# 2016 DRAFT BUDGETARY PLAN

# KINGDOM OF SPAIN

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## 1. INTRODUCTION

This year, the submission of the 2016 Draft Budgetary Plan for the Spanish General Government is brought forward to 11 September as a consequence of the advanced preparation, in relation to the standard preparation and approval calendar, of the General State Budget for 2016. The purpose of its being brought forward is to provide the necessary certainty, security and foreseeability to the different economic agents so that they can develop their relationships with normality, which is essential in maintaining the recovery of economic activity and employment in Spain. In effect, the budget is the document that reflects the Government's fiscal and economic planning, which goes beyond the public sector sphere, and influences the economic and social realities of different agents operating in the private sector.

The Government has thus tried to prevent any potential loss of confidence, not only in public finances, but also in the Spanish economy as a whole, whose recovery was made possible thanks to the results of the economic policy applied by the Government and which has contributed to propel and strengthen the Spanish economy growth.

These actions by the Government were driven at all times by the need to reactivate economic activity and the creation of employment. To this end, a strategy based on two clearly interconnected axes of action was designed. On the one hand, a fiscal policy aimed at returning public finances to a path of budgetary stability, which is a key element in order to achieve lasting growth. On the other hand, a wide range of structural and employment reforms aimed at increasing the flexibility and competitiveness of our economy so as to strengthen its potential for growth.

Fiscal strategy has been gradually applied, by matching its intensity to the consolidation path foreseen in the European regulations and with the objective of maximising its effect on economic growth and job creation. Therefore, the application of the necessary urgent consolidation measures for the correction of the exceptional deviation of public deficit was meant to bring forward, to the greatest possible extent, the required fiscal effort and to focus such efforts in 2012 and 2013. The success in achieving the budgetary stability goals, and the intense process of deleveraging of the private sector, allowed for stabilising the net foreign debt path.

During its first years in office, the Government focused the design of economic policy on economic stability, based on the acceleration of the deleveraging process of the private sector by means of tax policies and the reform of the financial sector, as well as on the refinancing of sectors through increasing public debt, due to a greater extent, to the drastic reduction of accumulated commercial debt and access to the European Stability Mechanism.

From mid- 2013, as the financing terms of the Spanish economy improved, the decisions on economic policy were completed with the progressive introduction of selective measures supporting job creation and entrepreneurship, and finally, with a fiscal reform involving a reduction in taxation for households and enterprises, thus increasing their available disposable income and contributing to the strengthening of domestic demand.

The structural reforms undertaken come under different categories, from horizontal reforms affecting all sectors of the economy to specific sectorial reforms. Firstly, the budgetary governance framework was reformed so as to guarantee fiscal discipline at all Government levels, and transparency of economic and financial information has been increased remarkably. Among the many actions undertaken to such purpose two should be highlighted the Organic Law on Budget Stability and the monthly publication of budgetary execution data in national accounting terms of the Central Government, Social Security and all the Autonomous Communities, which provides homogeneous information, comparable between regions and any Member State and which has helped Spain become one of the countries with the highest degree of transparency in the framework of sub-national finances both within the European Union and globally.

Another reform undertaken was the deep restructuring and updating of Public Administrations so as to increase their efficiency and efficacy. Similarly, other major reforms have been undertaken in order to guarantee the sustainability of public finances, such as the review of the pension system or rationalization measures ensuring the feasibility and quality of basic public services.

This strategy of fiscal and economic policy adopted by the Government since entering office has proven effective in overcoming the main challenge our economy was facing: to reverse the process of employment destruction associated with the economic recession while boosting consistent and long-lasting growth in the economy that allows for the continued decrease in unemployment rates.

All economic and labour market indicators are not only proof of the economic recovery but they also back-up growth consolidation and acceleration. Thanks to the reforms undertaken, allowing for the correction of the macroeconomic imbalances of the Spanish economy and the reorientation of our production model towards a more sustainable one, growth is based on solid foundations, so that it will be stable and long-lasting.

Consequently, the economic context for the preparation of the 2016 budgets of all Public Administrations is radically different from the adverse scenario faced at the beginning of the term. This fact means that, without losing sight of the need of further reducing deficit in order to comply with European Union commitments, it was not necessary to adopt further discretionary measures to reduce expenditure or increase tax resources, as the adjustments needed had been previously implemented.

The actions of Public Administrations which make it possible to achieve such goals are analysed in detail throughout this report. In this regard, it must be highlighted that the advanced submission of the 2016 Draft Budgetary Plan means that it has not been possible to include the information regarding the main parameters of the budgets of the Autonomous Communities and the Local Entities, since the deadline established by Organic Law 2/2012, of 27 April, for its submission to the Ministry of Finance and Public Administrations is 1st October. Therefore, regarding Regional and Local Administrations, the information contained in this Draft Budgetary Plan, in respect of that already included in the Stability Programme, adds the relevant measures concerning personnel contained in the General State Draft Budget for 2016, which have a basic nature and affect all sub-sectors -although optional- as well as the increase in the resources of the financing system. Additionally, in the case of the Autonomous Communities, which were required to submit Economic and Financial Plans, the new measures in these plans have also been included.

Finally, it must also be pointed out that this report includes additional information to comply 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. Therefore, detailed additional information on the budgetary execution is provided both in cash and National Accounts terms for the General Government as a whole and for each sub-sector.

## 2. MACROECONOMIC SCENARIO 2015-2016

The macroeconomic scenario described below is the base for the preparation of the General State Draft Budget for 2016 and it has been endorsed by the Independent Authority for Fiscal Responsibility (AIREF, as per the Spanish Acronym), in compliance with article 14 of Organic Law 6/2013, of 14 November, and article 4 of Directive 2011/85/EU of the Council, of 8 November 2011, on the requirements for budgetary frameworks for Member States. After the relevant assessment, the AIREF has qualified the forecasts as probable and considers that the macroeconomic scenario proposed by the Government is plausible as a whole.

This macroeconomic scenario shows the consolidation of the Spanish economy recovery, which started in the third quarter of 2013 and has gradually intensified, with real GDP growing by 1 per cent q-o-q in the second quarter of 2015. Growth consolidation is based on the improvement of confidence, employment and enhanced access to credit; this latter factor being achieved by the completion of the financial restructuring process within the context of price moderation and reduction of interest rates. Besides, the growth pattern is more balanced, thanks to both domestic and external demand, confirming the Spanish economy recovery.

**Table 0.i Basic Assumptions**

% change over the same period of previous year, unless otherwise indicated

| | 2014 | 2015 | 2016 |
|---|---|---|---|
| Short term interest rate (3-month Euribor) | 0.2 | 0.0 | 0.0 |
| Long term interest rate (10-year debt, Spain) | 2.7 | 2.1 | 2.6 |
| Exchange rate $/€ (annual average) | 1.3 | 1.1 | 1.1 |
| World GDP | 3.4 | 3.5 | 3.9 |
| Eurozone GDP | 0.9 | 1.5 | 1.9 |
| Spanish markets growth | 2.9 | 3.6 | 5.2 |
| Oil prices (Brent, USD/barrel) | 99.4 | 61.5 | 68.8 |
| Sources: International Monetary Fund, European Central Bank, European Commission, Bank of Spain and Ministry of Economy and Competitiveness | | | |

This macroeconomic scenario is based on hypotheses regarding the exchange rate, oil prices and interest rates which have been prepared taking into account the recent evolution of these variables, as well as assumptions on the Spanish exports markets and global GDP growth, in line with the estimates of the main international organisations.

Regarding the international context, the European Commission forecasts suggest that the global economy shall grow this year and next at a moderate rate, but with a slight increase tendency. The global economy is expected to grow by 3.5 per cent in 2015 and by 3.9 per cent in 2016. For the euro area, projected growth amounting to 1.5 per cent in 2015 and 1.9 per cent in 2016 is due, among other factors to the results of the *Quantitative Easing* programme of the European Central Bank, which has improved the credit supply, as well as to the depreciation of the euro and price moderation, favoured by the evolution of oil prices.

Regarding the hypotheses on exchange rates, the trend of gradual depreciation of the euro against the dollar is expected to continue, resulting in an average level of 1.1 dollars per euro in 2015 and 2016 in contrast with 1.3 in 2014.

Regarding commodity prices, the Brent oil price has followed an irregular path during the last months of 2015 so that, considering this trend and the one projected by the forward markets, average prices per barrel of 61.5 dollars in 2015 and 68.8 dollars in 2016 are forecasted.

In relation to interest rates, it is foreseen short-term stability in low rates (0 per cent) during the period under assessment, whereas it is also foreseen an increase of long-term rates for 2015, reaching 2.1 per cent in 2015 and 2.6 per cent in 2016.

**Table 1.a Macroeconomic Prospects**

| Chain-linked volume, year 2010=100, unless otherwise indicated | | | | | |
|---|---|---|---|---|---|
| | ESA Code | 2014 | 2014 | 2015 | 2016 |
| | | Level | % Change | | |
| 1. Real GDP | B1*g | 97.4 | 1.4 | 3.3 | 3.0 |
| 2. Potential GDP | | | 0.1 | 0.4 | 0.7 |
| contributions: | | | | | |
| Labour | | | -0.4 | -0.2 | -0.1 |
| Capital | | | 0.2 | 0.3 | 0.4 |
| Total Factor Productivity | | | 0.4 | 0.4 | 0.4 |
| 3. Nominal GDP (billions of euros) | B1*g | 1058.5 | 0.9 | 3.8 | 4.0 |
| Components of real GDP | | | | | |
| 4. Private final consumption expenditure | P.3 | 95.2 | 2.4 | 3.4 | 3.0 |
| 5. Government final consumption expenditure | P.3 | 93.4 | 0.1 | 0.1 | 0.3 |
| 6. Gross fixed capital formation | P.51 | 85.7 | 3.4 | 6.4 | 5.6 |
| 7. Change in inventories (% of GDP) | P.52 + P.53 | 100.6 | 0.2 | 0.0 | 0.0 |
| 8. Exports of goods and services | P.6 | 118.0 | 4.2 | 5.5 | 6.0 |
| 9. Imports of goods and services | P.7 | 99.6 | 7.6 | 6.0 | 6.4 |
| Contributions to real GDP growth | | | | | |
| 10. Final domestic demand | | | 2.2 | 3.3 | 2.9 |
| 11. Change in inventories | P.52 + P.53 | | 0.2 | 0.0 | 0.0 |
| 12. External balance of goods and services | B.11 | | -0.8 | 0.0 | 0.1 |
| Sources: National Institute of Statistics and Ministry of Economy and Competitiveness | | | | | |

Ongoing deleveraging process of households and firms, together with enhanced access to credit represents a substantial improvement of the environment in which economic activity takes place in comparison with previous years. This change, together with the significant recovery of consumption since 2014 suggests that domestic demand is expected to extend its dynamism within the time framework considered, driven by the increase in households' real disposable income, as a result of the positive performance of the labour market, the effects of the fiscal reform approved in 2014 and the recovery of confidence.

Thus, the macroeconomic scenario included in this Draft Budgetary Plan envisages an upward revision of the GDP growth rate in 2015 and 2016 in relation to the Stability Programme, amounting to four and one tenths, respectively, with rates reaching 3.3 per cent for this year and 3 per cent for next year; consequently, in 2015 the Spanish economy-growth rate will virtually double that of the euro area and will be the highest among the major economies within the area, maintaining a positive growth differential in the following years. Likewise, it is foreseen a correction of the growth pattern for 2015 and 2016 with a more balanced contribution between domestic and external demand. On the one hand, domestic demand is expected to maintain its role as driving force of economic growth with contributions of 3.3 points in 2015 and 2.9 in 2016. On the other hand, it is expected an improvement in the contribution of the foreign sector amounting to eight tenths in 2015, up to neutrality. In 2016, the contribution of the foreign sector will enter positive territory, reaching 0.1 per cent.

The improvement of the foreign sector will be based on exports dynamism, driven by gains in competitiveness and the euro depreciation, as well as by a softening in imports growth. Within this context, the current account balance will register a surplus in 2015 and 2016 and the Spanish economy net lending capacity vis a vis the rest of the world will reach 1.5 per cent of GDP and 1.6 per cent of GDP, respectively.

Regarding the components of domestic demand, private consumption and productive investment will maintain high growth levels in 2015 and 2016, driven by the recovery of the labour market, the improvement of financial conditions, tax cuts and a better economic outlook. Therefore, private consumption will grow by 3.4 per cent in 2015 and by 3 per cent in 2016.

Regarding gross fixed capital formation, it will pursue its dynamism in 2015 and 2016, although it will moderate once growth has been consolidated, reaching growth rates of 6.4 per cent and 5.6 per cent in 2015 and 2016, respectively. Equipment investment expansion will continue, increasing by 9.3 per cent and 6.6 per cent in 2015 and 2016 respectively, and construction investment will be positive again, with growth rates up to 5.5 per cent in both years, mainly due to the recovery of investment in other constructions. Regarding external demand, it is forecast that the exports positive trend will keep going, accelerating next year up to 5.5 per cent (5.2 per cent in 2014) and 6 per cent in 2016, driven both by the depreciation of the exchange rate and competitiveness gains. On the other hand, import growth rates will slightly reduce their growth path, down to 6 per cent in 2015 (7.6 per cent in 2014) and to 6.4 per cent in 2016.

As for the labour market, the higher flexibility implemented by the labour reform in 2012 made it possible to generate employment with significantly lower GDP growth rates than those before the coming into force of the reform. This has placed the employment generation threshold under 1 per cent. Therefore, during this year, an average of 554 thousand jobs in terms of the Labour Force Survey (LFS) would be created. Likewise, the total number of employed persons would stand at 18,171 thousand in the last quarter of 2015, that is 602 thousand higher than in the fourth quarter of 2014 (year-on-year growth rate of 3.4 per cent) and more than a million higher than the last quarter of 2013. On the other hand, unemployment rate will average 19.7 per cent in 2016.

Regarding the process of correcting Spanish economy imbalances, price stability will continue playing a key role. Despite the momentum of domestic demand, the growth pace for the private consumption deflator will remain below 2 per cent during 2015 and 2016. The lack of price pressure will maintain its effect on competitiveness gains, improving the behaviour of exports and positively influencing households' real disposable income.

## Table 1.b Price Development

| | ESA Code | 2014 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| | | Level | % Change | | |
| 1. GDP deflator | | 100.5 | -0.5 | 0.5 | 1.1 |
| 2. Private consumption deflator (*) | | 106.0 | -0.1 | -0.1 | 1.1 |
| 3. Public consumption deflator | | 97.9 | -0.9 | 0.0 | 0.1 |
| 4. Gross fixed capital formation deflator | | 93.6 | -0.6 | 0.1 | 1.5 |
| 5. Export price deflator (goods and services) | | 104.1 | -1.7 | 0.7 | 1.5 |
| 6. Import price deflator (goods and services) | | 108.7 | -1.3 | -0.9 | 1.4 |

(*)It includes househols and non-profit institutions serving households

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

## Table 1.c Labour Market Development (*)

| | ESA Code | 2014 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| | | Level | % Change | | |
| 1. Total employed people (full-time equivalent, thousand) | | 16,540.0 | 1.2 | 3.0 | 3.0 |
| 2. Unemployment rate (% of active population) | | | 24.4 | 22.0 | 19.7 |
| 3. Labour productivity per employee (thousand euro) | | 63.7 | 0.2 | 0.2 | 0.0 |
| 4. Employees compensation (billion euro) | D.1 | 496.9 | 1.3 | 3.5 | 4.4 |
| 5. Compensation per employee (thousand euro) (**) | | 35.0 | -0.2 | 0.5 | 1.4 |

(*) Data in National account basis, except for unemployment rate.

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

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

## Table 1.d Sectoral Balances

| | ESA Code | 2014 | 2015 | 2016 |
|---|---|---|---|---|
| | | % GDP | | |
| **1. Net lending (+)/ borrowing (-) vis-à-vis the rest of the world** | B.9 | 1.0 | 1.5 | 1.6 |
| Balance on goods and services | | 2.4 | 2.8 | 2.8 |
| Balance of primary incomes and transfers | | -1.8 | -1.6 | -1.6 |
| Net Capital transactions | | 0.4 | 0.3 | 0.4 |
| 2. Net lending (+) /Net borrowing (-) of the private sector | B.9 | 6.8 | 5.7 | 4.4 |
| 3. Net lending (+) /Net borrowing (-) of general government* | B.9 | -5.8 | -4.2 | -2.8 |

(*) 2014 data include financial assistance

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

## 3. ORIENTATION OF THE FISCAL POLICY

Table 2.a includes, together with the forecasts for the main components of GDP, estimates of potential growth of the Spanish economy and the contributions of its main components following the methodology of the production function used by the European Commission (EC) and adopted by the Output Gap Working Group (OGWG).

As it can be observed, potential GDP grows in 2015 and 2016 by 0.4 per cent and 0.7 per cent, respectively, three and six tenths higher than in 2014; this result can be explained by the lower detraction of the labour factor, which is partially offset by the positive contributions of capital, while the Total Factor Productivity (TFP) contribution remains stable. As a result, the output gap gradually reduces from its peak, reached in 2013, to -0.2 per cent by the end of the forecast period (2018).

Based on these calculations of the output gap, the forecast path of the public sector deficit has been split into both its cyclical and its cyclically-adjusted components. As it can be seen in Table 2.a, the cyclically-adjusted deficit decreases throughout the forecast period, reaching -0.2 per cent of GDP in 2018. The reduction of the cyclically-adjusted deficit between 2014 and 2016 amounts to 0.5 percentage points, and once the nominal deficit falls below the 3 per cent threshold in 2016, the correction of the deficit will continue, thus strengthening the tendency of the public sector towards fulfilling the medium-term objective at the end of the forecast period. It must also be highlighted that, since 2013, the public sector has registered cyclically-adjusted primary surpluses, which are a key contribution to reducing public debt.

The adjustment measure based on the structural effort is complemented by the discretionary fiscal effort indicator, proposed by the European Commission in its 2013 Report on Public Finances. This indicator, included in table 2b, shows a moderation of the structural effort during the period 2015-2018.

## Table 2.a General Government Budgetary Targets

| | ESA Code | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| **Net lending (+)/ borrowing (-) by subsector in % of GDP** | | | | | |
| **1. General Government** | S.13 | **-4.2** | **-2.8** | **-1.4** | **-0.3** |
| **2. Central Administration** | S.1311 | -2.9 | -2.2 | -1.1 | -0.2 |
| **3. Autonomous Communities** | S.1312 | -0.7 | -0.3 | -0.1 | 0.0 |
| **4. Local Authorities** | S.1313 | 0.0 | 0.0 | 0.0 | 0.0 |
| **5. Social Security** | S.1314 | -0.6 | -0.3 | -0.2 | -0.1 |
| **General Government (S.13) (% GDP)** | | | | | |
| **6. Interests** | D.41 | 3.1 | 2.8 | 2.6 | 2.5 |
| **7. Primary balance** | | -1.2 | 0.1 | 1.2 | 2.2 |
| **8. One-off and other temporary measures**[a] | | -0.48 | -0.35 | -0.04 | -0.01 |
| **of which financial assistance** | | 0.0 | 0.0 | 0.0 | 0.0 |
| **9. Real GDP** (% change) | | 3.3 | 3.0 | 2.9 | 2.9 |
| **10. Potential GDP** (% change) | | 0.4 | 0.7 | 1.0 | 1.2 |
| Contributions: | | | | | |
| Labour | | -0.2 | -0.1 | 0.2 | 0.3 |
| Capital | | 0.3 | 0.4 | 0.5 | 0.6 |
| Total factor productivity | | 0.4 | 0.4 | 0.4 | 0.4 |
| **11. Output gap** | | -5.7 | -3.6 | -1.8 | -0.2 |
| **12. Cyclical balance** | | -3.1 | -1.9 | -1.0 | -0.1 |
| **13. Cyclically-adjusted balance** | | -1.1 | -0.8 | -0.4 | -0.2 |
| **14. Cyclically-adjusted primary balance** | | 1.9 | 2.0 | 2.2 | 2.3 |
| **15. Structural balance** | | -0.7 | -0.5 | -0.4 | -0.2 |

[a] A positive sign corresponds to a deficit reduction measure

## Table 2.b Discretionary Fiscal Effort Indicator

billion € (unless otherwise indicated)

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Nominal GDP | 1,058.5 | 1,098.2 | 1,142.5 | 1,191.9 | 1,246.5 |
| Discretionary revenues | 3.9 | -0.2 | -0.2 | 1.6 | 0.4 |
| Total expenditure | 461.1 | 462.0 | 465.3 | 471.6 | 480.5 |
| Interest expenditure | 34.5 | 33.5 | 32.3 | 31.3 | 30.7 |
| Unemployment expenditure | 24.6 | 21.5 | 19.5 | 17.2 | 14.8 |
| Expenditure excluding interest and unemployment (E) | 402.0 | 406.9 | 413.5 | 423.1 | 434.9 |
| Change in E | 1.3 | 4.9 | 6.6 | 9.6 | 11.8 |
| Reference rate (%) | 0.2 | 1.2 | 1.8 | 2.2 | 2.6 |
| Financial assistance one-offs | 1.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in E without financial assistance one-offs | 4.9 | 6.1 | 6.6 | 9.6 | 11.8 |
| **Discretionary fiscal effort indicator** *(% GDP)* | **0.34** | **-0.01** | **0.07** | **0.13** | **0.01** |
| **Discretionary fiscal effort indicator (1)** *(% GDP)* | **0.37** | **-0.12** | **0.07** | **0.13** | **0.01** |

(1) Excluding financial assistance

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

**Table 2.c General Government Debt Development (Q3) and Forecasts**

| | ESA Code | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| 1. Gross debt[a] | | 98.7 | 98.2 | 96.1 | 92.8 |
| 2. Change in gross debt | | 1.0 | -0.6 | -2.0 | -3.3 |
| **Contribution to change in gross debt** | | | | | |
| 3. Primary balance | | -1.2 | 0.1 | 1.2 | 2.2 |
| 4. Interests | D.41 | 3.1 | 2.8 | 2.6 | 2.5 |
| 5. Stock-flow adjustment | | 0.3 | 0.5 | 0.6 | 0.6 |
| p.m.:Implicit interest rate on debt | | 3.24 | 2.98 | 2.79 | 2.68 |

[a] As defined in EU Regulation 479/2009

Source: Ministry of Economy and Competitiveness

### 3.1 Taxation Policy

In the year 2015, the tax reform entered into force and led to a modification of the main taxes with the purpose of boosting economic growth and generating employment. Such reform was meant to shape a fairer tax system, in compliance with the recommendations of the ECOFIN Council of July 2014, in which it required Spain to "*adopt, before the end of 2014, a comprehensive tax reform which simplifies the tax system and contributes, to a greater extent, to achieving economic growth and employment creation, as well as the protection of the environment and the stability of tax collection*".

The set of measures implemented are aimed at establishing a tax system which complies with these recommendations while boosting growth and reducing distortions that taxes such as the Personal Income Tax (PIT) and the Corporate Income Tax (CIT) generate in the economy and reducing the erosion of tax bases. The final effect of the reforms has been taken into account for the compliance with the deficit targets, as acknowledged by the Council of Specific Recommendations for Spain in 2015[1].

Measures included in the tax reform are aimed at complying with the recommendation of the ECOFIN Council of 2014 and are to be applied in 2015 and 2016:

- Reduction in tax rates for the most distortive taxes, such as personal income tax and corporate income tax thus freeing up disposable income and hence allowing for higher tax collection by means of the increase of the bases of direct and indirect taxes. Moreover, it contributes to the reduction of the tax wedge on labour in compliance with the recommendations on this matter.
- Among the measures to be implemented in 2015 and 2016 we can find those aimed at reducing inefficient tax benefits in direct taxation, PIT and CIT. These measures allow for

[1] "*Some developments have been registered within the taxation system resulting from the implementation of a general tax reform aimed at simplifying the tax system and making it more adequate for growth and employment generation. The tax reform, affecting the tax on personal income and corporate income tax, was approved on the 20 November 2014 and came into force in January 2015.*"

an increase of tax bases during 2015 and 2016.

- Moreover, the target for the correction of the bias towards indebtedness in corporate income tax is definitively met; new incentives are created to favour financial deleveraging and self-funding through the capitalization reserve and levelling reserve for SMEs.

An element that must be highlighted is the acceleration of the calendar set for the PIT reform implemented by means of Royal Decree Act 9/2015 of 10 July. In this regard, and having analysed the positive evolution of tax collection, in which we could observe the decrease of rates at the beginning of 2015 and the impact of measures set out in the tax reform, compensated by the increase of the bases, it was decided to anticipate the scheduled rate reduction to July 2015.

This positive evolution of tax bases is the result of two factors. On the one hand, the economic situation and the growth resulting from the structural reforms implemented have been key for the evolution of the bases, such as the gross income or expenditure subject to taxation. On the other hand, measures adopted since 2012 which allowed for the increase of the bases of certain taxes had a positive impact in collection. The impact of these measures within a context of bases increasing is exponential.

According to the most recent data published, tax revenue is increasing in homogeneous terms above 5 per cent. Until July, revenue from VAT increased by 6.5 per cent in homogenous terms (8 per cent in national accounts terms) and by 22.8 per cent in the case of CIT. As for PIT, collection increased by 1.1 per cent in homogenous terms, despite tax rate reductions. It is particularly relevant the increase of gross revenue from SMEs and self-employed workers. VAT revenue from these companies grew in July by 12.4 per cent in comparison with previous years and payments in instalments in personal income tax from personal companies increased by 13.2 per cent.

**Table 3 Evolution of Tax Bases**

(Year-on-year % change)

| TAX BASES | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 (f) | 2015* |
|---|---|---|---|---|---|---|---|
| **· On Income before taxes** | **-1.4** | **-3.1** | **0.5** | **1.3** | **5,0** | **5.8** | **4.5** |
| *· Gross household income* | *0.4* | *-4.4* | *-1.3* | *0.2* | *2.9* | *4.1* | *2.8* |
| *· Corporate Income Tax consolidated base* | *-15.2* | *8* | *14.7* | *8.6* | *17* | *14.3* | *26.2* |
| **· On expenditure before VAT** | **-4.3** | **-3.4** | **-6,0** | **4.3** | **2.1** | **4.4** | **2.5** |
| *· Final expenditure subjet to VAT* | *-5.8* | *-4.5* | *-6.1* | *5.6* | *2.9* | *4,0* | *3.9* |
| *· Consumption base subject to excise duties* | *4,0* | *1.7* | *-5.6* | *-1.9* | *-2.1* | *6.4* | *-4.5* |
| **TOTAL TAX BASES ON INCOME AND EXPENDITURE** | **-2.7** | **-3.2** | **-2.3** | **2.6** | **3.8** | **5.2** | **3.6** |

(*) Rates calculated for the period of the year for which there is information: first semester. except for CIT (first quarter).

Source: Ministry of Finance and Public Administrations

The advance of the PIT reform is therefore the result of the positive evolution of the collection and of the objective to improve growth and employment in the second half of 2015. The disposable income injection generated by the modification in the schedule implies a boost of the macroeconomic variables which will affect the aggregated tax base, particularly in wage income and expenditure subject to VAT.

Precisely, the fact that the 2016 tax rate was brought forward by half a year means that a new intermediate rate was established for the year 2015. This intermediate rate, which will be applied throughout the entire year of 2015, is the equivalent of applying from July 2015 the rate envisaged for 2016. There is a maturity date for this new intermediate rate, so that from 1 January 2016 the rate for 2016, initially planned in the tax reform, will come into force. The anticipation of the new PIT rate has an estimated impact of -1,520 million euros in differential terms in the tax collection of 2015 whereas it will mean a positive differential impact in 2016 and 2017.

Regarding the corresponding appendix table concerning tax policy measures, it is important to point out that a re-assessment of the impact of the tax reform has been carried out. The impact estimated in the Stability Programme is revised, reducing its amount in 2015 and increasing it in 2016, due to the estimate of the new negative taxes for households. Initially, an equal distribution between the advance payment and tax payable was foreseen, but data show that most tax payers are delaying the application of these negative taxes until the settlement of the tax payable, so the greater impact will become evident in 2016. Besides, the impact resulting from the new negative taxes introduced by means of Royal Decree Act 1/2015 have been incorporated after their quantification. The overall impact of all negative taxes will come up to € 1,142 M from 2016.

The reform of the General Tax Law will also come into force during 2016, in line with the specific recommendations addressed to Spain by the Council on 8 July 2014 and following the statements made by the Commission in its report submitted to the Council in 2015, acknowledging the progress made in the area of fight against tax fraud.

In particular, the Law for the reform of the General Tax Law culminates the tax reform introduced by the Government and constitutes a review and an improvement of the entire legal-taxation system. This Law includes a number of measures:

- The possibility of publishing a list of liable taxpayers with tax debts and penalties pending settlement is established. This measure aims at promoting the transparency of the public action and at complying with the constitutional duty to contribute, in particularly serious events, since it is required that the pending amount exceeds one million euros, that the term for the voluntary deposit has elapsed and that debts or penalties have not been deferred or suspended.
- Several measures are introduced in order to provide the tax administration with efficient tools to fight against tax fraud innovation. Among such measures, we may highlight the anti-abuse regulation which establishes a new serious tax infraction due to non-compliance with tax obligations by means of the carrying out of actions or transactions which may constitute a breach of the application of tax regulations. This regulation aims at dealing with fraudulent or deceitful actions which seek to abuse tax regulations.
- Improvement of the indirect estimate method so as to reduce the shadow economy. This method is used when the Administration lacks the necessary data to determine the tax bases. As a consequence, the Administration will establish the origin of data to be used and their full applicability both for the estimation of income and expenses.

- The verification and investigation powers of the tax administration are extended.

Besides, within the framework of the fight against international fraud, the approval of the new regulation of the Corporate Income Tax means the introduction into our legal system of those measures recommended at an international level regarding information obligations of companies and related operations. This policy change is the result of the actions taken within the Base Erosion and Profit Shifting Plan (BEPS) of the OECD. This project includes actions aimed at increasing the transparency with the tax administration while taking into account the impact on costs for companies and the reality of an increasingly global environment in which companies operate in different markets. It must be pointed out that Spain is front-runner in implementing this type of measures. The Regulation of Corporate Income Tax sets forth that companies must provide information country by country from 2016. It will allow for risk assessment in the transfer pricing policy of corporate groups. On the other hand, the specific documentation of entities and related operations is amended so as to adapt it to international regulations.

## 4. THE 2016 DRAFT BUDGETS AND THE STABILITY PROGRAMME 2015-2018

The update of the Stability Programme for 2015-2018, submitted by Spain to the European Commission in April, contains the medium-term fiscal strategy for all Spanish Public Administrations and qualifies as medium-term fiscal plan under the terms provided in Article 4 of Regulation (EU) 473/2013, of 21st May 2013, on the common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of Member States in the euro area.

The draft budgets of the Spanish Public Administrations included in this report are consistent with the medium-term fiscal strategy in compliance with the provisions of article 10 of Directive 2011/85/EU of the Council, of 8 November 2011 on requirements for budgetary frameworks of the Member States, and article 29 of Organic Law 2/2012, of 27 April, on Budgetary Stability and Financial Sustainability.

The strategy of the Government is based on two lines of action, fiscal consolidation and structural reforms, and is also embodied in the 2015-2018 Stability Programme, in the light of the achievements of these years, which can be summarised in the following items: consolidation of public finances, recovery of confidence in the Spanish economy and boosting of economic growth and employment creation. All these elements have indeed been instrumental for the design of the medium-term fiscal strategy.

Regarding revenues, the impact of the direct taxes reduction from the tax reform is compensated by an increase in tax collection, both from direct and indirect taxes, associated to a higher level of economic activity and a positive evolution of the labour market. Social contributions, on the other hand, evolve parallel to the labour market and the compensation of employees.

Expenditure remains under control in terms of GDP, which evidences the commitment with deficit targets. It is particularly relevant the reform of the Public Administrations, affecting all sub-sectors.

The path to consolidation contained in the Stability Programme for the reference period has not been changed for 2015 and 2016, years still falling within the scope of the Excessive Deficit Procedure. Therefore, deficit targets of 4.2 and 2.8 per cent are maintained for these years respectively, with the same distribution by sub-sector as that already approved by the Council of Ministers in 2015. However, for the year 2017 the deficit target is increased by three tenths in comparison with that approved in 2015, from 1.1 to 1.4 per cent, so the distribution by sub-sector has been consequently amended. These three additional tenths of a percentage point have been distributed among the Autonomous Communities in order to moderate the adjustment path towards the budgetary balance and the Social Security, in order to face the structural expenditure on pensions. Therefore, the targets corresponding to the Central Government and the Local Entities remain unaltered. Finally, the deficit target for 2018 is set at 0.3 per cent, with Autonomous Communities and Local Entities reaching a budgetary balance situation, whereas Social Security may register a deficit up to 0.1 per cent and the Central Government a deficit up to 0.2 per cent.

These budgetary stability targets, both for the General Government and its distribution by sub-sectors, were approved by the Council of Ministers on the 10 July 2015, following the report by the Council for Fiscal and Financial Policy and the National Committee of Local Administrations, as set forth in the Organic Law 2/2012, of 27 April, on Budgetary Stability and Financial Sustainability. These targets were then approved by the Congress and Senate on 15 and 16 July respectively.

**Table 4 Comparison of consolidation paths**

% GDP

| Net lending (+)/ borrowing (-) objective of the General Government | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|
| EU Council recommendation (July 2013) | -4.2 | -2.8 | n.a. | n.a. |
| Stability Programme | -4.2 | -2.8 | -1.4 | -0.3 |
| Draft Budgetary Plan | -4.2 | -2.8 | -1.4 | -0.3 |

**Table 5 Budgetary targets by sub-sector**

| *% GDP* | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|
| Central Administration | -2.9 | -2.2 | -1.1 | -0.2 |
| Social Security | -0.6 | -0.3 | -0.2 | -0.1 |
| Autonomous Communities | -0.7 | -0.3 | -0.1 | 0.0 |
| Local Authorities | 0.0 | 0.0 | 0.0 | 0.0 |
| General Government | **-4.2** | **-2.8** | **-1.4** | **-0.3** |

Since the update of the Stability Programme, the Government has revised upwards the real growth and employment creation forecasts of the Spanish economy for the years 2015 and 2016, as a consequence of the recent positive evolution of the Spanish economy, on the back of stronger domestic demand.

This new scenario is consistent with the last forecasts published by the main international organisations. For example, the IMF foresees that Spain will be the European economy with the highest growth in 2016 and the OECD has revised its unemployment forecasts, anticipating that Spain will lead, within the framework of such organization, employment creation in 2016.

This macroeconomic scenario, which is presented together with the General State Budget for 2016 and it is the base for the preparation of the Draft Budgetary Plan, has been endorsed by the AIREF, in compliance with article 14 of Organic Law 6/2013, of 14 November, on the creation of the Independent Authority for Fiscal Responsibility and article 4 of Directive 2011/85/EU of the Council, of 8 November 2011, on requirements for budgetary frameworks of the Member States.

**Table 6 Comparison of the macroeconomic scenario**

| *% change, unless otherwise indicated* | 2015 | | 2016 | |
|---|---|---|---|---|
| | **SP** | **DBP** | **SP** | **DBP** |
| **Real GDP** | 2.9 | 3.3 | 2.9 | 3.0 |
| **Domestic Demand (contribution to growth)** | 3.2 | 3.3 | 2.9 | 2.9 |
| **External balance (contribution to growth)** | -0.2 | 0.0 | 0.1 | 0.1 |
| **Employment creation** | 3.0 | 3.0 | 3.0 | 3.0 |
| **Unemployment rate (% of active population)** | 22.1 | 22.0 | 19.8 | 19.7 |

As can be seen in Table 6, real GDP growth has been revised upwards by four tenths in 2015 and one tenth in 2016. Besides, a more balanced growth pattern is also foreseen with the main support coming from domestic demand, although the external sector will provide again a positive contribution to growth.

The buoyancy of domestic demand is the result of the favourable evolution of its main components: private consumption and investment. Therefore, private consumption is stimulated by the recovery of the labour market, price stability, the positive evolution of financial wealth and tax reductions. On the other hand, the upturn of investment is the result of the improvement of the investment climate, the measures adopted by the Government to improve access to financing and greater confidence in the future economic outlook.

External demand will positively contribute to growth due to the moderate increase in imports and the upward tendency of exports, thanks to competitiveness gains and the better performance of export markets.

Regarding the labour market, perspectives on its recovery remain favourable, with an expected employment creation amounting to 3 per cent in both years and a slightly higher reduction in the unemployment rate, which would reach 19.7 per cent in 2016.

This economic context, more favourable than the one expected when designing the medium-term fiscal strategy of the Stability Programme, has allowed the State Draft General Budget and the Social Security Draft Budget to implement measures aimed at boosting economic activity and employment creation while maintaining the commitment to comply with established stability targets, thus ending the excessive deficit situation in 2016.

The following sections include an analysis of the main actions of each sub-sector of the Spanish Public Administrations taking into account the conditions arising from the anticipated submission of this Draft Budgetary Plan for 2016.

## 5. CENTRAL GOVERNMENT DRAFT BUDGET [2]

### 5.1 The General State Draft Budget for 2016[3]

The General State Draft Budget for 2016 was prepared in line with the committed consolidation path, which was approved by the Council of Ministers on the 31st July 2015 and submitted to the Congress of Deputies on 4th August. The General State Draft Budget includes the sub-sectors of the Central Government and Social Security on national account basis.

The positive economic situation framing the context for the General State Draft Budget for 2016 is reflected, both in revenue, due to the greater buoyancy of tax revenue, and in expenditure, due to the reduction of expenditure on unemployment, which is a direct consequence of the improvement of the labour market. In addition, there are savings arising from the item "interests of public debt", due to the improvement of the credit quality of Spain.

Therefore, the fiscal adjustment to be applied during 2016 in order to meet the demanding budget stability target does not require the implementation of new discretionary measures based on expenditure cuts or tax resources' increase, since Spain has followed a frontloaded adjustment as most of the adjustment measures to be applied were anticipated during the first years of the legislature (with a structural effort of 4.2 of the GDP between 2012 and 2013).

Regarding revenue, the macroeconomic scenario foreseen for 2016, with a 4 per cent increase in nominal GDP, is positive for tax collection growth. Besides, the General State Draft Budget for 2016 allows for the completion of the tax reform, which reduces and distributes the tax burden of direct taxation, thus increasing household disposable income and boosting consumption and investment and improving the competitiveness of Spanish companies. This results in broadening tax bases and, therefore in higher tax collection.

Regarding expenditure, the following changes must be pointed out:

- A significant increase in the resources transferred to regional governments within the framework of the financing system, which will improve the fiscal position of both Autonomous Communities and Local Entities in the year 2016, thus contributing to compliance with their budget stability targets. The increase of transfers to Regional Governments is complemented by a higher financing through revenues. As a whole, in 2016 all Regional Governments will have an increase in resources through the financing system amounting to 8,005 million euros, 7.81 per cent more than in the year 2015.
- The General State Draft Budget for 2016 includes public employment measures(some of these measures will be implemented in 2015):
    - Compensation of employees may be increased up to a maximum of 1 per cent in comparison with compensation as of 31th December 2015.
    - Civil servants will recover in 2015 an additional 25 per cent of the extra pay suspended in December 2012 and the remaining amount in 2016 (50 per cent).

[2] The Budget of the Social Security is also included in the General State Draft Budget, which will be analysed in detail in the following section.

[3] http://www.sepg.pap.minhap.gob.es/sitios/sepg/es-ES/Presupuestos/ProyectoPRESUPUESTOS GENERALES DEL ESTADO/Paginas/ProyectoPRESUPUESTOS GENERALES DEL ESTADO2016.aspx

- The replacement rate in the public employment sector will be 50 per cent on a general basis and 100 per cent in priority sectors in order to reinforce teams for the fight against labour and tax fraud, teachers, Security and Law Enforcement Bodies and the Armed Forces, among other essential groups.
- Civil servants will receive the last additional day of leave, which had been eliminated in previous years, reaching a total of 6, as well as the additional leave days based on seniority.

- The implementation of the CRECE Plan (Plan of Measures to Promote Growth, Competitiveness and Employment) continues in 2016. This plan was included in the General State Draft Budget for 2015 aimed at aligning the targets of European Union funds with domestic needs by concentrating investment in key sectors which may attract private investment and trying to achieve the maximum use of funds from the European Union.
- There is a significant reduction in transfers to the State Public Employment Service and in interests on public debt as a consequence of the improvement of the labour market and the markets confidence, respectively.

Finally, it must be also highlighted that the General State Draft Budget for 2016, for the first time since the beginning of the crisis, included a primary surplus of 0.35 percentage points of GDP, resulting from a total deficit of 2.2 per cent of GDP and an estimate in interest expenditure in national accounts at 2.55 per cent of GDP.

### 5.1.1 Revenues of General State Draft Budget for 2016

In the year 2016, the remaining part of the tax reform will come into force; this will imply the final reduction of rates as planned and commenced in 2015. During that same year, the reform of the General Tax Law will also come into force; it will include a set of changes which will streamline the tax system, with the aim of improving its functioning and facilitate the fight against tax fraud.

The macroeconomic scenario that frames the budget is positive to increase tax collection, since an increase in nominal GDP amounting to 4 per cent is forecast. The recovery of prices and salaries included in the macroeconomic scenario are the key elements for the higher growth of nominal variables. Both variables will boost the recovery paces of the wage bill and expenditure in consumption in 2016, the two factors which most influence tax collection. Within such a context, the growth of the aggregated tax base, comprised of the addition of the bases of the main taxes, will exceed 5 per cent.

The evolution of the aggregated tax base for 2016 will be made up of two key components: on the one hand, the stabilisation of real growth which will amount to 3 per cent and, on the other hand, the recovery of prices. This recovery will be boosted both from the external market, due to the increase in the price of commodities and from the domestic market, thanks to the positive evolution of wages at levels which are not detrimental to competitiveness. Therefore, both elements contribute to the growth of nominal GDP, which will reach 4 per cent as of 2016.

Regarding income comprising the aggregated tax base, there are two which are particularly relevant. The first one is the wage bill, which within the framework of the draft budget is increased parallel to the positive evolution of employment and wages. The second is, undoubtedly, consumption: positive expectations as well as the recovery of employment rates encourage consumption, which has the corresponding effect on expenditure subject to VAT.

As a consequence of the foregoing and remaining cautious as regards to achieving the budget stability target, non-financial revenue, after the transfer to regional bodies, will amount to 134,733 million euro for 2016, 0.8 per cent higher than in 2015 budget.

In 2016, tax revenues will reach 193,520 million euro, with a 6.2 per cent increase in comparison with 2015 revenue forecast and 4 per cent in comparison with the 2015 budget. This forecast exceeds, by two percentage points, the estimation for 2015. There are two reasons which explain this higher growth.

Firstly, growth in nominal terms will exceed the growth foresaw for 2015, as pointed out. Secondly, the collection loss of the reform of direct taxation will be lower in 2016 than in 2015 in differential terms, due to the fact that the 2016 rate was brought to 2015. Moreover, the impact of the direct taxation reform will be compensated in collection by the increase in tax bases, as already seen in 2015.

On the other hand, non-tax revenues are forecasted to come up to 20,535 million euro in 2016, a 32.5 per cent less than the collection estimated for 2015. This sharp drop is due to the fact that during 2015 exceptional and non-recurring amounts were received, such as revenues from differences between reimbursement values and emission of Public Debt, which respond to the manner of including in the budget the different aspects of the issue of public debt and therefore had no effect on national accounts terms.

**Table 7 State Revenue Forecast**

*million €*

| | 2015 Budget (1) | 2015 Revenue forecast (2) | 2016 Budget (3) | Change (3-1) (%) | Change (3-2) (%) |
|---|---|---|---|---|---|
| 1. Tax revenues | 186,112 | 182,256 | 193,520 | 4.0 | 6.2 |
| 2. Tax transfers to territorial administrations | 72,276 | 73,129 | 79,282 | 9.7 | 8.4 |
| **3. Total State tax revenues** | **113,836** | **109,127** | **114,238** | **0.4** | **4.7** |
| 4. Other revenues | 19,876 | 30,421 | 20,535 | 3.3 | -32.5 |
| **5. Total State non-financial revenues (3+4)** | **133,712** | **139,548** | **134,773** | **0.8** | **-3.4** |

Source: Ministry of Finance and Public Adminsitrations

### 5.1.2 Draft Budget Expenditure 2016

The non-financial expenditure for 2016 amounts to 157,191 million euros, 3 per cent less than the previous year, consistent with the revenue forecast for 2016 and the deficit target of 2.2 per cent of GDP, established by the Government for this sub-sector.

In compliance with the Organic Law on Budget Stability and Financial Sustainability, for the establishment of the non-financial expenditure limit for the Government, transfers associated with the funding systems of Regional Governments must be excluded. In 2016, these transfers to Autonomous Communities and Local Entities increased by 2.6 per cent, up to a total of 33,797 million euros.

If we discount non-financial expenditure from the funding of Regional Governments, the result is an expenditure limit for the State government amounting to 123,394 million euros for 2016 which was approved by the Council of Ministers on 10 July 2015. In comparison with the previous year, the expenditure limit of the Government decreases by 4.4 per cent.

**Table 8 Non-Financial expenditure limit of the State**

*million €*

| | 2015 Initial Budget (1) | 2016 Initial Budget (2) | Change (%) |
|---|---|---|---|
| **1. Non-financial expenditure** | 161,992 | 157,191 | -3.0 |
| **2. Financing of the territorial administrations** | 32,933 | 33,797 | 2.6 |
| **3. Non-financial expenditure limit** | **129,060** | **123,394** | **-4.4** |

Broken down by items, current transfers -which are the major item within the State Draft Budget, decrease by 3.2 per cent in comparison with the previous year, up to a total of 88,835 million euros. This drop is mainly due to the lower contribution of the State to the Public Service of National Employment arising from the savings in unemployment benefits expenditure. This drop is partially compensated by several increases in other items, such us higher transfers for the funding of Regional Governments, higher financing to pensions of civil servants special regime, the provision of credits for the implementation of the Organic Law for the Improvement of Educational Standards or the increase in funding of social actions such as the support to family and infants and to the long-term care system.

On the other hand, as in the case with previous years, social expenditure absorb a major part of this budgetary item with contributions to the Social Security for the financing of supplements to minimum pensions, non-contributory pensions or family protection; similarly, other most significant current transfers are scholarships and grants to students and the contribution to the budget of the European Union.

Regarding financial expenditure, which is the second highest item within the State Draft Budget, a reduction of 5.6 per cent is recorded, due to the improved financing conditions of Spanish public debt.

The evolution of compensation of employees is determined by the increase up to 1 per cent in public service pay, the recovery of 50 per cent of the extra pay of 2012 and the increase of 4 per cent in the financing of the regime of the mutual insurance companies.

Current expenditure in goods and services decreases by 1.4 per cent in comparison with 2015.

Regarding real investment, this item increases by 4.6 per cent; highlighting the updating of the judicial systems and increase in transportation infrastructures.

Concerning capital transfers, these present a decrease of 7 per cent, mainly due to the elimination of credits during 2015, aimed at the financing subsidies arising from the change of TDT (Terrestrial Digital Television) frequencies within the National TDT Technical Plan and the decrease of the financing of the costs of the electric power system.

Finally, financial assets' item amounts to 33,238 million euros, which means an increase of 14.9 per cent, mainly as a consequence of the increase of contributions for the Financing Funds of the Autonomous Communities and the Local Entities created by virtue of Royal Decree-Act 17/2014, of 26 December, on financial sustainability measures for the Autonomous Communities and the Local Entities, which guarantee better financing conditions within the market and greater financial prudence.

**Table 9 State Expenditure Budget: economic distribution**

*million €*

| Chapters | Initial Budget 2015 (1) | (%) | Initial Budget 2016 (2) | (%) | Change (%) (2)/(1) |
|---|---|---|---|---|---|
| I. Personnel expenditure* | 16,046.51 | 5.7 | 16,838.58 | 6.1 | 4.9 |
| II. Current expenditure in goods and services | 3,121.61 | 1.1 | 3,078.91 | 1.1 | -1.4 |
| III. Financial expenditure | 35,519.17 | 12.6 | 33,514.23 | 12.2 | -5.6 |
| IV. Current transfers | 91,783.76 | 32.4 | 88,834.57 | 32.3 | -3.2 |
| **CURRENT TRANSACTIONS** | **146,471.04** | **51.8** | **142,266.28** | **51.8** | **-2.9** |
| V. Contingency fund | 2,594.68 | 0.9 | 2,507.88 | 0.9 | -3.3 |
| VI. Real Investments | 3,420.87 | 1.2 | 3,578.34 | 1.3 | 4.6 |
| VII. Capital transfers | 9,505.66 | 3.4 | 8,838.23 | 3.2 | -7.0 |
| **CAPITAL TRANSACTIONS** | **12,926.53** | **4.6** | **12,416.57** | **4.5** | **-3.9** |
| **TOTAN NON-FINANCIAL TRANSACTIONS** | **161,992.25** | **57.3** | **157,190.72** | **57.2** | **-3.0** |
| VIII. Financial Assets | 28,926.91 | 10.2 | 33,238.40 | 12.1 | 14.9 |
| IX. Financial Liabilities | 91,998.44 | 32.5 | 84,302.72 | 30.7 | -8.4 |
| **TOTAL FINANCIAL TRANSACTIONS** | **120,925.36** | **42.7** | **117,541.12** | **42.8** | **-2.8** |
| **TOTAL BUDGET** | **282,917.61** | **100.0** | **274,731.84** | **100.0** | **-2.9** |

* Personnel expenditure includes the 1% wage increase, the return of 50% of the 2012 extra-payment and the increase in the financing of the mutual insurance regimes

### 5.2 Employment Policy

One of the priorities of the Government during this term is the reduction of the unemployment rate to amounts similar to those of other EU Member States. Therefore, within the State Draft Budget special attention should be driven to the Promotion of Employment policy, endowed in 2016 with 5,215 million euros, 1.5 per cent higher than in the previous year. This policy includes active labour market policies, aimed at the promotion of employment and indefinite labour contracts as well as the new framework of the Employment Professional Training System.

The Government has implemented many measures within the scope of the labour market which, together with the recovery of the Spanish economy, have had a very positive effect on the evolution of the Spanish employment market, which is now more dynamic and registers a solid job creation rate while heading towards the correction in the medium-term of its main previous imbalances.

Thanks to the set of measures implemented, GDP growth has already resulted in a higher rate of job creation: last year, employment grew by 513,500 persons (LFS for the second quarter of 2015), with a rate coming up to a year-on-year 3 per cent at the beginning of 2015. This data confirms the trend that other indicators, such as registered unemployment data and the number of contributors to Social Security, are reflecting since the beginning of 2014.

Below we include the most recent measures aimed at boosting employment activation so that the economic recovery reaches as many workers as possible and allows companies to be more competitive.

- *Spanish Strategy for Employment Activation 2014-2016*: this is the multi-annual strategy which represents the backbone of the actions of the different Public Employment Services with overarching common objectives and common principles of action. The purpose is to achieve more efficient and effective activation policies, by means of the boosting of results-orientation and assessment culture.

  Notwithstanding the competence of the Autonomous Communities to develop their own initiatives so as to adjust them to their specific interests, the Strategy also includes certain common tools to reinforce the capacity of Public Services, such as, the implementation of the Youth Guarantee and the Public Services Best Practices Exchange Programme.

- *Annual Employment Policy Plan 2015*: this includes the specific measures for 2015 of the Strategy for Employment Activation for 2015 and compiles the set of measures to be developed this year as well as the indicators that can be used as a basis for their evaluation in 2016.

- *Distribution of funds to the Autonomous Communities which have assumed competencies on active employment policies*: the amount of funds for the year conditional upon meeting the targets of the previous year is increased to 60 per cent, which shows a positive step forward in the consolidation of the results-oriented model.

- *Special Programme for Employment Activation*: this is a specific and special programme of a temporary nature addressed to long-term unemployed persons with family dependents who, at least six months before the application to the programme, have used up all unemployment protection possibilities offered by the system. This new programme includes active employment and labour intermediation policies so as to increase the possibilities of their reincorporation to the labour market and offers an economic subsidy, with a maximum duration of 6 months, which is not compatible with other subsidies associated with employment programmes and other minimum incomes.

- *Active Insertion Income:* the access requirements have been modified so as to increase their connection to active employment policies and to strengthen compliance with the activity commitment.
- *Common Available Services of the Public Employment Services*: this establishes the set of employment services that must be provided throughout the national territory and to which all workers are entitled to. It is a very important development, since these Common Available Services and common bases allow us to rigorously assess equivalent employment services and evaluate them in order to improve results in the labour market.
- *Reform on Professional Training for Employment:* this was approved in March 2015 and its main elements are the following: it applies to all Public Administrations as well as all companies and workers anywhere within the national territory so as to complete the necessary market unity; social agents and collective bargaining maintain their key role; an efficient system for the monitoring and research in the labour market will be developed; a multi-annual scenario for strategic planning containing all sectors with growth potential as well as upward transversal competencies will be prepared; the training-account which will accompany workers throughout their professional careers will be implemented; training within the company will be key and will be provided with the maximum flexibility so that training responds to the reality of the specific job performance; training management planned by Administrations will be implemented under competitive tendering and exclusively among those entities organizing the training; e-learning will be used as a tool providing the system with a greater efficiency and flexibility.

  It will also focus on ongoing quality and impact assessment of the training so as to improve job performance and to improve the competitiveness of companies. On the other hand, it establishes a zero tolerance principle against fraud, by means, among other measures, of the creation of a Special Unit within the Labour and Social Security Inspectorate, responsible for the monitoring of these activities.

### 5.3 The Reform of Public Administrations

Within the framework of the measures implemented by the Government since the beginning of the current term, with a major incidence on public expenditure, the reform of Public Administrations is highlighted. To complete such reform, the Commission for the Reform of Public Administration (CORA, as per the Spanish acronym) was created by the Council of Ministers. The actions completed by the Commission led to the preparation of the CORA Report, presented to the Council of Ministers on 21 June 2013, which currently includes 222 measures on administrative simplification, reduction of burdens and duplicities and improvement of the management of public services and resources. On that same date, the Office for the implementation of the reform of the administration (OPERA) was created with the aim of ensuring the implementation of the measures contained in the CORA Report, taking on its monitoring, promotion, coordination and permanent evaluation, as well as proposing new actions.

The CORA report identifies a wide range of action areas, on which are based the proposed measures that may be classified as:

- *General measures,* among which the following are worthy to mention: the Organic Law on the Control of Public Sector Commercial Debt, the Law for Electronic Invoicing and the Creation of the Invoice Accounting Register, and the Law for the Rationalisation and Sustainability of Local Government, all of which were passed in December 2013 and have already entered into force.

  In 2015, the comprehensive reform of the organization and operation of Public Administrations is planned to be approved. Its main goals are the following: improvement of the administrative efficiency by means of an Administration which is entirely electronic and interconnected; extension of the legal certainty; increase of the regulatory quality of the legal system by applying common good regulation principles (relevancy, efficiency, proportionality, legal certainty, transparency and effectiveness); and establishment of minimum common phases for all Administrations which must be met when preparing regulations.

- *Measures to eliminate administrative duplicities*, so that the cost of administrative activity may be reduced. The analysis has focused on the duplicities between the Central Government and the Autonomous Communities, since duplicities with the Local Entities have been addressed in the Law for the Rationalisation and Sustainability of Local Government. The most noteworthy measures in this area include the following: the conferring of powers to the Contractual Appeals Tribunal; the incorporation of the Autonomous Communities offices abroad into the Central Government network; the incorporation of the Autonomous Communities cooperation and development offices into the Technical Cooperation Offices of the AECID; the launch of the Single Employment Portal; coordinated procedures for applying for unemployment benefits and registering as a job-seeker; public sector procurement platform.

- *Measures for administrative simplification* to reduce the red tape that hinders the completion of administrative procedures. Some examples of the measures adopted in this area include: Enabled E-mail Address, which is allowing over 10 million notifications per year to be delivered; Interlock System of Records (SIR-ORVE), which allows for the submission of paper documents before any public registry; telematics service for requesting and sending reports verifying that Social Security payments are up-to-date; automatic settlement system of social contribution for private companies; the National Healthcare System's Electronic Prescriptions with interoperability and implementation of the digital health history for the entire national territory; and the Single Notification Board for all Public Administrations which allow to find, in a single place, the notifications of all Public Administrations.

- *Measures related to the management of public services and resources,* in order to centralise management activities that can be combined or coordinated. A Plan for the Management of Property Assets has been prepared: This plan includes the sale of 15,576 properties, of which 5,038 have been placed on the market and more than half of it has been awarded. Furthermore, rental agreements have been terminated and others renegotiated with space being redistributed; centralisation of purchases and services; vehicle fleet reorganisation, the simplification of the printing infrastructure and copy services and a combining of the printing and publishing of the Official State Bulletin.

- *Measures related to the institutional administration*, which have involved an exhaustive revision of the regulatory framework and the beginning of a process for re-ordering and restructuring the administrative public sector. Just in General State Administration alone, actions have been carried out on 165 bodies within the Spanish public sector's administration, companies and foundations with the net reduction of 107 entities.

The status of implementation of the 222 measures as of the first half of 2015 is as follows:

- Measures implemented: 169 (76.1 per cent of the total measures proposed)
- Measures being implemented: 53 (remaining measures proposed)

**Table 10 Degree of progress in CORA measures**

| Subcommissions | Under implementation | Completed | Total |
|---|---|---|---|
| General Measures | 2 | 9 | 11 |
| Administrative duplicities | 32 | 88 | 120 |
| Administrative simplification | 9 | 36 | 45 |
| Management of public services and common resourc | 9 | 29 | 38 |
| Institutional Administration | 1 | 7 | 8 |
| **Total** | **53** | **169** | **222** |

Savings estimate from the development of all CORA measures already implemented during this term, between years 2012 and 2015 accumulated, will reach 37,620 million euros. Citizens and companies will save 16,295 million euros.

## 6. SOCIAL SECURITY DRAFT BUDGET

### 6.1 Social Security Draft Budget for 2016

In the area of Social Security, the reforms affecting the labour market have been especially relevant, since the economic crisis has had a very significant impact on employment and the unemployment rate. The objective of this new labour market regulatory framework is to boost job creation, and the Social Security system needs it in order to restore the pre-crisis balance levels of the system.

Some data already point to signs of recovery. From early 2013 to July 2015 over 1,164,442 contributors had returned to the system, of which 979,140 fall within the general system, 180,547 to the special system of self-employed workers and 4,755 to the other systems. In year-on-year terms, the increase as of July 2015 comes up to 3.4 per cent.

Given this context, Social Security will be able to meet the 2016 deficit target set at 0.3 per cent of the GDP, as approved by the Council of Ministers and which must be progressively reduced until it reaches a 0.1 deficit in 2018.

The dominant action lines of the Social Security budget for 2016 will continue to be austere and will emphasise expenditure efficiency, supported by the impact of the revenue and expenditure measures approved to date. Furthermore, Social Security will contribute to the restoration of economic growth and job creation through reforms that have been carried out on matters of social protection.

#### *6.1.1 Revenue Budget*

The consolidated non-financial Social Security revenue budget for the year 2016 amounts to 133,082 million euros, representing an increase of 5.4 per cent as compared to 2015.

The main source of funding is categorised as social security contributions, at a volume of 117,243 million euros for 2016, which fund 83.2 per cent of the total Budget.

In 2016, the Social Security system will be provided with contributions from the Central Government at an overall volume of 13,160 million euros, representing an increase of 0.7 per cent. The most significant contributions from the Central Government are as follows:

- The most significant in terms of volume is that devoted to cover the minimum pension supplements in the amount of 7,140 million euros which are fully funded by the Central Government, thus implementing the separation of sources.
- The Central Government’s contribution to finance non-contributory Social Security pensions amounts to 2,455 million euros.
- The Central Government will transfer 1,533 million euros to Social Security in 2016 to fund the non-contributory family protection allowance, 10.6 per cent more than in 2015.
- 1,252 million euros will be devoted to long-term care; 1,162 million euros of which correspond to the funding of the minimum amount guaranteed by the Central Government.

### *6.1.2 Expenditure Budget*

The consolidated non-financial Social Security budget for the year 2016 will reach 136,827 million euros, which represents an increase of 3.1 per cent as compared to the previous year.

The most significant chapter of the Budget corresponds to "Current Transfers", consuming 94.2 per cent of the total Budget. This chapter mainly includes the allowances that aim to anticipate, correct or offset the costs derived from the occurrence of certain contingencies that carry a loss of revenue or greater expenditure for those who experience them, such as:

- An amount of 118,942 million euros is allocated to contributory pensions in 2016, 2.8 per cent more than in 2015, calculated taking into account the increase in the number of pensioners, the variation in the average pension and a revaluation of 0.25 per cent.
- Non-contributory Social Security pensions are included in the Budget of the IMSERO (Institute for Older Persons and Social Services) with an appropriation of 2,291 million euros (not including the Basque Country and Navarre). This appropriation can be used to meet the cost derived from variations in the collective of beneficiaries and from a revaluation amounting to 0.25 per cent.
- The benefits for temporary disability incorporate the allowances to offset the financial consequences associated with sick or accident leave. The appropriation allocated to the payment of the temporary disability allowances amounts to 5,398 million euros. In recent years there has been a significant decrease in expenditure for this provision. Nevertheless, an increase is estimated for 2016, in line with the increase in the number of contributors.
- Benefits for maternity, paternity and risk during pregnancy and breastfeeding, the appropriation for which amounts to 2,204 million euros, undergo a reduction by 5 per cent compared to 2015, which is in line with the evolution of the number of beneficiaries.
- Family protection benefits include periodic payment and lump-sum allowances. Periodic payment allowances consist of an appropriation per child under 18 or dependants over the age of 18 who are disabled to a degree of at least 65 per cent and are dependent upon the beneficiary. The lump-sum allowances are aimed at partially offsetting large expenses associated with new-borns and involve financial benefits paid out in a single payment per birth or adoption of a child, in the case of large families, single-parent homes, mothers with a disability and for multiple births or adoptions.

  For the payment of these benefits, 1,520 million euros is allocated, which represents a 10.8 per cent increase as compared to 2015.
- Dependency care will be allocated 1,167 million euros. Provisions for operating and capital transactions expenses must also be added to that figure; therefore, the System for Autonomy and Care for Dependant Persons will receive 1,252 million euros from the Social Security Budget.

### 6.2. Measures in the area of Social Security

Within the area of Social Security, a range of measures have been adopted since 2013 aimed at increasing revenue and reducing expenditure. Among the measures designed to increase revenue, the changes in the bases and the shift from a self-assessment system to an administrative assessment system for the payment of Social Security contributions are worth mentioning. In terms of expenditure measures, the most relevant measures are those affecting the pension system (mainly the Pension Revaluation Index, the Sustainability Factor and the progressive change in retirement age), the Mutual Insurance Societies for Occupational Accidents and the Wage Guarantee Fund (FOGASA).

In 2015, the minimum exempt from contribution to the Social Security entered into force, which means a temporary reduction of employers' Social Security contributions for common contingencies for indefinite hiring. It applies to those companies which increased both the number of indefinite hiring and the overall number of hiring within the company and which are able to maintain such numbers for at least 36 months. It will be applicable to all open-ended contracts that meet the requirements, between 1 March 2015 and 31 August 2016, and will be maintained for 24 months from the time of hiring.

Once the 24-month period has elapsed, those companies with fewer than 10 employees at the time of the contract will be eligible for an additional 12 months of 50 per cent of the benefit in the contribution.

This measure has led to an increase in indefinite hiring which in turn has meant greater revenue in contributions on behalf of new hires that have been stimulated by it. The net impact of the measure has been incorporated into the budget forecast. This measure, as well as improving indefinite hiring, complies with the target of reducing the tax wedge on labour by means of the reduction of social contributions, together with the tax reform which has been reducing the PIT rate as from 2015.

Finally, it is important to stress the effort made by the pension system to reduce the gender gap. For this purpose, a maternity complement in contributory pensions will be granted to women from 1 January 2016. This complement will be based on the number of children, whether biological or adopted: the pension will increase by 5 per cent with two children, by 10 per cent with three children and by 15 per cent with four or more children.

On the other hand, the General State Draft Budget for 2016 includes a provision for further analysing the funding sources of the Social Security based on the contributory or non-contributory nature of the benefits covered by it.

## 7. AUTONOMOUS COMMUNITIES DRAFT BUDGET

Since 2012, the Autonomous Communities have made efforts of fiscal consolidation to comply with their stability targets.

The approval of Royal Decrees-Law 14/2012 and 16/2012, establishing different measures aimed at the rationalisation of expenditure within the educational and health systems with the final purpose of increasing efficiency in the use of public resources, added to the implementation of additional measures of a different nature during years 2012 to 2014, contributed to a major improvement of the rationalisation and the efficiency of public expenditure and to an improvement of the fiscal balances for such period.

As a result of the set of actions implemented during 2012, those Autonomous Communities which submitted an economic and financial plan executed revenue measures amounting to 3,855 million euros, as well as an expenditure-reducing measure with an impact of 12,503 million euros, including the elimination of the December's extra pay. During 2013, the Autonomous Communities adopted revenue measures with an impact of 2,235 million euros, together with expenditure actions for an amount equivalent to 7,046 million euros. Finally, during 2014, although the fiscal balance corresponding to the sub-sector of the Autonomous Communities has slightly decreased by 0.14 percentage points of GDP, mainly as a result of the temporary drop of resources of the funding system during that year, it must be pointed out that several actions have been implemented regarding revenue and expenditure; such measures are estimated at 3,739 million euros (1,427 million euros corresponding to revenue measures and 2,313 million euros on expenditure).

It should be mentioned the positive impact for the Autonomous Communities resulting from the improvement in the conditions of the financing mechanisms implemented by the Central Government, as established in the Agreement adopted by the Delegate Commission of the Government for Economic Issues on 31 July 2014 and in Royal Decree-Law 17/2014, of 26 December, on financial sustainability measures for the Autonomous Communities and the Local Entities. This Royal Decree-Law sets forth the creation of the Financing Fund for the Autonomous Communities and the Financing Fund for the Local Entities. The Financing Fund for the Autonomous Communities is established as a mechanism to support liquidity and it is structured in four different divisions. It serves as a significant saving measure for the Communities as it sets favourable financial conditions on credits by the Central Government. Also, savings are obtained for all Public Administrations since the Autonomous Communities and the Local Entities benefit from the funding costs of the Treasury. Additional savings result from the incentives established, at zero rates for a certain period, in case of previous compliance with the targets. All the Autonomous Communities belong to some of the permanent divisions (Autonomous Liquidity Fund or Financial Facility) with the exception of País Vasco and Navarra. Under these Funds, they finance debt maturities and deficit target, with direct pay from the State to suppliers in most cases. From the adoption of these measures in 2012, direct payments to suppliers have amounted to more than 75,000 million euros, and achieving a reduction of the Average Payment Period to Suppliers of the Autonomous Communities.

### 7.1 Corrective measures in 2015

As a consequence of failing to meet the 2014 budgetary stability, public debt or expenditure rule targets, the following Autonomous Communities must submit the corresponding economic and financial plans: Cataluña, Andalucía, Principado de Asturias, Cantabria, La Rioja, Madrid, Murcia, Comunitat Valenciana, Aragón, Castilla-La Mancha, Extremadura, Illes Balears, Castilla y León and País Vasco. The plan of the Autonomous Community of Cataluña was approved by the Council of Fiscal and Financial Policy on the 29th July 2015. The approval of the other plans in a context of elections in May conditioned the deferral to a subsequent plenary session; in the case of País Vasco, approval will be subject to the Joint Commission of the Economic Agreement. In any case, until the relevant approval, follow-up is in force as provided in the regulation on budgetary stability regarding the economic and financial plans 2014-2015 of those Autonomous Communities which did not meet the stability target in 2013 and that keep non-compliance in 2014, as well as the information on adjustment programmes which must be submitted, and on cash plans and multi-annual budget frameworks.

Firstly, it must be pointed out that in 2015, the Autonomous Communities started from a more favourable position regarding revenue, since the final settlement of the funding system corresponding to financial year 2013, which affected revenue for 2015, was higher for the Autonomous Communities by 938.62 million euros, as compared with the initial forecasts used for the preparation of their draft budgets. In total, resources of the funding system in 2015, in comparison to 2014, increased by 1,900 million euros (the Autonomous Communities obtained in 2014 a reduction in these resources reaching 2,759.69 million euros).

The amount of the revenue measures reaches 1,931 million euros; the total includes those actions adopted in the current fiscal year as well as those initially implemented in previous years with effects in terms of revenue increase during 2015.

The highest impact corresponds to non-tax measures, which represent 73.79 per cent of total revenues, mainly due to the sale of real investments and administrative concessions.

Also to be highlighted, the effect of the full annual implementation of the Tax on deposits in financial entities, which involves an additional impact as compared to the previous year amounting to 163 million euros.

Additionally, the increase in collection resulting from environmental taxes of the Autonomous Communities and, in particular, that resulting from fees on sanitary improvements had an increasing effect reaching 59 million euros.

Regarding expenditure, in 2015 the total savings amounted to 3,235 million euros and, as in the case with revenue, this figure takes into account measures implemented during the ongoing fiscal year and those adopted in previous years with an additional effect on the current one.

The greatest impact in terms of incremental savings arises from measures in Royal Decree-Law 17/2014 on the improvement of the financial conditions of funding mechanisms adopted by the Central Government; such conditions will result in additional savings amounting to 3,188 million euros. Such savings at regional level do not have a consolidated impact in general government so it will not be taken into account in the global table on measures.

Likewise, with regards to pharmaceutical and health products expenditure, apart from savings arising from the centralized procurement of drugs, it also includes impacts resulting from the creation, by virtue of Organic Law 6/2015, of 12 June, amending the General Health Law, a mechanism for the guaranteeing of the sustainability of the Health expenditure in line with the Recommendation of the European Council, published in June 2014, regarding the National Reform Programme. The Autonomous Communities are required to comply with this mechanism so that this expenditure, which represents a very significant part of transfers and intermediate consumption, may evolve under the reference rate provided by the expenditure rule forecast in the budgetary stability law, as defined by the evolution of potential GDP in the medium-term. The estimated savings for the period 2015-2016 amounts to one billion euros approximately. We may highlight the fact that the improvement of the information foreseen by the reform will in turn improve the monitoring of the expenditure within the pharmaceutical and health products sector, including hospital pharmacy; until now, there was no comparable information for this sector; the publication of this new information for each administration will begin in the autumn.

Regarding personnel expenses, it must be taken into account additional savings arising from the no replacement during each financial year. Besides, the restoration in 2015 of 50 per cent of the December extra pay eliminated in 2012, along with the restitution of other extra payments previously suppressed in some Autonomous Communities as well as other measures regarding personnel, led to additional budgetary impact in 2015 amounting to 1,941 million euros.

### 7.2 Corrective measures in 2016

Firstly, it must be stated that, regarding revenue, as a consequence of the positive economic trend an increase of resources of the funding system of the Autonomous Communities is foreseen , by 8.74 per cent, totalling 7,455.46 million euros as well as a recovery of the tax bases of certain own and ceded taxes. Such increase in funding allows for the compensation of the deficit reduction due complying with their deficit target, from 0.7 per cent in 2015 to 0.3 per cent in 2016. On the other hand, they rely on the interest savings established in the financing funds at a zero rate which, in many cases, have been extended to 2016, or at a fixed rate amounting to 0.8 per cent (coming up to a total of nearly 3,000 million euros savings). The possible impact of the implementation in all the Autonomous Communities of the personnel measures established in the General State Draft Budget for 2016 has been included in the estimates for caution, even though such measures are optional and to be applied based on their financial situation.

Likewise, additional revenue is estimated arising from the use of the regulatory capacity regarding taxes when collection and management corresponds to the Autonomous Communities.

Thus, with regard to personnel expenses, along with the effect of the additional savings arising from the partial replacement of personnel, it has to be considered the impact of the payment in 2016 of the refund of another 50 per cent of the extra pay eliminated in December 2012 and the effect resulting from the salary increase of 1 per cent by virtue of the General State Draft Budget for 2016; these two measures will generate an expenditure impact of 2,200 million euros in 2016 in levels.

Finally, one must also highlight the additional effect on savings generated by actions in the area of pharmaceutical and health products implemented in 2015 amounting to 500 million euros and, to a more moderate extent, the impact of measures in current expenses and concerted services.

### 7.3 Average Payment Period

Eliminating the arrears of public administrations represents one of the main economic policy axes, and essential for improving the competitiveness of the Spanish economy. This implies reducing financing needs of companies, allowing them to take full advantage of business opportunities, and facilitating economic growth.

For this purpose, several measures have been adopted in order to eradicate late payment in Public Administrations. In particular, it is worth outlining the amendment of Organic Law 2/2012, of 27 April, on Budgetary Stability and Financial Sustainability, approved by virtue of Organic Law 9/2013, of 20 December, on the control of the public sector commercial debt. This reform links the principle of commercial debt sustainability to financial sustainability, introduces the concept of Average Payment Period (PMP, as per its acronym in Spanish) as an indicator of commercial debt sustainability, and lays down a series of progressive and automatic measures aimed at guaranteeing the public administrations' compliance with the regulations in force concerning late payments. These regulations have been incorporated into the national legal system in compliance with the EU directives on measures to fight late payments in commercial transactions.

On the other hand, the extraordinary mechanisms to provide liquidity, which have been included in a series of financing mechanisms that may be requested by Regional Governments and the Local Entities on a voluntary basis, have provided access to financial resources under very favourable conditions, enabling a very significant reduction in the payment periods to suppliers.

The set of actions undertaken has had a special impact on improving late payment data of Regional Governments. Therefore, according to the information available, provided by the Regional Governments as part of the monitoring of the adjustment plans after accession to these mechanisms, since 2012 (the year in which the reforms were implemented) until June 2015, the commercial debt of Regional Governments has been reduced by 65.2 percent.

The same trend is also seen with regard to the evolution in the period for payment to Regional Governments' suppliers. In view of the data available prior to the entry into force of the publication of average payment periods by virtue of Royal Decree 635/2014, it is worth to point out that since April 2012 (first available data) up to July 2014, legal payment periods had been reduced from 142 days originally recorded to 85 days in July 2014, with a 40 percent reduction during that period. Since the month of September 2014 to the month of June 2015, the average payment period has been reduced by 5 percent too, with a PMP at that month of 40.96 days, the lowest value of the historical series available. From this evolution, the reduction in 14.34 days in the average payment period, as compared to the situation existing before the implementation of the Financing Fund for the Autonomous Communities back in March 2015, as well as the reduction in the average maturity of outstanding payments in Regional Governments.

Considering the evolution in the average payment periods and pursuant to the provisions set forth in Organic Law 2/2012, of 27 April, in the month of March 2015 the Regional Governments of Aragón, Extremadura and Comunitat Valenciana were officially warned after their average payment period had exceeded the 60-day limit during the period foreseen in its article 18.4. Subsequently, the Regional Government of Comunitat Valenciana has managed to bring its average payment period below that limit. Therefore, the communication foreseen in article

20.5 was formulated, based on the data corresponding to the month of June –published in September– and issued to the Regional Governments of Aragón and Extremadura, as a prior warning before proceeding to withhold the resources of the financing system unless their average payment period was reduced to 60 days within the appropriate period.

## 8. LOCAL ENTITIES DRAFT BUDGET

The monitoring of measures at local level is framed within the adjustment plans currently undertaken in 2,500 local entities after accessing the Suppliers' Payment Fund. Likewise, Royal Decree-Law 8/2013 lays down extraordinary measures to provide liquidity to municipalities under economic difficulties. All these liquidity measures are subject to a strict conditionality, strengthened in the second case so as to restore solvency in these administrations.

In addition, the reform of the Local Administration stands out, approved by virtue of Law 27/2013, of 27 December, on Rationalisation and Sustainability of Local Entities. Its purpose is to improve efficiency in the provision of services and enhance sustainability of the local entities, basically by reorganising competencies and avoiding duplications at the various levels of the General Government.

The Local Entities altogether have achieved a fiscal surplus since 2012. Starting with a 0.4 deficit back in 2011 (without considering the impact of the negative settlements of the Local Entities financing system this year) sound positions have been achieved in all subsequent years, with a surplus of 0.3 percent of the GDP in 2012, 0.52 percent in 2013 and 0.53 percent in 2014. Keeping the first-year surplus, as allowed by the spending rule, has also helped to achieve this result, which is actually a preventive measure once the accounts are balanced. Increased revenues together with expenditure control have allowed meeting and even outperforming the fiscal targets.

In this context, a reassessment of the impact of the local reform was proposed in the Stability Programme submitted in April 2015. Law 27/2013 of 27 December, on Rationalisation and Sustainability of the Local Entities (LRSAL, as per its acronym in Spanish) requires some services to be suppressed and integrated except in case of surplus. Therefore, a lower impact attached to these items is expected for the subsequent years of the programme. Therefore, the impact of the reform is reduced by half, since those items are no longer as necessary as they were at the time the law was drafted. However, these measures would be applied again in case of deficit. The final result of the foreseen measures is shown at the table on local entities.

**Table 11 Impact of the Local Administration Reform**

*million €*

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | TOTAL 2013-2019 |
|---|---|---|---|---|---|---|---|---|
| **UNDUE EXPENDITURE** | 150 | 560 | 139 | 0 | 0 | 0 | 0 | **849** |
| **TRANSFERS OF COMPETENCES FOR HEALTH, EDUCATION AND SOCIAL SERVICES** | 0 | 0 | 473 | 91 | 91 | 91 | 91 | **837** |
| **INTEGRATED MANAGEMENT OF BASIC SERVICES AND MERGERS** | 0 | 71 | 223 | 69 | 15 | 0 | 0 | **377** |
| **SMALLER LOCAL ENTITIES** | 0 | 14 | 0 | 0 | 0 | 0 | 0 | **14** |
| **RESIZING OF THE LOCAL PUBLIC SECTOR** | 109 | 394 | 508 | 305 | 0 | 0 | 0 | **1,316** |
| **TEMPORARY AND EXCLUSSIVE STAFF** | 8 | 11 | 30 | 0 | 0 | 0 | 0 | **49** |
| **TOTAL SAVINGS** | **267** | **1,049** | **1,373** | **465** | **106** | **91** | **91** | **3,442** |

The impact of measures since the Stability Programme concerning public employees has been recalculated, as in the rest of sub-sectors, considering the return of the extra pay that was suspended in 2012 and the restrictions on the replacement rate of retired staff. To this respect, it must be outlined that the General State Draft Budget for 2016 includes several provisions concerning public employees that affect all Public Administrations, including the Local Entities. To be highlighted in 2016, the return of half the extra pay to public employees, a 1 per cent increase in salaries and 50 per cent general increase in the replacement rate and 100 per cent increase for priority sectors. Although its implementation is completely optional for the Local Entities, the potential impact has been calculated as it would have been implemented by all Local Entities, for the sake of prudence. The rest of measures basically arise from the LRSAL.

Likewise, as stated above, in line with the territorial financing scheme, the local entities will receive 17,756 million euros in 2016, which means a 542 million increase, 3.14 percent as compared to the previous year. In addition, there is also a positive impact arising from the improvement of financing conditions under the new financing mechanisms implemented by the Central Government.

The summary table including these measures and their impact can be found in Appendix 8.

## 9. TOTAL IMPACT OF THE MEASURES

The impact of the measures described in the previous sections is summarised below in terms of GDP and in line with the deficit targets. The appendix presents several tables providing more details on the measures and their impact on each sub-sector of the Spanish General Government. As indicated above, after the great effort made in 2012-2013 (amounting to 76,000 million or 7 points of GDP) and being now back on the fiscal stability pace, in a climate of growth due to a great extent to the consolidation carried out before, the annual amount of these measures stabilizes between 0.7 and 0.5 points of GDP. It must be outlined that no additional permanent measures to increase net expenditure are expected and that measures on the revenue side try to reduce the labour tax wedge and foster growth.

**Table 12 Impact of the main regulatory changes (in differential terms compared to previous year)**

**(% GDP)**

| | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|
| **Expenditure** | **0.37** | **0.64** | **0.31** | **0.40** |
| *Public employment 2012 extra payment refund and 1% wage increase* | 0.00 | -0.27 | -0.13 | 0.19 |
| *Public employment (general personnel measures)* | 0.09 | 0.09 | 0.09 | 0.03 |
| *Labour market policies* | 0.13 | 0.06 | 0.01 | 0.00 |
| *CORA* | 0.10 | 0.10 | 0.06 | 0.00 |
| *Enforcement of EU sentence (health cent)* | -0.19 | 0.18 | 0.00 | 0.00 |
| *Autonomous Regions measures (excluding the above and interest savings)* | 0.16 | 0.26 | 0.04 | 0.03 |
| *Local authorities measures (excluding the above and interest savings)* | 0.02 | 0.13 | 0.14 | 0.04 |
| *Social Security expenditure* | 0.05 | 0.09 | 0.10 | 0.10 |
| **Revenues** | **0.37** | **-0.01** | **-0.02** | **0.13** |
| *Total taxes* | 0.11 | -0.17 | -0.22 | 0.05 |
| *Personal Income Tax and non-resident income tax* | 0.03 | -0.32 | -0.14 | -0.04 |
| *Corporate Income tax* | -0.12 | -0.02 | -0.20 | 0.00 |
| *Fight against fraud* | 0.09 | 0.09 | 0.09 | 0.08 |
| *Excise duties and environmental taxes* | 0.08 | 0.04 | -0.01 | 0.00 |
| *VAT* | 0.03 | 0.04 | 0.00 | 0.00 |
| *Other fees and Financial Transactions Tax* | 0.00 | -0.01 | 0.05 | 0.00 |
| *Autonomous regions measures* | 0.08 | 0.05 | 0.04 | 0.03 |
| *Local Authorities measures* | 0.06 | 0.08 | 0.04 | 0.03 |
| *Social Security contributions* | 0.11 | 0.02 | 0.13 | 0.03 |
| **Total** | **0.74** | **0.63** | **0.29** | **0.54** |
| PIB million € | 1,058,469 | 1,098,175 | 1,142,471 | 1,191,931 |

Following the implementation of these measures, the expected evolution of General Government's revenue and expenditure is shown in table 13; public revenue/GDP ratio increases slightly, whilst the public expenditure/GDP ratio decreases.

**Table 13 General Government Expenditure and Revenue Targets (% GDP)**

| | ESA Code | 2015 | 2016 |
|---|---|---|---|
| **1.Total revenue target** | TR | 37.8 | 38.0 |
| **Of which** | | | |
| **1.1. Taxes on production and imports** | D.2 | 11.5 | 11.6 |
| **1.2. Current taxes on income, wealth, etc.** | D.5 | 9.9 | 10.0 |
| **1.3. Capital taxes** | D.91 | 0.5 | 0.6 |
| **1.4. Social contributions** | D.61 | 12.0 | 12.0 |
| **1.5. Property income** | D.4 | 0.9 | 0.9 |
| **1.6. Other** | | 2.9 | 2.9 |
| **p.m.: Tax burden** (D.2+D.5+D.61+D.91-D.995) | | 33.6 | 33.8 |
| **2. Total expenditure target** | TE | 42.1 | 40.7 |
| **Of which** | | | |
| **2.1. Compensation of employees** | D.1 | 10.7 | 10.4 |
| **2.2. Intermediate consumption** | P.2 | 5.1 | 4.9 |
| **2.3. Social transfers** | D.62, D.632 | 18.0 | 17.5 |
| *Of which Unemployment benefits* | | *2.0* | *1.7* |
| **2.4. Interest expenditure** | D.41 | 3.1 | 2.8 |
| **2.5. Subsidies** | D.3 | 1.0 | 1.0 |
| **2.6.Gross fixed capital formation** | D.51 | 1.9 | 1.9 |
| **2.7. Capital transfers** | D.9 | 0.5 | 0.5 |
| **2.8. Other** | | 1.7 | 1.7 |

The reduction in total expenditure in GDP terms is compatible with an increase in the real per capita expenditure during the period 2013-2016, especially in the functions of education, healthcare or social protection, as seen in table 14.

**Table 14 Consolidated Public Expenditure in % of GDP and Evolution of Real per Capita Expenditure by Function**

| | % GDP 2007 | % GDP 2013* | % GDP 2015 | % GDP 2016 | Change 2016/2013 in p.p of GDP | Real per capita expenditure % Change 2016/2013 |
|---|---|---|---|---|---|---|
| **GENERAL GOVERNMENT (S.13)** | | | | | | |
| 1. General public services | 4.9 | 6.9 | 6.5 | 6.2 | -0.7 | -1.8 |
| 2. Defense | 1.0 | 0.9 | 1.0 | 0.9 | 0.0 | 7.8 |
| 3. Public order and safety | 1.9 | 2.0 | 1.9 | 1.9 | -0.1 | 2.2 |
| 4. Economic affairs | 5.2 | 4.0 | 3.8 | 3.7 | -0.3 | 2.0 |
| 5. Environmental protection | 1.0 | 0.8 | 0.8 | 0.8 | 0.0 | 1.7 |
| 6. Housing and community amenities | 0.9 | 0.5 | 0.4 | 0.4 | -0.1 | 1.3 |
| 7. Health | 5.7 | 6.0 | 5.8 | 5.6 | -0.4 | 1.5 |
| 8. Recreation, culture and religion | 1.6 | 1.1 | 1.1 | 1.1 | 0.0 | 1.9 |
| 9. Education | 4.0 | 4.0 | 3.9 | 3.8 | -0.2 | 1.8 |
| 10. Social protection | 12.8 | 17.6 | 16.8 | 16.3 | -1.3 | 0.7 |
| **Total expenditure** | **38.9** | **43.8** | **42.1** | **40.7** | **-3.1** | **0.9** |

(*) 2013 does not include financial assistance

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

If none of the measures analysed above had been adopted, the evolution in the expenditure and revenue in national accounts would have been the one included in table 15.

**Table 15 General Government Expenditure and Revenue Projections at Unchanged Policies (% GDP)**

| | ESA Code | 2015 | 2016 |
|---|---|---|---|
| **1.Total revenue target** | TR | 37.7 | 37.7 |
| **of which** | | | |
| **1.1. Taxes on production and imports** | D.2 | 11.2 | 11.1 |
| **1.2. Current taxes on income, wealth, etc.** | D.5 | 10.2 | 10.5 |
| **1.3. Capital taxes** | D.91 | 0.5 | 0.5 |
| **1.4. Social contributions** | D.61 | 12.0 | 11.8 |
| **1.5. Property income** | D.4 | 0.9 | 0.9 |
| **1.6. Other** | | 2.9 | 2.9 |
| **p.m.: Tax burden** (D.2+D.5+D.61+D.91-D.995) | | 33.5 | 33.6 |
| **2. Total expenditure target** | TE | 42.5 | 41.3 |
| **of which** | | | |
| **2.1. Compensation of employees** | D.1 | 10.5 | 10.1 |
| **2.2. Intermediate consumption** | P.2 | 5.3 | 5.4 |
| **2.3. Social transfers** | D.62, D.632 | 18.1 | 17.7 |
| **2.4. Interest expenditure** | D.41 | 3.0 | 2.8 |
| **2.5. Subsidies** | D.3 | 1.0 | 1.0 |
| **2.6.Gross fixed capital formation** | D.51 | 2.1 | 1.9 |
| **2.7. Capital transfers** | D.9 | 0.5 | 0.5 |
| **2.8. Other** | | 1.9 | 1.9 |
| *Nominal GDP without measures (billion €)* | | 1,103.45 | 1,150.50 |

On the other hand, the additional estimation, in aggregate terms, of the annual impact on the deficit and GDP levels in the case of not adopting these fiscal consolidation measures each year (non-cumulative annual impact) is presented in the following table.

**Table 16 Assessment of the aggregate impact on Budgetary Balance and GDP of the scenario at Unchanged Policies**

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| **Budgetary balance (% GDP) (1)** | -5.7 | -4.2 | -2.8 | -1.4 | -0.3 |
| **Fiscal consolidation measures (% GDP) (2)** | 0.7 | 0.6 | 0.3 | 0.5 | 0.2 |
| **Impact of fiscal consolidation measures on GDP** | | | | | |
| Impact of expenditure measures on GDP (multiplier 0.75) | 0.3 | 0.5 | 0.2 | 0.3 | 0.1 |
| Impact on GDP of revenue measures (multiplier 0.4) | 0.1 | 0.0 | 0.0 | 0.1 | 0.0 |
| Impact on GDP (% over level) | -0.4 | -0.5 | -0.2 | -0.4 | -0.1 |
| **Output gap baseline scenario** | -8.3 | -5.7 | -3.6 | -1.8 | -0.2 |
| **Baseline Cyclical balance** | -4.5 | -3.1 | -1.9 | -1.0 | -0.1 |
| **Output gap difference with and without measures** | | | | | |
| Output gap change when Potential GDP change is 50% of GDP change | -0.2 | -0.2 | -0.1 | -0.2 | -0.1 |
| Output gap change when Potential GDP change is 20% of GDP change | -0.3 | -0.4 | -0.2 | -0.3 | -0.1 |
| **Cyclical balance difference with and without measures** | | | | | |
| Potential GDP change of 50% of GDP change (3) | -0.1 | -0.1 | -0.1 | -0.1 | 0.0 |
| Potential GDP change of 20% of GDP change (4) | -0.2 | -0.2 | -0.1 | -0.2 | 0.0 |
| **Cyclical balance without measures** | | | | | |
| Potential GDP change of 50% of GDP change | -4.4 | -3.0 | -1.9 | -0.9 | -0.1 |
| Potential GDP change of 20% of GDP change | -4.3 | -2.9 | -1.8 | -0.8 | 0.0 |
| **Budgetary balance at unchanged policies (year by year)** | | | | | |
| Balance at unchanged policies (50%) (1-2-3) | -6.3 | -4.7 | -3.0 | -1.8 | -0.4 |
| Balance at unchanged policies (20%) (1-2-4) | -6.2 | -4.7 | -3.0 | -1.8 | -0.4 |
| Sources: Ministry of Economy and Competitiveness and Ministry of Finance and Public Administrations | | | | | |

# APPENDICES

## 1. GDP Deflator until 2018

| | ESA Code | 2014 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|
| | | Level | % Change | | | | |
| **1. GDP Deflator** | | 100.5 | -0.5 | 0.5 | 1.1 | 1.4 | 1.6 |
| Sources: National Institute of Statistics and Ministry of Economy and Competitiveness | | | | | | | |

## 2. Guarantees granted by Public Administrations

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| **Total General Government** | | | | | |
| **One-off guarantees** | | | | | |
| Total stock of guarantees, excluding debt asumed by government | **137,713** | **159,567** | **218,179** | **193,152** | **133,627** |
| of which: public corporations | 500 | 500 | 500 | 499 | 499 |
| *Memo item: financial corporations* | 132,311 | 153,646 | 212,742 | 188,277 | 129,585 |
| *Memo item: guarantees given in the context of financial crisis* | 59,506 | 64,659 | 105,093 | 95,604 | 55,090 |
| **Standardised guarantees** | | | | | |
| Total stock | **0** | **0** | **0** | **0** | **0** |
| **Central Administration** | | | | | |
| **One-off guarantees** | | | | | |
| Total stock of guarantees, excluding debt asumed by government | **132,809** | **154,090** | **213,124** | **188,585** | **129,842** |
| of which: public corporations | 0 | 0 | 0 | 0 | 0 |
| *Memo item: financial corporations* | 132,311 | 153,646 | 212,742 | 188,277 | 129,585 |
| *Memo item: guarantees given in the context of financial crisis* | 59,506 | 64,659 | 105,093 | 95,604 | 55,090 |
| **Standardised guarantees** | | | | | |
| Total stock | **0** | **0** | **0** | **0** | **0** |
| **Autonomous Communities** | | | | | |
| **One-off guarantees** | | | | | |
| Total stock of guarantees, excluding debt asumed by government | **3,754** | **4,273** | **3,994** | **3,608** | **3,024** |
| of which: public corporations | 0 | 0 | 0 | 0 | 0 |
| *Memo item: financial corporations* | 0 | 0 | 0 | 0 | 0 |
| *Memo item: guarantees given in the context of financial crisis* | 0 | 0 | 0 | 0 | 0 |
| **Standardised guarantees** | | | | | |
| Total stock | **0** | **0** | **0** | **0** | **0** |
| **Local Entities** | | | | | |
| **One-off guarantees** | | | | | |
| Total stock of guarantees, excluding debt asumed by government | **1,150** | **1,204** | **1,061** | **959** | **761** |
| of which: public corporations | 500 | 500 | 500 | 500 | 499 |
| *Memo item: financial corporations* | 0 | 0 | 0 | 0 | 0 |
| *Memo item: guarantees given in the context of financial crisis* | 0 | 0 | 0 | 0 | 0 |
| **Standardised guarantees** | | | | | |
| Total stock | **0** | **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 section "Total Stock of guarantees, excluding debt assumed by government", does not include guaranteed debt of other units of public administrations nor guaranteed debt of the EFSF.
3. Only the guaranteed principal is included

## 3. Amounts to be excluded from the expenditure benchmark

| | 2014 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| | Level* | % GDP | % GDP | % GDP | % GDP | % GDP |
| **Expenditure on EU programmes fully matched by EU funds revenue** | 5,114 | 0.5 | 0.7 | 0.7 | 0.7 | 0.7 |
| **Cyclical unemployment benefit expenditure** | 10,232 | 1.0 | 0.7 | 0.4 | 0.2 | 0.0 |
| **Effect of discretionary revenues measures** | 3,868 | 0.4 | 0.0 | 0.0 | 0.1 | 0.0 |

* Millions of euros

## 4. General Government expenditure by function

General Government expenditure on education, healthcare and employment

| | 2015 | | 2016 | |
|---|---|---|---|---|
| | %GDP | % total expenditure | %GDP | % total expenditure |
| **Education** | 3.9 | 9.3 | 3.8 | 9.3 |
| **Health** | 5.8 | 13.8 | 5.6 | 13.8 |
| **Employment**[1] | 2.4 | 5.7 | 2.2 | 5.3 |

[1] This expenditure category contains Government spending related to active labour market policies including public employment services.

Classification of the expenditure by functions

| Functions | COFOG Code | 2015 | 2016 |
|---|---|---|---|
| | | % GDP | % GDP |
| **1. General public services** | 1 | 6.5 | 6.2 |
| **2. Defense** | 2 | 1.0 | 0.9 |
| **3. Public order and safety** | 3 | 1.9 | 1.9 |
| **4. Economic affairs** | 4 | 3.8 | 3.7 |
| **5. Environmental protection** | 5 | 0.8 | 0.8 |
| **6. Housing and community amenities** | 6 | 0.4 | 0.4 |
| **7. Health** | 7 | 5.8 | 5.6 |
| **8. Recreation, culture and religion** | 8 | 1.1 | 1.1 |
| **9. Education** | 9 | 3.9 | 3.8 |
| **10. Social protection** | 10 | 16.8 | 16.3 |
| **11. Total expenditure** | TE | 42.1 | 40.7 |

## 5. Expected budgetary impact of the revenue measures adopted and planned by the Central Government (before regional transfer)

| Table 5. Expected budgetary impact of the measures adopted and planned: Tax (Government before transfers) | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Measures** | **Description** | **Target (cost/revenue)** | **Level of implementation** | **Additional budgetary impact (million €)** | | | |
| | | | | **2014** | **2015** | **2016** | **2017** |
| **PIT** | | | | **339** | **-3,418** | **-1,567** | **-504** |
| **Measures in PIT and July and December 2012 measures.** | Includes measures such as the increase of the tax withholding associated to business activities, the elimination of house compensation and deduction and the elimination and partial return of the Christmas and summer bonus for public | Revenues | Royal Decree Law 20/2012, 13th of July. Law 16/2012, 27th of December. | 362 | 470 | 0 | -380 |
| **20% reduction on net profits in first 2 years (flat rate regime)** | 20% reduction on net profits from economic activity by taxpayers who start an economic activity, applicable in the first tax year in which a profit is made and the year after. | Revenues | Royal Decree Law 4/2013 and Law 11/2013. | -10 | -13 | | |
| **10% deduction on reinvested ordinary profits.** | This incentive consist of a 10% deduction in the tax payable for the profits obtained in the tax year in which an invested is made in new tangible fixed assets and real-estate assets related to the economic activity. | Revenues | Law 14/2013 of entrepreneurship | -10 | | | |
| **"Business angels": 20% deduction on the investment and exemption from capital gains.** | The investors enjoys two tax benefits: a) When the investment is made a 20% deduction in state personal income tax payable quota, subject to a maximum of 20,000; b) on future disinvestment, full exemption for any capital gains, provided these are re-invested in another new or recently-founded entity. | Revenues | Law 14/2013 of entrepreneurship | -3 | -3 | | |
| **PIT Reform** | Wide modification of the PIT: tax brackets have been changed, tax rates reduced, certain investment products have been treated differently. | Revenues | Ley 26/2014, de 27 de noviembre, por la que se modifican la Ley 35/2006, de 28 de noviembre, del Impuesto sobre la Renta de las Personas Físicas, el texto refundido de la Ley del Impuesto sobre la Renta de No Residentes, aprobado por el Real Decreto Legislativo 5/2004, de 5 de marzo, RDL 1/2015 y otras normas tributarias | | -2,352 | -2,577 | -634 |
| | Reform advance | Revenues | RDL 9/2015 of 10th of July. Advance of the tax brackets for 2016 to mid 2015. | | -1,520 | 1,010 | 510 |
| | **Total Impact** | | | | **-3,872** | **-1,567** | **-124** |

| Measures | Description | Target (cost/revenue) | Level of implementation | Additional budgetary impact (million €) | | | |
|---|---|---|---|---|---|---|---|
| | | | | 2,014 | 2,015 | 2,016 | 2,017 |
| **CIT** | | | | **-1,277** | **-168** | **-2,341** | **60** |
| **Special tax on dividends originating abroad and lotteries** | Creation of a special tax on dividends and returns that come from abroad due to the transmission of assets of entities not resident in Spain. | Revenues | Royal Decree-law 12/2012, 30th of March. | -9 | | | |
| **Limits on deduction of depreciation expenses.** | Limits on tax deduction for fixed asset depreciation by large companies. This excludes SMEs and micro-SMEs. | Revenues | Law 16/2012, 27th of December | -802 | | | |
| **Asset revaluation levy** | This levy allows the updating of balance sheets assets by taxpayers subject to CIT, tax payers of PIT involved in economic activities and taxpayers of non-resident income tax operating in Spain via a permanent establishment. This updating is voluntary, and is subject to a tax charge of 5% of the amount of the revaluation. | Revenues | Law 16/2012, 27th of December | -380 | -6 | | |
| **Reduced rates of 15% / 20% for new companies during first two years.** | A tax rate of 15% has been established for the first 300,000 € of the taxable base and 20% for the remaining superior amounts, in the first year of positive base and the year after. | Revenues | Royal Decree-law 4/2013, 22d of February | -16 | -29 | | |
| **10% deduction for ordinary profits reinvested in fixed assets in small sized companies.** | Only for companies with turnover of less than 10€ million. A 10% reduction in the CIT payable over profits in a tax year when these are re-invested in new tangible fixed assets or real estate investments linked to its activity. | Revenues | Law 14/2013, 27th of September, Entrepreneurs | -25 | | | |
| **Return of 80% of balance pending deduction of RD&I** | Deductions for R&D investment and spending may optionally be applied, not subject to any limit on the tax payable, and credited, given a joint discount of 20% of their value, when these were not able to be applied due to the tax payable being too low | Revenues | Law 14/2013, 27th of September, Entrepreneurs | | -46 | | |
| **Changes to tax regime for intangible assets. (Patent box)** | A reduction in the tax base of up to 60% depending on the case, of the net income from the intangible asset disposed . | Revenues | Law 14/2013, 27th of September, Entrepreneurs, modified by the Draft of the Budget Law for 2016. | -17 | | | |
| **Cancelation of deduction of losses in participated companies.** | Change in the tax treatment of investments in resident and non-resident entities with a holding of at least 5% of the equity for over 1 year, it also applies to permanent establishments abroad. | Revenues | Ley 16/2013 de fiscalidad medioambiental | -28 | | | |
| **CIT reform** | Rate reduction to 25% for two years, creation of a capitalization reserve and leveling reserve. | Revenues | Ley 27/2014 de 27 de noviembre, del Impuesto sobre Sociedades | | -87 | -2,341 | 60 |

| Measures | Description | Target (cost/revenue) | Level of implementation | Additional budgetary impact (million €) | | | |
|---|---|---|---|---|---|---|---|
| | | | | 2,014 | 2,015 | 2,016 | 2,017 |
| **NEW ENVIRONMENTAL TAXES (DIRECT)** | | | | **408** | | | |
| **Tax on the value of electricity production. Tax on production of spent nuclear fuel. Tax on storage of used nuclear fuel.** | | Revenues | Law 15/2012 of energy sustainibility measues | 408 | | | |
| **OTHER DIRECT TAXES** | | | | | **-54** | **-56** | **-8** |
| **Special fiscal declaration. Non Resident Income Tax and others.** | | Revenues | | | -54 | -56 | -8 |
| **VAT** | | | | **288** | **390** | **0** | **0** |
| **Reduction of VAT from 8% to 4% on housing purchases .** | The reduction of the VAT rate on housing from the reduced rate to 4% was a temporary measure introduced in 2011 and extended until the 31st of December 2012. | Revenues | Royal Decree Law 9/2011, 19th of August | 288 | | | |
| **Health and Notaries tax at the general rate.** | Adaptation of the VAT Law to the EU legislation. | Revenues | | | 390 | | |
| **EXCISE** | | | | **-1,610** | **1,966** | **-6** | **0** |
| **Tobacco** | Tobacco products; a number of changes including an increase in tax rates and rebalancing the fiscal structure: increasing the proportional component and reducing the specific one. | Revenues | Last modification by Royal Decree Law 7/2013, 28th de June | 191 | | | |
| **Hydrocarbon** | Increase in the rate on: professional diesel, biofuels, natural gas (consumption and use in electricity generation), diesel and fuel-oil used in electricity generation and liquefied petroleum gas. | Revenues | Law 15/2012 27th of December fiscal measures for energetic sustainability. | 113 | | | |
| | Aplication of court Sentence | Revenues | Refunds under the tax on hydrocarbons judgment. | -2,011 | 2,011 | | |
| **Alcoholic drinks and derivative beverages** | 10% increase in taxation on intermediate products and derivative drinks. | Revenues | Royal Decree Law 7/2013, 28th of June | 52 | | | |
| **Carbon** | Rate increase to 0.65 euro per gigajoule | Revenues | Law 15/2012 27th of December fiscal measures for energetic sustainability. | 83 | | | |
| **Electricity** | Partial tax exemption for large consumers | Revenues | Law 16/2013, 29th of October | -38 | -45 | -6 | |

| Measures | Description | Target (cost/revenue) | Level of implementation | Additional budgetary impact (million €) | | | |
|---|---|---|---|---|---|---|---|
| | | | | 2,014 | 2,015 | 2,016 | 2,017 |
| **NEW ENVIRONMENTAL TAXES (INDIRECT)** | | | | **31** | **65** | **79** | **20** |
| **New tax on fluorinated greenhouse gases. A tax on emissions of halogenated hydrocarbons. Financial Transaction Tax** | A tax over emisión of halogenated gases. | Revenues | Law 16/2013, 29th of October | 31 | 65 | 79 | 20 |
| **OTHER INDIRECT TAXES** | | | | | | **600** | |
| **Financial Transfer Tax** | | Revenues | | | | 600 | |
| **LEVIES AND OTHER REVENUE** | | | | **0** | **389** | **-229** | **0** |
| **Levy on the use of water for electrical production** | | Revenues | Proyecto of RDL where it devellops the art. 112 of the Law of water. | | 454 | -229 | |
| **Judiciary Levies** | | Revenues | Law 10/2012 and 2013 and 2015 modifications. | | -65 | | |

| | | | | |
|---|---|---|---|---|
| **TOTAL** | **-1,821** | **-830** | **-3,520** | **-432** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Plan to fight against Fraud** | | Revenues | General Tax Law | **1,000** | **1,000** | **1,000** | **1,000** |

| | | | | |
|---|---|---|---|---|
| **TOTAL** | **-821** | **170** | **-2,520** | **568** |

## 6. Expected budgetary impact of the expenditure measures adopted and planned by the Central Government and the Social Security

| Measures | Description | Target (cost/revenue) | Level of implementation | Additional budgetary impact | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | 2014 | 2015 | 2016 | 2017 | 2018 |
| **Repairing the damage caused by floods and other effects of rainstorms, snowfall and strong winds that occurred in the months of January, February and March 2015** | Urgentmeasures,which have been directly caused by the rainstorms, snowfall and strong winds force majeure | Expenditure | Royal Decree Law 2/2015, March 6, on urgent measures taken to repair the damage caused by floods and other effects of rainstorms, snowfall and strong winds occurred in the months of January, February and March 2015 | | -106 | 106 | | |
| **Returning the extra payment (Christmas bonus) and 1% wage increase** | Reimbursing 25% of the corresponding extra payment suppressed in December 2012 to the public employees | Expenditure | Law 36/2014, 26th of December, General State Budget 2015 and Draft Budget 2016 | | -579 | -257 | 579 | |
| **Replacement rate** | 0% replacement rate except for priority areas at 50%. Increase in Draft Budget 2016. | Expenditure | Law 36/2014, 26th of December, General State Budget 2015 and Draft Budget 2016 | 200 | 202 | 202 | 71 | 71 |
| **Flat Rate in employer contributions to Social Security and extension in 2015. Minimum exempt as from 2015** | In order to encourage permanent contracts and fostering net job creation, a flat rate is established in employer contribution to Social Security. In order to consolidate the positive development of permanent contracts and increase its impact for groups with greater difficulties for a stable employment, a minimum exempt is set in the employer contribution for common social security contingencies, which will benefit all companies for permanent hires and net employment creation. 500€ of the corresponding monthly contribution basis for common contingencies shall be exempt from employer contribution for full-time contracts. In the case of part-time contracts, that amount is reduced in proportion to the percentage decrease in working hours, which must not be less than 50% of the dayly working time of full-time workers. Duration 01-03-2015 to 31-08-2016 | Revenue | Royal Decree Law 3/2014, 28th February, on urgent measures to foster employment and permanent contracts. Royal Decree law 17/2014, 26th December, of measures for autonomous communities and local entities sustainability. Royal Decree law 1/2015, 27th February, of second chance mechanism, reduction of financial burden and other social measures | -640 | -393 | 203 | 322 | 422 |
| **New direct settlement scheme for for the Payment of Social Security Contributions** | New system that entails a change in the Spanish scheme of Social Security contributions. The change involves replacing the current self-declaration form with a direct-settlement form (or direct billing) | Revenue | Law 34/2014, 26th of December,of measures related to settlement and payment of quotas of the Social Security | | 300 | 1,238 | | |
| **Mutualism Act** | It entails modernisation of the functioning and management of these entities, It increases transparency and efficiency. It contributes to a better use of resources and to absenteeism reduction, and to social security sustainability. Temporal disab 511M; 345 M revenues from health services use to third parties and sale of prevention services; 25M savings as for management control | Revenue / expenditure | Ley 35/2014, 26th of December, by which modifies the text of the General Law of the Social Security in relation to the Mutualism of Accidents at Work and Professional disability of the Social Security | | 881 | | | |
| **Extraordinary activation programme for employment** | A programme for long-term unemployed people who have seen their benefits and allowances ending and who meet the requirement established and have family responsibilities. The activation programme combines specific actions to foster employment and temporary financial assistance of six months which is compatible in case of being employed. Thus contributing to two goals. On the one hand, address the situation of these unemployed and help keep them active. On the other hand, to promote the modernization of public employment services, ensuring a personalized treatment of beneficiaries and a stronger link between active and passive policies. The Programme will be up to 15th of April 2016 and an assessment of its impact is expected in terms of employability | Expenditure | Royal Decree law 16/2014, of 19th December, which regulates the Programme of Activation for the Employment. | 0 | -129 | 86 | 43 | |
| **New access requirements for the Active insertion income** | Requirements for access to the RAI were modified to increase its links with employment policies and strengthen compliance with the activity commitment | Expenditure | Royal Decree law 16/2014, of 19th December, which regulates the Programme of Activation for the Employment. Third final provision | 0 | 19 | | | |
| **Completion of the programme for subsidies and replacement of measures of employment regulation** | The "replacement right" and several employment subsidies were suppressed in 2014 because of the forecast improvement in the economic activity | Expenditure | Royal Decree-law 1/2013, 25th of January. Law 3/2012, 6th of July | 209 | 233 | | | |

| Measures | Description | Target (cost/revenue) | Level of implementation | Additional budgetary impact | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | 2014 | 2015 | 2016 | 2017 | 2018 |
| **Streamlining the public sector and other administrative reform measures established in the committee for the reform of public administrations (CORA)** | It involves the suppression, merger, integration or rationalization of state public sector entities | Expenditure | Law 15/2014 of streamlining the public sector and other administrative reform measures; Royal Decree 701/2013 of razionalitation of the Public Sector; Several Agreements of the Council of Ministers | 155 | 135 | 110 | | |
| **CORA measures for eliminatig administrative duplicities** | It involves 120 measures for eliminating duplicities , within the General Public Administration as well as within the Regional Governments and Local entities. Examples: joint planning contributions to international organizations; single procurement platform; centralizing surveys | Expenditure | 70 out of the 120 CORA measures for eliminating duplicities are already implemented, 30 at an advanced stage and 20 of them are underway | 93 | 260 | 160 | | |
| **CORA improvements in the management of the Central Administration** | Razionalisation of the Central Administration: property managemnt plan, reform of the vehicle fleet, single public procurement platform, travel expenses; cash management improvement | Expenditure | Rationalization of property leases and sale of underutilized property assets; Law 15/2014 Rationalization of Public Sector and other measures of administrative reform: inventory of the official vehicle fleet; travel fees 2013; Royal Decree 256/2012 modified: creation of a General Directorate for the Rationalization and centralization of public procurement; framework agreements and centralized contracts; the modification of the General Collection Regulations | 592 | 412 | 325 | | |
| **Improvement in ICT public management** | A change in the organization of the information technology and communication (ICT) resources of the Central Government Administration and its public agencies based on the consolidation of common infrastructure and services, supported by a policy of integrated management that enables savings to citizens, companies and the Administration: on-line appointments, web portals, shared services between administrations | Expenditure | Creation of the Directorate for the ICT (modification of the Royal Decree 256/2012), ICT developments | 82 | 144 | 130 | | |
| **CORA measures in ICT healthcare simplification: interoperable Electronic prescription ; Digital medical records; health card database** | Extension of interoperable electronic prescriptions from any Regional Government, with availability of digital medical records, enhancing the database of electronic health card | Expenditure | Royal Decree 702/2013, 20th September that regulates the individual health card and amends Royal Decree 183/2004, 30th January: Agreements with Regional Governments. At an advanced stage of implementation | 152 | 150 | | | |
| **Pension reform** | Pension reforms since 2011 and 2013 (retirement, partial and early retirement, revaluation index and sustainability factor), Differential impact on future pension spending | Expenditure | Law 27/2011, of the Social Security reform; Royal Decree Law 5/2013; Law 23/2013 of 23rd December, regulating the Sustainability Factor and the Revaluation Index | 574 | 1,000 | 1,148 | 1,200 | 1,000 |
| **TOTAL** | | | | **1,417** | **2,530** | **3,451** | **2,215** | **1,493** |

## 7. Expected budgetary impact of the measures adopted and planned by the Regional Governments

| Measures | Description | Target (cost/revenue) | Additional budgetary impact (million €) | | | |
|---|---|---|---|---|---|---|
| | | | 2014 | 2015 | 2016 | 2017 |
| **Personel expenditure** | Management measures / staff planning / remuneration | D1 | 0 | -1,941 | -991 | 1,230 |
| | No replacement | D1 | 600 | 589 | 589 | 207 |
| **Pharmaceutical expenditure and health products** | Pharmaceutical expenditure due to centralized procurement | D63 | 0 | 10 | 100 | 100 |
| | Other measures regarding pharmacy and health products expenditure | D63 | 77 | 655 | 500 | 150 |
| **Current spending and public provision** | Saving measures related to provision of services and supplies | P2 | 164 | 250 | 370 | 0 |
| | Public provision compensation measures | D63 | 0 | 0 | 0 | 0 |
| | Other measures from chapter II | P2 | 39 | 263 | 150 | 150 |
| **Financial expenses and interest *** | Interest savings, improving conditions of funding mechanisms | D41 | 542 | 3,188 | -822 | 0 |
| **Current transfers** | Other from chapter IV | Other current expenditure | 262 | 200 | 265 | 0 |
| **Capital transfers** | Other from chapter VII | D92, D99 | 140 | 21 | 150 | 0 |
| **Other measures** | Other measures | P51 | 490 | 0 | 0 | 0 |
| **TOTAL EXPENDITURE MEASURES** | | | **2,313** | **3,235** | **312** | **1,837** |
| **Taxes** | Personal income Tax and other direct taxes | D51 | 5 | 37 | 0 | 0 |
| | Inheritance and Gift Tax | D91 | 91 | 54 | 86 | 86 |
| | Wealth tax | D5 | 6 | 0 | 0 | 0 |
| | Environmental taxes | D29 | 22 | 59 | 150 | 100 |
| | Transfer tax and Stamp duty | D21 | 358 | 23 | 0 | 0 |
| | Hydrocarbons tax | D21 | 0 | -29 | 100 | 100 |
| | IGIC AIEM | D21 | 0 | 5 | 0 | 0 |
| **Fees** | Fees | D29 | 17 | 81 | 80 | 80 |
| **Other revenues** | Other taxes | D29 | 392 | 277 | 10 | 0 |
| **Non- tax revenue** | Non- Tax Revenues | -P51 | 537 | 1,425 | -1,125 | 0 |
| **TOTAL REVENUE MEASURES** | | | **1,427** | **1,931** | **-698** | **366** |
| **TOTAL REGIONS** | | | **3,739** | **5,166** | **-387** | **2,203** |

* with not effect in consolidated general government expenditure

## 8. Expected budgetary impact of the measures adopted and planned by the Local Entities

| Measures | Description | Target (cost/revenue) | Additional budgetary impact (million €) | | | |
|---|---|---|---|---|---|---|
| | | | 2014 | 2015 | 2016 | 2017 |
| **Personel expenditure** | Compensation (2012 extra payment and 1% wage increase) | D1 | | -459 | -204 | 459 |
| | Replacement rate at 50% | D1 | 200 | 233 | 233 | 82 |
| **Current expenditure** | Cost reduction in purchases of goods and services | P2 | | 402 | 201 | 62 |
| **Public companies sector** | Company dissolution | D1, P2 | 109 | 394 | 508 | 305 |
| **Supression of services** | Disappearance of minor local entities and deletion of services that are not under local competencies | D1, P2, other current exp. | 150 | 574 | 139 | |
| **Health, education and social services** | Transfer of competencies in health, education and social services. | D1, P2 | | | 473 | 91 |
| **Integrated management and mergers** | Integrated management of Public services and municipal mergers | D1, P2 | | 71 | 223 | 69 |
| **TOTAL EXPENDITURE** | | | **459** | **1,214** | **1,574** | **1,068** |
| **Taxes** | Tax increases, deletion of exemptions and voluntary bonuses | D29 | 558 | 926 | 427 | 347 |
| **Taxes** | Fees and public prices | D29, P11 | 104 | | | |
| **TOTAL REVENUES** | | | **662** | **926** | **427** | **347** |
| **TOTAL LOCAL ENTITIES** | | | **1,121** | **2,140** | **2,001** | **1,415** |

## 9. Link between the Draft Budgetary Plan and compliance with Country Specific Recommendations of the Council

| | | Specific Recommendation | List of measures | Link description |
|---|---|---|---|---|
| 1. BUDGET | 1.1 | Ensure a durable correction of the excessive deficit by 2016, undertaking the necessary structural measures in 2015 and 2016 and using windfall gains and the positive evolution of the Spanish economy to accelerate deficit and debt reduction. | *2016 Draft Budgetary Plan.<br>* General State Draft Budget for 2016: This budget has been prepared within the fiscal consolidation commitment and for the purpose of putting our economy back on the path to recovery as agreed.<br>* 2015-2018 Stability Programme. | As specified in the 2016 Draft Budgetary Plan, 2016 deficit is expected to remain under the 3% threshold set by the Stability and Growth Pact, whilst a primary surplus is recorded for this year too.<br>As for income levels, it is worth outlining the positive evolution in taxable bases, which enables to increase tax collection, thus offsetting the impact of the tax reform that will be brought forward to 2015. This trend is also confirmed by the data recorded in August, showing an increase in tax collection over 5%.<br>Regarding expenditure and the specific case of the Central Government, it is important to point out a major decrease in some budgetary lines that take an important volume of resources, such as unemployment benefits and interest expenditure from debt. |
| | 1.2 | Strengthen transparency and accountability of regional public finances. | Amendment of Ministerial Order further developing the obligations to report foreseen in Organic Law 2/2012 of 27 April on Budgetary Stability and Financial Sustainability (LOEPSF), by virtue of Order HAP 2105/2015, in order to adapt it to the new reforms and information requirements set out by the Commission, establishing new obligations on information and publicity. Other changes were also made in order to ease compliance with these obligations. | Reporting frequency has increased along with the quality of the information supplied. The main milestone here is that the Government Comptroller's Office (IGAE) is publishing monthly reports on the budgetary results of all Autonomous Communities, as well as quarterly reports for the Local Entities sub-sector, both in national accounts terms and budgetary terms. The following improvements must be outlined too:<br>• Information regarding financial budgets of regional governments is available for the first time, as well as on the number of public employees and the costs attached to the personnel of the different Public Administrations. Likewise, extensive budgetary information concerning all Public Administrations is now available too, which enabled to meet our accountability obligations towards the European Union. Among others: budgetary frameworks, main budgetary lines, budgetary execution, etc.<br>• Territorial Administrations also have an obligation to provide monthly information on their adjustment, economic/financial and rebalancing plans.<br>• Reporting procedures to be followed are defined and clarified, deadlines are set for accountability and publicity purposes and the consequences of potential breaches are laid down.<br>• Likewise, improvements are made on the management of information flows, channelling information through electronic means and through general comptrollers. |
| | | | Organic Law 6/2013, of 14 November, on the establishment of the AIREF (Independent Authority For Fiscal Responsibility).<br>Recently, an Order has been passed concerning the information and reporting procedures that the Ministry of Finance and Public Administrations will make available to the AIREF on a permanent basis. | The AIREF has been fully operational since the second quarter of 2014. Since then, it has been performing the duties it was entrusted according to its regulations: Continuous assessment of the budgetary cycle, public indebtedness and analysis of economic forecasts.<br>Active involvement in the Spanish budgetary process. Many reports, opinions and technical documents have been issued by this body. Among other issues, the AIREF provides information on the compliance with deficit and debt targets of draft budgets devised by the different administrations. It also reports the economic-financial plans of the regional governments (PEF, Spanish acronym) before their approval, and it may also report on the appropriateness of activating the preventive, corrective and coercive measures foreseen in the Organic Law on Budgetary Stability and Financial Sustainability (LOEPSF).<br>It also has access to all the necessary information in order to prepare its reports. |
| | | | Continuity in the development of the duties of the Technical Committee of National Accounts, established by virtue of the single Additional Provision of Organic Law 6/2013 of 14 November, on the establishment of the Independent Authority for Fiscal Responsibility. | This Committee is integrated by the National Institute for Statistics, the Bank of Spain and the Government Comptroller's Office (IGAE) as the competent bodies to prepare national accounts of the units integrating the General Government Sector and other public financial and non-financial companies.<br>The main purpose of this Committee is to assess and allocate economic operations conducted by different public sector units whilst ensuring a sectoral delimitation of those units. Likewise, among its duties, it also has the authority to perform actions intended to verify and check the information provided by institutional units belonging to the Autonomous Communities and the Local Entities sub-sectors, classified in accordance with the criteria set out by the European System of Accounts. This new regulation enables to improve the quality of the figures collected and those situations in which it was difficult to check the veracity and accuracy of the information provided by Territorial Administrations are no longer an issue. |
| | | | Improve transparency, invoice control and eradication of late payment of the Public Administrations with regard to their commercial debt, guaranteeing financial sustainability. | • An indicator has been defined: the average payment period (PMP, Spanish acronym), which is homogeneous and comparable for all Public Administrations.<br>•All the Administrations are legally compelled to calculate and publish their PMP on a monthly basis. This publication is also centrally managed by the Ministry of Finance and Public Administrations (MINHAP, Spanish acronym) in order to ensure transparency.<br>•Both the process and the actions to be followed in case of non-compliance with PMP reporting requirements by any Administration have been defined too.<br>• The concept represented by the financial sustainability principle is broadened, so that now it also includes commercial debt control, avoiding to endanger budgetary stability or public finance sustainability in the medium run.<br>•Each Administration must rely on a Financial Budget that will include information on its payment forecasts for suppliers in order to ensure sustainability of commercial debt.<br>•PMPs are being monitored in order to ensure financial sustainability and compliance with late payment rules. Likewise, preventive, corrective and coercive measures are being applied too as foreseen in the LOEPSF, e.g. updating of financial budgets. These measures may even lead to the withholding of resources from the financial system for direct payment to suppliers in case of repeated failure to comply with a PMP by a Autonomous Community.<br>•The Autonomous Communities must submit information on the measures adopted on a fortnightly or monthly basis depending on the level of non-compliance. |
| | | | Promote electronic invoicing in order to improve transparency, invoice control and to eradicate late payment. | By virtue of Law 25/2013, on the promotion of electronic invoicing, a structural reform has been brought about in order to spread the use of electronic invoicing systems and an accounting record of invoices has been established.<br>Since 1 January 2015, invoices from suppliers of the Public Administrations must be submitted and processed through electronic means. This measure enables to speed up the payment process for suppliers and provides a reliable record of pending invoices.<br>Thanks to this computerised and systematic control system, it is possible to perform an accurate monitoring of late payment through PMP follow-up. |
| | | | Reinforce transparency in economic-financial management and economic-financial data reporting from all Public Administrations. | • A public information centre (Central de Información) has been created that provides information on the economic-financial activities of the different Public Administrations and associated bodies, in a coordinated, clear and orderly manner.<br>• Publication of relevant information on economic/budgetary/statistical issues: information on procurement contracts, agreements, subsidies and grants, budgets and reports on budget implementation, etc.<br>• With regard to public procurement: central management, promotion of electronic tendering at every Administration and publication of relevant information on procurement contracts on the transparency portal.<br>• Establishment of a national database of subsidies where all subsidies and state aids granted are published, stating the amount, purpose and beneficiaries thereof. |
| | | | Royal Decree-Law 17/2014, of 26 December, on measures for financial sustainability of the Autonomous Communities and the Local Entities and other economic measures. | By means of this rule, it has been possible to restructure the extraordinary funding mechanisms set for territorial administrations.<br>An improvement in management efficiency is actually achieved at these administrations, target compliance is encouraged (funding under more favourable conditions has been offered for the first time to compliant regional governments and local entities) and social expenditure becomes a priority.<br>The transparency principle is thereby strengthened. Following this principle, all Public Administrations depending on the Funds must be up to date with their transparency and reporting obligations in accordance with the Organic Law on Budgetary Stability and Financial Sustainability and implementing regulations thereof, and comply with the new reporting obligations foreseen in this rule. |

| | | Specific Recommendation | List of measures | Link description |
|---|---|---|---|---|
| 1. BUDGET | 1.3 | Improve the cost-effectiveness of the healthcare sector, and streamline hospital pharmaceutical spending. | A new system has been devised in order to encourage sustainability of pharmaceutical and hospital spending in the Autonomous Communities. | Setting a maximum annual limit for this type of spending in line with the spending rule of the LOEPSF, which depends on potential growth. |
| | | | As for hospital spending, some deeper actions have been undertaken to ensure a more efficient management, streamline this type of spending and guarantee funding sustainability. | Classification and definition of the new portfolio of services and implementation of a pharmaceutical spending control system, including a new system of reference prices. |
| | | | Further progress is being made on hospital management efficiency. | Centralised purchasing of pharmaceuticals and medical products. |
| | | | Fight against health card fraud, implementation of an interoperable health card and development of the digital medical record and electronic prescription system. | These measures will generate further savings and improve efficiency of the system. |
| 2. FINANCIAL | 2.1 | Complete the reform of the saving banks' sector, especially through legislative measures, and complete the restructuring and privatisation of state-owned savings banks. | The approval process for implementing regulations of Law 26/2013 on savings banks and banking foundations has continued so as to complete the governance strengthening framework for savings banks. These regulations must be enacted through a Royal Decree, a Ministerial Order and a Circular of the Bank of Spain. This would be the only reform pending enactment. Likewise, the restructuring process of state-owned entities (according to the plans approved) has continued, and significant progress has been made to ensure full recovery and privatisation thereof. | Thanks to the reform of the Savings Banks' sector, a more professional behaviour of these institutions has been guaranteed, and transparency of banking foundations has improved too. Also, further progress has been made in restructuring those institutions that were granted public aids pursuant to the commitments made, and the asset disposal process has continued, easing privatisation thereof at minimum cost for taxpayers.<br>* In 2014, the first instalment of the sale of NCG to Banco Etcheverría-Grupo Banesco was deposited, after formalisation of the sale in 2013; 7.5% of Bankia shares were sold and, after that, the FROB's stake in Bankia (through the BFA) amounts 62.43%; Catalunya Banc was awarded to BBVA and, before that, this institution had sold its Hércules loan portfolio to Blackstone; and Liberbank contingent convertible bonds were early redeemed (CoCos)<br>* Sale of Bankia and BMN stock will continue insofar as the market conditions so allow (whilst complying with the maximum deadline of 2018). |
| 3. LABOUR MARKET | 3.1 | Promote the alignment of whole-economy wages with productivity, in consultation with the social partners and in accordance with national practices, taking into account differences in skills and local labour market conditions as well as divergences in economic performance across regions, sectors and companies. | III Agreement for Employment and Collective Bargaining for the Years 2015, 2016 and 2017 | In June 2015, social actors reached an agreement at national level that provides continuity to similar agreements reached in the past. This agreement includes some guidelines on salary increases, that will be specified in detail in the collective bargaining agreements reached according to the particular circumstances of each sector and company. |
| | 3.2 | Take steps to increase the quality and effectiveness of job search assistance and counselling, including as part of tackling youth unemployment. Streamline minimum income and family support schemes and foster regional mobility. | 2015 Annual Employment Policy Plan | As in previous years, this instrument has been approved in 2015 in order to define employment activation policies foreseen by the Central Government and the Autonomous Communities public employment services, within their respective scopes of responsibility.<br>This plan consolidates a new model for the assessment and management of these policies. For this reason, a comprehensive system with twenty-seven assessment indicators is included and 60 percent of the funds distributed this year across the Autonomous Communities will depend on the level of compliance with the targets set for 2014.<br>Among the novelties included in the 2015 plan, it is worth outlining the consolidation of funds allocated to strengthening collaboration with Employment Agencies and the increase of the budget line allocated to funding employment guidance services and programmes, as well as to improve modernisation of Public Employment Services. |
| | | | Reform of the vocational training system to foster employment | During 2015, the reform of the vocational training system to foster employment took an end, which is now responsible for regulating public-private partnerships in order to improve training for both employed workers and the unemployed. Below are some of the aspects of the new model that should be outlined:<br>- Vocational training centres will tender on a competitive basis for the sake of quality and transparency. Therefore, the funding reserve for training programmes developed by social actors is cancelled. Likewise, certain practices are banned in order to encourage an efficient and transparent use of public resources: advance payments of subsidies prior to the completion of the training activities are limited and training institutions are also prevented from outsourcing services.<br>-Special emphasis is also put on the courses available to the unemployed and, for this purpose, an individual diagnosis of their training requirements must be performed, giving priority to the training of people with low level of qualifications. The possibility of developing a training cheque for public employment services is analysed, so that the unemployed themselves are able to choose the vocational training centre that better fits their profile.<br>-A quality assessment of the vocational training received will be mandatory for all the operators of the system. For this purpose, different instruments and new tools are expected to be used such as: statistics, quality audits, vocational training accounts with the track record of employees, etc. thus enabling to measure the impact of the training in terms of labour market insertion and career progression.<br>- Monitoring capacity and power to impose penalties is strengthened. A new unit of the Labour Inspectorate is created, specialised in vocational training, and some amendments are made on the rules on penalties applicable, by virtue of which offenders may be expelled from the programme for five years. |
| | | | Development of the Spanish National Youth Guarantee | During 2015, further progress has been made on the implementation of the Youth Guarantee. An assessment is being made on the different measures implemented by the Autonomous Communities and the age of those that can benefit from these measures has been raised (to 29 years). |
| | | | Development of the Employment Activation Programme for long-term unemployed persons with family responsibilities | During 2015, this programme of financial support and job placement for long-term unemployed persons with family responsibilities has continued. This programme strengthens tailored support measures for the unemployed from the public services and employment activation measures in order to encourage labour market insertion, including incentives to companies recruiting unemployed people. This programme will be complemented with a new 2016-2018 support programme for the long-term unemployed, which will be defined in accordance with the 2016 Annual Plan of Employment Policies. |

| | | Specific Recommendation | List of measures | Link description |
|---|---|---|---|---|
| 4. TRADE, MARKET UNITY | 4.1 | Remove the barriers preventing business growth, including size-contingent regulations. Implement the reform of the professional services as planned. | Implementation of shop opening hours liberalisation by the Autonomous Communities. | The reforms made up to the present day have led to the emergence of 682 major tourist areas, that is, with total freedom to determine their opening days and times in 533 municipalities. |
| | | | Extensive work is being made alongside with the Autonomous Communities in order to draw a road map to reduce the constraints to economic activities posed by land, sectoral and environmental regulations. | A road map proposal has been prepared including the remarks of the Autonomous Communities and the Local Entities. It is pending official approval from the working group integrated by the Central Government, the Autonomous Communities and the Local Entities (AGE-CC.AA-EE.LL., as per its acronym in Spanish). Nevertheless, those measures strictly depending on the Central Government are already under way. Therefore, as an example, apart from the works concerning the AGE –which are mainly operational and focused on improving administrative coordination– the public consultation process for urban development plans have been streamlined in the Draft Law on Road Infrastructure, currently going through the parliamentary process. |
| | | | Enforcement of Law 14/2013 on Support to Entrepreneurs and their Internationalisation. | Nowadays, through the Single Electronic Document, online processing of the statements of compliance of 1,475 municipalities is already possible, as well as to register new limited liability entrepreneurial companies, cooperative societies, employee-owned and civil law limited liability companies, joint ownerships and Limited Liability Entrepreneurs.<br>In the past months, significant progress has been made on integrating more procedures into the Single Electronic Document, as well as on the operational integration of the four one-stop shops at state level (including the one-stop shop of the Services Directive, currently at the MINHAP) into the electronic Help Desk for Entrepreneurs of the Ministry of Industry, Energy and Tourism. Besides, the Ministry of Economy and Competitiveness has prepared an ex-post assessment document of the measures included in the Law of Entrepreneurs, including new proposals devised in order to improve business environment and which are currently under analysis for approval. |
| | | | Enforcement of the Market Unity Guarantee Act (LGUM, as per its acronym in Spanish) and sectoral reforms. | The LGUM and the sectoral reforms are intended to remove administrative barriers to the incorporation of new companies and business growth. Aside from the horizontal standard, up to the present day, 100 sectoral adaptations of the 184 state standards identified have been approved (including the bills presented to the Spanish General Courts). The Autonomous Communities are also working on adapting their regulations and the General Government is also collaborating in this process through 43 special working groups analysing the actual constraints to market unity. Some agreements have been reached with the Autonomous Communities in 10 out of these 43 groups, in order to change these regulations. |
| | | | Measures to facilitate access to public procurement. | Aside from the measures included in the Law of Entrepreneurs, a RD has been enacted implementing this Law and conveying new elements of flexibility intended to facilitate access to public procurement contracts, serving as a springboard for business growth (Royal Decree 773/2015, of 28 August, amending some rules of the General Regulation of the Law of Contracts with Public Administrations, approved by virtue of Royal Decree 1098/2001, of 12 October). Among the measures included therein, the following may be outlined: a) whenever a qualification is not mandatory for a services contract, the bidding conditions will lay down the solvency criteria and, lacking those, the turnover or insurance coverage criteria will apply instead, as well as that of previous works. Qualification for services contracts becomes voluntary, for the sake of subgroup simplification in order to facilitate access to more types of contracts. b) Regarding public works contracts, in order to mitigate the impact of the economic crisis on the accreditation of financial solvency, the period over which the works executed may be taken into account in order to accredit a company's experience is expanded from five to ten years for building contractors, and from three to five years for service contractors. c) A new exemption is introduced from the requirement to accredit technical, economic and financial solvency provided that the estimated value of the works contracts does not exceed 80,000 Euros and 35,000 Euros for services contracts. c) New changes are made in the thresholds and qualification categories, so that smaller businesses falling under the lower threshold may have access to contracts of higher value too. |
| | | | Second chance reform. | Law 25/2015, of 28 July, on the second chance mechanism, reduction of financial burden and other social measures, whose primary objective is to establish a competitive framework –ensuring business continuity of financially sound companies– and remove existing barriers to the transfer of those businesses and productive units. |
| | | | Enforcement by the Autonomous Communities of amendment to Law on Retail Trade in order to adapt it to the Market Unity Guarantee Act. | By virtue of this amendment, all procedures required to request the approval are reduced to a single one, minimising waiting periods for administrative decisions from six to three months and limiting the number of overriding reasons of general interest that may be invoked to request approval. After the amendment of the State Law, extensive work is being made alongside with the Autonomous Communities so as to bring this reform into regional regulations. |
| | | | Continuation of the regulation review process . | This process is still under way, it has not ended yet and it is not expected to end in the short/medium run due to its dynamic nature. At state level, out of the 184 rules that need to be reviewed, 100 have been adapted (including the bills presented to the Spanish General Courts). Throughout this process, a score of approvals has been removed (among others, those for employment agencies, film companies, forest exploitation activities, private security, manufacturing and import of cosmetics, sale of additional products in government-licensed tobacconist's shops, environmental responsibility, non-formal education institutions) and more relaxed requirements have been set in 90 rules. Likewise, the wide range of regulations existing –around 30 rules– have been reduced. In order to adapt regional regulations, the Autonomous Communities and the General Government are working altogether in Sectoral Conferences through working groups created for such purpose. In particular, 25 Sectoral Conferences have been organised along with 43 technical groups for the purpose of identifying the barriers to market unity, having reached agreements to bring changes in regulations, regulatory standards or others alike in 10 working groups. At this point, information is available on the progress made on the regulatory adjustments to the LGUM in all the Autonomous Communities except for the Canary Islands, the Basque Country and Melilla (although the information about Catalonia is too generic). The results show that out of the 489 rules identified by the Autonomous Communities, 85 have already been amended by now, 64 rules are currently being processed and 340 are at the draft stage or not yet started. |
| | | | Inter-administrative cooperation system. | This system includes a series of instructions to ease regulatory adjustment. These instructions have been approved by virtue of the Council of Ministers' Agreement for the bodies of the General Government, and by the Technical Commission of the Market Unity Council, to be implemented by the Autonomous Communities (Technical Commission in its meeting of 8 May 2015). Therefore, the system is now operative although its use by the Public Administrations is still quite limited. |
| | | | Protection mechanisms for economic operators. | Until 15 June, 108 cases had been filed before the Secretariat of the Market Unity Council. 82 out of them have been processed (the rest of them being rejected or withdrawn) and 73 of them have been closed already. Approximately 2/3 of the cases have ended with a favourable resolution for the interested party or claimant. Up to the present day, the National Securities Market Commission (CNMC, as per its acronym in Spanish) has revealed the existence of 8 administrative appeals. |
| | | | Periodic assessment of LGUM enforcement. | The Agency for Evaluation of Public Policies and Service Quality has included in its Work Plan for 2015, approved by the Council of Ministers, an order intended to issue an assessment report on the degree of enforcement of the LGUM. |

## 10. Link between the Draft Budgetary Plan and the European strategy for growth and jobs

| National objectives | List of measures | Link description |
|---|---|---|
| **Employment**<br>**74% employment for persons aged 20 to 64 years**<br>**Progress: 59.9% in 2014** | One of the objectives of the Spanish Strategy for Employment Activation has to do with the modernisation of public employment services at the various Autonomous Communities. Among its implementing regulations, a set of rules has been approved in order to define those services that should be provided in common and on a permanent basis throughout the whole of the national territory, in order to provide guidance and ensure professional insertion by means of an individual diagnosis and plan for each user.<br><br>The public tender called in order to select 80 private agencies with whom labour intermediation services contracts may be signed pursuant to the common rules set out in the Common Framework approved in 2013 has now closed. The public services of Regional Governments are now in a position to sign the contracts with the agencies selected. At state level, a tender is currently open for a contract between the State Public Employment Service and private agencies in order to promote the professional insertion of those benefiting from the PREPARA programme (long-term unemployed people). The activities to ensure employability of unemployed people within the Prepara programme will begin as soon as the contracts are finally awarded and signed. | This standard-setting instrument governs the telematic registry and Website for the Youth Guarantee, enabling young people aged between 16 and 25 to benefit from certain measures intended to foster employment and vocational training. On 30 July 2015, the extension of the maximum age limit to access the Spanish National Youth Guarantee from 25 to 29 years old came into force, on an exceptional basis and until the unemployment rate for these age ranges falls under 20%. Among these measures, new Social Security subsidies have been approved in order to promote open-ended contracts, apprenticeship contracts, contracts for training and learning, as well as part-time contracts complemented with training activities. |
| **R&D**<br>**Investment of 2% of the GDP**<br>**Progress: 1.24% of the GDP in 2014** | 2013-2020 Spanish Strategy for Science, Technology and Innovation,<br>2013-2016 Government Plan for Scientific, Technical and Innovative Research | Increase involvement of the private sector in R&D&I investment: the Action Plan for Growth, Competitiveness and Efficiency includes special financing instruments; likewise, is worth outlining the tax incentives intended to foster employment of research staff. |
| | | Guarantee maximum efficiency and effectiveness of public resources allocated to R&D&I, with the setting up of the State Agency for Research and the new map of infrastructures. |
| | | Increase participation and collaboration with European partners, through joint programming of actions. |
| | | Support excellence in human resources. The research sector is regarded as a priority sector in public employment and therefore, its replacement rate equals 100%. |
| **Reduction in emissions**<br>**-10% compared to 2005**<br>**Progress: -13.5% in 2013** | Road Map for Horizon 2020 | 43 actions aimed at reducing emissions at six key points: residential areas, transport, agriculture and livestock, waste, fluorinated gases and industrial facilities not subject to the emissions trading system. |
| | National Registry of Carbon Footprint | It helps companies to calculate and reduce their carbon footprint by promoting national carbon sinks. |
| | Climate Projects Programme | Emissions reduction in diffuse sectors. Fostering the development of clean technologies. |
| | Environmental Promotion Plans | Emissions reduction in diffuse sectors. Encouraging investments in energy efficiency within the hotel industry. |
| | Incentive Programme for Efficient Vehicles | Emissions reduction in diffuse sectors. Improved air quality. |
| | MOVELE programme | |
| | Third phase of the emissions trading scheme | In accordance with the common rules applicable to all Member States, over 50% of the emission allowances are auctioned off and the rest of them are allocated free of charge. |
| | National Plan on Climate Change Adaptation | Actions for 2015 will focus on the protection of the coastline, the hydraulic public property and Natural Parks. Likewise, environmental taxation has been strengthened with the creation of a national tax on fluorinated gases and the turnabout in regional fiscal policy, now imposing further taxes on those activities considered detrimental to the environment. |

| National objectives | List of measures | Link description |
|---|---|---|
| **Renewables**<br>**20% of total energy consumption comes from renewables**<br>**Progress: 17.1% in 2014** | 2015-2020 Indicative Planning | Reduction of energy dependency. Moderation in anticipated costs for compliance with the renewables objective throughout 2014-2020. Moderation in anticipated costs for compliance with the renewables objective by 2020. |
| | The reform of the Spanish electricity sector undertaken by the Government keeps on supporting renewables. | A new payment scheme has been established, which is based on the electricity market participation of these installations, supplemented with a specific consideration that ensures competition with the rest of technologies on a level playing field. This reform promotes a diversified and balanced mix that takes into account the learning curve of these technologies. |
| **Energy efficiency reduction in primary energy consumption (European objective of saving 20% compared to 2005)**<br>**Progress: 113.6 Mtep in 2013** | 2014-2020 National Action Plan for Energy Efficiency | Definition of a long-term strategy laying down the priorities and actions required to ensure Spanish compliance with the savings targets. |
| | 2013-2016 State Housing Plan | Support to the construction of nearly zero-energy buildings. |
| | PAREER (Aid Programme for Energy Refurbishment of Existing Buildings) | Improved total energy rating of the buildings. |
| | JESSICA fund also known as the Energy Diversification and Savings Investment Fund (FIDAE) | Improved energy intensity. |
| **Early school-leaving**<br>**Early school-leaving rate below 15%**<br>**Progress: 21.9% in 2014** | Implementation of the reform to improve the quality of education in primary school levels | Actions for early diagnosis of learning problems, minimisation of early school-leaving risks and enhanced learning of key competences for academic development. |
| | Early school-leaving reduction plan | Defining the strategic lines to be developed by the specific plans devised by Regional Governments, along with an assessment system to evaluate progress in this field. |
| | New stage of education: Basic Vocational Training | At this stage, educational content is expanded, as compared to previous vocational training programmes, so as to focus on employability. Students may access this stage without having completed compulsory secondary education in order to guarantee a professional degree and give access to higher levels of education to those having left compulsory education. |
| **Tertiary education**<br>**Third-stage studies for 44% of persons aged 30 to 34**<br>**Progress: 42.3% in 2014** | Speeding-up of the update procedure for the National Catalogue of Professional Qualifications | This will make it easier to adapt Certificates of Professional Standards and Vocational Training Diplomas to the needs of the market and productive sectors. In this way, it will be easier to implement the educational reform in terms of vocational training and to spread dual vocational training programmes. |
| | New incentives for employers hiring young people under training | Education and research policies are complemented with Social Security subsidies for those employers offering internship opportunities or hiring young people, enabling them to enhance their educational background with paid professional experience. |
| **Poverty**<br>**Reduce the number of persons living in poverty or experiencing social exclusion by 1,400,000 (compared to 2009)**<br>**Progress: 29% in 2014** | Increasing effectiveness of active employment policies and accomplish modernisation of public employment services | Specific actions addressed to young people and long-term unemployed people with limited resources. |
| | Implementation of the reform to improve education quality and additional actions through educational and employment policies | The objective is to reduce early school-leaving and to provide access to a vocational training that is more focused on employability for the youth and the unemployed. |
| | National Action Plan for Social Inclusion | Coordination of actions intended to guarantee active inclusion and special attention for the most vulnerable. |
| | 2020 Youth Strategy and its 2014-2016 Action Plan | Actions to foster employment and entrepreneurship among the youth. |
| | 2012-2020 Spanish Strategic Action Plan on Disability | Actions to facilitate access to the labour market, higher education, goods and services for the disabled people. |
| | 2014-2016 Operational Plan of the 2012-2020 National Strategy for Social Inclusion of the Roma Population in Spain | This action aims at strengthening social inclusion of the Roma population. |
| | Comprehensive Plan on Family Support and II National Strategic Plan on Childhood and Adolescence 2013-2016 | For the promotion of effective services to support children and families. It is worth outlining the continuity of measures |
| | 2013-2016 Action Plan on Drugs | Easing reintegration into society through comprehensive training programmes and job placement/education schemes. |

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

The forecasts on the evolution of the different macroeconomic variables in the presented scenario were made based on two types of models. On the one hand, real-time models based on composite indicators or factorial structures for the very short term, usually for the current quarter or, at most, the next. Models of this kind include composite indicators of activity, supply and demand produced by the Ministry of Economy 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 already commented, 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 each quarter according to the national accounts data and the data from the auxiliary variables.

In order to estimate the effects of the different measures affecting public expenditure and revenue and structural reforms, the main tool used was the REMS model[4]. The REMS model is a general equilibrium model for the Spanish economy, with a system of equations based on microeconomics, which includes various 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, firms, 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.

[4] 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", Boscá, J.E., Doménech, R., Ferri y Varela, J. (Eds.) *The Spanish Economy: a General Equilibrium Perspective*, Palgrave Macmillan.

## 12.Quarterly budgetary execution of the General Government and its sub-sectors

| Quarterly budgetary execution on cash basis for the General Government and its subsectors | | | | |
|---|---|---|---|---|
| ***million € (accumulated)*** ***Not consolidated data*** | **2015** | | | |
| | **Q1** | **May** | **Q3** | **Q4** |
| **Overall balance by subsector (6-7)** | | | | |
| **1. General Government** | **18,310** | **ND** | **0** | **0** |
| **2. Central Administration** | 11,039 | 696 | 0 | 0 |
| **3. Autonomous Communities** | -1,081 | 5,943 | 0 | 0 |
| **4. Local Entities** | 4,364 | ND | 0 | 0 |
| **5. Social Security Funds** | 3,988 | 5,059 | 0 | 0 |
| **General Government** | | | | |
| **6. Total revenues** | 213,937 | nd | 0 | 0 |
| **7. Total expenditure** | 195,627 | nd | 0 | 0 |

| Quarterly budgetary execution on cash basis | | | | |
|---|---|---|---|---|
| ***million € (accumulated)*** ***Not consolidated data*** | **2015** | | | |
| | **Q1** | **May** | **Q3** | **Q4** |
| **Overall balance by subsector (6-7)** | | | | |
| **1. General Government** | | | | |
| **2. Central Administration** | 11,039 | 696 | 0 | 0 |
| **3. Autonomous Communities** | | | | |
| **4. Local Entities** | | | | |
| **5. Social Security Funds** | | | | |
| **Central Administration S.1311** | | | | |
| **6. Total revenues** | 98,576 | 145,317 | 0 | 0 |
| **7. Total expenditure** | 87,537 | 144,621 | 0 | 0 |

| Quarterly budgetary execution on cash basis | | | | |
|---|---|---|---|---|
| *million € (accumulated)* *Not consolidated data* | 2015 | | | |
| | Q1 | May | Q3 | Q4 |
| Overall balance by subsector (6-7) | | | | |
| 1. General Government | | | | |
| 2. Central Administration | | | | |
| 3. Autonomous Communities | -1,081 | 5,943 | 0 | 0 |
| 4. Local Entities | | | | |
| 5. Social Security Funds | | | | |
| Autonomous Communities S.1312 | | | | |
| 6. Total revenues | 57,365 | 109,005 | 0 | 0 |
| 7. Total expenditure | 58,446 | 103,062 | 0 | 0 |

| Quarterly budgetary execution on cash basis | | | | |
|---|---|---|---|---|
| *million € (accumulated)* *Not consolidated data* | 2015 | | | |
| | Q1 | May | Q3 | Q4 |
| Overall balance by subsector (6-7) | | | | |
| 1. General Government | | | | |
| 2. Central Administration | | | | |
| 3. Autonomous Communities | | | | |
| 4. Local Entities | 4,364 | ND | 0 | 0 |
| 5. Social Security Funds | | | | |
| Local Entities S.1313 | | | | |
| 6. Total revenues | 18,969 | 0 | 0 | 0 |
| 7. Total expenditure | 14,605 | 0 | 0 | 0 |

| Quarterly budgetary execution on cash basis | | | | |
|---|---|---|---|---|
| *million € (accumulated)* *Not consolidated data* | 2015 | | | |
| | Q1 | May | Q3 | Q4 |
| Overall balance by subsector (6-7) | | | | |
| 1. General Government | | | | |
| 2. Central Administration | | | | |
| 3. Autonomous Communities | | | | |
| 4. Local Entities | | | | |
| 5. Social Security Funds | 3,988 | 5,059 | 0 | 0 |
| Social Security Funds S.1314 | | | | |
| 6. Total revenues | 39,027 | 63,975 | 0 | 0 |
| 7. Total expenditure | 35,039 | 58,916 | 0 | 0 |

## 13. Quarterly execution in national accounts basis of the General Government and its sub-sectors

| Quarterly budgetary execution in ESA basis for the General Government and its subsectors | | | | | |
|---|---|---|---|---|---|
| ***million € (accumulated)*** | ESA Code | **2015** | | | |
| | | **Q1** | **May** | **Q3** | **Q4** |
| **Net lending (+) / Net borrowing (-)** | | | | | |
| **1. General Government** | S.13 | -7,131 | ND | 0 | 0 |
| **2. Central Administration** | S.1311 | -9,131 | -22,219 | 0 | 0 |
| **3. Autonomous Communities** | S.1312 | -2,072 | -5,309 | 0 | 0 |
| **4. Local Entities** | S.1313 | 1,353 | ND | 0 | 0 |
| **5. Social Security Funds** | S.1314 | 2,719 | 3,517 | 0 | 0 |
| **General Government** | | | | | |
| **6. Total revenue** | | **99,592** | **ND** | **0** | **0** |
| Of which | | | | | |
| *Taxes on production and imports* | D.2 | *35,045* | *ND* | *0* | *0* |
| *Current taxes on income, wealth, etc.* | D.5 | *23,810* | *ND* | *0* | *0* |
| *Capital taxes* | D.91 | *1,365* | *ND* | *0* | *0* |
| *Social contributions* | D.61 | *32,695* | *ND* | *0* | *0* |
| *Property income* | D.4 | *2,088* | *ND* | *0* | *0* |
| *Other* | | *4,589* | *ND* | *0* | *0* |
| **7. Total expenditure** | | **106,723** | **ND** | **0** | **0** |
| Of which | | | | | |
| *Compensation of employees* | D.1 | *26,744* | *ND* | *0* | *0* |
| *Intermediate consumption* | P.2 | *13,721* | *ND* | *0* | *0* |
| *Social apyments* | D.62, D.632 | *43,971* | *ND* | *0* | *0* |
| *Interest expenditure* | D.41 | *8,502* | *ND* | *0* | *0* |
| *Subsidies* | D.3 | *2,206* | *ND* | *0* | *0* |
| *Gross fixed capital fomration* | D.51 | *5,049* | *ND* | *0* | *0* |
| *Capital trasnfers* | D.9 | *633* | *ND* | *0* | *0* |
| *Other* | | *5,897* | *ND* | *0* | *0* |
| **8. Gross debt** | | **1,046,424** | **ND** | | |

| Quarterly budgetary execution in ESA basis | | | | | |
|---|---|---|---|---|---|
| ***million € (accumulated)*** | ESA Code | **2015** | | | |
| | | **Q1** | **May** | **Q3** | **Q4** |
| **Net lending (+) / Net borrowing (-)** | | | | | |
| **1. General Government** | S.13 | | | | |
| **2. Central Administration** | S.1311 | -9,131 | -22,219 | 0 | 0 |
| **3. Autonomous Communities** | S.1312 | | | | |
| **4. Local Entities** | S.1313 | | | | |
| **5. Social Security Funds** | S.1314 | | | | |
| **Central Administration S.1311** | | | | | |
| **6. Total revenue** | | **46,528** | **68,105** | **0** | **0** |
| Of which | | | | | |
| *Taxes on production and imports* | D.2 | *26,545* | *38,072* | *0* | *0* |
| *Current taxes on income, wealth, etc.* | D.5 | *13,353* | *19,736* | *0* | *0* |
| *Capital taxes* | D.91 | *264* | *282* | *0* | *0* |
| *Social contributions* | D.61 | *2,267* | *3,779* | *0* | *0* |
| *Property income* | D.4 | *1,795* | *2,661* | *0* | *0* |
| *Other* | | *2,304* | *3,575* | *0* | *0* |
| **7. Total expenditure** | | **55,659** | **90,324** | **0** | **0** |
| Of which | | | | | |
| *Compensation of employees* | D.1 | *5,308* | *8,839* | *0* | *0* |
| *Intermediate consumption* | P.2 | *2,038* | *3,500* | *0* | *0* |
| *Social apyments* | D.62, D.632 | *3,555* | *6,003* | *0* | *0* |
| *Interest expenditure* | D.41 | *7,732* | *12,912* | *0* | *0* |
| *Subsidies* | D.3 | *1,022* | *1,471* | *0* | *0* |
| *Gross fixed capital fomration* | D.51 | *1,628* | *2,899* | *0* | *0* |
| *Capital trasnfers* | D.9 | *302* | *998* | *0* | *0* |
| *Other* | | *34,074* | *53,702* | *0* | *0* |
| **8. Gross debt** | | **907,218** | **ND** | | |

| Quarterly budgetary execution in ESA basis | | | | | |
|---|---|---|---|---|---|
| ***million € (accumulated)*** | ESA Code | **2015** | | | |
| | | **Q1** | **May** | **Q3** | **Q4** |
| **Net lending (+) / Net borrowing (-)** | | | | | |
| **1. General Government** | S.13 | | | | |
| **2. Central Administration** | S.1311 | | | | |
| **3. Autonomous Communities** | S.1312 | -2,072 | -5,309 | 0 | 0 |
| **4. Local Entities** | S.1313 | | | | |
| **5. Social Security Funds** | S.1314 | | | | |
| **Autonomous Communities S.1312** | | | | | |
| **6. Total revenue** | | **34,808** | **57,102** | **0** | **0** |
| Of which | | | | | |
| *Taxes on production and imports* | D.2 | *2,846* | *4,661* | *0* | *0* |
| *Current taxes on income, wealth, etc.* | D.5 | *8,685* | *14,358* | *0* | *0* |
| *Capital taxes* | D.91 | *506* | *868* | *0* | *0* |
| *Social contributions* | D.61 | *112* | *162* | *0* | *0* |
| *Property income* | D.4 | *103* | *195* | *0* | *0* |
| *Other* | | *22,556* | *36,858* | *0* | *0* |
| **7. Total expenditure** | | **36,880** | **62,411** | **0** | **0** |
| Of which | | | | | |
| *Compensation of employees* | D.1 | *16,139* | *26,866* | *0* | *0* |
| *Intermediate consumption* | P.2 | *6,801* | *11,296* | *0* | *0* |
| *Social apyments* | D.62, D.632 | *6,564* | *11,505* | *0* | *0* |
| *Interest expenditure* | D.41 | *1,068* | *1,571* | *0* | *0* |
| *Subsidies* | D.3 | *435* | *898* | *0* | *0* |
| *Gross fixed capital fomration* | D.51 | *2,207* | *3,832* | *0* | *0* |
| *Capital trasnfers* | D.9 | *507* | *1,059* | *0* | *0* |
| *Other* | | *3,159* | *5,384* | *0* | *0* |
| **8. Gross debt** | | **240,483** | **ND** | | |

| Quarterly budgetary execution in ESA basis | | | | | |
|---|---|---|---|---|---|
| *million € (accumulated)* | ESA Code | 2015 | | | |
| | | Q1 | May | Q3 | Q4 |
| **Net lending (+) / Net borrowing (-)** | | | | | |
| **1. General Government** | S.13 | | | | |
| **2. Central Administration** | S.1311 | | | | |
| **3. Autonomous Communities** | S.1312 | | | | |
| **4. Local Entities** | S.1313 | 1,353 | 0 | 0 | 0 |
| **5. Social Security Funds** | S.1314 | | | | |
| **Local entities S.1313** | | | | | |
| **6. Total revenue** | | **15,461** | **0** | **0** | **0** |
| Of which | | | | | |
| *Taxes on production and imports* | D.2 | *5,654* | *0* | *0* | *0* |
| *Current taxes on income, wealth, etc.* | D.5 | *1,772* | *0* | *0* | *0* |
| *Capital taxes* | D.91 | *595* | *0* | *0* | *0* |
| *Social contributions* | D.61 | *43* | *0* | *0* | *0* |
| *Property income* | D.4 | *116* | *0* | *0* | *0* |
| *Other* | | *7,281* | *0* | *0* | *0* |
| **7. Total expenditure** | | **14,108** | **0** | **0** | **0** |
| Of which | | | | | |
| *Compensation of employees* | D.1 | *4,722* | *0* | *0* | *0* |
| *Intermediate consumption* | P.2 | *4,593* | *0* | *0* | *0* |
| *Social apyments* | D.62, D.632 | *264* | *0* | *0* | *0* |
| *Interest expenditure* | D.41 | *161* | *0* | *0* | *0* |
| *Subsidies* | D.3 | *362* | *0* | *0* | *0* |
| *Gross fixed capital fomration* | D.51 | *1,155* | *0* | *0* | *0* |
| *Capital trasnfers* | D.9 | *111* | *0* | *0* | *0* |
| *Other* | | *2,740* | *0* | *0* | *0* |
| **8. Gross debt** | | **38,462** | **ND** | | |

| Quarterly budgetary execution in ESA basis | | | | | |
|---|---|---|---|---|---|
| *million € (accumulated)* | ESA Code | 2015 | | | |
| | | Q1 | May | Q3 | Q4 |
| **Net lending (+) / Net borrowing (-)** | | | | | |
| **1. General Government** | S.13 | | | | |
| **2. Central Administration** | S.1311 | | | | |
| **3. Autonomous Communities** | S.1312 | | | | |
| **4. Local Entities** | S.1313 | | | | |
| **5. Social Security Funds** | S.1314 | 2,719 | 3,517 | 0 | 0 |
| **Social Security Funds S.1314** | | | | | |
| **6. Total revenue** | | **37,838** | **61,988** | **0** | **0** |
| Of which | | | | | |
| *Taxes on production and imports* | D.2 | *0* | *0* | *0* | *0* |
| *Current taxes on income, wealth, etc.* | D.5 | *0* | *0* | *0* | *0* |
| *Capital taxes* | D.91 | *0* | *0* | *0* | *0* |
| *Social contributions* | D.61 | *30,273* | *49,968* | *0* | *0* |
| *Property income* | D.4 | *533* | *848* | *0* | *0* |
| *Other* | | *7,032* | *11,172* | *0* | *0* |
| **7. Total expenditure** | | **35,119** | **58,471** | **0** | **0** |
| Of which | | | | | |
| *Compensation of employees* | D.1 | *575* | *973* | *0* | *0* |
| *Intermediate consumption* | P.2 | *289* | *474* | *0* | *0* |
| *Social apyments* | D.62, D.632 | *33,588* | *55,754* | *0* | *0* |
| *Interest expenditure* | D.41 | *0* | *0* | *0* | *0* |
| *Subsidies* | D.3 | *387* | *683* | *0* | *0* |
| *Gross fixed capital fomration* | D.51 | *59* | *90* | *0* | *0* |
| *Capital trasnfers* | D.9 | *0* | *0* | *0* | *0* |
| *Other* | | *221* | *497* | *0* | *0* |
| **8. Gross debt** | | **17,190** | **ND** | | |