2018 BUDGETARY PLAN AND QUARTERLY REPORTING

KINGDOM OF SPAIN

16/10/2017

NIPO: 169-17-???-?

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INTRODUCTION

The 2018 Budgetary Plan for the Kingdom of Spain has been prepared on the basis of a no-policy-change scenario. Pending the submission of the Budget of the Central Government and Social Security, which has been delayed with respect to its usual schedule, this Budgetary Plan has been prepared under a macroeconomic and fiscal no-policy change scenario for 2017 and 2018, that is, without including new economic policy measures. This is a cautious scenario, which also includes the uncertainty related to the current political situation in Catalonia. In any case, despite the postponement of the presentation of the 2018 Draft Budget, preparation thereof is already in a very advanced stage, and the Government intends to submit it as soon as the situation allows doing so. At that time, an update of the Budgetary Plan shall be submitted, with all the available information updated which, in addition to the "no-policy-change" scenario shall include the necessary economic policy measures needed to guarantee compliance with budgetary targets for 2018.

Notwithstanding the above, the Budgetary Plan includes certain new aspects with respect to the fiscal strategy reported in April this year in the Stability Programme. Since the publication of the Stability Programme, more updated data is available regarding taxcollection and budgetary execution of the different sub-sectors of the General Government and, therefore, the forecasts of the main revenues and expenses for 2017 have been updated, in order to include the underlying trends in the new available execution data. Similarly, such trends have been projected towards 2018. Besides, as a new element of the Stability Programme, in the case of the Regional Governments, the Budgetary Plan includes the information they have submitted regarding the basic guidelines of their 2018 Budgets.

According to the latest available tax collection and budgetary execution data, compliance of the public deficit target for 2017, which was fixed at 3.1 per cent of GDP, is guaranteed, with an even lower risk. This places us in a good starting position. Notwithstanding the above, the projection under the no-policy-change" assumption, together with the slowdown of real economic growth expected for 2018, takes the deficit estimates for 2018 to 2.3 per cent. This is the automatic result of projecting the 2017 General Government deficit, once the cyclical improvement estimated for 2018 has been discounted.

In terms of the macroeconomic scenario, the Budgetary Plan includes a "no-policy-change" scenario, in which the Spanish economy trends are extended. These are prudent projections. They include the slight economic downturn according to the forecasts of the main national and international institutions, but which do also take into account a slight restrain of internal demand, due to the current political situation in Catalonia. The growth of the Spanish economy for 2018 remains robust, and above the Eurozone average forecast, and much more sustainable and balanced than in the past, thanks to the structural reforms undertaken. Additionally, economic growth continues to be intensive in terms of job creation; this will enable the unemployment rate to decline down to an annual average of 15.5 per cent in 2018.

Finally, it must be pointed out that this report also includes all the additional information for the compliance with the information requirements set out for Member States within the framework of the excessive deficit procedure, as provided by Regulation 473/2013, of 21 May, on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of Member States in the euro area, reinforced by means of the Council Decision of 6 August 2016. Therefore, detailed additional information on budgetary execution in terms of cash and national accounts is provided for the Spanish General Government as a whole and for each sub-sector, also including information on contingent liabilities

[1]

MACROECONOMIC SCENARIO 2017-2018

The macroeconomic scenario set out below is at the basis of the Budgetary Plan for 2018, and has been endorsed by the Independent Authority for Fiscal Responsibility (AIReF, as per the Spanish acronym).

It is a "no-policy-change" macroeconomic scenario that extends the trends of the Spanish economy, that is, it only includes those measures already approved by the Government so far.

The real GDP of the Spanish economy has gone from registering an annual downturn of 3.6 per cent in 2009, to growing in the past few years at a rate over 3 per cent (3.4 per cent in 2015, 3.3 per cent in 2016 and 3 per cent in the first half of 2017). On a quarterly basis, the GDP has been increasing for nearly four consecutive years, with an average growth rate between the beginning of 2014 and mid-2017 of 0.8 per cent, far higher than that of the euro area.

The main engine of growth of the Spanish economy is national demand; however, its contribution to the GDP increase has moderated in the last years, while the contribution of the net external demand has increased and has been showing positive values since early 2016. Therefore, the growth pattern is now more sustainable and balanced, registering six consecutive quarters of positive contributions of both national demand and net external demand to year-on-year (y-o-y) GDP growth, something that has not occurred since 1997. Also, the economic recovery, supported by a dynamic domestic demand, has been for the first time in terms of the savings-investment balance, compatible with current account balance surplus and net lending vis-à-vis the rest of the world, a situation that is expected to continue in the next years. In the first half of 2017, national demand has provided 2.3 percentage points to the annual GDP growth, two tenths less than in the whole 2016, and net external demand 0.7 points, the same as in the previous year, due to the growth in exports, which increased by 5.5 per cent y-o-y in that period, higher than that of imports, which increased at a rate of 3.7 per cent.

Among the national demand components, the dynamism of private consumption expenditure and productive investment stand out, all of which register positive y-o-y growth rates since the beginning of 2014. Private final consumption expenditure continues to expand, though more moderately in the first half of 2017 when compared to the same period of 2016, thanks to the dynamism of employment, the improvement of consumer confidence and the positive financial conditions. It has therefore registered an increase in the first half of the year of 2.5 per cent. Gross fixed capital formation, on its part, experienced in the period January-June 2017 a y-o-y increase of 4.1 per cent, two tenths higher than that of the same period of the last year. This evolution can be explained in light of the acceleration of investment in construction (3.7 per cent), while investment in capital goods moderated the growth rate (5 per cent).

The private sector gave rise to major net savings, and contributed to deleveraging the economy in a significant way. Non-financial companies have increased their annual savings flows, from 8.6 per cent of GDP in 2007, to flows of around 17.4 per cent at the end of 2016 (and similar to the 2017 annualised data until the 2nd quarter). Investment has declined by more than two points, from 17.3 per cent in 2007 to 14.9 per cent at the end of 2016 (and to 15.2 per cent in annualised terms until the 2nd quarter of 2017).

This behaviour has worked in favour of the intense deleveraging from the maximum indebtedness amounts registered at the beginning of the crisis: since mid-2010, indebtedness has decreased by almost 55 pp of GDP, from 217.5 per cent of GDP to 163.1 per cent of GDP in the second quarter of 2017; the deleveraging of non-financial companies within that same period exceeded 30 percentage points and that of households exceeded 20 percentage points (from 132.9 per cent to 99.9 per cent in the case of companies and from 84.7

per cent to 63.1 per cent of GDP for households and NPISH). The debt-to-GDP ratio of the non-financial private sector in Spain almost converges with the euro area average and, in the case of non-financial companies, it stands since 2016 well below that of the euro area since 2016.

Since 2011 until August 2017, the gross indebtedness of non-financial companies has decreased by 296,911MĐ, or 25 per cent; this represents 79 per cent of the gross indebtedness reduction since April 2009, when it reached the maximum, while since 2011 until the first quarter of 2017, the non-financial companies' indebtedness of the euro area has increased by 13 per cent.

The tax reform has introduced certain mechanisms to accelerate this deleveraging process in non-financial companies. One of the explicit objectives of Act 27/2014, of 27 November, on the Corporate Income Tax, is to encourage companies' capitalisation, by means of different mechanisms, such as the limits implemented in deductibility of financial costs or the new capitalisation reserve. Also, the fiscal consolidation of the General Government, a drive that remains in the programming horizon of this Budgetary Plan, contributes to guaranteeing that the lending capacity of our economy is preserved, in an amount of around 2 per cent of GDP.

The debit balance of the net international investment position as a percentage of GDP has decreased from 91.9 per cent in 2011 to 86.2 per cent in the second quarter of 2017.

Data of consumption expenditure of the General Government, in volume, which registered in the first half of the year a y-o-y increase of 0.8 per cent, four tenths lower than that of the same period of 2016, confirm the trend in the evolution of expenses.

Economic growth is also sustainable because structural reforms and, in particular, the labour market reform have allowed it to consolidate without giving rise to price tensions. This dynamic has led to competitiveness gains, which results in improvements of the contribution of external demand to growth, as was mentioned above.

Economic growth is also being intensive in job creation. According to the Labour Force Survey corresponding to the second quarter of 2017, employment has increased by nearly two million people since the minimum registered at the beginning of 2014. In the second quarter of this year, over half a million net jobs were created (512,300) with respect to the previous year, and unemployment was reduced by more than 600,000 people, the total number of unemployed standing below 4 million for the first time since the beginning of 2009. The unemployment rate stands at 17.2 per cent of the labour force, the lowest since the second quarter of 2009.

The macroeconomic scenario that accompanies this Budgetary Plan has been prepared under a no-policy-change assumption and taking into account the recent evolution of the Spanish economy.

It is important to highlight that the removal of the uncertainty and the approval of the 2018 General State Budget (PGE) would result in higher growth and job creation rates in 2018, which would in turn facilitate compliance with the public deficit target.

Regarding the external hypotheses on which the scenario is based, the exchange rate, oil prices and interest rates have been estimated taking into account the recent evolution of these variables, while assumptions on the growth of Spanish export markets and global GDP are in line with the estimates of major international institutions.

Table 1.1 Basic Assumptions

% variation over the same period of the previous year, unless otherwise stated.

	2016	2017	2018
Short-term interest rates (3-month Euribor)	-0,3	-0,3	-0,3
Long-term interest rates (10-year public debt, Spain)	1,4	1,7	2,1
USD/euro exchange rate	1,1	1,1	1,2
World GDP growth	3	3,5	3,6
Euro-zone GDP growth	1,8	2,2	1,8
Spanish export markets	2,4	3,6	4,1
Oil price (Brent, Dollars/barrel)	43,3	52,8	54,8

Sources: European Central Bank, European Commission, International Monetary Fund and Ministry of Economy, Industry and Competitiveness.

Regarding the international context, the main estimates are set out in Table 1.1., and point to the acceleration of the global economy, of half a point in 2017, up to 3.5 per cent, and of one tenth, in 2018, up to 3.6 per cent, in line with the latest estimates issued by the main international organisations. For the euro area, growth is projected to pick-up this year up to 2.2 per cent, driven by the high dynamism of economic activity in a context of lower political risks, and for 2018 a moderation of four tenths is expected. Positive perspectives regarding the evolution of demand of our main trading partners point to an acceleration of export markets this year and the next one.

The euro has appreciated by more than 10 per cent against the dollar since the beginning of this year and is expected to stand on annual average at 1.1 dollars per euro in 2017, and around 1.2 dollars in 2018.

Regarding the prices of commodities, after the upward trend during last year of Brent oil prices, which reached approximately 55 dollars during the first months of 2017 due to the decrease in oil production, among other factors, and in accordance with the evolution projected by forward markets, an average price of the Brent barrel of 52.8 dollars is expected for 2017, 22 per cent higher than that of 2016, with a slight additional increase being also expected for 2018, up to 54.8 dollars per barrel.

Regarding short-term interest rates, certain stability is expected, in accordance with the monetary policy of the European Central Bank, with slightly negative levels in the projection period. Regarding long-term interest rates, an increase has been forecast for 2017, up to 1.7 per cent, and up to 2.1 per cent in 2018.

On the basis of these external hypotheses, and considering the most recently published information, the macroeconomic scenario that accompanies this Update of the Budgetary Plan projects a real GDP growth rate in 2017 of 3.1 per cent, which implies an upward revision of one tenth with respect to the forecast of the scenario of the Report on the Situation of the Spanish Economy that was published in July.

The higher growth expected for 2017 with respect to the forecast of July this year is mainly due to the greater contribution of net external demand (0.7 percentage points, against 0.5 points of the previous scenario), which can be in turn explained due to the downward revision of import growth, higher than that of export growth. The contribution of national demand to GDP growth is, for its part, revised slightly downwards, one tenth, down to 2.4 percentage points. By national demand components, equipment investment and public consumption growth are revised upwards, up to 4.8 per cent and 0.9 per cent, respectively, while that of investment in construction remains unchanged at 3.9 per cent and that of private consumption is revised one tenth downwards, down to 2.5 per cent.

Table1.2. Macroeconomic outlook

Volume chain indices, Year 2010=100, unless otherwise stated

	ESA Code	2016	2016	2017	2018
		Level	year-on-year % change		
1. Real GDP	B1*g	102,3	3,3	3,1	2,3
2. Potential GDP			0,5	0,9	0,9
Contributions:					
Labour			-0,2	-0,1	-0,1
Capital			0,3	0,3	0,4
Total factor productivity			0,5	0,6	0,6
3. Nominal GDP (Billion euros)	B1*g	1.118,5	3,6	4,3	4,0
Components of real GDP					
4. Private consumption expenditure	P.3	98,4	3,0	2,5	1,8
5. Government consumption expenditure	P.3	95,4	0,8	0,9	0,7
6. Gross fixed capital formation	P.51	94,6	3,3	4,2	3,4
7. Change in inventories (% of GDP)	P.52 + P.53	98,7	0,0	0,0	0,0
8. Exports of goods and services	P.6	128,9	4,8	6,2	5,1
9. Imports of goods and services	P.7	107,2	2,7	4,4	4,1
Contributions to real GDP growth					
10. Domestic demand			2,5	2,4	1,8
11. Change in inventories	P.52 + P.53		0,0	0,0	0,0
12. External balance of goods and services	B.11		0,7	0,7	0,5

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

For 2018, under a no-policy-change scenario, a real GDP growth rate of 2.3 per cent is expected, which implies a downturn of eight tenths with respect to that of 2017. This slowdown reflects the moderation of the economic cycle, as in the estimates issued by the main national and international organisations, but at the same time a slight restrain of national demand, arising from the negative impact due to the uncertainty related to the current political situation in Catalonia and the absence of a basic instrument of economic policy such as the General State Budget.

Notwithstanding the above, the expected economic growth for 2018 will continue to be higher than that forecast for the euro area, supported by extended job creation, improvement in confidence and favourable financing conditions. National demand will remain in 2018 the main drive of growth for the Spanish economy with a contribution of 1.8 percentage points, while the contribution of net external demand to growth remains high, at 0.5 percentage points.

Among the national demand items, private consumption keeps a solid growth rate in 2018, of 1.8 per cent, in a context of favourable financing conditions and economic and job creation perspectives. Gross fixed capital formation continues recording an expansive path, at a rate of 3.4 per cent, in line with the growth of private consumption and exports of goods and services, and fostered by positive corporate expectations and reduced interest rates, within a context in which the deleveraging process carried out reduces financial pressure and releases other resources for investment.

Competitiveness gains and the favourable evolution of our export markets will translate into a solid increase of exports, which would grow by 6.2 per cent in 2017 and 5.1 per cent in 2018. Imports of goods and services, on their part, accelerate to 4.4 per cent in 2017 and slightly moderate the growth rate in 2018 to 4.1 per cent, in line with the behaviour of final demand.

The expected evolution for exports and imports will lead to a high trade surplus of goods and services during the next years, more than offsetting the net borrowing of primary and secondary income. Thus, the current account surplus is extended in the forecasting horizon, after four years of positive balances, and the Spanish economy will generate net lending vis-à-vis the rest of the world of approximately 2 per cent of GDP.

Economic growth of the Spanish economy will continue to be intensive in job creation, with the job creation threshold largely below 1 per cent, due to the flexibility implemented in the market by means of the 2012 labour reform. Full-time equivalent job are expected to grow by 2.9 per cent in 2017, and 2.4 per cent in 2018; this reflects a slight moderation of the growth rate, but implies the creation of over 500,000 full time equivalent jobs this year, and approximately 425,000 next year. The unemployment rate, for its part, will decrease in 2017 by almost 2 and a half points with respect to that of last year, down to 17.2 per cent of the labour force, in annual average terms, and will decrease by almost two additional points in 2018, down to 15.5 per cent.

Table 1.3 Evolution of the Labour market (*)

	ESA Code	2016	2016	2017	2018
		Level	year-on-year % change		
1. Total employment (Full-time equivalent employment. Thousands)		17.417,7	3,0	2,9	2,4
2. Unemployment rate (% of labour force)			19,6	17,2	15,5
3. Productivity per worker (Thousand euros)		63,5	0,3	0,2	0,0
4. Compensation of employees (Billion Euros)	D.1	532,9	2,9	4,1	3,6
5. Compensation per employee (**) (Thousand euros)		35,4	-0,3	1,1	1,1
6. Hours worked (millions)		32.304,5	2,6	1,8	1,8
7. Productivity per hour		34,2	0,6	1,3	0,5

(*) National Account data, except for unemployment rate.

(**) Compensation per employee, full-time equivalent.

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

A price moderation environment is expected, that will continue favouring the improvement of competitiveness and of our exports. The GDP deflator percentage change will increase from 0.3 per cent in 2016 up to 1.2 per cent in 2017 and 1.6 per cent in 2018, mainly due to the higher increase of the private consumption deflator, which goes from a negative rate in 2016 to an average growth rate of 2 per cent in 2017 and 1.6 per cent in 2018.

Table 1.4. Evolution of prices

	ESA Code	2016	2016	2017	2018
		Level	year-on-year % change		
1. GDP deflator		101,2	0,3	1,2	1,6
2. Private consumption deflator (*)		105,9	-0,1	2,0	1,6
3. Public consumption deflator		99,7	0,1	0,3	0,7
4. Gross fixed capital formation deflator		94,9	1,0	1,3	2,3
5. Exports prices deflator (goods and services)		103,7	-1,1	3,6	3,3
6. Imports prices deflator (goods and services)		107,7	-1,6	5,0	3,4

(*) It includes households and non-profit institutions serving households.
Sources: National Institute of Statistics and Ministry of Economy, Industry and Competitiveness.

Table 1.5 Sectoral Balances

	ESA Code	2016	2017	2018
		% GDP		
1. Net lending (+) / Net borrowing (-) vis-à-vis the rest of the world	B.9	2,1	1,8	1,7
Balance on goods and services		3,0	3,3	3,7
Balance of primary incomes and transfers		-1,1	-1,6	-2,1
Capital account		0,2	0,1	0,1
2. Net lending (+) / Net borrowing (-) of the private sector	B.9	6,6	5,0	4,0
3. Net lending (+) / Net borrowing (-) of General Government (*)	B.9	-4,5	-3,1	-2,3

(*) The figures include financial assistance.
Sources: National Institute of Statistics and Ministry of Economy, Industry and Competitiveness.

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ORIENTATION OF THE FISCAL POLICY

2.1. Stability Targets

The consolidation path that was anticipated in the 2017-2020 Stability Programme is based on the path fixed by the Council of the European Union in its Decision issued on 8 August 2016, and continues it for 2019 and 2020.

In accordance with said path, public deficit target for the Spanish General Government is set at 3.1 per cent in 2017, 2.2 per cent in 2018, 1.3 per cent in 2019 and 0.5 per cent in 2020.

Subsequently, on 7 July 2017, by means of an Agreement of the Council of Ministers and, then, in the Parliament on 10 July, public budgetary targets for the whole of the General Government regarding the period 2018-2020, and the budgetary stability objectives for each subsector of the Spanish General Government were approved; these are set out in the table below.

Table 2.1 Budgetary targets of the General Government 2018-2020

% GDP	2018	2019	2020
Central Administration	-0.7	-0.3	0.0
Social Security	-1.1	-0.9	-0.5
Autonomous Communities	-0.4	-0.1	0.0
Local Entities	0.0	0.0	0.0
General Government	**-2.2**	**-1.3**	**-0.5**

In accordance with the path fixed, all subsectors will participate in the required adjustment: Autonomous Regions will have a deficit target of 0.4 per cent of GDP for next year, with a decrease by two tenths with respect to the previous year target, and 0.1 per cent in 2019, reaching the budgetary balance by 2020. For Social Security, the deficit target is progressively reduced down to 1.1 per cent in 2018, 0.9 per cent in 2019 and 0.5 per cent in 2020, mainly due to the potential improvement in the evolution of social contributions. The stability target of Local Entities is maintained in a budgetary balance for the entire projection period. On the other hand, the Central Administration has set itself a deficit reduction target for 2018, down to 0.7% of GDP, considering an improvement in tax collection and the extension of the public expenditure containment due to, among other things, the application of the expenditure rule; 0.3 per cent in 2019 and budgetary balance in 2020.

Regarding the stability targets for Local Entities, it should be noted that as a result of the application of the expenditure rule, it is expected that this subsector will continue to record surpluses in the whole projection period, in similar amounts to those recorded so far, which implies an additional guarantee element of compliance with the target of the whole General Government during the whole projection period.

According to most recent data, the closing projection for 2017 indicates that the deficit target will be reached, which was fixed in 3.1 per cent; by subsectors, the execution forecast for 2017 a deficit of -1.7 per cent of the GDP in the Central Government, for Social Security of -1.5 per cent of the GDP, for the Autonomous Communities of -0.6 per cent of the GDP, while for the Local Entities a surplus of +0.6 of GDP is expected. A main element which has allowed the deficit to be reduced is the application of the expenditure rule. Forecast deficit projection for 2018 is -2.3 per cent of the GDP in a no policy change scenario; that year the Excessive Deficit Procedure will cease to be applicable to us. Said forecast has been prepared by excluding the impact of the estimated cycle for 2018 to the expected deficit of General Government for 2017. Once the Budget for next year is presented, the measures required to guarantee compliance with the stability targets in 2018 shall be disclosed.

Table 2.2 Scenario of advance settlement in national accounting

In % of GDP

Subsector	2016	2017 (comunicado Eurostat)	2018 (forecast)
Central Administation	-2.5%	-1.7%	-0.8%
Social Security	-1.6%	-1.5%	-1.1%
Territorial Administrations	-0.2%	0.0%	-0.4%
General Government	-4.3%	-3.1%	-2.3%

2.2. Revenue and expenditure forecasts

The main objective of the fiscal strategy projected until 2018 is to achieve sound public finances in order to achieve and maintain the decreasing trend of public debt.

Said fiscal strategy for the General Government consists of keeping the public revenue to GDP ratio above 38% during the whole period, with a slightly growing trend and a ratio of spending to GDP decreasing by almost 2 points of GDP, from 41.2% of GDP in 2017 to 39.1 per cent in 2020, just like it was stated in the Stability Programme in April.

Table 2.3 Income and expenditure targets for the whole General Government

On the basis of a constant policy scenario in 2018
In % of GDP

	ESA Code	2017	2018
1. Total revenue target	TR	38.1	38.3
Of which			
1.1. Taxes on production and imports	D.2	11.7	11.7
1.2. Current taxes on income, wealth, etc.	D.5	10.3	10.5
1.3. Capital taxes	D.91	0.5	0.5
1.4. Social contributions	D.61	12.2	12.2
1.5. Property income	D.4	0.6	0.6
1.6. Other		2.7	2.7
p.m.: Presión fiscal (D.2+D.5+D.61+D.91-D.995)		34.7	34.9
2. Total expenditure target	TE	41.2	40.6
Of which			
2.1. Compensation of employees	D.1	10.6	10.2
2.2. Intermediate consumption	P.2	5.0	5.0
2.3. Social transfers	D.62, D.63	17.8	17.5
Of which unemployment benefits		1.5	1.4
2.4.Interests	D.41	2.6	2.6
2.5. Subsidies	D.3	1.1	1.1
2.6.Gross fixed capital formation	P.5	1.9	2.0
2.7. Capital transfers	D.9	0.7	0.6
2.8. Other		1.6	1.5

Income ratio increases from 38.1 per cent of the GDP in 2017 to 38.3 per cent of the GDP in 2018, due to the effect of regulatory standards that were recently approved and due to the proper evolution of the economy. Social security contributions follow a growing trend, with a significant upturn in 2017, reaching a rate of 4.9 per cent boosted by the recovery of the labour market. The good evolution of contributions can be also explained in light of the impact of certain measures adopted in 2016, such as the removal of the limit of 3% of the maximum contribution base and the 8 per cent rise of minimum wage.

In terms of expenditure, the ratio since 2017 to 2018 is reduced down to 40.6 per cent of GDP, due to the public spending restraint, mainly because of the assumption of the freezing of public salaries, in a no- policy change scenario. Spending growth during the projection period remains under the nominal GDP growth, an aspect in which the application of the expenditure rule at all government levels is playing a mayor role.

A significant reduction in the ratios to GDP of certain items can be seen, where the reduction in general services as a result of the reduction of debt interest stands out, as well as the decrease of expenditure in unemployment benefits. The evolution of the main items comprising public expenditure, compensation of employees, intermediate consumption and social transfers in kind shall grow below the nominal growth of the economy; this is necessary for the General Government to fulfill the expenditure rule. Real public consumption remains at a growth rate of approximately 0.7 per cent in 2018.

Intermediate consumption is also expected to grow below nominal GDP growth, with a slight decrease in 2018.

As for social transfers in kind, they fall slightly in 2017 and 2018, as a result of a greater efficiency in the field of health and education accords, as well as in the hospital expenditure field and the evolution of said expenditures.

Expenditure in social transfers in kind, mainly determined by pension expenditure, grows at an annual average of 3.6 per cent until August 2017 and its growth is expected to slow down, due to expenditure containment related to the reforms undertaken since 2011. The second component of the group is spending on unemployment, which experiences a reduction in the projection period as employment increases and the unemployment rate falls. This circumstance explains that social transfers other than in kind maintain a growth standing at 2.2 per cent y-o-y in 2017 and slightly rise up to 2.6 per cent in 2018.

Finally, with regard to the evolution of gross capital formation (GFCF), it is estimated that in 2018, this group will be affected by the 2.2 billion allocated to cover the financial responsibility derived from the judicial proceedings of the eight toll highways that are in bankruptcy proceedings, estimated to come into effect in that period. However, efforts are being made to submit said highways to a new tender process in the next years, which will generate future income. A slight growth of investments spending at both regional and local level is also expected for 2018.

2.3. Orientation of the fiscal policy

For the purpose of analysing the orientation of the fiscal policy, Table 2.4 sets forth the real GDP growth rates, as well as potential GDP and output gap forecasts for the 2017-2020 period, following the methodology of the production function used by the European Commission (EC) and agreed within the Output Gap Working Group (OGWG).

Table 2.4 Budgetary goals for the whole General Government and its sub-sectors

	Código ESA	2016	2017	2018	2019	2020
Net lending (+) / Net Borrowing (-) by subsector in % of GDP						
1. Total General Government	S.13	-4,5	-3,1	-2,3	-1,3	-0,5
2. Central Government	S.1311	-2,2	-1,1	-0,8	-0,3	0,0
3. Regional Governments	S.1312	-0,7	-0,6	-0,4	-0,1	0,0
4. Local Government	S.1313	0,0	0,0	0,0	0,0	0,0
5. Social Security funds	S.1314	-1,7	-1,4	-1,1	-0,9	-0,5
General Government (% of GDP, unless otherwise specified)						
6. Interest expenditure	D.41	2,8	2,6	2,6	2,5	2,5
7. Primary balance		-1,7	-0,5	0,3	1,2	1,9
8. One-offs and other temporary measures (*)		-0,3	-0,2	-0,2	0,0	0,0
Of which financial one-offs		-0,2	-0,1	0,0	0,0	0,0
9. Real GDP (year-on-year % change)		3,3	3,1	2,3		
10. Potential GDP (year-on-year % change)		0,5	0,9	0,9	1,1	1,3
Contributions:						
Labour		-0,2	-0,1	-0,1	0,0	0,1
Capital		0,3	0,3	0,4	0,4	0,5
Total factor productivity		0,5	0,6	0,6	0,6	0,7
11. Output gap		-3,1	-0,9	0,5	1,6	2,5
12. Cyclical balance		-1,7	-0,5	0,3	0,9	1,4
13. Cyclically-adjusted balance (1-12)		-2,8	-2,6	-2,6	-2,2	-1,9
14. Cyclically-adjusted primary balance (13+6)		0,0	0,0	0,0	0,3	0,6
15. Structural balance (13-8)		-2,5	-2,4	-2,3	-2,2	-1,9

(*) A positive sign corresponds to a deficit reduction measure.
Sources: Ministry of Economy, Industry and Competitiveness and Ministry of Finance and Civil Service

Potential GDP extends in the projection horizon the momentum started in 2015 with gradually increasing growth rates which remain slightly below 1% in 2018. The potential GDP acceleration accumulated in the period 2017-2018, of 0.4 points, can be explained by the growing profile of the contributions of labour factor, capital and Total Factor Productivity. As a result, the output gap is reduced in absolute value terms in 2017 (from -3.1 per cent in 2016 down to -0.9 per cent) and will be positive in 2018 (0.5 per cent).

Based on the output gap calculations, the path of the General Government deficit has been split into its cyclical and structural components. In 2017, the economic cycle will contribute with 1.2 points to the deficit reduction and the structural effort is two tenths of GDP, which means a nominal fiscal adjustment of 1.4 points, with public deficit standing at 3.1 per cent of GDP.

In 2018, the correction of the public deficit will be mainly determined by the contribution of the economic cycle, which improves the public balance by eight tenths of GDP, and the resulting structural effort is basically zero, since this is a no-policy-change scenario.

Table 2.5 Discretionary Effort Indicator

Thousands of millions of €, unless otherwise stated

	2016	2017	2018	2019	2020
Discretionary revenues	-1,5	4,9	0,3	0,0	0,0
Total expenditure	472,0	480,9	492,3	502,9	513,8
Interest	31,4	30,6	31,0	31,7	32,3
Unemployment expenditure	18,6	17,7	17,6	17,8	18,4
Expenditure excluding interest and unemployment (E)	422,0	432,7	443,7	453,3	463,1
Change in E	3,2	10,6	11,0	9,7	9,8
Reference rate (year-on-year % change)	0,8	1,7	2,3	2,6	2,9
One-offs and other temporary measures	-3,0	-2,7	-2,7	0,0	0,0
Change in E excluding expenditure one-offs	-2,7	10,3	11,0	7,0	9,8
Discretionary fiscal effort indicator	-0,1	0,1	0,0	0,2	0,3
Discretionary fiscal effort indicator [1]	0,4	0,2	0,0	0,4	0,3

([1]) Estimated without one-off and other temporary measures.
Sources: Ministry of Economy, Industry and Competitiveness and Ministry of Finance and Civil Service.

Table 2.6 General Government Debt Development (Q13) and Forecasts

	ESA Code	2016	2017	2018	2019	2020
1. Gross debt [a]		99,0	98,1	96,8	94,5	91,5
2. Change in gross debt / GDP ratio		-0,5	-0,9	-1,4	-2,2	-3,0
Contributions to change in gross debt / GDP ratio						
3. Primary balance		-1,7	-0,5	0,3	1,2	1,9
4. Interest expenditure	D.41	2,8	2,6	2,6	2,5	2,5
5. Stock-flow adjustment		-1,5	0,1	0,1	0,1	0,1
p.m.: Implicit interest rate		2,9	2,8	2,7	2,7	2,7

([a]) As defined in EC Regulation number 479/2009.
Source: Ministry of Economy, Industry and Competitiveness.

[3]

2018 GENERAL BUDGET DRAFT

3.1. Budgetary Plan for the Central Administration and the Social Security

The Government has decided to postpone the presentation of the General State Budget Draft for 2018, which includes the State budget and that of the Social Security, the autonomous entities of the General State Administration, Public Companies and State corporations.

However, the process for adoption of the General State Budget for 2018 is at a very advanced stage, and the Government intends to present it as soon as the political situation improves. Therefore, among other aspects, the State's expenditure ceiling had already been approved, and it was fixed in 119,834 million Euro, thus registering an increase of 1.26 per cent with respect to that of 2017, which would enable compliance with the expenditure rule in 2018.

In the event that the PGE 2018 is not approved before 1 January 2018, the 2017 General State Budget will be automatically extended in 2018 until the approval of a new Budget. As for the extension of the expenditure budget, the initial budgetary appropriations of the previous year will be the new 2017 budget after removing some expenditure credits that correspond to programmes or performances that end up in 2017. The extension does not only affect the State Budget, but also its institutional framework, including all companies, funds and state-owned public foundations.

Furthermore, having extended the budget under the above terms, there are no restrictions for ordinary budget management actions to be conducted, including budget amendments required to adapt extended credit to the undertaken stability targets.

So as to estimate social security expenditure, the increase in the amount of pensioners, the changes in the average pension and the 0.25% uprating of pensions, as set forth in Act 23/2013 governing the Sustainability Factor and the Uprating Index of the Social Security Pension System for 2018, have been taken into consideration.

Also the extension of the PREPARA programme has been taken into consideration, with the agreement of social stakeholders and Autonomous Regions, as well as the Employment Activation Programme.

3.2. Budget of Territorial Administrations

In 2017 the approval process of the Regional Governments general budget has been influenced by the extension of the 2016 General State Budget and by the deadline for setting the stability objectives for financial year 2017, meaning a delay of the usual dates of approval. Finally, all Autonomous communities approved the 2017 Budget. All the Autonomous Communities, with the exception of Catalonia, have submitted their main budgetary lines for 2018, pursuant to the provisions of section 27.2 of the Organic Act 2/2012, of 27 April, on Budgetary Stability and Financial Sustainability, with scenarios that are compatible with the stability target for 2018 of 0.4 per cent of their regional GDP. Regarding said scenario, it is worth noting the expected evolution of the financial system resources subject to payment on account and subsequent settlement, which, without considering the provincial participation for the Regions of Murcia and Asturias, would increase in 2018 according to data reported to Autonomous Communities in the Council on Fiscal and Financial Policy (CPFF) on 27 July, a 4% over that of 2017, which is equivalent to an increase of 4,020 million euro. However, said evolution is subject to the process of submission and approval of the General State Budget for 2018.

Local Entities shall have their budgets approved on or before 31 December of the year before that in which it should be applied. Budgets shall be approved in balance or surplus in terms of national accounts and in budgetary terms, with all expenses and income, both of financial and non-financial nature, being taken into account in this last case. They are also subject to the expenditure rule, just like the rest of the General Government, and therefore their non-financial cost to be included in terms of the Organic Law of Budgetary Stability and Financial Sustainability shall not be annually increased over the reference national GDP growth rate in the medium term, which is 2.4% for 2018.

[4]

DISCRETIONARY MEASURES AND IMPACT OF THE MEASURES

4.1. Within the scope of the General State Administration

Since the presentation of the last Budgetary Plan, on 9 December 2016, the Government of Spain has approved a set of tax measures in order to promote certain sectors of activity, as well as to adapt the regulation of certain tax instruments to new management systems or to EU Law. Such measures are set out in the General State Budget for 2017 as well as other regulatory instruments, and affect in a limited way, in terms of collection, the different tax instruments, such as the Corporation Tax, Personal Income Tax, Value Added Tax, certain special taxes, charges, etc. The description is listed in Annex I to this document.

Execution of 2017 is in line with the budget; we must highlight, in cumulative data until August, the increase of tax income by 7.3% in terms of National Accounts, due to the increase of Corporation Tax and Value Added Tax. The increase of these two taxes arises as a result of the measures adopted at the end of 2016, which involved, for Corporation Tax, an increase of instalment payments and, for Value added tax, a new way to manage deferrals.

Special mention must be made to the amendment to the Regulation of the Value added tax (Royal Decree 529/2017, of 26 May), that facilitates the adjustment of taxpayers to the new system for the keeping of ledgers of Value added tax through the electronic office of the State Tax Administration Agency. For such purpose, a new extraordinary term for deregistration and withdrawal was established, respectively, from the record of monthly reimbursement and the application of the special regime of entities group before 1 July 2017, date of entry into force of the abovementioned system, as well as its non-application to taxpayers who chose the simplified regime.

The State's tax income include collection results of prevention and fight against tax and customs fraud obtained by the Tax Authority (AEAT), that is, the amount, in collection terms, arising from the actions carried out by the AEAT, for the prevention and control of fraud (income from administrative settlements and for the lowering of reimbursements), as well revenue arising as a result of such actions (late self-assessments).

Collection results from the prevention and fight against fraud activities carried out by the Tax Authority reached during the first half of 2017 a total sum of 7,459 million euro, meaning an increase of 5.17% compared to the same period of 2016. This result, together with the expected evolution until the end of the year, allows us to expect the results for 2017 continue through the path that began in 2012, with the approval of several regulations that reinforced the instruments the AEAT has available, and which enabled obtaining, for each of the years, record results in the fight against fraud.

The measures adopted regarding the fight against fiscal fraud are expected to involve a significant increase of collection figures in 2017 and 2018, as set out in table 5.a. of the annex.

Within the field of Public Procurement, there has been significant progress in reinforcing the principles of efficiency, transparency and fight against corruption, in the new public procurement system set out in the new Law on Public Procurement, to the benefit of both procurement bodies and economic operators and companies. Also, the new Law includes elements to remove barriers to company growth, such as the new "default" definition of lots, to stimulate the presence of SME in tenders, or the new regulation on late payments in public sector, which will contribute to improving the funding conditions of private sector.

Other factors are also added, which will also involve an improvement of bidding processes, and therefore, of the competitiveness of our economy, such as the focus on quality of awarding procedures. A new regulatory entity is also created in the field of public contracts, which will involve an improvement of the governance of public procurement. A structure with several collegiate bodies is designed, in order to prevent irregular practices in applying the law on public contracts and extending good practices in public procurement management.

— The Independent Office for Regulation and Supervision of Procurement, as an independent body, which shall coordinate supervision on public procurement of awarding entities of all the public sector. Therefore, there will be a new mechanism for disseminating good management practices within the field of public sector contracts and, also, a supervision system will be implemented, in order to prevent irregular practices in the management of contracts.

— The Administrative Contracting Advisory Board is designated as the reference point for cooperation with the European Commission.

— The public procurement cooperation committee is created, for the coordination with Autonomous communities and with Local governments and for the preparation of the proposal of a National Strategy for Public Procurement.

Another initiative to reinforce the public procurement framework and to improve the quality of public expenditure is the creation of the National Assessment Office, the purpose of which is to analyse financial sustainability of public work concession contracts and public service management contracts, so as to continue improving project planning and performance of public-private partnership projects. This will avoid excessive commitments of future budgets in the long term, improving control of efficiency with the appropriate analysis of risk allocation, as well as better preparation and monitoring of this type of investments. Thanks to the new Act of Public Sector Contracts, it will be integrated into the Independent Office for Procurement Regulation and Supervision.

The Office shall issue statutory reports prior to the tendering of contracts for public works concession and management of public services to be entered into by the awarding authorities reporting to the General State Administration and the Local Entities. The Autonomous communities may join the National Assessment Office, so that it prepares such reports.

Within the field of improvement of Government processes, works are being currently carried out to prepare Digital Transformation Action Plans, as an instrument to carry out the IT Strategy. These Plans are aimed at developing a global transformation of the public management model, making it more efficient and encouraging the use of new technologies of the Administration and in its relationships with the society, increasing proximity to citizens and companies, transparency and good governance, based on a public employment model that complies with said transformation. This will allow the achievements made by CORA reform to consolidate. The forecast for savings arising from this plan stands at 411.35 million euro.

4.2. Within the scope of Autonomous Regions

The Kingdom of Spain has led since 2016 an acceleration process in the application of the measures set forth in the LOEPSF. The scope of this process was extended to 2017, and its application will continue in 2018 as long as circumstances require it and all necessary legal requirements are met. Different measures were adopted, such as the ones set out in the table below:

SITUATION OF LOEPSF MEASURES										
					LOEPSF Measures Activated				Additional Conditionality CDGAE	
							Average Payment Period			
Autonomous Communities	Non compliance with the Stability Objective 2016	Non compliance with the Expenditure Rule 2016 (17.3 LOEPSF)	Non compliance with the Debt target (17.3 LOEPSF)	Art. 25.1 Non-compliance with Adjustment Plan	Adjustment Plan 2017	Economic and Financial Plan (PEF) 2017-2018	Preventive Measures Art. 18.4	Corrective Measures Art. 20.5	31 March 2016 2 March 2017	20/11/2015 21/7/17 15/9/17
ANDALUCÍA		✓		NOT IN FORCE	✓	✓			✓	
ARAGÓN	✓			IN FORCE	✓	✓			✓	
P. DE ASTURIAS				NOT IN FORCE						
ILLES BALLEARS				NOT IN FORCE	✓				✓	
CANARIAS		✓				✓				
CANTABRIA	✓			IN FORCE	✓	✓			✓	
CASTILLA Y LEÓN										
CASTILLA LA MANCHA	✓ (figure sept-17)			IN FORCE	✓				✓	
CATALUÑA	✓			IN FORCE	✓	✓			✓	✓
EXTREMADURA	✓			IN FORCE	✓	✓			✓	
GALICIA		✓				✓				
MADRID				NOT IN FORCE						
MURCIA	✓	✓		IN FORCE	✓	✓	✓	✓	✓	
NAVARRA										
PAÍS VASCO		✓				✓				
LA RIOJA										
VALENCIA	✓			IN FORCE	✓	✓	✓	✓	✓	

Regarding the measures reported by the Autonomous Regions regarding revenue, these mostly come from tax measures, as a result of tax reforms and having a recurrent nature (not one-off). In this sense, the measures falling within the category of other taxes stand out, in particular those arising from the creation of new taxes by certain Autonomous communities, such as the tax on packaged sweetened beverages and the levy on municipal and industrial waste, as well as the amendment of the Corporate income tax established in the Region of Navarra.

On the other hand, the measures adopted regarding Property Transfer and Certified Legal Documents Tax should be noted, which will have an expected impact in 2017 of 147 million euro, to be added to the positive evolution that may be registered due to the recovery of the property market and the economic activity. Additionally, we must expressly mention the measures regarding Environmental Taxes (Tax on the environmental risk from the production, handling and transport, custody and emission of radiotoxic elements, Tax on Environmental Installations, Tax on polluting emissions of commercial aviation, etc.), which imply an additional positive effect this year of 31 million euro. On the other hand, other items include measures which have as a whole, expected impacts arising from the lower level of tax collection, such as the Inheritance and Gift Tax, the General Indirect Canary Islands Tax or different fees.

Regarding non-tax measures, the global additional impact of which for 2017 comes up to 15 million euro, mainly consist of measures regarding the transfer of real investments.

Among the expenditure measures planned for the financial year 2017 it should be noted that within personnel expenses, and additionally to the positive differential effect arising from the partial refund of the amount of the bonus withdrawn in December 2012, certain measures giving rise to a higher level of spending are foreseen, among which the implementation of agreements on the professional career and the recovery of rights of public employees stand out, with these being included, regarding the 2017-2020 stability programme and the specific lowered income supplement, in the 2012 budget for Castile-La Mancha.

On the other hand, it is worth noting the savings arising from the measures set out in Royal Decree-law 17/2014, of 26 December, on the financial sustainability measures of Autonomous communities and Local governments and others of an economic nature, regarding the improvement in financial conditions of funding mechanisms established by the General State Administration, which are still valid in 2017 regarding the financial conditions that were initially established or regarding the current rates in financial markets. Lastly, it is important to mention the additional savings foreseen regarding the measures related to pharmaceutical expenditure and health products, saving measures related to the provision of services and supplies, as well as the effect of efficiency-improving measures.

In 2018, the measures included as part of the main lines submitted by the Autonomous communities regarding revenues have a positive differential impact of 70 million euro, resulting from certain actions that provide for a higher level of collection and which are partially offset by other measures having a negative differential effect. Thus, within the first measures, the increases set out regarding environmental tax as well as in the item Other taxes, with positive differential impacts of 96 and 135 million euro stand out, respectively. On the other hand, among the negative measures, it is worth noting those related to Income tax, Tax on Capital Transfers and Documented Legal Acts and the Inheritance and Gift Tax, with an expected negative impact of 77, 63 and 54 million euro, respectively.

Regarding expenditure measures, again in 2018 a negative differential impact arising from the return of the 2012 extra pay is expected, considering a lower refund of 268 million euro. Such effect is offset, as it was the case in 2017, by other measures for the implementation of agreements regarding the professional career and the recovery of rights of public employees, with the intention of the Autonomous community of Cataluña to partially recover the non-paid extra pay of 2013 standing out among the information included in the stability programme.

It is finally worth mentioning, as for 2017, the additional savings foreseen regarding the measures implemented with regards to pharmaceutical and health products expenditures, saving measures related to the provision of services and supplies, as well as the effect of efficiency-improving measures. However, the said savings are partially offset this year by the negative impacts set out in the measures related to current and capital transfers.

The application of the expenditure rule is being fundamental in 2017, and will continue to be so in 2018 for public spending containment. In this context of increase of financial resources of the Autonomous communities, which have progressively reduced their net borrowing, this limitation means a limit to spending increase must be established, not exceeding 2.4 per cent, and does necessarily imply an advancement in the consolidation process and will allow to improve the financial stability of Autonomous communities.

4.3. Within the scope of Local Entities

Regarding control of application of the Organic Act of Budgetary Stability and Financial Sustainability, certain requirements are being prepared to be submitted to Local governments, with regards to the supply of financial information. In 2017, regarding the information needed from Local governments in 2017, around 7,700 requirements will be submitted to Local governments due to the lack of presentation of a budget for 2017, lack of presentation of the 2016 budget, lack of presentation of the 2017 budgetary execution in the first and second quarters and lack of presentation of the 2018-2020 budgetary plans.

The adherence to the extraordinary liquidity mechanisms implied the application of fiscal conditionality the Local entities are subject to and which has been mainly included in the adjustment plans. These plans cease to be effective further to the completion of the application of financial support measures, in the case of the mechanisms to pay suppliers when the loan taken out with the Supplier Payment Financing Fund (FFPP, for its Spanish acronym) is fully repaid.

The aforementioned plans have been assessed by Ministry of Finance and Public Administrations and a favourable assessment of such plans constitutes a previous condition for assignment of liquidity measures.

Considering the information submitted by the Local governments regarding the fundamental lines of their 2018 budgets, the expected impact of each measure these could adopt both on the side of expenditure and revenue would be that set out in table 8 of the annex.

[c]

[5]

Link between the Draft Budgetary Plan and compliance with specific recommendations of the Council

Recommendation Number	Recommendation	Measures	Description of impact
1.1	Ensure compliance with Council decision of 8 August 2016 giving notice to take measures for the situation of excessive deficit.	2017-2020 Stability Programme General State Budget for 2017.	In 2016, the deficit of the whole General Government narrowed to 4.3% of GDP, excluding financial assistance, below the target (4.6%). In 2017, latest data available for budgetary execution show a reduction of public deficit with regards to the previous year in all General Government's sub-sectors. Consolidated General Government deficit, excluding Local Entities, narrowed to 2.31% of GDP during the first seven months of the year, 0.85 % points of GDP less than during the same period of last year. Therefore, the public deficit target may be also reached in 2017. This puts us at a good starting point to reach 2018 target.
1.2	Measures to reinforce the budgetary and public procurement frameworks.	New Public Contracts Law. Creation of the Independent Office for Regulating and Monitoring Public Procurement. Designation of the Administrative Contracting Advisory Board as a reference point for cooperation with the European Commission. Creation of the National Assessment Office.	The new Public Contracts Law advances towards the reinforcement of the principles of efficiency, transparency and fight against corruption. Measures to expedite the procedures, generalise electronic procurement, provide the procurement procedures with further publication guarantees and encourage participation of SMEs are included.
1.3	Carry out a global revision of expenses in order to identify potential areas in which expenditure efficiency may be increased.	Preparation of a study on public spending on subsidies has been requested to AIREF.	On 2 June, the Council of Ministers agreed to carry out a comprehensive revision of public spending of the whole General Government, in order to improve the quality of spending and increase efficiency thereof. The first working area will be subsidies, in order to detect potential improvements in procedures, eliminate overlapping and carry out an analysis of impact. Such study has been commissioned to AIREF, and must be submitted before the end of 2018. In order to do so, said entity has already prepared an Action Plan that includes methodological aspects as well as an initial proposal of subsidies lines to be analysed.

(Continúa)

Recommendation Number	Recommendation	Measures	Description of impact
2.1	Reinforce coordination between regional employment services, social services and companies, so as to better respond to the needs of job seekers and business owners. Adopt measures to foster recruitment on open-ended contracts.	• Spanish Strategy for Employment Activation 2017-2020. • Universal Social Card. • Reduction of employment contract types to three (open-ended contract, "growing protection" contract and training contract). Working day: full time and part time. • Reinforce the casualty principle for temporary contracts within the framework of collective bargaining and determine the volume of fixed-term contracts, as well as to promote indefinite hiring and transformation of temporary contracts into open-ended contracts. • Establish disincentives for those companies which apply, to a greater extent, temporary hiring and excessive turnover. • Reinforce the actions carried out by Labour Inspection and Social Security regarding fraud in public procurement. • Reduction of Social Security contributions, in order to encourage conversion into indefinite contracts for those training and learning contracts eligible for the low-skilled young workers supporting aid. • Replacement contract: the contract of the young replacement worker must be open-ended.	The Royal Decree Project, on the approval of the Spanish Strategy for Employment Activation (EEAE) 2017-2020 is the regulatory framework for coordination and performance of active employment policies and labour intermediation of the State. The sixth line of action of structural targets aims at improving the institutional framework of the National Employment System, and it specifically collects those actions aimed at improving management, collaboration, coordination and communication within the National Employment System and promotion of modernisation thereof. The Universal Social Card promotes the coordination and sharing of information between public employment and social protection services.
		RIS (Social Inclusion Network)	The Social Inclusion Network, which is funded by the European Social Fund, was created as a forum to promote cooperation between the entities of the General Government and those social stakeholders involved, by means of the creation of exchange networks and forums aimed at improving social inclusion of individuals. In the 2014-2020 period, the Network will address the improvement of coordination between social and employment services, among others.

(Continúa)

Recommendation Number	Recommendation	Measures	Description of impact
2.2	Provide an answer to regional disparities and fragmentation in guaranteed minimum income systems, and improve family support, including access to quality day care.	PROGRESS Project (Revision of the Basic Income Scheme in Spain from an Effectiveness Perspective)	The EU Programme for Employment and Social Innovation (PROGRESS axis) is focused on providing more and better knowledge of the current Minimum Income System in Spain, as well as its cost-effectiveness ratio, on the basis of evidence (empirical data) and the experience of central and regional governments in Spain and other EU countries. The final objective is to manage and promote national reforms in this area at the minimum possible budgetary cost and with the higher positive impact for employment and growth.
		National Comprehensive Strategy for the Homeless (2015-2020)	The National Strategy for the Homeless (2015-2020) is the instrument suggested by the Government to solve poverty and establish a comprehensive action framework in this area. The ultimate aim of the strategy is to achieve complete eradication of poverty in our country, by means of the medium-term objective of the number of homeless people, as well as by means of the prevention of that kind of situations and improvement of their living conditions.
		Fund for European Aid to the Most Deprived (FEAD) (2014-2020)	The Fund for European Aid to the Most Deprived provides food assistance and social inclusion measures in Spain, such as assistance and support to help people overcome poverty by means of its operational programme. The FEAD Operational Programme will help achieve the national objective of poverty reduction from 1.4-1.5 million people.
		The National Strategy for Social Inclusion of Gypsy population (2012-2020)	The National Strategy for Social Inclusion of Gypsy population 2012-2020 is aimed at improving the situation and living conditions of gypsy population, by reducing the existing gap between this group and the rest of the population. This Strategy has a direct impact on four main areas: education, health, employment and habitability.
		Regulatory Draft Law on Comprehensive Support to Families.	Its main objective is to organise, systematise, update and improve support and assistance all types of families receive from Spanish State agencies transversally. It will include general measures applicable to all types of households, as well as specific measures designed for households with special needs.
		New PENIA: National Strategic Plan for Children and Teenagers (2018-2021)	The objective of the new PENIA is to continue to promote comprehensive, transversal actions having an impact on child welfare.
		Third sector's subsidies through Income tax.	The objective of the exemption is to fund general interest activities considered to be of social interest, referred to in the axes established in section 2.1 of Royal Decree-Act 7/2013, of 28 June, at State level, and activities which are considered to be of social interest in the area of competence of the State, pursuant to section 3.2 and 6.1 of Act 45/2015, of 14 October, on Volunteering.

(Continúa)

Recommendation Number	Recommendation	Measures	Description of impact
2.3	Increase the relevance of higher education for labour market. Correct regional disparities in education results, and specifically, by reinforcing teachers' training and individual student support.	Non-university Education 1. Teaching training and development programme. 2. Digital Culture Plan. 3. Strategic Plans for School Health, Co-existence and Inclusion of People with Special Educational Needs. 4. Territorial Cooperation Programmes. 2016: Foreign Languages, School Health, Co-existence, Reduction of School Leaving, Support to Students with special educational needs and high capacities, aids programme for the purchase of text books. 2017: PROEDUCAR: Programme for the improvement and support in Education and continuance in the Education System, and aids programme for the purchase of text books 5. Participation in international studies and tests (PISA for SCHOOLS, PISA, TALIS, PIAAC, TIMSS & PIRLS). 6. Preparation of Spanish Educational System Indicators, in cooperation with Regional Governments, and participation in preparing and analysing international standards.	1. The programme for teachers' training and development is one of the keys to overcome current educational challenges. Training -both in person and online- offered by the MECD is intended for teachers of all the country. 2. The plan is aimed at achieving that all schools have complete access to the Internet in coordination with Regional Governments, as well as at promoting interoperability and establishing a model for developing teachers' digital competence. 3. These arise from the need to tackle specific problems of the education system which may hamper social equity and competitiveness. These plans try to provide an effective answer, from the point of view of dialogue and consensus, to the need of cooperation and coordination between the different institutions, to ensure schools are safe areas, safe from any violence, inclusive, where success can be achieved. 4. International studies contribute to prepare international indices that help develop education policies. Data obtained from the results are used to adjust or implement new policies. 5. Spain participates in studies and international OECD, PIACC, IEA tests, to cite just a few. 6. It is an indispensable instrument to help describe the educational reality, define educational objectives and adopt adequate policies to do so.
		University Education 1. Approval of the Spanish Strategy for Higher Education. 2. During the second quarter of 2017, the report on employability of university degrees will be published. 3. Inclusion of the mention of industrial doctor in Phd university degrees. 4. Classification of all official University degrees.	

(Continúa)

Recommendation Number	Recommendation	Measures	Description of impact
3.1	Guarantee an adequate, sustained level of investments in research and innovation, and reinforce their governance at all Government levels.	General State Budget for 2017	The General State Budget for 2017 includes a total expense in civil R+D of 6,041 million euro, 4.1% more than 2016-2017, including subsidies and refundable tax credits. Total non-financial budget came up to 2.453 million euro in 2017 (-2.3% 2016-2017). Total financial budget came (refundable loans) comes up to 3.588 million euro (+9.3% 2016-2017).
			Guarantee an adequate, sustained investment in research and innovation. 2017 will be the first year in which the Agency legally created at the end of 2015 has its own budget intended for the promotion and coordination of scientific and technological research. It represents 56.2% of the total budget of the civil R & I budget. 3,395 million euro for the implementation of the National Scientific and Technological Research and Innovation Plan. New CDTI policy on non-refundable payments to carry out R+I projects, to cover 20% of the total expenses of R+I projects for large companies (up to 30% -funded by ERDF) and 30% for SMEs. Encourage the Spanish innovation ecosystem. Cervera Roja. In 2017, a new instrument to provide support and fund a network of technological centres and entities is being defined. Human Resources and R+I: 100% replacement of retired researchers within public research entities and universities, 217 million euro for the hiring of researchers and specialists, to perform R+I activities in the public research sector and companies in the State Research Agency. State Research Agency subsidies for 2017 (708.9 million euro). Increase participation in the R+I Framework Programme of the EU Horizon 2020 (2103 million euro of competitive funding assigned to Spanish groups and entities of R + D 2014-2017).
3.2	Ensure full, adequate implementation of the Act on Market Unity Guarantee	The Act on Market Unity Guarantee shall be progressively applied. Market unity and principles of good regulation included therein must be applied in the new and in the existing regulation, as well as in all administrative actions related to economic activities.	The Conference of the Presidents reached an agreement in January to increase cooperation between administrations to ensure market unity, and to apply the good regulation principles, in order to increase competitiveness of the Spanish economy. In February, the Board for Market Unity agreed upon the same. Progress has been made in the Act on Market Unity, among which it is worth noting the permanent revision of the new regulation to ensure its compliance with the Law -approximately 110 State regulations and 150 regional ones have been adapted to same-, the obligation to report on the impact of market unity of any new standard in the Analysis of Regulatory Impact Report, and publication of a catalogue of good and bad practices, and guidelines for the implementation of the Law. In June 2017, the Constitutional Court gave a judgement which annulled certain articles of the Act on Market Unity. Three appeals against said Act are still pending resolution. Within the same jurisdiction, however, other principles and precepts of the Act have been fully confirmed and the Government is firmly committed to the objectives of the said Act.

[6]

Link between the Draft Budgetary Plan and the European growth and employment strategy

National goals	Measures	Description of link
Employment for 74% of persons aged 20-64	Spanish Strategy for Employment Activation	Regulatory framework for coordination and execution of active labour market policies, and labour intermediation in the whole State, including both the services and programmes carried out by public employment services with State funds, such as those the Regional Governments carry out with their own financial resources. The Strategy sets out three types of objectives, which are set out in the Annual Employment Policies' Plans. • Key objectives, which will remain stable for the whole term of the Strategy • Strategic or priority objectives, which get specially relevant at a given time • Structural objectives, of a stable nature, which must be addressed by public employment services during their ordinary course of operations by means of services sustained over time. The Annual Employment Policy Plans (PAPE) are the annual materialisation of this Strategy. Therefore, these are operational instruments to develop and specify the provisions of this Strategy, by means of specific actions. They are prepared on an annual basis.
	Youth Guarantee	The National Plan for Implementation of the Youth Guarantee (December 2013) arises in response to the Recommendation issued by the European Council on April 2013, which establishes a Youth Guarantee, in line with the 2013-2016 Entrepreneurship and Youth Employment Strategy. The objective is to ensure young people under 30 get a good employment offer, lifelong education, training as a trainee or period of internship during the four months after completion of their formal education period or after becoming unemployed. Valid since July 2014, it was recently reinforced by virtue of the approval of Royal Decree-Law 6/2016, of 23 December, on urgent measures for the promotion of the National Youth Guarantee System.
	Entrepreneurship and Youth Employment Strategy	It is currently in the process of renewal for the period 2017-2020. The original Strategy, valid for the whole 2013-2016 period, included certain actions to improve employability, facilitate labour insertion, provide for entrepreneurship and improve the situation of young people within the labour market.
	Joint action programme with the Autonomous Regions, for the orientation of long-term unemployed older than 30 years.	Personal attention is provided to long-term unemployed; in order to do so, the capacity of the regional Public Employment Services is improved. It includes the performance of an individualised employability profile and the design of a personal employment itinerary.
	Prepara Professional Requalification Programme	It provides, for a period of time of 6 months, an aid of 400 euro to unemployed who have exhausted unemployment benefits, as well as personal itineraries of specific active employment policies. It is a temporary programme, which is automatically extended if unemployment rate (according to EPA) exceeds 18%. (originally, it was 20%; the threshold was reduced in April 2016).
	Activation Programme for Employment	Specific, extraordinary and temporary programme, intended for long-term unemployed individuals; it includes active employment and labour intermediation policies managed by Public employment services in order to increase opportunities for re-entry into the labour market and offers financial back-up aid which is managed by the Public employment service, linked to the participation in the abovementioned policies of employment activation.
	Measures to foster indefinite hiring.	1. Reduction of employment contract types to three (open-ended contract, “growing protection” contract and training contract). Working day: full time and part time. 2. Reinforce the casualty principle for temporary contracts within the framework of collective bargaining and determine the volume of fixed-term contracts, as well as to promote indefinite hiring and transformation of temporary contracts into open-ended contracts. 3. Establish disincentives for those companies which apply, to a greater extent, temporary hiring and excessive turnover, by increasing unemployment contributions to be paid (malus), and establishing a new incentive (bonus) in the contributions of those companies with the highest percentage of open-ended contracts, compared to others of the same sector. 4. Reinforce the actions performed by the Labour Inspection and Social Security regarding fraud in public procurement, promoting conversion of temporary contracts into open-ended ones, and reviewing the penalty system of the Act on Infractions and Penalties in Corporations, in order to increase penalties for fraud.
	Universal Social Card	Created as an Information System, in order to improve and coordinate social protection policies promoted by the different entities of the General Government. It will include updated information related to all contributory, non-contributory, assistance, financial social benefits, as well as those funded from public sources and other protection measures, as the case may be. It shall also include information on the situation of holders, and offer, on the basis of said information, different services and benefits to the different bodies comprising the General Government and to citizens.

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National goals	Measures	Description of link
Employment for 74% of persons aged 20-64	Back-up aid for low-skilled young workers	Intended for young people not holding the post-compulsory, pre-university or equivalent degree, who undertake to initiate a training activity and start to provide services by means of a training and learning agreement, with a minimum duration of one year. Beneficiaries will receive a financial aid for the whole duration of the learning agreement. Upon termination of the learning agreement, companies may be granted a reduction of Social Security taxes, to promote conversion into an open-ended contract.
	Replacement agreement	Programme for the training and employment transfer, in which an employee accesses partial retirement and a young employee is hired on a full-time basis with an open-ended contract, to hold the same position as the replaced employee. The replaced employee must devote at least half of his/her working day to the training of the employee who will replace him/her, during the period of replacement. A reduction of Social Security contributions for the Company is included.
2% GDP investment in R+D	State Budget for R+D+i	The General State Budget for 2017 includes a total expense in civil R+D of 6,041 million euro, 4.1% more than 2016-2017, including subsidies and refundable tax credits. Total non-financial budget came up to 2.453 million euro in 2017 (-2.3% 2016-2017). Total financial budget came (refundable loans) comes up to 3.588 million euro (+9.3% 2016-2017).
		State Research Agency. 2017 will be the first year in which the Agency legally created at the end of 2015 will have its own budget intended for the promotion and coordination of scientific and technological research. It represents 56.2% of the total budget for civil R+D. 2017 budget comes up to 3.395 million euro for the implementation of the National State Plan for Research and Scientific and Technological Innovation.
	Promotion of R+D companies by means of direct incentives and access to public funding.	Improvement of public funding conditions. The CDTI (Centre for Technological and Industrial Development) adopted in 2017 a new policy on non-refundable loans, to allow R+D projects to cover 20% of the total expenses in large companies (30% in case the project is funded by the ERDF) and 30% in SMEs. For international R+D project and large R+D public-private trusts, non-refundable loans may come up to 33% of the total State budget.
		Strategic Company Projects. The CDTI has opened a call (March 2017) for aids to support Strategic R+D Projects in Andalucía, Castilla la Mancha, Extremadura, Galicia, Murcia, Ceuta and Melilla, for an amount of 229 million euro, as part of the Technological ERDF Fund 2007-2013. The CDTI has launched calls for Strategic Business Projects.
	Fostering the Spanish innovation ecosystem: Red Cervera	In 2017, a new instrument is being defined, to offer support and fund a network of technological centres and institutions that complement their capacities, create synergies between different agents, foster public-private collaborations around a well-defined number of transversal technological domains to support technological advancements and innovation. Total budget is 20 million euro in subsidies + 480 million euro in loans (see also "Strengthening of SMEs' innovation capacities").
	Strengthening of SMEs' innovation capacities	By the end of 2017-2018, new instruments for the promotion of SME access to state-of-the-art technological services provided by Technological Centres will be implemented. It includes the creation of a new mechanism for reduction of the cost of guarantees for SMEs accessing CDTI loans, that specifically tackles SMEs' innovation challenges to acquire high value-added services provided by the Technological Centres. Total budget in 2017 is 480 million euro (loans).
	Human Resources in R+I	100% replacement rate in public research entities and universities.
		Sustainable funding for the hiring of researchers and specialists for the performance of R+D activities. In the Research Agency, 217 million euro are awarded for the hiring of researchers and specialists who carry out R+D activities in public and corporate research.
	Internationalisation of R+D activities, and improvement of EU's added value.	Increase participation and leadership of EU in 2020 Horizon: 2,103 million euro granted by competitive tendering to Spanish R+D groups and entities. The Spanish Strategy for Science, Technology and Innovation 2013-2020 includes, among its main priorities, aligning national and EU R+D policies, as well as increasing participation of Spanish institutions and companies in EU projects funded under the 2020 Horizon. The accumulated return rate of 2020 Horizon until July 2017 is 9.9%, over the target of the Spanish Strategy for 2020 (9.5%).
10% reduction of emissions with respect to 2005	Measures adopted to achieve this target are reported every two years to the EU. Last Communication occurred in March 2018 and may be checked on the following link: http://cdr.eionet.europa.eu/es/eu/mmr/art04-13-14_lcds_pams_projections/pams/	

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National goals	Measures	Description of link
Renewable energies 20% of total energy consumption	Introduction of a new renewable energy in the electrical system by means of a competitive bidding process.	During 2017, two auctions were organised for including renewable energies into the peninsular territory. Thus, between June and May auctions of this year, a total of 8,037 MW of new renewable power distributed between 3,910 MW of photovoltaic capacity, 4,107 MW of wind capacity and 20 MW regarding other technologies have been awarded. Said distribution guarantees a balanced mix, with the participation of all technologies. Similarly, it is important to remember other measures adopted in the last years to foster efficient penetration of renewable energies: auction of a new wind power (500 MW) and biomass (200 MW), introduction of wind power in the Canary islands (450 MW), a specific compensation regime for biogas, biomass, cogeneration and hydraulic (120 MW) or the increase of penetration path of biofuels in automobile industry (until reaching 8.5% in 2020), among others.
	Development of an administrative and economic regime for self-consumption by means of Royal Decree 900/2015, of 9 October, on the regulation of the administrative, technical and financial conditions of electricity supply modalities with self-consumption and production with self-consumption.	Thanks to the experience acquired during the first years of application of this regulation, works are being performed to reform the royal decree on self-consumption to implement technical measures in this scheme, thus facilitating and improving application thereof.
	Fostering renewable energies in extra-peninsular electrical systems.	Given the specific features of extra-peninsular electrical systems, works are being performed to design a competitive mechanism to incorporate renewable energies in those territories which will, in turn, enable making use of ERDF funds programmed for that purpose. These measures are additional to the ones that were adopted in previous years
	Promotion of biofuels	Royal Decree 1085/2015, of 4 December, on the promotion of Biofuels, established a way to include biofuels in gas stations and diesel fuels for compliance with the 2020 target to have 10% of final energy in transportation from renewable sources. A royal decree is currently being prepared to transpose in national legal system several European directives affecting diesel fuels, it articulates transition to the final scheme for verification of sustainability and establishes a national target of sales or consumption of advanced biofuels.
Reduction of primary energy consumption of energy by 20% compared to 2005	Transposition of the Directive on Energy Efficiency: implementation of the National Fund for Energy Efficiency	Act 18/2014 created the National Fund for Energy Efficiency, which is aimed at funding mechanisms for economic, financial, technical assistance, training, information support or other measures, in order to increase energy efficiency in different energy consumption sectors, so that they contribute to achieving the national energy target established in the National System of Energy Efficiency Obligations set forth in section 7 of Directive 2012/27/EU. In order to comply with that obligation, Spain has reported to the European Commission a 15,320 ktep target, which was then increased up to 15,979 ktep, according to the latest revision of the methodology carried out by the European Commission. Total managed budget comes up to 413 million euro, and involved until 16 May 2,650 requests and an investment of more than 985 million euro. Lines: • Aid programme for renewal of municipal exterior lighting installation. • Aid programme for energy efficiency actions in SME and Large Companies of the industrial sector. • Aid programme for modal change and a more efficient use of the means of transportation. • Programme for energy rehabilitation of buildings (PAREER-CRECE). • Aid programme for energy efficiency actions in railway sector. • Aid programme for energy efficiency actions in desalination plants.

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National goals	Measures	Description of link
Early school leaving below 15%	1. Implementation of an educational reform in primary education, compulsory secondary education, vocational training and bachillerato (post-compulsory, pre-university studies). 2. Continuance of the Plan that establishes main strategies to reduce early school leaving. 3. Implementation of the Basic Vocational Training studies, which extends the contents required to apply good orientation and assistance to access labour market. 4. Updating of the National Catalogue of Qualifications	1. The educational reform may contribute to reducing early school leaving by 15% in 2020, with the early detection of learning difficulties and reinforcing the learning process through the key competences for academic development. 2. As a complement for the educational reform, other actions will be undertaken to reduce early school leaving by means of specific actions on the main risk factors, and reinforcing personalised attention measures. 3. It will help to reduce early school leaving by offering alternative itineraries for those students whose skills, capacities and expectations are directed to a more applied education. 4. Promotion of an easy and quick update of vocational training qualifications for the labour market and the professional and personal development of students, making vocational training a more attractive option, will contribute to the reduction of early school leaving rates.
Post-secondary studies for 44% of persons aged 30-34 Progress:	1. Measures to improve entrepreneurship. 2. New admission procedures for foreign students at Spanish universities and greater agility in procedures for the approval of studies completed abroad. 3. More flexibility in the organisation of university studies. 4. Promotion of dual Vocational Training in higher courses. 5. Incentives for the incorporation of trainees in companies.	All these measures will contribute to increasing the number of adults with post-secondary studies. 1. increasing the attractiveness and quality of higher education 2. facilitating access and admission of foreigners in Spanish universities 3. offering a diversified training, adapted to economic and social demands 4. with a positive impact in figures of basic professional training completion and qualification 5. making it more attractive, as it provide with a paid professional experience. Number of young people between 18 and 24 registering at universities increased from 23.4% in 2007-08 to 31.5 in 2015 (Data source: Comprehensive System for University Information- SIIU- MECD)

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National goals	Measures	Description of link
Reduce by 1,400,000 the number of persons living in poverty or in a situation of social exclusion with respect to 2009	New National Strategy for Prevention and Fight against Poverty (2017-2020)	In order to comply with the objective for reduction of poverty established by the 2020 European Strategy, Spain undertook to approve a new Strategy that will allow all agents to coordinate and will integrate several lines of action aimed at reducing poverty and promoting social inclusion. The main objective of this National Strategy is to avoid and reduce poverty and social exclusion situations, and to strengthen personal skills in the scope of training and labour integration. The starting point is to understand that the best way to fight against poverty is prevention, and the best tool is promotion of access to employment for those out of the labour market. Training is a determining factor in those cases of those with a low level of qualification or those whose qualification is not adapted to the demands of the labour market. The different sharing of responsibilities between the different entities of the General Government, within the scope of social protection, will be taken into account in preparing this Strategy. Other social agents, such as NGOs, trade unions and employers' organisation will be consulted, as well as experts in social and intervention policies.
	National Comprehensive Strategy for the Homeless (2015-2020)	The National Strategy for the Homeless (2015-2020) is the instrument suggested by the Government to solve poverty and establish a comprehensive action framework in this area. Up until now, there has not been any comprehensive, coordinated approach involving the whole General Government to solve this problem. The ultimate aim of the strategy is to achieve complete eradication of poverty in our country, by means of the medium-term objective of the number of homeless people, as well as by means of the prevention of that kind of situations and improvement of their living conditions. The strategy was designed by all stakeholders involved in implementation thereof: General State Administration, Autonomous communities and Local governments, as well as third sector of social work and homeless people.
	Fund for European Aid to the Most Deprived (FEAD) (2014-2020)	The Fund for European Aid to the Most Deprived provides food assistance and social inclusion measures in Spain, such as assistance and support to help people overcome poverty by means of its operational programme. The FEAD Operational Programme will contribute to reach the national target of reduction of poverty by 1.4-1.5 million people covering basic needs of beneficiaries and providing them with social and labour assistance to increase their employability and social inclusion.
	The National Strategy for Social Inclusion of Gypsy population (2012-2020)	The National Strategy for Social Inclusion of Gypsy population 2012-2020 is aimed at improving the situation and living conditions of gypsy population, by reducing the existing gap between this group and the rest of the population. The Strategy has a direct impact in four main areas (education, health, employment and habitability), which are considered to be main pillars to facilitate the progressive convergence between general population and gypsy communities.
	Regulatory Draft Law on Comprehensive Support to Families.	Its main objective is to organise, systematise, update and improve support and assistance all types of families receive from Spanish state agencies, transversally (employment, social security, health, education, state housing policy, etc.) and it will include general measures applicable to all types of households, as well as certain specific measures intended to households with special needs.
	New PENIA: National Strategic Plan for Children and Teenagers (2018-2021)	The objective of the new PENIA is to continue to promote comprehensive, transversal actions having an impact on child welfare. In this sense, the PENIA allows us to frame fight against social exclusion from a multi-dimensional, holistic approach.
	National Strategy on Drugs and Addictions 2017-2024. 2017-2020 Action Plan	The Spanish Strategy on Drugs and Addictions 2017-2024 is aimed at avoiding exclusion of drug addicts and achieve an adequate rehabilitation and social and labour reintegration. It will carry out actions that promote safe behaviours, reduce preventable risks and contribute to a reduction of social and healthcare access inequalities between population groups affected by addiction problems, thus eliminating the risk of social exclusion arising from these factors. In accordance with this target, the First Action Plan developed by the Strategy incorporates activities aimed at adapting services and programmes, as well as expanding them (occupational services and other specific for labour reintegration) to the new profiles of people attended (including non-substance addictions) and considering the different impact addictions have in men and women, and the specific needs of elderly drug addicts.
	New rates reduction and protection measures for vulnerable consumers	Royal Decree 897/2017, of 6 October, regulating the concept of vulnerable consumers, rates reduction and other protection measures for domestic consumers of electricity. A new system of rates reduction mainly based on income criteria, so that those who need it most can access it. The discount to the electricity bill will be 25% for vulnerable consumers, 40% for extremely vulnerable consumers and 50% if they are also being taken care of by social services. A mechanism is also established to avoid power cuts in case of vulnerable consumers at risk of social exclusion. Lastly, measures are adopted to reinforce protection of consumers during marketing process and when facing supply cuts.

[7]

Methodology, economic models and assumptions underlying the information contained in the Draft Budget

The forecasts made on the evolution of the different macroeconomic variables in the described scenario have been carried out according to two different models. On the one hand, real-time models based on composite indicators or factorial structures in the very short term, mostly for the current quarter or the next one at most. Models of this kind include composite indicators of activity, supply and demand produced by the Ministry of Economy, Industry and Competitiveness, in addition to the factorial models FASE and ADEL developed within the Ministry. On the other hand, and often used as a contrast for the nearest quarters, equation models for short and long term prediction have been used, which incorporate cointegration relationships in vector error correction models. Therefore, a long-term equilibrium relationship is considered between economic variables and the existence of short-term imbalances, which are gradually corrected by partial adjustments included in the correction term.

The set of explanatory variables within these last equations includes indicators of the different macroeconomic scenario hypotheses described, indicators of credit evolution and a large set of auxiliary variables such as confidence indicators, labour market, etc. The extrapolation of the behaviour of these variables in the medium-term requires the use of additional single-equation models for predicting each component. The models are updated every quarter according to the national accounting data and the data from auxiliary variables.

To estimate the effects of the measures affecting public expenditure and revenue and structural reforms, the main tool used was the REMS model[1]. The REMS model is a general equilibrium model for the Spanish economy that uses a system of equations based on microeconomics, which includes a number of nominal and real rigidities and allows analysing their dynamic evolution over time with or without a structural change. It describes a small, open economy where households, companies, economic authorities and the external demand interact together. In the production factors market, physical capital and energy are traded in a perfectly competitive context. However, the labour market shows imperfections due to the existence of rigidities associated with the job search process.

1 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.

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Quarterly execution on a national account basis of the General Government and its sub-sectors

Table A.12 Quarterly budgetary execution for the General Government

million € (accumulated) Not consolidated data	2016 (*)				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	July (2+3+5)	August State
Budgetary balance by subsector (6-7)								
1. General Government	19,607	-1,200	18,433	12,657	24,542	30,341	NA	NA
2. Central Administration	9,496	-9,698	2,584	-3,349	17,094	12,784	-4,323	7,321
3. Autonomous Communities	1,741	-69	9,878	6,934	-597	377	8,958	NA
4. Local Entities	4,955	5,584	10,152	5,826	5,672	7,821	NA	NA
5. Social Security	3,415	2,983	-4,181	3,246	2,373	9,359	3,087	NA
General Government								
Total revenue	195,131	372,163	582,960	834,432	196,319	406,240	NA	NA
Total expenditure	175,524	373,363	564,527	821,775	171,777	375,899	NA	NA
Central Administration								
Total revenue	77,118	126,962	207,342	288,816	76,335	146,093	180,932	184,255
Total expenditure	67,622	136,660	204,758	292,165	59,241	133,309	185,255	176,934
Autonomous Communities								
Total revenue	60,159	129,785	200,614	291,310	62,186	135,260	171,553	
Total expenditure	58,418	129,854	190,736	284,376	62,783	134,883	162,595	
Local Entities								
Total revenue	19,179	40,436	61,556	84,592	19,755	42,867		
Total expenditure	14,224	34,852	51,404	78,766	14,083	35,046		
Social Security								
Total revenue	38,675	74,980	113,448	169,714	38,043	82,020	97,210	
Total expenditure	35,260	71,997	117,629	166,468	35,670	72,661	94,123	

(*) The 2016 quarterly data are the ones submitted within the second EDP notification at the end of September

Table A.12.1 Quarterly execution in national accounts basis of the General Government

million € (accumulated)	ESA Code	2016				2017			
		Q1	Q2	Q3	Q4	Q1	Q2	July (2+3+5)	August State
Net lending(+)/borrowing(-) by subsector (6-7)									
1. General Government	S.13	-8,695	-34,519	-32,171	-50,401	-5,111	-25,452	NA	NA
2. Central Administration	S.1311	-9,755	-21,597	-29,256	-30,150	-5,251	-12,721	-21,717	-21,502
3. Autonomous Communities	S.1312	-1,256	-7,520	-2,044	-9,341	-2,068	-8,362	35	NA
4. Local Entities	S.1313	451	1,169	5,325	6,847	858	1,874	NA	NA
5. Social Security	S.1314	1,865	-6,571	-6,196	-17,757	1,350	-6,243	-5,610	NA
General Government 6. Tota revenue		97,927	196,372	305,383	421,632	102,033	205,699	224,197	113,074
of which									
Taxes on production and imports	D.2	34,760	66,891	99,147	129,293	36,548	70,235	65,064	61,198
Current taxes on income, wealth, etc.	D.5	21,629	42,989	75,211	110,770	22,743	46,916	56,371	36,951
Capital taxes	D.91	1,331	3,417	4,698	6,412	1,441	2,843	1,688	94
Social contributions	D.61	33,217	67,389	101,380	136,173	34,927	70,792	82,319	4,945
Property income	D.4	2,114	3,364	4,782	8,301	1,416	2,787	3,080	3,361
Other		4,876	12,322	20,165	30,683	4,958	12,126	15,675	6,525
7. Total expenditure		106,622	230,891	337,554	472,033	107,144	231,151	251,489	134,576
of which									
Compensation of employees	D.1	26,923	59,851	87,529	121,325	27,316	59,835	57,035	11,440
Intermediate consumption	P.2	13,809	28,068	41,280	56,973	14,245	28,392	21,526	2,841
Social transfers	D.62, D.632	44,823	100,607	145,894	202,784	45,473	102,408	117,192	10,418
Interests	D.41	7,908	15,767	23,587	31,405	7,097	14,910	17,056	17,706
Subsidies	D.3	2,080	4,365	6,781	11,299	2,025	4,823	4,972	2,406
Gross Fixed capital formation	D.51	5,252	10,765	15,970	21,590	5,161	10,635	9,504	2,571
Capital transfers	D.9	556	2,996	4,033	8,338	1,674	2,445	2,816	1,665
Other		5,271	8,472	12,480	18,319	4,153	7,703	21,388	85,529
8. Gross debt		1,096,895	1,107,059	1,108,433	1,107,205	1,128,963	1,137,853	NA	975,531

Table A.12.2 Central Government

Million € (accumulated)	ESA Code	2016				2017			
		Q1	Q2	Q3	Q4	Q1	Q2	July	August (State)
Net lending(+)/borrowing(-) by subsector (6-7)									
1. General Government	S.13								
2. Central Administration	S.1311	-9,755	-21,597	-29,256	-30,150	-5,251	-12,721	-21,717	-21,502
3. Autonomous Communities	S.1312								
4. Local Entities	S.1313								
5. Social Security	S.1314								
General Government 6. Tota revenue		43,628	85,752	134,504	189,740	44,833	90,033	105,362	113,074
of which									
Taxes on production and imports	D.2	26,032	48,371	71,036	90,402	27,281	51,033	57,128	61,198
Current taxes on income, wealth, etc.	D.5	10,937	22,348	39,255	63,403	11,326	24,824	30,310	36,951
Capital taxes	D.91	271	994	1,021	1,085	263	301	312	94
Social contributions	D.61	2,247	5,104	7,384	10,399	2,196	5,034	5,846	4,945
Property income	D.4	1,916	3,088	4,425	7,869	1,478	2,907	3,359	3,361
Other		2,225	5,847	11,383	16,582	2,289	5,934	8,407	6,525
7. Total expenditure		53,383	107,349	163,760	219,890	50,084	102,754	127,079	134,576
of which									
Compensation of employees	D.1	5,091	11,838	16,983	23,549	5,069	11,307	13,168	11,440
Intermediate consumption	P.2	2,041	4,211	6,277	8,534	1,942	3,944	4,595	2,841
Social transfers	D.62, D.632	3,703	9,315	13,270	18,604	3,820	9,412	10,796	10,418
Interests	D.41	7,120	14,179	21,206	28,114	6,353	13,425	15,623	17,706
Subsidies	D.3	830	1,875	2,927	5,121	716	2,149	2,453	2,406
Gross Fixed capital formation	D.51	1,648	3,368	5,070	6,979	1,687	3,384	3,938	2,571
Capital transfers	D.9	360	2,476	3,354	6,900	1,525	1,960	2,020	1,665
Other		32,590	60,087	94,673	122,089	28,972	57,173	74,486	85,529
8. Gross debt		962,081	964,732	968,811	969,577	987,871	996,149	NA	975,531

Table A.12.3 Autonomous communities

Million € (accumulated)	ESA Code	2016				2017		
		Q1	Q2	Q3	Q4	Q1	Q2	July
Net lending(+)/borrowing(-) by subsector (6-7)								
1. General Government	S.13							
2. Central Administration	S.1311							
3. Autonomous Communities	S.1312	-1,256	-7,520	-2,044	-9,341	-2,068	-8,362	35
4. Local Entities	S.1313							
5. Social Security	S.1314							
General Government 6. Tota revenue		35,649	71,965	117,576	158,493	35,871	72,887	96,387
of which								
Taxes on production and imports	D.2	2,969	6,288	9,652	13,462	3,327	6,821	7,936
Current taxes on income, wealth, etc.	D.5	8,886	17,676	29,926	38,879	9,438	18,746	26,061
Capital taxes	D.91	505	1,106	1,680	2,423	534	1,149	1,376
Social contributions	D.61	62	127	194	276	65	146	171
Property income	D.4	68	172	346	569	62	168	240
Other		23,159	46,596	75,778	102,884	22,445	45,857	60,603
7. Total expenditure		36,905	79,485	119,620	167,834	37,939	81,249	96,352
of which								
Compensation of employees	D.1	16,319	35,988	52,911	73,329	16,677	36,476	42,471
Intermediate consumption	P.2	6,650	13,614	20,048	27,381	7,125	14,092	16,325
Social transfers	D.62, D.632	6,884	14,494	21,708	30,398	7,028	14,982	17,525
Interests	D.41	998	2,083	3,184	4,454	1013	2,002	2,351
Subsidies	D.3	463	979	1,549	2,571	499	1,120	1,416
Gross Fixed capital formation	D.51	2,321	4,781	7,014	9,426	2,227	4,701	5,484
Capital transfers	D.9	234	865	1,357	3,555	210	872	1,087
Other		3,036	6,681	11,849	16,720	3,160	7,004	9,693
8. Gross debt		265,984	273,547	272,705	277,000	279,355	285,907	**NA**

Table A.12.4 Local Entities

Million € (accumulated)	ESA Code	2016				2017	
		Q1	Q2	Q3	Q4	Q1	Q2
Net lending(+)/borrowing(-) by subsector (6-7)							
1. General Government	S.13						
2. Central Administration	S.1311						
3. Autonomous Communities	S.1312						
4. Local Entities	S.1313	451	1,169	5,325	6,847	858	1,874
5. Social Security	S.1314						
General Government 6. Tota revenue		15,315	31,841	50,880	71,380	15,823	32,713
of which							
Taxes on production and imports	D.2	5,759	12,232	18,459	25,429	5,940	12,381
Current taxes on income, wealth, etc.	D.5	1,806	2,965	6,030	8,488	1,979	3,346
Capital taxes	D.91	555	1317	1,997	2,904	644	1,393
Social contributions	D.61	63	133	196	290	47	100
Property income	D.4	114	240	365	485	98	191
Other		7,018	14,954	23,833	33,784	7,115	15,302
7. Total expenditure		14,864	30,672	45,555	64,533	14,965	30,839
of which							
Compensation of employees	D.1	4,965	10,757	15,793	21,889	5,026	10,838
Intermediate consumption	P.2	4,870	9,746	14,221	20,042	4,915	9,837
Social transfers	D.62, D.632	297	604	902	1,244	296	607
Interests	D.41	173	344	516	681	151	310
Subsidies	D.3	372	649	935	1,474	375	655
Gross Fixed capital formation	D.51	1,242	2,531	3,757	5,047	1,206	2,476
Capital transfers	D.9	119	251	387	1,010	151	321
Other		2,826	5,790	9,044	13,146	2,845	5,795
8. Gross debt		35,072	35,125	34,672	32,223	31,696	32,412

Table A.12.5 Social Security

Million € (accumulated)	ESA Code	2016				2017		
		Q1	Q2	Q3	Q4	Q1	Q2	July
Net lending(+)/borrowing(-) by subsector (6-7)								
1. General Government	S.13							
2. Central Administration	S.1311							
3. Autonomous Communities	S.1312							
4. Local Entities	S.1313							
5. Social Security	S.1314	1,865	-6,571	-6,196	-17,757	1,350	-6,43	-5,610
General Government 6. Tota revenue		37,393	73,214	109,254	144,021	37,323	74,604	87,277
of which								
Taxes on production and imports	D.2	0	0	0	0	0	0	0
Current taxes on income, wealth, etc.	D.5	0	0	0	0	0	0	0
Capital taxes	D.91	0	0	0	0	0	0	0
Social contributions	D.61	30,845	62,025	93,606	125,208	32,619	65,512	76,302
Property income	D.4	399	703	965	1,224	198	348	399
Other		6,149	10,486	14,683	17,589	4,506	8,744	10,576
7. Total expenditure		35,528	79,785	115,450	161,778	35,973	80,847	92,887
of which								
Compensation of employees	D.1	548	1,268	1,842	2,558	544	1,214	1,396
Intermediate consumption	P.2	248	497	734	1,016	263	519	606
Social transfers	D.62, D.632	33,939	76,194	110,014	152,538	34,329	77,407	88,871
Interests	D.41	0	0	0	2	0	0	0
Subsidies	D.3	415	862	1,370	2,133	435	899	1,103
Gross Fixed capital formation	D.51	41	85	129	138	41	74	82
Capital transfers	D.9	0	0	0	0	0	0	0
Other		337	879	1,361	3,393	361	734	829
8. Gross debt		17,188	17,174	17,174	17,173	17,173	17,173	NA

[Addendum; tables]

Table A.1 GDP Deflator

	ESA Code	2016	2016	2017	2018	2019	2020
		Level	year-on-year % change				
1. GDP deflator		101,2	0,3	1,2	1,6	1,7	1,8

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

Table A.2 Guarantees granted by General Government

(In euro)

	2012	2013	2014	2015	2016
General Government					
One-off guarantess					
Total stock, excluding debt assumed by Government	218.179	193.152	133.627	102.955	86.527
Of which: public corporations	103.175	91.108	74.048	53.538	40.848
Financial corporations	212.742	188.277	129.585	99.723	83.158
Guarantess granted in the context of the financial turmoil	105.093	95.604	55.090	46.385	42.656
Standarised guarantees	0	0	0	0	0
Total Stock					
Central Administration					
One-off guarantess					
Total stock, excluding debt assumed by Government	213.124	188.593	129.842	99.795	83.248
Of which: public corporations	102.675	90.609	73.557	53.065	40.393
Financial corporations	212.742	188.277	129.585	99.723	83.158
Guarantess granted in the context of the financial turmoil	105.093	95.604	55.090	46.385	42.656
Standarised guarantees					
Total Stock	0				
Autonmous Communities					
One-off guarantess					
Total stock, excluding debt assumed by Government	3.994	3.604	3.024	2.500	2.411
Of which: public corporations					
Financial corporations					
Guarantess granted in the context of the financial turmoil					
Standarised guarantees					
Total Stock	0	0	0	0	0
Local Entities					
One-off guarantess					
Total stock, excluding debt assumed by Government	1.061	955	761	660	868
Of which: public corporations	500	499	491	473	455
Financial corporations					
Guarantess granted in the context of the financial turmoil					
Standarised guarantees					
Total Stock	0	0	0	0	

Notes:

1. There are only "one-off guarantees"
2. Following the conclusions of the "Task force on the implications of Council Directive 2011/85 on the collection and dissemination of fiscal data", the heading "Total stock of guarantees excluding debt assumed by Government" does not include guaranteed debt of other units of public administrations included in S.13 (FROB, FTDSE...) nor guaranteed debt of the ESF.
3. Only the guaranteed prinicpal is included

Table A.3. Amounts to be excluded from the expenditure ceiling

	2016	2016	2017	2018
	Level (*)	%GDP	%GDP	%GDP
Expenditure ion EU programmes fully matched by EU funds	2,727	0.2	0.2	0.3
Expenditure on cyclical unemployment benefits	4,230	0.4	0.1	-0.1
Effect of discretionary revenue measures	-495	-0.2	0.2	0.1
Interest spending	31,405	2.8	2.6	2.6
(*) Million euros				
GDP used		1,118,522	1,167,042	1,213,538

Table A.4. General Government expenditure by function

Table A.4.a. General Government expenditure in education, health and employment

	2017		2018	
	%gdp	%Total Expenditure	%GDP	%Total Expenditure
Education	4.	9.6	3.8	9.5
Health	6.0	14.6	5.8	14.4
Employment (1)	1.9	4.6	1.8	4.4

(1) This expenditure category includes Government spending related to active labour market policies including public employment services.

GDP used	1,167,042		1,213,538	

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Table A.4.b. Classification of expenditure by functions

Functions	COFOG Code	2017	2018
		%GDP	%GDP
1. General public services	1	5.9	5.7
2. Defense	2	0.9	1.0
3. Public order and safety	3	1.9	1.8
4. Economic affairs	4	3.7	3.8
5. environmental protection	5	0.8	0.8
6. Housing and community amenities	6	0.4	0.4
7. Health	7	6.0	5.8
8. Recreation, culture and religion	8	1.1	1.0
9. Education	9	4.0	3.8
10. Social protection	10	16.5	16.2
11. Total expenditure	TE	41.2	40.6
GDP used		1,167,042	1,213,538

A. 5. Measures adopted and expected budgetary impact of adopted and expected revenue measures

Measures	Description	Target (expenditure/ revenue)	Accounting principle	Level of implementation	Additional budgetary impact per year (million €)		
					2016	2017	2018
Personal Income Tax (PIT)					**-4,152**	**950**	**-98**
Extra pay of Public Administrations	Imposing Personal Income Tax of the extra pay corresponding to December 2012	Revenue	Cash and National Accounting	Act 48/2015, of 29 October, on General State Budgets for 2016	254	-603	
Personal Income Tax Reform	Wide modification of the PIT: changes in tax brackets, tax rates reduced, different tax treatment for some investment products and new family deductions have been applied.	Revenue	Cash and National Accounting	Act 26/2014, of 27 November.	-4,487	1,480	
Instalment payments (module limitation) and withholdings on subscription rights	Limitation of the beneficiaries who may apply their objective estimate criteria All pre-emptive subscription rights are subject to withholding, including *scrip dividends*	Revenue	Cash and National Accounting	Act 48/2015, of 29 October, on General State Budgets for 2016	81	73	2
Self-employed Act	The regulation regarding deductibility of supplies expenditure is modified.	Revenue	Cash and National Accounting	Legislative proposal on Urgent Reforms of Self-employment, currently under parliamentary procedure (Senate)			-100
Corporate Income Tax					**1,047**	**-319**	**226**
Corporate Income Tax Reform	Rate reduction to 25% for two years, creation of a capitalization reserve and levelling reserve.	Revenue	Cash and National Accounting	Act 27/2014 of 27 November on the Corporate Income Tax	-1,920	249	
Changes in instalment payments	For companies having an accounting result of more than 10 million euro, instalment payments are increased and a minimum rate of 23% is established for non-financial companies and 25% for financial companies.	Revenue	Cash and National Accounting	Royal Decree-Act 2/2016, of 30 September.	2,967	-2,967	
Withholding on pre-emptive subscription rights	All pre-emptive subscription rights are subject to withholding, including *scrip dividends*	Revenue	Cash and National Accounting	Act 48/2015, of 29 October, on General State Budgets for 2016		20	1
2017 Measures	Limitation to deductibility of negative taxable bases and to deduction for double taxation. New regulation on impairments. Limits on deduction of losses over own funds.	Revenue	Cash and National Accounting	Royal Decree-Act 3/2016, of 2 December.		2,379	225
OTHER DIRECT TAXES					**-82**	**-6**	
Non-Resident Income Tax (IRNR, in Spanish)	Reduction of tax rates	Revenue	Cash and National Accounting	Act 26/2014, of 27 November.	-82	-6	

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Measures	Description	Target (expenditure/ revenue)	Accounting principle	Level of implementation	Additional budgetary impact per year (million €)		
					2016	2017	2018
VAT					**1,237**	**-3,204**	**3,149**
VAT on imports: new scheme	The possibility of, meeting certain requirements, the quotas of the Tax on Imports being registered in the relevant tax return for the period of receipt of the document establishing the settlement conducted by the Administration has been provided for.	Revenue	Cash	Act 28/2014, of 27 November.	1162		
Healthcare and Notary Public Taxes	Amendment to the regulations to enforce ECJ rulings	Revenue	Cash and National Accounting	Act 28/2014, of 27 November.	75		
New management of deferrals.	Deferrals of VAT debts is not allowed, unless there is proper justification that the output taxes have not been collected.	Revenue	Cash	Royal Decree-Act 3/2016, of 2 December.		700	-700
Implementation of the SII	New system to keep register books for VAT through the AEAT [Spanish Tax Management Agency] electronic office.	Revenue	Cash	Royal Decree 529/2017, of 26 May.		-3,889	3,889
Cut of tax rates for live shows	Cut of tax rate from 21% to 10%.	Revenue	Cash and National Accounting	Act 3/2017, of 27 June, on General State Budgets for 2017		-15	-40
SPECIAL TAXES					**-6**	**177**	**16**
Tobacco products,	Changes in the minimum specific rate for tobacco products	Revenue	Cash and National Accounting	Royal Decree-Act 3/2016, of 2 December.		135	
Hydrocarbons	Reduction in tax returns of agricultural diesel	Revenue	Cash and National Accounting	Act 3/2017, of 27 June, on General State Budgets for 2017		10	8
Alcohol and alcoholic beverages	5% increase of the tax rate on intermediate products of the Special Tax on Alcohol. No VAT effect.	Revenue	Cash and National Accounting	Royal Decree-Act 3/2016, of 2 December.		32	8
Electricity	Partial exemption for industrial consumers.	Revenue	Cash and National Accounting	Act 16/2013, of 29 October	-6		
OTHER INDIRECT AND ENVIRONMENTAL TAXES					**16**	**20**	**15**
Tax on fluorinated gases	New environmental tax on certain supplies.	Revenue	Cash and National Accounting	Act 16/2013, of 29 October	16	20	15
LEVIES AND OTHER REVENUE					**-324**	**-70**	**32**
Levy on the use of water for electric power generation.	Levy to protect and improve the public domain on water: the purpose is to establish a levy aimed to protect and improve the public water domain through River Basin Authorities. Amended in 2017, to increase the tax rate.	Revenue	Cash and National Accounting	Royal Decree-Act 10/2017, of 9 June	-251		32
Judiciary Levies	Introduction of new exemptions (natural persons, etc.)	Revenue	Cash and National Accounting	Act 10/2012, of 20 November and amendments of 2013 and 2015.	-73	-70	
Changes in the treatment of Deferred Tax Assets	Non Tax financial provision on the conversion of DTA into tax credits	Revenues	Cash and National Accounts	Law 48/2015, State Budget for 2016		471	463
TOTAL					**-2,264**	**-1,981**	**3,803**
Plan on measures against tax fraud		**Revenues**	**Cash and National Accounts**	**General Taxation Law**	**1,000**	**1,000**	
Measures against tax fraud 2017	System of Immediate Information Supply. Art.95 bis measures	Revenues	Cash and National Accounts			500	350
TOTAL					**-1,264**	**-481**	**4,153**

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Table A.6: Expected budgetary impact of the expenditure and revenue measures adopted and planned by State and Employment and Social Security

Measures	Description	Target (expenditure/ revenue)	Level of implementation (passed, draft)	Budgetary impact		
				2017	2018	2019
1% increase of salaries		Expenditure	Act 48/2015, of 29 October, on General State Budgets for 2016	-1,203		
Replacement rate	The replacement rate for 2015 shall be 0, except for priority areas at 50%. Increase in Draft Budgetary Plan Draft for 2016.	Expenditure	Act 48/2015, of 29 October, on General State Budgets for 2016	157		
Establishing a FLAT RATE in employer contributions to Social Security and extension in 2015. Minimum salary exempt from social contributions as from 2015.	In order to encourage permanent contracts and foster net job creation as a result, a flat rate is established in contribution to Social Security until March 2015. 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 salary exempt from contribution payments is set in for common social security contingencies, which will be applicable to all companies which hire employees on an open-ended basis and therefore create jobs. The first 500 euros of the monthly contribution base for common contingencies shall be exempt from employer contribution when the concerned employee is working on a full-time basis. For part-time contracts, the aforementioned amount will be worked out in proportion to the percentage of full-time working hours, which shall not be under 50 per cent of the working hours of a full-time employee. Duration 01-03-2015 to 31-08-2016.	Revenue	Royal Decree-Act 3/2014, of 28 February, on urgent measures to foster employment and open-ended contracts. Royal Decree-Act 17/2014, of 26 December, on financial sustainability of autonomous regions and local entities and other measures of an economic nature. Royal Decree-Act 1/2015, of 27 February, of second chance mechanism, reduction of financial burden and other social measures.	260		
System of direct payment of Social Security contributions	The new system enabling the direct payment of Social Security contributions will allow to play an active role in the tax collection process, replacing the current self-assessment for companies to fill out with a direct billing model.	Revenue	Act 34/2014, of 16 December, on measures to settle and pay Social Security contributions	126		
Mutualism Act	It brings about a modernisation in the operation and management of these entities, reinforcing transparency and efficiency levels and contributing to a greater extent to a better use of resources and to the fight against unjustified work absenteeism and to the sustainability of the Social Security system. Temporal disabilities 206M; 330M revenues from the use of health services by third parties and sale of prevention services; 25M savings as for management control.	Income / expenditure	Act 35/2014, of 26 December, amending the recast text of the General Act of the Social Security with regard to the legal framework of Mutual Insurance Companies of Occupational Accidents and Disease of the Social Security			

(Continúa)

Measures	Description	Target (expenditure/ revenue)	Level of implementation (passed, draft)	Budgetary impact		
				2017	2018	2019
Updating of the maximum base cap and maximum contribution bases in the Social Security system.	Maximum cap amounts of the Social Security contribution base, in the schemes where it is established, as well as the maximum contribution bases in each of them, with an increase by 3% with respect the current ones in 2016.	Revenue	Decree Law 3/2016, of 2 December, which adopts measures in the tax field aimed at consolidating public finances and other urgent social measures	300		
Extraordinary activation programme for employment	Activation programme for long-term job-seekers who have used up all unemployment benefits and subsidies and who have family responsibilities. The activation programme combines specific actions to foster employment and temporary financial assistance of six months which is compatible with a job. It therefore contributes to two goals. On the one hand, tackling the situation of job-seekers and helping them stay active. On the other hand, promoting the modernization of public employment services, ensuring a customised assistance to beneficiaries and a stronger link between active and passive policies. The programme will last until 15 April 2016 and an assessment of its impact in terms of employability is foreseen.	Expenditure	Royal Decree-Act 16/2014, of 19 December, governing the Employment Activation Programme	9.76		
New access requirements for the Active Insertion Income	Access requirements to the Active Insertion Income have been modified so as to increase their connection to active employment policies and to strengthen compliance with the activity commitment.	Expenditure	Royal Decree-Act 16/2014, of 19 December, governing the Employment Activation Programme. Third final provision.	108		
Completion of the programme for subsidies and reinstatement of measures of employment suspension regulation	Subsidies and the right to reinstatement of benefits were not extended in 2014 in light of the forecast improvement of economic activity.	Expenditure	Royal Decree-Act 1/2013, of 25 January. Act 3/2012, of 6 July.	-294		
IT improvements in the Management of the State	Measures for IT development for the provision of more efficient electronic public services to citizens, companies and Public Administrations	Expenditure	Royal Decree 769/2017	350		
New Strategic Plan for the Promotion and Transformation of Public Administration for the 2017-2019 term.		Expenditure	Royal Decree 769/2017 Creation of the Strategic Planning Office		411.35	
Pension reform	Reform of pensions from 2011 and 2013 (retirement, early retirement, revaluation index and sustainability factor) with a differential impact on the future pension expenditure.	Expenditure	Act 27/2011, on the Social Security Reform; Royal Decree-Act 5/2013; Act 23/2013, of 23 December, governing the Sustainability Factor and the Revaluation Index.	1,200		
Total				**1,013.76**	**411.35**	**0**

Source: Ministry of Finance and Civil Service.

Table A.7: Expected budgetary impact of the expenditure and revenue measures adopted and planned by Autonomous Regions

Measures	Description	Objective (expenditure/revenue) ESA Code	Additional budgetary impact every year (Million €) 2016	2017	2018
Personnel expenditure	Personnel management / planning measures and wages	D1	-430,0	357,0	49,0
	No replacement	D1	295,0	0,0	0,0
Non availability agreements Art. 25.1 LOEFSP			1.500,0	0,0	0,0
Pharmaceutical and health product expenditure	Pharmaceutical expenditure arising out of centralised purchase of medicinal products	D63	0,0	100,0	100,0
	Other measures regarding pharmaceutical and health care products spending	D63	35,0	110,0	400,0
Measures in current expenses and concerted services	Savings measures related to the provision of services and supplies	P2	13,0	16,0	12,0
	Other measures in Chapter II	P2	-25,0	61,0	66,0
Financial expenses and interests (does not affect Public Administrations)	Savings in interests and improvements of funding mechanism conditions	D41	-650	-263	-95
Current transfers	Others from Chapter IV	Other current expenditure	-214,0	9,0	-36,0
Capital Transfers	Others from Chapter VII	D92,D99	15,0	-3,0	-57,0
Other measures	Other measures (investments)	P51	0,0	-5,0	5,0
Total expenditure measures			**539**	**382**	**444**
Personal Income Tax and other direct taxes		D51	-14,0	0,0	-77,0
Inheritance and Gift Tax		D91	-98,0	-32,0	-54,0
Wealth tax		D5	8,0	33,0	0,0
Environmental taxes		D29	5,0	31,0	96,0
Tax on Capital Transfers and Documented Legal Acts		D21	68,0	147,0	-63,0
Hydrocarbon Tax		D21	20,0	0,0	0,0
IGIC AIEM		D21	1,0	-5,0	6,0
Fees		D29	-39,0	-26,0	4,0
Other taxes		D29	317,0	172,0	135,0
Non- tax revenue		-P51	-101,9	15,0	23,0
Total revenue measures			**166,1**	**335**	**70**
Total Regional Governments measures			**705,1**	**717**	**514**

Table A. 8: Expected budgetary impact of the expenditure and revenue measures adopted and planned by Local governments

Measures	Description	Objective (expenditure/ revenue) ESA Code	Additional budgetary impact each year (million €) 2016	2017	2018
Personnel expenditure	Wages	D1	-285,0	156,0	61,0
	No replacement	D1			
Current expenditure	Reduction of expenses in purchases of goods and services	P2	-315,0	448,0	-761,0
Corporate public sector	Company dissolution	P2	508,0	305,0	0,0
Elimination of services	Other measures regarding expenditure. Disappearance of minor local entities and elimination of services that are not within the scope of local competence. Non execution of investments	P2, other current expenditure	67,0	220,0	168,0
Health, education, social services	Transfer of competences regarding health, education and social services	D1, P2.			
Integrated management and mergers	Integrated management of public services and mergers of municipalities	D1, P2.	294,0	69,0	15,0
Total expenditure measures			**269**	**1198**	**-517**
Taxes	Tax increases, suppression of exemptions and voluntary bonuses	D29	392,0	288,0	562,0
Taxes	Public fees and prices	D29 Y P11	83,0	9,0	68,0
Total revenue measures			**475**	**297**	**630**
Total Local Governments measures			**744**	**1495**	**113**

ANNEX I: FISCAL MEASURES ADOPTED BY THE GENERAL ADMINISTRATION

<table>
<tr><th>Legal Norm</th><th>Measure</th><th>Impact</th></tr>
<tr><td rowspan="8">Act 3/2017, of June 27 General State Budget for 2017</td><td>Corporate Income Tax: Improvement of the deduction of cinematographic and audiovisual productions</td><td rowspan="8">Diferential impact of 15 million euros for 2017 and of 40 for 2018</td></tr>
<tr><td>VAT:</td></tr>
<tr><td>· The tax rate for live cultural shows is reduce from 21% to 10% in order to promote the acces and spread (diffusion) of culture.</td></tr>
<tr><td>· Prescription glasses frame will be taxed at 10% to align its rate with the one of prescription lenses and glasses.</td></tr>
<tr><td>· The delivery of colection coins will be exempted when they are carried out by their issuer for an ammount not higher then its face value.</td></tr>
<tr><td>Tax on Capital Transfers and Documented Legal Acts: the scale that levies the transmission and rehabilitation of grandeur and noble tittles at 1% is updated.</td></tr>
<tr><td>Excise Taxes: Fuel Tax refundsd will be reduced for gas used in agriculture and livestock in order to adapt the internal regulation to the European Law.</td></tr>
<tr><td>Fees: Update of certain fees</td></tr>
<tr><td>Royal Decree Law 1/2017, of January 20 , Urgent Measures to protect consumers with regards to floor clauses</td><td>Corporate Income Tax. It regulates the fiscal treatment of the floor clauses refunds</td><td></td></tr>
<tr><td>Royal Decree Law 1/2017, of June 9, Urgent Measures to mitigate, the effects produced by drought in certain areas of hydrographic basins and modification of the Water Act enacted by the codified text of Royal Decree Law 1/2001 July 20</td><td>Canon for the use of continental water: To guarantee the protection of the hydraulic public domain and in order to fulfill the environmental goals established by the 2000/60/CE, European Parliament and Council Directive of October, 23, that establishes a common frame for water policy (Water Framework Directive) the canon for the use of continental water for the production of electric energy will be increased from 22 per cent of the tax base value forseen in the article 112 bis of theWater Act codified text to 25.5 per cent.</td><td>Diferential impact of 32 million euros for 2018</td></tr>
<tr><td>Royal Decree Law 529/2017, of May, 26 that modifies the VAT Regulation, enacted by the Royal Decree Law 1624/1992, of December 29</td><td>VAT(Immediate Supply of information on VAT, known in Spanish by the acronym SII) To facilitiate the taxpayer adjustment to the new VAT management system an extraordinary deadline is given for the voluntary resignation to the monthly refund registration and the application of a special regime for entities before July, 1, date of entry into force of the new system .</td><td>The SII produces a lead time in the collection with a diferential impact of -3.889 million euros for 2017 and of 3.889 for 2018</td></tr>
<tr><td>Royal Decree Law 683/2017, of June, 30 that modifies the Corporate Income Tax enacted by the Royal Decree Law 634/2015, of July, 10 with regards to the hedge of credit risk in financial institutions</td><td>Corporate Income Tax. This Royal Decree Law regulates th e fiscal decution of credit risk hedge for financial institutios, adapting the current regulation to the modifications of the accounting regulation (modification of the 4/2004 Bank of Spain's Circular that has specially affected in its appendix IX)</td><td></td></tr>
</table>