Press release

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The Government approves the budget plan for 2013 and 2014

- It includes a joint adjustment between increased revenues and spending cuts of 39,000 million in 2013 and 50,100 million in 2014
- All the public administrations will contribute to achieving the budgetary stability goals
- It guarantees compliance with the path of fiscal consolidation in order to reduce the deficit of the general government to 4.5% of GDP next year, and to 2.8% in 2014
- The economy will grow again at a rate of 1.2% with job creation in 2014, thanks to the correction of imbalances and the efforts of all

3 August 2012.- The Council of Ministers today approved the bringing before the European Commission of the biennial budget plan for 2013 and 2014. This plan, prepared by the Ministry of Finance and Public Administrations, entails compliance with the commitment made to the European Union. The main objective is to announce the measures that will enable compliance with the path of fiscal consolidation through the correction of the imbalances accumulated in recent years, particularly in public debt and deficits.

Facing a clearly adverse macroeconomic environment during this year, the plan reflects a slight decline in GDP of 0.5% in 2013, to be turned into economic growth of around 1.2% in 2014, thanks to the gradual recovery in private consumption and investment and the structural reforms undertaken. Deficit reduction is guaranteed with the fiscal adjustment measures, on both the expenditure and revenue sides. This will reduce the fiscal deficit to 4.5% of GDP in 2013 and to 2.8% in 2014. All public administrations will contribute, both the central government and Social Security and the Autonomous Regions and municipalities.

The fiscal adjustment initiated in the decree of 30 December, which was maintained in the General State Budget of 2012, in the decree of 13 July and in the rebalancing plans of the autonomous regions and local authorities, is extended over the next two years.

On a cumulative basis, the adjustment measures amount to €102,149 million between 2012 and 2014 (see attached table) of which 39,000 million correspond to 2013, and 50,100 million to 2014. The total also takes into account the measures included and announced in the decree approved 13 July with an impact equivalent to € 65,000 million. The plan now being presented includes tax and employment measures, reorganization and streamlining of public administrations, measures related to Social Security and reducing expenditures in the ministries.

	2012	2013	2014
Tax Measures	4,975	15,069	15,425
Public Sector	5,425	3,723	5,372
Employment	1,888	5,746	5,989
Social Security	70	-1,040	-2,551
Dependency	160	1,391	1,473
Specific State measures	600	3,700	6,000
Specific Autonomous Region adjustment measures		6,867	12,867
Local Administration reform and adjustment plans		3,500	5,500
TOTAL	**13,118**	**38,956**	**50,075**

**Includes activities in infrastructure and housing*

With regard to tax measures, the main innovation is the previously announced increase in VAT as of 1 September 2012. The small general rate increase of this tax will provide extra income of 2,300 million this year, 10.134 million in 2013 and 9,670 million in 2014. It also includes regulatory changes to the corporation tax to stabilize its collection, and in excise duties.

The streamlining measures for public administrations will allow extra income of 3,723 million in 2013 and 5,300 million in 2014, adding to the 5,200 million from the elimination of the extra Christmas pay for this year. Included among the measures to be applied in the coming years are the removal of 3 freely available days for public employees, the reduction of credits and union permits, changes to the compensation system for government workers during temporary disability and a freeze on public employment offerings.

The expenditure cuts in ministries (4,300 million euros in 2013) are based on fewer transfers as well as a 600 million reduction in staff costs. The review of all current and capital transfers managed by the ministries will be comprehensive, allowing savings in these spending categories of around 25%.

LOWER SOCIAL SECURITY CONTRIBUTIONS

Noteworthy among the employment measures are the deletion of recruitment bonuses and the adjustment in unemployment benefits, already announced, along with other measures to combat labour fraud. The Social Security measures include, among others, increasing the maximum contribution bases and modifications to the conditions for partial retirement and early retirement. The plan also includes a one-point reduction in contributions to the general Social Security system in 2013 and an additional one point in 2014, following the recommendations of the European Commission. This will help generate employment and a return to economic growth.

Also in 2013, the State will complete the funding of the minimum complements to pensions, thus advancing one year in the process of separating the sources referred to in the Pact of Toledo.

REGIONS AND LOCAL AUTHORITIES

The budding reform of local government, which includes the definition of powers and the elimination of duplication, will allow savings of 3,500 million in 2013 and 5,500 million the following year. Local authorities have pledged to pass tax increases, eliminate exemptions and strengthen tax inspection in conjunction with proper funding of local public services. Treasury recalls that the local authorities which have not submitted adjustment plans or which have not been approved are subject to a withholding tax on funds to be received for participation in State taxes.

Concerning the autonomous regions, the agreed-upon measures in health and education between the Central government and Regional executives should be considered, which have a combined effect of 15,000 million over the two fiscal years. These include the reduction of the pharmaceutical expenditure, the adjustment of student ratios and the increase in the school day. The complete restructuring of the regional public sector is also still pending, which will be felt with greater intensity in 2013 and 2014. In total, the specific adjustment measures of the autonomous regions will reach 19,000 million by 2014.