revenues, in 2016, it is expected that total State taxes (including the participation of Regional Governments and Local Corporations in Personal Income Tax, VAT and Excise Taxes) will grow by 4% compared to the budget of 2015, driven by expected increases in direct and indirect taxes of 4% and 3.9%, respectively (Table 4.2.2).

Table 4.2.2. The State Tax Revenue budget in 2016
Including the participation of the Territorial Entities

	2015	2016	year-on-year % change
	Initial budget		
	Million €		
	1	2	3=2/1
Direct taxes	**101,140**	**105,226**	**4.0**
Personal Income Tax	72,957	75,432	3.4
Corporate tax	23,577	24,868	5.5
Non-Resident Income Tax	1,530	1,988	29.9
Others	3,076	2,938	-4.5
Indirect taxes	**83,690**	**86,936**	**3.9**
VAT	60,260	62,663	4.0
Excise duties	19,894	20,053	0.8
Others	3,536	4,220	19.3
Total taxes	**184,830**	**192,162**	**4.0**

Source: Ministry of Finance and Public Administrations.

Estimated revenue from the Personal Income Tax will amount to € 75.4 billion. This is 3.4% higher than in the budget of 2015. The main boost to this growth will come from the increase in wage income. Salaried employment will grow at an average rate of 3%, the same as that registered in 2015, but compensation per employee will increase at a rate of almost 0.9 percentage points higher than the figure forecasted in 2015, to reach 1.4%. This rise in average wage income, given the progressivity in the tax scale, will reduce the impact of the reduction in legal rates on the effective rates.

The acceleration of the main income item, wage bill, will be accompanied by a sustained growth in pensions and greater increases in other types of income, resulting from the favourable benefits evolution, those from both the personal enterprises and companies, which accrue in personal income through the dividends distribution.

Therefore, the highest increase in household incomes explains the estimated growth for the accrued tax, which would have been even greater in the absence of the of direct taxation reform.

With regard to indirect taxes, revenue from Value Added Tax of € 62.7 billion is expected in 2016, representing an increase of € 2.4 billion compared to the 2015 outturn (4% higher). In this case, the revenue increase is completely due to the expected development of spending subject to taxation, which is expected to grow more than in 2015, as the slight consumption slowdown considered in the macroeconomic scenario of the General State Budget will be more than offset by the acceleration in prices and in spending on housing purchases.

In 2016, revenues from Excise Duties will increase by 0.8% compared to the budget of 2015, reaching € 20.1 billion due to the tax bases and prices evolution.

State expenditure budget

Consistent with the revenues forecasts for 2016 and the deficit target set for the State, the State Budget was approved with a non-financial expenditure of € 157.2 billion, 3% less than the previous year.

In the breakdown by chapters, current transfers, which are the highest volume item of the State Budget, fall by 3.2% compared to the previous financial year. This decrease is mainly due to the lower contribution from the State to the Public State Employment Service due to the savings in spending for unemployment benefits. This decrease is partially offset by various increases in other items, among which the following stand out: higher transfers to finance the Territorial Administrations, higher financing of pensions for retired civil servants, the allocation of credits for the implementation of the organic law to improve educational quality or the financing increase for social actions such as the support for families and children and the long-term care system.

On the other hand, as in previous financial years, social items take most of this chapter with contributions to Social Security to finance the minimum complements, non-contributory pensions or family protection. Likewise, scholarships and grants for students and the contribution to the EU budget can be mentioned as the most significant current transfers.

With regard to financial expenses chapter, which is the second highest volume of the State Budget, a reduction of 5.6% is recorded, justified by the improved financing conditions of the Spanish public debt.

The staff expenses evolution is determined by the 1% update of the public employees' remunerations, the recovery of half of the bonus pay of 2012 of public employees and the 4% increase of the funding of the mutual insurance system.

Current expenditure on goods and services fell by 1.3% compared to 2015. On the other hand, the chapter of real investments rose by 6.2%, with the increases in justice and transport infrastructure modernisation standing out.

As for the capital transfers, they decreased 6.7%, mainly due to the suppression during 2015 of credits to finance the aid to aerial change the caused by to the DTT frequency modifications within the National Technical Plan of the DTT and to the reduction of the electricity system cost financing.

With the Stability Programme Update a new stability goal has been set for the Central Government subsector, from a deficit target of 2.2% of GDP initially forecasted for 2016 to a deficit target of 1.8% of GDP.

The favourable economic evolution reflected in the expenditure and income statements of the State Budget, as described above, will help to reduce the net borrowing in 2016. In addition, in order to ensure compliance with this fiscal consolidation agreement with the EU and in response to the autonomous recommendation of March 2016, the Government proposes a package of expenditure containment measures. In this regard, on 29th April the Council of Ministers approved an Agreement of Non-Availability of Credit for the State amounting to € 2.0 billion, a figure equivalent to a reduction of 3% of the Ministries budget. This Agreement of Non-Availability is not expected to generate additional costs in subsequent years.

The non-availability is distributed evenly among all ministerial departments, preserving the social items such as pensions, family protection, unemployment benefits, study scholarships, etc.

State Budget Composition

Unlike the budgets from other public administrations, the State Budget is not limited to finance the exercise of its powers. Much of it is destined to finance the powers exercised by the other administrations, both territorial and those of the Social Security, as well as transfers to the EU.

These attentions consume 42% of the State Budget and its amount and evolution have a statutory origin (Territorial Administrations financing systems, social security regulation or European law), thus resulting in items completely unavailable to the State. Therefore, the State Budget can be said to be, due to its structure, an eminently funding budget for other public administrations, in line with the role of leadership, coordination and ultimate guarantor of the corresponding Spanish public sector.

Consistent with this role, the State has the best access to financial markets, and this is used to provide the resources that the administrations as a whole require, taking on for this reason a significant interest burden, of approximately € 33.5 billion in 2016, which represents 21% of the State Budget total expenditure. This amount also finances part of the Territorial Administrations interests.

The restricted nature of this first block of expenditure is equally shared by other items of mandatory provision, which would constitute a second block, such as the financing of the electricity system costs, the amount of which is determined by the collection forecast of the new environmental taxes, and credits for pensions for retired civil servants that are financed under the State Budget, representing 11% of the State spending. Consequently, almost 75% of the State Budget has this restricted nature, being the rigidity of these expenditures unquestionable. This structure provides a proper perspective of the consolidation effort carried out from the State Budget.

Within the remaining percentage, there is a third expenditure block, used in defence, justice, public order and security. These are the basic public services responsibility of the State, and 10% of the state budget is reserved to its funding.

With the remaining 15% of the budget, the State finances infrastructure policies and R&D in 2016, which are two key pillars to promote economic growth; the scholarships and study grants; foreign and cooperation policy, etc. However, not all items that are financed by the latter expenditure block offer some choice as to its amount or endowment, but some of them are of a mandatory endowment, such as the mutual insurance of civil servants (approximately € 2.0 billion), constitutional bodies (slightly more than € 300 million) or the Contingency Fund (over € 2.5 billion), which should be integrated into the General State Budget in order to take care of unforeseen events and extraordinary and urgent needs that may arise during budget implementation.

Table 4.2.3. Structure of the State Budget for 2016

	Millions €	
1.Funding of other Public Administrations and debt interests	**99,470**	**63%**
Funding of Autonomous Regions and Local Authorities	34,742	22%
Funding of Social Security	17,480	11%
Contribution to the EU Budget	13,758	9%
Debt interests	33,490	21%
2. Mandatory funding items	**17,547**	**11%**
Pensions for retired civil servants	13,651	9%
Funding of the costs of the electric power system	3,895	2%
3. Basic public services (Defence, Justice and Public safety)	**15,190**	**10%**
4. Other expenses	**24,983**	**16%**
Constitutional Bodies	370	0.2%
Personnel expenditures (except Basic public services)	3,057	1.9%
Investments	3,632	2.3%
Foreign Policy and Cooperation	893	0.6%
Contingency Fund	2,468	1.6%
Transport subsidies	1,617	1.0%
Mutual Funds	1,949	1.2%
Scholarships	1,472	0.9%
Inter-Territorial Compensation Fund	582	0.4%
Others	8,942	5.7%
Non-Financial Expenditure of the State	**157,189**	**100%**
Source: Ministry of Finance and Public Administrations.		

Social Security budget

The Social Security budget forecasted a net borrowing of € 3.7 billion in budgetary terms (Table 4.2.3.), as a result of revenues that rise by 5.4% and expenditures growing by 3.1%.

Table 4.2.4. The Social Security budget for 2016

	2015	2016	year-on-year % change
	Initial budget		
	Million €		
	1	2	3=2/1
Total revenues	**126,279**	**133,082**	**5.4**
Social Security contributions	109,833	117,243	6.7
Current transfers	13,186	13,199	0.1
of which: from the State	13,055	13,143	0.7
Other revenues (a)	3,261	2,640	-19.0
Total expenditures	**132,724**	**136,827**	**3.1**
Current transfers	128,615	132,751	3.2
Contributory pensions	115,669	118,942	2.8
Non-contributory pensions	2,243	2,291	2.2
Temporary disability	4,943	5,398	9.2
Maternity	2,098	2,204	5.0
Other current transfers	3,662	3,917	6.9
Other expenditures (b)	4,109	4,075	-0.8
Budgetary balance	**-6,444**	**-3,745**	**-41.9**
% of GDP	-0.59	-0.34	-

(a) Property income, fees and other revenues and capital transfers.
(b) Staff, goods and services, financial expenses, real investment and capital transfers.
Source: Ministry of Labour and Social Security.

The consolidated Budget of non-financial revenues of the Social Security System for 2016 amounts to € 133.1 billion, which represents an increase of 5.4% compared to 2015. The main source of funding are social contributions, with an amount budgeted of € 117.2 billion for this year, which allows financing over 85% of non-financial spending. Contributions from companies and employed people are included in this group, which increase as a result of the positive evolution experienced by the Social Security covered workers, as well as unemployed contributions, which decrease in comparison to the budget of 2015.

After these contributions, State contributions are the concept with a higher share in the revenue side of the Social Security Budget. It is expected that the Social Security will receive current transfers from the State of a total amount of € 13.1 billion in 2016, a figure 0.7% higher compared to that recorded in 2015. Within the State contributions, the one used for the coverage of the complements for minimum pensions stands out due to its volume, with an annual fall of 2%.

The Budget for Social Security non-financial expenditure for 2016 totals € 136.8 billion, which represents a growth of 3.1% compared to the 2015 budget. Within total expenditure, current transfers stand out due to their importance and include contributory and non-contributory pensions, benefits for temporary disability and maternity benefits and other various benefits, such as family allowances and those linked to dependence.

Contributory pensions were assigned a credit for 2016 of € 118.9 billion, 2.8% higher than that of last year, estimated in accordance with the increase of the group of pensioners, the variation of the average pension and a revaluation of 0.25%. Benefits for maternity, paternity and risks during pregnancy and during breastfeeding, whose endowment amounts to € 2.2 billion, rises by 5% compared to 2015, in line with the evolution of total beneficiaries. Credit assigned to the payment of temporary disability benefits increases by 9.2% up to € 5.4 billion. In recent years there has been a considerable decrease in spending on this benefit, however, a growing trend of spending consistent with the increase of the covered workers softened by the reforms undertaken by the Government is expected for 2016.

Non-contributory pensions of the Social Security, which increase by 2.2%, appear in the Budget of the IMSERSO with a credit of € 2.3 billion (excluding the Basque Country and Navarre). This credit covers the higher cost due to the variation in this group, the increase of the average pension and the 0.25% revaluation.

With the Stability Programme Update, taking into account the deficit at the year-end registered by the Social Security in 2015, which stood at 1.3% of GDP, a new stability goal has been set for the subsector for 2016 and the three following years. In this financial year, the deficit target set is equivalent to 1.1% of GDP, falling down to 0.9%, 0.8% and 0.7% respectively. These objectives respect the dynamics of social security income and expenses, which have been severely affected by the deterioration of the Spanish labour market since the crisis, as well as by the upward path followed by the pension expenditure. For this reason, the Law on General State Budget for 2016 included a provision to perform, under the Toledo Agreement framework, an analysis that strengthens the Social Security funding sources and that addressed in more detail the different nature of the contributory and non-contributory benefits.

4.3. 2016-2019 Fiscal strategy. Analysis of measures and budgetary impact

4.3.1. 2016-2019 Fiscal strategy

The fiscal strategy projected for the 2016-2019 period continues with the intense consolidation process carried out by the Public Administrations since 2011, which has allowed reducing the public deficit by more than 4 points of GDP since then. Table 4.3.1.1 shows the basic variables of the fiscal strategy from 2016 up to 2019, and a new fiscal consolidation path for the Administrations as a whole and for each of the subsectors. This path will be consistent with the review of the macroeconomic framework included in this Stability Programme and take into account the 2015 deficit, detailed in the previous section.

The EU Council recommendation of 21st June 2013 set deficit targets of 4.2% and 2.8% of GDP for 2015 and 2016, respectively. This Recommendation was made based on forecasts that finally differed from the current scenario, in particular, the inflation evolution was significantly lower than expected when this Recommendation was issued. The lower inflation had a direct impact on the evolution of the main income and expenses items, and this moderated the pace of public deficit decline in Spain.

Both in public revenues and spending there are a number of groups that are closely linked to the inflation rate. On the income side, inflation-related figures are: Personal Income Tax, Corporate Income Tax, Wealth Tax, taxes on products and social security contributions. For the expenses it can be considered that intermediate consumption, gross fixed capital formation, social transfers in kind acquired in the market and the temporary disability and benefits for maternity are related to the private consumption deflator. Taking into account the above, it is estimated that the inflation rate deviation with respect to the provisions at the time of the Recommendation would have had a negative impact of 0.7 points of GDP on the public deficit in 2015 (see table *Impact analysis of the low inflation on the public deficit in Spain* in section 4.1.).

It is therefore necessary to adapt the fiscal consolidation path to a scenario of low inflation, continuing the budgetary adjustment gradually and without affecting the recovery of the Spanish economy and job creation. According to the above, the new deficit target set for this year is equivalent to 3.6% of GDP, which requires reducing the deficit by 1.4 percentage points of GDP compared to 2015, versus the more than 2 p.p. that were required in the previous path. The deficit target for 2017 stands at 2.9% of GDP, 2.2% in 2018 and 1.6% in 2019. This path implies that Spain would leave the Excessive Deficit Procedure in 2017, deferring the deficit reduction below the 3% threshold one year with regards to the provisions in the Recommendation of 2013.

The public debt will continue the downward trend started in 2015, falling down to 96% of GDP in the last year of the Programme projection, with an intensified annual reduction thanks to the GDP growth and the favourable evolution of the primary balance. The primary deficit is expected to drop down to 0.8% of GDP in 2016, with a fall of six tenths more in 2017. The primary surplus will be reached in 2018, and it will amount to 0.9 points of GDP at the end of the programme, in 2019.

The distribution of targets from 2016 to 2019 responds to the need for all subsectors to participate in the required adjustment. According to the new path set, Regional Governments will have a deficit target of 0.7% this year, four tenths more than the target previously set. Eight tenths of additional deficit are granted to Social Security, 1.1% of GDP this year, in line with the structural nature of the pensions' expenditure and the evolution of social security contributions. The stability target of Local Corporations is maintained in a budgetary balance for the entire projection period. On the other hand, the Central Government has set itself a stricter deficit reduction target for 2016 than the one forecasted in the previous path, consistent with the good fiscal performance of this subsector. Thus, the target for the Central Government in 2016 is equivalent to 1.8% of GDP, i.e., four tenths less in comparison to the target previously set.

In 2017, the deficit target of the Public Administrations as a whole is set at 2.9% of GDP, out of which a deficit of 1.5% of GDP corresponds to the Central Government, 0.5% to Regional Governments, 0.9% to Social Security and budgetary balance for Local Corporations.

The fiscal strategy in terms of revenues and expenditures for the Public Administrations consists in keeping the revenue to GDP ratio slightly above 38% of GDP, with a growing trend throughout the period, and the ratio of spending to GDP decreasing by over 3 points, from 43.2% of GDP in 2015 (without financial assistance) to 40.1% of GDP in 2019.

The revenue ratio increases from 38.2% of GDP in 2015 to 38.5% of GDP in 2019. Despite the impact of the reduction of direct taxes that the fiscal reform involves in 2015 and 2016 (essentially personal and corporate income taxes), the revenue-to-GDP ratio is stable, thanks to the growth of indirect taxes collection slightly above the GDP growth, and the taxable bases increase for both direct and indirect taxes. Social security contributions continue an upward trend, driven by the recovery of the labour market and the increase in compensation of employees, while its growth is partially offset by the impact of the undertaken reforms that entail a reduction in contributions to foster job creation. As detailed in the following section, the reduction of contributions with the minimum exempt of € 500 on the bases has an impact on job creation, since it reduces labour costs for the employer. The whole tax and contributions reform tries to reduce the tax wedge of direct taxation, important and differential in Spain, following one of the Specific Recommendations made to Spain in previous years.

In terms of expenditure, the ratio is reduced by more than 3 points, due to the public spending containment to be undertaken, since the nominal spending growth throughout the projection period falls below the GDP growth. In the functional classification of expenditure, the greatest reduction can be seen to occur in general services due to the decrease in the debt interests included in this item, as well as the unemployment expenditure decreased until its virtual elimination. This social protection item will remain the most important throughout the whole projection period since it contains the pension expenditure.

The public consumption stands out in the expenditure evolution, which primarily consists of three items: compensation of employees, intermediate consumption and social transfers in kind. Real public consumption remains at a growth rate of approximately 1% in 2016 and 2017, falling down to 0.7% in 2018 and 2019. In nominal terms, public consumption remains at 1.3% in the period from 2016 to 2018, growing one tenth more in the last projection year. As for compensation of employees, it is estimated that the impact of the release of part of the bonus payment to public employees in 2012, which will be restored in 2016, will be similar to that recorded in 2015 and therefore does not result in a spending increase versus the previous year (€ 2.0 billion). Furthermore, the effect of other measures, such as the non-replacement of 100% of the workers, as well as the containment in intermediate consumption expenditure and transfers in kind with falls that affect primarily the Regional Governments, must be taken into account. Specifically, intermediate consumption in 2016 will record an annual drop of 1.7%. This decrease considers that in 2015 an extraordinary expenditure of almost € 1.1 billion was recorded to finance hepatitis C treatments, estimating a significantly lower impact on spending in 2016.

In short, in 2016-2019 the main items included in public consumption will rise below the nominal growth of the economy, and this is necessary to guarantee that the Public Administrations comply with the spending rule. Thus, it is required that the primary expenditure, once the cyclical items are excluded, cannot grow above the reference rate of spending. In an environment of low interest rates and cyclical unemployment reduction, compliance with this rule is a preventive restriction. This expenditure containment is based on efficiency measures that allow further reducing the spending to the GDP ratio but with slight increases in nominal spending. This path also complies with the Recommendations made to Spain to increase the efficiency of spending, particularly in healthcare and pharmaceutical sectors.

Interest expenditure experiences a fall throughout the whole 2016-2019 period, in a context of deficit decrease, debt ratio reduction and economic recovery consolidation, above our European partners. This generates confidence gains affecting low interest rates; the implicit rate of the debt would stand below 3% in the projection horizon (interest expenditure/debt).

Spending on social transfers other than in kind is determined by the pension expenditure which grows at 3% and slightly less at the end of the projection period. This evolution is achieved thanks to the expenditure containment from the reforms undertaken since 2011 and includes the increase of the effective retirement age and the revaluation index of the pensions, which, together with the sustainability factor, ensure their sustainability in the future. The second component of the group is spending on unemployment, which experiences a reduction in the period as employment increases and the unemployment rate falls. This explains that social transfers other than in kind maintain a growth standing at 1.75% y-o-y in 2016 and 2017, being the growth slightly higher for the last years of the projection period, once the unemployment expenditure reduction is stabilised.

Finally, with regard to the evolution of investment spending (GFCF), the 2015 figure is affected by the reclassifications of Public Private Partnerships (one-off) that increased this spending category in more than € 2.0 billion. As of 2016, the investment-to-GDP ratio is estimated to grow again in order to meet the maintenance of investments and make new financially sustainable investments, as it has been promoting since 2014 for the local entities in surplus. This guidance could spread to the rest of subsectors under this premise.

Table 4.3.1.1. Budgetary prospects
Excessive Deficit Procedure

	ESA Code	2015 (A)	2015 (A)	2016 (F)	2017 (F)	2018 (F)	2019 (F)
		Level (mill. €)	% of GDP				
Net lending (+) / Net Borrowing (-) (EDP.B9)							
1. Total General Government (*)	**S. 13**	-54,965	**-5.1**	**-3.6**	**-2.9**	**-2.2**	**-1.6**
1a. Excluding net costs linked to the restructuring of the banking sector		-54,112	**-5.0**				
2. Central Government (*)	S. 1311	-28,176	-2.6	-1.8	-1.5	-1.1	-0.9
3. Regional Governments	S. 1312	-17,962	-1.7	-0.7	-0.5	-0.3	0.0
4. Local Government	S. 1313	4,765	0.4	0.0	0.0	0.0	0.0
5. Social Security funds	S. 1314	-13,592	-1.3	-1.1	-0.9	-0.8	-0.7
General governments (S. 13)							
6. Total revenue	TR	413,456	38.2	38.2	38.3	38.4	38.5
7. Total expenditure	TE	468,421	43.3	41.8	41.2	40.6	40.1
7a. Net costs linked to banking restructuring		-853					
8. Net lending / Net borrowing	B9	-54,965	-5.1	-3.6	-2.9	-2.2	-1.6
8a. Net lending / Net borrowing without banking restructuring net costs.		-54,112	-5.0	-3.6	-2.9	-2.2	-1.6
9. Interest expenditure	D41	33,122	3.1	2.9	2.7	2.6	2.5
10. Primary balance		-21,843	-2.0	-0.8	-0.2	0.4	0.9
11. Temporary measures		-6,258	-0.6	-0.3	-0.2	0.0	
Components of revenue							
12. Total Taxes		242,265	22.4	22.4	22.6	22.8	23.2
12a. Indirect taxes	D.2	126,514	11.7	12.0	11.9	11.9	11.9
12b. Direct taxes	D.5	109,489	10.1	9.8	10.1	10.4	10.8
12c. Taxes on capital	D.91	6,262	0.6	0.6	0.6	0.6	0.6
13. Social contributions	D.61	132,333	12.2	12.2	12.1	12.1	12.0
14. Property income	D.4	8,493	0.8	0.9	0.9	0.8	0.8
15. Other revenue		30,365	2.8	2.7	2.7	2.6	2.5
16. Total revenue	**TR**	**413,456**	**38.2**	**38.2**	**38.3**	**38.4**	**38.5**
p.m.: Tax burden		371,468	34.4	33.8	33.9	34.3	34.5
Components of expenditure							
17. Compensation of employees and intermediate consumption (17a+17b)	D.1+P.2	175,088	16.2	15.8	15.6	15.4	15.2
17a. Compensation of employees	D.1	118,699	11.0	10.9	10.8	10.7	10.6
17b. Intermediate consumption	P.2	56,389	5.2	4.9	4.8	4.7	4.6
18. Social transfers (18= 18a+18b)		198,800	18.4	18.0	17.7	17.4	17.1
18a. Social transfers in kind supplied via market producers	D.63 (1)	28,489	2.6	2.6	2.5	2.4	2.4
18b. Social transfers other than in kind	D.62	170,311	15.8	15.5	15.2	14.9	14.7
19. Interest expenditure	D.41	33,122	3.1	2.9	2.7	2.6	2.5
20. Subsidies	D.3	12,536	1.2	1.1	1.1	1.0	1.0
21. Gross capital formation	P.5	26,476	2.4	2.0	2.1	2.1	2.3
22. Capital transfers		6,857	0.6	0.5	0.7	0.6	0.6
23. Other		15,542	1.4	1.5	1.5	1.5	1.4
24. Total expenditure	**TE**	**468,421**	**43.3**	**41.8**	**41.2**	**40.6**	**40.1**
p.m.: Government consumption	P.3	208,670	19.3	18.9	18.4	17.9	17.4

(*) 2015 net costs linked to banking restructuring included.

(1) D.63 = D.6311+D.63121+D.63131.

(A) Advance; (F) Forecast.

Sources: Ministry of Economy and Competitiveness and Ministry of Finance and Public Administrations.

4.3.2. Tax policy

Measures adopted from the Stability Programme 2015 until the present under the implementation of the Council recommendations.

On 8th July 2014, the ECOFIN Council approved the country specific recommendations for Spain, after analysing the Stability Programme of Spain and the National Reform Programme. They recognised that progress had been made in reducing tax distortions. After the reforms had been developed, on 14th July 2015 the, ECOFIN Council admitted that "there has been some progress in the taxation area, having introduced a general tax reform in order to simplify the tax system and make it more conducive to job creation and growth". The tax reform, which affects the Personal Income Tax and the Corporate Tax, was adopted on 20th November 2014 and came into force in January 2015. Some progress was also made in the fight against tax evasion, but it was only limited in the environmental taxation field", without further specific recommendations on tax matters. However, the reform momentum initiated in the 2013 and 2014 ECOFIN recommendations, is still going on today.

Tax reform, approved in November 2014. Enacted in 2015 and 2016

The direct taxation and tax regulations reform was articulated in two stages. The first affects the Personal Income Tax and it came into force on 1st of January 2015. A reform of the Corporate Income Tax followed and although in force since 1st January 2015, it will deploy its effects with greater impact in 2016. This planning in stages seeks to promote the impact of direct taxation on activity and employment; in order to articulate a less burdensome and fairer tax system. First, people and then, companies. The reform package aims to promote growth and employment, freeing income so that economic agents can develop their activity and thus promote employment, consumption and investment. These measures have been materialised in the adoption of a set of laws called the tax reform[3].

It should be noted that the positive impact of the tax reform on the GDP growth in 2015 was estimated at 0.34 percentage points and employment growth at 0.24 p.p.[4].

As a final result, in terms of the tax settlement in 2015, the tax reform was observed to be deficit neutral. Moreover, in macroeconomic terms, a higher

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[3] Law 26/2014, of 27th November, amending Law 35/2006, of 28th November, on Personal Income Tax and the consolidated text of the Law on Income Tax for Non-Residents, approved by Royal Decree Law 5/2004 of 5th March, and other tax rules; Law 27/2014, of 27th November, on Corporate Income Tax; and Law 28/2014, of 27th November, amending Law 37/1992, of 28th December, on Value Added Tax, Law 20/1991, of 7th June, amending the fiscal aspects of the Canary Islands Economic Fiscal System, Law 38/1992, of 28th December, on Excise Duties, and Law 16/2013 of 29th October, setting up certain measures in the field of environmental taxation and other tax and financial measures are adopted, all of them published in the Official Gazette on 28th November.

[4] The calculation of the macroeconomic impact of the tax reform has been undertaken under the REMS model (Rational Expectations Model for Simulation of the Spanish Economy) developed by the General Directorate of Budget from the Ministry of Finance and Public Administration. It consists on a dynamic general equilibrium model of an open small economy. Thus the model values the impact of lower taxes and calculates the positive effects on production and employment, which in turn are transferred to the tax bases.

tax base dynamism was observed in 2015 compared to 2014, at the same time as the Personal Income Tax reform came into force. Therefore, the tax reform has had an expansionary impact on domestic demand, and has helped to sustain revenue collection elasticity on domestic demand, along with other factors that also affect spending and income, such as the evolution of financial wealth, credit access easement and the pace of job creation.

In mid-2015, once the impact of the Personal Income Tax reform was assessed in terms of revenue collection, and once the positive evolution of the cycle was observed (the budget was initially calculated with a real GDP growth estimated at 2%, while in the budget preparation for 2016 the macroeconomic scenario was revised and expected a rise in the growth forecast to 3.3%), it was decided to accelerate the schedule set for the Personal Income Tax reform, implemented through Royal Decree Law 9/2015, of 10th July[5]. This change consisted on bringing forward to 1st July 2015 the impact of the planned reform in 2016. The positive performance of the economic cycle, driven in part by the reform itself, allowed maintaining the collection scenario initially planned.

Table 4.3.2.1. Tax bases of the main taxes in accrual terms

year-on-year % change

	2012	2013	2014	2015	IV.2014	I.2015	II.2015	III.2015	IV.2015
Tax bases	**-3.2**	**-2.2**	**2.5**	**3.6**	**2.1**	**4.7**	**3.7**	**6.5**	**-0.3**
On income	**-3.1**	**0.7**	**1.6**	**3.7**	**1.5**	**6.0**	**3.1**	**8.6**	**-2.6**
On expenditures	**-3.4**	**-6.0**	**3.7**	**3.4**	**3.0**	**2.9**	**4.4**	**3.3**	**3.0**
· Household Gross Income	-4.4	-1.3	0.3	2.8	0.9	2.8	3.1	2.7	2.6
· Taxable base of CIT	8.0	16.5	10.0	9.1	5.5	24.3		25.3	-33.2
· Total final expenditure subject to VAT	-4.5	-6.1	4.9	4.9	4.6	4.3	6.1	4.2	4.9
· Consumption subject to excise duties	1.7	-5.6	-1.9	-4.0	-4.7	-3.9	-4.0	-0.7	-7.5

Source: Tax revenue monthly report. February 2015. Tax Agency.

As a whole, the reform has created a tax system with less distortion in direct taxation, more efficient and fairer, while liquidity has been generated to boost domestic demand. Specifically, the following are included among the measures seeking to reduce distortion and increase liquidity:

- Tax rate reduction on the most distortive taxes such as the Personal Income Tax and the Corporate Income Tax. A measure that also contributes to decrease the tax wedge on labour, in compliance with the recommendations in this area and as the specific reports indicate, such as the annual OECD report "Taxing wages".
- Reduction of the withholding rate on income derived from economic activities for self-employed people with incomes below € 15,000 from 21% to 15%. For higher incomes, the withholding rate is reduced down to 19% in 2015 and to 18% in 2016.

[5] Bringing forward the 2016 rate half year involved establishing a new intermediate rate for the whole 2015, which is equivalent to applying the rate originally planned for 2015 for half a year and the one originally planned for 2016 since July 2015. This new intermediate rate had an expiry date so that on 1st January 2016 the 2016 rate initially set in the tax reform came into force.

- Establishment of negative taxes to large families or people caring for relatives with disabilities, increasing the fairness of the system.
- Completion of the indebtedness bias correction in the Corporate Income Tax and creation of new incentives aimed at the financial deleveraging and equity rising through the capitalisation reserve and the equalisation reserve for SMEs. This is equivalent to a capital injection of approximately € 840 million.

The measures that aim to broaden the bases, improve tax neutrality and reduce tax benefits include:

- The € 1.500 dividend exemption is eliminated.
- The deduction for rent for new leases is eliminated.
- The reduction for housing rental is unified at 60%.
- The tax abatement coefficients applicable to the goods purchased before 31st December 1994 are eliminated for the part that corresponds to a transfer value of over € 400,000 euros.
- The monetary correction coefficients applicable to transfers of real property are eliminated.
- The exemption of compensation for dismissal is limited to € 180,000

With regards to the tax reform impact, in ex ante terms, the regulatory impact calculation is obtained by multiplying the effective rate differential on the tax base, which remains exogenous. This methodology is clear and simple, but it is highly procyclical, depending on how the tax base taken as reference evolves. The ex post measure seeks to eliminate these variability problems from the tax base, using general equilibrium models that internalise the evolution of the tax base according to the impact of the tax reform itself and the other cyclical factors included in the model.

In particular to tax revenue collection it should be noted that the low inflation has harmed revenue from those taxes that are very sensitive to the cycle, such as the collection from Personal Income Tax which usually has an elasticity greater than one (as a result of the effect that progressive tax brackets have, because when the base drops, the tax rates fall). This high sensitivity to the cycle has been a challenge for collection. The section on the quality of finances looks deeper into these aspects.

With regard to the 2015 forecast, the settlement forecasts of tax revenues for 2015 reported in the Yellow Book of the 2016 General State Budget was met without major deviations. Specifically, the closing forecasts in VAT and Personal Income Tax were improved, while there was a deviation in the Corporate Income Tax. Despite all this, consolidated tax revenues of the Public Administrations have grown (resources without social security contributions and without other current income) by 5.2%, with a nominal GDP growth of 3.8%. According to the Tax Agency, the tax revenue growth reached 4% for the State.

Preliminary data for 2016 however show a slowdown mainly associated to the cycle, which reduces its effect in real terms, while inflation continues lowering the collection capacity. For this reason, revenue in the first quarter of 2016 did not grown in homogeneous terms. To understand this effect the SMEs development is observed, as SMEs are the main source of employment and supplier of consumer goods and services. In this sense a slowdown can be noticed in both the payments on account of individual businessmen, and in the VAT collection during the first months of the year. So in terms of expectations, even though revenue collection does not start to decrease, it slows down the dynamism of the previous period.

If a collection shortfall higher than the one estimated in this Stability Programme were to be observed, as a result of the expiration in 2016 of certain temporary measures in the Corporate Income Tax adopted in the past, steps could be taken to limit this negative impact on 2016. This will be channelled by the instalment payments, as their reform will only have a purely financial effect, divided between the payments in 2016 and the tax settlement in July 2017. Consequently, the new Government could trigger regulatory changes which, without increasing taxation of legal persons, would ensure a limited impact in the collection of this tax.

2016 measures.

Specifically, on 1st January 2016 the following measures came into force, some of which are derived from changes approved by the General State Budget Act of 2016:

<u>1. Personal Income Tax</u>

- Dissolution and liquidation regime for civil societies as a result of entering in the Corporate Income Tax ;
- Review of the exclusion limits that allow taxpayers to pay taxes according to the objective estimation method, while some taxpayers are excluded from its application;
- Second scale reduction with regards to those initially approved for the financial year 2015; and
- The level of the exclusion limits that allow taxpayers to pay taxes according to the objective estimation method in 2016 and 2017.

<u>2. Corporate Income Tax</u>

- New general tax rate, which, having stood at 28 percent during 2015, is set at 25 percent for the tax periods beginning on or after 1st January 2016.
- The new treatment for negative tax base compensation starts being applied, and they can be offset without time limit, albeit with a quantitative limitation of 70 percent of the tax base prior to its compensation. In any case, a minimum amount of 1 million euros will be admitted, compared to the treatment applicable to tax periods beginning within 2015, in which although

the above limit was not implemented, there were certain limitations on the compensation for large companies based on their turnover net amount.
- The minimum amount to be paid corresponding to instalment payment, which was imposed on large companies, as well as the withholding or general payment on account disappear, which currently reaches 19%.
- Lastly two changes. On the one hand, the modification regarding the reduction of income from certain intangible assets, and on the other hand, the modification with respect to the conversion of certain deferred tax assets in claims on the Tax Authorities under certain circumstances.

3. Environmental taxation

On 1st January 2016 the Tax on the value of the extraction of gas, oil and condensates, established by Law 8/2015 of 21st May came into force.

4. Fight against fraud and tax payment easement.

One of the main initiatives on taxation of the past four years was the fight against fraud. To this end a comprehensive set of measures was developed whose starting point was the Law 7/2012, of 29th October, amending tax and budget legislation and adapting financial legislation to step up proceedings to prevent and fight fraud.

These measures have been very successful and their results can be observed in a number of indicators, which reflect, in terms of income, that the measures to fight against fraud are helping to reduce the deficit. This leads us to believe that the measures that will come into force in 2016, in the new General Tax Law, will continue to increase revenues coming from fight against tax fraud at the same pace as in past years, as shown in the regulatory impact table.

Table 4.3.2.2. Revenue coming from fight against fiscal fraud
Million €

	2011	2012	2013	2014	2015
1. Prevention and control of fiscal fraud	9,462.1	10,441.7	10,133.7	11,484.0	15,188.1
1.1. Direct revenue due to control	7,745.8	8,855.9	8,221.3	8,680.7	9,686.9
1.2. Less tax returns	1,716.3	1,585.8	1,912.4	2,803.3	5501,175 *
Direct revenue over total	82%	85%	81%	76%	78%
2. Other results of prevention and control of fiscal fraud	1,000.9	1,075.6	816.5	833.7	475.5
2.1. Direct revenue from extemporaneous presentations	1,000.9	1,075.6	816.5	833.7	475.5
TOTAL	**10,463.0**	**11,517.3**	**10,950.2**	**12,317.7**	**15,663.6**

(*) This number includes an extraordinary non recursive reduction in tax returns that amounts to 2,709.177 million euros. Excluded (1+2) will add up to 12,954.415 million euros. In 2015 the percentage excludes this extraordinary element.
Fuente: Ministerio de Hacienda y Administraciones Públicas.

Even though the General Tax Law reform came into force on 12th October 2015, certain provisions began to be implemented in 2016 and they can be included within the measures that fight against tax fraud and contribute to the tax payment.

The main objectives of the Law's amendment are to strengthen the legal certainty and reduce tax litigation, prevent tax fraud, encouraging voluntary compliance with tax obligations and increasing the administrative efficiency in the application of taxes.

In the specific field of legal certainty and conflict reduction, the following measures have been taken:

- Explicit recognition of the power to issue brinding interpretative provisions to the bodies' (Director General of Taxes) that have the initiative in tax legislations.
- Clarification of the regulation on prescription of the right to check the tax obligations.
- Setting new deadlines for the inspection procedure, so that the time limit calculation is simplified.
- Adoption of measures to streamline the performance of the Economic-Administrative Courts and reduce litigation, promoting the use of electronic means in all stages of the procedure and improving the regulation of the procedures

In addition, the objectives of the Spanish Administration intend to simultaneously reduce parafiscal charges to facilitate the payment of taxes. Among the latest measures the following stand out:

- In terms of electronic payment, as of 1st July 2016: the debts payment option whose collection management is attributed to the Tax Agency through its online site, using credit or debit cards on e-commerce conditions.
- For the 2015 Income Tax return campaign carried out in 2016: the fundamental innovation is the removal of the traditional draft return and implementation of a new system called Renta web.
- In the customs field: the most important aspect is the single customs office, launched in 2016. The single customs office is a project promoted by the CORA Commission that will reduce both time and costs of the customs clearance.
- An important measure for the financial relief of the public debtor is the raise of the exemption limit of the obligation to provide guaranties in requests for automatic deferrals or instalments of € 18,000 or € 30,000 of tax debt.

The following reforms have been adopted in aspects that help to improve the fight against fraud toolskit:

- Introduction of a new serious tax offense in the case of the application of the Spanish general anti-abuse rule (conflict in the application of the tax law), which until now was not punishable. This is done in order to further the fight against the more sophisticated tax fraud behaviours or contrived structures only aimed to obtain tax savings by abusing the provisions of the tax rules.
- Due to reasons of general interest, authorisation to release listings of taxpayers liable for tax payment with outstanding debts and sanctions exceeding one million euros, which have not been paid within the voluntary

payment period, except if those that are deferred or suspended. The first list was published in December 2015 for parties liable for tax payment of the second half of 2015 on the State Tax Administration Agency[6] website.

- Regulation of access and release of certain information contained in the sentences passed on tax fraud.
- Modification of the administrative processing system for tax fraud crimes. In the sense that the administrative proceedings will not be suspended, as a general rule, as a result of the appreciation of the tax crime. So the tax debt in administrative proceedings can be collected without having to wait for the criminal sentences.

- Possibility for the Tax Agency to collaborate, for the first time, with the Asset Recovery and Management Office by transferring data, reports or records required to find property seized or confiscated in a criminal proceeding, subject to prior accreditation of this circumstance.

The international fight against fiscal fraud is a necessary point of reference in which Spain is one of the leading countries.

In the Corporate Income Tax Regulation, substantial changes are introduced in relation to the entities and related transactions. Special mention deserves the introduction, in line with the Action Plan against the tax base erosion and the transfer of profits ("BEPS" Plan), of the obligation to provide information country by country, as an indicator tool of the policy of transfer prices of a commercial group, information required as of 2016, under the terms and conditions set at the OECD. Furthermore, the specific documentation on related transactions related to the tax law is modified, on the one hand completing the necessary simplification of this type of documentation for entities with a net amount of the turnover below € 45 million, which see their administrative burdens simplified, and on the other hand, adapting to the content of the documentation set out in the OECD.

In turn, the General Tax Law carried out a number of changes:

- In relation to the transfer of tax data by the Administration, its publication is allowed when this is derived from the EU legislation.
- Economic and administrative bodies are explicitly recognised the legitimacy to submit questions referred to the Court of Justice of the EU following the Court's own doctrine.
- A specific procedure for the recovery of the State aids is regulated in compliance with the EC decisions.
- Given the eventual possibility of simultaneity of a mutual agreement procedure of those provided for in international treaties or agreements and an administrative or judicial appeal on the same issue, the latter will be suspended until the completion of the corresponding mutual agreement procedure.

[6] https://www.agenciatributaria.gob.es/static_files/AEAT_Sede/NoIx/Listado_deudores_Art95bisLGT.pdf

Moreover, the rules of automatic exchange of information are incorporated into the internal order. These rules involve the communication of information to the Tax Authorities on financial accounts and due diligence procedures that financial institutions must apply when obtaining such information, so that, in turn, the Tax Authorities can automatically exchange the information received with the appropriate Administration of the country or jurisdiction of tax residence, and the Multilateral Agreement between Competent Authorities on Automatic Exchange of Financial Accounts Information.

4.3.3. Labour Market and Social Security Measures

The strong employment growth is being a key factor to the sustainability of public accounts. The effects of the deep reforms adopted in this area are showing their importance for the budgetary stability and competitiveness of the Spanish economy.

Thus, the positive effects of the reform strategy for a profound transformation of the Spanish labour market are clearly perceived and it will contribute to increase the competitiveness of the Spanish economy, which has been articulated around three axes: labour legal system, activation policies and fight against fraud.

The favourable effects of the relevant reforms in terms of Social Security are also seen, with the sustainability factor, the reform of early and partial retirement, the regulatory review of the compatibility between work and pensions and the new rules on pension revaluation as key measures.

In terms of employment, changes in the labour law have allowed to overcome the traditional labour market restrictions. The significant changes made to collective bargaining, recruitment and dismissal regulations, internal flexibility, part-time contract or the contract for training and learning, among others, have had significant effects on the employment dynamics. Several studies indicate positive effects on the economy's ability to create employment without generating internal or external imbalances, as well as on the probability to access permanent employment, among others.

In this respect, it is worth mentioning the conditionality applied to funds distributed to the Regional Governments for the implementation of active policies. These funds are conditioned to the outcome of management. This is measured from a series of indicators that have required a coordination and improvement of the information. This has allowed allocating 70% of the funds in 2016 in accordance with the new focus on results.

This approach has been reinforced by the development of a common portfolio of employment services, a boost to the collaboration of private employment agencies, the dissemination of good practices programme or the operation of the single employment portal.

On the other hand, the link of active and passive policies and the level of demand in fulfilling and accrediting the commitment of activity have substantially increased since 2012. Likewise, some programmes have been rationalised in the interest of equity protection and its adaptation to the needs of the beneficiaries.

Finally, it is necessary to continue mentioning the changes introduced in July 2012 in the design of bonuses, which resulted in the elimination of an important number of less justified incentives. This has made a more balanced budget available in the measures to boost employment.

In the period 2014-2015 the momentum of the reform in the employment field has continued, combining structural and contextual measures which, directly or indirectly, have an important impact on budget sustainability, although it is not easy to estimate it with the necessary precision. In 2014-2015 the reforms in the activation of employment complete the institutional architecture transformation in this area, designed and launched in close collaboration with the Regional Governments.

Likewise, deep reforms in the system of training for employment have also been introduced in the interest of a greater efficiency, transparency and monitoring of results. These reforms are contained in Law 30/2015, of 9th September, which regulates the Vocational Training System for employment in the work environment, which is fully applicable in 2016. This reform establishes a training system that accompanies workers in their access, maintenance and return to work, as well as their ability to professional promotion. To this end, it promotes acquiring and refreshing knowledge, which improves the prospects for the stable and quality employment of workers, as well as the competitive advantage of companies and the Spanish economy. The system seeks to anticipate the productive sector needs and provide support for the innovative and competitive capacity of the company, starting with quality human resources that will enable to improve their productivity.

On the other hand, the Extraordinary Programme for the activation of long-term unemployed people with dependent relatives was implemented during 2015, based on an agreement with the social agents to narrow the relationship between active and passive policies and in response to the social emergency of long-term unemployed. The Programme requires to regularly prove the commitment to activity and employment active search, as part of the gradual transformation of unemployment benefits and subsidies towards a more balanced model of rights and obligations.

Measures to accelerate employment through activation policies have been completed with incentives for permanent contracts. Stable hiring limits excessive rotation that generates a high budget cost and conditions the labour and life expectations of the people affected. The boost of permanent employment is therefore crucial for fiscal sustainability. The flat fee of € 100 introduced in 2014, contributed to signing 19% more permanent contracts in that year than in 2013, mostly for fulltime employment.

The minimum exempt of contributions of € 500 for new permanent contracts that generate net employment introduced in February 2015 substituted the previous one and has allowed maintaining the strong growth of permanent contracts, especially full time. Its design focuses the budget effort on the lower wages because young, the unemployed less qualified and long-term unemployed are the ones who have greater difficulty in achieving a stable insertion. Thus, the cost is reduced while focusing where it matters the most, and so limiting the dead weight effect.

The two consecutive years of strong job creation show the beneficial effects of the structural reforms implemented since 2012 in the field of employment. The modernisation process of public services already has a solid foundation and new tools that help to increase efficiency and to orient spending towards income.

With this set of measures, the Council Recommendation of 14th July 2015 (CSR 3) has been implemented. The Recommendation advised Spain to take measures to increase the quality and effectiveness of the aid and advice to find employment and to rationalise the minimum income and family support schemes.

The decrease of the State contribution to the budget of the State Public Employment Service (known in Spanish as SEPE) is very significant in 2013-2015, which will decrease from € 14.6 billion in 2014 down to € 3.9 billion in 2016. It is expected that no contribution will be necessary in 2018 since the SEPE will be able to cover all its expenses by collecting its quotas. Therefore, the State's contribution to the SEPE budgets will have decreased by 82.50% between 2013-2015 and 2016-2018 average. This evolution is derived from the fact that spending on unemployment benefits fell by 31% from 2013 to 2015, in parallel with the decline in unemployment. During 2015 a monthly average of 58% of remove from unemployment benefit listings was due to the hiring of unemployed people and only 30% due to the end or the run-off of the maximum duration of the aid.

In any case, the biggest boost to budget sustainability is the creation of over 500,000 jobs in 2015, and the reduction of unemployment by over 650,000 people.

As for the Social Security, the change from a self-assessment system of contributions to one of direct settlement where the Social Security Treasury calculates the contributions stands out due to its implications. The new system is regulated by Law 34/2014 of 26th December on measures for the settlement and collection of contributions to the Social Security and its mandatory use by businesses that was initiated in February 2015 has been gradually extended to all companies.

In addition, a new maternity supplement for women who had two or more children and that are beneficiaries of contributory pension of retirement, widowhood or permanent disability was introduced in 2016. The supplement ranges from 5% to 15% of the pension depending on the number of children, in recognition of the demographic contribution to the Social Security of women workers who combined their career with motherhood, while contributing to reduce the gender gap in pensions.

Conversely, the Law 35/2014, of 26th December, of Mutual Insurance Companies for Occupational Accidents and Occupational Diseases of the Social Security was published in December 2014 in order to modernise the operation and management of these entities, reinforce transparency and efficiency levels and contribute more fully to the fight against unjustified labour absenteeism and sustainability of the Social Security system.

These measures already have a clear impact on the evolution of the system costs and ensure its sustainability in the long term against the challenge of an ageing population.

In relation to pension expenditure, an annual growth below 3% over the projection period is forecasted, with an expenditure reduction in terms of GDP due to the impact of the pension reforms carried out since 2013. The effective retirement age has been gradually increasing from 63.9 years in 2012 (before the reform) to 64.1 in 2015 and this path is expected to continue. The growth of the average pension is contained from 3.5% in 2012 to 2.0% in 2015, while a downward inflation path, which became negative in 2014, has favoured an increase in purchasing power of pensions, by decoupling direct pension revaluation from the price index, and registering a 0.25% increase in each of the years from 2014 to 2016. On the other hand, as of 2014 contributions to Social Security by employed workers have evolved favourably, as the trend has changed in comparison to previous financial years, growing by 2.5% in 2014 and by 2.7% in 2015. This growth would have been higher without the implications a negative inflation had in Social Security, burdening the growth of resources, while the costs evolution did not change. The latter has increased far above the price evolution for three consecutive years, and continues to do so in 2016.

Likewise, it should be noted that due to the surpluses accumulated by the Social Security in the past, the pension system has reserve assets available to meet future needs for contributory benefits. Thus, from its inception in 2000, subsequent allocations to the Social Security Reserve Fund allowed it to accumulate € 35.0 billion in December 2015, according to the market value (3.24% of GDP).

With regards to the future sustainability of the system, it can be said that the General State Budget Law for 2016, in its additional provision eighty fifth on the separation of funding sources of contributions to the Social Security, establishes that once the funding of supplements for minimum pension to be paid by the General State Budget is formalised, the Government will progress to ensure the compatibility of the budgetary stability and financial sustainability objectives with those of the full funding of non-contributory and universal contributions to be paid by the Public Administrations budgets. To this end it will assess the contribution conditions included in the system that may have this consideration.

Finally, it should be noted that Law 23/2015, of 21th July, Authorising the Labour and Social Security Inspection System has been approved. The new Law gives a very important step towards a new model of organisation of the Labour and Social Security Inspection, based on its institutional strengthening through the establishment of an Autonomous Body that will give it more capacity of operation.

It implies a profound reorganisation of its structures with the creation, within the Inspection System, of a National Office to Fight Against Fraud, which will continue the Fight Plan against illegal employment and Social Security fraud approved in 2012 by the Council of Ministers. In addition, in order to improve control against abuses in temporary employment and to strengthen preventive action against the serious problem of accidents at work, a new Labour Sub inspectors Body is created, which will be composed of two specialised Scales, thus rationalising their organisation and favouring programmed and team work.

The ordination of the inspection activity will be articulated through a Strategic Plan, in which priority actions are recorded, whose targets and indicators will be subject to an ongoing evaluation by the Ministry of Employment and Social Security.

4.3.4. Reform measures of the Public Administrations. CORA

As part of the reforms undertaken by the Government since late 2011, with special focus on the contention of public spending, the reform of the Public Administrations stands out. To do this end, the Commission for the Reform of Public Administrations (known in Spanish as CORA) was established by Agreement of the Council of Ministers. Its works led to the development of the CORA report, presented in the Council of Ministers on 21st June 2013. On the same date, the Office for the implementation of the reform of the Public Administrations (known in Spanish as OPERA) was created, aiming at ensuring the implementation of the measures contained in the CORA report, monitor its progress, promotion, coordination and on-going evaluation, as well as to formulate new proposals.

The legislation that created OPERA includes the development of a report containing a summary of the level of implementation of the CORA measures on a quarterly basis. It also establishes the creation of a more comprehensive annual report on the measures executed and to be executed. These quarterly and annual reports are published both on the Ministry of the Presidency and the Ministry of Finance and Public Administrations websites. The latest annual reports published date back to December 2015; and the quarterly report to February 2016.

The CORA report currently has 222 general measures relating to administrative streamlining, reduction of burdens and duplicities and improving common services and resource management. These measures are related to the institutional administration. Up to February 2016, the state of execution thereof is: 193 measures implemented; 29 being implemented.

It is estimated that, with the development of all CORA measures of structural reforms already implemented, the resources released for the three Public Administrations (not always with direct budgetary impact) between the financial years 2012 and 2015 reached € 30.5 billion. The breakdown by administration level is as follows: € 11.2 billion for the General State Administration; € 14.3 billion for the Regional Governments; and € 5.0 billion for Local Corporations. Citizens and businesses are saving € 3.4 billion.

The CORA measures have a differential annual impact on the previous year in the deficit reduction of € 922 million in 2015, € 951 million in 2016 and € 625 million in 2017. This impact refers to the central part of the CORA and does not consider other CORA public administration reforms, such as the law on reform of local administrations or personal resources. The impact quantified in annual differential terms for the State is included in the Annex.

Under the heading of general measures the adoption in December 2013 of the Organic Law 9/2013 on Control of commercial debt in the public sector, Law 25/2013 to promote electronic invoicing and creation of accounting records and Law 27/2013 on Rationalisation and Sustainability of the Local Administration, should be noted and all of them are currently in force.

In 2015, the approval of a comprehensive reform of the organisation and functioning of administrations, articulated in two fundamental pillars should be noted: the regulation of the administrations' external relationships with citizens and businesses (new Administrative Procedure Act), and internally in the operation of each administration and the relationships with other administrations (Law on the legal regime). Both texts came into force in 2016. The main objectives of this ambitious reform are the following: to improve the administrative efficiency with a fully electronic and interconnected administration; to expand the legal certainty; to increase the quality regulations of the legal system by applying common principles of best regulation (necessity, effectiveness, proportionality, legal certainty, transparency and efficiency); and to rationalise the structure of the public sector.

Law 39/2015, of 1st October, on the Common Administrative Procedure of Public Administrations seeks a more modern, agile and efficient administration that saves time and money both to citizens and companies and the Administration itself. To this end, it is committed to:

- Paperless administration: all transactions with the administration will be conducted through electronic means without the need for physical presence. Citizens who do not wish to use the electronic means may go to the administration offices so that public employees can help them to process their transactions electronically. To this end, only the identification with simple systems will be needed, such as concerted passwords (only the electronic signatures for a very small group of procedures will be required).

- Notifications: they will be preferably made by electronic means (mandatory for companies). Warning mechanisms are sent via mobile phone messages or email to inform the interested party that they have a notification. They may check this notification on the website of the relevant administration.
- Reduction of administrative burdens. For example:
    - o In general, no original documents will be required, submitting a copy will be sufficient. Similarly, no documents that have already been submitted before any administration will be required.
    - o No documents "prepared" by the Administration itself will need to be submitted (ID card, Family Book, etc.).
- Publication of the unfruitful notifications from any administration to a citizen or company in a single point (Spanish Official Gazette website).
- Electronic power of attorney at no cost. The interested party may electronically grant power of attorney to another person, at no cost, to conduct proceedings on his behalf before the administration (powers that will be recorded in an Electronic register of Powers of Attorney). This is a very relevant measure, especially for businesses.
- Express Administrative Procedure. With a resolution deadline of 30 days for simple cases.
- Reductions for early payment. Reductions in the amount of penalties will be applied for early payment and acknowledgment of responsibility to encourage the quick payment of penalties with less litigation.

Law 40/2015, of 1st October, on Legal Regime of the Public Sector

This law aims at improving administrative efficiency through the establishment of a simple, effective and duplication-free organisation and administrative structure, streamlining the internal workings of the administration, increasing transparency by creating new public records of entities and improving the system of inter-administrative relationships. Among the main innovations of this Law the following stand out:

- Electronic operation of the public sector: also inter-administrative relationships will be made entirely through electronic means.
- Improvements in inter-administrative relationships.

    A decentralised State needs maximum cooperation between administrations. To do this, the Law pays special attention to the organic cooperation techniques, such as the Presidents Conference, the Sectorial Conferences or the Bilateral Cooperation Committees. It also includes a complete regulation of the consortia.

    The Law also refers to the functional techniques, addressing for the first time an entire legal regime and with a basic nature of the agreements to be entered between administrations or private entities developing the minimum content, duration, effects, termination, etc...

    By creating a state registry of cooperation bodies and instruments, with constitutive effect, the transparency increases, so it will be possible to have reliable information and general knowledge on which cooperation and coordination bodies exist between administrations in which the General State Administration participates and what agreements signed by the General State Administration with the other administrations are in effect at all times.

- Institutional public sector
  - o Transparency is increased with the creation, for the first time, of a comprehensive and unique inventory for the entire state including the entities of the State, Regional and Local Public Sector in which the creation, transformation, merger or extinction of anybody or subsidiary of any administration will be compulsorily included. This will enable an easy understanding of the number and types of existing entities in the whole public sector in a coordinated and updated form.
  - o The types of organisations or public bodies that make up the state institutional public sector are simplified, and it is worth highlighting the removal of state agencies.
  - o The transformation, merger or extinction of entities or bodies is streamlined and they may be carried through regulatory standard and within short and assessed deadlines.
  - o The control of entities or bodies increases, both at the time of creation and during their existence.

    The creation will be by law and with an initial action plan with comprehensive information on the reasons for creation, proposed legal form, no duplications...

    A continuous evaluation and monitoring system of all public sector entities is chosen, regardless of the administration to which it is linked. To do this, the reasons that justified their creation and financial sustainability will be checked annually during their existence. In the case of the State, that continuous supervision shall be exercised by the Ministry of Finance and Public Administrations and there will be an effectiveness control exercised by the Ministry to which the agency or entity is linked, in order to verify compliance of the objectives.
- Finally, efficiency is supported by promoting shared management of common services (legal assistance, publications, financial management, etc.) between entities and state agencies, to the extent that the non-existence of that shared management must be justified in accordance with the reasons indicated by the law: in terms of efficiency, in accordance with Article 7 of Organic Law 2/2012 of 27th April on Budgetary Stability and Financial Sustainability, on grounds of national security or when it affects services that must be provided autonomously based on the independence of the body.

In relation to the measures aimed at the elimination of administrative duplicities, the analysis focused on duplicities between the General State Administration and the Regional Governments, since duplicities with Local Corporations were addressed in the Law on Rationalisation and Sustainability of the Local Administration.

The most important measures in this area include the following: granting of powers to the Central Court of Contractual Resources; integration of regional offices abroad in the State network; integration of cooperation offices of Regional Governments in the Technical Offices (known in Spanish as OTC) of Cooperation of the AECID; Single Employment Portal implementation; coordinated implementation of the registration processes of employment demand and unemployment benefit application; hiring platform of the public sector (central, regional and local Government.

With regards to the administrative simplification measures and Information technology improvements, focus has been set on reducing bureaucratic obstacles that hindered the processing of administrative procedures and on achieving a more efficient provision of services to citizens.

Some examples of measures taken in this area are: Enabled E-Mail Address; Interconnecting system for Registries (SIR-ORVE), which allows the submission of paper documents to any public registry; the FACe General Point of Entry Service for Electronic Invoices of the General State Administration; Data Intermediation Platform; the Citizen Folder service allows the citizen to check the status of his processes and procedures, access his notifications and view his personal information held by the administration; interoperable Electronic Prescription of the National Health System and implementation of the digital medical records for the entire territory.

In this regard, it should be noted the implementation on 1st June 2015 of the Single Edictal for all Public Administrations in the Spanish Official Gazette which allows to access in a single place to notifications of all Public Administrations (free for them). In October, the telematic transmission of births from hospitals came into force. The portal of electronic tenders was also launched last October in the Spanish Official Gazette allowing a single point to hold judicial, administrative and notarial tenders.

On the other hand, the Council of Ministers of 2nd October 2015 approved the Plan for the Digital Transformation of the General State Administration and its public bodies (ICT Strategy 2015-2020), as agreed in the Commission of Strategy of Information Technology and Communications held on 15th September 2015.

This strategy stems from the Royal Decree 806/2014 on the organisation and operational tools of information technology and communications in the General State Administration and its Public Bodies, as well as of the CORA measures. It represents the overall strategic framework to advance in the transformation of the administration, as it establishes the guiding principles, objectives and actions to achieve them, as well as the milestones for the gradual development of the Digital Administration.

The Plan responds to the new demands of the society, providing information and digital services anytime, anywhere and through different channels, creating new forms of relationships with citizens, facilitating business opportunities and innovating in services, always taking advantage of the opportunities that Information Technology and Communications provide.

In addition, the ICT Strategy Commission also adopted two key documents to start providing ICT shared services: the regulatory Framework for the statement of shared services and the first statement of 14 shared services. This figure, shared services, is one of the key operational tools of the new ICT governance to achieve greater efficiency in the provision of ICT services.

On the other hand, the purpose behind the set of measures related to the management of common services and means, is to centralise management activities that can be performed in a unified or coordinated manner. To this end, a Property Management Plan was developed: 15,576 properties were included in the sales programme, placing 5,038 on the market and awarding more than half of them already. In addition, leases have been eliminated, other contracts have been renegotiated and the space has been redistributed; reform of the Mobile Park; centralisation of purchases and services, and parameterisation of items of Chapter 2 with analytical accounting criteria; rationalisation of infrastructure of printing and reprographic services and unification of the publishing and printing in the Spanish Official Gazette.

This set of measures related to the management of common services and means is perhaps the most representative goal of those pursued by the reform of the Public Administration launched with the CORA. The goal consists on achieving maximum efficiency. For example, the rationalisation and centralisation of public hiring measure achieved a desirable homogenisation in goods and services (electricity, telecommunications, security, fuel, etc.) hired by the different bodies and administrative bodies, maintaining or even increasing their quality and, at the same time, significant savings are being achieved as a result of the aggregation of demand.

Finally, these measures related to the institutional administration involved a comprehensive review of the regulatory framework and the beginning of a process of reorganisation and restructuring of the administrative public sector. Only within the General State Administration, actions on 174 entities of the Administrative, Corporate and Foundational state public sector have been carried out, with the net elimination of 115 of those entities.

The Public Administrations reform focused on reducing the administrative structures and rationalising staff costs and current expenditure of the Public Administrations. The development and implementation of the measures contained in the CORA report continue improving the compliance with the Council Recommendation of 8th July 2014, in which Spain was advised to apply the recommendations of the Commission for the Public Administration Reform at all levels of the Administration.

In the field of public employment, several measures were approved by the Government that in general aim at homogenising the labour conditions with the ones in the private sector and reducing the weight of the wage bill in the public expenditure as a whole. The economic crisis had generated a strong adjustment in the employee workforce of the private sector. This same thing had not happened in the public sector. Despite the economic crisis, the number of public employees had grown up to the third quarter of 2011.

This is a series of reforms that were absolutely necessary, both to ensure compliance with the commitments undertaken by Spain in terms of deficit and public spending, and to improve efficiency, productivity and competitiveness of our economy. Thus, the Government approved the structural measures contained mainly in Royal Decrees-Law 3/2012 and 20/2012.

Lastly, in this process of Public Administrations reform we must also highlight the reform of Local Administration, explained in detail in the section of this report focused on Local Corporations.

4.4. The role of Regional Governments and Local Entities in the fiscal strategy

4.4.1. Regional Governments

4.4.1a Budget for 2016

First of all, it should be mentioned that in the initial budget for 2015, the regional governments considered a deficit target in national accounts terms of 0.7% of GDP, having been set at 0.3% for the regional governments as a whole in 2016. Thus, the Regional Governments Budget was approved with a deficit target of 0.3%, although, in the Council for Financial and Fiscal Policy of 28th April, a new target of 0.7% of the regional GDP was indicated later on. This circumstance was reported after activating a series of measures to strengthen the budgetary control in the regions.

At the time of writing this report, all Regional Governments have approved their General Budgets for the financial year 2016, except for Catalonia and the Principality of Asturias, which have authorised an extension of their 2015 budgets.

The non-financial expenditure provided in the general budget of the Regional Governments for 2016 has been increased by 1.84% compared to 2015 initial budget (3.15% excluding Chapter III on interests and other financial expenses). Furthermore, non- financial revenues forecasts increased by 5.65% in relation to the initial budget for 2015.

As for the comparison data of the budget for 2016 with the implementation of the budget for 2015, there is a decrease in non-financial revenues of 0.48%. If the evolution of non-financial expenditure is compared without considering Chapter III, which mainly includes the interest expenditure on debt, non-financial expenses decrease by 0.80%. On the other hand, if by 2015 the effect of the application to the budget of generated obligations registered in non-budget accounts of previous years is not taken into account, the non-financial expense increases by 0.94%; a percentage which falls down to 0.72%, if Chapter III is excluded.

The extraordinary impact in 2015 of certain operations that influenced the expenditure evolution should be considered in these changes, such as the expenditure involved in the Hepatitis C treatment or the public investment increase motivated by the reclassification of certain public private collaboration contracts. Another factor that has influenced the expenditure evolution was the release of the bonus pay of 2012 to public employees.

With regards to non- financial revenues, a 10.77% increase is foreseen in the initial budgets, mainly justified by the expected 11.93% increase in the financing system resources.

Table 4.4.1.1. 2016 Budget of the Regional Governments

year-on-year % change

Total Regional Governments	Budget 2016 / 2015 % change	Budget 2016 / Recognized Rights or Obligations 2015	Budget 2016 / Recognized Rights or Obligations 2014 Adjusted Account 413
Chap. 1,2,4. Taxes & Current Transfers	7.91	11.24	11.24
System resources subject to payment and settlement	10.19	11.93	11.93
Inheritance and Gift Tax	0.40	5.40	5.40
Property transfer & Stamp Duty Tax	8.24	11.26	11.26
Other tax	-2.71	4.13	4.13
Other current transfers	2.14	12.16	12.16
3. Fees, public prices and other Revenues	-0.66	-6.54	-6.54
5. Property income	-11.97	44.26	44.26
6. Real investment sales	-63.22	370.54	370.54
7. Capital Transfers	-17.31	6.00	6.00
Non-Financial Revenues	**5.65**	**10.77**	**10.77**
1. Personnel Spending	2.97	1.97	1.97
2. Current spending in goods and services	2.68	-12.45	-7.71
3. Financial Spending	-22.10	5.95	3.97
4. Current Transfers	5.31	-1.34	-1.25
5. Contingency fund	-22.36	-	-
6. Real Investments	-2.68	25.43	25.08
7. Capital Transfers	1.93	11.67	19.52
Non-Financial Expenditure	**1.84**	**-0.55**	**0.94**
Non-Financial Expenditure (Without chapter III)	**3.15**	**-0.80**	**0.72**

(*) Figures in the cases of the Autonomous Communities of Asturias, Castilla La Mancha and Cataluña are drawn from their respective extended 2015 budgets. Once the differences in terms of the budgeting of resources provided by the funding system are accounted for, the rate of change of those resources budgeted for 2015 over the amount recognized for that fiscal year would be 8.74%. Also, non-financial revenues budgeted for fiscal years 2016 are set to increase by 8.39% in comparison to their 2015 recognized values. The figures provided in the table do also include the funding resources derived from the provincial participation of the Autonomous Communities of Asturias and Murcia.

Source: Ministry of Finance and Public Administrations.

From a functional point of view, considering the purpose of the budget, the sum of the allocations for Health, Education and Social Services of all the Regional Governments represent a 61.23% of total expenditure budget for 2016. The percentage rises to 71.65% compared to non-financial expenses. Likewise, it is possible to notice a growth in each of these functions when considered individually. First, the Health function is increased by 3.08% over the previous year; secondly, Education is increased by 2.61%; finally, social services by 5.96% compared to 2015 budget.

Conversely, expenditures for the "Public Debt" function decreased by 5.54% in 2016, so that they represent 16.13% of the budget for this financial year.

4.4.1b. Regional Governments Measures

Summary of measures adopted in the period 2012-2014

In 2012 and 2013 Health and Education measures were introduced by the Royal Decree-Law 14/2012 and 16/2012, contributing to a significant improvement in the rationalisation and efficiency of public spending.

The total economic impact in 2012 and 2013 reached a total of € 5.4 billion, of these and other measures implemented, such as those resulting from the adaptation of the Spanish legislation to the EU legislation regarding the assistance of people from Member States or the European area, or the savings from the creation of the centralised purchasing platform and other minor reforms.

The effect of the withdrawal of bonus pay in December 2012, which has continued in some Regional Governments during 2013 and 2014, and the launch of additional funding mechanisms as part of an ambitious plan to eradicate late payments of the Public Administrations should be added. These liquidity provision systems succeeded in refinancing much of the debt of the Territorial Administrations, and curbed the problem of the public sector commercial debt with their suppliers. The liquidity provision through additional funding mechanisms is also linked to the fiscal conditionality compliance, so while the credit channel operation was being provided and the administrations' debt was being refinanced, progress was being made in the consolidation path of the administrations.

In the financial year 2014, a decrease in the regional financing system resources was recorded amounting to € 2,777 million, income on which the Regional Governments hold less leeway since they largely depend on the national economic evolution. Even with an unfavourable evolution of income, it should be considered that Regional Governments have continued to take various measures that have allowed to continue progressing in the correction of the structural component of their public deficit, even though its net borrowing increased in comparison to 2013.

From the expenditure measures point of view, without considering the effect caused by the non-replacement of staff, actions have been taken with an impact of € 1.7 billion.

The financial conditions improvement adopted on 31st July 2014 by the Delegate Commission of the Government for Economic Affairs should be highlighted, as this measure generated remarkable savings for the Regional Governments, with an impact of € 542 million in terms of additional savings.

From the revenue measures point of view, various actions to increase regulatory capacity have been taken, both in terms of transferred taxes, own taxes and other with a non-tax nature. The overall impact of the measures in terms of income amounted to € 1.4 billion.

Measures for 2015

In 2015, the Regional Governments of the Canary Islands, Galicia and the Basque Country have met their budget stability target, while the others recorded a higher net borrowing than the target set by the Council of Ministers, so they will have to submit an Economic-Financial Plan for 2016 and 2017 as set in the rules of budgetary stability. The net borrowing of the Regional Governments as a whole reached 1.66% of national GDP with advanced data.

The impact of the measures adopted in 2015 was conditioned by the effect of the financing system resource evolution, which increased by € 3.3 billion in comparison to 2014. In this regard both the increase of instalment payments and to the improvement in the settlement of 2013 by € 939 million compared to the initial forecast should be noted.

The revenue measures had a global impact of € -312 million in comparison to the previous financial year, including both those adopted during the financial year and any other executed in prior financial years whose effect was felt on 2015. In the latter, the lower disposal of real investments carried out in 2015 should be highlighted. Among the income measures, the following should be noted: the effect of the Tax on Deposits in Credit Institutions, so that in the Other Taxes section, an increase of € 130 million is recorded compared to 2014, or tax changes that led to higher revenues in the Inheritance and Gift Tax (€ 30 million in net terms) and in fees (€ 31 million). Additionally, the collection increase derived from environmental taxes, either through the creation of new tax figures or by changes in the improvement or sanitation canons, with an impact of € 44 million should be highlighted. With regards to the measures with a negative differential effect the following must be mentioned: the rate cuts in the Tax on Hydrocarbons in some Regional Governments and minor disposals of real investments, both with respect to those made in 2014, and in relation to those initially foreseen in the medium-term budget plans and in the 2015-2018Stability Programme. This deviation is mainly due to Catalonia not completing the 2015 estimated income for administrative concessions and disposal of real investment.

The spending measures had a global impact of € 1.8 billion, considering, as with the income, both those adopted during the financial year as those whose effect comes from prior financial years.

Among the spending measures, the effect of the financial conditions improvements by the financing mechanisms authorised by the General State

Administration is very significant, as they were set under the Agreement of the Delegate Commission of the Government for Economic Affairs of 31st July, 2014 and in Royal Decree-Law 17/2014 of 26th December on measures of financial sustainability of Regional Governments and Local Corporations and other economic measures, which resulted in additional savings of € 3.1 billion on the measures implemented in the financial year 2014.

In addition, the measures taken in the pharmaceutical and healthcare products spending field had a final savings impact of € 48 million in 2015, to the extent that on the one hand, the effectiveness of the instrument for the sustainability of health expenditure has been postponed to the financial year 2016, after the Government Commission for Economic Affairs approved its extension for that year, and on the other hand, the signing of the protocol between the General State Administration and Farmaindustria, made on 4th November 2015, developing the actions of the monitoring committee provided for in the protocol as of the financial year 2016. In any case, these measures are included in the creation of an instrument for the sustainability of health expenditure explained in more detail in section 7.1.2.

On the other hand, the administrative rationalisation processes led to greater savings of € 79 million.

Finally, the following actions on staff stand out. On the one hand, as a measure that decreases spending, the non-replacement of staff, which determines additional savings in each of the years when it becomes effective, and which are estimated at € 589 million. On the other hand, as measures that involved a greater spending over the previous financial year, the effect arising from the partial payment of the bonus pay of December 2012 and the restitution of the bonus amount and salary supplements in certain Regional Governments, which had been reduced in previous financial years, with an additional budgetary impact of € 2.1 billion over the previous financial year.

Measures for 2016

In 2016 the impact of the measures is conditioned by the significant increase expected in resources from the financial system (€ 7.4 billion), in addition to the interest savings resulting from the improvement in the financing conditions initially agreed for the extraordinary mechanisms (the effect of this improvement in the conditions is expected to reach € 2.9 billion, although a negative impact of € 760 million would be generated on the financial year 2015 in differential terms).

With regards to the measures communicated by the Regional Governments as a result of the submission of the medium-term budgetary plans, on the revenue side, in 2016 these mostly stem from tax measures as a result of tax and no one-off reforms. The modification of tax rates , tax bases, bonuses or reductions, are the most envisaged measures by the Regional Governments with effects, as the case may be, both positive and negative.

In this sense, the measures taken in relation to the Property Transfer and Certified Legal Documents Tax should be noted, with an estimated effect of € 62 million in 2016, which will add to the positive evolution that can be registered by the recovery of the real estate market and the economic activity. On the other hand, the impact of the measures classified within the other taxes typology represent a positive amount of € 101 million, those arising from the creation of new taxes by some Regional Governments standing out, such as the Tax on empty housings or the Tax on tourist accommodation.

Finally, specific mention should be made to measures related to environmental taxes (tax on water pollution, tax on polluting emissions from commercial aviation, tax on the emission of gases and particles into the atmosphere, tax on high voltage lines, etc.) that have a positive additional effect of € 74 million in this financial year. With regard to non-tax measures, whose overall additional impact in 2016 amounted to € 279 million, the one-off measures of disposal of real investments stand out.

With regards to the Inheritance and Gift Tax a negative overall impact is expected; however this stems from the effect of the application of tax reduction measures in certain Regional Governments, particularly Galicia and the Canary Islands, with tax increases in other Regional Governments, where Aragon, the Balearic Islands, Castilla-La Mancha and Extremadura stand out.

Among the expenditure measures planned for 2016 it should be noted that within staff expenses, the effect arising from the partial restitution of the amount of the bonus withdrawn in December 2012, no additional effects are expected to be determined in 2016, since a similar amount to that of 2015 was paid. Regarding the non-replacement of staff measure, its impact would be reduced in relation to the previous financial year, being quantified by an amount of additional estimated savings of € 295 million.

On the other hand, on 6th April this year, the Minister of Finance and Public Administrations, pursuant to Article 25.1 of the Organic Law 2/2012 of 27th April on Budgetary Stability and Financial Sustainability, required the Regional Governments that failed to fulfil the agreed adjustment plan, as they exceed the stability objective approved for the financial year 2015, to the adoption of an Agreement of Non-Availability for a sufficient amount to ensure compliance with this objective in the financial year 2016. In view of the regional financing system resources evolution and subject to the instalment payment and subsequent settlement, bearing in mind the new fiscal consolidation path established, the amount of the withholding of credits that the Regional Governments must formalise amounted to € 830 million for the affected Regional Governments as a whole. Additionally, it should be taken into account that the Regional Governments provided adjustments for non-performance in their Budgets amounting to € 680 million as a whole which, together with the previous amount, represent a total of € 1.5 billion.

Additionally, it is worth highlighting the savings from the measures set forth in Royal Decree-Law 17/2014 of 26th December on measures of financial sustainability of Regional Governments and Local Corporations and other economic measures, related to improving financial conditions of funding mechanisms activated by the General State Administration. In 2016 they will determine an additional saving due to the improvement of the financial conditions applicable by € 2.9 billion, although in differential terms on the previous financial year, they will have a negative differential impact of € 760 million.

Likewise, the expected additional savings due to the measures regarding spending on pharmacy and health products should be noted, which are mostly derived from the collaboration Protocol signed with Farmaindustria, which in 2016 amounts to € 425 million and to € 100 million those derived from the centralised purchase of medicines. These efficiency improvement measures in health spending, initially planned for the financial years 2015 and 2016, are expected to show their effects on 2016 and 2017 considering the final schedule to sign the protocol of collaboration, the put into operation of its monitoring committee and adherence to the sustainability instrument of pharmaceutical and healthcare spending, in accordance to what is stated in the corresponding section of this stability programme.

Scenario for 2017-2019

As for the measures communicated by the Regional Governments as a result of submitting the medium-term budgetary plans in the financial years from 2017 to 2019 in terms of income, those relating to the Property Transfer and Certified Legal Documents Tax stand out, with a positive impact, of € 22 million especially in the financial year 2017, as well as those stemming from other taxes, also for the financial year 2017, whose positive impact reaches € 17 million. On the other hand, the negative impact of non-tax measures is noticeable, its origin essentially arising from the reversal effect of investments disposal measures planned for 2016.

As for the spending measures, the positive effect caused by the reversal of the December 2012 bonus pay release stands out, which, considering the planned schedule in the budgetary provisions of the various Regional Governments, is estimated to generate savings in the chapter of staff expenses in 2017 to 2019 amounting to € 520 million in 2017, € 110 million in 2018 and € 300 million in 2019. On the other hand, the impact of the staff replacement rate foreseen for 2016 is expected to keep its impact on the following annuities.

Additionally, 2017 and 2018 show savings from spending on pharmacy and health products. These savings result from the centralised purchase of medicines, reach € 100 million and impact each financial year respectively, and from other measures on pharmacy and health products, that reach € 450 and € 150 million. In this regard, what has been mentioned above in relation to the implementation schedule of measures to improve the efficiency of health spending should be considered.

Finally, under the current applicable financial conditions for funding mechanisms authorised by the General State Administration, a negative differential impact of the non-application of the 0% rate is expected in 2018 and 2019 for those Regional Governments that agreed in 2015 sharing the Finance Facility of the Financing Fund to Regional Governments.

Table A.6. Expected budgetary impact of expenditure and revenue measures adopted and planned by the Regional Governments, details the effects of the various measures to be adopted by the Regional Governments throughout the considered scenario.

Implementation of the LOEPSF measures

In view of the European Commission Recommendation of 9th March 2016, on measures to be taken by Spain to ensure the correction of its excessive deficit, it seems appropriate to include a specific section about the actions carried out to date for this purpose.

Below there is a description of the set of measures that, under the LOEPSF, its implementing regulations and other related provisions have been adopted or will be imminently implemented in 2016.

- 29th February 2016: First publication of healthcare and pharmaceutical expenditure indicators, for the period from June to October 2015. On 31st March 2016 the second publication took place, with data from November and December of that financial year. The latest publication made took place on 22nd April, including data from January 2016.
- On 18th March 2016 the request for information was made to the Regional Governments of Aragon, the Balearic Islands, Cantabria, Catalonia and the Basque Country, establishing for each the specific outstanding remission data, and a warning that in case of failure to meet this requirement, the breach would be made public and automatic correction measures of Article 20 of the LOEPSF would be adopted.
- March 2016: Submission of communications to the Regional Governments requiring the submission of adjustment plans, warning that the disbursement of the amounts to be charged to the mechanisms was conditioned to such submission.
- Reinforced control applicable to Regional Governments adhered to sharing the Regional Liquidity Fund: All Regional Governments that adhere to that sharing shall be subject to an enhanced control system as envisaged in the Supplier Payment Fund and Regional Liquidity Fund (known in Spanish as FLA) programme applicable for the financial year 2016.
- 1st April 2016: Communication warning to the Regional Government of the Balearic Islands due to breach of the average payment period (PMP in Spanish terms) terms, pursuant to Article 18.4 of the LOEPSF.
- 1st April 2016: Application of Article 20.6 of the LOEPSF (corrective measures) for overdoing in more than 30 days, the maximum payment period established in the regulations on late payment. A notice is sent to the concerned Regional Governments (Extremadura and Aragon), reporting

that the withholding procedure is started for the amounts to be paid by the resources from the regional financing system, in order to pay suppliers directly. The direct payment procedure to suppliers of the Regional Governments and withholding in equivalent amount of the regional financing system resources will be fully operational starting May 2016.

- Also on 1st April 2016 letters were sent to Andalusia, Cantabria, Castilla Leon, Catalonia, Galicia, Madrid and Murcia for breaching Article 13.6 of the LOEPSF, as well as a reminder of non-compliance to Valencia.
- From 1st April 2016, communications and requests made to the Regional Governments pursuant to the LOEPSF were published through the Financial and Economic Information Central of Public Administrations. Even though its publications started on that date, communications carried out previously were also incorporated.
- On 6th April 2016 a letter from the Minister of Finance and Public Administrations was sent to the Ministers of Finance of all Regional Governments, except the Canary Islands, Galicia, Navarra, the Basque Country and La Rioja, informing that due to the degree of non-compliance of the budgetary stability objective for 2015 its adjustment plan was considered breached, so Article 25.1 of the LOEPSF applied. Thus, those Regional Governments were reminded that the law requires that as a result of the breach of the adjustment plan, they should approve the unavailability of credit and undertake the corresponding credit withholding in order to ensure compliance with the budgetary stability objective and the spending rule set for 2016, in addition to the conditions established by the Delegate Commission of the Government for Economic Affairs Agreement (known in Spanish as CDGAE).
- Formal establishment of the monitoring committee provided for in the protocol with Farmaindustria. The meeting held for this purpose took place on 6th April.
- On 21st April the concerned Regional Governments were informed that, in view of the new scenario that arose with the new fiscal consolidation path, it was necessary that the adjustment plan to be sent included, where appropriate, the revision of the economic - financial scenario in view of the new deficit target of 2016 set for the Regional Governments. It also noted that this update should include, if necessary, the non-availability agreements that ensure compliance with the new target, thereby responding to the notice issued on 6th April pursuant to Article 25.1 of the Organic Law 2/2012 of 27th April on Budgetary Stability and Financial Sustainability.
- Also on 21st April letters were sent to the affected Regional Governments requesting the submission of Economic Financial Plans for the period 2016-17, in view of the non-compliance data reflected in the report of Article 17.3 of the LOEPSF. In its configuration the important effect of the additional resources that the Regional Governments will receive from the funding system must be taken into account, and they amount to € 7.4 billion.
- By means of the CDGAE Agreement of 31st March on additional conditions to be fulfilled by the Regional Governments adhered to the Financing Fund for Regional Governments, Regional Liquidity Fund 2016 sharing, the Regional Governments that breached the deficit target for 2015, and therefore its current adjustment plan, and adhered to the 2016 Regional

Liquidity Fund sharing may only have the funds corresponding to the second quarter of 2016:

Provided they meet the following conditions:

- o Adherence to the supporting instrument for sustainability of pharmaceutical and healthcare spending of the Regional Governments.
- o Signature of the collaboration Protocol signed between the General State Administration and Farmaindustria.
- o Connection of the accounting records with FACe.
- o Agreement of Non-Availability. The appropriate expenditure reduction measures shall be detailed and identify the affected budgetary credit, which cannot be revoked during the financial year in which it is adopted or until the adoption of measures that ensure compliance with the established objective, nor lead to an increase of the expense recorded in subsidiary accounts, for which this information will be subject to a specific monitoring. Moreover, this Agreement of Non-Availability of Credits shall comply with the following conditions:
  - o Credits affected by the non-availability should be first and foremost those not related to the attention of key public services (education, health and essential social services), as defined in Article 15 of the Organic Law 8/1980 of 22nd September on Financing of the Regional Governments.
  - o They may only exhaust the possible remuneration variations of their staff provided for in Article 19.Two and the twelfth additional provision of Law 48/2015 of 29th October on the General State Budget for 2016, if the measures adopted in the Agreement of Non-Availability are sufficient to cover the difference between the 2015 effective deficit and the target set for 2016, and to cover the highest expenditure that such retributive variations involved.
- o Signing of the agreement for the mutual provision of basic electronic administration solutions to gain efficiencies and reduce costs.

They must also meet the following conditions in a general or periodical way until the budgetary stability objective, spending rule and public debt is met:

- o Prohibition to approve budget changes involving net increase in non-financial expenditure regarding the one budgeted for 2016 and that, in accordance with existing regional rule, is not funded with the contingency fund or other credits.
- o Assessment report of the general comptroller of the regional government, who before the 30th date of each month, will send a report prepared by the competent body on the degree of compliance of budgetary stability objectives, spending rule and public debt pursuant to the current financial year, as well as on the risks and circumstances that might result in a breach of any of these objectives. This report will also include information on the implementation of the Agreement of Non-Availability and the analysis of to what extent the resources the Regional Government receives in 2016 due to higher revenue of the financing

system or the application of financial condition improvements of loans related to financing mechanisms, are helping to reduce the deficit. Report on the draft of general budgets of the regional government of the general comptroller of the regional government (prepared by the competent body) on the compliance assessment with the budgetary stability objectives, spending rule and public debt with regards to the general budget draft of the regional government, prior to approval by the Governing Council.

Other measures

The deficit deviations the Regional Governments could incur in with regards to the objectives of 2016, must be partially offset by their budgets of subsequent financial years, offsetting such deviations with lower costs or higher revenues. All this without the financing by the Regional Liquidity Fund of these deviations reaching the entire amount or exceeding the percentage decided by the Delegate Commission of the Government for Economic Affairs. In order to determine this percentage, the Delegate Commission of the Government for Economic Affairs will look at the nature and causes that may have caused this deviation.

On the other hand, in compliance with the commitment undertaken by Spain with the Commission and with the quality of public finances and transparency improvement, the computable spending of the State and Regional Governments was published for the first time in April in order to comply with the spending rule, in the execution documents published on a monthly basis.

With regards to the measures to be implemented in the future, the following should be highlighted:

- Publication of the Regional Governments adjustment plans: the adjustment plans to be submitted by the Regional Governments adhering to the extraordinary financing mechanisms allow carrying out a detailed monitoring of their financial economic behaviour and of the measures aimed to achieve the deficit targets. The added advantage of this tool is its speedy adoption. In addition, its content is broader, since it includes essential aspects such as the PMP data reduction.

- Implementation of the automation project in receiving Regional Governments Budgets data, so that the full administrative budgets will be received in a database format, allowing their submission in a homogeneous and treatable way, ensuring thus quality and coherence. The project completion will take place in the coming months and in any event before year-end and then it will be made effective to the General Accounts data. It should be noted that this project is in line with the recommendations recently established by the EC in this area.

4.4.2. Local Corporations

Monitoring the measures at a local level is included within the adjustment plans presented currently by 2,500 Local Corporations, as they have benefited from the Supplier Payment Fund. Also in Royal Decree Law 8/2013 extraordinary liquidity measures were set for municipalities in a severe economic situation. All these liquidity measures involve a strict conditionality, reinforced in the second case to restore the solvency of these administrations.

The Local Administration reform must be added to these measures and it was approved by means of Law 27/2013, of 27th December, on Rationalisation and Sustainability of the Local Administration.

It aims to improve the efficiency in service delivery and its sustainability, primarily through the reorganisation of powers and the elimination of duplicities among the Public Administrations various levels.

The Local Corporations as a whole have achieved fiscal surplus since 2012. Starting from a deficit of 0.4% in 2011 (excluding the effect of the negative settlements of the local financing system), they have achieved much healthy positions in all subsequent years, with surpluses of 0.3% of GDP in 2012, to 0.52% in 2013, 0.57% in 2014 and 0.44% in 2015. This result was helped by the maintenance of the surplus registered in the first year that allows the spending rule, being really a preventive measure once the fiscal balance is reached. The revenues increase together with the spending control enabled achieving the fiscal target and even surpass it.

The surplus decrease by 0.13 points could be motivated by the negative settlements of the share in the State tax in 2013, calculated in 2015, which totalled an amount of € 866.14 million, and partially by the spending in financially sustainable investments that will foreseeable reach € 566.33 million, according to the 2015 budget execution in the fourth quarter. In connection with these investments, it should be indicated that each of the Local Corporations have the limit of surplus expected at the end of the financial year, i.e., they cannot generate deficit.

With reference to these investments, with data corresponding to the fourth quarter of 2015, 697 bodies reported about financially sustainable investments (666 municipalities and 31 provincial council offices). The total amount of financially sustainable investments approved in 2015 amounted to € 566.33 million (in 2014 this amount was € 557.1 million). Out of this, € 334.70 million correspond to actions of the provincial council offices (primarily aimed at financing investment projects in municipalities with a smaller population in the corresponding province) and € 231.63 million to municipalities.

The spending they finally make is one third of the amount they could use to finance those investments out of the surplus.

Most of the investments were made on public roads, highways, heritage management (renovation) and infrastructures associated to the water supply service.

In this context, a re-estimate of the local reform impact built on these bases was proposed in the Stability Programme presented in April 2015. Law 27/2013 of 27th December, on Rationalisation and Sustainability of the Local Administration requires the elimination of services and service integration except when there is a surplus. Therefore a lower impact on the years of the programme for these concepts was estimated. To this end the impact of the reform is reduced by half, as they are not as necessary as at the time of the law design. However, if deficit would return these measures would have to be applied again. The end result of the measures planned is observed in the table on Local Corporations.

However, the savings stemming from the transfer of the competencies in health, education and social services to the Regional Governments has to be reconsidered, as a result of the ruling of the Constitutional Court Sentence of 3rd March 2016, declaring unconstitutional the provisions on which the those transfers were based and leaving them to the ones that the respective Regional Governments regulate. In this case, it should be considered that no savings for Local Corporations occur.

Concerning the effects estimates of the LRSAL as of 2015, made last year, the following changes occur:

- "Improper" expenses: In 2015 the savings from reducing these expenses was reduced and it was raised in 2016, keeping the effect estimate on the two financial years taken together, justified due to the following factors:
  - In 2015, the reduction from € 559.9 million to € 347.3 million was derived from the information contained in the budgets for that year. However, the savings stemming from this measure could be higher, since information is currently being received from year-end 2015, so that the amount collected should be considered provisional.
  - In 2016, the saving would increase from € 139.1 million up to € 351.8 million, as 2016 is the year when the current Local Corporations will start to take measures regarding the non-acceptance of powers that are not their own nor delegated. In 2015 they did not have the material time (just six months, and already with committed expenses for the financial year) to take decisions in this area.
- Integrated management of basic services and mergers (and modification of the service management forms):
  - In 2015, it was increased from € 70.7 million to € 128.8 million, considering the information received from the Local Corporations, the modification measures of the management method having a major impact, seeking greater efficiency in the provision of public services.
  - In 2016, the estimate of € 223.1 million is maintained due to the following reasons:

    - The rate of savings is expected to be maintained resulting from the modification of the management methods of public services by municipalities.
    - Management methods driven by the Provincial Council Offices, Councils and Island Councils are considered to be raised to a greater degree, as they were aware of the actual costs of the services by the end of 2015, and in 2016 they will have to apply the measure to propose such supra-municipal provision formulas, provided they are more efficient.
  - Estimated effects for 2017 and 2018 increased (considering for this financial year the ones planned previously for 2017), as a greater dynamism of these intermunicipal management methods is foreseen since there is more information available (and referred to a longer period) requiring to adopt decisions in the public service management field.
- Local public sector downsizing:
  - In 2015, the impact of the measure was re-estimated from € 393.8 million to € 150.1 million, considering the reduction of costs incurred by the removal of subsidiary companies, according to the information received. This is provisional, as they are currently facilitating the closing of the accounts of 2015.
  - In 2016, it is maintained at € 508.3 million, since in that year the imbalance entities that are providing any of the following essential services will have to be dissolved and liquidated no later than 1st December 2016: domestic supply and wastewater treatment, collection, processing and utilisation of waste, and public passenger transport.
  - In 2017, the estimate remains at € 305.0 million. That year the effects of the subsidiaries dissolved and liquidated at the end of 2016 will be felt.
- Temporary staff:
  - In 2015, it was re-estimated rising from € 10.9 million up to € 27.4 million, according to the information received from the Local Corporations. However, this information, as indicated above, should be considered provisional, as Information on the settlement of 2015 budgets is being received.
  - In 2016, it is maintained at € 29.9 million as it remains in the vicinity of the re-estimation made in 2015.
  - However, with the data received from the implementation of the budget for 2015 for the fourth quarter (savings in 2014 and 2015 of € 53.7 million) it is likely that the projected savings in 2014 and 2016 as a whole will be eventually met, reaching € 49 million.
- Removal of minor Local Corporations: the effect estimate has been delayed one year (from 2015 to 2016) since the last performance corresponds to the Regional Governments and to date they have not taken any decision in this area. However, the Ministry of Finance and Public Administrations informed the Regional Governments about the small Local Corporations that would be in the process of dissolution and will monitor the development of this measure with the aforementioned Regional Governments.
- With regards to the transfer of powers in health, social services and education to the Regional Governments, the effects that were foreseen

have been removed due to the declaration of unconstitutionality by the Constitutional Court in a Sentence ruled on 3rd March 2016. These effects were expected in 2016 for a total amount of € 837 million, of which € 437 million were concentrated in that financial year.

The ruling explains that the State "may only assign specific local powers or prohibit that these are developed at local level, when they have powers in the field or sector concerned". "In matters of regional power, only the Regional Governments may attribute local powers or prohibit the local level develops them; subject in any case to the requirements arising from the Constitution".

The abovementioned Ruling supports the constitutionality of most of the challenged provisions. All contested provisions are considered constitutional, except for Art 57 bis of the LBRL (on the guarantee and debts compensation clause of the Regional Governments under the financing system), the additional provisions 11th and the temporary provisions 1st, 2nd, 3rd (on the assumption by the Regional Governments of the powers relating to health, social services and health inspection services).

Ultimately this confirms the constitutionality of the competence allocation system to municipalities designed by the LRSAL; of the limits to the creation of new municipalities, incentives to voluntary merger and regime on the effects of the merger; configuration of the entities of the areas smaller than the municipality as forms of decentralised organisation; regulation of the economic and financial plan on the grounds that it complements the provisions of the LOEPSF without contradicting it.

4.5. Public debt forecasts

In 2015, the public debt/GDP ratio fell in Spain for the first time since the start of the crisis, reaching 99.2% (Table 4.5.2.), compared to the 5.6 points increase recorded in 2014. This drop is explained by the nominal GDP rebound, which contributed to reduce the ratio by 3.7 points last year, as well as to the deficit-debt adjustment, which exerted a downward effect on the borrowing need equivalent to 1.5 % of GDP.

The downward effect of the deficit-debt adjustment on the borrowing need in 2015 was mainly due to the fact that net purchases of financial assets, equivalent to an amount of 1.2% of GDP, were more than offset by the financial transactions between Public administrations (2.7% of GDP), since the EDP debt is accounted for on a consolidated basis. On the other hand, the net variation in liabilities in the form of other accounts payable and the other adjustments, which reflects the effect of various factors, contributed to reduce, although very slightly, the borrowing need of the General Government (both 0.03 % of GDP). As a result, the deficit-debt adjustment in 2015 stood at -1.5% of GDP (Table 4.5.1.), in comparison to the 0.6% of GDP registered in 2014.

Table 4.5.1. Debt stock-flow adjustment in 2015
% of GDP

	2015
Stock-flow adjustment	-1.5
Financial assets	1.2
Accounts payable	-0.0
Operations within General Government	-2.7
Others adjustments	-0.0
Source: Bank of Spain.	

Conversely, the net borrowing of the General Government in 2015, including the financial assistance for bank restructuring and recapitalisation, increased the borrowing need by an amount equal to 5.08% of GDP, although it was 0.8 points lower than the figure registered in the previous year.

At the end of 2016, the public debt will represent 99.1% of GDP, a figure one tenth lower than the one registered at the end of 2015. This decline is explained by the nominal GDP increase, with an effect on the debt/GDP ratio of -3.5 points, and by a negative deficit-debt adjustment equivalent to -0.1% of GDP, while the deficit foreseen for 2016 is 3.6% of GDP.

The debt ratio over GDP will extend the downward path as of 2017, the nominal GDP growth contributing to such reduction and, as of 2018, the primary balance will do so, as it will record a surplus.

Table 4.5.2. Public debt dynamics
% of GDP

	2015	2016	2017	2018	2019	Variation 2015-2019
1. Gross debt level	99.2	99.1	99.0	97.9	96.0	
2. Variation in the debt level	-0.1	0.0	-0.1	-1.1	-1.9	-3.2
Contributions to the variation in the debt level						
3. Primary budget balance	-2.0	-0.8	-0.2	0.4	0.9	0.2
4. Interests paid	3.1	2.9	2.7	2.6	2.5	10.6
5. Effect of nominal GDP growth	-3.7	-3.5	-3.6	-3.8	-4.1	-15.0
6. Other factors (debt-deficit adjustment)	-1.5	-0.1	0.5	0.5	0.6	1.5
p.m.: Implicit interest rate	3.2	3.0	2.8	2.7	2.6	
Source: Ministry of Economy and Competitiveness.						

4.6. Cyclical orientation of the fiscal policy

To analyse the stance of fiscal policy, this Stability Programme Update provides the growth rates of real GDP foreseen for the period 2016-2019, as well as the estimates of potential GDP and output gap, following the methodology of the production function used by the European Commission and agreed within the Output Gaps Working Group (OGWG).

Potential GDP and Output gap

As in the previous Stability Programme Update, some statistical changes have been incorporated in order to obtain estimates that are more accurate and consistent with the cyclical situation of the Spanish economy. In particular, short-term population projections published by the INE (National Institute for Statistics) have been used, instead of the population projections of Eurostat.

Table 4.6.1. Cyclical performance (1)

% of GDP, unless otherwise specified

	2015	2016	2017	2018	2019
1. Real GDP growth (percentage %)	3.2	2.7	2.4	2.5	2.5
2. Borrowing requirements (Net lending (+) / borrowing (-)	-5.1	-3.6	-2.9	-2.2	-1.6
3. Interests	3.1	2.9	2.7	2.6	2.5
4. Temporary measures (2)	-0.3	0.0	-0.2	0.0	0.0
5. Potential GDP growth (variation %)	0.2	0.5	0.8	1.1	1.3
Contributions:					
- *total factor productivity*	0.1	0.1	0.1	0.2	0.2
- *labour*	-0.2	0.0	0.2	0.3	0.4
- *capital*	0.3	0.4	0.5	0.6	0.6
6. Output gap	-5.6	-3.5	-2.0	-0.7	0.6
7. Cyclical balance	-3.0	-1.9	-1.1	-0.4	0.3
8. Cyclically adjusted balance (2-7)	-2.0	-1.7	-1.9	-1.9	-1.9
9. Cyclically adjusted primary balance (8+3)	1.0	1.1	0.8	0.7	0.6
10. Structural balance (8-4)	-1.8	-1.8	-1.7	-1.9	-1.9
11. Primary structural balance (10+3)	1.3	1.1	1.0	0.7	0.6

(1) Using Potential GDP (output function) NAWRU calculated with a forward-looking Phillips Curve.
(2) Measures with impact in only one year.
Source: Ministry of Economy and Competitiveness.

Potential GDP, after the minimum low reached in 2014, begins an expansionary path in 2015, with positive growth rates that are rising gradually and reaching close to 1.5% at the end of the forecast period. This acceleration is due to the recovery of the labour factor, which after five years of negative contributions to potential GDP growth, registers positive contributions as of 2017, as well as to the rising profile of capital and, to a lesser extent, to the Total Factor Productivity (TFP), which slightly increases its contribution in the projection period.

The gradual recovery of the labour factor is due to the reduction of the structural unemployment rate during the whole projection period and to the increase of the potential participation rate as of 2017, which more than offset the reduction of working age population. On the other hand, the capital growing profile, with positive contributions throughout the period, which rise from 0.4 percentage points in 2016 to 0.6 pp in 2019, is explained by the dynamism of gross fixed capital formation. Finally, the TFP contribution to potential growth increases slightly in the period 2016-2019.

As a result of real and potential GDP evolution, the output gap, after reaching the maximum difference between potential and effective (-9.7%) in 2013 and falling almost one point and a half in 2014 and more than two and a half points in 2015, will continue to decline in the period 2016-2019, registering positive figures (0.6%) at the end of the forecast horizon. However, the output gap reduction will be slower than estimated in the previous Stability Programme Update, mainly due to the real GDP expected slowdown in 2016 and 2017, compared to last year's projected slight acceleration.

Structural effort

Based on the output gap, the path of public deficit has been broken down into its cyclical and cyclically adjusted components. Regarding the cyclical balance, the more moderate reduction of the output gap as of 2016 in comparison to what had been estimated last year, will generate lower corrections of the cyclical deficit, so that the economic cycle explains about one point of the nominal fiscal adjustment in 2016. As of next year, the contribution of the cycle to the fiscal adjustment will be lower, 0.8 percentage points in 2017 and 0.7 percentage points in 2018, between one and two tenths less than what had been estimated for the 2016-2018 period in the previous Stability Programme Update. As a result of the cyclical balance evolution, which will be positive in 2019 (0.3% of GDP), and the expected path for the nominal public balance, which has been revised downward throughout the whole forecast period, the cyclically adjusted deficit stands below 2% of GDP until the end of the horizon (Table 4.6.1).

To assess the fiscal policy stance the structural balance evolution is analysed, obtained by subtracting the non-recurrent temporary measures and the financial assistance from the cyclically adjusted balance. In an exercise of prudence and consistency with the analysis made by the EC, only those measures that have an impact on one single financial year have been considered as non-recurrent temporary measures.

Specifically, in 2015 the total amount of these measures amounted to € 2.8 billion. Among these, the following stands out; the financial assistance, amounting to € 853 million; the allocation in that year of investments related to various Public Private Partnership contracts signed in previous years, amounting to € 2.0 billion and the implementation of the second stage of the Personal Income Tax reform planned for 2016 since July 2015. The allocation of revenues derived from the auctions of the radio broadcasting space made in 2011, as operators started to use last year the newly assigned frequencies, was also included in 2015, amounting to € 1.6 billion. In 2016, it is considered that the amount of the non-recurrent temporary measures to be taken into account for the calculation of the structural budget balance amounts to € 45 million.

As shown in Table 4.6.1., and in line with a no policy change macroeconomic scenario at constant policy, the resulting structural effort in 2016 and 2017 is positive and in these two years Spain reduces its nominal deficit by more than two points of GDP, from 5.1% in 2015 down to 2.9% in 2017.

It should be noted that in the 2012-2015 period, Spain made a cumulative structural effort of 4.1 points of GDP (more than one point each year on average), ranking among the European countries that made the greatest fiscal consolidation. The General Government deficit dropped by more than four points of GDP in that period.

The structural effort underestimation

The real structural effort carried out in the Spanish economy in recent years is underestimated due to several methodological aspects recognised by the EC itself in its Opinion dated 28th November 2014 on the DBP of Spain: *"[...] specifically at the turning point of the cycle, developments in the structural balance for Spain may tend to underestimate the true fiscal effort."* One of the reasons why this underestimation occurs, is the uncertainty and revisions to of growth potential figures and, therefore, of the output gap.

In the Spanish case, the methodology used does not include the full impact of the structural reforms and the trend change itself on the main macroeconomic variables. In particular, the structural unemployment rate (NAWRU) is overestimated, reducing the potential GDP and therefore, the structural balance. Furthermore, the time horizon used and the methodology itself for calculating the NAWRU[7], causes this rate to respond very slowly to relevant structural changes, as is the case of the labour reform of 2012.

The changes made to the series of National Accounts as a result of the last base change must be added to this. With the series of the new base an important part of the structural effort that in the previous base was allocated to 2013 has been moved to 2012, thus such effort remains outside the reference period of the Excessive Deficit Procedure (EDP) Recommendation.

A complementary approach to assess the fiscal policy stance is to estimate the discretionary effort. In 2016, as shown in Table 4.6.2, the expected discretionary effort stands at 0.2 percentage points of GDP (0.3 percentage points without financial one-off measures), two tenths above the structural effort estimated with the EU common methodology.

[7] The NAWRU has been calculated with a non-centred forward-looking Phillips Curve estimated using a Kalman filter.

Table 4.6.2. Discretionary effort indicator

Billion €	**2016**
Nominal GDP	1,121.1
Discretionary revenues	-0.4
Total expenditure	468.8
Interests	32.0
Unemployment expenditure	18.9
Expenditure excluding interests and unemployment (€)	417.9
Change in E	3.2
Reference rate	1.5
Financial one-offs and other expenditure one-offs	0.0
Variation in E excluding expenditure one offs	2.4
Discretionary fiscal effort indicator (1)	**0.2**
Discretionary fiscal effort indicator (1) (2)	**0.3**

(1) Percentage points of GDP.
(2) Estimated without financial one-off measures.
Sources: Ministry of Economy and Competitiveness and Ministry of Finance and Public Administrations.

The inflation impact on the public deficit

The context of negative inflation rates in the fiscal effort analysis made by the European countries requires special mention. As recognised by the EC in its latest Report on Public Finances, a lower-than-expected inflation has negative effects on the public accounts.

In this regard, it should be noted that the Spanish inflation cumulated in the 2013-2015 period was considerably lower than the one projected by the EC at the time of the Recommendation made to Spain in 2013, this deviation standing at approximately three percentage points.

In the box set out in section 3.1., a quantitative estimate of the impact of the negative deviation of inflation on last year's budget balance is presented, developing the methodology used by the EC. Such negative impact on the Spanish public deficit is quantified at 0.7 points of GDP in 2015.

The adverse impact of the negative inflation on the public deficit was also recently recognised by the Commission in its assessment report of France[8], considering that this is a circumstance that did not allow to close the "effective

[8] See COUNCIL RECOMMENDATION with a view to bringing an end to the excessive government deficit in France, 5th March 2015 and Staff Working Document (SWD) accompanying the Recommendation: "[...] the downward revision in inflation recorded in 2014 has had a negative impact on the general government deficit. In 2014, inflation turned out to be significantly lower than expected. [...] Such a negative inflation shock has an adverse impact on tax bases and leads to downward revisions in tax revenues. By comparison, expenditures are less sensitive to inflation revisions."

action" in March in the EDP procedure ("the available evidence does not allow to conclude on no effective action").

In the case of Belgium and Italy, although just for the preventive arm of the Stability and Growth Pact, the EC also recognised that the lower inflation recorded was a "relevant economic factor" that hindered the achievement of the debt objective of the Recommendation made to these countries.

In conclusion, assessing the Spanish fiscal policy stance with the structural effort accumulated in the 2013-2015 period presents a number of both methodological and economic consistency constraints. Therefore, it is advisable to analyse the cumulative fiscal effort with a greater time horizon and to take into account other relevant unforeseeable factors, such as the current negative inflation rates recorded in Spain.

4.7. Adjustment path to the Medium-Term Objective (MTO)

The current Code of Conduct of the Stability and Growth Pact adopted by the ECFIN Council in January 2012 establishes the obligation to extend the forecasts of the main macroeconomic variables until the medium-term objective (MTO) is met, a structural deficit of 0.5% of GDP maximum, or the one resulting from the sustainability conditions if it was more demanding, as well as detailing the main variables of the path to be followed in order to achieve this goal.

In the case of Spain, the medium-term objective (MTO) established by the Organic Law on Budget Stability is more ambitious, reaching structural balance. In this Stability Programme Update, the absence of measures as of 2017 does not allow achieving the convergence to the MTO.

5. COMPARISON WITH THE PREVIOUS STABILITY PROGRAMME. SENSITIVITY ANALYSIS

5.1. Comparison with the previous Stability Programme

Table 5.1.1. shows a comparison of estimates in this Stability Programme Update for the period 2016-2019, with those of the previous Update. The main differences are in the revisions experienced by the economic growth forecasts.

The previous Update foresaw a slight acceleration of economic growth, from 2.9% in 2015 to 3% in the last two years of the period, while the current Stability Programme includes a real GDP growth of 3.2% in 2015, three tenths of a percentage point higher than the figure expected last year. It also includes slightly lower growth rates than the ones in the previous Update for the rest of the projection period, foreseeing an average annual growth of approximately 2.5%.

On the other hand, the current budget balance is more negative than that referred to in the previous Stability Programme, after taking into account the changes in the national and international economic situation since the previous Update.

Table 5.1.1. Differences with the previous Stability Programme update

	2015	2016	2017	2018	2019
GDP (% volume growth)					
Previous update	2.9	2.9	3.0	3.0	
Current update	3.2	2.7	2.4	2.5	2.5
Difference	0.3	-0.2	-0.6	-0.5	
Budget Balance (% GDP)					
Previous update	-4.2	-2.8	-1.4	-0.3	
Current update	-5.1	-3.6	-2.9	-2.2	-1.6
Difference	-0.9	-0.8	-1.5	-1.9	
Gross Debt (% GDP)					
Previous update	98.9	98.5	96.5	93.2	
Current update	99.2	99.1	99.0	97.9	96.0
Difference	0.3	0.6	2.5	4.7	
Source: Ministry of Economy and Competitiveness.					

The fiscal adjustment path suffers a slight deviation in comparison to the estimates of the previous Programme, of the public deficit up to 2018. The fiscal adjustment continues in the period from 2016 until 2019 and the EDP is expected to be abrogated in 2017, a year later than foreseen in the previous Update.

Finally, the different growth rates expected during the period result in debt/GDP ratios different than those foreseen in the previous Update. The highest ratio level will be reached in 2015, at 99.2% of GDP and this is slightly higher than the 98.9% forecast in the previous Stability Programme. In 2019 it is expected that the value of this ratio will reach 96% of GDP.

5.2. Risk scenarios and sensitivity analysis

In macroeconomic and fiscal projections, it is important to perform a sensitivity analysis with respect to the assumptions made in the baseline scenario. The Code of Conduct of the European Commission on the format and content of the Stability Programmes urges Member States to consider the sensitivity of macroeconomic and fiscal projections to different shocks. In particular, the Code of Conduct emphasises the interest rate and exchange rate variables. Moreover, the current situation of low oil prices makes it convenient to include the sensitivity to this third shock.

The interest rate is key to the macroeconomic and fiscal scenario. On one hand, it has a direct effect on public finances, since it alters the financial burden of the debt. On the other, it has an indirect impact since it is a key determinant of GDP growth due to its influence on consumption and investment decisions of private agents. For these reasons the first sensitivity analysis considered is a possible rise in interest rates, although this is not at all a likely scenario, given the normalisation of risk premiums and the recent orientation of the monetary policy of the European Central Bank.

In the second financial year, a lower global growth would affect the GDP mainly through net exports which, in turn, would affect public finances. This circumstance led to simulate a negative demand shock through lower demand from trading partners. This is, again, an unlikely scenario, as growth in the EU continues to be sustained and the EU is the main destination for Spanish exports, so the risk is unlikely to materialise in this financial year.

Furthermore, oil prices affect macroeconomic aggregates through energy cost changes. Spain, as a net importer country would be affected by a shock on oil prices in two ways: the production costs and the current account balance. A sensitivity analysis should be carried out on how the main macroeconomic aggregates would be affected in case of an increase in oil prices.

Simulations were carried out using the REMS model[9], a dynamic general equilibrium model with a rigorous microeconomic foundation applied to the Spanish economy. In order to interpret the simulation results, it should be noted that the REMS results are percentages of deviation with regards to a baseline scenario corresponding to the initial situation before applying the corresponding shock. For these simulations, the baseline scenario used to estimate the deviations is the one reflected in the Government's economic forecasts.

5.2.1. Sensitivity to interest rates

The effect on the main macroeconomic aggregates of increasing the interest rate by 100 basis points (b.p.) compared to the baseline scenario has been

[9] Boscá, J. E., Díaz, A., Doménech, R., Ferri, J., Pérez, E. y Puch, L. (2011) "A rational expectations model for simulation and policy evaluation of the Spanish economy", en Boscá, J.E., Doménech, R., Ferri y Varela, J. (Eds.) The Spanish Economy: a General Equlibrium Perspective, Palgrave Macmillan.

analysed. This shock is applied over the four years that the projection period lasts, to return to the baseline scenario initial value, beyond the forecast horizon. However, this is an unlikely hypothesis in the current situation.

Specifically in the baseline scenario, the interest rates evolution path in the long term is the one shown in Table 3.2.1, and the risk scenario involves an expected interest rate 100 b.p. higher for the period 2016-2019. The results show the comparison between simulating the baseline scenario and the risk scenario in REMS.

According to the results detailed in Table 5.2.1.1, GDP could fall by approximately 0.9% compared to its level in the baseline scenario at the end of the projection period, dragged down by the lower trend of domestic demand.

This lower growth in turn influences fiscal variables. First, the public balance would be affected by the lower tax collection and the increased spending on social benefits in an environment where domestic demand and job creation weaken. In addition, the increase in rates means higher interest payments. At the end of the forecast period deficit and public debt are higher than in the baseline scenario by 0.5 and 2.1 percentage points of GDP, respectively.

Table 5.2.1.1. Impact of a 100 b.p. increase of the interest rate

Cumulated deviations from the base scenario

Deviations accumulated on the baseline scenario

	2016	2017	2018	2019
Real GDP	-0.7	-0.4	-0.7	-0.9
Private consumption	-0.8	-0.6	-0.7	-0.7
Public balance (% of GDP)	-0.4	-0.2	-0.4	-0.5
Public debt (% of GDP)	1.1	1.3	1.6	2.1
Employment (workers)	-0.3	-0.2	-0.4	-0.5
Source: Ministry of Economy and Competitiveness.				

5.2.2. Sensitivity to economic growth of the trade partners

The effect on the main macroeconomic aggregates of a lower growth in the world economy that results in demand of imports from Spain 4% lower than the one assumed in the baseline scenario has been analysed. This shock is simulated for the four years of the projection period. Subsequently, the demand returns to its initial value.

The shock was measured assuming that in the baseline scenario, the global demand for Spanish exports is the one derived from the IMF estimates in the latest World Economic Outlook. The risk scenario considered a growth 4 p.p. lower in 2016. For the remainder of the estimation period (2017-2019) the Spanish exports world demand growth rates were the ones expected by the IMF, resulting in a market demand 4% lower than the baseline scenario for the entire period. The results show the comparison between simulating the baseline scenario and the risk scenario in REMS.

According to the results detailed in Table 5.2.2.1, GDP could fall by approximately 0.4% compared to its baseline scenario level at the end of the projection period, external demand being in this case the cause.

The fiscal variables are also affected by this adverse scenario, although less than in the previous shock scenario. At the end of the forecast period, public deficit and public debt are higher than in the baseline scenarios by 0.1 and 1.0 percentage points of GDP, respectively

Table 5.2.2.1. Impact of a 4% fall in the export demand

Cumulated deviations from the base scenario

Deviations accumulated on the baseline scenario

	2016	2017	2018	2019
Real GDP	-0.6	-0.3	-0.4	-0.4
Private consumption	-0.3	-0.1	-0.2	-0.3
Public balance (% of GDP)	-0.1	-0.1	-0.1	-0.1
Public debt (% of GDP)	0.7	0.8	0.9	1.0
Employment (workers)	-0.2	-0.2	-0.3	-0.3
Source: Ministry of Economy and Competitiveness.				

5.2.3. Oil price change

The effects on the main macroeconomic aggregates of a change in oil prices were analysed, considering a deviation from the current scenario with average levels of € 35.8/barrel[10] in 2016 and € 40.8/barrel in 2017 to 2019 and that would become, on average, 10% higher (€ 39.7/barrel in 2016 and € 45.3/barrel during 2017-2019).

Table 5.2.3.1. Assumptions about the oil price (euros/barrel)

	2015	2016	2017	2018	2019
Baseline	47.1	35.8	40.8	40.8	40.8
Alternative scenario	47.1	39.7	45.3	45.3	45.3
Source: Ministry of Economy and Competitiveness.					

This shock was simulated during the four forecast years of the Update in which prices were ten percent higher than in the baseline scenario, to return to their 2015 value beyond the forecast period. The results show the comparison between the baseline scenario and the risk scenario in REMS.

According to the results detailed in Table 5.2.3.2, GDP could be reduced by approximately 0.3 percentage points compared to the baseline scenario level at the end of the projection period, primarily as a result of the higher oil prices.

[10] The euro/dollar exchange rate foreseen in the hypothesis provided in this Update is considered.

Table 5.2.3.2. Effect of a 10% oil price increase
Cumulated deviations from the base scenario
Deviations accumulated on the baseline scenario

	2016	2017	2018	2019
Real GDP	-0.2	-0.3	-0.3	-0.3
Private consumption	-0.1	-0.2	-0.2	-0.2
Public balance (% of GDP)	-0.1	-0.2	-0.2	-0.2
Public debt (% of GDP)	0.3	0.4	0.6	0.8
Employment (workers)	-0.1	-0.3	-0.3	-0.2
Source: Ministry of Economy and Competitiveness.				

6. THE SUSTAINABILITY OF PUBLIC FINANCES

6.1. Long-term budgetary projections

Projections regarding age-related public expenditure, by the Ageing Working Group (AWG) of the Economic Policy Committee (EPC) and the European Commission, are generally made every three years by mandate of the ECOFIN Council. The latest projections published are those contained in the Ageing Report of May 2015[11] ((AR2015) that will include the latest projections made during the second half of 2014.

The updated EUROSTAT demographic projections serve as the starting point for these exercises, together with a macroeconomic scenario created following a common methodology. An essential feature of this methodology is the hypothesis that there will be no policy changes other than those already legally substantiated at the close of the projection exercise. Five public expenditure categories are analysed in this exercise: pensions, healthcare, long-term care, education and unemployment. The last exercise takes as input data EUROPOP 2013 and the European Commission's Spring 2014 Economic Forecast, the most recent ones when the AR2015 was prepared. With this data, baseline macroeconomic scenarios are created[12].

In the case of Spain, the new expenditure projections made by the Ministry of Economy and Competitiveness, were evaluated as plausible in the AWG meeting held on 28th October 2014. Subsequently, the EPC, in its meeting of 18th and 19th February 2015, endorsed the results. In this Update, the impact of pension reforms adopted in 2013, both on sustainability of public finances in the long-term and on macroeconomic prospects, is quantified.

Table 6.1.1 shows national projections approved by the EPC and the effect of the reform on spending.

As it can be seen in Table 6.1.1, the total expenditure is maintained throughout the period at similar levels to those registered in 2013, recording a fall of barely eight tenths between the beginning and the end of the projection horizon.

The main expenditure item is pensions, whose ratio on GDP is also reduced by eight tenths. This reduction is due both to the review of the demographic and macroeconomic forecasts and to the pension system reforms of 2013.

[11] Published as number 3 of 2015 of the European Economy magazine.
[12] Forecast methodology details can be found in European Economy 8/2014.

Table 6.1.1. 2013-60 Projections of ageing-related expenditure

% of GDP

	Increase 2013-2060	2013	2020	2030	2040	2050	2060
TOTAL EXPENDITURE (1+2+3+4+5)	**-0.8**	**25.4**	**25.0**	**23.5**	**24.2**	**25.7**	**24.6**
1. Pension Expenditure	-0.8	11.8	11.8	11.2	11.9	12.3	11.0
Old age and early retirement Pensions [(a)]	0.0	8.3	8.6	8.3	9.1	9.6	8.3
Disability Pensions	-0.4	1.2	1.1	1.0	1.0	0.8	0.9
Survivor Pensions	-0.5	2.3	2.1	1.9	1.9	1.9	1.8
2. Healthcare Expenditure	1.1	5.9	6.2	6.6	7.0	7.1	6.9
3. Long-Term Care Expenditure	1.4	1.0	1.2	1.3	1.6	2.1	2.4
4. Education Expenditure	-0.8	4.6	4.1	3.4	3.1	3.6	3.7
5. Unemployment Expenditure	-1.7	2.2	1.7	1.0	0.6	0.6	0.5
Pro-memoria: Impact of Pension Reform							
6. Pension Expenditure Pre-Reform (AR2012)	3.3	10.4	10.6	10.6	12.3	14.0	13.7
7. Pension Expenditure Pre-Reform (Macroeconomic Scenario)	1.7	11.8	12.5	13.0	14.6	15.8	13.5
8. Savings from 2013 reform (7 - 1)		0.0	0.8	1.8	2.7	3.4	2.5
Pro-memoria: Main Assumptions							
Potential GDP growth [(b)]	1.4	-0.4	1.7	1.7	0.8	1.5	2.2
Growth of Labour Productivity [(b)]	1.4	1.4	0.7	1.4	1.5	1.5	1.5
Male Participation Rate (15-64)	-0.5	79.9	79.5	79.2	79.9	80.1	79.3
Female Participation Rate (15-64)	10.0	68.4	73.5	77.2	79.3	78.9	78.4
Total Participation Rate (15-64)	4.7	74.2	76.5	78.2	79.6	79.5	78.9
Unemployment Rate (15-64)	-19.0	26.5	19.5	12.3	7.5	7.5	7.5
Population over 64/Population 15 to 64	26.4	26.8	30.7	40.2	54.3	62.3	53.2

(a) Including minimum and non-contributory pensions.
(b) The column "Increase 2013-2060" is the 2013-2060 average growth rate.
Sources: Ageing Report 2015, Ministry of Economy and Competitiveness, OECD, UOE and ESSPROSS.

Regarding the assumptions for population and macroeconomics, it is noteworthy the upward revision of the pension expenditure as a percentage on the GDP in 2013, from the 10.4% of GDP projected in the AR2012 up to 11.8%, due to the significant downward deviation of GDP in 2013 compared to the one projected in the AR2012. The other major macroeconomic adjustment derives from the updated Eurostat population projection, EUROPOP 2013. Eurostat currently foresees a long-term stabilisation of the Spanish population at approximately 46 million people, compared to the previous population growth projection of 6 million people between 2013 and 2060. This correction is mainly due to net emigration forecast for the first decade of the projection, which expands its effects throughout the projection horizon. As a result, the labour force and the nominal GDP level are lower in the AR2015 than in the AR2012. The AR2015 also expects a dependency ratio (measured as the proportion between population over 64 years versus population aged 15 to 64) higher in 2050 than in the AR2012 previous year, rising from 26% in 2013 to 62% in 2050. However, the dependency ratio decreases to 53% in 2060, due to both the fact that net emigration of the coming years reduces the number of retirees with pension rights in the 2050s and to high net immigration rate recovery as of 2030. In short, the demographic pressure generates an upward trend in the proportion between pension expenditure and GDP for 2013-50 and bearish pressures as of 2050. Finally, the projected drop in unemployment provides an additional boost to GDP compared to the projected decline in the AR2012, because, although the unemployment rate (from 15 to 74 years) continues converging in the long term to a similar level (7.5%), the baseline in the AR2015 (26.5%) is much higher than that in the AR2012 (20.1%). All these changes in the macroeconomic scenario result in a reduction of the value in 2060 of the pension expenditure GDP ratio of 0.2 percentage points compared to the AR2012.

As for the pension system reforms of 2013, the following paragraphs discuss their contents in detail. The estimated effect of all reforms combined results in an expenditure moderation of 2.5 percentage points of GDP in 2060 (line 8 in Table 6.1.1.) compared to the projections without reform based on the macroeconomic scenario of the most recent ageing report (line 7 in Table 6.1.1.)

Regarding the 2012 Ageing Report, the differences in the pension expenditure on GDP ratio are due to the new demographic and macroeconomic scenario, and to the pension reforms of 2013. Thus, in the latest revision of the Ageing Report (AR2015), pension expenditure in 2013 amounted to 11.8% of GDP, 1.4 percentage points more than in the AR2012, due to the aforementioned downward revision of GDP. However, in the rest of the projection horizon the pension expenditure presents a similar profile, with a slow but steady increase between 2013 and 2050 (+0.5 percentage points) and a sharp drop between 2050 and 2060, especially noticeable in the current revision (-1.3 percentage points) as a result of the effect of favourable demographics in this decade. Thus, in both cases 2060 ends with an expenditure GDP ratio slightly below the baseline level (-0.8 points). This result reflects the main strength of the Index for Pension Revaluation: it tends to stabilise the pension expenditure weight on GDP around its starting point, provided reasonable macroeconomic assumptions and initially balanced Social Security accounts.

Finally, as a result of the population ageing, a health spending increase of 1.1 percentage points is forecasted, slightly lower than that projected in the year 2012 (1.3 percentage points). With regards to long-term care, the projected increase stands at 1.4 points, higher than that projected in 2012 (0.7 percentage points). On the other hand, due to both an ageing population and the falling unemployment rate, spending on education and unemployment will decrease over the period, 0.8 and 1.7 points of GDP respectively (versus declines of 0.5 and 1.1 points projected in 2012).

6.2. Strategy

The deepening on the reform of the pension system

The reform of the public pension system approved on the 1st of August 2011, includes as main measures the following ones: the increase of the statutory retirement age by two years, to 67, phased in gradually between 2013 and 2027; recognition of long contribution histories, in such a way that retirement at 65 is possible with a 100% pension when a contribution period of 38 and a half years is certified; increase in incentives for voluntary extension of working life beyond the statutory retirement age; and use for calculation of the new pension using the contribution bases during the 25 years prior to retirement, as opposed to the 15 years used before the reform.

In 2013 two important reforms were adopted: first, the Royal Decree-Law 5/2013, of March 15th, on measures to encourage the continuity of the working life for older workers and to promote active ageing; and secondly, the Law

23/2013, of December 23rd, regulating the sustainability factor and the index for revaluation of the pension system, which reflects the recommendations made by the Committee of Experts on the sustainability factor in its report dated June 7th 2013.

The Royal Decree-Law 5/2013, among other measures, delays the age for early retirement. For involuntary retirement (derived from termination of employment due to reasons beyond the worker's free will), between 2013 and 2027 the age increases from 61 to 63 years and 33 years of contributions are required (as before the reform). For voluntary retirement, a gradual age increase is expected between 2013 and 2027, from 63 to 65, and a contributory period of 35 years (previously it was 33 years) is required. Partial early retirement access is also restricted by raising the minimum age from 61 to 63 for long work histories (36.5 years or more) and from 61 to 65 for medium ones (between 33 and 36.5 years).

The sustainability factor in Law 5/2013 establishes an automatic link between the amount of new retirement pensions and the increase observed in life expectancy. Its implementation will begin in 2019 without the need for further regulations.

This factor ensures intergenerational fairness, i.e., that the generosity of the pension system is the same for all retirees, regardless of life expectancy of the cohort to which they belong to. It also implies that longevity does not involve risks to the sustainability of the system.

The sustainability factor will only be applied to new pensions, affecting only the income calculated for new pensioners, not the retirement age. The factor will be linked to the changes observed in life expectancy at 67 years of age, taking 2012 as the base year. Its mathematical formulation for a given year can be understood as the proportion between life expectancy at 67 years in 2012 and life expectancy in the given year.

Using mortality tables from Eurostat, the sustainability factor goes from 100% of the pension value for registrations in 2018 to 82% in 2060, in line with life expectancies at 67 from 18.8 years in 2012 to 22.8 years by 2060.

Moreover, the Law 23/2013 replaces updating pensions according to the CPI for the update with a new Index for Pension Revaluation (IPR), which is a structural reform through which the future sustainability of the pension system, i.e. its ability to self -fund, is guaranteed. This index not only neutralises risks that any demographic or macroeconomic shock could cause, but it highlights the necessary correspondence between revenue and expenditure in the system.

The IPR came into force in January 2014 and from that year on, all contributory pensions to the Social Security and Pensions of Retired Civil Servants increase annually with the IPR, which is set annually by the Budget Law.

The IPR is the revaluation rate that allows keeping a balanced budget, taking into account the revenue growth on one hand and the growth in both the number of pensions and the average pension in the absence of revaluation on the other. If the Social Security has a surplus, the IPR formula would admit a greater revaluation. If on the other hand a deficit was observed, the IPR would moderate its growth to correct the financial gap.

To prevent drops in the average pension in nominal terms, the law establishes a floor for the IPR of 0.25%. For symmetry, a ceiling at the inflation rate plus 0.5 p.p. is also set.

To calculate the formula, all revenues and non- financial expenses of the system will be considered, excluding the following items:

- The National Institute of Health Management (known in Spanish as INGESA) and the Institute of Social Services and the Elderly (known in Spanish as IMSERSO) budget.
- Items that do not occur on a regular basis according to the General Intervention Board of the State Administration (known in Spanish as IGAE).
- The contributions and benefits for cessation of activity of self-employed workers.
- On the revenue side, State transfers to non-contributory benefits (except financing of minimums supplements); and on the expenditure side, non-contributory benefits (except minimums supplements).

Overall, and according to the Cohort Simulation Model of the Commission, all measures taken in 2013 have a significant macroeconomic effect. In particular, the effective retirement age increases almost by one year between 2014 and 2060. Until 2027, the effective retirement age increases by almost nine months, as a result of the establishment, in the Royal Decree-Law 5/2013, of more stringent conditions to access early retirement. This increase is in addition to the impact of two years estimated by the reform of 2011. Between 2027 and 2060 the sustainability factor generates an additional increase of 2 months in the effective retirement age.

Consequently, as estimated in the AR2015, the reforms of 2013 have a significant effect on the participation rate, employment and real GDP. Specifically, the participation rate for ages 15 to 74 increases by 1.2 points in 2060 compared to the projected one without the reform and by 2023, the estimated increase already stands at 1 point. On the other hand, this increased participation has a positive impact on employment and therefore, on GDP. So the effect of the reform in 2060 is an increase in employment of 1.9 percentage points and an increase in real GDP of 1.8 percentage points, with respect to the levels of hours worked and GDP projected for 2060 without the reform. In 2025 this increase is already noticeable, with 1 percentage point for the hours worked and 0.9 percentage points for the real GDP.

Consolidation of public finance and Social Security Reserve Fund

Long-term sustainability of public finances is mainly strengthened by the adjustment of the age-related expenditure. The most relevant indicator to assess the long-term sustainability of public finances, the so-called S2, stood in the Debt Sustainability Monitor (DSM) of Autumn 2013, the last one that describes the situation prior to the reform, at 5.6% of GDP, explained in two-thirds by the deterioration in the primary structural balance and, in the remaining part, by the increase in ageing-related costs. This result implied that, for accrued General Government revenue to equal their accrued expenses in the long-term, either an increase of the tax burden should be undertaken, or a reduction of other public spending or a combination of both measures of that magnitude on a permanent basis.

As a result of the revisions of the budget balance and the pension reforms undertaken by Spain in 2013, the S2 sustainability indicator improved significantly. On one hand, the Commission's Autumn Forecasts for 2015 foresee a primary structural balance of 0.6% of GDP for 2015, more favourable than that forecast in the autumn of 2013 (-2.2% of GDP in 2015). The primary structural balance at the end of the forecast period (2017) stands at 0.2% of GDP. This balance is kept constant throughout the projection horizon of S2 in the "no policy change" scenario. In addition, the debt baseline is slightly lower in the most recent forecast: 101.3% of GDP in 2016 and 100.4% in 2017, compared to 104.3% of GDP in 2015 in the autumn of 2013 one. Both factors contribute to significantly reduce the Initial Budget Position component of S2.

As a result of the pension reforms of 2013, the Long Term Change (of the ageing cost) component has contracted by almost 3 points of GDP, reducing the value of the S2 indicator, both because of the expectations of employment and GDP increase, and particularly because the cost containment effort. Thus, the S2 indicator went from requiring a fiscal adjustment of the primary structural balance to meet the intertemporal budget constraint over an infinite horizon of 5.6 percentage points, to 0.1 percentage points of GDP.

Table 6.2.1. Summary of S2 indicator

% of GDP

	AR2012 / Autumn 2013	AR2015 / Autumn 2015
S2	**5.6**	**0.1**
Initial Budgetary Position	3.8	0.8
Long Term Change	1.9	-0.7
Sources: Debt Sustainability Monitor (Autumn 2013) and Fiscal Sustainability Report 2015. European Commission No Policy Change scenario.		

On the other hand, it should be noted that due to the surpluses accumulated by the Social Security in the past, the pension system has reserve assets available to meet future needs for contributory benefits. Thus, from its inception in 2000, subsequent allocations to the Social Security Reserve Fund allowed it to accumulate € 35.0 billion (3.24% of GDP) in December 2015, at market value.

This amount is after deducting the provisions used to pay pensions, € 47.2 billion up to 2015 under the specific regulations.

The cumulative annualised return of the Reserve Fund since its creation at the end of 2015 stands at 4.79% and the annual return in 2015 at 1.05%. The management policy of Reserve Fund assets of the Social Security, held in 2015, is based on principles of security, profitability, risk diversification and adaptation to the time horizon of fund inflows and arrangement thereof for coverage of contributory pensions.

Healthcare and pharmaceutical expenditure control

Royal Decree-Law 16/2012 of April 20th, on urgent measures to guarantee the National Healthcare System and improve the quality and security of the benefits has allowed tackling the strong debt that the health system carried in late 2011 and consolidating and developing the healthcare provided by optimizing the available resources.

Thanks to the abovementioned Royal Decree-Law and its implementing regulations, welfare benefits have been maintained and improved both in quantity and quality. Despite the complex economic context in recent years, it has been possible to keep the healthcare public expenditure at € 61.7 billion in 2013, last year reflected in the Public Health Expenditure Statistics (known in Spanish as EGSP). One of the factors that contributed the most to this reduction in spending was the successful implementation of the various pharmaceutical expenditure efficiency measures.

The total savings achieved by the different rationalisation measures of the public expenditure in pharmacy since the implementation of the measures included in healthcare reform in July 2012 up to February 2016, has exceeded € 5.8 billion. To achieve this important level of efficiency, the following measures have been decisive, among others:

- the implementation of new standards for the review of the drug prices system (adopting measures that favour price competition: the system with homogeneous grouping of drugs, applying lower costs and prices),
- the application of cost-effectiveness criteria in the decisions of public funding of drugs,
- the constant update of the Official Catalogue of Names of the NHS pharmaceutical provision in the Interministerial Commission for Pharmaceutical Prices,
- the adoption of policies to encourage the prescription of generic drugs,
- the promotion of presentations adapted to the duration of the treatments, thereby avoiding unnecessary drug accumulation,
- the application of the efficiency principle in the prescription of drugs in the NHS and the improvement of pharmaceutical information systems (prescription and consumption monitoring tools through prescription and in hospitals),

- the creation of a support tool to promote sustainability and rationalisation of the pharmaceutical and healthcare spending of the National Health System, which includes the setting of an annual maximum limit that depends on the potential growth and the signature (November 2015) of a Collaboration Protocol between Farmaindustria (the association of the pharmaceutical industry), the Ministry of Health, Social Services and Equality and the Ministry of Finance and Public Administrations, to involve the pharmaceutical industry in the rationalisation of expenditure and ensure the sustainability of pharmaceutical and healthcare spending,
- the increased information transparency in health spending, promoting its monitoring and control by setting a mechanism that will require the Regional Governments to submit detailed information of their pharmaceutical and healthcare spending on a monthly basis. This information will be published by the Financial and Economic Information Central in order to allow the continuous and ongoing evaluation of the elements involved in the evolution of pharmaceutical and healthcare product spending.

Another positive influence on reducing expenditure has resulted the revision of the contribution system of users in the out-patient pharmaceutical provision, which has been replaced by a new, fairer and more progressive system in which fairness based criteria based on the income of users, their age and state of health, are taken into consideration, contributing more those who have more and protecting disadvantaged groups such as long-term unemployed and their beneficiaries, who for the first time are exempt from paying for drugs.

As relevant data, the National Health System reported in 2015, for the first time, a percentage of packages of generics consumption of 49% compared with the 34.16% registered in 2011. These data bring our country close to the European average (55%) in the dispensing of generic drugs.

Furthermore, pharmaceutical expenditure with prescription from the NHS stood at € 9.8 billion in 2012, € 9.2 billion in 2013, € 9.4 billion in 2014, and € 9.5 in 2015 with declines of -12.25%, -17.53%, -15.88% and -14.37% compared to 2011.

The financing of 178 pharmacological innovations during the Term in office was possible thanks to the introduction of new funding models for many of these drugs, so their budgetary impact on the accounts of the NHS was limited. Special mention deserve the arrangements applied to new direct acting antivirals, which allowed treating 40,000 patients with hepatitis C at an average cost significantly lower than the one recorded in other Member States of the EU, and well below the one incurred in the United States for the same treatments.

Another measure that has achieved significant savings has been the implementation of the Centralised Purchase Platform in 2012.

Significant benefits are being obtained from this platform for the NHS which will continue in the coming years, especially for patients, professionals and suppliers of the system, since the quality of the acquired products increases through their technical improvement and access equity, by means of standardisation and homogenisation. At the same time, the Platform has established a market stability scenario for suppliers, applying economies of scale to drugs and health products supplies, as well as the Framework Agreements for the selection of vaccine suppliers. Regional Governments can voluntarily join in these Agreements.

As a whole, the estimated savings between July 1st 2012 and December 31st 2015, for the implementation of the various efficiency measures included in the healthcare reform and other measures of pharmaceutical and health policy, being reflected in the Ministry of Health, Social Services and Equality records reached € 9.256 billion.

In the Human Resources section, the actions aimed at achieving greater effectiveness and efficiency both in the training of healthcare professionals and in the management of the human resources needs in the health sector in the medium and long term by the Public Administrations deserves a special mention. These measures are, on one hand, the reform of the Specialised Healthcare Training system through the implementation of a Backbone model, (which stems from the approval of RD 639/2014 of July 25th), and on the other, the creation of a State Register of Healthcare Professionals (which stems from the publication of RD 640/2014 of July 25th).

The backbone training model will favour an overall view of the different specialties, which will stop being pockets isolated from one another, favouring, through the re-specialisation, the super specialisation (using specific training areas) the mobility and competence of professionals, as well as adaptation to the needs of each healthcare system.

In terms of innovation, the Decrees favour educational scientific activities both in the training period of the specialty and through the specific training areas, both for having as one of its fundamental objectives the high specialisation (this requires a high competency level linked to innovation, development and research and the necessary health system response to claims that arise from scientific advances) and for the need to respond to new health care needs. From the employment point of view, the labour market becomes more flexible by providing specialists with a more extensive training that will allow them to adapt to the ever changing needs of the healthcare system from all points of view, welfare, organisational and scientific, and will facilitate mobility in the European area as it is designed as a system fully compatible with the design of the health professions of Annex V of Directive 2005/36/EC of professional qualifications.

Thus, the development of the Backbone Specialised Training model will imply the integration of educational innovation elements and the use of information technology, so that it will make it possible to enhance the quality of our healthcare system, increase patient safety and improve the effectiveness, quality and efficiency of the entire system.

In addition, the State Register of Healthcare Professionals will improve the efficiency of the NHS in terms of management of human resources, as it will provide health Public Administrations reliable information to facilitate the improvement of planning of healthcare professionals needs at regional level and the coordination of human resources policies. Data availability on health professionals in the public and private health system, will improve the requirement planning model, though it is already good, as recognised by the EC, which includes the methodology applied by Spain as one of the seven best practices in Europe, (Handbook On Health Workforce Planning Methodologies Across EU Countries-2015). The improved human resources policies in the National Health System field will affect approximately 600,000 professionals, i.e., about 25% public employees of the Public Administrations in Spain.

On the other hand, the approval of RD 639/2015 of 10th July, regulating the Accreditation Diplomas and Advanced Accreditation Diplomas should be valued as a measure aimed at consolidating the value of continuous training as a strengthening element of the professional capacity in solving the practical problems of a given functional area. This recognition helps to increase the quality of continuous training, boosting the relationship and coherence of continuous training activities and setting up education programmes that strengthen paths linked to the work position. This way, the recognition needs of the new skills and competencies are adapted in a viable way, in constant progress in the health sciences field, since they allow introducing rationality criteria in the proliferation of specialties and, at the same time, recognising the professional differentiation using a pathway that is simpler, more logical and more closely related to greater efficiency criteria.

On the other hand, the reform of the common portfolio of welfare services has mainly consisted of a precision and updating based on scientific evidence, effectiveness and efficiency criteria and on equity conditions for the population protected by the NHS. Finally, the user contribution has also been incorporated in the case of the supplementary common portfolio.

Within this framework, the surgical implant catalogue (included in the basic common portfolio and in force since July 2015) was updated and the updated catalogue of the rest of the orthoprosthetic services is being formalised in collaboration with the Regional Governments and the Network of Agencies for Technology and Health Benefits Assessment and with the participation of experts from scientific societies of the areas of interest. Both catalogues specify the maximum amount of funding and the average life of the different products used to standardise the prices of the orthoprosthetic products dispensed on the NHS.

In 2011, the situation in the pharmaceutical sector could be summarised as the so-called innovative companies strongly focusing on the development of new drugs of the highest unit price and indicated for clearly defined patient subpopulations. In the period 2012-2015, this trend dramatically increased and put great pressure on the price management and financing conditions of drugs. Guaranteeing the effectiveness of universal access to pharmaceutical services forced to set aside horizontal actions such as those launched in the terms in office VIII and IX. In both, the pharmaceutical expenditure containment policy only introduced general price reductions (2004 and 2005) and the application of general discounts (6th Additional Provision of the Law on Guarantees and rational use of drugs and healthcare products, Royal Decrees 4/2010, 8/2010 and 9/2011).

The plurality of new drugs was addressed case by case, performing comprehensive analysis and intensive negotiations with the responsible companies in order to combine the companies' interests and the sustainability needs of the NHS. As already indicated, the measures results resulted in significant savings and, at the same time, entry into the NHS funding of the vast majority of pharmacological innovations of the period (178).

Streamlining of the long-term care system

With Law 39/2006 of December 14th, the Autonomy and Long-Term Care System (known in Spanish as SAAD) was launched in order to promote personal autonomy and guarantee care and protection for dependant people throughout the country. The system includes the cooperation and participation of all Regional Governments, ensuring equal treatment for all dependent citizens, regardless of their place of residence.

The public spending decrease context, driven by the economic crisis suffered in Spain, required the Government's approval of Royal Decree-Law 20/2012 of July 13th, on measures to guarantee budget stability and promote competitiveness, establishing, among other measures, a decrease of the maximum amount of economic benefits for family care; a reduction of the amounts corresponding to the Minimum Level of guaranteed protection and the delay in the incorporation of new moderate dependents into the Long-term Care System until July 2015.

This Royal Decree was the result of the Agreement reached with the Regional Governments within the Territorial Council of the System for the Autonomy and Long-Term Care in its plenary meeting held on July 10th 2012.

The adopted measures can be grouped into three blocks:

- A first block on the amendment and simplification of the assessing process for dependence situations, service and benefit intensities, backdated payment of economic benefits and postponement of the effectiveness of Grade I. This block also includes amendments in the maximum amounts of the economic benefit for family care and its effects on the amounts of the minimum level, and the suspension of the agreed Level.
- A second block referred to the modification of the determination of the economic capacity and contribution by the beneficiary.
- To round up the measures, the third block suspends the Central Government obligation to pay the Social Security for non-professional caregivers of

people in situation of dependency in the family, maintaining the Social Security Special Agreement.

The savings from these measures in the total set of the System for the Autonomy and Long-Term Care known in Spanish as SAAD (Central Government and Regional Governments) for the financial years 2012, 2013 and 2014 amounted to € 2.3 billion, with the following breakdown:

- In the first block: € 490 million in 2012 (€ 425 million in the Central Government and € 65 million in the Regional Governments), € 439 million in 2013 (€ 251 million in the Central Government and € 188 million in the Regional Governments) and € 168 million in 2014 (€ 68 million in the Central Government and € 100 million in the Regional Governments). € 1.1 billion in total.
- In the second block: € 339 million in 2013 (all in Regional Governments) and € 403 million in 2014 (all in Regional Governments). € 742 million in total.
- In the third block: € 109 million in 2012 (Central Government) and € 330 million in 2013 (Central Government). € 439 million in total.

Therefore, the sustainability measures adopted in the SAAD in 2012 allowed achieving the planned budget saving objectives for the periods 2012-2013 and for 2014 and 2015, without reducing the quality of care for dependents, and also respecting the implementation schedule provided for in the Law, completed in July 2015[13].

The transparency and the benefits control also improved through an information system that accurately reflects the work done by the Regional Governments.

As a result of these improvement measures, the System for Autonomy and Long-Term Care has achieved up to February 29th 2016 in comparison to December 31st 2011, the following results:

- **More beneficiaries with contributions.** There are 801,847 beneficiaries, 63,260 more than in 2011.
- **More new beneficiaries joining the system.** 499,180 new beneficiaries of contributions joined the system. 62.25% of the current beneficiaries joined the system in the last four years.
- **Fewer people waiting to receive benefits.** The number of people waiting to receive the benefit, excluding the Grade I beneficiaries that joined in July 2015, fell by 172,443, 56.36%.
- **More professional services.** The recognition of Long-Term Care Professional Services represents 64.27% of all recognised contributions and economic

[13] The constitutionality of the reform was endorsed by the Constitutional Court. The Sentence rule, dated February 4th 2016 (March 7th Spanish Official Gazette), in the unconstitutionality appeal no. 1983/2013 brought by the Generalitat de Catalunya against Royal Decree Law 20/2012, of July 13th, backed up the Government of Spain in all improvement measures of Law 39/2006 of December 14th, on the Promotion of Personal Autonomy and Care for Dependent people.

contributions by 35.73%. Compared to 31st December 2011, professional services increased a total of 9.67 percentage points.

- **More employment.** There was an increase of 29,882 new Social Security covered workers. The total figure amounts to 368.002 affiliations, the highest figure since establishing the law.
- **More coverage:** The coverage rate for the consolidated grades (Grade III, major dependent and Grade II severe dependents) rose from 71% in 2011 up to 85.47%. It increased by over fourteen percentage points since 2011. For Grade I (moderate dependents) whose full integration took place in July 2015, after eight months, the coverage rate stands at 28.78%

In short, a more transparent, fairer and supportive model was set up; it boosted job creation; the regulation was simplified, ordered and updated adjusting the contributions to the real needs and different degrees of dependency, prioritising the professional services and ensuring the uniqueness of the provision of care in the family as law 39/2006 itself envisaged.

6.3. Contingent liabilities

Directive 2011/85/EU on Transparency of the Public Administrations financing and global scope of implementation of the budgetary frameworks requires that certain information on public guarantees and other liabilities outside the balance sheet of the General Government to be published in October or December of each year.

Table 6.3.1 shows the breakdown of the guarantees by the different levels of Government.

As it can be seen, the Central Government provided a percentage in excess of 95% of the guarantees and in recent years mainly as endorsements. In order to detail, even only partially, this information on guarantees, the latest available information on the guarantees granted by the General State Administration, referring to 31st December 2015, is presented below, although as shown in the table notes, it is not fully consistent with the data in Table 6.3.1.

i) **Guarantees from Royal Decree-Law 7/2008 on Urgent Economic and Financial Measures of the Concerted Action Plan in Eurozone Countries.** In Article 1, this regulation authorised the granting of State guarantees to any issues made from credit institutions after its coming into force. The outstanding balance of this concept is € 2.9 billion, a figure well below the € 8.7 billion registered in December 2014.

ii) **Guarantees for issues of the Electricity System Deficit Securitisation Fund,** whose most recent regulation is in Royal Decree-Law 6/2010 of 9th April. The outstanding balance at the end of 2015 stood at € 20.0 billion, below the € 22.3 billion registered in December 2014.

iii) **Guarantees for issues of the European Financial Stability Facility**, by virtue of Royal Decree-Law 9/2010, of 28th May, for an amount of € 37.9 billion, slightly below the € 39.1 billion registered at the end of 2014.

iv) **Guarantees for issues of Securitisation Funds for SME Financing**, regulated in Article 55 of Law 17/2012, of 27th December, on the Spanish National Budget for 2013: its outstanding balance is € 273 million, below the € 938 million registered at the end of 2014.

v) **Guarantees for issues of the Fund for Orderly Bank Restructuring (FROB)**, created by virtue of Royal Decree-Law 9/2009, on bank restructuring and strengthening of credit institution equity, which shows an outstanding balance of € 3.0 billion, slightly above the € 2.5 billion registered a year earlier.

vi) **Guarantees for issues of the Management Company for Assets from the Banking Sector Reorganisation (Sareb),** created by virtue of Law 9/2012, of 14th November, on the restructuring and shutdown of credit institutions, whose outstanding balance is € 43.5 billion, compared to the € 46.4 billion registered on 31st December 2014.

vii) **Guarantees to non-classified institutions,** with an outstanding amount of € 312 million, below the € 519 million registered in 2014.

Summarising, the total risk assumed by the State for guarantees amounted to € 107.9 billion on the 31st of December 2015, and its evolution explains an important part of the total contingent liabilities decrease in 2015.

Table 6.3.1. Outstanding balance of General Government guarantees (*)

Million euros

Outstanding amount of guarantees granted by Public Administrations	2010	2011	2012	2013	2014	2015
Total General Government						
One-off guarantees						
Total stock, excluding debt assumed by government	**137,713**	**159,567**	**218,179**	**193,152**	**133,627**	**102,955**
of which: Public corporations	66,069	81,986	103,175	91,108	74,048	53,538
Financial corporations	132,311	153,646	212,742	188,277	129,585	99,723
Guarantees granted in the context of financial turmoil	59,506	64,659	105,093	95,604	55,090	46,385
Standardised guarantees						
Total stock	0	0	0	0	0	0
Central Government						
One-off guarantees						
Total stock, excluding debt assumed by government	**132,809**	**154,090**	**213,124**	**188,585**	**129,842**	**99,795**
of which: Public corporations	65,569	81,486	102,675	90,609	73,557	53,065
Financial corporations	132,311	153,646	212,742	188,277	129,585	99,723
Guarantees granted in the context of financial turmoil	59,506	64,659	105,093	95,604	55,090	46,385
Standardised guarantees						
Total stock	0	0	0	0	0	0
Regional Governments						
One-off guarantees						
Total stock, excluding debt assumed by government	**3,754**	**4,273**	**3,994**	**3,608**	**3,024**	**2,500**
of which: Public corporations						
Financial corporations						
Guarantees granted in the context of financial turmoil						
Standardised guarantees						
Total stock	0	0	0	0	0	0
Local Entitites	2,010	2,011	2,012	2,013	2,014	2,015
One-off guarantees						
Total stock, excluding debt assumed by government	**1,150**	**1,204**	**1,061**	**959**	**761**	**660**
of which: Public corporations	500	500	500	499	491	473
Financial corporations						
Guarantees granted in the context of financial turmoil						
Standardised guarantees						
Total stock	0	0	0	0	0	0

(*) Notes:

1. These are only "one-off guarantees".

2. As per the findings of the "Task Force on the implications of Council Directive 2011/85 on the collection and dissemination of fiscal data", and the "Total Stock of guarantees, excluding debt asumed by government", neither guaranteed debt of units included in the Public Administration Sector (S.13) or EFSF guaranteed debt is included

3. The guaranteed amount refers only to the principal and does not include accrued interests.

Source: Ministry of Finance and Public Administrations.

7. THE QUALITY OF PUBLIC FINANCES

The evolution of public finances in recent years has been characterised by the ambitious fiscal consolidation process undertaken by all Spanish Administrations. Thus, in the period 2011-2015, the Public Administrations reduced their net borrowing by 4.3 points of GDP, from a deficit of 9.3% in 2011, down to 5% in 2015 (excluding the net cost of the restructuring of the banking sector). This implies a fiscal adjustment of approximately € 45.3 billion.

With the exception of the Social Security subsector, which deserves a specific analysis, all Public Administrations made a significant fiscal adjustment since 2011, although with varying intensity degrees.

Table 7.1. Table 7.1. Fiscal Adjustment 2011-2015. Subsector breakdown

% of GDP

	Including 2009 settlements of the territorial financing system in year 2011				Excluding 2009 settlements of the territorial financing system in year 2011			
	2011	2015 (A)	Change		2011	2015 (A)	Change	
			pp GDP	%			pp GDP	%
Total General Government	**-9.3**	**-5.0**	**4.3**	**-45.6**	**-9.3**	**-5.0**	**4.3**	**-45.6**
Central Government	-3.3	-2.5	0.7	-21.9	-5.4	-2.5	2.9	-53.0
Regional Governments	-5.1	-1.7	3.5	-67.2	-3.4	-1.7	1.7	-50.0
Local Governments	-0.8	0.4	1.2	-	-0.4	0.4	0.8	-
Social Security	-0.1	-1.3	-1.2	-	-0.1	-1.3	-1.2	-

(A) Advance.

Source: Ministry of Finance and Public Administrations.

In order to assess the fiscal consolidation effort carried out by subsectors, it is essential to consider that in 2011 an extraordinary one-off circumstance happened. As a result of what would later be a significant overestimation of tax revenues, the financing systems of the Territorial Administrations in 2009 assigned to these resources € 23 billion above what, once the actual collection in 2011 was known, it corresponded to them,. The settlement of this difference in favour of the Central Government took place in 2011. However, it was a mere accounting adjustment between the Central Government and Territorial Administrations balances without this involving, de facto, a variation in the revenue collection or the level of public spending in each of the subsectors. This circumstance is reflected in the table above.

Excluding the financing system settlement effect of financial year 2011, the largest fiscal adjustment was made by the Central Government, reducing its public deficit by 2.9 points of GDP, followed by the Regional Governments, which lowered their negative balance by 1.7 points of GDP. Taking 2011 as a starting point, the public deficit adjustment as a percentage was similar in the Central Government and in the Regional Governments, both cases being close to 50%. This makes clear that the relative effort made by both sectors was balanced in this period.

On the other hand, Local Corporations also contributed to correct the public deficit, registering an improvement of 0.8 points of GDP in their budget balance, rising from a 0.4% deficit to a surplus for the same amount. The subsector's improved fiscal position caused its adjustment to be much lower than that carried out by the Central Government and Regional Governments.

Finally, the Social Security should be mentioned, as has its own dynamics in terms of public revenue and expenditure evolution. Thus, the budget balance is determined by the following factors: the evolution of social security contributions, severely affected by the Spanish labour market deterioration; the growing number of pensioners and average pension; as well as the decision, taken by the Government as the backbone of its social policy, to increase the value of pensions every year, even in financial years in which the price evolution was negative. These factors resulted in the fact that the Social Security increased its imbalance between 2011 and 2015 by 1.2 points of GDP. For this reason, the General State Budget Act for 2016 included a provision to be carried out in the framework of *Toledo Pact*, an analysis that strengthens the Social Security's funding sources, which looks in depth into the different nature of the contributory and non-contributory benefits.

The above analysis by subsector shows that the Spanish Public Administrations made a significant adjustment in their public finances during the period, reducing the deficit recorded at the end of 2011 by almost half, and this decisively contributing to the economic recovery and job creation, which is the government's main concern.

When analysing the adjustment undertaken by expenditure according to the COFOG classification, it can be seen that a differential adjustment was made in the expenditure policies in order to preserve social spending. Indeed, the function that supported a greater spending adjustment is "recreation, culture and religion activities", followed by "economic affairs", "housing and community services", as well as "environmental protection". Conversely, the "social protection" policy that includes unemployment benefits and pensions, not only did not fell in the analysed period, but it actually increased (€ 4.1 billion more were allocated in 2015 to this function than in 2011, representing a growth rate of 2.3%). Likewise, an effort was made to keep the "health" and "education" policies that, in fact, are already at pre-crisis spending levels. Thus, health spending in 2015 was approximately € 5.5 billion higher than in 2007, while the increase in education spending is estimated to be just over € 200 million.

An analysis of public spending as a proportion of GDP shows the efforts made by the economy as a whole. In this sense, it can be concluded that the Public Administrations expenditure is similar to that recorded in 2007. Moreover, expenditure per capita on education and health, two basic policies in the Welfare State, is at similar levels to those existing at the beginning of the crisis.

The above shows that the fiscal policy developed managed to combine an effort of fiscal consolidation that halved the public deficit with the recovery of the levels of public resources applied to the provision of essential public services in which it was during the period prior to the crisis.

In Spain's current economic situation, a key objective of fiscal policy is to achieve a combination of income and public expenditure that promotes economic growth and job creation while allowing to continue meeting our fiscal consolidation commitments.

On the expenditure side, the quality of public spending will continue to improve and all levels of administration will be modernised while it is considered necessary to aim at having an expenditure structure that prioritises investments in education, research and development, while continuing the investment in social protection.

On the income side, 2016 will complete the tax reform implementation, which boosted growth and at the same time dynamised the tax collection. In addition, during this financial year, the General Tax Act reform was launched, and it includes a set of new features that will provide more agility to the tax system, with the aim of improving its efficiency and facilitating the fight against fiscal fraud.

7.1. Public spending quality: Dynamic Strategy of Public Administrations expenditure review.

7.1.1. State budget expenditure review

Spain is characterised by a level of public spending, measured as a percentage of GDP, below the EU average and with a high social spending percentage. Thus, two thirds of the Public Administrations total expenditure is directed to education, health and social protection, including pensions and unemployment benefits in the latter.

Given the characteristics of public spending in Spain and in a context of a budgetary restraint as demanding as the current one, it is essential to boost the actions aimed at fostering the spending quality, strengthening institutions and budgetary procedures that allow to effectively articulate the roles of Budget forecasting, planning and control and the efficient use of public resources. A key element of these procedures is the establishment of mechanisms allowing regular assessment, justifying their need, of the public spending programmes, the forecasted objectives and the action lines and means established to achieve them.

In this regard, an Expenditure Review Dynamic Strategy was implemented in recent years, developed in two complementary levels. In the first place, actions of a horizontal nature, including specially expenditure review initiatives referred to in the CORA, which achieved a restructuring and rationalisation of the Spanish Public Administration, improving its efficiency. In the second place, sectorial reviews are included, focusing on priority social policies such as health (discussed in the next section), education and pensions.

In the process of analysing the Public Administration primarily developed by the CORA, a new initiative is included: the State Budget Review for 2017. This plan provides continuity, extends and specifies the evaluation of public spending in the General State Administration, with the objectives to identify gaps, unjustified or unnecessary expenses, duplicities and fiscal spaces that help to improve efficiency in the allocation and use of public resources.

In this regard, as a preparatory framework for the General State Budget elaboration procedure for 2017, a comprehensive and thorough expenditure analysis made by the General State Administration is going to be performed. The main objective of this review process will be the justification of each budget item to then identify and quantify existing short-term trend margins in the different action areas.

7.1.2. Expenditure Review in the Regional Governments budget

Sustainability of healthcare spending

The starting point of this initiative is the formation of a working group by means of the Council for Financial and Fiscal Policy (known in Spanish as CPFF) Agreement 1/2014 at its meeting held on 26th June 2014. In July of that financial year a comprehensive and intensive collection work of various initiatives aimed at the sustainability of regional public spending was carried out. This work resulted in a catalogue of more than 450 measures proposed by the Regional Governments, presented in an orderly and systematised way on 17th July 2014.

Particularly noteworthy is the effort made in the pharmaceutical field, where the official prescription from the National Health System reported a significant slowdown, from a 6.9% growth in 2008 to an 8.8% reduction in 2011, 12.26% in 2012 and 6.01% in 2013. The public spending per official prescription of the National Health System for 2014 recorded a reduction of 15.9% over the spending of financial year 2011, before the implementation of reforms. In turn, it is noteworthy that generics consumption continues to increase and currently accounts for 49% of invoiced packaged drugs, compared to the 34.1% in 2011. In addition, the fact that almost 2,651 marketed drugs have decrease their prices and the encouragement to prescribe generic drugs abovementioned also contributed to pharmaceutical savings.

The effort achieved in this expenditure item in the abovementioned period, is primarily the result of the measures adopted in Royal Decree Law 16/2012, which have an impact on the reduction in pharmaceutical expenditure from the supply side, with the price reduction, the enhanced use of generics, the application of reference prices system and the reduced funding for drugs for minor symptoms. As for the demand side, public spending on drugs has been limited since 2012 by means of new contributions from the user side. These contributions are more equitable and fairer, arranged in such a way that users with more means contribute more, while protecting users with lesser means. This measure also has a discouraging effect on the unnecessary accumulation of drugs at home.

However, a slight increase in spending on official prescription from the National Health System was observed in 2014, standing at 1.95% over the previous financial year. In turn, the pharmaceutical and healthcare product spending with prescription or equivalent dispensation also experienced a 1.4% growth in 2015. In this regard, it is necessary to contextualise these spending increases in a scenario in which such a significant reduction had been carried out in the previous three years. Thus, spending on drugs and health products with prescription grew in 2014 and 2015 but at a pace well below that observed in the period immediately preceding the implementation of regulatory changes. It should also be noted that this cost containment effort occurred in the presence of other factors that increase demand, such as aging population. However, the expenditure increase observed may also reflect that as of 2014 the stimuli introduced through the abovementioned regulatory changes could have achieved much of their maximum impact level.

As for the hospital pharmaceutical spending, a 26% increase was observed in 2015 over the previous financial year, largely explained by the extraordinary impact on the expenditure evolution that the purchase of drugs for the chronic hepatitis C treatment had in 2015. Excluding this effect, the hospital pharmaceutical spending growth would have reached 4.5%.

All this demonstrates how advisable it is to adopt the necessary measures to ensure sustainability of pharmaceutical spending, such as those that have been addressed and that are being currently launched.

Nevertheless, in response to the Recommendation of the European Council published in June 2014 on the National Reform Programme, indicating the need for a systematic review of spending at all levels of the government and improving the rationalisation of health and pharmaceuticals expenditure, it is necessary to make a special mention to the steps that are being taken since 2014 in order to improve the evaluation and control of regional spending in the healthcare sector. In addition, it is a sector with a special increasing pressure, so the appropriateness of making an adequate and especially strict monitoring in this area is evident.

Organic Law 6/2015 of 12th June, amending Organic Law 8/1980 of 22nd September, on financing of Regional Governments and Organic Law 2/2012 of 27th April on Budgetary Stability and Financial Sustainability, through its first final Provision provides a new wording to Title VII of Law 14/1986 of 25th April on General Health. Among other issues, it progresses on the of transparency and sustainability principles of healthcare spending, as well as on the study and detailed monitoring of pharmaceutical and health spending.

With this, a series of obligations to supply regular information to the Ministry of Finance and Public Administrations are set in Article 106. On the other hand, Articles 114 and 115 establish an instrument for the sustainability of pharmaceutical and healthcare products spending of Regional Governments and the consequences of overcoming the commitments implicit in this instrument.

The publication of statistics in this area is an important milestone. The first publication took place on 26th February, with data for the period ranging from June to October of 2015 and 2014. The second publication took place on 31st March with data for November and December of the abovementioned financial years, and the last publication was made on 22nd April, incorporating data from January 2016 and 2015.

These data allow analysing the spending evolution during the entire period published facilitating their interpretation and enabling the adoption of specific corrective measures. Thus, in 2015 the total spending on pharmacy and health products (€ 20.366 billion) shows an increase of 9.5% compared to 2014. The hospital pharmaceutical spending (€ 6.589 billion) is the item growing the most out of the three published (26%), mainly due to the extraordinary impact of the spending in drug acquisition for the chronic hepatitis C treatment made this financial year (excluding such spending, the increase would be 4.5%). The spending on pharmaceutical and healthcare products with prescription or dispensation in 2015 (€ 9.793 billion) increased by 1.4% compared to 2014. Finally, spending on health products without prescription or dispensation amounted to € 3.983 billion (7.2% higher than in 2014).

The dissemination of these data is an important milestone in the information available on this subject, since it will allow having public information on a novel way with regards to:

- Hospital pharmaceutical spending, in terms of real accrued expense, in addition to the one available in terms of the Laboratory Sale Price.
- Pharmaceutical and healthcare product spending with prescription or dispensation, also in terms of accrued expense.
- Health product spending, on which no public information was available so far

As an element to highlight, the information improvement foreseen by the reform facilitates monitoring the spending in the health and pharmaceutical sector, including hospitals, which previously had no comparable information in terms of accrued expense.

In accordance with the CDGAE Agreement of 31st March 2016, the distribution of the FLA funds for the second quarter of 2016 is conditional to the adherence to the instrument for the sustainability of health and pharmaceutical expenditure.

Thus, the Regional Governments adhering to the instrument undertake to ensure that such expenses, representing a very significant percentage of expenditure on transfers and on current goods and services, evolve below the applicable reference rate for the spending rule. Likewise, they shall be subject to limits on health spending that will be monitored and evaluated. Thus, the y-o-y variation in its pharmaceutical and healthcare product expenditure may not exceed the Spanish economy medium term GDP reference rate, consistent with the spending rule under the Organic Law on Budgetary Stability and Financial Sustainability, a growth set at 1.8% for the financial year 2016.

In case of breach the Regional Government:

- May not approve the complementary services portfolio or provide services other than those in the common portfolio of system services
- Its access to economic resources made by the General State Administration in health matters shall be subject to the report provided for in Article 20.3 of the LOEPSF

Likewise, a number of favourable consequences are also envisaged, such as compensation by the industry, in case of exceeding the foreseen rates. Such compensations, which may be monetary, are contained in the protocols referred to below.

The regulatory amendments are complemented with different collaboration and cooperation actions with the Regional Governments and associations representing business health sectors. This will allow evaluating the elements involved in the evolution of pharmaceutical and healthcare products spending, in order to anticipate the necessary steps to ensure the sustainability of healthcare spending, and together with the expenditure quality improvement measures in this area.

In this sense, since mid- 2014 a series of works have been conducted, together with the Ministry of Health, Social Services and Equality and the leading industry players in order to improve efficiency, sustainability and quality of public health services. The collaboration protocol signed on 4th November 2015 between the Ministry of Finance and Public Administrations, the Ministry of Health, Social Services and Equality and Farmaindustria stands out in this area. The formal establishment of the monitoring committee provided for in the protocol was carried out last 6th April. The particulars of the actions entrusted to the monitoring committee to promote spending sustainability on original pharmaceuticals was addressed in this same meeting.

The content of this protocol reinforces the innovation chain and contributes to the healthcare and pharmaceutical expenditure control, promoting an efficient use of resources. It also contains elements that stimulate the competitiveness of the health system and specifies certain lines of action to promote efficiency in the field of pharmaceuticals. These measures, as well as those that may arise in relation to generic drugs, health products or other health expenditure is estimated to record annual savings of approximately € 1 billion.

The same Recommendation mentioned above indicated that this set of actions had to be reconciled with measures that intensified the coordination between the various types of assistance, while preserving accessibility for vulnerable groups.

In this sense, additional mechanisms to support liquidity of the Regional Governments, both the FLA programme and the extinct Supplier Payment Mechanism (in its third phase) have been providing a special treatment to Essential Public Services and entities of the so-called Third Sector.

Restructuring of entities

Finally, also within the scope of the spending review, and in connection with the abovementioned Recommendation, the instrumental public sector staff reduction in the Regional Governments and the Regional Governments' adaptation of the measures foreseen in the CORA report also stand out. The regulatory instruments used to carry out the processes of Reorganisation of the Regional Public Sector were the Agreement 1/2010, of 22nd March, on the Council for Financial and Fiscal Policy on sustainability of public finances 2010/2013 and the Agreement 5/2012, of 17th January, of the Council for Financial and Fiscal Policy.

As for its impact the following should be highlighted:

- The restructuring objective of the Regional Governments entities amounted to 508 entities originally planned in early 2012 increased to a total of 896 entities whose reduction is planned for 1st July 2015. This means that the initial commitments have increased by 388 entities more to be extinguished. With the new commitments, the global percentage reduction of 21.33% of the instrumental public sector existing on 1st July 2010 has risen up to 37.62% on 1st July 2015.
- On 1st July 2015, the total processes completed or in a phase very close to their completion, reached 797 entities (implementation percentage of 157% on the initial commitment).
- Estimated savings derived from net effective delisting processes, including on-going processes, amounted to € 2.106 billion (period from 2011 to 2015)

7.2. Composition of revenue

The revenue composition in Spain has evolved in recent years and the weight of indirect revenue has increased, as it is less distortive, and direct revenue has reduced. To offset the regressive effect of this change, tax benefits have been introduced in direct taxation for the most disadvantaged people and the personal and family minimums have increased so that the system as a whole does not lose redistributive power and becomes equitable and fair.

Upon analysing the figures for taxes collected by the Public Administrations in terms of National Accounts for the period 2011-15 (in million euros), and the evolution of their share percentage in the total annual, the main conclusion is that in these last five years there has been a significant shifting of the tax burden from direct taxation on natural people (and to a lesser extent, the one levied with Excise Taxes) to the indirect tax on consumption and transactions (VAT, Property Transfer and Certified Legal Documents tax), environmental taxes and taxes levied on Property (IBI) and wealth/equity (Inheritance and Gift, Increase of the Land Value, Assets Revaluation Tax).

Specifically, during these five years, the Personal Income Tax (including the Income Tax for Non-Residents) lowered its share in total tax from 37.7%, down to 32.9% (4.9 percentage points), a downward trend that was offset with:

- the sum of the VAT, the Property Transfer and the Certified Legal Documents Tax, which increased from 29.8% to 31.4% (1.6 p.p. higher)
- green taxes (Value of Electricity Production, nuclear waste management, CO2 emission rights) created in 2013, which registered 1.0 additional percentage points
- taxes on wealth (with 0.8 p.p. more)
- and the Property Tax on real estate property (another 0.6 p.p.)

On the other hand, the various measures taken to prevent erosion of the tax base for Corporate Income Tax (limitations on the deductibility of goodwill, financial expenses, amortisation expenses, losses in investees and the reduction of cumulative negative tax bases, minimum fractioned payment) and the highest relative growth of corporate profits resulted in a 1.8 p.p. increase of its share percentage, which offsets the similar relative loss experienced by Excise Taxes (largely linked to the health cent refund).

In any case, the impact of the lower inflation on tax revenues 2013-15 should be highlighted. In recent years, the Spanish economy recorded an inflation rate systematically lower than the one consistent with the ECB price stability objective ("below but close to 2% per year"). This persistent low inflation scenario always lower than expected (which, if the effects of tax increases are excluded, becomes negative at constant taxes) causes, among other economic consequences that the nominal tax bases (and their associated taxes) evolve below the budgetary prospects, even when the real economy growth exceeded the initial expectations. Consequently, the lower inflation reduced momentum of the fiscal consolidation efforts of recent years. If the revenue loss associated with this inflation below the one expected was estimated, we could conclude that, if inflation rates had been adjusted to those provided by the Commission for the 2013-15 triennium, the Public Administrations net borrowing the would have been 0.7% lower the figure registered last year[14].

As noted, low inflation adversely affects tax collection, but this impact is greater for certain taxes, which show an elasticity exceeding 1 at nominal cycle; therefore, its collection will fall more than proportionally when a negative inflation shock occurs. This happens especially in progressive taxes, as the drop in nominal basis associated with inflation causes bracket contractions. In the case of Spain this was revealed in the Personal Income Tax, where negative

[14] This figure is obtained from an exercise in which a scenario is calculated under the assumption of the European Commission 2013 Spring forecasts on inflation being met fulfilled. For this counter-factual, average elasticities were used (from different bodies) and the impact the same cycle would have had is calculated, but with a higher inflation.

shocks in nominal wages and incomes had a more than proportional impact. Therefore, it should be noted that the impact of the low inflation on the collection of progressive taxes, (which show increased sensitivity to the nominal cycle in comparison to the proportional ones), imposes an extra burden in meeting the budgetary stability objectives.

8. INSTITUTIONAL FRAMEWORK OF THE FISCAL POLICY

The intense fiscal consolidation undertaken by the Government was accompanied by a deep reform of the legal framework to ensure fiscal discipline at all levels of the Administration and to promote transparency and good governance. The broad range of measures adopted to reform the governance framework was extensively detailed in the previous Stability Programme presented since 2012. Among them it is worth highlighting the approval of the Organic Law on Budgetary Stability and Financial Sustainability; the creation of the Independent Authority for Fiscal Responsibility; the adoption of the Law on Transparency, Access to Information and Good Governance and the Plan to eradicate late payment in Public Administrations. The efforts made to increase the frequency and quality of the budget implementation data in terms of national accounts should also be noted, as they are key to develop a better monitoring and control of public finances at all levels of the Administration.

With regards to the budget, the approved reforms mainly focused on the macroeconomic side of the budget, the improvement of budgetary coordination instruments between the various Administrations and the strengthening of the excessive deficit prevention and correction mechanisms. These reforms need to be complemented with improvements in the budget management, whose reference legal framework is articulated in the General Budgetary Law. In this regard, a future reform of this law is being considered, for to adapt the regulation to the characteristics of the public sector and current budgeting to adapt the budgetary management procedures to the new framework for fiscal discipline approved in Spain and the EU improve, to improve the homogenisation of budgetary information of all Public Administrations and to simplify the budgetary structures.

In addition, in order to further improve the control procedures and accounting frameworks, the works to approve a new legal regime for internal control in Local Corporations and to carry out a reform of the General Law on Subsidies (reinforce the fight against fraud, comply with the "Deggendorf doctrine" simplification regime for the determination of costs attributable to the grant) already started. These works will help to strengthen public spending control.

Finally, with regards to the Independent Authority for Fiscal Responsibility, a collaboration agreement is being drafted with the Ministry of Finance and Public Administrations to regulate the flows of information, thus completing the regulation of the Spanish independent fiscal institution.

New legal regime of the internal control for Local Corporations

In order to strengthen internal control mechanisms in Local Corporations, a Royal Decree is being processed to regulate the internal control in the Local Corporations of the local public sector. This Royal Decree arises from the Law on Rationalisation and Sustainability of the Local Administration itself, and already has the favourable opinion of the State Council, issued on 17th September 2015.

The initiative aims to provide Local Corporations with an internal control structure based on functional independence, according to generally accepted technical and methodological standards, taking the General Comptroller of the State Administration model as a reference, without prejudice to the respect for the local autonomy principle and its ability to self-organise. In this regard, the following should be highlighted:

- The model developed by the Local Corporations under this regulation must ensure, for the identified risks, the annual effective control of 80% of the consolidated budget as a result of the application of the auditing function and financial control, and 100% in the three-year cycle.
- For greater transparency and publicity of the Local Corporations monitoring results, it shall be required to draw up an annual report summarising the main results of the internal control, and they will be put to the attention of the Plenary, the Court of Audits and the General Comptroller of the State Administration. Likewise, it shall also be necessary to inform the Plenary of the Local Corporation and the Court of Audits of any discrepancies that may arise between the management bodies.
- The systematisation and homogeneity of the control criteria is promoted, specifying minimum standards of reference, based on the Agreements of the Council of Ministers for the state regarding the auditing function, and in the application of auditing standards of the State Public Sector.
- For operational reasons a special simplified regime for small municipalities with reduced resources is developed.
- Finally, an active role of the General Comptroller of the State Administration is expected in scheduling training actions, as well as the possibility of agreeing collaboration agreements with the scope and conditions included in the regulation itself. On the other hand, in the event of insufficient resources, the possibility of establishing collaboration mechanisms with other public institutions and, where appropriate, the outsourcing, is regulated

National Office of Evaluation

Continuing with the public spending efficiency improvements and in particular to boost the quality of the investments made by Public Administrations, the National Office of Evaluation was created (thirty-sixth additional provision of Law 40/2015). Specifically, the National Office of Evaluation is responsible for conducting a comprehensive analysis of the financial sustainability of work concession contracts and public service concession contracts in the General State Administration and Local Authorities, without prejudice to the Regional Governments being able to adhere to it. To this end, the Office will conduct medium- and long-term analysis of the investments and an assessment of the criteria and instruments chosen to materialise investments.

A threefold purpose is pursued with the creation of this office:

- Improve the efficiency of public spending as an essential element of fiscal policy.
- Boost public and private investment in areas relevant to the competitiveness of the economy and with a high effect on domestic production and employment.
- Analyse the efficiency, sustainability and viability of investment projects carried out with public and private funding.

With the creation of this Office, Spain joins the EU countries that created a specific body responsible for ensuring efficiency, sustainability and feasibility of investment projects, paying special attention to those investments carried out with both public and private funding.

The composition, organisation and operation of the National Office of Evaluation shall be determined by Order of the Minister of Finance and Public Administrations, being currently processed.

Thus, the Council Recommendation No. 7, of 8th July 2014 is implemented, as it recommended setting up an observatory that will contribute to evaluation of major future infrastructure projects.

On the other hand, and given the remarkable influence of public procurement in the economy as a whole, one of the elements that will have relevance in the overall goal of modernising the Administration and contribute to economic growth will be the expected approval of two the laws for transposing the new package of EU Directive on public procurement of February 2014.

The main objectives pursued by these laws are:

- To reduce the administrative burdens for companies
- To increase competition, promoting SMEs access to public contracts
- To help combat late payment of companies
- To introduce greater demands on advertising and transparency
- To modernise the economy through support for R&D
- To use public procurement as an additional instrument of social policies

Although the preparatory work began in January 2014 (even before the adoption of the Directives), the complex administrative processing of draft laws and the dissolution of the Spanish General Court due to the call of general elections in November 2015, have prevented its referral to the Spanish General Court for parliamentary procedure. However, all administrative procedures have been already fully completed with the favourable opinion of the State Council.

To avoid the problems that may arise as a result of not transposing the Directives, several important issues of the Procurement Directives have already been included into the Spanish legal system through the specific modification of the current Consolidated Text of the Law on Public Sector Procurements:

- The regulation of accreditation by the employer of his economic and financial solvency (incorporated by Royal Decree-Law 10/2015, of 11th September, by which extraordinary credits and credit supplements in the State Budget are granted and other measures on public employment and to stimulate the economy are adopted);
- The new regulation on prohibitions to hire; and the new regulation on the grantor's responsibility, in line with the provisions of the Concessions Directive on the necessary assumption of the operational risk by the latter (both issues, through Law 40/2015, of 1st October on Legal Regime of the Public Sector);
- The new regulation on contracts reserved for special employment centres, or integration companies or those run within the framework of sheltered employment programmes (through Law 31/2015, of 9th September, amending and updating the rules on self-employment and promotion measures for self-employment and the Social Economy) are adopted.

Likewise, foreseeing the implementation of the direct effect of certain issues of the Directives and in order to facilitate contracting authorities applying these provisions and to ensure their compliance, a Recommendation of the Advisory Board of Administrative Contracting of the State was adopted, including essential aspects such as the definition of contracts subject to harmonised regulation, notices of contracts to be published in the OJEU, or the deadlines set for the submission of tenders. A second Recommendation on the implementation of the Single European Procurement Document will be approved soon.

Finally and in relation to what is stated in the Country Report 2016 by the Commission on the lack of a coherent public procurement policy at all levels of Governance and the poor coordination at these levels, it is worth highlighting the important coordination effort being conducted to promote the signing of agreements with the Regional Governments to facilitate transparency and joint use of procurement advertising and management instruments (to date 17 agreements have been signed and their content is related to the procurement Platform and the Official Registration of Tenderers and Classified Companies of the State). Likewise, it is necessary to note the work carried out by the Directorate General of Rationalisation and Centralisation of Procurement since its inception in 2013, following the Community strategic lines, and operating as a single procurement central for both the state-mandated subjective scope and the Regional Governments and Local Corporations that wish to adhere to it. The procurement procedure in the General Directorate is developed with full transparency, in order to eliminate any irregularities that could take place in public procurement.

Independent Authority for Fiscal Responsibility

Spain's commitment to fiscal discipline is reflected in the creation of the Independent Authority for Fiscal Responsibility in late 2013. Since then Spain has one of the Independent Fiscal Institutions with the most numerous work force, compared with those created in other EU countries, and with broad powers to ensure the budgetary stability at all levels of the Administration.

The financial year 2015 was the first year in which the AIReF consolidated its activity over a full budgetary cycle, publishing all reports provided in its regulations. Thus, thirteen reports, one opinion, five work documents and one information document on the spending rule have been performed.

In the Country Report 2016, the Commission indicates that some aspects of the AIReF regulatory framework hamper its role as a monitoring organisation. In order to promote transparency, the Ministry of Finance and Public Administrations website has begun to publish the answers to the AIReF recommendations implementing the "comply or explain" principle. In addition, requests for information made by the AIReF channelled through the Information Central are also published. A total of 78 requests of the 81 made had been answered up to 31st March 2016, with an average response time of 15 days. Approximately 80% of the requests were answered with information that had to be prepared, compared to 20% which referred to public information.

On the other hand, during the financial year 2015, the regulatory framework of the AIREF was completed, with the approval of the Finance and Public Administration Order/1287/2015, of 23rd June that determines the information and remission procedures that the Ministry of Finance and Public Administrations will have permanently available for the new Independent Fiscal Authority. This Order develops Article 4.2 of the Organic Law 6/2013 of 14th November, on the creation of the Independent Authority for Fiscal Responsibility, which provides that the Authority will have the economic and financial information concerning the various Public Administrations at its disposal. In order to ensure efficiency and avoid duplicities in the submission of information, access to information will be preferably made through the Ministry of Finance and Public Administrations, without prejudice to the fact that additional information may be requested directly to the appropriate Public Administrations, particularly when the information obtained through the Ministry is not enough, complete or requires some clarification. Likewise, it also foresees that by Order of the Minister of Finance and Public Administrations, following a report of the Independent Authority for Fiscal Responsibility, the data, documents and referral procedures, including the telematic ones, that the Ministry of Finance and Public Administrations will have on a permanent footing at the disposal of the abovementioned Authority shall be determined.

This Order aims to develop what is stated in the aforementioned provisions of the Organic Law 6/2013 of 14th November, and of the Organic Statute, with the two-fold aim of ensuring, on the one hand, the access of the Independent Authority for Fiscal Responsibility to all the information necessary for the performance of its functions and, on the other, to coordinate the flow of information of the above Authority with those already existing between the Public Administrations in order to avoid the occurrence of duplicities and inefficiencies.

The Order puts the Central of economic and financial information of the Public Administrations of the Ministry of Finance and Public Administrations at the disposal of the AIReF, in an important exercise of transparency, centralisation and systematic treatment of the public sector economic and financial information, by efficiently channelling the information on the Public Administrations obtained by the Ministry of Finance and made available to the AIReF, avoiding the remaining Public Administrations the unnecessary duplication of channels for the provision of information.

Improvement in transparency and access to public information continues

The creation of a Transparency Portal (Law 19/2013, of 9th December on transparency, access to public information and good governance) that was put into operation in December 2014 is a milestone in Spain, since all of the information generated by the General State Administration is available in a single office. This way, all the action of public officials is subject to scrutiny by facilitating knowledge of how public funds are managed or under what criteria the institutions act.

The Transparency Portal also serves as a tool for citizens to request information electronically, to get information about the status of their request and to receive answers in a timely and appropriate manner.

The portal contains 24 different categories of active publication information grouped into four areas: institutional; normative; contracts, agreements, grants, personal property; and budgets, audit and reports.

In December 2015, almost a year after it was put into operation, an improved version of the Transparency Portal was launched, providing new information elements and greater capacity and flexibility to manage its content, catalyst factors to encourage access to public information and, ultimately, a culture of transparency.

Since it was implemented and up to March 2016, the operation results of the Portal can be summarised in the following figures:

- The information published went from just over 500,000 data records in January 2015 up to more than 1,370,000 that can be currently accessed.
- The Portal has more than 4,880,000 page visits.
- Citizens made more than 4,569 requests to access information through the Portal.
- On the other hand, the Twitter channel has grown exponentially, and at present it has approximately 5,800 followers and more than 2,300,000 visits.

Law 19/2013, of 9th December, has also led to the creation of the Council for Transparency and Good Governance, which is the body responsible for promoting transparency in public activities, ensuring compliance with active publication obligations, safeguarding the right of access to public information and ensuring compliance with the rules of good governance. This body acts with full autonomy and independence in the fulfilment of its purposes.

Since it came into operation, the Council has had 1,306 entries from requests of information, consultations on the Law 19/2013, claims, complaints and allegations. It also signed agreements with several Regional Governments to handle its citizens' complaints: Asturias, Cantabria, Castilla-La Mancha, La Rioja, Extremadura, Ceuta and Melilla.

Among the measures envisaged in the implementation of the transparency principle set out in Chapter V of the Organic Law 2/2012 of 27th April on Budgetary Stability and Financial Sustainability, the creation of a public information central provision is set, providing information on the economic and financial activity of the different Public Administrations.

The creation of the Financial and Economic Information Central of Public Administrations, carried out by Royal Decree 636/2014 aims to bring together all the public economic and financial information of the Administrations and its linked entities or bodies. The Information Centre contains coordinated, ordained, economic and financial information, prepared with homogeneous criteria and referred to the various Public Administrations. It is essential to comply with the transparency principle of the public information. It is hosted on the Ministry of Finance and Public Administrations website and any citizen can check it by accessing the Information Central Channel[15].

It provides global information on the public sector, and in particular, on the following areas: national accounts, budgets, public accounts and finance systems, monitoring of the Budget Stability Law, average payment to suppliers periods, taxes, cadastres, personnel costs and public pensions, European funds, public entities inventory, Stability programmes, Budgetary plans and other economic and financial information. Since February 2016 the information central also provides access in database (Known in Spanish as CIFRA) to general information of the public sector.

On the other hand, within the measures included in the Democratic Regeneration Plan driven by the Spanish Government in its attempt to fight corruption and restore the citizens' confidence in public institutions, Law 3/2015, of 30th March, regulating the exercise of the high office of the General State Administration were approved.

This rule has an impact on important aspects of the behaviour of high level public officials, that is, Government members and senior officials of the General State Administration, and seeks to strengthen their public service integrity and dedication. The new law extends the scope of the rule implementation of the one it replaces, being also applied to officials not affected by the prior standards, such as business management positions of the public sector.

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[15] www.minhap.gob.es or directly in www.centraldeinformacion.es

A system of conflict of interest prevention in line with that of the most advanced countries in our surrounding areas is established, determining what is meant by conflicts of interest, and mechanisms to detect and prevent them are introduced, such as a regime of abstention and communication to the Office of Conflicts of Interest, equity limitations on the participation in companies having contractual relationships with the public sector and restrictions on financial asset management.

The control mechanisms of conflicts of interest are also expanded and the requirements to provide cessation support are tightened. The information to be provided to Congress of Deputies about the number of senior officials and the fulfilment of their obligations is extended.

The Country Report 2016 specifies the lack of independence of the Office of Conflict of Interest due to its affiliation to the Ministry of Finance and Public Administrations. Even though it is true that this Office is affiliated to the abovementioned Ministry (which must be this way for budgetary purposes), its independence is safeguarded by this law. Indeed, the law strengthens the compliance monitoring of its provisions providing the Office of Conflict of Interest new skills and means to perform their duties with the maximum guarantees of competence, transparency and independence. Therefore, its director must go through a hearing in the Congress of Deputies, and has the legal protection of not seeking or receiving instructions.

ANNEX

Table A.1. Impact of the main regulatory changes

In differential terms compared to previous year, public accounting
(+) expenditure savings or increased revenues
% of GDP

	2015	2016	2017	2018
Expenditures (*)	**0.34**	**0.67**	**0.34**	**0.14**
Agreement on the non-availability budgetary credits of the Central Government		0.18		
Public employees extra payment 2012 refund and 1% wage incresase	-0.29	-0.04	0.13	0.01
Public employment (personnel measures, replacement measures)	0.09	0.07	0.04	0.04
Labour market policies	0.02	0.03	-0.02	-0.01
Commission for the Reform of the Public Administration (CORA)	0.09	0.07	0.00	0.00
Enforcement of EU sentence (health cent)	0.19	0.00	0.00	0.00
Autonomous Community measures (excluding previous and interests)	0.02	0.18	0.05	0.02
Local Corporations measures (excluding previous and interests)	0.13	0.10	0.04	0.01
Social security expenditure	0.09	0.10	0.10	0.08
Revenues	**-0.45**	**-0.04**	**0.04**	**0.03**
Total tax	-0.53	-0.17	-0.01	0.00
Personal Income Tax and Non-resident income taxes	-0.33	-0.22	-0.10	0.00
Corporate income Tax	-0.26	-0.14	0.01	0.00
Fight against fraud	0.09	0.09	0.09	0.00
Excise duties and environmental taxes	0.00	0.00	0.01	0.00
VAT	-0.07	0.11	0.00	0.00
Fees and Financial Transactions Tax	0.03	-0.02	0.00	0.00
Autonomous Region measures	-0.03	0.05	-0.01	-0.01
Local government measures	0.09	0.04	0.03	0.02
Social Security contribution	0.02	0.05	0.03	0.02
Total	**-0.10**	**0.63**	**0.39**	**0.18**
GDP Million	1,081,190	1,121,140	1,162,777	1,209,461

(*) Personnel measures of the General government, therefore not included in the breakdown of subsectors.
Disposals of real assets of the Regional Government are included as lower investment spending (National Accounts criterion) .
Source: Ministry of Finance and Public Administrations.

Table A.2. Amounts to be excluded from the expenditure benchmark

	2015 (A)	2015 (A)	2016 (F)	2017 (F)	2018 (F)	2019 (F)
	Level (million €)	% GDP				
Expenditure on EU programmes fully matched by EU funds revenue	5,063	0.5	0.0	0.0	0.0	
Cyclical unemployment benefit expenditure	20,590	1.9	1.7	0.0	0.0	
Effect of discretionary revenue measures						
Interest expenditure	33,122	3.1	2.9	2.7	2.6	

(A) Advance; (F) Forecast.
Source: Ministry of Finance and Public Administrations.

Table A.3. Expected budgetary impact of the measures adopted and planned: Tax (Government before regional transfers)

Measures	Description	Target (expenditure/ revenue)	Accounting principle	Level of implementation	Additional budgetary impact (million €)			
					2015	2016	2017	2018
Personal Income Tax (PIT)					**-3,449**	**-2,355**	**-1,205**	**0**
2013 and 2012 measures.	Includes measures like the elimination of house compensation, partial restoration of the Christmas and summer bonus for public servants, 20% reduction on net profits in first 2 years (flat rate regime) and "Business angels": 20% deduction on the investment and exemption from capital gains	Revenues	Homogeneous Cash & National Accounts	Royal Decree Law 20/2012, 13th of July. Law 16/2012, 27th of December. Law 11/2013, 26th of July , of measures to support entrepreneurship and growth stimulus and job creation.Law 14/2013 of Support to Entrepreneurship	423	222	-571	
PIT Reform	Wide modification of the PIT: tax brackets have been changed, tax rates reduced, certain investment products have been treated differently... Ex post	Revenues	Homogeneous Cash & National Accounts	Law 26/2014, 27th November, that modifies the Law 35/2006, 28th of November of Personal Income Tax, the consolidated text of the Law of Non Resident Income tax Royal Legislative Decree 1/2004 5th of March, and other tax rules	-2,352	-2,577	-634	
	Advanced Reform	Revenues	Homogeneous Cash & National Accounts	RDL 9/2015 of 10th of July. Advance of the tax brackets for 2016 to mid 2015	-1,520			
	Total Impact	Revenues	Homogeneous Cash & National Accounts	Law 26/2014, 27th November, that modifies the Law 35/2006, 28th of November of Personal Income Tax, the consolidated text of the Law of Non Resident Income tax Royal Legislative Decree 1/2004 5th of March, and other tax rules	-3,872	-2,577	-634	
Corporate Income Tax (CIT)					**-2,823**	**-1,514**	**60**	**0**
Limits on deduction of depreciation expenses.	Limits on tax deduction for fixed asset depreciation by large companies. This excludes SMEs and micro-SMEs	Revenues	Homogeneous Cash & National Accounts	Law 16/2012, 27th of December	-1,871			
Asset revaluation levy	This levy allows the updating of balance sheets assets by taxpayers subject to CIT, tax payers of PIT involved in economic activities and taxpayers of non-resident income tax operating in Spain via a permanent establishment. This updating is voluntary, and is subject to a tax charge of 5% of the amount of the revaluation	Revenues	Homogeneous Cash & National Accounts	Law 16/2012, 27th of December	-6			
Reduced rates of 15% / 20% for new companies during first two years.	A tax rate of 15% has been established for the first 300,000 € of the taxable base and 20% for the remaining superior amounts, in the first year of positive base and the year after	Revenues	Homogeneous Cash & National Accounts	Royal Decree-law 4/2013, 22d of February	-29			
Return of 80% of balance pending deduction of RD&I	Deductions for R&D investment and spending may optionally be applied, not subject to any limit on the tax payable, and credited, given a joint discount of 20% of their value, when these were not able to be applied due to the tax payable being too low	Revenues	Homogeneous Cash	Law 14/2013, 27th of September, Entrepreneurs	-46			
CIT reform	Rate reduction to 25% for two years, creation of a capitalization reserve and levelling reserve. (Ex post)	Revenues	Homogeneous Cash & National Accounts	Law 27/2014 of 27th of November, Corporate Income Tax	-871	-1514	60	

Table A.3. Expected budgetary impact of the measures adopted and planned: Tax (Government before regional transfers)

(Continued)

Measures	Description	Target (expenditure/ revenue)	Accounting principle	Level of implementation	Additional budgetary impact (million €)			
					2014	2015	2016	2017
New Environmental taxation	Tax to the value of extracted gas, petroleum or condensates	Revenues	Homogeneous Cash & National Accounts	Law 8/2015, of 21st of May	**0**	**0**	**2**	**0**
Other Direct Taxes	Non Resident Income Tax	Revenues	Homogeneous Cash & National Accounts		**-82**	**-56**	**-8**	**0**
VAT					**-710**	**1,237**	**0**	**0**
Cash basis VAT regime	Special voluntary regime, were tax payers are allowed to delay the accrual and the declaration and payment of charged VAT until they are effectively payed by their clients, with the consequent delay also in the VAT paid	Revenues	Homogeneous Cash & National Accounts	Law 14/2013 of entrepreneurship	65			
New import VAT regime	Voluntary regime in which under certain requisites the liquidation-declaration of quotas of VAT to imports maybe filed in the period in which the Tax administration liquidates	Revenues	Homogeneous Cash & National Accounts	RDL 9/2011, of 19th August	-1,162	1162		
Health and Notaries tax at the general rate.	Adaptation of the VAT Law to the EU legislation	Revenues	Homogeneous Cash & National Accounts		387	75		
Excise duties					**1,952**	**-6**	**0**	**0**
Hydrocarbon	Refunds under the tax on hydrocarbons judgment	Expenditure	Homogeneous Cash & National Accounts	Application of the judiciary sentence that forces to refund amounts collected under the tax on hydrocarbons	2,011			
Electricity	Partial tax exemption for large consumers	Revenues	Homogeneous Cash & National Accounts	Law 16/2013, 29th of October, of environmental taxation	-59	-6		
Other indirect and environmental taxes					**66**	**16**	**60**	**0**
New tax on fluorinated greenhouse gases. A tax on emissions of halogenated hydrocarbons. Financial Transaction Tax	New tax on fluorinated greenhouse gases: a tax on emissions of halogenated hydrocarbons	Revenues	Homogeneous Cash & National Accounts	Law 16/2013, 29th of October, of environmental taxation	**66**	**16**	**60**	
Levies and other revenue					**370**	**-252**	**0**	**0**
Levy on the use of water for electrical production	Levy to protect and improve the public domain on water through Confederaciones Hidrográficas	Revenues	Homogeneous Cash & National Accounts	RDL where it develops the art. 112 of the Law of water	**453**	**-228**		
Judiciary Levies		Revenues	Homogeneous Cash & National Accounts	Law 10/2012 and 2013 and 2015 modifications	**-83**	**-24**		
TOTAL					**-4,676**	**-2,930**	**-1,091**	**0**
Plan to fight against Tax Fraud		Revenues	Homogeneous Cash & National Accounts	General Tax Law	**1,000**	**1,000**	**1,000**	**0**
TOTAL					**-3,676**	**-1,930**	**-91**	**0**

Source: Ministry of Finance and Public Administrations.

Table A.4. Expected budgetary impact of the measures adopted and planned (expenditure/revenue). Central Government, Labour market and Social Security

Measures	Description	Target (expenditure/ revenue)	Level of implementation	Additional budgetary impact (million €)			
				2015	2016	2017	2018
Agreement on the non-availability budgetary credits of the Central Government	Agreement on the non-availability of credits amounting to 2000 M€ in the State Budget to ensure the fiscal consolidation commitments with the European Union shared between government departments	Expenditure	Agreement of the Council of Ministers		2,000		
Repairing the damage caused by floods and other effects of rainstorms, snowfall and strong winds that occurred in the months of January, February and March 2015	Urgent measures, which have been directly caused by the rainstorms, snowfall and strong winds force majeure	Expenditure	Royal Decree Law 2/2015 6th of March, on urgent measures taken to repair the damage caused by floods and other effects of rainstorms, snowfall and strong winds occurred in the months of January, February and March 2015	-106	106		
Returning the extra payment (Christmas bonus) and increase of 1% of salary	Reimbursing 25% of the corresponding extra payment suppressed in December 2012 to the public employees	Expenditure	Law 48/2015, 29th October, General State Budget 2016	-579	-257	579	
Replacement rate	0% replacement rate except for priority areas at 50% in 2015.The replacement rate increases in the General State Budget 2016	Expenditure	Law 48/2015, 29th October, General State Budget 2016	202	202	71	71
Establishing a Flat Rate in employer contributions to Social Security and its extension in 2015. Minimum exempt as from 2015	In order to encourage permanent contracts and fostering net job creation, a flat rate is established in employer contribution to Social Security. In order to consolidate the positive development of permanent contracts and increase its impact for groups with greater difficulties for a stable employment, a minimum exempt is set in the employer contribution for common social security contingencies, which will benefit all companies for permanent hires and net employment creation. 500€ of the corresponding monthly contribution basis for common contingencies shall be exempt from employer contribution for full-time contracts. In the case of part-time contracts, that amount is reduced in proportion to the percentage decrease in working hours, which must not be less than 50% of the dayly working time of full-time workers. Duration 01-03-2015 to 31-08-2016	Revenue	Royal Decree Law 3/2014, 28th February, on urgent measures to foster employment and permanent contracts. Royal Decree law 17/2014, 26th December, of measures for autonomous communities and local entities sustainability. Royal Decree law 1/2015, 27th February, of second chance mechanism, reduction of financial burden and other social measures	-285	427	260	194
New direct settlement scheme for for the Payment of Social Security Contributions	Entails a change in the Spanish scheme of Social Security contributions. The change involves replacing the current self-declaration form with a direct-settlement form (or direct billing)	Revenue	Law 34/2014, 26th of December,of measures related to settlement and payment of quotas of the Social Security	25	114	126	
Mutualism Act	It entails modernisation of the functioning and management of these entities, It increases transparency and efficiency. It contributes to a better use of resources and to absenteeism reduction, and to social security sustainability. Temporal disab 206M; 330M revenues from health services use to third parties and sale of prevention services; 25M savings as for management control.	Revenue / expenditure	Ley 35/2014, 26th of December, by which modifies the text of the General Law of the Social Security in relation to the Mutualism of Accidents at Work and Professional disability of the Social Security	587	-26		

Table A.4. Expected budgetary impact of the measures adopted and planned (expenditure/revenue). Central Government, Labour market and Social Security

(Continued)

Extraordinary activation programme for employment	A programme for long-term unemployed people who have seen their benefits and allowances ending and who meet the requirement established and have family responsibilities. The activation programme combines specific actions to foster employment and temporary financial assistance of six months which is compatible in case of being employed. Thus contributing to two goals. On the one hand, address the situation of these unemployed and help keep them active. On the other hand, to promote the modernization of public employment services, ensuring a personalized treatment of beneficiaries and a stronger link between active and passive policies. The Programme will be up to 15th of April 2016 and an assessment of its impact is expected in terms of employability	Expenditure	Royal Decree law 16/2014, of 19th December, which regulates the Programme of Activation for the Employment.	-160	0	20	-140
New access requirements for the Active insertion income	Requirements for access to the RAI were modified to increase its links with employment policies and strengthen compliance with the activity commitment	Expenditure	Royal Decree law 16/2014, of 19th December, which regulates the Programme of Activation for the Employment. Third final provision	19			
Completion of the programme for subsidies and replacement of measures of employment regulation	The "replacement right" and several employment subsidies were suppressed in 2014 because of the forecast improvement in the economic activity	Expenditure	Royal Decree-law 1/2013, 25th of January. Law 3/2012, 6th of July	233	294	-294	
CORA's Organizational rationalization in central government	It involves the suppression, merger, integration or rationalization of state public sector entities	Expenditure	Law 15/2014 of streamlining the public sector and other administrative reform measures; Royal Decree 701/2013 of razionalitation of the Public Sector; Several Agreements of the Council of Ministers	135	110		
CORA's Elimination of administrative duplications	It Involves the execution of 120 diagnostic and elimination of duplication measures, both within the state sector and between state sector and Autonomous Communities or local entities, if any. Examples: joint planning contributions to international organizations; unique e-procurement platform; surveys centralization	Expenditure	70 CORA measures implemented. 30 in an advanced stage and 20 running.	260	160		
CORA improvements in the management of Central Government	Internal state sector rationalization measures: Real estate plan, automobile fleet rationalization, centralization of public procurement, travel and subsistence allowance; Improving of Cash Management (public treasury)	Expenditure	Rationalization of property leases and sale plan for underutilized assets; Law 15/2014 of rationalization in the state sector and other measures for administrative reform: an Official Inventory of Vehicles has been created; Ministry of Finance's regulation about travel and subsistence allowance (in force since 2013); Royal Decree 256/2012 modified: creation of DG for Rationalization and centralization of public procurement (framework agreements and centralized contracts); General Regulations on tax collection was also improved	412	225		
ICT improvements for the state sector management	ICT development measures for more efficient delivery of services to citizens: e-Appointments, portals, and shared services between administrations. It produces savings for citizens and businesses, but also for Central Government	Expenditure	Creation of the Directorate for the ICT (modification of the Royal Decree 256/2012), ICT developments	144	130		
CORA´s ICT simplification measures in the health field: interoperable electronic recipe; digital medical history; DB for health card	Spreading out interoperable electronic prescriptions from any Autonomous Community, with availability of digital medical records, enhancing the DB for electronic health card	Expenditure	Royal Decree 702/2013, 20th September that regulates the individual health card and amends Royal Decree 183/2004, 30th January: Agreements with Regional Governments. Measures in advanced stages of implementation	46	104		
Social Security Pensions System reform	Pension reforms since 2011 and 2013 (retirement, partial and early retirement, revaluation index and sustainability factor), Differential impact on future pension spending	Expenditure	Law 27/2011, of the Social Security reform; Royal Decree Law 5/2013; Law 23/2013 of 23rd December, regulating the Sustainability Factor and the Revaluation Index	1,000	1,148	1,200	1,000
Total				**1,934**	**4,737**	**1,962**	**1,125**
Source: Ministry of Finance and Public Administrations.							

Table A.5. Expected budgetary impact of the measures adopted and planned (expenditure/revenue). Regional Governments

Measures	Description	Target (expenditure/ revenue)	Additional budgetary impact (million €)				
		ESA Code	**2015**	**2016**	**2017**	**2018**	**2019**
Personnel expenditure	Management measures / staff planning / remuneration	D1	-2,064	0	520	110	300
	No replacement	D1	589	295	295	295	295
Agreement on the non-availability ART. 25.1 LOEPSF	Agreement on the non-availability budgetary credits	Various codes	0	1,510	0	0	0
Pharmaceutical expenditure and health products	Pharmaceutical expenditure due to centralized procurement	D63	10	100	100	100	0
	Other measures regarding pharmacy and health products expenditure	D63	48	425	450	150	0
Current spending and public provision	Saving measures related to provision of services and supplies	P2	37	82	15		0
	Other measures from chapter II	P2	0	0	0	0	0
Financial expenses and interest (with not effect in	Interest savings, improving conditions of funding mechanisms	D41	3,121	-760	0	-161	-15
Current transfers	Other from chapter IV	Other current expenditure	79	-80	50	0	0
Capital transfers	Other from chapter VII	D92, D99	0	0	0	0	0
Other measures	Other measures (investment)	P51	0	0	0	0	0
Total expenditure			**1,819**	**1,572**	**1,430**	**493**	**580**
Personal income Tax and other direct taxes		D51	29	-14	-12	-3	0
Inheritance and Gift Tax		D91	30	-23	-9	3	3
Wealth tax		D5	0	15	-3	0	0
Environmental taxes		D29	44	74	0	0	0
Transfer tax and Stamp duty		D21	4	62	22	0	2
Hydrocarbons tax		D21	-74	16	-7	0	0
IGIC AIEM		D21	5	1	0	0	0
Fees		D29	31	47	0	0	0
Other taxes (IDEC, others)		D29	130	101	17	0	0
Non- Tax Revenues		-P51	-510	279	-152	-61	7
Total revenues			**-312**	**557**	**-143**	**-61**	**11**
Total Regional Government measures			**1,507**	**2,128**	**1,286**	**432**	**591**

Source: Ministry of Finance and Public Administrations.

Table A.6. Local Entities. Expected budgetary impact of the measures adopted and planned

Measures	Description	Target (expenditure/ revenue)	Additional budgetary impact (million €)			
		ESA Code	2015	2016	2017	2018
Personel expenditure	Remuneration	D1	-459	-204	459	0
	No replacement	D1	233	233	82	82
Current expenditure	Cost reduction in purchases of goods and services	P2	402	201	62	62
	Company dissolution	P2	394	508	305	0
Supression of services	Disappearance of minor local entities and deletion of services that are not under local competencies	P2, other current expenditure	574	139	0	0
	Transfer of competencies in health, education and social services.	D1, P2		0	0	0
Integrated management and mergers	Integrated management of Public services and municipal mergers	D1, P2	71	223	69	15
Total Expenditure			**1,214**	**1,100**	**977**	**162**
Taxes	Tax increases, deletion of exemptions and voluntary bonuses	D29	926	427	347	282
Taxes	Fees and public prices	D29 Y P11				
Total Revenue			**926**	**427**	**347**	**282**
Total Local Entities			**2,140**	**1,527**	**1,324**	**444**

LRSAL: Law 27/2013, 27th of December of rationalization and sustainability of local governments.
Source: Ministry of Finance and Public Administrations.

Table A.7.1. - Quarterly budgetary execution for the General Government and its subsectors

Million €	2015				2016
	T1	T2	T3	T4	Up to February*
Overall balance by subsector					
1. General Government	18,324	18,769	25,367	13,948	nd
2. Central Government	11,039	6,574	15,623	5,987	4,527
3. Regional Governments	-1,067	2,224	2,676	4,010	-351
4. Local Governments	4,364	4,658	8,201	3,246	nd
5. Social security	3,988	5,313	-1,133	705	3,009
For each subsector	**General Government**				
6. Total revenue	**213,958**	**419,455**	**623,073**	**869,078**	**nd**
7. Total expenditure	**195,634**	**400,686**	**597,706**	**855,130**	**nd**

Public accounting data. Non consolidated data.
* Accumulated data at the end of the reference period.
Source: Ministry of Finance and Public Administrations.

Table A.7.2. - Quarterly budgetary execution for the General Government and its subsectors

(Continued)

Million €	2015				2016
	T1	T2	T3	T4	Up to February*
Overall balance by subsector					
1. General Government					
2. Central Government	11,039	6,574	15,623	5,987	4,527
3. Regional Governments					
4. Local Governments					
5. Social security					
For each subsector	**Central Government**				
6. Total revenue	**98,576**	**166,901**	**245,939**	**331,325**	**54,520**
7. Total expenditure	**87,537**	**160,327**	**230,316**	**325,338**	**49,993**

Public accounting data. Non consolidated data.
* Accumulated data at the end of the reference period.
Source: Ministry of Finance and Public Administrations.

Table A.7.3. - Quarterly budgetary execution for the General Government and its subsectors

(Continued)

Million €	2015				2016
	T1	T2	T3	T4	Up to February*
Overall balance by subsector					
1. General Government					
2. Central Government					
3. Regional Governments	-1,067	2,224	2,676	4,010	-351
4. Local Governments					
5. Social security					
For each subsector	**Regional Governments**				
6. Total revenue	**57,386**	**132,350**	**198,052**	**288,377**	**33,965**
7. Total expenditure	**58,453**	**130,126**	**195,376**	**284,367**	**34,316**

Public accounting data. Non consolidated data.
* Accumulated data at the end of the reference period.
Source: Ministry of Finance and Public Administrations.

Table A.7.4,. - Quarterly budgetary execution for the General Government and its subsectors

(Continued)

Million €	2015				2016
	T1	T2	T3	T4	Up to February*
Overall balance by subsector					
1. General Government					
2. Central Government					
3. Regional Governments					
4. Local Governments	4,364	4,658	8,201	3,246	nd
5. Social security					
For each subsector	**Local Governments**				
6. Total revenue	**18,969**	**40,671**	**61,041**	**81,515**	**nd**
7. Total expenditure	**14,605**	**36,013**	**52,840**	**78,269**	**nd**

Public accounting data. Non consolidated data.
* Accumulated data at the end of the reference period.
Source: Ministry of Finance and Public Administrations.

Table A.7.5. - Quarterly budgetary execution for the General Government and its subsectors

(Continued)

Million €	2015				2016
	T1	T2	T3	T4	Up to February*
Overall balance by subsector					
1. General Government					
2. Central Government					
3. Regional Governments					
4. Local Governments					
5. Social security	3,988	5,313	-1,133	705	3,009
For each subsector	**Social Security**				
6. Total revenue	**39,027**	**79,533**	**118,041**	**167,861**	**26,292**
7. Total expenditure	**35,039**	**74,220**	**119,174**	**167,156**	**23,283**

Public accounting data. Non consolidated data.
* Accumulated data at the end of the reference period.
Source: Ministry of Finance and Public Administrations.

Table A.8.1. – Quarterly budgetary execution in accordance with ESA standards for the General Government and its subsectors

ESA 2010		*Accumulated data*				*Non accumulated data*				
million €	ESA Code	**2015**				**2015**				**2016**
		T1	**T2**	**T3**	**T4**	**T1**	**T2**	**T3**	**T4**	**Up to February***
B.9 EDP Net lending (+) / net borrowing (-)										
1. General Government	S.13	-7,806	-31,095	-33,205	-54,965	-7,806	-23,289	-2,110	-21,760	nd
2. Central Government	S.1311	-9,578	-19,732	-22,745	-28,176	-9,578	-10,154	-3,013	-5,431	-12,864
3. Regional Governments	S.1312	-1,973	-9,126	-11,355	-17,962	-1,973	-7,153	-2,229	-6,607	-1,275
4. Local Governments	S.1313	990	2,053	3,660	4,765	990	1,063	1,607	1,105	nd
5. Social Security	S.1314	2,755	-4,290	-2,765	-13,592	2,755	-7,045	1,525	-10,827	1,455
General Government										
6. Total revenue	TR	**98,691**	**196,035**	**299,925**	**413,456**	**98,691**	**97,344**	**103,890**	**113,531**	**nd**
Of which										
Taxes on production and imports	D.2	34,870	66,285	96,955	126,514	34,870	31,415	30,670	29,559	nd
Current taxes on income, wealth, etc.	D.5	23,854	46,911	77,287	109,489	23,854	23,057	30,376	32,202	nd
Capital taxes	D.91	1,365	3,301	4,706	6,262	1,365	1,936	1,405	1,556	nd
Social contributions	D.61	32,691	65,712	98,674	132,333	32,691	33,021	32,962	33,659	nd
Property income	D.4	1,885	3,190	4,358	8,493	1,885	1,305	1,168	4,135	nd
Other [b]		4,026	10,636	17,945	30,365	4,026	6,610	7,309	12,420	nd
7. Total expenditure	TE	**106,497**	**227,130**	**333,130**	**468,421**	**106,497**	**120,633**	**106,000**	**135,291**	**nd**
Of which										
Compensation of employees	D.1	26,827	58,562	85,392	118,699	26,827	31,735	26,830	33,307	nd
Intermediate consumption	P.2	13,595	27,668	40,509	56,389	13,595	14,073	12,841	15,880	nd
Social transfers	D.62, D.632[c]	44,009	98,122	142,605	198,800	44,009	54,113	44,483	56,195	nd
Interests expenditure	D.41	8,261	16,527	24,584	33,122	8,261	8,266	8,057	8,538	nd
Subsidies	D.3	2,222	4,709	7,274	12,536	2,222	2,487	2,565	5,262	nd
Gross capital formation	D.51	5,514	11,557	19,403	26,545	5,514	6,043	7,846	7,142	nd
Capital transfers (includes financial assistance)	D.9	473	1,680	2,694	6,857	473	1,207	1,014	4,163	nd
Other [d]		5,596	8,305	10,669	15,473	5,596	2,709	2,364	4,804	nd

[b] P.11+P.12+P.131+D.39rec +D.7rec +D.9rec (other than D.91rec).
[c] Under ESA95: D6311_D63121_D63131pay; in ESA2010 D632pay.
[d] D.29pay+D.4pay (other than D.41pay) +D.5pay+D.7pay+P.52+P.53+K.2+D.8.
[e] According to Regulation (EC) No 479/2009.
* Consolidated and accumulated data for the General Government, Regional governments and Social Security Funds up to February.
Source: Ministry of Finance and Public Administrations.

Table A.8.2. – Quarterly budgetary execution in accordance with ESA standards for the General Government and its subsectors

(Continued)

ESA 2010		*Accumulated data*				*Non accumulated data*				
Million €	ESA Code	**2015**				**2015**				**2015**
		T1	**T2**	**T3**	**T4**	**T1**	**T2**	**T3**	**T4**	**Up to February***
B.9 EDP Net lending (+) / net borrowing (-)										
1. General Government	S.13									
2. Central Government	S.1311	-9,578	-19,732	-22,745	-28,176	-9,578	-10,154	-3,013	-5,431	-12,864
3. Regional Governments	S.1312									
4. Local Governments	S.1313									
5. Social Security	S.1314									
Central Government										
6. Total revenue	TR	**45,513**	**88,542**	**139,276**	**192,560**	**45,513**	**43,029**	**50,734**	**53,284**	**23,133**
Of which										
Taxes on production and imports	D.2	26,512	48,145	70,054	89,309	26,512	21,633	21,909	19,255	15,399
Current taxes on income, wealth, etc.	D.5	13,405	26,642	44,276	65,269	13,405	13,237	17,634	20,993	4,311
Capital taxes	D.91	264	985	1,106	1,137	264	721	121	31	256
Social contributions	D.61	2,251	5,240	7,575	10,749	2,251	2,989	2,335	3,174	1,539
Property income	D.4	1,567	2,582	3,487	7,264	1,567	1,015	905	3,777	437
Other [b]		1,514	4,948	12,778	18,832	1,514	3,434	7,830	6,054	1,191
7. Total expenditure	TE (EDP)	**55,091**	**108,274**	**162,021**	**220,736**	**55,091**	**53,183**	**53,747**	**58,715**	**35,997**
Of which										
Compensation of employees	D.1	5,332	11,736	16,971	23,756	5,332	6,404	5,235	6,785	3,402
Intermediate consumption	P.2	2,113	4,317	6,327	8,725	2,113	2,204	2,010	2,398	1,306
Social transfers	D.62, D.632[c]	3,555	8,246	12,099	17,310	3,555	4,691	3,853	5,211	2,394
Interests expenditure	D.41	7,486	14,996	22,343	29,989	7,486	7,510	7,347	7,646	4,753
Subsidies	D.3	1,023	2,120	3,449	6,307	1,023	1,097	1,329	2,858	37
Gross capital formation	D.51	1,664	3,475	5,339	7,843	1,664	1,811	1,864	2,504	1,187
Capital transfers (includes financial assistance)	D.9	170	1,054	1,767	5,300	170	884	713	3,533	1,041
Other [d]		33,748	62,330	93,726	121,506	33,748	28,582	31,396	27,780	21,877

[b] P.11+P.12+P.131+D.39rec +D.7rec +D.9rec (other than D.91rec).
[c] Under ESA95: D6311_D63121_D63131pay; in ESA2010 D632pay.
[d] D.29pay+D.4pay (other than D.41pay) +D.5pay+D.7pay+P.52+P.53+K.2+D.8.
[e] According to Regulation (EC) No 479/2009.
* Consolidated and accumulated data for the General Government, Regional governments and Social Security Funds up to February.
Source: Ministry of Finance and Public Administrations.

Table A.8.3. – Quarterly budgetary execution in accordance with ESA standards for the General Government and its subsectors

(Continued)

ESA 2010		***Accumulated data***				***Non accumulated data***				
Million €	ESA Code	**2015**				**2015**				**2015**
		T1	**T2**	**T3**	**T4**	**T1**	**T2**	**T3**	**T4**	**Up to February***
B.9 EDP Net lending (+) / net borrowing (-)										
1. General Government	S.13									
2. Central Government	S.1311									
3. Regional Governments	S.1312	-1,973	-9,126	-11,355	-17,962	-1,973	-7,153	-2,229	-6,607	-1,275
4. Local Governments	S.1313									
5. Social Security	S.1314									
Regional Governments										
6. Total revenue	TR	**34,879**	**70,167**	**110,296**	**152,104**	**34,879**	**35,288**	**40,129**	**41,808**	**23,114**
Of which										
Taxes on production and imports	D.2	2,766	5,897	8,966	12,839	2,766	3,131	3,069	3,873	1,817
Current taxes on income, wealth, etc.	D.5	8,684	17,245	27,068	35,846	8,684	8,561	9,823	8,778	5,976
Capital taxes	D.91	506	1,072	1,666	2,442	506	566	594	776	292
Social contributions	D.61	113	199	289	381	113	86	90	92	53
Property income	D.4	96	217	331	558	96	121	114	227	49
Other [b]		22,714	45,537	71,976	100,038	22,714	22,823	26,439	28,062	14,927
7. Total expenditure	TE (EDP)	**36,852**	**79,293**	**121,651**	**170,066**	**36,852**	**42,441**	**42,358**	**48,415**	**24,389**
Of which										
Compensation of employees	D.1	16,135	35,233	51,377	71,235	16,135	19,098	16,144	19,858	10,941
Intermediate consumption	P.2	6,620	13,579	19,921	27,499	6,620	6,959	6,342	7,578	4,703
Social transfers	D.62, D.632[c]	6,592	14,219	21,135	29,763	6,592	7,627	6,916	8,628	4,376
Interests expenditure	D.41	1,067	2,106	3,072	4,219	1,067	1,039	966	1,147	568
Subsidies	D.3	471	1,146	1,671	2,716	471	675	525	1,045	212
Gross capital formation	D.51	2,444	5,193	9,340	12,473	2,444	2,749	4,147	3,133	1,727
Capital transfers	D.9	370	1,125	1,771	4,228	370	755	646	2,457	100
Other [d]		3,153	6,692	13,364	17,933	3,153	3,539	6,672	4,569	1,762

[b] P.11+P.12+P.131+D.39rec +D.7rec +D.9rec (other than D.91rec).
[c] Under ESA95: D6311_D63121_D63131pay; in ESA2010 D632pay.
[d] D.29pay+D.4pay (other than D.41pay) +D.5pay+D.7pay+P.52+P.53+K.2+D.8.
[e] According to Regulation (EC) No 479/2009.
* Consolidated and accumulated data for the General Government, Regional governments and Social Security Funds up to February.
Source: Ministry of Finance and Public Administrations.

Table A.8.4. – Quarterly budgetary execution in accordance with ESA standards for the General Government and its subsectors

(Continued)

ESA 2010		***Accumulated data***				***Non accumulated data***				
Million €	ESA Code	**2015**				**2015**				**2015**
		T1	**T2**	**T3**	**T4**	**T1**	**T2**	**T3**	**T4**	**Up to February***
B.9 EDP Net lending (+) / net borrowing (-)										
1. General Government	S.13									
2. Central Government	S.1311									
3. Regional Governments	S.1312									
4. Local Governments	S.1313	990	2,053	3,660	4,765	990	1,063	1,607	1,105	nd
5. Social Security	S.1314									
Local Government										
6. Total revenue	TR	**15,387**	**31,721**	**48,922**	**68,156**	**15,387**	**16,334**	**17,201**	**19,234**	**nd**
Of which										
Taxes on production and imports	D.2	5,592	12,243	17,935	24,366	5,592	6,651	5,692	6,431	
Current taxes on income, wealth, etc.	D.5	1,765	3,024	5,943	8,374	1,765	1,259	2,919	2,431	
Capital taxes	D.91	595	1,244	1,934	2,683	595	649	690	749	
Social contributions	D.61	54	116	173	255	54	62	57	82	
Property income	D.4	116	246	361	498	116	130	115	137	
Other [b]		7,265	14,848	22,576	31,980	7,265	7,583	7,728	9,404	
7. Total expenditure	TE (EDP)	**14,397**	**29,668**	**45,262**	**63,391**	**14,397**	**15,271**	**15,594**	**18,129**	**nd**
Of which										
Compensation of employees	D.1	4,785	10,347	15,225	21,156	4,785	5,562	4,878	5,931	
Intermediate consumption	P.2	4,575	9,203	13,425	19,006	4,575	4,628	4,222	5,581	
Social transfers	D.62, D.632[c]	274	552	828	1,158	274	278	276	330	
Interests expenditure	D.41	165	334	490	664	165	169	156	174	
Subsidies	D.3	341	604	863	1,434	341	263	259	571	
Gross capital formation	D.51	1,367	2,816	4,616	6,088	1,367	1,449	1,800	1,472	
Capital transfers	D.9	107	189	297	629	107	82	108	332	
Other [d]		2,783	5,623	9,518	13,256	2,783	2,840	3,895	3,738	

[b] P.11+P.12+P.131+D.39rec +D.7rec +D.9rec (other than D.91rec).
[c] Under ESA95: D6311_D63121_D63131pay; in ESA2010 D632pay.
[d] D.29pay+D.4pay (other than D.41pay) +D.5pay+D.7pay+P.52+P.53+K.2+D.8.
[e] According to Regulation (EC) No 479/2009.
* Consolidated and accumulated data for the General Government, Regional governments and Social Security Funds up to February.
Source: Ministry of Finance and Public Administrations.

Table A.8.5. – Quarterly budgetary execution in accordance with ESA standards for the General Government and its subsectors

(Continued)

ESA 2010		*Accumulated data*				*Non accumulated data*				
Million €	ESA Code	2015				2015				2015
		T1	T2	T3	T4	T1	T2	T3	T4	Up to February*
B.9 EDP Net lending (+) / net borrowing (-)										
1. General Government	S.13									
2. Central Government	S.1311									
3. Regional Governments	S.1312									
4. Local Governments	S.1313									
5. Social Security	S.1314	2,755	-4,290	-2,765	-13,592	2,755	-7,045	1,525	-10,827	1,455
Social Security										
6. Total revenue	TR	**37,852**	**74,315**	**111,043**	**146,255**	**37,852**	**36,463**	**36,728**	**35,212**	**25,016**
Of which						0	0	0	0	
Taxes on production and imports	D.2	0	0	0	0	0	0	0	0	0
Current taxes on income, wealth, etc.	D.5	0	0	0	0	0	0	0	0	0
Capital taxes	D.91	0	0	0	0	0	0	0	0	0
Social contributions	D.61	30,273	60,157	90,637	120,948	30,273	29,884	30,480	30,311	20,525
Property income	D.4	563	1,054	1,500	1,923	563	491	446	423	268
Other [b]		7,016	13,104	18,906	23,384	7,016	6,088	5,802	4,478	4,223
7. Total expenditure	TE (EDP)	**35,097**	**78,605**	**113,808**	**159,847**	**35,097**	**43,508**	**35,203**	**46,039**	**23,561**
Of which						0	0	0	0	
Compensation of employees	D.1	575	1,246	1,819	2,552	575	671	573	733	342
Intermediate consumption	P.2	287	569	836	1,159	287	282	267	323	192
Social transfers	D.62, D.632[c]	33,588	75,105	108,543	150,569	33,588	41,517	33,438	42,026	22,600
Interests expenditure	D.41	0	0	0	0	0	0	0	0	0
Subsidies	D.3	387	839	1,291	2,079	387	452	452	788	280
Gross capital formation	D.51	39	73	108	141	39	34	35	33	23
Capital transfers	D.9	0	0	0	63	0	0	0	63	0
Other [d]		221	773	1,211	3,284	221	552	438	2,073	124

[b] P.11+P.12+P.131+D.39rec +D.7rec +D.9rec (other than D.91rec).

[c] Under ESA95: D6311_D63121_D63131pay; in ESA2010 D632pay.

[d] D.29pay+D.4pay (other than D.41pay) +D.5pay+D.7pay+P.52+P.53+K.2+D.8.

[e] According to Regulation (EC) No 479/2009.

* Consolidated and accumulated data for the General Government, Regional governments and Social Security Funds up to February.

Source: Ministry of Finance and Public Administrations.

Table 9a. Expenditure Policy

	2013		2014		2015		2016	
	% GDP	% Total Expenditure	% GDP	% Total Expenditure	% GDP	% Total Expenditure	% GDP	% Total Expenditure
Education (1)	4.08	9.04	4.06	9.13	4.03	9.30	3.88	9.28
Health (1)	6.12	13.57	6.08	13.68	6.17	14.25	5.93	14.19
Employment (2)	3.30	7.32	2.71	6.08	2.29	5.28	2.13	5.10

[1] These dates must match the table 9b.

[2] This category of expenditure includes expenditure related to active employment policies, including public employment services.

Source: Ministry of Finance and Public Administrations.

Table A.9b. Change in General Government expenditure by function

Function	COFOG code	2011	2012	2013	2014	2015	2016	2017	2018	2019
		% GDP								
1 General public services	1	6.20	6.61	7.11	6.92	6.46	6.09	5.93	5.78	5.66
2 Defense	2	1.04	0.93	0.96	0.87	0.96	0.86	0.88	0.97	0.93
3 Public order and security	3	2.17	2.03	2.04	2.02	2.04	1.92	1.92	1.89	1.87
4 Economic affairs	4	5.66	7.95	4.51	4.42	4.21	4.13	4.07	3.92	3.95
5 Protection of the environment	5	0.95	0.89	0.84	0.84	0.82	0.78	0.78	0.77	0.77
6 Housing and community services	6	0.57	0.46	0.45	0.50	0.48	0.45	0.45	0.45	0.45
7 Healthcare	7	6.47	6.20	6.12	6.08	6.17	5.93	5.89	5.81	5.74
8 Leisure activities, culture and religion	8	1.51	1.21	1.15	1.15	1.11	1.07	1.07	1.06	1.06
9 Education	9	4.40	4.15	4.08	4.06	4.03	3.88	3.86	3.81	3.76
10 Social protection	10	16.83	17.51	17.87	17.62	17.04	16.70	16.40	16.16	15.87
11 Total expenditure	**TE**	**45.80**	**47.95**	**45.13**	**44.47**	**43.32**	**41.81**	**41.24**	**40.61**	**40.07**

Sources: National Institute of Statistics, Ministry of Economy and Competitiveness and Ministry of Finance and Public Administrations.

Table A.10. Degree of execution of CORA measures

	Initial stage	Medium stage	Advanced stage	Implemented	Total
General measures			1	10	11
Administrative duplicities		8	9	103	120
Administrative simplification		1	2	42	45
Common services and resources		3	4	31	38
Institutional Administration	1			7	8
Total	**1**	**12**	**16**	**193**	**222**

Source: Ministry of Finance and Public Administrations.

Table A.11. Refugees

	Impact on the headline balance - breakdown by functional categories (Million €)		
	2014	2015	2016
1. Initial reception costs [(a)]			
2. Transport (including rescue operations)			
3. Health-care			
4. Administrative costs (incl. processing applications for asylum)			4
5. Contributions to Turkey Facility (excluding through EU Budget)			153
6. Other costs and measures [(b)]			244
7. Total Impact on headline deficit [7 = Σ(1..6)] [(c)]			401

[(a)] Initial reception costs refer to the short-term costs arising from the arrival of refugees, such as those related to registration, shelter, food and subsistence allowances.

[(b)] Only the costs specifically related to the exceptional inflow of refugees in 2015 and 2016 should be considered. In geneal the column is expected to include the frontloading of integration focussed costs such as education, language courses and labour market measures as well as accommodation and social benefit payments.

[(c)] Total annual impact needs to equal the impact on the deficit in the respective years (before deducting EU compensations) as requested by the Member State.

Source: Ministry of Finance and Public Administrations.

	Impact on the headline balance - breakdown by ESA categories (Million €)		
	2014	2015	2016
1. Compesation of employees (D.1)			2
2. Intermediate consumption (P.2)			
3. Social payments (D.62, D.63)			
4. Subsidies (D.3)			
5. Gross fixed capital formation (P.51)			
6. Capital transfers (D.9) [(a)]			153
7. Other			246
8. Total impact on headline deficit [8 = Σ(1..7)]			401
9. Compensation from UE			
10. Total impact on headline deficit net of EU contributions (10 = 8 - 9) [(b)]			401
11. Total impact on headline deficit net of EU contributions (%GDP)			0.04

[(a)] Turkey Facility.

[(b)] Total annual impact needs to equal the impact on the deficit in the respective year (after deducting EU compensations) requested by the Member State.

Source: Ministry of Finance and Public Administrations.