STABILITY PROGRAMME UPDATE

KINGDOM OF SPAIN

2015 - 2018

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1. EXECUTIVE SUMMARY

The 2015-2018 Stability Programme Update presents a prudent and realistic macroeconomic framework based on conservative assumptions. The Independent Authority for Fiscal Responsibility (AIReF, for its Spanish initials) supports macroeconomic projections in this Stability Programme, based on its exogenous assumptions and policies defined. The Government acknowledges the recommendations received in relation to the purpose of the report, explaining them in case of not complying.

In line with the forecasts of the main national and international organizations, a significant growth acceleration is forecasted for 2015, almost doubling that of the Eurozone. This differential growth will continue in the following years and it will be accompanied by strong job creation. In addition, over the coming years, there will be a sustained progress in the correction of most important macroeconomic imbalances cumulated in the past.

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

Growth sustainability is based on a strong domestic demand, with all its components in positive rates, including investment in construction, which will begin to recover after the deep adjustment suffered in recent years. On the other hand, the external sector will remain dynamic, helped by increasing competitiveness gains and better growth prospects of our major trading partners. Thus, positive current account balances and net lending to the rest of the world are expected and they will contribute to improve the international investment net position and the net external debt reduction initiated in 2014.

The most relevant aspect of growth, as it became apparent in 2014, is that it is job creation-intensive. Structural improvements achieved with the 2012 labour market reform and the active employment policies implemented have been key to reduce the growth threshold needed to create jobs, bringing it below 1% of GDP. The Spanish economy will create more than a million jobs between late 2013 and late 2015 and the number of unemployed will fall by a similar amount. During the forecast horizon, more than half a million jobs will be created on annual average and the unemployment rate will fall by almost nine percentage points, reaching 15.6% of the labour force by 2018.

As regards the current year and the coming ones, the commitment with fiscal consolidation is maintained, complying with the Recommendations to close the excessive deficit procedure opened to Spain in 2009. A budget deficit reduction is envisaged and this will allow to record a primary surplus as of 2016 and to reach a structural balance at the end of the forecast period. The public debt/GDP ratio will begin a downward path as of next year, standing at 93.2% of GDP in 2018.

In short, a prudent macroeconomic scenario is presented, confirming the acceleration of the economic recovery in the context of an economic policy based on fiscal consolidation and structural reforms. This policy will foster growth and job creation capacity. Control of public accounts has given credibility to the Spanish economy and it will now allow the economic recovery to take place in a context of structural fiscal balance in the mid-term. This will result in strengthening of the institutional framework set forth in the Spanish Constitution, which is crucial to consolidate this context of stability and growth.

2. INTRODUCTION

The macroeconomic scenario in this Stability Programme Update envisages a substantial upward revision of the forecasts included in the previous Stability Programme and those in the Budgetary Plan for 2015.

2014 saw the consolidation of the Spanish economy recovery process started in mid-2013. The important structural reforms carried out in recent years, as well as those being currently implemented, are being key to achieve a sustainable and balanced economic growth. In this regard, reforms such as the one in the labour market, the restructuring of the financial sector and the Law on Market Unity, provide the Spanish economy with a greater growth capacity. These reforms facilitate leveraging the drive derived from oil price reduction, improved financial conditions, euro depreciation and greater growth prospects of our major trading partners compared to last autumn forecasts.

The correction of the most important macroeconomic imbalances has significantly progressed. On the one hand, the external imbalance has been redressed, the current account balance registering a surplus since 2013. This improvement in the current balance, boosted by gains in competitiveness and increasing internationalization of our companies, is allowing our economy to register a net lending position.

On the other hand, the necessary reduction of private debt continues, and it has fallen by more than 36 GDP percentage points. This deleveraging process is being supported by the recovery of financing to businesses and households, in a context of low interest rates and a solvent banking sector, which is ready to finance the real sector activity.

Envisaged evolution of the labour market deserves a special mention. Structural reforms carried out have facilitated job creation from the initial stages of the recovery, and they have reduced the growth threshold needed to create jobs to less than 1% of GDP.

The macroeconomic scenario reflects the consolidation of the Spanish economy recovery, with real GDP growth standing at approximately 3% throughout the projection period. Domestic demand will keep dynamic, mainly driven by private consumption and productive investment. In this sense, households' consumption will experience a robust growth as a result of stronger job creation, low prices and interest rates and financial wealth increase.

On the other hand, investment will record a strong expansion profile driven by increasing demand, both domestic and external, as well as by favourable financial conditions and improved economic prospects. For the first time since the beginning of the crisis, investment in construction will register positive and sustained growth rates. In addition, as of 2016, the external sector will contribute positively to GDP growth.

In line with the forecast growth path, job creation will intensify, with annual rates of around 3% and the unemployment rate will fall, reaching 15.6% by 2018.

Regarding inflation and following the decline resulting from the fall in oil prices since mid-2014, prices are expected to register positive rates as of 2016, which will be slightly below 2% at the end of the forecast period.

As regards the public sector, the macroeconomic scenario envisages the continuation of the fiscal consolidation path started in 2012, fulfilling the 4.2% of GDP deficit commitments in 2015 and 2.8% in 2016 set out in the Council of the European Union Recommendation of 21st June 2013. To achieve so, the Government designed a multiannual strategy including several measures to be adopted and providing them with greater consistency. The primary target of the strategy is to increase efficiency in revenues and expenses of the Public Administrations, in order to turn the public budget into a tool for economic growth, generating more favourable conditions for the private sector and an increase in production and employment.

From the revenues point of view, 2015 is the first of the two years when the tax reform approved at the end of 2014 is applied. This reform is part of a rebalancing process of direct and indirect tax burdens which began in 2012. The rebalancing of tax burdens has also been extended to Social Security contributions, with a reduction approved in February 2014 for new permanent contracts (€ 100 flat fee), replaced by a reduction of € 500 of the contribution base also for new permanent contracts. Both measures represent significant savings for businesses and a stimulus to their demand for permanent employment. This change will encourage growth and will foster an increase in collection in the medium term, avoiding tax increases that limit economic growth and job creation.

From the expenditure point of view, a thorough reform of the Public Administrations affecting all levels and subsectors is being carried out. The reform, which began in 2012, has tackled structural aspects such as replacement or temporary disability, and it has expanded to include aspects of modernization of the Public Administrations. By the implementation of new technologies, administrative burdens are being reduced and duplicities are being eliminated. In addition, and based on the conclusions of the report from the Commission for the Reform of Public Administrations (known in Spanish as CORA), presented in 2013, the goal is to promote the rationalization of the Public Administrations structure, maintaining the flow of services and basic benefits to the private sector, but reducing unnecessary operating costs. This reform gradually extends to territorial administration. It is complemented by the Local Reform adopted in December 2013 and by the reforms carried out in the Regional Governments affecting expenditure on health, pharmacy, education, personnel and reorganization of public companies.

Likewise, the effort carried out in rationalization and increased efficiency in employment policies is also remarkable, while social benefit levels have been maintained. Moreover, the pension reform brings about the sustainability of the system in the long term and thus its viability.

This Stability Programme Update responds in content and form to the provisions of the Code of Conduct of the Stability and Growth Pact.

The Update is divided into nine sections. After the executive summary and this introductory section, the third section describes the recent evolution and the

2015-2018 macroeconomic scenario for the Spanish economy, on which the mid-term budgetary projections are based.

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

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

Sections six and seven respectively analyze long-term sustainability of public finances and their quality. Section eight analyses the plan to eradicate late payment of Public Administrations, a relevant aspect in the context of the Specific Recommendations for Spain. The Update ends with section nine, on the institutional framework of fiscal policy.

3. MACROECONOMIC PROSPECTS

3.1. Recent evolution of the Spanish economy

3.1.1. International environment

In the fourth quarter of 2014, the global activity continued immersed in a process of gradual expansion both in developed and emerging economies, with wide variations per country, in a context of raw material prices decline, geopolitical uncertainties and international sanctions against Russia.

In June 2014, the Brent oil price exceeded the average price of $110/barrel. Thereafter, it started a downward trend, which emphasized in late November when the Organization of the Petroleum Exporting Countries decided to cap its production quota at 30 million barrels/day, in a context of increased supply through new extraction technologies. In January 2015, the oil price stood at $47/barrel and then it rebounded in March, to $56/barrel.

In the United States, the GDP growth rate moderated in the last quarter of 2014, from 5% in the third quarter (annualized q-o-q) down to 2.2%. This slowdown is largely explained by a greater increase in imports versus exports, which might have been affected by the strength of the dollar. Regarding domestic demand, the increase in private consumption was offset by the decline in national defense spending and the slight rise in equipment investment.

The GDP accelerated in the Eurozone by one tenth, up to 0.3% q-o-q in the fourth quarter of 2014, mainly due to the recovery of investment on fixed capital, which rose by 0.4% after its standstill in the third quarter. On the other hand, foreign demand contributed two tenths to growth, since exports grew at a higher pace than imports. Hence, 2014 ended with a GDP growth in the Eurozone of 0.9%, after two years of declines.

Growth expectations in the medium term for the Eurozone show a recovery based on factors such as the decline in oil prices, the quantitative easing by the European Central Bank, the euro depreciation and the less restrictive financial conditions. The positive impact of the Investment Plan of the European Union must be added to these factors. Among the most recent forecasts for the Eurozone, the European Central Bank predicted a GDP growth of 1.5% in 2015 in its Monthly Bulletin for March, accelerating to 1.9% in 2016 and 2.1% in 2017. On the other hand, the International Monetary Fund, in its latest report on Global Economic Prospects, revised upwards the growth of the Eurozone in 2015 and 2016, three and two tenths respectively, up to 1.5% and 1.6%.

In Germany, the GDP accelerated in the fourth quarter of 2014, recording a q-o-q growth rate of 0.7% after the virtual standstill of the central quarters of the year. The recovery of the investment in machinery and equipment and in construction offset the lower contribution of the external demand. Regarding the prospects, the European Commission foresees a gradual strengthening of the economic growth based on domestic demand, helped by a strong labour market and better financial conditions. In its winter forecasts, the Commission revised upward the expected growth for the German GDP in 2015 and 2016, by four and two tenths respectively, up to 1.5% and 2%.

In France, the GDP grew by 0.1% q-o-q in the fourth quarter of the last year, two tenths less than in the previous quarter, due to the consumption moderation and the decline in fixed capital investment, partially offset by the improvement in the contribution of the external sector. In its latest forecasts, the European Commission expected a recovery of the French economy, largely driven by private consumption and by the strengthening of equipment investment. It foresees the GDP to grow by 1% in 2015 and 1.8% in 2016, figures that represent upward revisions of three tenths compared to last autumn's forecasts by the Commission.

In the fourth quarter of 2014, the Italian GDP stabilized, helped by the momentum of the external demand. Among the components of domestic demand, the increase of investment stands out, particularly in means of transport. At the same time, construction investment slowed its rate of decline. The European Commission expects the Italian economy to grow by 0.6% in 2015, following the 0.4% contraction registered last year, and by 1.3% in 2016.

Outside the Eurozone, the UK GDP grew by 0.6% q-o-q in the fourth quarter of 2014, the same as in the previous quarter. The slowdown in households' consumption and the investment reduction were offset by a positive contribution of external demand to GDP growth. The European Commission forecasts a UK GDP growth of 2.6% for 2015, as in 2014, and it anticipates a slight moderation of up to 2.4% for 2016.

With regards to emerging and developing economies, an uneven evolution was observed in the first months of 2015 which expected to continue throughout this and next years. The European Commission, in its winter forecasts, foresaw a gradual slowdown of the Chinese economy, down to 6.9% in 2016, a decline in the Russian GDP in 2015, down to 3.5% and a lower growth in Brazil's GDP this year, which would reach 0.7%. On the other hand, the Commission revised the growth slightly upwards for India, up to 7.1% in 2016.

3.1.2. The adjustment of macroeconomic imbalances in Spain in 2014

In 2014, the Spanish economy strengthened the recovery process initiated in the second half of 2013. Thus, the q-o-q GDP growth rates recorded in the last two quarters of 2013 (0.1% and 0.3%, respectively) not only remained stable, but continued an upward trend (0.3%, 0.5%, 0.5% and 0.7%), ending 2014 with an annual average GDP increase of 1.4%.

The main factor behind this expansionary trend is the domestic demand dynamism, which has positively contributed to q-o-q growth since the third quarter of 2013, leaving behind twelve consecutive quarters of drawdowns. Thus, in 2014 as a whole, the domestic demand contributed by 2.2 points to growth, compared to the negative contribution recorded in the past six years. By components, private consumption expenditure consolidated the recovery started in 2013, ending the year with an annual growth rate of 2.4%. This dynamism of household spending is based on the favourable evolution of employment and real disposable income, as well as on the increased households' financial wealth of, in a context of price moderation and low interest rates. In addition, the tax reform is contributing positively to the recovery of purchasing power and consumer confidence.

The nominal final consumption expenditure of the Public Administrations registered a contractionary profile in 2014, in line with the fiscal consolidation process experienced by the Spanish economy. The variation rate forecast for 2014 in the Stability Programme for 2014-2017 was -1% in nominal terms, being the fall eventually observed slightly lower, 0.7%, thus contributing to the achievement of the budgetary targets.

The favourable behavior of investment has also contributed to the recovery of the domestic demand. The gross fixed capital formation registered positive q-o-q growth rates since the second half of 2013 , ending 2014 with an annual growth rate of 3.4% and putting an end to six consecutive years of declines. This expansive behavior is explained by the better performance of all its components. On the one hand, investment in equipment goods links increases in eight consecutive quarters and ends 2014 with an annual increase of 12.2%, 6.6 points higher than that recorded in 2013. On the other hand, investment in construction has slowed its adjustment process, recording positive q-o-q variation rates since the second quarter of last year, with improvements in both the residential and non residential components.

Another significant feature of the Spanish economy in the last year is the continuity of the deleveraging process of private agents, which fell by 36 percentage points of GDP from its peak in 2010. The non-consolidated debt of the non-financial private sector stood at 182.4% of GDP in the fourth quarter of 2014, the same levels as in mid-2006 (162.7% of GDP on a consolidated basis). In 2014, the private sector debt has fallen by 10.3 percentage points of GDP, of which 6.4 points are related to non-financial corporations (111.1% of GDP) and 3.9 points to households (up to 71.3% of GDP). This deleveraging process has provided companies and households with more room for manoeuvring.

On the other hand, the external demand removed eight tenths to the GDP growth in 2014, a behavior that is mainly explained by the rise in imports, which experienced a y-o-y increase of 7.6% compared to the 0.5% decline of 2013, in line with the evolution of domestic demand. Conversely, real exports of goods and services grew by 4.2% in 2014, one tenth less than in the previous year, boosted by the gains in competitiveness. Thus, the real effective exchange rate against developed countries measured with manufacturing unit labour costs depreciated by 0.8% compared to the 1.6% of 2013, as a reflection of the wage moderation. Using the CPI, the competitiveness gain rose up to 0.9%, and taking prices in the industrialized countries as reference, the gain stands at 1%, driven by the price component.

Export markets grew by approximately 3% in 2014, one point more than in 2013. The contribution of exports to the rest of the world has continued to expand, highlighting the momentum of the countries in North America, Africa and the emerging Asian countries.

The economic recovery process keeps developing without generating external imbalances. Thus, in 2014 as a whole, the Spanish economy showed net lending to the rest of the world (1.2% of GDP) and a current account surplus (0.8% of GDP). The decrease of the current account surplus compared to 2013 (1.4% of GDP) is mainly explained by the carry-over effect of domestic demand on imports.

As a result of its net lending, the debit balance in net international investment position (NIIP) has started to decline after the peak registered in the second quarter of 2014. Thus, last year ended with a debit balance of 93.5% of GDP, compared to the 93.8% recorded at the end of 2013.

The Spanish economy started a job creation phase last year, after overcoming the strong destruction phase that began with the economic crisis. In 2014, the Labour Force Survey (LFS) employment increased by 1.2% y-o-y, with the creation of 433,900 jobs during the year. This represents a substantial improvement compared with the forecasts considered in the previous Stability Programme Update 2014-2017. The favourable trend of the employment has been accompanied by a reduction of the unemployment rate, which stood at 24.4% in 2014.

The higher dynamism and the recovery of productive activity, the wage moderation and the favourable effects stemming from the progressive introduction of the labour reform that took effect in late February 2012 by RDL 3/2012, are behind this positive evolution of the Spanish labour market. In this regard, it should be noted that these reforms and the context of price stability allowed having simultaneously a moderate growth in nominal wages and gains in competitiveness and employment. All these changes resulted in a reduction of the threshold of job creation, which currently stands slightly below 1% of GDP growth.

Employment growth in 2014 as a whole was less intense than the GDP growth (1.4%), allowing the apparent labour productivity to continue its increasing trend , albeit at a lower rate than in previous years. This productivity performance allowed the unit labour cost (ULC) to continue falling. In the last quarters of 2014 and at the beginning of 2015, this situation was reversed, and the gains in employment were even higher than those of GDP, confirming the ability of the Spanish economy to experience a recovery particularly intensive in the use of labour factor.

The increase in salaried employment throughout the last year was focused on permanent contracts, which increased by over 212,000 while temporary workers grew by more than 176,000, standing the temporary rate at 24%. As for working hours, employment growth occurred both for full-time workers and for part-time employees. The former group rose by 1.1% and the latter by 1.9%. It should also be noted that the generated employment was focused exclusively on the private sector, recording an annual increase of 1.5%, while public employment continued to decline (-0.4%).

Labour force continued the downward trend that began more than two years ago, falling 1% in 2014 as a whole, in line with the evolution of the population of working age (over 16 years). Unemployment decreased with intensity, standing the unemployment rate at 23.7% in the fourth quarter.

The inflation evolution in 2014 was influenced, well into the summer, by certain temporary factors derived from some base effects associated with the food group, especially fresh food. However, from August until the end of the year, its main determining factor was the fall in energy products prices, a process which was intensified in the last months of the year. Thus, the Harmonized Index of

Consumer Prices (HICP) ended 2014 with an average annual rate of 0.2%, 1.7 percentage points lower than in 2013, and six tenths less than that of the Eurozone as a whole. In turn, core inflation stood at 0.1%, 1.6 points lower than in 2013 and one point lower than that of the Eurozone.

However, besides these temporary effects, other elements contributed to the fall in prices. Among them, the moderation in unit labour costs (ULC) should be noted, as a result of both the slowdown in labour costs and the increase in productivity.

3.2. Macroeconomic assumptions

Table 3.2.1. summarizes the main assumptions used for the macroeconomic scenario included in this Stability Programme Update. These have been developed using mainly the common assumptions considered by the European Commission (EC) in late March, available for 2015 and 2016, as well as the latest projections published by the European Central Bank (ECB) in March and own estimates by the Ministry of Economy and Competitiveness.

Table 3.2.1. Basic assumptions of the 2015-2018 macroeconomic prospects

	2014	2015 (F)	2016 (F)	2017 (F)	2018 (F)
Short-term interest rates (3-month Euribor)	0.2	0.0	0.0	0.1	0.2
Long-term interest rates (10-year debt, Spain)	2.7	1.3	1.4	1.1	1.1
Exchange rate (USD/euro)	1.3	1.1	1.1	1.1	1.1
Nominal effective exchange rate of the Eurozone (% change)	2.1	-6.2	-0.5	0.0	0.0
World GDP growth, excluding EU	3.7	4.0	4.4	4.5	4.6
Euro-zone GDP growth	0.9	1.5	1.9	2.1	2.2
World import volume, excluding EU	2.1	3.9	5.2	5.5	6.0
Spanish markets of export	2.4	3.8	4.9	5.2	5.4
Oil price (Brent, Dollars/barrels)	99.4	61.5	68.8	68.8	68.8

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

According to the European Commission, the global economy, excluding the EU, will recover progressively until reaching growth rates close to 4.5% at the end of the projection period. In this context, the Eurozone economy will consolidate the recovery that began in mid-2013, with growth rates standing at approximately 2% as of 2016.

Last March, the European Central Bank initiated an expanded programme of purchase of public and private debt, or Quantitative Easing (QE), which will be running until September 2016. This process has already been felt in the evolution of the exchange rate, which in April stood at approximately $1.07/euro. For the entire projection period, the exchange rate is expected to be maintained at $1.1/euro.

Regarding interest rates, the ECB's monetary policy will contribute to maintaining the public debt rates at reduced levels during the forecast horizon. Additionally, the Spanish risk premium has a further reduction margin in a scenario of sustained growth, imbalances correction and public deficit reduction. Therefore, the extension of the downward trend of the Spanish interest rates in the long term has been projected, reaching over 1%. Thus, a modest narrowing of the risk premium has been assumed against the ten-year German forward included in the external assumptions of the European Commission.

The global oil market is mired in a high level of uncertainty, characterized by an increase in the supply of oil in the United States and Canada, and the geopolitical conflicts affecting important oil-producing countries in the Middle East, North Africa and Russia. At the same time, there was a certain slowdown in the growth of the Chinese economy, the second largest consumer of fossil fuels after the United States. Based on this, an average level of $61.5/barrel is anticipated in 2015 from future Brent oil prices, starting a slight recovery from 2016 until reaching $68.8/barrel. This level will be maintained in the next two years.

Finally, the growth of Spanish export markets shows an upward trend, in line with that of the world trade. These own estimates rely on the IMF and the European Commission forecasts for the Spanish exports receiving countries.

3.3. 2015-2018 macroeconomic prospects

The macroeconomic forecasts of this Stability Programme have been endorsed by the Independent Authority for Fiscal Responsibility (AIReF) based on exogenous assumptions and the defined policies.

The macroeconomic scenario on which this Stability Programme Update is based reflects, in the medium term, the consolidation of the recovery of the Spanish economy. These projections are supported by the improvements in confidence and employment, enhanced access to credit, favoured by the completion of the financial restructuring process, as well as the interest rates and price moderation. This is a pattern of balanced growth, supported both on external and domestic demand.

The ongoing deleveraging process of households and businesses, together with a greater access to credit, implies a substantial improvement on the conditions in which the economic activity takes place compared to previous years. This change, coupled with the significant recovery in consumption in 2014, suggests that domestic demand will extend its dynamism in the considered time horizon, driven by the increase in disposable income due to the good performance of the labour market, the effect of the tax reform approved in 2014, and the confidence recovery.

Table 3.3.1. Macroeconomic prospects

Chain-linked volume indices
2010=100, except as indicated

	ESA Code	2014 (A)	2014 (A)	2015 (F)	2016 (F)	2017 (F)	2018(F)
		Level	year-on-year % change				
1. Real GDP	B1*g	97.4	1.4	2.9	2.9	3.0	3.0
2. Nominal GDP. Thousands of millions of Euros	B1*g	1058.5	0.9	3.6	3.8	4.2	4.6
Components of real GDP							
3. Private consumption expenditure (*)	P.3	95.2	2.4	3.3	2.9	2.7	2.500
4. Government consumption expenditure	P.3	93.4	0.1	0.1	0.1	1.0	1.5
5. Gross fixed capital formation	P.51	85.7	3.4	6.3	5.8	5.9	5.9
6. Change in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	100.6	0.2	0.0	0.0	0.0	0.0
7. Exports of goods and services	P.6	118.0	4.2	5.4	6.0	5.8	5.7
8. Imports of goods and Services	P.7	99.6	7.6	6.7	6.4	6.3	6.2
Contributions to real GDP growth							
9. Domestic final demand		-	2.1	3.2	2.9	3.0	2.9
10. Change in inventories and net acquisition of valuables	P.52 + P.53	-	0.2	0.0	0.0	0.0	0.0
11. External balance of goods and services	B.11	-	-0.8	-0.2	0.1	0.0	0.1

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

In this context, the increased flexibility brought by the 2012 labour reform has enabled the creation of employment with GDP growth rates considerably lower than those necessary before its entry into force. In fact, the reform has already begun to bear fruit, based on the employment evolution seen. According to LFS data, from the fourth quarter of 2013 to the fourth quarter of 2014, 433,900 jobs were created and the number of unemployed fell by 477,900 people.

As a result of the employment recovery, which will grow more strongly as of 2015, the unemployment rate will decline gradually, reaching 15.6% of the labour force in 2018.

The expected recovery rates for employment and GDP, slightly lower the apparent productivity per employee in 2015 (-0.1%) followed by a slight increase of 0.1% in the last two years. At the same time, unit labour costs will begin a moderately upward trend, growing from -0.4% in 2014 to 1.4% in 2018, due to the evolution of productivity and wages.

Table 3.3.2. Labour Market developments (*)

	ESA Code	2014 (A)	2014 (A)	2015 (F)	2016 (F)	2017 (F)	2018(F)
		Level	year-on-year % change				
1. Total employment (Thousands of persons)		18,175.7	1.3	3.1	3.0	2.9	2.9
2. Full-time equivalent employment (Thousands of persons)		16,540.0	1.2	3.0	3.0	2.9	2.9
3. Employed (Thousands of hours worked)		30,694.7	0.6	2.8	2.8	2.9	2.9
4. Labour productivity per employee (Thousands of		58.0	0.1	-0.2	-0.1	0.1	0.1
5. Labour productivity, full-time equivalent (Thousands of Euros)		63.7	0.2	-0.1	0.0	0.1	0.1
6. Productivity for hour worked (Euros)		34.3	0.7	0.1	0.1	0.1	0.1
7. Compensation per employee (**) (Thousands of	D.1	35.0	-0.2	0.2	1.0	1.3	1.6
8. Labor unitary cost		-	-0.4	0.3	1.1	1.3	1.4
9. Compensation of employee (Million Euros)		496,870.0	1.3	3.3	4.2	4.4	4.5
10. Unemployment rate (% of labour force)		-	24.4	22.1	19.8	17.7	15.6

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

In relation to the composition of GDP, an adjustment in the growth pattern in the period 2015-2018 is expected, with a more balanced contribution of domestic and external demand. In 2015, an improvement of six tenths is estimated in the external sector contribution compared to 2014. In the following years, the external sector contribution will go into positive, with a contribution of approximately 0.1 percentage point. This evolution is the result of the exports dynamism, driven by competitiveness gains and by the improvement in target markets and the depreciation of the euro, especially in the first two years. On the other hand, imports will continue to expand in line with the evolution of domestic demand, although they will moderate slightly at the end of the forecast period. In this scenario, the economy will show a sustained net lending capacity with the rest of the world, standing at 1.4% of GDP in 2018.

The positive contribution of domestic demand to GDP growth will be determined, on the one hand, by the good performance of private consumption, together with a slight contribution of public consumption, which is fully compatible with the end of the excessive deficit procedure; and on the other hand, by the strongly expansionary investment in capital. The private consumption evolution shows a strong performance in the first year of the forecast horizon (growth of 3.3% in 2015) and a slight moderation in the following years, reaching 2.5% in 2018. This is supported by the evolution of disposable income and the improved economic expectations, in a context of interest rates and price moderation.

On the other hand, the dynamism of equipment investment and other products stands out and will maintain its expansionary path driven, among other factors, by the expectations improvement, the exports evolution, the continuation of the deleveraging process undertaken by companies (eliminating financial pressures and freeing up resources for investment) and the lending activity recovery, mainly towards the productive sector. In addition, the investment evolution will benefit from the recovery in construction investment, especially from its residential component, which grows for the first time in 2015, returning to positive after seven consecutive years of decline.

Exports accelerate in the first two years of forecast, due to the moderation in costs, the growing demand for our export markets and the maintenance of the euro/dollar exchange rate. On the other hand, imports of goods and services will maintain their growth path, in line with the evolution of final demand, reaching growth rates above 6% in 2018, slightly higher than those of exports.

Table 3.3.3. Price developments

	ESA Code	2014 (A)	2014 (A)	2015 (F)	2016 (F)	2017 (F)	2018(F)
		Level	year-on-year % change				
1. GDP deflator		100.5	-0.5	0.6	0.9	1.2	1.6
2. Private consumption deflator (*)		106.0	-0.1	-0.4	0.9	1.1	1.4
3. Public consumption deflator		97.9	-0.9	0.0	0.1	0.7	0.7
4. Gross fixed capital formation deflator		93.6	-0.6	0.1	1.6	2.3	2.9
5. Exports price deflator (goods and services)		104.1	-1.7	-0.9	1.3	1.8	2.0
6. Imports price deflator (goods and services)		108.7	-1.3	-3.7	1.3	1.9	2.2

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

In the process of correcting the imbalances of the Spanish economy, price stability will continue to play an important role. Despite the momentum of domestic demand, the growth rate of private consumption deflator will be maintained below 2% during the period 2015-2018.

The absence of price pressures will continue being reflected in competitiveness gains, favouring exports performance and affecting positively both wage moderation and households' disposable income. The decline in oil prices will lead to a fall in the private consumption deflator in 2015, although its effect on the GDP deflator will be offset by the decline in the imports deflator.

Table 3.3.4. Sectorial balances

% of GDP	ESA Code	**2014 (A)**	**2015 (F)**	**2016 (F)**	**2017 (F)**	**2018(F)**
1. Net lending (+) / Net borrowing (-) vis-à-vis the rest of the world	B.9	1.0	1.7	1.8	1.6	1.4
- Balance on goods and services		2.4	2.9	2.9	2.8	2.7
- Balance of primary incomes and transfers		-1.8	-1.6	-1.6	-1.6	-1.7
- Capital account		0.4	0.4	0.4	0.4	0.4
2. Net lending (+) / Net borrowing (-) of the private sector	B.9	6.8	5.9	4.6	3.0	1.7
3. Net lending (+) / Net borrowing (-) of the General Government	EDP B.9	-5.8	-4.2	-2.8	-1.4	-0.3

(*) 2014 figure includes financial assistance.
(A) Advance; (F) Forecast.
Sources: National Institute of Statistics and Ministry of Economy and Competitiveness.

From a sectorial point of view, the evolution of the net lending of the Spanish economy is partly explained by the decreasing public deficit, which fell from 5.8% of GDP in 2014, including financial sector assistance, to 0.3% GDP in 2018. On the other hand, the private sector will moderate its net lending throughout the forecast period. In the case of households, the saving rate is expected to decrease slightly in the first two years and then rise gradually, until converging to pre-crisis levels.

4. PUBLIC DEFICIT AND PUBLIC DEBT

4.1. The Public Administrations in 2014

In 2014, the Public Administrations recorded a deficit of 5.68% of GDP in National Accounts, excluding the financial assistance for the recapitalization of the financial system, as well as the expenses of the earthquake in Lorca. These two items are not taken into account when considering the EDP target (they are considered one-off measures for headline compliance purposes). This deficit outturn was 0.12 percentage points lower than the Recommendation of the Council of the EU (5.8% of GDP) and 0.65 percentage points lower than the deficit recorded in 2013 (6.33% of GDP). Although the previous update of the Stability Programme anticipated a net borrowing of 5.5% of GDP in 2014, the final figure was 5.7%, as a result of the need to return revenues from the Tax on Retail Sales of Certain Hydrocarbon Products (IVMDH for the Spanish acronym), pursuant to the sentence of the European Court of Justice of 27th February 2014. This spending explains virtually all of the deviation.

The Central Government (whose deficit decreased by 0.72 percentage points) and, to a lesser extent, the Social Security Funds (whose deficit fell by 0.05 percentage points) and Local Corporations (whose surplus increased by 0.01 percentage points), contributed to the public deficit decrease of 0.65 percentage points in 2014, while the Regional Governments increased their deficit by 0.13 percentage points, excluding the extraordinary expense in Lorca (Table 4.1.1).

Table 4.1.1. Balance of the Public Administrations in 2014
(% of GDP)

	2013	2014	2014 Target
Central Government(1)	-4.22	-3.50	-3.5
Regional Governments	-1.52	-1.66	-1.0
Local Governments	0.52	0.53	0.0
Social Security	-1.11	-1.06	-1.0
Total General Government (1)	**-6.33**	**-5.69**	**-5.5**
Measures linked to the restructuring of the banking sector	*0.47*	*0.11*	
Total General Government	**-6.79**	**-5.80**	

(1) Does not include measures related to the restructuring of the banking sector.
Source: General State Comptroller (IGAE).

The headline fiscal adjustment in 2014 was 0.35 percentage points of GDP higher than in 2013 due to the improvement of the cyclical component, following the drop in the previous year. This happened in a context where the structural component continued to contribute reflecting a continuation of the fiscal consolidation efforts, although with less intensity than in previous years as public accounts stabilize. In particular, the primary structural surplus in 2014 stood at 2.4% of GDP, four tenths higher than the figure recorded the previous year.

If the financial assistance to financial institutions is included, for an amount equal to 0.11% of GDP, the deficit stands at 5.80% in 2014, after the 6.79% recorded in

2013, when the effect of bank restructuring on public deficit was 0.47% of GDP (Table 4.1.1).

Table 4.1.2. The Public Administrations in 2014

	2013	2014	year-on-year % change	2013	2014	Difference
	Million euros			Percentage of GDP		
Revenues	**393,468**	**399,733**	**1.6**	**37.50**	**37.77**	**0.3**
Tax revenues	225,498	229,633	1.8	21.49	21.69	0.2
Direct taxes	110,141	111,202	1.0	10.50	10.51	0.0
Indirect taxes	115,357	118,431	2.7	10.99	11.19	0.2
Social security contributions	128,172	129,924	1.4	12.22	12.27	0.1
Other revenues	39,798	40,176	0.9	3.79	3.80	0.0
Expenditures	**464,759**	**461,124**	**-0.8**	**44.30**	**43.57**	**-0.7**
Expenditures (1)	**459,862**	**459,920**	**0.0**	**43.83**	**43.45**	**-0.4**
Compensation of employees	114,537	114,521	0.0	10.92	10.82	-0.1
Intermediate consumption	55,927	55,107	-1.5	5.33	5.21	-0.1
Social benefits	170,600	170,806	0.1	16.26	16.14	-0.1
Interests	34,198	34,542	1.0	3.26	3.26	0.0
Subsidies	10,427	10,980	5.3	0.99	1.04	0.0
Social transfers in kind (market production)	28,030	27,830	-0.7	2.67	2.63	0.0
VAT and GNI based EU own resources	10,376	9,570	-7.8	0.99	0.90	-0.1
Gross capital formation	22,138	21,131	-4.5	2.11	2.00	-0.1
Investment grants and other capital transfers	10,163	8,064	-20.7	0.97	0.76	-0.2
Other expenditures	8,363	8,573	2.5	0.80	0.81	0.0
Net lending (+) / Net borrowing (-)	**-71,291**	**-61,391**	**-13.9**	**-6.79**	**-5.80**	**1.0**
Expenditures linked to the restructuring of the banking sector	*4,897*	*1,204*	*-75.4*	*0.47*	*0.11*	*-0.4*
Net lending (+) / Net borrowing (-) (1)	**-66,394**	**-60,187**	**-9.3**	**-6.33**	**-5.69**	**0.6**
Memo items:						
Public debt	**966,170**	**1,033,857**	**7.0**	**92.09**	**97.67**	**5.6**
Implicit interest rate (%)	3.84	3.58				

(1) Does not include measures related to the restructuring of the banking sector.
Sources: General State Comptroller (IGAE), Bank of Spain and National Institute of Statistics.

The General Government balance improvement in 2014 was due to the increase of non-financial revenue, while expenditure registered a null variation after discounting the financial assistance, with a fall in public consumption of 0.7%. On the revenue side, the tax revenues increased by 1.8% in 2014 due to the increase in tax bases, which registered a positive rate after six years of uninterrupted falls and, to a lesser extent, due to the effect of policy measures, including those which came into force last year and those adopted in previous years but with an impact in 2014.

Within the tax revenues, direct taxes increased by 1% mainly driven by the increase in household income as a result of increased job creation. Indirect taxes increased by 2.7% due to a higher aggregate nominal spending, in a context of greater dynamism of private consumption. On the other hand, revenues from social security contributions increased 1.4% thanks to the strong job creation, contributing to the dynamism of total non-financial revenue (1.6%).

As for General Government expenditure, it decreased by 0.8% last year, although, if the resources transferred to the financial system in the process of bank restructuring are excluded, the variation was null. If interest expenditure is also excluded, expenses fell by 0.1%. The evolution of expenditure in national accounts in 2014 was affected by the obligation to repay the amounts collected from the Tax on Retail Sales of Certain Hydrocarbon Products, pursuant to the sentence of the European Court of Justice of 27th February 2014. The total impact of this repayment implies € 2,011 million higher spending in the national accounts. Among the primary expenditure, the final consumption expenditure of Public Administrations decreased 0.7% due to the decline of its main variables. Among these, the falls in intermediate consumption (-1.5%) and social transfers in kind provided via market producers (-0.7%) stood out, while the compensation of employees recorded a null variation. On the other hand, the gross capital formation fell by 4.5% and social benefits other than social transfers in kind increased by 0.1%.

At the end of 2014, public debt, according to the methodology of the Excessive Deficit Protocol (EDP), amounted to € 1.034 billion (97.7% of GDP), compared to € 966,170 million (92.1% of GDP) recorded at the end of the previous year, representing an increase of 5.6 percentage points of GDP, compared to the increase of 7.6 percentage points in 2013.

As for the different subsectors that integrate the Public Administrations, the Central Government deficit in 2014 (Table 4.1.3), according to the National Accounts and excluding the financial assistance for the restructuring of the financial system, stood at 3.50% of GDP (€ 37.1 billion), compared with a deficit of 4.22% recorded in 2013, thus complying with the committed target.

Table 4.1.3. The Central Government in 2014

	2013	2014	year-on-year % change	2013	2014	Difference
	Million euros			Percentage of GDP		
Revenues	**181,052**	**185,977**	**2.7**	**17.26**	**17.57**	**0.3**
Tax revenues	144,804	147,531	1.9	13.80	13.94	0.1
Direct taxes	63,205	64,662	2.3	6.02	6.11	0.1
Indirect taxes	81,599	82,869	1.6	7.78	7.83	0.1
Social security contributions	10,380	10,449	0.7	0.99	0.99	0.0
Current transfers within General Government	9,304	10,439	12.2	0.89	0.99	0.1
Other revenues	16,564	17,558	6.0	1.58	1.66	0.1
Expenditures	**230,242**	**224,241**	**-2.6**	**21.94**	**21.19**	**-0.8**
Compensation of employees	23,542	23,189	-1.5	2.24	2.19	-0.1
Intermediate consumption	8,245	8,268	0.3	0.79	0.78	0.0
Social benefits	15,131	15,573	2.9	1.44	1.47	0.0
Interests	30,898	31,456	1.8	2.94	2.97	0.0
Current transfers within General Government	115,963	112,528	-3.0	11.05	10.63	-0.4
VAT and GNI based EU own resources	10,376	9,570	-7.8	0.99	0.90	-0.1
Gross capital formation	7,775	6,771	-12.9	0.74	0.64	-0.1
Investment grants and other capital transfers	6,748	4,348	-35.6	0.64	0.41	-0.2
Other expenditures	11,564	12,538	8.4	1.10	1.18	0.1
Net lending (+) / Net borrowing (-)	**-49,190**	**-38,264**	**-22.2**	**-4.69**	**-3.62**	**1.1**
Expenditures linked to the restructuring of the banking sector	*4,897*	*1,204*	-75.4	0.47	0.11	-0.4
Net lending (+) / Net borrowing (-) (1)	**-44,293**	**-37,060**	**-16.3**	**-4.22**	**-3.50**	**0.7**
Memo items:						
Public debt	838,070	895,852	**6.9**	**79.88**	**84.64**	**4.8**
Implicit interest rate (%)	4.05	3.75				

(1) Does not include measures related to the restructuring of the banking sector.

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

The lower deficit of the Central Government in 2014 is due to the increase in non-financial revenue and to the fall of expenditure. Within revenues, tax revenues increased by 1.9% due to increases in revenues from direct taxes (2.3%) and indirect taxes (1.6%), which together with the higher current transfers received from other Public Administrations (12.2%) largely explains the progress of non-financial revenue (2.7%).

On the other hand, the expenditure of the Central Government decreased by 2.6% in 2014 partly due to a decline in capital transfers for the recapitalization of financial institutions (€ 1.2 billion compared to € 4.9 billion registered in 2013). Excluding the financial assistance to the financial system and interests, which increased by 1.8%, expenditure lowers the decline to 1.5%, being particularly noticeable the decreases of current transfers to other public administrations (-3%), other capital transfers (-38.6%) and the gross capital formation (-12.9%). Among the groups that fell, declines of the EU own resources (-7.8%) and compensation of employees (-1.5%) stand out.

Table 4.1.4. The Regional Governments in 2014

	2013	2014	year-on-year % change	2013	2014	Difference
	Million euros			Percentage of GDP		
Revenues	**146,310**	**145,815**	**-0.3**	**13.95**	**13.78**	**-0.2**
Tax revenues	47,321	48,058	1.6	4.51	4.54	0.0
Direct taxes	36,658	36,099	-1.5	3.49	3.41	-0.1
Indirect taxes	10,663	11,959	12.2	1.02	1.13	0.1
Current transfers within General Government	80,677	79,330	-1.7	7.69	7.49	-0.2
Other revenues	18,312	18,427	0.6	1.75	1.74	0.0
Expenditures	**162,242**	**163,356**	**0.7**	**15.46**	**15.43**	**0.0**
Compensation of employees	68,057	68,392	0.5	6.49	6.46	0.0
Intermediate consumption	27,046	26,724	-1.2	2.58	2.52	-0.1
Interests	7,273	7,411	1.9	0.69	0.70	0.0
Social transfers in kind (market production)	25,673	25,497	-0.7	2.45	2.41	0.0
Current transfers within General Government	12,161	13,485	10.9	1.16	1.27	0.1
Gross capital formation	9,240	8,687	-6.0	0.88	0.82	-0.1
Investment grants and other capital transfers	2,969	3,160	6.4	0.28	0.30	0.0
Other expenditures	9,823	10,000	1.8	0.94	0.94	0.0
Net lending (+) / Net borrowing (-)	**-15,932**	**-17,541**	**10.1**	**-1.52**	**-1.66**	**-0.1**
Memo items:						
Public debt	**209,761**	**236,747**	**12.9**	**19.99**	**22.37**	**2.4**
Implicit interest rate (%)	3.86	3.53				
Sources: General State Comptroller (IGAE), Bank of Spain and National Institute of Statistics.						

On the other hand, in 2014, Regional Governments´ deficit, in National Accounts terms, and after excluding the expenditure in Lorca, stood at 1.65% of GDP, a figure 0.65 percentage points above the target (1%) and 0.13 percentage points above the deficit of 2013 (Table 4.1.4). Regional Governments non-financial revenue fell by 0.3% mainly due to the decline in current transfers received from other public administrations (-1.7%). This was partially offset by the growth of tax revenues (1.6%), as these groups are mainly linked to the regional financing system. On the other hand, expenditure increased by 0.7% primarily due to the increase in current transfers from other public administrations (10.9%) and, to a lesser extent, to the increase in compensation of employees (0.5%) and social benefits other than social transfers in kind (6.1%). However, a reduction in spending on important groups at regional level is observed and where they have the capacity to act, such as intermediate consumption (-1.2%), social transfers in kind (-0.7%) and gross capital formation (-6%).

Regarding Local Corporations (Local Governments, Council Offices, Town Councils and Island Councils), they slightly increased their surplus up to 0.53% of

GDP (€ 5.6 billion), so they amply comply with the balanced budget target committed for the whole year. This behavior is due to an improvement in non-financial revenue of 0.6%, mainly explained by an increase in tax revenues of 2%, while expenditure increased by 0.4%. These were largely boosted by an increase in gross capital formation of 9.5%, due to the possibility to carry out financially sustainable investments in 2014, in surplus cases. This was partly offset by a fall in intermediate consumption of 2.2%, reflecting a containment effort in the second group of expenditure, and a 15.4% reduction in interests, promoted by the fall of its debt caused by the surplus, and by the improvements in financial conditions of the loans of the supplier payment fund.

Table 4.1.5. The Local Corporations in 2014

	2013	2014	year-on-year % change	2013	2014	Difference
	Million euros			Percentage of GDP		
Revenues	**66,180**	**66,590**	**0.6**	**6.31**	**6.29**	**0.0**
Tax revenues	33,373	34,044	2.0	3.18	3.22	0.0
Direct taxes	10,278	10,441	1.6	0.98	0.99	0.0
Indirect taxes	23,095	23,603	2.2	2.20	2.23	0.0
Current transfers within General Government	21,481	21,488	0.0	2.05	2.03	0.0
Other revenues	11,326	11,058	-2.4	1.08	1.04	0.0
Expenditures	**60,706**	**60,974**	**0.4**	**5.79**	**5.76**	**0.0**
Compensation of employees	20,363	20,400	0.2	1.94	1.93	0.0
Intermediate consumption	19,321	18,891	-2.2	1.84	1.78	-0.1
Interests	1,355	1,147	-15.4	0.13	0.11	0.0
Subsidies	1,439	1,435	-0.3	0.14	0.14	0.0
Current transfers within General Government	9,843	10,042	2.0	0.94	0.95	0.0
Gross capital formation	5,018	5,496	9.5	0.48	0.52	0.0
Other expenditures	3,367	3,563	5.8	0.32	0.34	0.0
Net lending (+) / Net borrowing (-)	**5,474**	**5,616**	**2.6**	**0.52**	**0.53**	**0.0**
Memo items:						
Public debt	42,115	38,363	**-8.9**	**4.01**	**3.62**	**-0.4**
Implicit interest rate (%)	3.08	2.72				
Sources: General State Comptroller (IGAE), Bank of Spain and National Institute of Statistics.						

Finally, in a context of growing dynamism in economic activity, Social Security Funds recorded a deficit of 1.06% of GDP (€ 11.2 billion) in 2014, 0.06 percentage points higher than the committed target (1.0%), but 0.05 percentage points lower than the deficit recorded in 2013.

Revenues from Social Security Funds decreased by 0.4% mainly due to the fall in current transfers received from other public administrations (-7.3%), despite the increase in social security contributions (1.5%), which constitute approximately 80% of the total revenues. On the other hand, expenses fell by 0.6% mainly as a result of the 0.3% fall of social benefits other than social transfers in kind (main expense concept of this subsector, as it exceeds 90% of its non-financial expenditure), as well as the decline in current transfers to other public administrations (-14.5%). The compensation of employees and intermediate consumption also contributed, albeit to a lesser extent, to this expenditure decrease, with reductions of 1.4% and 6.9%, respectively (Table 4.1.6).

Table 4.1.6. The Social Security Administrations in 2014

	2013	2014	year-on-year % change	2013	2014	Difference
	Million euros			Percentage of GDP		
Revenues	**149,997**	**149,389**	**-0.4**	**14.30**	**14.11**	**-0.2**
Social security contributions	117,163	118,890	1.5	11.17	11.23	0.1
Current transfers within General Government	29,841	27,651	-7.3	2.84	2.61	-0.2
Other revenues	2,993	2,848	-4.8	0.29	0.27	0.0
Expenditures	**161,640**	**160,591**	**-0.6**	**15.41**	**15.17**	**-0.2**
Compensation of employees	2,575	2,540	-1.4	0.25	0.24	0.0
Intermediate consumption	1,315	1,224	-6.9	0.13	0.12	0.0
Social benefits	151,590	151,155	-0.3	14.45	14.28	-0.2
Subsidies	2,009	2,097	4.4	0.19	0.20	0.0
Current transfers within General Government	3,336	2,853	-14.5	0.32	0.27	0.0
Other expenditures	815	722	-11.4	0.08	0.07	0.0
Net lending (+) / Net borrowing (-)	**-11,643**	**-11,202**	**-3.8**	**-1.11**	**-1.06**	**0.1**
Memo items:						
Public debt	**17,187**	**17,188**	**0.0**	**1.64**	**1.62**	**0.0**

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

4.2. The General State Budget for 2015

The General State Budget for 2015 maintains the commitment with the economic recovery and the consolidation of public accounts to allow laying the foundations for a sustainable growth, job creation and the guarantee of social spending. However, together with this commitment with fiscal consolidation, it is essential to continue undertaking structural reforms similar to those that the Government has been developing, whose effects are already clearly felt and will be fully visible in the medium and long term. Among these structural reforms, the entry into force of the tax reform in 2015 stands out.

Indeed, this Budget continues the adjustment path towards the rebalancing of the state's public accounts, initiated by the Government since the beginning of this term in office. The priority target is the fulfillment of the fiscal consolidation commitments with the EU and the progress towards a balanced budget in the medium term.

The General State Budget for 2015 is fully consistent with the achievement of the budgetary stability targets for the period 2015-2017 and with the non-financial expenditure benchmark of the State for 2015, approved by Agreement of the Council of Ministers of the 27th of June 2014 and ratified by the Spanish Parliament in July.

The General State Budget for 2015 was elaborated in a macroeconomic scenario that marked the continuation of the Spanish economy recovery, based on job creation, the positive trend of consumers and businesses expectations, wages and price moderation, the gradual improvement in financing conditions for businesses and households and the dynamism of the export sector. The scenario that accompanies this Stability Programme Update envisages a more intense than initially expected recovery in economic activity and employment. This will result, in turn, in a recovery of tax bases of the main tax figures. The consolidation of the recovery will be key to the collection. Thus, tax revenues record a 10.4% increase in the State Budget for 2015 compared to the 2014 outturn, due to the expected advance in direct taxes, which will increase by 6.7%, and in indirect taxes, whose rate will reach 16.8%. The expenses will increase by 2.5% driven by the interest rates and capital transfers.

Table 4.2.1. The General State Budget for 2015

	2014	2015	year-on-year % change
	Settlement (collection/payments)	Initial budget	
	Millions euros		
	1	2	3=2/1
Total revenues	**134,036**	**133,712**	**-0.2**
Tax revenues	101,933	112,554	10.4
Direct taxes	64,130	68,398	6.7
Personal Income Tax	41,214	40,215	-2.4
Corporate tax	18,694	23,577	26.1
Others	4,221	4,606	9.1
Indirect taxes	37,803	44,156	16.8
VAT	28,436	32,529	14.4
Excise duties	6,412	8,092	26.2
Others	2,956	3,535	19.6
Other revenues	32,103	21,158	-34.1
Total expenditures	**157,993**	**161,992**	**2.5**
Staff	15,686	16,047	2.3
Goods and services	3,117	3,122	0.1
Interests	31,823	35,519	11.6
Current transfers	94,230	91,784	-2.6
Contingency Fund	-	2,595	-
Real investment	4,661	3,421	-26.6
Capital transfers	8,475	9,506	12.2
Budgetary balance	**-23,957**	**-28,281**	**18.0**

Source: Ministry of Finance and Public Administrations.

In 2015, it is expected that total State taxes (including the participation of Regional Governments and Local Corporations in Personal Income Tax, VAT and Excise Taxes) will grow by 6.3% compared to 2014 outturn, driven by expected increases in direct and indirect taxes of 5.8% and 7%, respectively (Table 4.2.2).

Estimated revenue from the Personal Income Tax will amount to € 73 billion. This is 0.4% higher than at the end of 2014, despite the impact on collection of the measures affecting this tax. However, the gross income subject to that tax is expected to increase by approximately 3%. Likewise, increases are expected in all types of income. The main among these is the one related to labour and it will grow more than in 2014. On this occasion, the new positive contribution from pensions will be accompanied by a further growth in the wage bill. In terms of the compensation of employees included in the macroeconomic scenario, this means moving from 1.3% growth in 2014 to an increase of 3.3% in 2015. This higher dynamism is concentrated on the private sector and it is due to the acceleration of salaried employment (linked to higher activity levels) and to the slight increase in average wages.

An improvement is also expected in capital income. Yields will continue at the same minimum levels of 2014. However, the recovery of household income and corporate earnings will entail an increase in dividends received. Hence, the negative sign that such income has had in the last three years is expected to reverse in 2015.

As for the income of individual entrepreneurs, in 2015 this will grow again both due to the higher number of self-employed (about 1%), and to the acceleration of their average income. In addition, net household income will increase due to the tax reform effect. This will be felt from the beginning of 2015 through the reduction of withholding rates in capital and labour and the payment in advance of some of the new deductions introduced by the reform.

With regard to Corporate Income Tax, revenue expected for 2015 in the Budget amounts to € 23.6 billion, 26.1% more than in the 2014 outturn. This increase is explained by the substantial improvement in gross operating result of companies, in a context of activity acceleration. The accounting profit will also benefit from a favourable financial environment that will reduce financing costs. In addition, the restructuring of the financial sector in recent years will allow this sector to have a positive contribution to the profits of the companies as a whole. All this will result in a greater tax base, which in turn will be reflected in greater installment payments in 2015 to be made by large companies and tax groups. For the rest of the companies, taxed according to the latest annual quota submitted, installment payments will grow according to the improvement observed in the results of 2013 and 2014.

The impact of the tax reform on the Corporate Income Tax includes the reduction of tax rates that will begin to have an effect on the installment payments to be declared in 2015. In this context of improvement of the bases and tax rate cuts due to policy measures, a gross revenue increase of approximately 8% is expected in 2015, returning to a normal volume of refunds (after the extraordinary ones paid in 2014). This helps to explain the revenue evolution.

Table 4.2.2. The State Tax Revenue budget in 2015

Including the participation of the Territorial Entities

	2014	2015	year-on-year % change
	Settlement (collection/payments)	Initial budget	
	Millions euros		
	1	2	3=2/1
Direct taxes	**95,571**	**101,140**	**5.8**
Personal Income Tax	72,655	72,957	0.4
Corporate tax	18,694	23,577	26.1
Non-Resident Income Tax	1,420	1,530	7.8
Others	2,802	3,076	9.8
Indirect taxes	**78,225**	**83,690**	**7.0**
VAT	56,166	60,260	7.3
Excise duties	19,104	19,894	4.1
Others	2,956	3,536	19.6
Total taxes	**173,796**	**184,830**	**6.3**
Source: Ministry of Finance and Public Administrations.			

With regard to indirect taxes, revenue from Value Added Tax of € 60.3 billion is expected in 2015, representing an increase of € 4.1 billion compared to the 2014 outturn (7.3% higher). The revenue increase is due to the expected development of spending subject to taxation, which will grow for the second consecutive year and above the increase recorded in 2014. This performance is mainly due to the expected increase in domestic spending of households, driven in part by the income released on direct taxation with the tax reform (which includes domestic and non-resident), along with a small positive contribution of the spending on housing purchases, after eight years of uninterrupted declines, partially offset by the decline in spending on public current and capital purchases.

In 2015, revenues from Excise Duties will increase by 4.1% compared to 2014 outturn, reaching € 19.9 billion due to the tax bases and prices evolution.

On the other hand, the General State budget expenditure for 2015 accounted for € 162 billion, 2.5% higher than the 2014 outturn (Table 4.2.1.). The increase mainly comes from three concepts: interest payments (€ 35.5 billion, 11.6% more than in 2014); capital transfers (€ 9.5 billion, 12.2% more than in 2014); and staff expenses (€ 16.0 billion, 2.3% higher than the amount paid last year, as a result of the increase of the funding of the mutuality system and the partial recovery of the bonus pay in 2012).

As for the other variables, current transfers stand out, falling by 2.6% in 2015 to € 91.8 billion. Of this amount, approximately € 33 billion go to the funding systems of Territorial Administrations and, among the remaining allocations of these transfers, the following stand out: pensions for retired civil servants, to which approximately € 13.2 billion are allocated; to the Social Security, whose total amount is € 13.1 billion; the contribution to the European Union, with a credit of € 12.6 billion; and the contribution to the Public State Employment Service, with € 10.1 billion (it is reduced due to the improvement of the labour market situation).

Finally, the allocations for current expenditure on goods and services recorded an increase of 0.1% and real investments a fall of 26.6% compared to the 2014 outturn. The largest volume of investments corresponds to the Ministry of Public Works and Transport, with € 1.8 billion, mostly assigned to road and railway infrastructures. These allocations must be complemented by investment financing that the Ministry carried out through capital transfers and financial assets.

The Social Security System Budget for 2015 responds to the fulfilment of the 2015-2017 budget stability targets, and the non-financial expenditure limit of the State for 2015, adopted on 27th June 2014 by the Council of Ministers, for the entire public sector and each agent. The 2015 Budget for the Social Security forecasted a net borrowing of € 6.4 billion in budgetary terms (Table 4.2.3).

Table 4.2.3. The Social Security budget for 2015

	2014	2015	year-on-year % change
	Initial budget		
	Million Euros		
	1	2	3=2/1
Total revenues	**119,691**	**126,267**	**5.5**
Social Security contributions	102,840	109,833	6.8
Current transfers	13,041	13,186	1.1
of which: from the State	12,982	13,055	0.6
Other revenues (a)	3,811	3,248	-14.8
Total expenditures	**129,436**	**132,711**	**2.5**
Current transfers	125,319	128,615	2.6
Contributory pensions	112,103	115,669	3.2
Non-contributory pensions	2,166	2,243	3.6
Temporary disability	4,878	4,943	1.3
Maternity	2,178	2,098	-3.7
Other current transfers	3,994	3,662	-8.3
Other expenditures (b)	4,117	4,096	-0.5
Budgetary balance	**-9,745**	**-6,444**	-
% of GDP	-0.92	-0.59	-

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

The consolidated Budget of non-financial revenues of the Social Security System for 2015 amounts to € 126.3 billion, which represents an increase of 5.5% compared to 2014. The main source of funding are social contributions, with an amount budgeted of € 109.8 billion for this year, which allows financing over 80% of non-financial spending. Contributions from companies and employed people are included in this group, which increase as a result of the positive evolution experienced by the Social Security covered workers, as well as unemployed contributions, which decrease in comparison to the budget of 2014.

After these contributions, State transfers are the concept with a higher share in the revenue side of the Social Security Budget. It is expected that the Social Security will receive current transfers from the State of a total amount of € 13.1 billion in 2015, a figure 0.6% higher compared to that recorded in 2014, highlighting the contribution to finance minimum pension supplements, with a y-o-y fall of 0.9%.

The Budget for Social Security non-financial expenditure for 2015 totals € 132.7 billion, which represents a growth of 2.5% compared to the 2014 budget. Within total expenditure, current transfers stand out due to their importance and include contributory and non-contributory pensions, benefits for temporary disability and maternity benefits and other various benefits, such as family allowances and those linked to dependence.

Contributory pensions were assigned a credit for 2015 of € 115.7 billion, 3.2% higher than that of last year, estimated in accordance with the increase of the group of pensioners, the variation of the average pension and a revaluation of 0.25%. Benefits for maternity, paternity and risks during pregnancy and during breastfeeding, whose endowment amounts to € 2.1 billion, falls by 3.7% compared to 2014, due to the evolution of total beneficiaries. Credit assigned to the payment of temporary disability benefits increases by 1.3% up to € 4.9 billion.

In recent years there has been a considerable decrease in spending on this benefit as a result of the decrease in the number of covered workers, but an expenditure increase consistent with the expected evolution of employment is expected for 2015.

Non-contributory pensions of the Social Security, which increase by 3.5%, appear in the Budget of the IMSERSO with a credit of € 2.2 billion (excluding the Basque Country and Navarre). This credit covers the higher cost due to the variation in this group and the 0.25% revaluation.

4.3. 2015-2018 Fiscal strategy. Analysis of measures and budgetary impact

4.3.1. 2015-2018 Fiscal strategy

Table 4.3.1.1 shows the basic variables of the 2015-18 fiscal strategy, starting from the end of 2014, for General Government. In line with the Council of the European Union Recommendation of June 2013, the targets set for 2015 and 2016 are a deficit of 4.2% and 2.8% of GDP respectively. Therefore, as of 2016 Spain will leave the Excessive Deficit Procedure, being below the 3% limit, but the pace of structural adjustment will continue since we will fall under the preventive part of the EU Stability and Growth Pact. Once the corrective part of the EDP is closed, the aim is to avoid the spending growing too quickly during the years of expansion and to reduce the debt ratio, while respecting an average annual reduction of at least one twentieth of the gap until a 60% ratio. These targets are taken into account in this programme.

As of 2016, the structural adjustment is maintained every year and there is no relaxation of the fiscal policy despite having completed the corrective phase of the EDP. The public debt starts a downward path since 2015, year in which it reaches a peak of 98.9%, and in the projection horizon of the programme it comes to 93.2% of GDP, with an annual reduction that intensifies thanks to the GDP growth and the rise of the primary surplus.

The first year with primary surplus is 2016. For the first time since 2007, expenses excluding interests fall below revenues. The primary surplus reaches 2.2 p.p. of GDP at the end of the programme in 2018.

The computable spending for the spending rule, which excludes interests, cyclical expenditure on unemployment and spending on EU programmes fully financed with EU funds, is growing well below the limit that would allow the spending rule until 2016. This is due to the need to carry out the adjustment required to achieve the deficit target of 2.8% in 2016.

The Medium-Term Objective (MTO) of zero structural balance will be reached in 2019, a year before the one set by Organic Law on Budgetary Stability and Financial Sustainability, reaching a headline surplus by then, since the cyclical balance will be positive.

The distribution of targets from 2015 to 2018 responds to the need for all subsectors to participate in the required adjustment. In 2017 and 2018 a new distribution is proposed with this programme. In 2017, with a deficit of 1.4%, 1.1 percentage points correspond to the Central Government, two tenths to the Social Security due to the structural nature of pension expenditure and one tenth to the Regional Governments; this is done in order to smooth the path until reaching the balance. In 2018 the deficit of 0.3% is distributed among the Central Government with two tenths and the Social Security with one tenth. The Central Government deficit reduction in the last year is higher than in the rest of subsectors, while it is still taking care of social spending items such as minimum pensions and part of unemployment.

The fiscal strategy in terms of revenues and expenditures for the Public Administrations consists in keeping the revenue to GDP ratio at approximately 38% of GDP and the ratio of spending to GDP decreasing by 5 points, from 43.5% in 2014 (without financial assistance) to 38.4% of GDP in 2018. The slight increase in the revenue ratio and in the tax burden is consistent with a reduction in direct tax rates due to the higher elasticity of tax revenues to the economic recovery cycle, and further reinforced by the increasing efforts to fight against tax fraud.

The revenue ratio increases from 37.8% of GDP in 2014 to 38.1% of GDP in 2018. Despite the impact of the reduction of direct taxes that the tax reform involves essentially in 2015-2016 (personal and corporate income taxes) the weight of revenues in GDP is maintained, thanks to the growth of the bases above the growth in domestic demand. With the tax reform € 9 billion are given to households and companies in two years and this has a direct impact on the activity and bases. Part of it is expected to revert again on revenues, so the collection loss is estimated in € 6.9 billion in 2015-2016.

The relationship between bases and domestic demand explains the growth in the tax burden during the Programme period. As shown in the table 4.3.2.1.bis, the bases grow above domestic demand in periods of economic expansion and below during periods of recession. This reflects a pro-cyclical behavior, thus a positive impact on collection in relation to GDP during the Programme period.

In turn, social contributions grow in line with the increase in compensation of employees. Reforms undertaken with impact in this period affecting the contributions as well as the employment evolution are considered, as detailed in the following section. The reduction of contributions with the minimum exempt of € 500 on the bases has an impact on job creation, since it reduces labour costs for the employer. The whole tax and contributions reform tries to reduce the tax wedge of direct taxation, following one of the Specific Recommendations of the European Union.

In terms of expenditure, the expenditure/GDP ratio is reduced by 5 percentage points, since the evolution of nominal spending is below the GDP growth. Up to 2016, Spain must meet its commitment to reduce the deficit down to 2.8%, and spending growth containment is necessary to achieve this goal. In the functional classification of expenditure, the greatest reduction can be seen to occur in general services due to the efforts to improve efficiency and quality of expenditure; and in the function of social protection, where the reduction of cyclical unemployment until its virtual elimination stands out. This item remains the most important since it contains pension expenditure, a spending component of a more structural nature.

The public consumption stands out in the expenditure evolution, as a component of domestic demand in the macroeconomic scenario, which primarily consists of three items: compensation of employees, intermediate consumption and social transfers in kind. Public consumption remains at a real growth rate of 0.1% from 2014 to 2016, until the corrective phase of the EDP is closed. Thereafter it grows 1% and 1.5%, which is consistent with the overall macroeconomic scenario. In nominal terms, after the -0.7% fall in 2014, it grows to 0.1% in 2015 due to the 25% recovery of the bonus pay of December 2012 (approximately € 1 billion). However, the final cost containment is affected by other measures such as non-replacement, as well as those provided in intermediate consumption and transfers in kind with falls of 0.9%. These mainly affect Regional Governments, a subsector that needs to make an effort on the expenditure side in 2015 to reach its target following the deviation of 2014. In order to achieve this, measures to increase expenditure efficiency and to contain these items are being implemented. In 2016 the nominal public consumption would grow by 0.2%, with an almost constant maintenance of nominal spending on the three items mentioned. From 2017 these items will begin to grow slightly each year, by 1.4% and 1.7%, below the nominal GDP growth, since the spending rule must be considered. This rule implies that primary spending excluding cyclical items cannot grow above the reference rate of the economy in the medium term. In an environment of low interest rates and cyclical unemployment reduction, compliance with this rule is a preventive restriction. This expenditure containment is based on efficiency measures that allow further reducing the spending to the GDP ratio but with slight increases in nominal spending. This path also complies with the Recommendations made to Spain to increase the efficiency of spending, particularly in healthcare and pharmaceutical sectors, and general spending of the Public Administrations.

Interests expenditure experiences a fall throughout the whole period, in a context of deficit narrowing, debt ratio reduction and economic recovery consolidation, above our European partners, with confidence gains affecting low interest rates; the implicit rate of the debt would stand below 3% in the projection horizon (interest expenditure/debt). The reduction in interest expenditure reflects the efforts carried out in fiscal consolidation and spending control of the Public Administrations, with a clear medium-term benefit observed in economic growth.

Spending on social transfers other than in kind is determined by the pension expenditure which grows at 3% and slightly less at the end of the projection period. This is achieved thanks to the expenditure containment from the reforms undertaken since the reform of the pension system of 2011 and includes the increase of the effective retirement age, the increase in the number of years of contributions to calculate the amount of the pension and the revaluation index of the pensions, which, together with the sustainability factor, ensure their sustainability in the future. The second component of the group is spending on unemployment, whose evolution responds to the employment increase and the unemployment rate reduction. In view of the rapid improvement in employment evolution, an effective spending lower than that initially budgeted is estimated. This allows an additional margin to meet 2015 targets and helps to finance other priority policies in a selective way.

Finally, investment spending (GFCF) is expected to start increasing as of 2015, until growing at the nominal GDP rate in the final years of the programme. After several years of sharp falls in this item, it is necessary that it starts growing in order to meet the maintenance needs and make new financially sustainable investments, as it has been promoting since 2014 for the local entities in surplus. This guidance could spread to the rest under this premise.

The spending to GDP ratio decreases by 5.4 points of GDP between 2013 and 2018. However, the real spending per capita is maintained throughout the programme and experiences a slight increase in the last few years, following the Excessive Deficit Procedure (EDP) closure. The nominal spending growth is in line with the planned path of sustainability, slightly increasing to an annual variation rate of primary expenditure of 2.1% in 2018, with the spending rule being a significant restriction after leaving the EDP in 2016. Between 2013 and 2018, the real spending per capita increases by 0.9% and 2% excluding interest expenditure. Particularly health, social protection and education spending increase. For example the increase in real spending per capita on education reaches 4% in the horizon of the programme. A sustainable and adequate level of real spending per capita is reached after the sharp falls experienced in the period from 2010 to 2013, reaching stabilization at pre-crisis levels.

Table 4.3.1.1. Budgetary prospects

	ESA Code	2014 (A) Level (mill. €)	2014 (A)	2015 (F)	2016 (F)	2017 (F)	2018(F)
			Percentage of GDP				
Net lending (+) / Net Borrowing (-) (B9)							
1. Total General Government (*)	**S. 13**	-61,391	**-5.8**	**-4.2**	**-2.8**	**-1.4**	**-0.3**
1a. Linked to the restructuring of the banking sector		-60,187	**-5.7**				
2. Central Government (*)	S. 1311	-38,264	-3.6	-2.9	-2.2	-1.1	-0.2
3. Regional Governments	S. 1312	-17,541	-1.7	-0.7	-0.3	-0.1	0.0
4. Local Government	S. 1313	5,616	0.5	0.0	0.0	0.0	0.0
5. Social Security funds	S. 1314	-11,202	-1.1	-0.6	-0.3	-0.2	-0.1
General governments (S. 13)							
6. Total revenue	TR	399,733	37.8	37.8	37.8	38.0	38.1
7. Total expenditure	TE	461,124	43.6	42.0	40.6	39.5	38.4
7a. Expenditures linked to banking restructuring		1,204	0.1	0.0	0.0	0.0	0.0
8. Net lending / Net borrowing	B9	-61,391	-5.8	-4.2	-2.8	-1.4	-0.3
8a. Net lending / Net borrowing without banking restructuring expenditures		-60,187	-5.7	-4.2	-2.8	-1.4	-0.3
9. Interest expenditure	D41	34,542	3.3	3.1	2.8	2.6	2.5
10. Primary balance		-26,849	-2.5	-1.1	0.1	1.2	2.2
11. Temporary measures		-4,835	-0.5	-0.3	-0.1	0.0	0.0
Components of revenue							
12. Total Taxes		229,633	21.7	21.7	21.7	22.0	22.3
12a. Indirect taxes	D.2	118,431	11.2	11.3	11.4	11.5	11.5
12b. Direct taxes	D.5	105,611	10.0	9.9	9.7	10.0	10.2
12c. Taxes on capital	D.91	5,591	0.5	0.5	0.5	0.5	0.6
13. Social contributions	D.61	129,924	12.3	12.3	12.3	12.3	12.2
14. Property income	D.4	9,566	0.9	0.9	0.8	0.8	0.8
15. Other		30,610	2.9	3.0	3.0	2.9	2.8
16. Total revenue	**TR**	**399,733**	**37.8**	**37.8**	**37.8**	**38.0**	**38.1**
p.m.: Tax burden		356,821	33.7	33.8	33.8	34.2	34.4
Components of expenditure							
17. Compensation of employees and intermediate consumption (17a+17b)	D.1+P.2	169,628	16.0	15.5	14.9	14.5	14.1
17a. Compensation of employees	D.1	114,521	10.8	10.5	10.1	9.8	9.5
17b. Intermediate consumption	P.2	55,107	5.2	5.0	4.8	4.7	4.5
18. Social transfers (18= 18a+18b)		198,636	18.8	18.1	17.7	17.2	16.9
18a. Social transfers in kind supplied via market producers	D.63 (1)	27,830	2.6	2.5	2.4	2.4	2.3
18b. Social transfers other than in kind	D.62	170,806	16.1	15.6	15.2	14.9	14.6
19. Interest expenditure	D.41	34,542	3.3	3.1	2.8	2.6	2.5
20. Subsidies	D.3	10,980	1.0	1.0	1.0	0.9	0.9
21. Gross fixed capital formation	P.5	21,131	2.0	1.9	1.9	1.9	1.9
22. Capital transfers (*)		8,668	0.8	0.7	0.7	0.7	0.6
23. Other		17,539	1.7	1.7	1.6	1.6	1.6
24. Total expenditure	**TE**	**461,124**	**43.6**	**42.0**	**40.6**	**39.5**	**38.4**
p.m.: Government consumption	P.3	202,698	19.2	18.5	17.9	17.4	17.0

(*) 2014 financial assistance included.

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

(A) Advance; (F) Forecast.

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

Assessment of the measures considered in this programme

Table 4.3.1.2. shows the impact of the expenditure and revenue measures of the Public Administrations overall (tables by subsector can be found in Annex: Taxes, State and Social Security, Regional Governments and Local Governments). Those measures where the effects in any subsector are charged to another one are not taken into account in this table, as it is the case of the Regional Governments financing funds interest reduction measures (but considered in the table of the Regional Governments of the Annex). Likewise, the aim is to reflect the impact on national accounts and for that reason the refund of the health cent by the ECJ sentence is assigned to 2014 as a higher spending of capital transfers instead of lower revenue. Equally, the sale of real assets that are an important variable in the

Regional Governments, is assigned as a reduction in gross fixed capital formation expenditure instead of higher revenue.

On the other hand, the table reflects the differential effect with respect to the previous year, so the one-off measures of a year are attributed with the opposite sign to the following year. This presentation method mainly affects the bonus pay, employment policies and contributions, the health cent, interests and sales of real assets in the Regional Governments.

Finally, it should be noted that spending on remuneration due to the restitution of part of the bonus pay of 2012 and the non-replacement of staff is calculated for all the Public Administrations (approximately € 1 billion from 25% of the net bonus pay and another € 1 billion by the annual non-replacement); 60% out of this corresponding to Regional Governments; additionally, it reflects the payment of another bonus pay previously cancelled in Catalonia. These measures are therefore not included in the corresponding Regional Governments and Local Authorities line (although it is included in the table of each subsector in the Annex).

The evolution of each of these measures is described in the following sections of this chapter by subsectors and policies and the disaggregated tables in the Annex.

The total of the measures focuses on the expenditure side, with 0.7 points of GDP in 2015, 0.6 in 2016 and 0.3 in 2017. The total amounts to € 17.5 billion in three years in order to achieve a spending growth containment below the nominal GDP growth as previously explained; firstly to meet the EDP and, secondly, in order not to shift away from the reference rate of medium-term expenditure. Measures for partial replacement of public employees who retire stand out, as there is a high concentration of retirements during these years. On the other hand, employment policies combine increased spending to improve benefits, with rationalization of subsidies and savings. An example of this is the Law 35/2014, of 26th December, by which the consolidated text of the General Act of the Social Security is amended in relation to the Legal System of Mutual Insurance Companies for Occupational Accidents and the Occupational Diseases of the Social Security.

This includes the savings from the rationalization of expenditure involved in the Commission for the Reform of Public Administrations (known in Spanish as CORA), a reform that affects the State especially in this field. The pension reforms already carried out are considered in the Social Security spending, following the stability programmes of previous years.

On the revenue side, and as detailed below, the tax reform in force since 2015 is included, resulting in lower direct taxes in 2015-2016, helping to reduce the tax wedge on labour, together with the reduction of contributions from Social Security. However, other measures affecting contributions, such as management improvements and the self-settlement system, will allow a gradual increase in additional revenues each year. Taxes include environmental taxes, such as the hydraulic fee already implemented in 2015, and the tax on financial transactions in 2016, which is being debated in Europe.

Regional Governments and Local Authorities measures are explained in greater detail in the following sections, taking into account that the impact of the interest rates cut under the funding mechanisms needs to be added. This reduction allows freeing up resources in these administrations to facilitate achieving the ambitious target of 2015, after the deviation in 2014 in Regional Governments. The cost is borne by the State which, in turn, has margins in unemployment and interests spending. The process of pooling of debt also has additional savings on all Public Administrations; 57% of the territorial debt is held by the State, so its funding is cheaper, at the same interest rate as the Treasury, resulting in savings for all Public Administrations.

Table 4.3.1.2. Impact of the main regulatory changes

Differential impact with respect to the previous year

(+) expenditure savings or increased revenues

% of GDP

	2014	2015	2016	2017
Expenditures	**0.37**	**0.67**	**0.60**	**0.28**
Public employees extra payment 2012	0.00	-0.15	0.09	0.00
Public employment (personnel measures)	0.09	0.09	0.09	0.09
Labour market policies	0.13	-0.01	0.06	0.02
Commission for the Reform of the Public Administration (CORA)	0.10	0.10	0.06	0.00
Return due to the application of EU Court of Justice	-0.19	0.18	0.00	0.00
Autonomous Community measures (excluded previous and interests)	0.16	0.23	0.06	0.03
Local Corporations measures (excluded previous and interests)	0.02	0.13	0.14	0.04
Social security expenditure	0.05	0.09	0.10	0.10
Revenues	**0.37**	**0.02**	**-0.04**	**0.15**
Total tax	0.11	-0.12	-0.25	0.04
Personal Income Tax and Non-resident income taxes	0.03	-0.22	-0.18	-0.05
Corporate income Tax	-0.12	-0.05	-0.21	0.01
Fight against fraud	0.09	0.09	0.09	0.08
Excise duties and environmental taxes	0.08	0.04	0.00	0.00
VAT	0.03	0.03	0.00	0.00
Fees and Financial Transactions Tax	0.00	-0.01	0.05	0.00
Autonomous region measures	0.08	0.03	0.05	0.05
Local government measures	0.06	0.08	0.04	0.03
Social Security contribution	0.11	0.02	0.13	0.03
Total	**0.74**	**0.69**	**0.56**	**0.43**
GDP Million	1,058,469	1,096,135	1,138,163	1,185,980
Source: Ministry of Finance and Public Administrations.				

In a scenario without policy changes since 2015, that is, if these measures had not been taken, the result would be a deviation of accumulated deficit between 0.6 and 1.7 points each year until 2018, with respect to the programme scenario, to which the revenue and expenditure ratio contribute equally.

Table A.10 of the Annex includes a supplementary estimate, in aggregate terms, presenting the impact in deficit and GDP level of each year in the case of not taking measures in that year, therefore, with a non-accumulated impact.

Table 4.3.1.3. Projections with and without measures from 2015

	2014 (A)	2014 (A)	2015 (F)	2016 (F)	2017 (F)	2018(F)
	Level (million €)	Percentage of the GDP %				
Total revenues without measures	399,733	37.8	37.4	37.3	37.3	37.3
Total expenditures without measures	459,920	43.5	42.3	41.2	40.3	39.3
Without measures balance	-60,187	-5.7	-4.8	-3.9	-3.0	-2.0

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

	2014 (A)	2014 (A)	2015 (F)	2016 (F)	2017 (F)	2018(F)
	Level (millions €)	Percentage of the GDP %				
Total revenues with measures	399,733	37.8	37.8	37.8	38.0	38.1
Total expenditures with measures	459,920	43.5	42.0	40.6	39.5	38.4
With measures balance	-60,187	-5.7	-4.2	-2.8	-1.4	-0.3

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

4.3.2. Tax Policy

MEASURES ADOPTED SINCE THE 2013 AND 2014 PROGRAMMES

Since 2013, Spain has made an important effort in fiscal measures that allow, on the one hand, meeting the deficit targets, and on the other, rationalizing the tax system in line with the July 2013 recommendations made by the ECOFIN Council on the Stability Programme. Specifically, a systematic review of the tax system has been carried out and was completed in March 2014, term established by the ECOFIN on the recommendations addressed to Spain. This revision was implemented setting up a Committee of independent experts, who produced a report used as the base to develop a comprehensive reform of the tax system in two blocks. In the first block, a tax reform of direct taxes on income (personal and corporate income taxes) is addressed, allowing to boost economic growth, savings and reduce the distorting elements of direct taxation (removing tax benefits); a boost to the environmental tax is set to reduce externalities and the fight against fraud is strengthened. The second block lies within a target already announced in 2012 and with a broader scope, the fiscal devaluation in the medium and long term.

In 2013 selective tax incentives were also approved, aimed at boosting growth and job creation. These measures are contained in Law 11/2013, of 26th July, *on measures to support entrepreneurs and stimulate growth and job creation.* They set a tax system favourable to self-employed entrepreneurs or new companies that reduced the tax burden on the onset of their activity. The content in the Law 14/2013 on support to entrepreneurs and their internationalization was included in these set of measures, favouring growth and employment through measures that encourage financing with equity, such as the deduction for reinvestment of corporate profits, incentives for business angels or the VAT cash system; and measures aimed to promote intensive investment in technology, such as the improvement of tax incentives for R&D and reductions of intangible assets yields ("Patent Box").

On the other hand, the deductibility of the impairment of shares in the capital of companies and of negative income obtained abroad by permanent establishments is suppressed in order to limit the tax benefits in the Corporate

Income Tax, by Law 16/2013, on tax and financial measures. The temporary measures established in the corporate tax legislation that contribute to approximate their nominal and effective rates have been extended in the same law, and for 2015 in the law 27/2014, on the reform of Corporate Tax.

Additionally, to reduce the bias in favour of indebtedness in Corporate Income Tax, the limitation of the deductibility of financial expenses of companies, adopted by Royal Decree-Law 12/2012 from the beginning of this term in office, is added to the abovementioned measures to encourage financing with equity of Law 14/2013 on Support to Entrepreneurs and their Internationalization. In the same vein, Royal Decree-Law 4/2014 was passed and it includes urgent measures on refinancing and restructuring the corporate debt to facilitate the survival of viable over-indebted businesses and those whose deleveraging process is so costly that it threatens their viability.

Finally, in the field of environmental taxes and excise duties, it is noteworthy the introduction of a new tax on fluorinated gases by means of Law 16/2013, and the measures of the Royal Decree-Law 7/2013 on raising the taxation of consumption with negative externalities, particularly tobacco and spirits with medium and high alcohol content.

However, two elements should be noted that had an impact different than expected:

- On the one hand, the refund of the Tax on Retail Sales of Certain Hydrocarbon Products ("health cent"). Executing the Sentence of 27th February 2014 of the Court of Justice of the European Union, which stated that this tax on fuel was opposed to the Directive on the harmonization of excise duties and so it had to be refunded. This impact was taken into account on the national accounts within the year of application as a capital transfer, the State bearing the cost of the refund.

- On the other hand, some measures of Corporate Income Tax have had different effects to those desired. In particular, the loss of collection in 2014 by reduced rates for companies in the first two years, the 10% deduction of ordinary profits reinvested and the modification of the intangible assets tax system, adding the three measures, the estimate amounted to almost € 890 million and it finally reached just € 58 million. In the opposite direction, the withdrawal of the deductibility of the impairment of shares in the capital of companies and negative income obtained abroad by permanent establishments, and the limitation of the deductibility of the amortization expenses, that have seen their revenues falling in relation to what was foreseen. Specifically, the Stability Programme for 2014 expected that the withdrawal of the deductibility of the share impairment would generate revenues of approximately € 3.7 billion (in payments and fees). Actually, the effect of the measure in terms of cash has amounted to € 472 million, while it has led to a significant reduction of negative tax bases pending compensation or deductions pending application, which in both cases will result in higher future revenues. The reason for this deviation is the accumulation of negative tax bases and deductions pending application in the periods of worse outcomes during the crisis that has led to a total compensation in the settlement making the amount payable null. However, the measure has enabled to substantially reduce the stock of tax credits for companies in nearly € 3 billion, and this implies greater future revenues.

Finally the fight against informal economy and undeclared work has been intensified. Specifically, the measures included in the Law 7/2012 were fully implemented in 2013, amending tax and budget legislation and adapting financial legislation to step up proceedings to prevent and fight fraud. Among other issues, they include: limiting the use of cash in business transactions; establishing the obligation to declare assets abroad; the new delimitation of the objective assessment system; new measures to ensure the collection of tax debts and other sanctioning measures.

MEASURES ADOPTED FROM THE STABILITY PROGRAMME 2014 UNTIL THE PRESENT UNDER THE IMPLEMENTATION OF THE COUNCIL RECOMMENDATIONS

The ECOFIN Council approved the specific recommendations, after recognizing on 8th July 2014 the important reforms and structural measures made by Spain and analyzing of the Stability Programme of Spain and the National Reform Programme. They recognized that progress had been made in reducing tax distortions but much of the effort was left for the second half of the year with the Tax Reform. Moreover, the Council recommended continuing with the fiscal consolidation. Thus the Government seeks to strike a balance between consolidation and reduction of distortions generated by taxes with the following measures:

a) Tax reform, approved in November 2014.

The tax reform in its first phase primarily affected direct income taxes and it came into force on 1st January 2015. The reason is that direct taxation has a greater potential impact on activity and employment. The impact of the reform on direct taxes is intended to lower taxation, especially on labour, to promote employment, consumption and investment. These measures have been materialized in the adoption of a set of laws called the tax reform.[1]

In terms of impact on growth, the reform will generate an estimated cumulative additional growth of +0.55% in two years, mainly through demand components, i.e. consumption and investment, as well as through employment. As these measures reduce revenue from direct tax figures, the ex post impact of the reform (excluding the induced effects) is € 6.9 billion of lower revenue in 2015-2016. That is why the positive impact on growth and cyclical growth of the economy due to the reforms carried out will come together in an improvement of the tax bases.

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

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

year-on-year % change

	2012	2013	2014	III.2013	IV.2013	I.2014	II.2014	III.2014	IV.2014
Tax bases	**-3.2**	**-2.3**	**2.9**	**-2.9**	**4.2**	**2.7**	**2.4**	**4.1**	**2.4**
On income	**-3.1**	**0.4**	**2.1**	**-0.1**	**5.1**	**1.7**	**0.5**	**4.4**	**1.7**
On expenditures	**-3.4**	**-5.9**	**4.1**	**-6.9**	**2.8**	**4.2**	**5.0**	**3.7**	**3.4**
· Gross household income	-4.4	-1.5	0.2	-1.7	2.1	-0.6	0.5	0.5	0.4
· Corporate income Tax base	8.0	14.7	14.7	5.2	28.9	16.4		16.8	9.8
· Final expenditure subject to VAT	-4.5	-6.1	5.6	-7.0	4.3	5.7	6.4	5.2	5.2
· Consumption subject to excise duties	1.7	-5.4	-3.2	-6.7	-3.8	-2.5	-1.7	-2.8	-5.5

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

By means of Law 26/2014, of 27th November, amending Law 35/2006, of 28th November, on Personal Income Tax and the consolidated text of the Law on Income Tax for Non-Residents, approved by Royal Legislative Decree 5/2004 of 5th March, and other tax rules, the tax burden on taxpayers has been reduced, particularly for middle and low income earners and those with greater family responsibilities. The tax rates applicable to the general tax base decrease, the tax has been simplified and the number of brackets of the general base has been reduced from 7 to 5. This change has been accompanied by an increase of up to 32% in the personal and family minimum taxation thresholds. Negative taxes have been created for the most vulnerable groups, benefitting families with more children, single parents with two children and people caring for direct relatives with disabilities.

The savings treatment improves. The applicable tax rate is reduced, Long-term Savings Plans are created and capital gains from the sale of all kinds of goods by taxpayers over 65 years-old are declared exempt, provided that they are reinvested into a life-annuity. In the same line of encouraging savings liquidity windows are opened in the individual pensions system and the minimum length of Individual Systematic Savings Plans is reduced.

Table 4.3.2.1.bis Tax bases and Domestic demand
year-on-year % change

	Aggregated tax base	Domestic demand	Difference rates base-demand
2007	5.1	7.3	-2.2
2008	-3.6	2.4	-6.0
2009	-3.7	-7.0	3.3
2010	-2.3	0.3	-2.7
2011	-2.7	-1.6	-1.1
2012	-3.2	-3.6	0.4
2013	-2.3	-2.4	0.1
2014	2.9	2.0	1.0
2015f	3.5	3.0	0.5
2016f	4.2	3.8	0.4
2017f	4.7	4.3	0.4
2018f	5.0	4.7	0.3

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

As for the incomes from economic activities, the withholding rate of self-employed people with incomes below € 15,000 is reduced from 21% to 15%. For higher incomes, the withholding rate is reduced to 19% in 2015 and 18% in 2016. Likewise, the deduction of expenses of difficult justification is homogenized for taxpayers in a simplified direct estimation with that applicable to employed persons.

On the other hand, a series of reforms that aim to improve tax neutrality and reduce tax benefits are introduced:

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

On the other hand, Law 27/2014, of 27th November, on the Corporate Income Tax amends much of its elements. The nominal rate is lowered gradually: 28% in 2015 and 25% in 2016, and sets it in line with most EU countries. To make this reduction compatible with the stability path, measures are adopted to broaden the tax bases, reducing tax benefits. In this way the tax is simplified and aligned with the internationally recognized legislative practice.

Firstly, temporary measures in force in 2014 which basically affect large firms[2] will be maintained with the aim of extending the path of fiscal consolidation in 2015.

[2] Increased instalment payments and minimum instalment payments, increase of the instalment payments base,

Secondly, among the measures to expand the tax base in order to bring the effective rate closer to the nominal rate, are:

- The elimination of the deductibility of the value impairment of tangible assets, real estate investments, intangible assets, and fixed income securities traded.
- The limitation for all types of companies of the offset of negative tax bases (NTBs) through a general and permanent limit of 70% of the previous tax bases as of 1st January 2017 (in 2016 the limit will be of 60%, in 2015 it will be temporarily between 25%/50%). In any case, NTBs will be compensable up to a maximum amount of one million euros.
- The limitation of the deductibility of expenses related to customer care, which may not exceed 1% of the turnover.
- The elimination of the monetary correction coefficients.

Additionally, as a continuation of the measures to correct the bias in favour of debt, on the one hand, the limitation of the deductibility of financial expenses becomes permanent at 30% of operating profit for the year, and on the other, funding with equity is favoured against over-indebtedness. The business capitalization reserve is created for this and it involves a reduction in the tax base of 10% of the increase in equity, with a limit of 10% of the taxable bases. In turn the tax bases equalization reserve is created specifically for SMEs, which involves an additional 10% deduction from the tax base to be offset with NTBs within five years, provided that a non available reserve is constituted and with a maximum limit of one million euros.

Measures increasing indirect and wealth taxation have also been developed. VAT is reclassified from the reduced rate to the general rate for certain supplies of goods generally included under the term "health products". On the other hand, Law 16/2013, of 29th October came into force in 2014 and it established a new tax on fluorinated greenhouse gases, which will contribute to achieving the targets on environmental protection. Additionally, by Royal Decree 198/2015, of 23rd March, a regulatory development has been approved that will allow to backdate charging of the fee for the use of inland waters to generate electricity to 2013, year when it was established by Law 15/2012 of 27th December on fiscal measures for energy sustainability. Furthermore, the Bill amending the Law 34/1998 of 7th October, of the hydrocarbons sector, regulating certain tax and non-tax measures in connection with the exploration, research and exploitation of hydrocarbons, is in parliamentary processing since January 2015.

As for the wealth taxation, the cadastral values have been updated by applying coefficients approved by the Spanish National Budget Laws for 2014 and 2015. This measure allows to rapidly adjusting the cadastral values to the changes in market values. Moreover, in 2015 the tax rates legal increase of Property Tax (IBI) is extended, which allows supporting the improvement of the financing of Local Corporations.

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limit to the offset of negative tax bases, maintaining the limit on the deductibility of goodwill to 1% of its amount and limit maintenance of the deduction of other intangible assets with indefinite useful lives to 2% of its cost.

b) A central element of the reform process is to fight against Tax Fraud.

Thus, the laws that integrate the abovementioned tax reform stablish fraud reduction and prevention mechanisms, such as the non-deductibility of fiscal expenses in Companies when the fiscal rating in other countries (hybrid products) differs, a new exit tax , anti-circumvention for transfers of tax residence of significant income shareholders, the tightening of the international fiscal transparency system, new cases of reverse charge in the VAT, or the limitation on the application of the objective assessment method in Personal Income Tax. Furthermore, by means of Law 26/2014 on Personal Income Tax reform, the First Additional Provision of Law 36/2006 is modified so that the updating of the official list of tax havens is established. Currently the signing of a treaty with a clause to exchange tax information allows a country to get out of the list of tax havens. With this amendment, verifying the effective exchange of information is considered in order to exclude the territory from the list or to re-classify it.

However, without prejudice to the above, the bill reforming the General Tax Act, which is under processing, includes further measures in order to strengthen the fight against fraud, reduce conflict and increase legal certainty. All with the goal of having a quality tax system, in which justice and fairness are the guiding principles. The measures detailed below in the section on quality of revenues, in Chapter 7, can be summarized as:

- Transparency measures, which provide for the publication of a list of high level debtors and firm convictions for tax offenses.
- Anti-abuse measures establishing the penalization of the conflict when applying legal provisions.
- Expansion and improvement of the indirect estimation method in order to fight fraud and improve legal certainty.
- Measures to improve the inspection procedure, which will expand the powers of verification and investigation and will set new deadlines for the audit procedure and the procedure in case of recovery of aid, which will improve legal certainty.
- Measures to enhance the auditing powers of the tax administration bodies.
- Measures to modify aspects related to the crime against the Public Finance and allow taxing settlement in that case.
- Measures that aim to reduce conflict, which will establish clearer criteria such as the creation of interpretive or clarifying provisions.

c) Fight against International Tax Fraud, BEPS.

In line with the recommendations included in the so-called BEPS project (Base Erosion and Profit Shifting -OECD), a set of measures have been approved and will be further described in Chapter 7 to address the quality of revenues.

Specifically and by way of example, it should be noted that in the Regulation of the Corporate Income Tax, under processing, a set of measures against International Tax Fraud have been included that complement the actions and progress on that line. Particularly it includes the obligation to provide information country by country, amendments in documentation for linked transactions and the requirements for transparency is increased for multinationals.

This and many other measures identified in Chapter 7 not only place Spain among the first countries that are reforming their system to prevent International Tax Fraud, but also create a fairer system at extraterritorial level for Spanish taxpayers and increase the collection at the place where gains are generated.

In the revenue table in the Annex, the annual impact of each of the tax revenues measures is detailed. The "health cent" is also included in this table, but its impact is a greater spending on national accounts in 2014, in the general table 4.3.1.2.

4.3.3. Labour Market and Social Security Measures

Employment is undoubtedly a key variable for the sustainability of public accounts. Therefore, the profound reforms adopted in this field are paramount for the Spanish budgetary stability and competitiveness.

The strategy for the Spanish labour market reform has been articulated around three axes: labour legal system, activation policies and fight against fraud. Steps have been taken as part of these reforms to lay the foundation for a profound transformation of its performance and to increase the competitiveness of the economy as a whole.

In terms of Social Security, the reforms since 2011 have been equally relevant, with the increase of the legal retirement age, the sustainability factor, the reform of early and partial retirement, the regulatory review of the compatibility between work and pensions and the new rules on pension revaluation as key measures for the period 2012-2013.

These measures already have a clear impact on the evolution of the system costs and ensure its sustainability in the long term against the challenge of an ageing population. The effective retirement age reached 64.1 years in 2014, approaching the legal retirement age, and a drop in the percentage of early retirements is already observed, reaching in 2014 0.9 percentage points below the level of 2012.

In terms of employment, changes in the labour law concentrated on the period 2012-2013 and covered all critical areas to overcome labour market restrictions. Significant changes have been made to collective bargaining, active and passive employment policies, internal flexibility employment regulation measures, part-time contract and the contract for training and learning, among others.

These changes in labour regulation have been complemented with a thorough modernization process of the activation policies for employment which has been developed since the beginning of this term in office and involves a new institutional architecture built around the sectorial Conference, the Spanish Strategy on activation and annual employment Plans, as well as the development of new instruments or the reform of the existing ones.

In the field of activation policies for employment, it is worth mentioning the conditionality of funds distributed to the Regional Governments for the implementation of active policies to the outcome of management. This is measured from a series of indicators that have required a coordination and implementation effort by IT developments. This has allowed allocating 60% of the funds in 2015 in accordance with the new focus on results. This approach has been completed with initiatives such as the dissemination of good practices programme and the development of a common catalogue of employment services, essential for evaluating management results.

The new system provides greater fiscal co-responsibility and a better use of the benefits of the system of distribution of powers.

As for instruments, major reforms in the system of training for employment have been introduced in the interests of a greater efficiency, transparency and monitoring of results. The ability to implement mechanisms of public-private co-operation in mediation has also been developed and a single employment portal has been launched. Finally, it is necessary to highlight the changes in the design of bonuses and the revision of the existing ones in July 2012, which resulted in the elimination of a large number of less justified incentives. Now these actions allow having a more balanced budget in employment measures. A thorough evaluation of the system of incentives for existing contracts for the second quarter of 2016 has been envisaged in the legislation.

On the other hand, significant measures have been incorporated in the system of benefits and allowances since 2012. They have substantially increased the link of active and passive policies and the level of demand in fulfilling and accrediting the commitment of activity. Likewise, some programmes have been rationalized in the interest of equity and its adaptation to the needs of the beneficiaries.

Major developments for 2014-2015

In the period 2014-2015 the momentum of the reform in the employment and Social Security field has continued, combining structural and contextual measures which, directly or indirectly, have an important impact on budget sustainability, and with significant consequences in the consumption, savings and investment decisions.

One of the biggest boosts to budget sustainability is the creation of 433,900 net jobs throughout 2014, which result in a reduction of registered unemployment and an increase of affiliated workers.

The many structural reforms and contextual measures promoted by the Government since 2012 in the field of employment have contributed to this first year of job creation since 2007. In 2014-2015 the reforms focus on the activation of employment and involve the completion of the institutional architecture transformation in this area, designed and launched in close collaboration with the Regional Governments. The modernization process of public services already has a solid foundation and new instruments that help to increase efficiency and results-oriented spending.

Furthermore, an agreement with the social partners was reached in December 2014 to launch a special Programme for the activation of long-term unemployed people with dependents. This narrows the link between active and passive policies and responds to the social emergency of long-term unemployment.

Developments in the design of the Programme go beyond those implemented in 2012 with the reform of the Retraining Programme (known in Spanish as PREPARA) and progress towards linking active and passive employment policies in line with the Council Recommendations. The commitment to develop a benefits map with social partners will allow having an in-depth analysis of the protection system that will highlight overlaps and areas where efficiency can be increased.

Measures to accelerate employment through activation policies have been completed with a powerful incentive for permanent contracts, a flat fee of € 100, which has contributed to signing 19% more contracts of this type in 2014 than in 2013, mostly for full–time employment. Stable hiring limits excessive rotation that generates a high budget cost and conditions the agents' expectations, affecting their decisions. The boost of permanent employment is therefore crucial for fiscal sustainability.

In February 2015 this incentive was transformed into a new and more progressive measure, a minimum exempt of contributions of € 500 for new permanent contracts that generate net employment. The new design focuses the budget effort on the lower wages because young, the unemployed less qualified and long-term unemployed are the ones who have greater difficulty in achieving a stable insertion. Thus the cost is reduced while focusing where it matters the most, and so limiting the dead weight effect.

As for the Social Security, the change from a self-assessment system of contributions to one of direct settlement where the Social security Treasury calculates the contributions stands out due to its implications. The new system is regulated by Law 34/2014 of 26th December on measures for the settlement and collection of contributions to the Social Security and its mandatory use by businesses was initiated in February 2015. This requirement will be gradually extended to all companies. Prior to this binding nature, and since November 2013, this system has been tested with some large companies.

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

Finally it should be noted that the Council of Ministers has already submitted to the Congress for processing the Draft Bill on the Order of the Inspection of Work and Social Security within the framework of the CORA. The new Law is a deep administrative reorganization that, without increasing costs, will boost the effectiveness of the fight against labour fraud and social security, and will enhance the coordination of the various administrations and institutions in this field.

In relation to pension expenditure, an annual increase of approximately 3% over the projection period is forecast, but with a gradual slowdown due to the impact of the pension reforms carried out. The effective retirement age has been gradually increasing from 63.9 years in 2012 (before the reform) to 64.1 in 2014 and this path is expected to continue. The percentage of early retirements decreases from 42.2% in 2012 (before the reform) to 41.3% in 2014. In addition to these actions on the number of new pensions, the growth of the average pension is contained from 3.5% in 2012 to 2.1% in 2014, while a downward inflation path, which became negative in 2014, has favoured an increase in purchasing power of pensions, by decoupling direct pension revaluation from the price index.

The impact of these measures is quantified in the table of the Annex regarding State and Social Security measures.

4.3.4. Reform measures of the Public Administrations. CORA

As part of the reforms undertaken by the Government since the beginning of the current term in office, with special focus on public spending, the reform of the Public Administrations stands out. To do this, as already mentioned, the Commission for the Reform of Public Administrations (known in Spanish as CORA) was established in 2013 by means of the Council of Ministers Agreement and with a comprehensive monitoring for each of the departments concerned. Likewise, by Royal Decree of 21st June 2013, the Office for the implementation of the reform of the Public Administrations (known in Spanish as OPERA) was created, aiming at ensuring the implementation of the measures contained in the CORA report, monitor its progress, promotion, coordination and on-going evaluation, as well as to formulate new proposals.

It currently has 222 measures relating to administrative streamlining, reduction of burdens and duplicities and improving common services and resource management. With different implementation schedules, its implementation is planned for a maximum of three years.

The so-called CORA measures have a differential annual impact on the previous year in the deficit reduction of € 921 million euros in 2014, € 851 million in 2015 and € 725 million in 2016. This impact refers to the central part of the CORA and does not consider other CORA public administration reforms, such as the law on reform of local administrations or personal resources. Its specific measures (Annex table corresponding to the State) are:

- Institutional rationalization in the General State Administration. This involves the suppression, merger, integration or rationalization measures of state public sector entities. These measures related to the institutional Administration involved a comprehensive review of the regulatory framework and the beginning of a process of reorganization and restructuring of the state public sector. Actions on 163 entities of the Administrative, Corporate and Foundational state public sector have been carried out, with the net elimination of 105 of those entities. The adoption of Law 15/2014, of 16th September, on rationalization of the public sector and other measures on administrative reform should be noted. This law adopts the necessary legal measures to implement the recommendations of the CORA, in order to ensure the efficiency of spending, eliminate duplicities and reorganize public bodies, as well as simplify procedures for citizens and businesses. Also in this area, reference should be made to the implementation of the revision of the Spanish Foreign Service, promoted by the Executive Council for Foreign Policy (known in Spanish as CEPE), created by the Law 2/2014, of 25th March, of the Action and Foreign Service of the State. The CEPE will be able to promote the development of management plans for the human, budgetary and material resources that make up the Foreign Service of the State, in order to ensure a better allocation of public resources, according to principles of effectiveness and efficiency.

- Elimination of administrative duplicities. It involves the implementation of 120 diagnostic and elimination of duplicities measures, both within the General State Administration, Regional Governments and Local Corporations. Some examples include the joint planning of contributions to International Organizations and the single hiring platform of the public sector (central, regional and local Government).
- Internal rationalization measures of the General State Administration: Real estate plan, fleets, centralization of hiring, travel and expenses; improvement on Treasury management.
- Information Technology and Communication (ITC) improvements and administrative simplification. It generates savings for citizens and businesses, but also for the General State Administration. ITC development measures for a more efficient delivery of services to citizens: appointments, portals, shared services among Administrations. Administrative simplification measures to reduce red tape that hinders the completion of administrative procedures.

Some examples of measures taken in this area are: Enabled E-Mail Address, allowing to deliver more than 10 million electronic notifications annually; Interconnecting system for Registries (SIR-ORVE), which allows the electronic processing of paper documents submitted to any public registry; Appointments of the General Directorate of Traffic and Public State Employment Service; *Emprende en 3* Portal, which enables the electronic processing of required statements for opening and transferring a business within a single Internet site (in three days) and automatic integration of this processing with existing platforms for setting up companies; Telematic service for requesting and sending a report confirming that the company is up to date with the payment of contributions to the Social Security; on demand Spanish Official Gazette; interoperable Electronic Prescription of the National Health System, along with the digital medical record of every citizen and a health service card database.

As detailed in the 2014 Stability Programme and Budgetary Plan, this restructuring and rationalization process of the Spanish Public Administrations involves an in-depth review of public spending at a microeconomic level, identifying savings thoroughly in all areas of the public sector, beginning with the State and moving on to the rest of Public Administrations. Structural changes in the forms of organization are promoted, so this is understood as a medium term dynamic process, based on efficiency criteria.

The CORA report also includes the administrative streamlining, elimination of duplicities, management of common resources, and measures of a broader nature. Among these the following should be noted: the Organic Law on Control of commercial debt in the public sector, the Law to Promote electronic invoicing and creation of accounting records, law on Rationalization and Sustainability of the Local Administration. All of them adopted in December 2013 and currently in force. as well as the Law on Rationalization of the State Public Sector of 2014, and the on-going restructuration of the administrative, business and foundational public sector. Throughout 2015 the reform of the administrative procedure laws (integrating the electronic procedure, among other innovations) and the public sector legal system are added. The latter provides a rigorous procedure to validate the need for creating new entities, monitoring and evaluating their performance, and justifying the maintenance of any type of institutional body.

Until 31st December 2014 the status of implementation of the 222 measures is as follows:

- Measures implemented: 129 (58.1% of all proposed measures)
- Measures being implemented: 93 (41.9% of all proposed measures)

The Public Administrations reform focused on reducing the administrative structures and rationalizing staff costs and current expenditure of the Public Administrations.

In the field of public employment, several measures were approved that aim at bringing the labour conditions closer to the ones in the private sector and reducing the weight of the wage bill in the public expenditure as a whole, with the aim of improving the efficiency and productivity.

Among the contextual measures to cut spending in the public sector, the elimination of a bonus pay in 2012, or the complementary restrictions to the hiring of temporary staff and amortization of vacancies should be highlighted.

Along with these measures, in 2012 the Government approved the main measures on public employment that have been operating to increase the efficiency of public spending in this area. They are essentially contained in the Royal Decrees-Law 3/2012 and 20/2012 and in the annual laws on the Spanish National Budget of the following years. Among these, the following stand out due to their importance:

- The freeze of Public Employment Offers (PEO) for 2012, 2013 and 2014, setting a staff replacement rate of zero in general and of 10% in certain groups considered as priority, such as prevention of fiscal and labour fraud, health and education, among others. In 2015, the PEO freezing has been maintained and the replacement rate has been set at 50% for priority sectors.
- Wage freeze for 2012, 2013, 2014 and 2015, except for the payment of part of the bonus pay abolished in 2012.
- Legal ability to dismiss due to economic, technical, organizational or production causes in the field of the Public Administrations, for non-civil servants.
- Reduction of leave days for personal matters and suppression of days added to personal days; change in the access and permanence conditions in cases of temporary disability; minimum extension of the working hours of the public sector to 37.5 hours per week; public sector employment measures; absenteeism reduction plan; modification of the incompatibilities measures; modification of the trade union permits system; high positions new regime.

In this process of Public Administrations reform the reform of Local Administration, in force since 2014, with various transition periods must also be highlighted. Its impact is included in the table of the Annex of Local Corporations.

With all measures taken, including the broader scope of the CORA, the estimated accumulated savings up to 31st December 2014 reach: € 4.8 billion for the General State Administration; € 10.5 billion for the Regional Governments; € 2.9 billion for the Local Corporations and € 1.7 billion for citizens and businesses, providing greater efficiency to the management of the Public Administrations.

The quantified impact in differential annual terms for the State is included in the Annex.

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

4.4.1. Regional Governments

1. Budget for 2015

First of all, it should be mentioned that in the initial budget for 2014, the regional governments considered a 2014 deficit target in national accounts terms of 1% of GDP, having been set at 0.7% for the regional governments as a whole in 2015.

The non-financial expenditure provided in the general budget of the Regional Governments for 2015 has been increased by 1.59% compared to 2014 initial budget. Furthermore, non-financial revenues forecasts increased by 4.35% in relation to the initial budget for 2014.

As for the comparison of the budget for 2015 with the implementation of the budget for 2014, there is an increase in non-financial revenues of 1.40%. If the evolution of non-financial expenditure is compared without considering Chapter III, which mainly includes the interest expenditure on debt, non-financial expenses increase by 1.95%. On the other hand, if by 2014 the effect of the application to the budget of generated obligations registered in non-budget accounts of previous years is not taken into account, the non-financial expense increases by 2.11%; a percentage which rises to 2.68%, if Chapter III is excluded. With regards to non-financial revenues, an 8.79% increase is foreseen in the initial, mainly justified by the expected 5.69% increase in the financing system resources. However when considering this variation rate, it should be taken into account that some Regional Governments integrated into their initial budgets a forecast for system resources higher than the one reported by the General State Administration. Conversely, it should be noted that the initial budget of all Regional Governments did not integrate the effect caused by the improved financial conditions resulting from Royal Decree-Law 17/2014 of 26th December on financial sustainability measures of Regional Governments and Local Corporations and other economic measures.

All those that have not fulfilled the 2014 deficit target must submit an Economic-Financial Plan (known in Spanish as PEF) specifying these measures and how to reach the target this year and the next.

Table 4.4.1.1. 2015 Budget of the Regional Governments

year-on-year % change

Total Regional Governments	Budget 2015 / 2014 % change	Budget 2015 / Recognized Rights or Obligations 2014	Budget 2015 / Recognized Rights or Obligations 2014 Adjusted Account 413
Chap. 1,2,4. Taxes & Current Transfers	5.85	7.68	7.68
System resources subject to payment and settlemen	4.83	5.69	5.69
Inheritance and Gift Tax	9.80	2.71	2.71
Property transfer & Stamp Duty Tax	11.22	16.83	16.83
Other tax	3.68	7.15	7.15
Other current transfers	9.93	17.27	17.27
3. Fees, public prices and other Revenues	3.85	-5.30	-5.30
5. Property income	-65.56	10.30	10.30
6. Real investment sales	-45.41	62.16	62.16
7. Capital Transfers	23.68	43.99	43.99
Non-Financial Revenues	**4.35**	**8.79**	**8.79**
1. Personnel Spending	2.45	3.24	3.29
2. Current spending in goods and services	3.01	-4.86	-3.22
3. Financial Spending	-17.57	-7.70	-7.33
4. Current Transfers	4.99	-0.96	-0.41
5. Contingency fund	17.67	0.00	0.00
6. Real Investments	5.49	28.19	33.48
7. Capital Transfers	-7.07	12.44	12.43
Non-Financial Expenditure	**1.59**	**1.40**	**2.11**
Non-Financial Expenditure (Without chapter III)	**2.90**	**1.95**	**2.68**
Source: Ministry of Finance and Public Administrations.			

Note: Refined the differences in the budgeting of the resources of the funding system, the rate of change of this system budgeted for 2015, on the base of the rights recognized in 2014, would amount to 2,87%. Refining this effect, the non-financial revenues budgeted in 2015 would grow by 6,90% related to the incomes recognized in the previous year.

From a functional point of view, considering the purpose of the budget, the sum of the allocations for Health, Education and Social Services of all the Regional Governments represent a 60.13% of total expenditure budget for 2015. This contrasts with a percentage of 59.42% they represented in the initial budget for 2014. The percentages rise to 70.64% and 69.83% respectively compared to non-financial expenses. Likewise, moving in the opposite direction to that adopted in previous years, it is possible to notice a growth in each of these functions when considered individually. First, the Health function is increased by 2.4% over the previous year; secondly, Education is increased by 2.7%; finally, social services by 4.8% compared to 2014 budget.

Conversely, expenditures for the "Public Debt" function decreased by 6.8% in 2015, so that they represent 17.3% of the budget for this year.

2. REGIONAL GOVERNMENT MEASURES

Measures decided by the Central Government and the Council for Financial and Fiscal Policy affecting Regional Governments (2012-2014)

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

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

The effect of the withdrawal of bonus pay in December 2012, which has continued in some Regional Governments during 2013 and 2014, and the launch of additional funding mechanisms as part of an ambitious plan to eradicate late payments of the Public Administrations should be added.

The Royal Decree-Law 4/2014, of 7th March modifies the first transitional disposition of the Law 22/2009, of 18th December regulating the financing system of Regional Governments and cities with a Statute of Autonomy and amends certain tax rules. It establishes that, in the settlement of system resources for 2012 and following years, payments made by the Tax Agency in those years to the common regime Regional Governments on behalf of the collection of revenues from Wealth Tax will not be deducted.

In the last few months, the recent approval of Royal Decree-Law 17/2014, on measures of financial sustainability of Regional Governments and Local Corporations and other economic measures, creates the Financing Fund for Regional Governments. This fund is divided into four sections and includes better financial conditions for the return of credit operations under the funds, being a very remarkable saving measure for the Regional Governments.

More recently new measures for the rationalization of health expenditure are being promoted. Among them, it is worth highlighting the set of actions intended to modify the General Health Law mentioned above, and they have been the result of the coordinated efforts between the Ministry of Health and the Ministry of Finance.

Summary for 2012 y 2013

In 2012, the Regional Governments that submitted a PEF executed € 3.9 billion in revenue measures and € 12.5 billion in expenditure measures, including the removal of bonus pay of December 2012.

In 2013, the Regional Governments took spending measures amounting to € 7.0 billion and € 2.2 billion euros in revenue measures.

The Council for Financial and Fiscal Policy, during its meeting held in July 2013, approved the Economic-Financial Plans submitted by the five Regional Governments that had a deficit higher to the budget stability target in 2012. Later, towards the end of the year, other two Regional Governments submitted a PEF, as a result of their October data, so that the total of Regional Governments forced to submit a plan were seven: Andalusia, the Balearic Islands, Catalonia, Murcia, Valencia, Castilla–La Mancha and Navarre.

On the other hand, seven Regional Governments did not meet their budget stability target in 2013. Thus, in the plenary session of the Council for Financial and Fiscal Policy (CPFF) of 31st July, the Financial Economic Plan submitted by the Regional Government of Aragon was approved. The approval of other plans was postponed in order to incorporate in them the financial conditions improvements adopted on the same day by the Delegate Commission of the Government for Economic Affairs. This meant that the Economic Financial Plans of Castilla-La Mancha, Catalonia, Murcia and Valencia, together with Cantabria, whose non-fulfilment was determined in the October 2014 report of Article 17.4 of the Organic Law on Budgetary Stability and Financial Sustainability (known in Spanish as LOEPSF), were approved in the plenary session of the CPFF on 23rd December 2014. Finally, the plan concerning Navarre was approved by the Coordinating Committee provided for in Article 67 of the Economic Agreement between the State and Navarre, at the meeting held on 21st January 2015.

Measures for 2014

In 2014, the Regional Governments of Galicia, the Canary Islands, the Basque Country and Navarre have met their budget stability target, while the others recorded a higher deficit than the target set by the Council of Ministers. All these Regional Governments, together with the Basque Country, which breached the spending rule for the 2014 financial year, will have to submit an Economic-Financial Plan for 2015 and 2016 as set in the rules of budgetary stability. The Regional Governments that not fulfilled debt targets also did not meet deficit targets so it is included in the same Plan. The development in 2014 of the regional financing system resources that registered a decrease that year of € 2,776.52 million significantly influenced the evolution of the deficit in national accounts which reached 1.66% of GDP (1.65% excluding Lorca's expenses).

Considering the regional financing system resources developments, on which the Regional Governments hold less leeway since they depend on the national economic evolution, it should be considered that even when the public deficit of the entire subsector in 2014 presents an unfavourable evolution, Regional Governments have continued to take various measures that have allowed to continue progressing in the correction of the discretionary component of their public deficit.

From the expenditure measures point of view, without considering the effect caused by the non-replacement of staff, actions have been taken with an impact of € 1.7 billion. Moreover, the measures for the improvement of the financial conditions set for the funding mechanisms implemented in favour of the Regional Governments have had an impact in terms of additional savings of € 541.7 million.

Furthermore, it should also be noted that in 2014 the investment policy registered in recent years has been maintained limiting its volume, and having an impact of € 490 million in terms of additional savings over the previous year.

It is worth highlighting the steps taken affecting current and capital transfers, with an estimated impact of € 261.5 and € 139.9 million respectively, and the non-availability of expenditure agreements, in addition to actions relating to reorganization processes of the regional public sector. Those reorganization processes have recorded a significant progress in the last year and according to the last published report in this field, by 1st July 2014, the effective reduction of 526 entities would have taken place. Of those, 189 entities are at a stage close to their final extinction and this would mean a total of 715 entities. The figure is well above the commitment reduction initially assumed of 508 entities, and it is close to the currently committed reduction of 834 entities, over a total of 2,371 existing at the beginning of these reordering processes.

Finally, other measures of various kinds have been adopted, and it is worth highlighting those related to the provision of services and supplies. These have an estimated impact of € 164.1 million, primarily resulting from the implementation of improvements in the procurement processes of goods and services by the Regional Governments through various savings and efficiency improvement plans. Moreover, the adoption of measures in the field of spending on pharmacy and health has been continued, with an impact of € 76.6 million.

From the revenue measures point of view, various actions to increase regulatory capacity have been taken, both in terms of transferred taxes and own taxes. Thus, regarding the former, the measures taken in relation to the Property Transfer and Certified Legal Documents Tax should be noted, with an estimated effect of € 357.5 million euros in 2014, as well as those relating to the Inheritance and Gift Tax which have achieved additional revenue income of € 91 million.

Regarding the measures concerning Other taxes, it is important to highlight the collection impact applicable to 2014 from the Tax on the Deposits of Credit Institutions (€ 187 million), as well as those regarding other taxes or reimbursements obtained from the pharmaceutical provision.

Finally within the non-taxes measures, whose estimated impact amounts to € 537 million, several operations of real assets sales have been conducted. Compensations to some Regional Governments are included, as they had established in the past a similar tax to the state tax on the Deposits in Credit Institutions.

Details of the expenditure and revenue measures for 2015

Among the expenditure measures planned for 2015 it should be noted that within staff expenses, the effect arising from the payment of 25% of the bonus pay of December of 2012 and the restitution of the amount of the bonuses that had been reduced in previous years in certain Regional Governments are incorporated. This occurs in addition to the estimated effect derived from the measurement concerning the non-replacement of staff, which determines additional savings in each of the years when it becomes effective.

Additionally, it is worth highlighting the savings from the measures set forth in Royal Decree-Law 17/2014 of 26th December on measures of financial sustainability of Regional Governments and Local Corporations and other economic measures, related to improving financial conditions of funding mechanisms activated by the General State Administration. In 2015 they will determine an additional saving of € 3.0 billion over the measures implemented in 2014.

Likewise, the expected savings in relation to the measures to be implemented in the field of spending on pharmacy and health products should be noted. These measures are included in the creation of an instrument for the sustainability of health expenditure. This is determinant of a commitment by the Regional Governments adhered to the instrument, for these expenses to evolve below the reference rate applied to the spending rule, under the law of budgetary stability, as it represents a very significant percentage of the expenditure on transfers and on current goods and services. The reference rate is defined by the potential GDP growth in the medium term. A system of positive and negative incentives is created to enhance adhesion and promote compliance. This instrument is expected to be strengthened by the signing of various collaboration protocols with the health industry to achieve the sustainability in spending. This is accompanied by a set of measures and actions intended to achieve higher levels of efficiency in this area, in line with the Recommendation of the European Council published in June 2014 on the National Reform Programme. The impact estimated is of approximately one billion euros for the period 2015-2016. As an element to highlight, the information improvement foreseen by the reform will facilitate monitoring the spending in the health and pharmaceutical sector including hospitals.

Finally, with a more moderate impact, other actions determining additional savings result from the completion of the reorganization processes of the public sector, the adoption of certain non-availability agreements and those derived from further progress in the adoption of measures to improve the procurement process of goods and services, as well as those derived of the concerted activity and the services provided by external means.

Regarding revenue measures certain actions related to the improvement of the management of own taxes are expected, as well as an increase of the revenue derived from environmental taxes, especially in relation to the application of different environmental sanitation fees.

On the other hand, it should be mentioned that within the group of Other taxes, there is an additional impact in 2015 of approximately € 187 million. This results from taking into account the full annual figure of the Tax on the Deposits in Credit Institutions (known in Spanish as IDEC), due to the transfer of their revenue to the Regional Governments, as well as the implementation of new taxes in some Regional Governments. The annual impact of the IDEC is about € 374 million in 2015 (so the differential impact in 2015 versus 2014 is € 187 million).

Finally, the greatest impact within the revenue budget is expected from non-taxes measures on the disposal of real investments and administrative concessions, as well as the outsourcing of companies management, in accordance with the actions foreseen in the Economic-Financial plans currently in force and with the general budgets approved in Regional Governments.

Scenario for 2016-2018

The scenario covering the period 2016 - 2017 is conditioned by an expected improvement in the resources of the financing system of the Regional Governments. This reflects a favourable economic evolution since 2014, which starts to produce an improvement in these resources as of 2015. This evolution should enable the recovery of the tax bases of certain own or transferred taxes not subject to the regional financial system that have been significantly reduced in recent years.

Regarding the expenditure and revenue measures, their evolution is determined by the reversal of some of the measures adopted in 2015, albeit with a different sign. On the one hand, the reversal on the payment in 2015 of 25% of the 2012 bonus pay will determine an additional savings over the previous year. On the other hand, and with the opposite sign, some actions foreseen in relation to the improvement of the financial conditions of funding mechanisms will revert for some Regional Governments, as well as for the disposal of real investments and other non-taxing revenues.

Moreover, additional savings are expected in those financial years by the measures on pharmacy and health, primarily based on the actions taken during 2015 with additional impact in the first six months of 2016. Similarly, additional savings are estimated, albeit more moderate, in relation to the management of the expenses derived from the provision of services and supplies, as well as those regarding current and capital transfers.

Finally, it is expected to obtaining additional revenues derived from an increased use of the margins provided by law in relation to the various tax figures of regional collection or management. Yet there would be additional margins to increase collection within the current legislation, so this is considered a feasible estimate. The detailed measures are included in the Annex.

Compliance with the Organic Law on Budgetary Stability and Financial Sustainability

Under the excessive deficit procedure, one of the Recommendations made by the European Council in June 2014 referred to the need of reinforcing the budgetary strategy as of 2014, in particular fully specifying the underlying measures for 2015 and subsequent years in order to correct the excessive deficit in a sustainable manner by 2016.

The progress achieved in the last twelve months in the field of Regional Governments includes the approval of the Economic-Financial Plans of the Regional Governments (PEFs) provided in the LOEPSF for 2014-15 (Sessions of the Council for Financial and Fiscal Policy of 31st July and 23rd December 2014 and Coordination Committee), and the publication of their monitoring reports by the Ministry of Finance and Public Administrations. Thus, in 2014 the Regional Governments of Aragon, Cantabria, Castilla - La Mancha, Catalonia, Murcia, Navarre and Valencia have presented economic - financial plans, declared suitable. In this regard, it is noteworthy that the PEFs approved in 2014 are the first to have undergone a review by the Independent Fiscal Authority, and also the first to have been formulated and approved in a biannual context, which will allow to bring forward its follow-up in 2015 and, where appropriate, the corrective actions by the Regional Governments should there be any deviations in the achievement of the economic and financial scenarios on a quarterly basis.

It should also be noted that the Ministry of Finance and Public Administrations has been performing monthly follow-ups of the adjustment plans submitted by the Regional Governments included in the additional funding mechanisms (Supplier Payment Fund and Regional Liquidity Fund (known in Spanish as FLA). Another aspect to point out is the enhanced conditionality for the FLA applicable to certain Regional Governments through the Programme they have to adhere to.

In this regard, the monitoring of the Adjustment Plans of the Regional Governments and compliance with the fiscal consolidation measures envisaged in them will continue.

Different actions have been carried out in the legislative field and in the field of adoption of fiscal consolidation measures of expenditures and revenues implemented by the Regional Governments in order to fulfil the deficit target.

The launched regulatory instruments are the content of the LOEPSF itself, the update of the Stability Programme, the Royal Decree-Laws 14/2012, 16/2012 and 20/2012, and more recently, in the field of the Regional Governments, the Royal Decree-Law 17/2014 of 26th December on measures of financial sustainability of the Regional Government and Local Corporations and other economic measures.

The expected effect in 2015 of the measures planned without the impact on the financial burden in Regional Governments is estimated at € 2.3 billion. On the other hand, as a result of reducing the financial burden of the Regional Governments derived from the conditions established in the framework of the extraordinary financing mechanisms, a further saving of € 3.0 billion is forecast. The expected effect in 2015 of the fiscal consolidation measures of the Regional Governments revenues amounts to € 1.5 billion.

On the revenue side, own taxes management improvements, increase of the Inheritance and Gift Tax, creation of new taxes or modification of the ones implemented in the past may be mentioned for 2015: namely, on the environmental impact or on activities affecting the environment, gambling taxes and other non-taxing measures: disposal of real investments and property revenue. The real assets disposals are considered in national accounts as a lower investment spending, so the table on overall measures reflects it as lower public spending. These measures have a differential impact of opposite sign in 2016.

In the last year some developments of the regional legislative powers in tax matters are observed through the increase of the tax rates and the reduction of tax benefits. To be highlighted, the Tax on the provision of content by electronic communications service providers and empty homes in Catalonia, as well as measures related to taxes on gambling.

The overall effect expected in 2015 for the Regional Governments reaches € 5.3 billion when taking into account the interest savings in this subsector derived from the Royal Decree-Law 17/2014 of 26th December on measures of financial sustainability of the Regional Governments and Local Corporations and other economic measures.

The Regional Governments' breach of their deficit target in 2014 was 0.65 points of GDP. This negative starting point to achieve a reduction of the deficit down to 0.7% in 2015 is adjusted by the interest saving measures of 0.3 points of GDP, by the increase of the financing system resources of 0.1 points of GDP compared to a drop of almost 0.3 percentage points in 2014, by the improvement of the cycle and by the measures envisaged and that will need to be strengthened in the PEFs they will have to submit in order to meet the target.

4.4.2. Local Corporations

The Local Corporations as a whole have achieved fiscal surplus since 2012. Starting from a deficit of -0.4% in 2011 (excluding the effect of the negative settlements of the local financing system), they have achieved much healthy positions in all subsequent years, with surpluses of 0.3% of GDP in 2012, to 0.52% in 2013 and 0.53% in 2014. This result was helped by the maintenance of the surplus registered in the first year that allows the spending rule on its correct implementation, being really a preventive measure once the fiscal balance is reached. The revenues increase together with the spending control enabled achieving the fiscal target and even surpass it. Now a reassessment of the local reform based on these bases is being considered. Law 27/2013 of 27th December on Rationalization and Sustainability of the Local Administration (known in Spanish as LRSAL) requires the elimination of services and their integration, except in the case of having fiscal surplus. Therefore a lower impact has been estimated for these items in the years of the programme, so the effect of the reform is reduced by half, since they are not as necessary as they were at the time of drafting the law. However, in case of registering deficit again, these measures would be fully applied. The result of the planned measures can be observed in the table on Local Corporations.

The staff measures impact refers to the partial return of the bonus pay of 2012 and the non-replacement of the retired staff as in the State. The other measures mainly derive from the LRSAL. With regards to taxes, the Property Tax (IBI) derived from previously planned reviews of the cadastral values stands out.

4.5. Public debt forecasts

In 2014 the public debt/GDP ratio in Spain increased 5.6 percentage points to 97.7% (Table 4.5.2), compared with an increase of 7.6 points registered in 2013. This lower increase of the ratio is due to the lower net borrowing of Public Administrations in 2014 compared to that of the previous year (5.7% of GDP in 2014 against 6.3% of GDP in 2013, excluding the financial assistance); to the lower amount of the financial assistance for the banking recapitalization and restructuring (0.1% of GDP in 2014 compared with 0.5% in 2013); and due to the rise in nominal GDP in 2014, after falling in the previous year (the growing nominal GDP of 2014 helped to reduce the ratio by 0.8 points, while the fall in nominal GDP in 2013 contributed to increase it by 0.5 points).

Conversely, the deficit-debt adjustment increased in 2014, exerting an upward effect on the borrowing need greater by 0.2 points than the figure of 2013.

Indeed, the decline in net acquisitions of financial assets in 2014 (1.8 points to 4% of GDP), together with the lower net amortization of liabilities materialized in other outstanding accounts by the Public Administrations (0.5 points to 0.3%) and, to a lesser extent, the fall in other adjustments, which includes the effect of various factors (0.2 points, to -0.6%), helped to reduce the deficit-debt adjustment versus the one registered in the previous year. However, these declines were offset by a lower amount of financial transactions among the Public Administrations (2.7 points, to 3.1%), which reduce the deficit-debt adjustment since the EDP debt is accounted for on a consolidated basis, resulting in an increase in the deficit-debt adjustment from 0.4% of GDP recorded in 2013 to 0.6% (Table 4.5.1.).

At the end of 2015, the public debt will represent 98.9% of GDP, a figure 1.2 points higher than that recorded at the end of 2014. This increase is mainly explained by a foreseen deficit of 4.2% of GDP in 2015, to which a deficit-debt adjustment of 0.4% will be added, substantially offset by the nominal GDP increase, with an effect on the debt/GDP ratio of -3.4 points.

Table 4.5.1. Debt stock-flow adjustment in 2014

% of GDP

	2014
Stock-flow adjustment	0.6
Financial assets	4.0
Accounts payable	0.3
Operations within General Government	-3.1
Others adjustments	-0.6
Source: Bank of Spain.	

As seen in Table 4.5.2, the debt/GDP ratio will peak in 2015, starting its reduction as of 2016. An improvement in the primary balance that will record surplus in 2016, as well as the change of sign of the difference between the implicit debt interest rate and the nominal GDP growth will contribute to this decline.

Table 4.5.2. Public debt dynamics

% of GDP

	2014	2015	2016	2017	2018	Variation 2014-2018
1. Gross debt level	97.7	98.9	98.5	96.5	93.2	
2. Variation in the debt level	5.6	1.2	-0.4	-2.0	-3.3	-4.4
Contributions to the variation in the debt level						
3. Primary budget balance	-2.5	-1.1	0.1	1.2	2.2	2.3
4. Interests paid	3.3	3.1	2.8	2.6	2.5	11.0
5. Effect of nominal GDP growth	-0.8	-3.4	-3.7	-4.0	-4.2	-15.2
6. Other factors (debt-deficit adjustment)	0.6	0.4	0.5	0.6	0.6	2.1
p.m.: Implicit interest rate	3.58	3.24	2.98	2.79	2.68	
Source: Ministry of Economy and Competitiveness.						

4.6. Cyclical orientation of the fiscal policy

To analyze the focus of the fiscal policy, this Stability Programme Update provides the growth rates of real GDP foreseen for the period 2015-2018, as well as the estimates of potential GDP growth and the contributions of its main components (Table 4.6.1.), following the methodology of the production function used by the European Commission and agreed within the Output Gaps Working Group (OGWG).

As in the previous Stability Programme Update, some statistical changes have been incorporated in order to obtain estimates that are more accurate and consistent with the cyclical situation of the Spanish economy. In particular, short-term population projections published by the INE (National Institute for Statistics) in October 2014 have been used, as they are more recent than those published by Eurostat.

Table 4.6.1. shows the projected growth rates for the real GDP in the period 2015-2018, along with the estimated potential GDP and the contributions to growth from its main components.

Table 4.6.1. Cyclical performance (1)

% of GDP, unless otherwise specified

	2014	2015	2016	2017	2018
1. Real GDP growth (percentage %)	1.4	2.9	2.9	3.0	3.0
2. Borrowing requirements (Net lending (+) / borrowing (-)	-5.8	-4.2	-2.8	-1.4	-0.3
3. Interests	3.3	3.1	2.8	2.6	2.5
4. Temporary measures	-0.5	-0.3	-0.1	0.0	0.0
5. Potential GDP growth (variation %)	0.1	0.4	0.6	1.0	1.2
Contributions:					
- total factor productivity	0.4	0.4	0.4	0.4	0.4
- labour	-0.5	-0.3	-0.1	0.1	0.2
- capital	0.2	0.3	0.4	0.5	0.6
6. Output gap	-8.2	-5.9	-3.8	-1.9	-0.2
7. Cyclical balance	-4.5	-3.2	-2.1	-1.0	-0.1
8. Cyclically adjusted balance (2-7)	-1.3	-1.0	-0.7	-0.4	-0.2
9. Cyclically adjusted primary balance (8+3)	1.9	2.1	2.1	2.3	2.3
10. Structural balance (8-4)	-0.9	-0.7	-0.6	-0.3	-0.2
11. Primary structural balance (10+3)	2.4	2.3	2.3	2.3	2.3

(1) Using Potential GDP (output function) NAWRU calculated with a forward-looking Phillips Curve.

Source: Ministry of Economy and Competitiveness.

The potential GDP, after the minimum low reached in 2013, begins an expansionary path in 2014, with growth rates rising gradually and reaching over 1% at the end of the forecast period. This acceleration is due both to the recovery of the labour factor, that after six years of negative contributions comes into positive in 2017 and 2018, and to the rising profile of capital, while Total Factor Productivity (TFP) maintains a constant contribution in the forecast period.

The gradual recovery of the labour factor is due to the reduction of the structural unemployment rate and the increase of the potential participation rate, which more than offset the reduction of working age population - due to the balance of net-migration flows - and other factors. On the other hand, the capital growing profile, with contributions between 0.3 and 0.6 percentage points, is explained by the dynamism of gross fixed capital formation throughout the entire projection horizon. Finally, the TFP contribution to potential growth remains stabilized at four tenths in the period 2013-2018.

As a result of real and potential GDP evolution, the output gap, after reaching the maximum difference between potential and effective (-9.4%) in 2013 and falling by more than one point in 2014, will continue to decline in the period 2015-2018, until almost disappearing (-0.2%) at the end of the time horizon.

From the output gap, the projected path of public deficit has been broken down into its cyclical and cyclically adjusted components. As shown in Table 4.6.1., the cyclically adjusted balance approaches equilibrium, reaching -0.2% of GDP in 2018.

On the other hand, to properly understand the evolution of the structural balance reference should be made to the temporary measures considered. The 2014 measures include two types of actions. First, € 1.2 billion of public financial assistance to the financial institutions are included, causing an impact on the public deficit, as well as € 3.6 billion relating to other temporary measures among which it is worth noting the social security flat rate, spending on Mutual Insurance Companies for Occupational Accidents and the Wage Guarantee Fund (known in Spanish as FOGASA) corresponding to previous years and refunds of the health cent. In 2015, it is considered that the amount of temporary measures will reach to € 3 billion. Among those measures, the flat rate and the minimum exempt from the contribution base, the 25% return of the bonus pay of 2012 to public servants and employment policies stand out (see details in section 4.3.).

Between 2013 and 2015, the accumulated structural effort amounts to 2.2 percentage points of GDP (Table 4.6.1.), compared with the 2.7 points in last year's Stability Programme. However, it should be noted that most of the effort required was carried out between 2012 and 2013, when the accumulated structural effort amounted to 4.2 points of GDP. Front-loading the fiscal effort to the first years has favoured a quicker return of confidence. Overall, the cumulative effort of 2012 to 2015 is 4.8 points versus the 4.9 points in the 2014-2017 Stability Programme. Thus, the structural primary balance is already in surplus since 2012, reflecting the shift in the orientation of fiscal policy since that year.

In order to analyze this effort reduction, it should be noted that, both the cyclical balance and the output gap are modified compared to the previous Stability Programme. The output gap is reduced in absolute value due to an upward revision of the real GDP growth stronger than the potential growth.

The most intense reduction of the output gap results, by self, in a greater variation of the cyclical balance. Furthermore, the transition from a semi-elasticity of 0.48 in the previous Programme to another of 0.54 adds to the latter. As a result, in this Update the cyclical balances experience greater variations than last year.

As forecast headline fiscal balances remain unchanged compared to the 2014-2017 Stability Programme, the result is a lower variation in the structural balance, that is, a structural effort apparently lower than that announced in the previous

Programme[3]. The main causes of this change are found in the upward revision of the economic growth and exogenous factors, such as the base change on the National Accounts System and the highest estimate of the semi-elasticity, so it cannot be considered a change in the fiscal policy stance. Finally, the difference in one-off measures completes the explanation for the lower structural adjustment.

Regarding the resulting structural efforts, it can be seen that in 2015 it would amount to 0.2 percentage points, six tenths lower than the figure estimated by the European Council in its Recommendation of June 2013 under the previous methodology. In 2016, 2017 and 2018 the structural effort remains at 0.2 percentage points.

In addition, based on other complementary metrics, the Spanish economy continues the effort carried out, although with less intensity than in previous years. Indeed, changes in the cyclically adjusted primary balance, as a rough indicator of the fiscal policy focus, stands between 2015 and 2018 at 0.2, 0.1, 0.1 and 0.0 percentage points of GDP, respectively.

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

The current Code of Conduct of the Stability and Growth Pact adopted by the ECOFIN Council in January 2012 establishes the obligation to extend the forecasts of the main macroeconomic variables until the medium-term objective (MTO) is met, a structural deficit of 0.5% of GDP maximum, or the one resulting from the sustainability conditions if it was more demanding, as well as detailing the main variables of the path to be followed in order to achieve this goal. In the case of Spain, the medium-term objective established by the Organic Law on Budget Stability is even more ambitious, reaching structural balance. This section aims to provide a time reference of when both targets could be met.

To determine the structural balance and time in which the medium-term objective could be reached, the methodology of the European Commission for calculating the potential GDP is used.

Table 4.7.1. shows the macroeconomic projections until 2018, year when the structural deficit is virtually null (0.2%). The MTO would be reached in 2019, with a reduction of the structural deficit in two tenths this last year and achieving a structural balance, one year before the deadline set in the Organic Law on Budgetary Stability and Financial Sustainability.

[3] The Opinion of the Commission of November 2014 on the Draft of Spain's Budgetary Report explicitly reflects that the structural balance would be underestimating Spain s true fiscal effort.

Table 4.7.1. Medium Term Objective (MTO) Convergence

% of GDP, unless otherwise specified

	2014	2015	2016	2017	2018
1. Net lending (+) / Net borrowing (-) of General Government (2+3+4)	-5.8	-4.2	-2.8	-1.4	-0.3
2. Structural balance	-0.9	-0.7	-0.6	-0.3	-0.2
3. Cyclical balance	-4.5	-3.2	-2.1	-1.0	-0.1
4. One-offs and other temporary measures	-0.5	-0.3	-0.1	0.0	0.0
5. Net lending (+) / Net borrowing (-) of General Government (6+7)	-5.8	-4.2	-2.8	-1.4	-0.3
6. Revenues	37.8	37.8	37.8	38.0	38.1
7. Expenditures	43.6	42.0	40.6	39.5	38.4
Amounts to be excluded from the expenditure benchmark	5.1	4.5	3.9	3.7	3.2
7.a Interest expenditure	3.3	3.1	2.8	2.6	2.5
7.b Expenditure on EU programmes fully matched by EU funds	0.5	0.7	0.7	0.7	0.7
7.c Cyclical expenditure in unemployment benefits	1.0	0.7	0.4	0.2	0.0
7.d Effects of discretionary revenue measures	0.4	0.0	0.0	0.1	0.0
8. Tax burden	33.7	33.8	33.8	34.2	34.4
9. Gross debt	97.7	98.9	98.5	96.5	93.2

(1) NAWRU calculated using a forward-looking Phillips Curve.
Source: Ministry of Economy and Competitiveness.

5. COMPARISON WITH THE PREVIOUS STABILITY PROGRAMME. SENSITIVITY ANALYSIS

5.1. Comparison with the previous Stability Programme

Table 5.1.1. shows a comparison of estimates in this Stability Programme Update with those of the 2014-2017 Update. The main differences between each update are in the revision experienced by the economic growth forecasts. While the previous update foresaw a gradual acceleration of economic growth from 1.2% expected for 2014 to 1.8% in 2015, the current programme includes in 2014 a two tenths of a percentage point higher growth and a 2.9% growth in 2015. The latest available indicators and the favourable economic environment suggest an upward revision of growth, averaging approximately 3% in 2015-2018.

Table 5.1.1. Differences with the previous Stability Programme update

	2014	2015	2016	2017	2018
GDP (% volume growth)					
Previous update	1.2	1.8	2.3	3.0	
Current update	1.4	2.9	2.9	3.0	3.0
Difference	0.2	1.1	0.6	0.0	
Budget Balance (% GDP)					
Previous update	-5.5	-4.2	-2.8	-1.1	
Current update	-5.8	-4.2	-2.8	-1.4	-0.3
Difference	-0.3	0.0	0.0	-0.3	
Gross Debt (% GDP)					
Previous update	99.5	101.7	101.5	98.5	
Current update	97.7	98.9	98.5	96.5	93.2
Difference	-1.8	-2.8	-3.0	-2.0	
Source: Ministry of Economy and Competitiveness.					

The fiscal adjustment path, after a slight deviation of the public deficit in 2014 compared to that foreseen due to the reasons already mentioned, returns to the evolution set in the previous Update in 2015 and 2016, as required by the recommendation of the ECOFIN Council of June 2013. The compliance with this adjustment path implies that in 2017 the excessive deficit procedure for Spain will be closed and Spain will shift from the corrective to the preventive arm of the Stability and Growth Pact. The fiscal adjustment will continue in 2017 and 2018 and it will allow complying with the mandate of the Organic Law on Budgetary Stability and Financial Sustainability a year in advance, which requires achieving structural budget balance in 2020.

Finally, the higher than expected growth rate during the period and the upward revision of the GDP in 2014 resulted in debt/GDP ratios lower than those foreseen the previous Update. The highest ratio level will be reached in 2015, at 98.9% of GDP and this is lower than the 101.7% forecast in the previous Stability Programme. In 2018 it is expected to converge to 93.2% of GDP.

5.2. Risk scenarios and sensitivity analysis

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

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

The exchange rate would primarily affect the GDP through net exports. This circumstance led to simulate a negative demand shock through lower demand from trading partners. This is, again, an unlikely scenario, as growth in the EU is giving positive surprises and the EU is the main destination for Spanish exports, so the exchange rate risk is small, even with countries that do not belong to the Eurozone.

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

Simulations were carried out using the REMS model[4], a dynamic general equilibrium model with a rigorous microeconomic basis applied to the Spanish economy.

5.2.1. Sensitivity to interest rates

The effect on the main macroeconomic aggregates of increasing the interest rate by 100 basis points (b.p.) in four quarters (25 b.p. each quarter) and keep it at that level for the four years of the forecast period, to return to its initial value, as of 2019 was analyzed.

According to the results detailed in Table 5.2.1.1, GDP could fall by approximately 0.8% compared to its level in the baseline scenario at the end of the projection period, dragged down by the lower trend of domestic demand.

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

With regard to fiscal variables, they would be impaired by such a situation. First, the public balance would be affected by lower tax collection and higher spending on social benefits, in an environment where domestic demand and job creation are lower. Besides, the increase in rates means higher interest payments, although the REMS model may overestimate this effect by assuming that all the debt is short-term debt, which forces to roll it over in each period. In practice, an increase of 100 b.p. in interest rates would have a lower impact on interest payments since a large percentage of the debt is medium or long term debt. At the end of the forecast period deficit and public debt are higher than in the baseline scenario by 0.6 and 2.5 percentage points of GDP, respectively.

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

Deviations accumulated on the baseline scenario

	2015	2016	2017	2018
Real GDP	-0.6	-0.4	-0.6	-0.8
Private consumption	-0.7	-0.5	-0.6	-0.6
Public balance (% of GDP)	-0.3	-0.4	-0.6	-0.6
Public debt (% of GDP)	0.9	1.3	1.8	2.5
Employment (workers)	-0.2	-0.2	-0.4	-0.5
Source: Ministry of Economy and Competitiveness.				

5.2.2. Sensitivity to economic growth of the trade partners

The effect on the main macroeconomic aggregates of an export market growth 4% lower than assumed in the baseline scenario was analyzed. This shock kicks in gradually over the first four quarters and is maintained at that level for the four years of the forecast period, to gradually return to its initial value beyond the forecast horizon.

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

The fiscal variables are also affected by this adverse scenario, although less than in the previous shock scenario. At the end of the forecast period, public deficit and public debt are higher than in the baseline scenarios by 0.1 and 0.8 percentage points of GDP, respectively

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

Deviations accumulated on the baseline scenario

	2015	2016	2017	2018
Real GDP	-0.4	-0.3	-0.4	-0.4
Private consumption	-0.3	0.0	-0.2	-0.2
Public balance (% of GDP)	-0.1	-0.1	-0.1	-0.1
Public debt (% of GDP)	0.5	0.6	0.7	0.8
Employment (workers)	-0.2	-0.2	-0.3	-0.3
Source: Ministry of Economy and Competitiveness.				

5.2.3. Oil price change

The effect on the main macroeconomic aggregates of a rise in oil prices from the current scenario, with an oil prices profile of $ 61.5/barrel in 2015 and $ 68.8/barrel from 2016 to 2018 to a scenario in which oil prices stand in average at $ 67.7/barrel in 2015 and at $ 75.6/barrel in the rest of the period, has been analyzed. These prices, under the assumption of a stable euro dollar exchange rate, result in an oil price level 10% higher in each of the years with regards to the programme assumptions that already include a $ 6.3/barrel rise in 2016. This shock kicks in gradually in the first four quarters and remains at that level for the four years of the simulation exercise, to return to its initial value as of 2019.

According to the results detailed in Table 5.2.3.1., GDP could fall about 0.3 percentage points below its level in the baseline scenario at the end of the projection period, primarily as a result of the higher oil prices. Fiscal variables would also be impaired by this more adverse scenario, although less than in the interest rate shock case and to a similar extent to the shock of a lesser external demand case. At the end of the forecast period, the deficit and public debt are higher than those in the baseline scenario by 0.2 percentage points and 0.7 percentage points of GDP respectively.

Table 5.2.3.1. Effect of a 10% oil price increase

Deviations accumulated on the baseline scenario

	2015	2016	2017	2018
Real GDP	-0.1	-0.3	-0.3	-0.3
Private consumption	0.0	-0.2	-0.2	-0.2
Public balance (% of GDP)	-0.1	-0.2	-0.2	-0.2
Public debt (% of GDP)	0.2	0.3	0.5	0.7
Employment (workers)	-0.1	-0.3	-0.3	-0.2
Source: Ministry of Economy and Competitiveness.				

6. THE SUSTAINABILITY OF PUBLIC FINANCES

6.1. Long-term budgetary projections

Projections regarding age-related public expenditure, by the Ageing Working Group (AWG) of the Economic Policy Committee (EPC) and the European Commission, are generally made every three years by mandate of the ECOFIN Council. The latest projections published are those contained in the Ageing Report of May 2012 (AR2012). Presumably, in May 2015 a new Ageing Report (AR2015) will be published and it will include the latest projections made during the second half of 2014.

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

In the case of Spain, the new projections made by the Ministry of Economy and Competitiveness, were evaluated as plausible in the AWG meeting held on 28th October 2014. Subsequently, the EPC, in its meeting of 18th and 19th February 2015, endorsed the results. In this update, the impact of pension reforms adopted in 2013, both on sustainability of public finances in the long-term and on macroeconomic prospects is quantified. Table 6.1.1 shows national projections approved by the EPC and the effect of the reform on spending.

Table 6.1.1. 2013-60 Projections of age-related expenditure
% of GDP

	Increase 2013-2060	2013	2020	2030	2040	2050	2060
TOTAL EXPENDITURE (1+2+3+4+5)	**-0.8**	**25.4**	**25.0**	**23.5**	**24.2**	**25.7**	**24.6**
1. Pension Expenditure	-0.8	11.8	11.8	11.2	11.9	12.3	11.0
Old age and early retirement Pensions [(a)]	0.0	8.3	8.6	8.3	9.1	9.6	8.3
Disability Pensions	-0.4	1.2	1.1	1.0	1.0	0.8	0.9
Survivor Pensions	-0.5	2.3	2.1	1.9	1.9	1.9	1.8
2. Healthcare Expenditure	1.1	5.9	6.2	6.6	7.0	7.1	6.9
3. Long-Term Care Expenditure	1.4	1.0	1.2	1.3	1.6	2.1	2.4
4. Education Expenditure	-0.8	4.6	4.1	3.4	3.1	3.6	3.7
5. Unemployment Expenditure	-1.7	2.2	1.7	1.0	0.6	0.6	0.5
Pro-memoria: Impact of Pension Reform							
Pension Expenditure Pre-Reform (Ageing Report 2015)	3.3	10.4	10.6	10.6	12.3	14.0	13.7
Pension Expenditure Pre-Reform (Macroeconomic Scenario)	1.7	11.8	12.5	13.0	14.6	15.8	13.5
Saving for reform of 2013		0.0	0.8	1.8	2.7	3.4	2.5
Pro-memoria: Main Assumptions							
Potential GDP growth [b]	1.4	-0.4	1.7	1.7	0.8	1.5	2.2
Growth of Labour Productivity [b]	1.4	1.4	0.7	1.4	1.5	1.5	1.5
Male Participation Rate (15-64)	-0.5	79.9	79.5	79.2	79.9	80.1	79.3
Female Participation Rate (15-64)	10.0	68.4	73.5	77.2	79.3	78.9	78.4
Total Participation Rate (15-64)	4.7	74.2	76.5	78.2	79.6	79.5	78.9
Unemployment Rate (15-64)	-19.0	26.5	19.5	12.3	7.5	7.5	7.5
Population over 64/Population 15 to 64	26.4	26.8	30.7	40.2	54.3	62.3	53.2

(a) *Includes minimum and non-contributory pensions.*
(b) The column "Increase 2013-2060" is the 2013-2060 average growth rate.
Sources: Ageing Report 2015 (expected to be published in May 2015), Ministry of Economy and Competitiveness, OECD, UOE, ESSPROSS.

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

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

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

As for the pension system reforms of 2013, the following sections discuss their contents in detail. The estimated impact of all reforms combined results in an expenditure moderation of 2.5 percentage points of GDP in 2060 compared to the projections without reform based on the new macroeconomic scenario.

Regarding the last Stability Programme Update, the differences in the pension expenditure on GDP ratio are due to the new demographic and macroeconomic scenario, since pension reforms of 2013 were already considered then. Thus, in the latest revision, pension expenditure in 2013 amounted to 11.8% of GDP, 1.4 percentage points more than in the previous Programme, due to the aforementioned downward revision of GDP. However, in the rest of the projection horizon the pension expenditure presents a similar profile, with a slow but steady increase between 2013 and 2050 (+0.5 percentage points) and a sharp drop between 2050 and 2060, especially noticeable in the current revision (-1.3 percentage points) as a result of the impact of favourable demographics in this decade. Thus, in both cases 2060 ends with an expenditure level on GDP slightly below the baseline level (-0.8 percentage points in the most recent year and -0.4 percentage points in the 2014 Programme). This result reflects the main strength of the Index for Pension Revaluation: it tends to stabilize the pension expenditure on GDP around its starting point, provided reasonable macroeconomic assumptions and initially balanced Social Security accounts.

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

6.2. Strategy

The deepening on the reform of the pension system

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

In 2013 two important reforms have been adopted: first, the Royal Decree-Law 5/2013, of 15th March, on measures to encourage the continuity of the working life for older workers and to promote active ageing; and secondly, the Law 23/2013, of 23rd December, regulating the sustainability factor and the index for revaluation of the pension system, which reflects the recommendations made by the Committee of Experts on the sustainability factor in its report dated 7th June 2013.

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

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

This factor ensures intergenerational equity, i.e., that the generosity of the pension system is the same for all retirees, regardless of life expectancy of the cohort to which they belong to. It also protects the system against the longevity risk.

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

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

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

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

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

To prevent falls in the average pension in nominal terms, the law establishes a floor for the IPR of 0.25%. For symmetry, a ceiling has also been introduced at the inflation rate plus 0.5%.

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

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

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

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

Consolidation of public finance and Social Security Reserve Fund

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

As a result of the revisions of the budget balance and the pension reforms undertaken by Spain in 2013, the S2 sustainability indicator improved significantly. On one hand, the Commission's Autumn Forecasts for 2014 foresee a structural primary balance at the end of the forecast period of 0.5% of GDP for 2016, much more favourable than that forecast in the autumn of 2013 (-2.2% of GDP in 2015). This balance is kept constant throughout the projection horizon of S2 in the "no policy change" scenario. In addition, the debt baseline is slightly lower in the most recent forecast: 102.1% of GDP in 2016, compared to 104.3% of GDP in 2015 in the autumn of 2013. Both factors contribute to reduce almost to zero the Initial Budget Position component of S2.

As a result of the pension reforms of 2013, the Long Term Change component has contracted by almost 3 points of GDP, negatively contributing to the S2, both because of the expectations of employment and GDP increases, and particularly because the cost containment effort. Thus, the S2 went from requiring a fiscal adjustment of the primary structural balance to meet the intertemporal budget constraint over an infinite horizon of 5.6 percentage points, to -0.6 percentage points of GDP.

Table 6.2.1. Summary of S2 indicator

% of GDP

	Autumn 2013	Autumn 2014
S2	**5.6**	**-0.6**
Initial Budgetary Position	3.8	0.4
Long Term Change	1.9	-1.0

Source: Debt Sustainability Monitor (Autumn 2014). European Commission No Policy Change scenario.

On the other hand, it should be noted that due to the surpluses accumulated by the Social Security in the past, the pension system has reserve assets available to meet future needs for contributory benefits. Thus, from its inception in 2000, subsequent allocations to the Social Security Reserve Fund allowed it to accumulate € 47.9 billion (4.57% of GDP) in December 2014, according to the market value, after the amounts the Social Security used to meet the payment of pensions (€ 34 billion) were deducted.

The average annual return of the fund stands at 5.08%. The management policy of reserve assets of the pension system, held in 2014, is based on principles of security, profitability, risk diversification and adaptation to the time horizon of fund inflows and arrangement thereof for coverage of contributory pensions.

Healthcare and pharmaceutical expenditure control

The urgent measures to guarantee the National Healthcare System and improve the quality and security of the benefits approved in the *Royal Decree-Law 16/2012*, of 20th April, have allowed tackling the strong debt that the health system suffered in late 2011 and to consolidate and develop the healthcare provided with the optimization of the resources available.

Thanks to the abovementioned Royal Decree-Law and its implementing regulations, welfare benefits have been maintained and improved both in quantity and quality. Despite the complex economic context in recent years, it has been possible to keep the healthcare public expenditure at € 68.6 billion (2012). Furthermore, pharmaceutical expenditure with prescription from the NHS stood at € 9.770 billion in 2012, € 9.183 billion in 2013 and € 9.363 billion in 2014, with declines of -12.25%, -17.53% and -15.88% compared to 2011.

As a whole, the estimated savings between 1st July 2012 and 31st December 2014, for the implementation of the several efficiency measures included in the healthcare reform and other measures of pharmaceutical and health policy reached € 6.9 billion.

One of the factors that has contributed the most to this reduction in spending has been the successful implementation of various efficiency measures in pharmaceutical spending. The total savings achieved by the different rationalization measures of the public expenditure in pharmacy since the implementation of the measures included in healthcare reform in July 2012 up to December 2014, has exceeded € 4.3 billion. To achieve this important level of efficiency, the following measures have been decisive, among others:

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

As relevant data, the National Health System reported in 2013, for the first time, a percentage of generics consumption of 46.52% compared with the 34.16% registered in 2011. These data bring our country close to the European average (55%) in the dispensing of these drugs.

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

Another measure that has achieved significant savings has been the implementation of the Centralized Purchase Platform. Through this platform significant benefits are being obtained for the NHS which will continue in the coming years, especially for patients, professionals and suppliers of the System, since the quality and equity of the acquired products is improved through their technical improvement, standardization and homogenization. At the same time, the Platform has established a market stability scenario for suppliers, applying economies of scale to drugs and health products supplies, as well as the Framework Agreements for the selection of vaccine suppliers. Regional Governments can voluntarily join in these Agreements.

The Human Resources section deserves a special mention, as it implemented actions aimed at achieving greater effectiveness and efficiency both in the training of healthcare professionals and in the management of the work force by the Public Administrations. These measures are, on one hand, the reform of the Specialized Healthcare Training system through the implementation of a Backbone model, and on the other, the creation of a State Register of Healthcare Professionals.

The backbone training model will favour an overall view of the different specialties, so they will stop being pockets isolated from one another, and through the re-specialization, it will allow mobility and competence of professionals, as well as adaptation to the needs of each healthcare system.

In terms of innovation, the draft law favours educational scientific activities both in the training period of the specialty and through the specific training areas, which has as one of its fundamental objectives the high specialization (this requires a high competition level linked to development and research innovation). From the employment point of view, the labour market becomes more flexible by providing specialists with a more extensive training that will allow them to adapt to the ever changing needs of the healthcare system from all points of view, welfare, organizational and scientific.

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

In addition, the State Register of Healthcare Professionals will improve efficiency of the NHS in terms of management of human resources, as it will provide health Public Administrations accurate information to facilitate the improvement of planning of healthcare professionals needs at state level and the coordination of human resources policies.

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

Streamlining of the long-term care system

Structural data and the most significant figures in long-term care expenditure revealed the need to correct a situation which endangered the viability of the Dependency System. To this end, Royal Decree-Law 20/2012 of 13th July, on measures to guarantee budget stability and promote competitiveness, established, among others, measures on the amounts corresponding to the Minimum Level of guaranteed protection; the maximum amount of economic benefits for family care; the elimination of state financing of Social Security contributions for non-professional caregivers; and the modification of the schedule of services and benefits application for people in a situation of Moderate Dependency, postponed until July 2015.

The measures included in this Royal Decree-Law undertook improvements in order to guarantee sustainability, and have allowed achieving the budget savings objectives planned for 2012-2014. Thus, accumulated savings from July 2012 up to 2014 are estimated at € 1.5 billion.

To do this and maintaining the special Social Security Agreement, the General State Administration is no longer forced to contribute to the Social Security for non-professional careers. The transparency and contribution monitoring has also improved by means of an information system that provides a true reflection of the management carried out by the Regional Governments. Finally, based on the principle of equality of the Law, in accordance with the Regional Governments, within the Territorial Council of the System for Autonomy and Long-Term Care, common criteria have been established for determining the economic capacity (income and equity) of beneficiaries and the criteria for their contribution to the cost of the service.

In short, a more fair and caring model has been set up; job creation has been boosted; the regulation has been simplified, ordered and updated, adapting the services to the real needs and different degrees of dependency, prioritizing professional services and ensuring the exceptionality of providing care in the family environment.

6.3. Contingent liabilities

The latest available information on the guarantees granted by the General State Administration, referred to the 31st of December 2014 is presented in this section:

i) **Guarantees from Royal Decree-Law 7/2008 on Urgent Economic-Financial Measures of the Concerted Action Plan in Eurozone Countries**. In Article 1, this regulation authorized the granting of State guarantees to any issues made from credit institutions after its coming into force. The outstanding balance of this concept is € 8.7 billion, substantially below the € 46.6 billion registered in December 2013.

ii) **Guarantees for issues of the Electricity System Deficit Securitization Fund**, whose most recent regulation is in Royal Decree-Law 6/2010 of 9th April. The outstanding balance at the end of 2014 stood at € 22.3 billion, below the € 23.2 billion registered in December 2013.

iii) **Guarantees for issues of the European Financial Stability Facility**, by virtue of Royal Decree-Law 9/2010, of 28th May, for an amount of € 39.1 billion, above the € 35.1 billion registered at the end of 2013.

iv) **Guarantees for issues of Securitization Funds for SME Financing**, regulated in Article 55 of Law 17/2012, of 27th December, on the Spanish National Budget for 2013: its outstanding balance is € 938 million, below the € 2.1 billion registered at the end of 2013.

v) **Guarantees for issues of the Fund for Orderly Bank Restructuring (FROB),** created by virtue of Royal Decree-Law 9/2009, on bank restructuring and strengthening of credit institution equity, which shows an outstanding balance of € 2.5 billion, below the € 8.8 billion registered a year earlier.

vi) **Guarantees for issues of the Management Company for Assets from the Banking Sector Reorganization (Sareb)**, created by virtue of Law 9/2012, of 14th November, on the restructuring and shutdown of credit institutions, whose outstanding balance is € 46.4 billion, compared to the € 49 billion registered on 31st December 2013.

vii) **Guarantees to non-classified institutions**, with an outstanding amount of € 519 million, below the € 591 million registered in 2013.

Summarizing, the total risk assumed by the State for guarantees amounted to € 120.5 billion on the 31st of December 2014, almost € 45 billion less than in December 2013.

7. THE QUALITY OF PUBLIC FINANCES

7.1. Composition of expenditure. Spending review

The fiscal consolidation process in Spain has been accompanied at all times by the implementation of a series of structural reforms that have affected most areas of activity in the Spanish economy.

One of the targets of these reforms is the modernization of Public Administrations, as well as the rationalization of their structures and efficiency sought in their actions, particularly in spending. In this respect significant advances have been registered, which will be presented in the following sections.

7.1.1. CORA

The reform process of Public Administrations is driven by the Commission for the Reform of Public Administrations (known in Spanish as CORA), which on 21st June 2013 published a comprehensive report with numerous proposals for the restructuring and rationalization of the Spanish Public Administrations. The detailed reference to CORA is in Chapter 4 on fiscal strategy.

In order to ensure the implementation of the measures included in this report, assume their monitoring, promotion, coordination and, where appropriate, propose new measures, the Office for the implementation of the administration reform (known in Spanish as OPERA) was created. Indeed, since its creation, this Office has carried out a comprehensive monitoring of the progresses made in each of the action areas identified and published regular monitoring reports.

7.1.2. REGIONAL GOVERNMENTS. Spending review

In the specific area of the Regional Governments, the proposals made in the Council for Financial and Fiscal Policy (CPFF) must be mentioned. They refer to the spending review, specifically in education and health and it is worth highlighting the progresses achieved in improving the efficiency of healthcare spending.

Spending review. Health and pharmacy measures

The working group was established by Agreement 1/2014 of the CPFF in its meeting held on 26th June 2014.

The intense works carried out in July 2014 allowed the collection of over 450 measures by the Regional Governments, which were presented in a systematic catalogue dated 17th July 2014.

These set of measures are raised on a number of actions in order to ensure an improvement in the efficiency of regional public expenditure. This information has been included by the Regional Governments and the Ministry of Finance and Public Administration in the evaluation and analysis of the actions to enable compliance with the fiscal consolidation path.

Nevertheless, in response to the Recommendation of the European Council published in June 2014 on the National Reform Programme, indicating the need for a systematic review of spending at all levels of the Government and improving the rationalization of health and pharmaceuticals expenditure, it is necessary to make a special mention to the steps that are being taken in order to improve the evaluation and control of regional spending in the healthcare sector. Thus, work is being carried out on the adoption of regulatory and collaboration tools with the Regional Governments and associations representing business sectors for a continuous and permanent evaluation of the elements involved in the evolution of pharmaceutical and healthcare products spending, in order to anticipate the necessary steps to ensure the sustainability of healthcare spending.

The control of healthcare and pharmaceutical spending has undergone numerous measures that have resulted in a significant containment in recent years. Particularly noteworthy is the effort made in the pharmaceutical field, where the official prescription from the National Health System reported a significant slowdown, from a 6.9% growth in 2008 to an 8.8% reduction in 2011, 12.26% in 2012 and 6.01% in 2013. However, in 2014 a slight increase of 1.95% has been observed over the previous year, demonstrating how advisable it is to adopt the necessary measures to ensure sustainability, in the way it is currently being adopted. In any case, the public expenditure due to official prescription from the National Health System for 2014 recorded a decrease of 15.9% on spending for 2011, prior to the implementation of reforms in the field.

The effort achieved in this expenditure item is primarily the result of the measures adopted in Royal Decree Law 16/2012, which have an impact on the reduction in pharmaceutical expenditure from the supply side, with the price reduction, the enhanced use of generics, the application of reference prices system and the reduced funding for drugs for minor symptoms.

As for the demand side, public spending on drugs has been limited since 2012 by means of new contributions from the user side. These contributions are more equitable and fairer, arranged in such a way that users with more means contribute more, while protecting users with lesser means. This measure also has a discouraging effect on the unnecessary accumulation of drugs at home.

In 2014 the prescriptions issued had grown by 1.06%, while in previous years a significant reduction had been undertaken. The result has been a reduction of 54 million in prescriptions issued in 2013, in other words, 5.94% less. Before the reform came into effect in July 2012, when the new user contributions came into force, the number of prescriptions was growing at a rate of 2.23% (cumulative from January to June 2012 compared to the cumulative from January to June 2011). Concurrently, the average prescription spending has remained at € 10.7 in 2012 and 2013, increasing slightly to € 10.8 in 2014.

In any case it is noteworthy that generics consumption continues to increase and currently accounts for 47% of invoiced packaged drugs, compared to the 34.1% in 2011.

In addition, the fact that almost 1,000 marketed drugs have decrease their prices and the encouragement to prescribe generic drugs abovementioned also contributed to pharmaceutical savings.

Health sustainability measures for 2015

Since mid-2014 a series of works have been conducted, together with the Ministry of Health and the leading industry players in order to improve efficiency, sustainability and quality of public health services. So, the amendment of Law 14/1986 of 25th April, General for Health, is undergoing parliamentary process, which is expected to be approved in the near future.

Through this regulatory amendment, transparency and sustainability of health spending is boosted by establishing a system of providing information on a monthly basis by the Regional Governments and its publication through the Central Information Office. It is expected that the first remission takes place in June 2015. The content of the information to be provided shall cover data on the pharmaceutical and healthcare spending, both for in and out-patients, data on actual spending in the health sector, especially in relation to hi-tech healthcare equipment for hospital use and the measures taken and their degree of progress, to improve the healthcare system efficiency and sustainability.

Moreover, a new tool to support its sustainability has also been created and the Regional Governments can join in. Those adhered will be subject to limits on healthcare spending that will be monitored in detail by the MINHAP and under annual evaluation, so that the y-o-y variation in its pharmaceutical and healthcare product expenditure may not exceed the Spanish economy medium term GDP reference rate, consistent with the spending rule under the Organic Law on Budgetary Stability and Financial Sustainability. With the current data on nominal average potential growth, this rate is estimated at 1.4% in 2015 and 1.6% in 2016, reaching 2.1% in 2018. This rate is calculated annually by the Ministry of Economy and Competitiveness in the progress report provided by the LOEPSF.

In case of exceeding the spending limits, the adoption of various measures by the Regional Governments may be decided.

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

All in line with the recommendation of the European Council in June 2014 on the National Reform Programme and the Stability Programme, where the need for a systematic review in 2015 of public expenditure to improve efficiency and quality, and the need to further improve the efficiency of the healthcare sector, especially increasing the rationalization of the pharmaceutical expenditure, particularly in hospitals, was indicated.

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

In this sense, additional mechanisms to support liquidity of the Regional Governments, both the FLA programme and the extinct Supplier Payment Mechanism (in its third phase) have been providing a special treatment to Essential Public Services and entities of the so-called Third Sector. Furthermore, the Royal Decree-Law 17/2014 creates a special section, the Social Fund, to meet the outstanding obligations of the Regional Governments with Local Entities derived from collaboration agreements in social matters and other obligations of the same field, which include the associations working with disadvantaged groups.

Restructuring of entities

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

As for its impact the following should be highlighted:

- The restructuring objective of the Regional Governments entities amounted to 508 entities originally planned in early 2012 increased to a total of 834 entities whose reduction is planned for 1st July 2014. This means that the initial commitments have increased by 326 entities more to be extinguished. With the new commitments, the global percentage reduction of 21.43% of the instrumental public sector existing on 1st July 2010 has risen up to 35.18% on 1st July 2014.
- On 1st July 2014, the total processes completed or in a phase very close to their completion, reached 715 entities (implementation percentage of 141% on the initial commitment).
- Estimated savings derived from net effective delisting processes, including on-going processes, amounted to € 2.088 billion (period from 2011 to 2015).

7.1.3. The General State Budget for 2015. CRECE Plan. Social spending

The General State Budget for 2015 increases the efficiency of public expenditure aligning the targets of the national budget with those of the new 2014-2020 financial framework of the European Union budget. In doing so, the investments schedule and implementation is carried out maximizing the use of European funds and exploiting new funding mechanisms available in this new period, such as the use of financial instruments, as well as the participation of the private sector.

This is the approach that has prevailed in the Plan of measures for Growth, Competitiveness and Employment (CRECE Plan), which includes a total of 40 measures of various kinds.

On one hand, it delves into the regulation promoting investment, competitiveness and growth. On the other, investments are concentrated in key sectors, with a carry-over effect on the Spanish economy, to encourage private investment. All this is done in a manner consistent with the fiscal consolidation, by optimizing the use of available public resources and seeking a maximum utilization of EU funds.

Regarding this optimization of European funds, it should be noted that the Plan seeks the collaboration and coordination with the Regional Governments, so that part of the resources of the regional sections can be managed together with those of the State in a coordinated manner. The objective is to avoid duplicities and achieve maximum joint return on investments.

With regard to 2015, the General State Budget contemplates actions to be developed under this Plan for an estimated amount of € 650 million, of which up to € 475 million can benefit from EU co-financing.

Finally, it is important to emphasize the protection of social spending during these years of fiscal consolidation. In this respect the evolution of social spending in relative terms should be analyzed, highlighting that both social spending as a percentage of GDP and its share of total spending (2010-2015) have remained stable. This stability of social spending in a time when revenue has been reduced by approximately 7 points of GDP, denotes the significant efforts undertaken to protect social spending. This reflects the importance given to social spending as an essential element to achieve economic and social cohesion in a country, especially in a crisis situation characterized by heavy job losses, where public support stands as a crucial element to face and overcome the crisis.

Indeed, in the State field, there are a number of social actions that have been protected, among which the following should be noted:

- The allocation of the general System of Scholarships, including scholarships and general aids, and compensation to Universities, have increased their endowment due to the firm belief in the importance of education as a fundamental pillar to improve competitiveness and promote economic growth.
- The unemployment benefits whose levels have been maintained. In addition, measures to support long-term unemployed who had lost their right to receive some kind of unemployment benefit have been implemented, combining financial support with training plans to facilitate their incorporation into the labour market.
- The protection of the pensions, which have been preserved to protect older people with low incomes, as they have a higher risk of poverty, and securing funding by the States of the non-contributory with the financing sources separation. In addition, the approval of the regulations governing the index for pension revaluation should be noted, as it establishes a minimum pension revaluation of 0.25%, thus preventing reductions.

With regard to the consolidated General State Budget for 2015, it should be noted that social spending represents 53.9% of the total consolidated budget and increases by 3.7% in comparison to 2014, excluding the unemployment benefits, whose amount was reduced in 2015 as a result of the favourable evolution of the labour market.

7.2. Composition of revenue

To achieve the fiscal targets, the multilateral recommendations issued to all Member States of the Union and bilateral recommendations received by Spain from the Council in June 2014 have been taken into account. These have been enriched by the bilateral dialogue with the Commission. Thus, a modification of the Spanish tax system as a whole has been built and it culminates with the tax reform. The main objective of this amendment is to establish stable revenues in order to reduce the deficit and shape an undistorted, equitable and modern tax system. For that, the following set of measures has been implemented, as already detailed in Chapter 4:

As part of the tax reform the following objectives have been pursued:

- Encourage economic development, ensure the market unity and tax neutrality and improve the competitiveness of the Spanish economy.
- Increase collection, paying particular attention to the narrowness of tax bases and the fight against fraud without discouraging employment. Creating an environment for growth and incentive of employment.
- Contribute to fiscal consolidation.

By means of the Law 26/2014, of 27th November, amending the Law 35/2006, of 28th November, on Personal Income Tax, the consolidated text of Law on Income tax for non-residents, approved by Royal Decree- Law 5/2004 of 5th March, (as described in Chapter 4 on Fiscal Strategy) the tax burden on taxpayers has been substantially reduced and this reduction intensifies particularly for people with middle and low income and with more family dependents.

On the other hand, in order to increase tax neutrality and reduce tax benefits, a number of measures to reduce the taxable income for certain taxpayers is set.

Likewise, this reform allows improving tax fairness without substantially damaging the collection. Finally in the Personal Income Tax reform, taxation to encourage long-term savings in the Spanish economy by reducing the tax rates applicable to the savings tax base has also been enhanced, while long-term savings mechanisms are being created and entrepreneurship supported.

By Law 27/2014, of 27th November, many elements of the Corporate Income Tax are changed, as noted in Chapter 4 on Fiscal Strategy. The aim is to try broadening the tax bases, simplifying the tax and reducing tax rates gradually in line with the European average: 28% in 2015 and 25% in 2016

The maintenance of the limitation on the deductibility of financial costs, the establishment of the business capitalization reserve and the tax bases equalization reserve for SMEs are added, in order to continue the policy to correct the indebtedness bias and to encourage capital creation.

In line with the recommendations made, and in addition to all these measures that reduce the tax burden of direct taxation, other measures have been adopted in the field of indirect and property taxation. They try to balance the system by increasing their relative weight in both VAT and with the entry into force of a new tax on fluorinated greenhouse gases, which will contribute to achieving the environmental protection objectives, or with the regulatory development that will allow the retroactive levy of the fee for the use of inland waters for electricity production. Also with a new tax, in process, to search and exploit hydrocarbons, also affecting new techniques.

Fight against fiscal fraud

A key element in assessing the tax system quality is the approach towards Tax Fraud. This is an element that not only reduces collection, but affects the overall fairness of the system. Some measures had already been anticipated in the tax reform regulations as discussed in Chapter 4. and a reform of the General Tax Act, currently in process, will be approved in 2015.

First, the publication of a list of high-level debtors and final convicts for tax offences has been planned. It will be authorized the publication of lists of debtors who have debts exceeding € 1 million, once the deadline to voluntarily pay has elapsed, and the publication of judicial decisions which have become definitive and are condemnatory.

In addition, the inclusion of a new anti-abuse rule establishing the penalization of the conflict in the application of the tax law is planned, when it occurs with an abusive and repetitive nature.

In the control of informal sectors field, the indirect estimation method to quantify the tax bases will be modified, expanding and legally specifying the source of the data to be used. This will bring legal certainty and will provide a better instrument to Tax Authorities to fight against the most abusive practices.

In the inspection process area, the verification and investigation powers of the tax inspection will also be expanded. The aim is to establish in a more clear and precise way the terms of the procedure and the distinction by the Administration between the rights to check and settle, allowing the qualification of facts, events, activities, uses and businesses regardless of the qualification given to them by the taxpayer. The deadline for checking offset tax due or bases or pending compensation or of deductions applied or to be applied will be limited to 10 years and that deadline is set to the obligation to retain documentation. Likewise, the increased legal certainty in the tax field is essential. In this regard, new deadlines are set in the inspection procedure. A longer time term of the inspection activities is established: 18 months on a general basis (currently 12) and 27 months for entities within a group or that are required to be audited (now the possibility of extending this by another 12 months is considered). Suspension assessed cases are regulated and assumptions for calculating delays are suppressed.

In the same vein, the tax management actions for verification are enhanced. A new presumption is introduced that will allow distributing linearly the resulting annual fee of the checkings between the various settlement periods. Likewise, the powers of the Tax Administration will be expanded for the limited verification procedure, allowing the examination of the accounting documents which, *motu proprio*, had been provided by the taxpayer. Finally, the effects of the Tax ID number revocation will be extended also to individuals.

In terms of crime against the Public Finance, following the reform of the Criminal Code, which in its latest version allows the possibility that the Tax Administration practices a settlement when evidence of a crime committed against the Public Finance is observed. The method to settle tax debts and to collect them will be developed by the Tax Administration.

The modification of the General Tax Act regulates the formal obligations to implement the project for the immediate supply of VAT information that will become operational in 2017. This new VAT management system based on real-time information of business transactions, will allow bringing forward the tax control tasks, an online control. A better result in tax compliance will be ensured, for control reasons and for taxpayer assistance reasons, since the Tax Agency will prepare fiscal data of the taxpayer with the information received. This will be done for VAT purposes, facilitating the tax return, and relieving the tax payers of annual reporting obligations.

These measures are complemented by others that seek to reduce conflicts, such as the expansion of powers of the Tax Administration bodies to issue binding interpretative or clarification provisions. It is also expected that cases where the contribution or the drawing up of record books is done periodically and by electronic means, to be laid down according to the regulation and a new tax offence is established for violating accounting and registration obligations.

Lastly, a strictly ad-hoc tax procedure in the recovery of aid will be established in cases arising from the application of tax rules.

In the field of fight against International Tax Fraud, measures in line with the recommendations included in the BEPS (Base Erosion and Profit Shifting -OECD) project are included.

In line with these recommendations the aforementioned treatment of hybrids, the non-deduction of an expense when the recipient is not considered to receive incomes or when the income is exempt, is established, provided that there is a relationship between both parties. Likewise, the non-application of the exemption of dividends is established, when its distribution generates a deductible expense for the entity distributing them. On the other hand, the international fiscal transparency system, both in the personal and corporate income taxes, gets tougher in two ways: on one hand, they shall be subject of integration in the tax bases of the Spanish natural person or entity, additionally, unearned income from insurances, industrial and intellectual property, technical assistance, personal property, image rights and lease and sublease of businesses and mines; and on the other hand, if the associated entity is inactive, all its incomes, and not only those qualified as passive, will be included in the tax bases of the Spanish entity.

In line with the Corporate Tax reform, its development Regulation is planning to introduce a series of measures against International Tax Fraud in line with the abovementioned "BEPS" plan. In particular, the transparency requirement regarding multinationals increases, establishing the obligation to report country by country as of 2016 and the specific documentation on linked transactions is modified, adapting it to the content recommended by the OECD. All resident entities that are the dominant unit of a group and not dependent at the same time of another entity, will be obliged to provide the information country by country, provided the turnover of the group in the year prior to the tax period is, at least, € 750 million. The specific documentation must be made available from the end of the reporting period and prepared according to the proportionality and sufficiency principles.

In order to improve the comparability analysis, rules are established to determine the analysis required in the specific documentation to establish whether the transactions are comparable.

Furthermore, the verification procedure of related transactions is improved, taking into account that the expert contradictory valuation can no longer be promoted and that the verification is not only limited to a valuation assumption. In this line the option of avoiding the secondary adjustment is regulated (giving to the difference between the agreed value and the market value the tax consideration applicable to the nature of the income arising as a result of the existence of such difference) through the financial return between people or linked entities to be justified by the taxpayer.

Finally, a procedure for obtaining prior valuation agreements is envisaged. The process of correction of errors in the application at the beginning of the procedure is removed and, as minimum content of the agreement, the specific mention about the critical assumptions is included; whose occurrence determines its applicability in the terms specifically included in it. The agreements on related transactions will affect those transactions carried out subsequently, during the tax periods in which they are specified in the agreement itself and, at most, within the four next periods. Its effects can also reach transactions of previous periods not yet expired or with firm settlement.

8. ERADICATION OF LATE PAYMENT BY THE PUBLIC ADMINISTRATIONS

As discussed in previous sections, in 2014 there have been great advances in transparency and late payment control of the Public Administrations. According to the National Reform Programme for 2015, Spain is committed to improve the transparency of public accounts and to reduce late payment by the Regional Governments.

8.1. Average payment period to suppliers and commercial debt

In 2014, the Royal Decree 635/2014, of 25th July was approved, developing the methodology for calculating the average payment period to suppliers by the Public Administrations, as well as the conditions and the withholding procedure for resources of funding systems, set forth in the Organic Law 2/2012, of 27th April, on Budgetary Stability and Financial Sustainability. Therefore it defines the methodology for calculating and publishing the average payment period in economic terms, and the withholding of resources of the funding systems, due to the repeated non-compliance of the maximum payment period. This will continue to apply to the entire Public Administrations.

Consequently, average payment periods of each of the Public Administrations will be published as of September 2014. A low payment period is observed in Central Governments; a legal period of about 30 days in the case of Local Corporations and an excess in all the Regional Governments. Financing funds are acting on these and make direct payments to suppliers for a better control. Also the structural measures are geared to it. They started being implemented in 2012 and their effects are showing this year. Among these, it is worth noting the Organic Law 9/2013 of 20th December on the control of commercial debt in the public sector and Law 25/2013, of 27th December on the promotion of electronic invoice and accounting record of invoices in the Public Sector.

Organic Law 9/2013, amends the Organic Law on Budgetary Stability and Financial Sustainability, and aims at, among other things, include the sustainability of commercial debt in the principle of financial sustainability. It also introduces the concept of average payment period to suppliers as an indicator of the sustainability of commercial debt, defining the payment time and length of the commercial debt, so that, in line with the transparency principle, the Public Administrations must publish such average payment period. It also provides, in cases where the average payment period (PMP in Spanish terms) exceeds the maximum deadline set in the late payment rules by more than 30 days, a system with different incremental steps aimed at meeting the payment deadlines. It will also allow, ultimately, withholding resources of amounts payable by the resources of the funding systems to pay the providers directly.

The second of these rules, Law 25/2013 of 27th December on the promotion of electronic invoicing and accounting record of invoices in the Public Sector, encourages the use of electronic invoices in the public and private sectors. This, for the public sector, results in the reduction of administrative burdens and enables a better compliance with payment deadlines and greater control of the deficit and public expenditure. At the same time it goes deeper in the fight against fraud. As for the business sector, it contributes to improve its effectiveness and provides greater legal certainty for suppliers.

This law is mandatory as of 15th January 2015. Moreover, in order to ensure adherence to the general point of entry of electronic invoices of the General State Administration, Royal Decree - Law 17/2014, of 26th December, establishes the need to carry out such registration in cases where Regional Governments adhere to the funding mechanisms.

In terms of its impact, the evolution registered in recent years regarding late payments is detailed next. The Regional Governments that adhered to the various funding mechanisms must provide certain information to the General State Administration through the adjustment plans. From the effective monitoring of plans by the Ministry of Finance and Public Administrations it can be seen that, as of 1st January 2012 and up to February 2015, the stock of the commercial debt of the 14 Regional Governments attached to the funding mechanisms has decreased by 63.4%. The reforms started to be implemented in 2012, when the amount of commercial debt was € 24.836 billion.

In the same vein, this commercial debt reduction trend is also reflected in the evolution of the legal deadlines for suppliers' payment. Thus, since the existing situation in April 2012 (first available data) until that relating to July 2014, the payment deadlines of the 14 regions that have signed an adjustment plan in that period, have fallen by 40% from the 142.54 days initially computed to the 85.52 days recorded in July 2014. Since the data for September 2014, homogeneous information is published for the Regional Governments as a whole, in accordance with the methodology set in the aforementioned Royal Decree 635/2014. It can be seen how an effort in addressing older payments was made in the last months of 2014, especially thanks to the extraordinary allocations authorized in the Regional Liquidity Fund. As of April 2015, an improvement in the computed deadlines and on the commercial debt is expected, as financing funds to Regional Governments produce their effects, once their conditions are verified. At present the Regional Governments' PMP, still around 50 days, is two thirds lower compared to the starting data in 2012.

Law enforcement on control of the commercial debt under the LOEPSF

According to the information provided by the various Regional Governments to the Ministry of Finance and Public Administrations, eleven Regional Governments exceeded the maximum legal deadlines for payments in February 2015. As a result of this, all Regional Governments must submit detailed information of the quantified measures and their impact to the Ministry of Finance and Public Administrations, subject to the update of their treasury plan, allowing the reduction of their PMP to suppliers up to the maximum deadline set forth in the late payment rules. To this end the allocations authorized for all the Regional Governments adhered to sections of the Financial Facility and the Regional Liquidity Fund Agreement by means of an Agreement of the Government Commission for Economic Affairs on 19th February shall be decisive.

Notwithstanding the above, a warning notification was issued on 26th March as set forth in Article 18.4 of the Organic Law 2/2012, of 27th April, on Budgetary Stability and Financial Sustainability to the Regional Governments of Aragon, Extremadura and Valencia. This notification which determines the continuation in the procedure provided in that rule on stability, which can lead to the withholding of the resources of the funding systems for direct payment to suppliers.

On the other hand, thanks to the mechanisms implemented between 2012 and March 2015, the Regional Governments and Local Corporations have paid suppliers for a global amount of over € 70 billion euros, of which almost € 60 billion came from Regional Governments.

The structural and contextual measures described, together with the data for the evolution observed since the initial situation, confirm the achievement of the targets set to eradicate late payments in the public sector, as well as a significant change in the culture of late payment in Public Administrations. All this is in line with the Recommendation of the European Council on the elimination of commercial debts and the eradication plan of late payment by the Public Administrations.

8.2. Funding mechanisms as of 2015

In the field of contextual measures to reduce the commercial debt of the Territorial Administrations, the implementation of the Additional Financing Mechanisms stands out: the Supplier Payment Funds (implemented in 2012 and whose last payment was made in February 2014) and the Regional Liquidity Fund, currently in force, and whose first year of implementation was 2012. The volume reduction of commercial debt and PMP is due in part to their implementation.

An important novelty introduced in 2015 by Royal Decree-Law 17/2014 of 26th December on financial sustainability measures of Regional Governments and Local Corporations and other economic measures, is the deepening of the debt pooling process for Regional Governments and Local Corporations. The nature of these mechanisms is transformed and now they are established as a mainly financing instrument of the Regional Governments, ensuring, through this process, that Territorial Administrations can be financed through the Public Treasury at the lowest possible cost.

A joint mechanism to support liquidity in the Financing Fund for Regional Governments and a Financing Fund for Local Corporations is created, which allow meeting the financial needs contained therein.

The Financing Fund for Regional Governments is divided into four sections with specific characteristics and conditions:

- The Financial Facility section, aimed at those Regional Governments that fulfil the budgetary stability and public debt targets, and meet the average payment period to suppliers under the terms of Royal Decree-Law 17/2014. A 0% interest rate is applied for three years to the Regional Governments that adhere to this section. It is voluntary and all Regional Governments eligible to do so have applied to adhere to it, except Madrid, Navarre and the Basque Country.

- The Social Fund section, aimed at meeting the outstanding regional obligations with Local Corporations arising from agreements in social spending and other transfers in that area that meet the Royal Decree requirements. Like the previous section, it is voluntary, although in this case, its validity is limited to 2015. Eight Regional Governments have adhered to it.

- The FLA section, where the Regional Governments adhered to the former Regional Liquidity Fund, unless they meet the requirements to join the Financial Facility section. The inclusion of the Regional Governments that do not meet their average payment period to suppliers may also be proposed. The Regional Governments adhered to this section shall be subject to fiscal conditions. They must submit and comply with the corresponding adjustment plan. The credit operations that are formalized in 2015 by the Regional Governments adhered to this section will have a 0% rate for a year.

The Delegate Commission of the Government for Economic Affairs Agreement establishes the distribution of Financial Facility and Regional Liquidity Fund sections for 2015. During that year the Financing Fund for Regional Governments will be financed through a loan of € 38.9 billion. From that amount € 11.337 billion have been allocated to the Financial Facility section and € 17.605 billion to the FLA section. With regards to the Social Fund, € 684 million have been allocated to this section. Equally, € 1 billion have been allocated to the Fund for Local Corporations, which differentiates the Local Fund for those in financial risk and the Local Impulse Fund for those in a better position. Both funds are being paid out throughout the year.

These mechanisms and the subsequent restructuring measures of the credit operations formalized under them are estimated to produce savings amounting to € 22.647 billion for the Regional Governments over the entire life of the transactions, compared to market financing costs in the year they were formalized.

Regarding the effects of the implemented funding mechanisms on the real economy, various estimates have been published. The report published by the Bank of Spain on payment mechanisms to providers of the Public Administrations in Spain (Occasional Papers No. 1501) stands out in recent months and it emphasizes that these policies have had a significant impact on reducing the commercial debt stock and the average payment period to suppliers. Its impact on growth, as a result of the cash injection to businesses and households also stands out in a context of economic weakness and financial restrictions.

It should be noted that these liquidity measures implied the financing of an expenditure that took place in the past, so it does not increase the deficit, but facilitates the financial flow that did not accompany the realization of these expenses in the past. The late payments of the Public Administrations that grew in the past are being tackled with these contextual and structural measures.

9. INSTITUTIONAL FRAMEWORK OF THE FISCAL POLICY

The economic policy implemented by the Government since late 2011 enabled to correct the macroeconomic imbalances suffered by our economy. At the same time, while it strengthened its competitiveness and growth potential, it focused on two fundamental and interrelated pillars: tax consolidation and structural reforms.

Indeed, the Government's agenda covers a wide range of structural reforms affecting all sectors of the economy and they can be grouped into five major areas: differentiated fiscal consolidation that favours growth; restoration of normal lending conditions to the economy; promotion of growth and competitiveness; fight against unemployment and the social consequences of the crisis; and the modernization of the Public Administration.

The fiscal governance framework reform stands out, which promotes budgetary stability, financial sustainability and transparency at all levels of the Public Administrations.

The most significant advance in this area has been the implementation of the Independent Fiscal Authority, an independent body responsible for ensuring compliance with the principles of Budgetary Stability and Financial Sustainability, through the continuous evaluation of the budgetary cycle and public debt. But significant steps have also been taken in improving transparency and access to information.

9.1. The Independent Authority for Fiscal Responsibility

Since the Organic Law 6/2013 on the creation of the Independent Authority for Fiscal Responsibility, AIReF, was adopted on the 14th November 2013, there have been significant advances in its implementation; thus by now it is fully operational and actively participates in the Spanish budgetary process**.**

Thus, the Council of Ministers proposed on 24th January, its President, having been ratified by the majority of the Finance Committee of the Spanish Parliament on 20th February.

Then, and with the report of the AIReF President, the Council of Ministers adopted on 28th March the Royal Decree through which the Organic Statute of the Independent Authority for Fiscal Responsibility is approved. This Statute regulates the structure and operating mode, procedures, reports and opinions to be issued, as well as the studies that may be commissioned to the AIReF, and institutional relationships.

From that moment the process of recruitment started, so that since July 2014 it has been running at full capacity.

In fact, since then it has issued the following reports, opinions and technical documents:

- Report on the Economic Financial Plans of the Regional Governments that failed to meet the budgetary stability targets in 2013.

- Report on the macroeconomic forecasts of the Draft General State Budget for 2015.
- Report on the Draft Budget and Fundamental Guidelines of the Budgets of Public Administrations.
- Report on the Economic Financial Plans of the Regional Governments submitted for approval in the Council for Financial and Fiscal Policy.
- Report on the Financial Economic Plan of Navarre prior to its presentation to the Coordinating Committee of the Economic Agreement
- Report on the methodology for calculating the trend forecasts of revenues and expenditures and the growth reference rate.
- Opinion on the Pension Revaluation factor.
- Opinion on the compliance with the deficit and debt targets.
- Opinion on the procedural changes in the budgetary cycle.
- Working Paper on "Understanding the financial sustainability".
- Working Paper on "Analysis of the Debt Sustainability of Spanish Public Administration".

On the other hand, it should be noted that the works are well advanced in regard to the Ministerial Order that determines the information and remission procedures that the Ministry of Finance and Public Administrations will have permanently available for the new Independent Fiscal Authority. Since this Order has not been approved yet, information exchanges are being conducted according to a transitional procedure analogous to that regulated by this Order, so that the AIReF can issue its reports.

Finally, it is noteworthy that this Stability Programme is the first to be reported by AIReF.

9.2. Improvement in transparency and access to public information

In late 2013, the Law 19/2013 of 9th December, on transparency, access to public information and good governance was approved. This Law will contribute to improving the control of Public Administrations management through the active publication requirement for all administrations and public entities, the recognition and guarantee of access to information and the establishment of good governance obligations to be met by public officials, as well as the legal consequences derived from non-compliance.

The Law applies to all Public Administrations, the state public sector and other institutions, such as the House of His Majesty the King, the General Council of the Judiciary, the Constitutional Court, the Spanish Parliament, the Senate, the Bank of Spain, the Ombudsman, the Court of Audits, the Economic and Social Council and similar regional institutions, in relation to the activities subject to the Administrative Law.

The Law establishes the publication obligations affecting public entities to ensure transparency in their activity and regulates the right of access of citizens to public information. During 2014 there have been significant advances in this area.

Indeed, in response to Article 10 of Law 19/2013, of 9th December 2014, the Transparency Portal of the Government of Spain was launched. This is the place where the General State Administration information is published. It will also include the information that citizens most frequently request in exercise of the right of access to public information.

Through the Transparency Portal citizens get access to all institutional, organizational, planning, legal, economic, budgetary and statistical information set forth in the Law regarding to the Ministries, independent bodies, public companies, state agencies and entities governed by Public Law.

The Law determines what kind of information shall be published periodically and updated by the entities bound by this obligation in order to ensure the transparency of their activity.

It should be noted that there are certain restrictions on the publication of information, should this affect sensitive issues such as national security, defense or the protection of personal data.

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

It should be highlighted that late last year its statute was passed by Royal Decree 919/2014, of 31st October, approving the Statute of the Council of Transparency and Good Governance.

Another important element of Law 19/2013, of 9th December, is the regulation of the type of offences and corresponding sanctions with respect to the principles of good governance. Thus, among the offences it expressly regulates those related to economic and budgetary management, which are classified as very serious infringements.

Sanctions corresponding to these very serious infringements involve the removal from office of the sanctioned person, who cannot be appointed to occupy senior positions or similar over a period of five to ten years. In the event that such removal from office entailed receiving compensation, such compensation would be withheld. Moreover, as these are economic-budgetary infringements, they also entail the following consequences:

- The obligation to return, if any, the amounts received or unduly paid.
- The obligation to indemnify the Public Finance under the terms of Article 176 of Law 47/2003, of 26th November, on General Budget.

It should also be noted that under the Law on transparency, access to public information and good governance, which establishes the obligation to make public all grants and public aids granted, the General Law on Subsidies has been amended, through Law 15/2014, of 16th September, on rationalization of the public sector and other measures of administrative reform.

The National Grant Database has been configured as a grants publication national system, in order to promote transparency and to serve as an instrument for public policy planning, improving management and collaborating in the fight against fraud affecting grants and government aids.

The General Comptroller of the State Administration will publish on its website calls for grants and subsidies granted. Currently, and since late 2014, there is already public access to the National Grant Database.

9.3. Fight against fraud, by the General Comptroller of the State Administration

In order to boost the fight against fraud, the Anti-Fraud Coordination National Service has been created within the General Comptroller of the State Administration by Royal Decree 802/2014 of 19th September.

This service aims to channel the relationships of the European Anti-Fraud Office before all national authorities with authority in this area and it is driven by the Regulation (EU, Euratom) No. 883/2013 of the European Parliament and of the Council of 11th September 2013, concerning investigations conducted by the European Anti-Fraud Office (OLAF) and repealing Regulation (EC) No. 1073/1999 of the European Parliament and the Council and Regulation (Euratom) No. 1074/1999 of the Council.

The Anti-Fraud Coordination National Service is responsible, without prejudice to the powers of the State Tax Administration Agency, for the following:

- Conduct the development and implementation of national strategies and promote legislative and administrative changes necessary to protect the financial interests of the European Union.
- Identify possible shortcomings of national systems for managing EU funds.
- Establish the coordination and information channels on irregularities and fraud allegations between different national institutions and the European Anti-Fraud Office.
- Promote training for the prevention and fight against fraud.

9.4. Control procedures and accounting frameworks improvements

Control procedures

Control of outstanding obligations not yet allocated to the budget

Verifying the accounting information through audits and financial controls guarantees users the reliability of this information and allows decisions to be taken based on proven, accurate and consistent information.

Regarding Public Administrations, the verification of the accounting information by bodies independent from those that produce this information, has been mainly made through financial audits of the entities subject to this form of control.

However, in the case of public entities not subject to auditing of accounts normatively, the entries in the accounting system, conducted by the comptroller offices, are based on the accounting records and supporting documents submitted by the different management bodies.

For this reason, it has been deemed necessary to implement the performance of certain control measures that allow verifying that these bodies have submitted all the information in a timely manner, so that the financial statements for the year reflect all transactions executed on its scope. This will be specifically used to detect the existence of any asset and liability not reported by management bodies to the accounting office for their registration, especially in the case of obligations arising from costs incurred or goods and services received, without a budgetary allocation implemented.

In this sense, in the State field the content of the control activities was expanded to detect the possible existence of obligations arising from costs incurred or goods and services received without an account entry or without been properly quantified.

In view of the results obtained, it has been considered appropriate to expand it to the regional Governments, so that all of the accounts prepared by all entities of each Regional Government faithfully reflect their economic and financial status.

For this reason, the Council for Financial and Fiscal Policy agreed that the Regional Governments would adopt the policy measures necessary to incorporate a requirement by which the internal control bodies of financial and economic management carry out control actions every year in those entities not subject to auditing of accounts normatively. This will be done in order to verify the existence of obligations arising from costs incurred or goods and services received without a budgetary allocation.

The respective internal control bodies will establish the procedure and scope of the actions to be developed. However, the use of the methodology model prepared by the General Comptroller of the State Administration was urged, as it was providing such good results.

The primarily target of these actions is that, even if certain actions with economic significance that is not compulsory or possible to charge to the respective budgets, these are properly recorded in the accounts, so that the implementation data provided, both in the EDP framework or in any other, include all the expenses incurred, regardless of their inclusion on the budget.

In these same terms, the Organic Law on commercial debt, in its third additional Provision stated that in those entities of Public Administrations not subject to auditing of accounts, precise control tasks will be carried out annually using audit techniques, in order to check the existence of obligations arising from costs incurred or goods and services received without a budget allocation.

The General Comptroller of the State Administration will suggest the methodology to be used in order to conduct the aforementioned control tasks which, in any case, will be approved in each area by the corresponding internal control bodies.

According to this forecast, the prepared methodology has been provided by the Government Comptroller’s Office to the comptrollers of the respective administrations.

Internal Control in Local Corporations

In compliance with the provisions of the Law on Rationalization and local sustainability, the Ministry of Finance and Public Administrations is preparing some rules on control procedures, methods of application, performance criteria, rights and duties of the controller staff and recipients of the monitoring reports, to be followed in the development of the control function of the Local Corporations auditors.

This regulation seeks to ensure the independence of the local control bodies from the decision-makers with financial and economic significance.

ANNEX

Table A.1. Outstanding amount of guarantees granted by Public Administrations

	2010	2011	2012	2013	2014
Total General Government					
One-off guarantees					
Stock total, excluding debt assumed by government	137,713	159,567	218,179	193,152	133,627
of which					
Public corporations	500	500	500	499	499
Financial corporations	132,311	153,646	212,742	188,277	129,585
Guarantees granted in the context of financial turmoil	59,506	64,659	105,093	95,604	55,090
Standardised guarantees					
Total stock	0	0	0	0	0
Central Administration					
One-off guarantees					
Stock total, excluding debt assumed by government	132,809	154,090	213,124	188,585	129,842
of which					
Public corporations	0	0	0	0	0
Financial corporations	132,311	153,646	212,742	188,277	129,585
Guarantees granted in the context of financial turmoil	59,506	64,659	105,093	95,604	55,090
Standardised guarantees					
Total stock	0	0	0	0	0
Autonomous Communities					
One-off guarantees					
Stock total, excluding debt assumed by government	3,754	4,273	3,994	3,608	3,024
of which					
Public corporations					
Financial corporations					
Guarantees granted in the context of financial turmoil					
Standardised guarantees					
Total stock	0	0	0	0	0
Local Entitites					
One-off guarantees					
Stock total, excluding debt assumed by government	1,150	1,204	1,061	959	761
of which					
Public corporations	500	500	500	500	499
Financial corporations					
Guarantees granted in the context of financial turmoil					
Standardised guarantees					
Total stock	0	0	0	0	0

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 included in S.13 (FROB, FTDSE...) nor guaranteed debt of the ESF.

3. Only the guaranteed principal is included

Source: Ministry of Finance and Public Administrations

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

	2014 (A)	2014 (A)	2015 (F)	2016 (F)	2017 (F)	2018(F)
	Level (million €)	% 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 revenue measures	3,868	0.4	0.0	0.0	0.1	0.0
Interest expenditure	34,542	3.3	3.1	2.8	2.6	2.5

(A) Advance; (F) Forecast

Source: Ministry of Finance and Public Administrations

Table A.3. Change in General Government expenditure by function

	% GDP 2013 (*)	% GDP 2018	Difference p.p.GDP	% change Real per capita expenditure
Public Administrations (S.13)				
01 General public services	6.9	5.5	-1.3	-7.1
02 Defense	0.9	0.8	-0.1	1.2
03 Public order and safety	2.0	1.7	-0.3	-1.7
04 Economic affairs	4.0	3.7	-0.3	6.7
05 Environmental protection	0.8	0.7	-0.1	-2.9
06 Housing and community amenities	0.5	0.4	-0.1	-2.3
07 Health	6.0	5.3	-0.8	0.6
08 Recreation, culture and religion	1.1	1.0	-0.2	-0.7
09 Education	4.0	3.7	-0.4	4.0
10 Social protection	17.6	15.7	-1.9	2.7
Total expenditure	**43.8**	**38.4**	**-5.4**	**0.9**

(*) 2013 does not include financial assistance.

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

Table A.4. Expected budgetary impact of the measures adopted and planned: Tax (Government before regional transfers)

Measures	Description	Target (expenditure/ revenue)	Accounting principle	Level of implementation	Additional budgetary impact (million €)			
					2014	2015	2016	2017
Personal Income Tax (PIT)					**339**	**-2,314**	**-2,044**	**-544**
July and December 2012 measures.	Includes measures like the increase of the tax withholding associated to business activities, the elimination of house compensation, the taxation of lottery prizes and the elimination and partial restoration of the 2012 Christmas bonus for public servants.	Revenues	Homogeneous Cash & National Accounts	Royal Decree Law 20/2012, 13th of July. Law 16/2012, 27th of December.	185	150	-150	
Permanently ending of tax deductions for housing	Permanently ending the tax deductions on investment in the main residence for any acquisitions made after 1st January 2013.	Revenues	Homogeneous Cash & National Accounts	Law 16/2012, 27th of December.	90	90	90	90
Capital gains obtained in < 1 year change to general rate	Only capital gains and losses from the sale of assets held by a taxpayer for more than one year will be included in the savings tax base.	Revenues	Homogeneous Cash & National Accounts	Law 16/2012, 27th of December.	87			
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	Homogeneous Cash & National Accounts	Royal Decree-law 4/2013, 22nd of February (Subsequently passed as Law 11/2013, 26th of July , of measures to support entrepreneurship and growth stimulus and job creation)	-10	-8		
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 investment is made in new tangible fixed assets and real-estate assets linked to the economic activity.	Revenues	Homogeneous Cash & National Accounts	Law 14/2013 of entrepreneurship	-10			
"Business angels": 20% deduction on the investment and exemption from capital gains.	The investor enjoys two tax benefits: a) When the investment is made a 20% deduction in central administration 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	Homogeneous Cash & National Accounts	Law 14/2013 of entrepreneurship	-3	-11		
PIT Reform	Wide modification of the PIT: tax brackets have been changed, tax rates reduced, change in the fiscal treatment of investment products... Ex post	Revenues	Homogeneous Cash & National Accounts	Law 26/2014, 27th November, that modifies the Law 35/2006, 28th of November of Personal Income Tax, the consolidated text of the Law of Non Resident Income tax Royal Decree-Law 5/2004, 5th of March, and other tax rules.		-2,535	-1,984	-634

Table A.4. Expected budgetary impact of the measures adopted and planned: Tax (Government before regional transfers) (Continued)

Measures	Description	Target (expenditure/ revenue)	Accounting principle	Level of implementation	Additional budgetary impact (million €)			
					2014	2015	2016	2017
Corporate Income Tax (CIT)					**-1,277**	**-536**	**-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 non resident in Spain.	Revenues	Homogeneous Cash & National Accounts	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	Homogeneous Cash & National Accounts	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	Homogeneous Cash & National Accounts	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	Homogeneous Cash & National Accounts	Royal Decree-law 4/2013, 22nd of February (Subsequently passed as Law 11/2013, 26th of July, of measures to support entrepreneurship and growth stimulus and job creation)	-16	-16		
10% deduction for ordinary profits reinvested in fixed assets in small-size companies	Only for companies with turnover of less than €10 million, a 10% reduction in CIT payable over profits in a tax year when these are reinvested in new tangible fixed assets or real estate investment linked to its activity.	Revenues	Homogeneous Cash & National Accounts	Law 14/2013 of entrepreneurship	-25			
Return of 80% of balance pending deduction of R&D&I	Deductions for R&D investment and spending may optionally be applied, not subject to any limit on the tax payable, and credited, given a joint discount of 20% of their value, when these were not able to be applied due to the tax payable being too low	Revenues	Homogeneous Cash	Law 14/2013 of entrepreneurship		-427		
Changes to tax regime for intangible assets. (Patent box)	A reduction in the tax base of 40% or 60% depending on the case, of the net income from the intangible asset disposed .	Revenues	Homogeneous Cash & National Accounts	Law 14/2013 of entrepreneurship	-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	Homogeneous Cash & National Accounts	Law 16/2013, 29th of October, of enviromental taxattion	-28			
CIT reform	Rate reduction till 25% in two years, creation of a capitalization reserve and leveling reserve.	Revenues	Homogeneous Cash & National Accounts	Law 27/2014, 27th November, of Corporate Income Tax		-87	-2,341	59.5

Table A.4. Expected budgetary impact of the measures adopted and planned: Tax (Government before regional transfers)

(Continued)

Measures	Description	Target (expenditure/ revenue)	Accounting principle	Level of implementation	Additional budgetary impact (million €)			
					2014	2015	2016	2017
New Environmental taxation	Tax on the value of electricity production. Tax on production of spent nuclear fuel. Tax on storage of used nuclear fuel.	Revenues	Homogeneous Cash & National Accounts	Law 15/2012, 27th of December, of fiscal measures for energy sustainability	**408**			
Other Direct Taxes	Special fiscal declaration. Non Resident Income Tax and others.	Revenues	Homogeneous Cash & National Accounts			**-54**	**-56**	**-8**
VAT					**288**	**305**	**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	Homogeneous Cash & National Accounts	Royal Decree-Law 9/2011, 19th August	288			
Health and Notaries tax at the general rate.		Revenues	Homogeneous Cash & National Accounts			305		
Excise duties					**-1,610**	**1,996**	**-1**	**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	Homogeneous Cash & National Accounts	Royal Decree-Law 7/2013, 28th June	191			
Hydrocarbon	Increase in the rate of: professional diesel, biofuels, natural gas (consumption and use in electricity generation), diesel and fuel-oil used in electricity generation and liquefied petroleum gas.	Revenues	Homogeneous Cash & National Accounts	Law 15/2012, 27th of December, of fiscal measures for energy sustainability	113			
	Application of judicial sentence	Expenditure in National Accounts	National Accounts	Application of the judiciary sentence that forces to refund amounts collected under the tax on hydrocarbons.	-2,011	2,011		
Alcoholic drinks and derivative beverages	10% increase in taxation on intermediate products and derivative drinks.	Revenues	Homogeneous Cash & National Accounts	Royal Decree-Law 7/2013, 28th June	52			
Carbon	Rate increase to 0.65 euro per gigajoule	Revenues	Homogeneous Cash & National Accounts	Law 15/2012, 27th of December, of fiscal measures for energy sustainability	83			
Electricity	Partial tax exemption for industry consumers	Revenues	Homogeneous Cash & National Accounts	Law 16/2013, 29th of October, of environmental taxation	-38	-15	-1	
Other indirect and environmental taxes					**31**	**94**	**650**	**20**
	New tax on fluorinated greenhouse gases: a tax on emissions of halogenated hydrocarbons	Revenues	Homogeneous Cash & National Accounts	Law 16/2013, 29th of October, of environmental taxation	**31**	**94**	**50**	**20**
	Financial Transaction Tax	Revenues	Homogeneous Cash & National Accounts				**600**	
Levies and other revenue					**0**	**240**	**-96**	**0**
	Fee on the use of water to produce electricity	Revenues	Homogeneous Cash & National Accounts	Royal Decree Project that develops article 112 of the consolidated text of the Water Law and regulates the fee on the use of continental water for electricity production.		**305**	**-96**	
	Court fees	Revenues	Homogeneous Cash & National Accounts	Law 10/2012, 20th of November, and amendments in 2013 and 2015		**-65**		
TOTAL					**-1,821**	**-269**	**-3,888**	**-472**
Plan to fight against Tax Fraud		Revenues	Homogeneous Cash & National Accounts	General Tax Law and CIT Regulation	**1,000**	**1,000**	**1,000**	**1,000**
TOTAL					**-821**	**731**	**-2,888**	**528**

Source: Ministry of Finance and Public Administrations

Table A.5. Expected budgetary impact of the measures adopted and planned (expenditure/revenue). Central Government, Labour market and Social Security

Measures	Description	Target (expenditure/ revenue)	Level of implementation	Additional budgetary impact (million €)				
				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	Urgent measures, which have been directly caused by the rainstorms, snowfall and strong winds force majeure	Expenditure	Royal Decree Law 2/2015 6th of March, on urgent measures taken to repair the damage caused by floods and other effects of rainstorms, snowfall and strong winds occurred in the months of January, February and March 2015		-106	106		
Returning the extra payment (Christmas bonus)	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		-260	260		
Replacement rate	0% replacement rate except for priority areas at 50%	Expenditure	Law 36/2014, 26th of December, General State Budget 2015	200	202	202	202	202
Establishing a Flat Rate in employer contributions to Social Security and its extension in 2015. Minimum exempt as from 2015	In order to encourage permanent contracts and fostering net job creation, a flat rate is established in employer contribution to Social Security. In order to consolidate the positive development of permanent contracts and increase its impact for groups with greater difficulties for a stable employment, a minimum exempt is set in the employer contribution for common social security contingencies, which will benefit all companies for permanent hires and net employment creation. 500€ of the corresponding monthly contribution basis for common contingencies shall be exempt from employer contribution for full-time contracts. In the case of part-time contracts, that amount is reduced in proportion to the percentage decrease in working hours, which must not be less than 50% of the dayly working time of full-time workers. Duration 01-03-2015 to 31-08-2016	Revenue	Royal Decree Law 3/2014, 28th February, on urgent measures to foster employment and permanent contracts. Royal Decree law 17/2014, 26th December, of measures for autonomous communities and local entities sustainability. Royal Decree law 1/2015, 27th February, of second chance mechanism, reduction of financial burden and other social measures	-640	-393	203	322	422
New direct settlement scheme for for the Payment of Social Security Contributions	Entails a change in the Spanish scheme of Social Security contributions. The change involves replacing the current self-declaration form with a direct-settlement form (or direct billing)	Revenue	Law 34/2014, 26th of December,of measures related to settlement and payment of quotas of the Social Security		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	venue/expendit	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	-850	668	182	
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			

Table A.5. Expected budgetary impact of the measures adopted and planned (expenditure/revenue). Central Government, Labour market and Social Security

(Continued)

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			
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			
Social Security Pensions System reform	Pension reforms since 2011 and 2013 (retirement, partial and early retirement, revaluation index and sustainability factor), Differential impact on future pension spending	Expenditure	Law 27/2011, of the Social Security reform; Royal Decree Law 5/2013; Law 23/2013 of 23rd December, regulating the Sustainability Factor and the Revaluation Index	574	1,000	1,148	1,200	1,000
Total				**1,417**	**2,128**	**4,550**	**1,906**	**1,624**
Source: Ministry of Finance and Public Administrations.								

Table A.6. Expected budgetary impact of the measures adopted and planned (expenditure/revenue).
Regional Governments

Measures	Description	Target (expenditure/ revenue)	Additional budgetary impact (million €)				
			2014	2015	2016	2017	2018
Personel expenditure	Management measures / staff planning / remuneration	D1	0	-1,197	531	0	0
	No replacement	D1	600	589	589	589	589
Pharmaceutical expenditure and health products	Pharmaceutical expenditure due to centralized procurement	D63	0	10	100	100	100
	Other measures regarding pharmacy and health products expenditure	D63 , P2	77	621	500	150	150
Current spending and public provision	Saving measures related to provision of services and supplies	P2	164	250	370	0	0
	Other measures from chapter II	P2	39	263	150	150	0
Financial expenses and interest (with not effect in consolidated general gov.)	Interest savings, improving conditions of funding mechanisms	D41	542	3,019	-1,597	0	-176
Current transfers	Other from chapter IV	Other current expenditure	262	200	265	0	0
Capital transfers	Other from chapter VII	D92,D99	140	21	150	0	0
Other measures	Other measures (investment)	P51	490	0	0	0	0
Total expenditure			**2,313**	**3,777**	**1,058**	**989**	**663**
Personal income Tax and other direct taxes		D51	5	34	0	0	0
Inheritance and Gift Tax		D91	91	54	86	86	0
Wealth tax		D5	6	0	0	0	0
Environmental taxes		D29	22	40	150	100	0
Transfer tax and Stamp duty		D21	358	4	150	200	0
Hydrocarbons tax		D21	0	-29	100	100	0
IGIC AIEM		D21	0	5	0	0	0
Fees		D29	17	26	80	80	0
Other taxes (IDEC, others)		D29	392	233	10	0	0
Non-Tax Revenues		-P51	537	1,141	-841	0	0
Total revenues			**1,427**	**1,507**	**-265**	**566**	**0**
Total Regional Government measures			**3,739**	**5,284**	**793**	**1,555**	**663**

Source: Ministry of Finance and Public Administrations.

Table A.7. Local Entities. Expected budgetary impact of the measures adopted and planned

Measures	Description	Target (expenditure/ revenue)	Additional budgetary impact (million €)			
			2014	2015	2016	2017
Personel expenditure	Remuneration	D1		-216	216	
	No replacement	D1	200	233	233	233
Current expenditure	Cost reduction in purchases of goods and services	P2		402	201	62
	Company dissolution	P2	109	394	508	305
Supression of services	Disappearance of minor local entities and deletion of services that are not under local competencies	P2, other current expnditure	150	574	139	
	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**	**1,457**	**1,994**	**760**
Taxes	Tax increases, deletion of exemptions and voluntary bonuses	D29	558	926	427	347
Taxes	Fees and public prices	D29 Y P11	104			
TOTAL REVENUE			**662**	**926**	**427**	**347**
TOTAL LOCAL ENTITIES			**1,121**	**2,383**	**2,421**	**1,107**

LRSAL: Law 27/2013, 27th of December of rationalization and sustainability of local governments.

Source: Ministry of Finance and Public Administrations.

Table A.8.1. - Quarterly budgetary execution on cash basis for the General Government and its subsectors

Million €	2014				2015
	Q1	Q2	Q3	Q4	Up to February*
Overall balance by subsectors					
1. General Government	42,399	43,571	36,455	25,464	na
2. Central Government	19,457	23,477	15,270	15,155	8,562
3. Regional Government	13,904	7,210	11,802	4,907	1,326
4. Local Government	4,865	5,082	9,021	3,364	nd
5. Social Security Funds	4,173	7,802	362	2,038	4,124
For each subsector	**General Government**				
6. Total revenue	**214,048**	**410,766**	**591,644**	**851,373**	**na**
7. Total expenditure	**171,649**	**367,195**	**555,189**	**825,909**	**na**

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

Table A.8.2. - Quarterly budgetary execution on cash basis for the General Government and its subsectors

(Continued)

Million €	2014				2015
	Q1	Q2	Q3	Q4	Up to February*
Overall balance by subsector					
1. General Government					
2. Central Government	19,457	23,477	15,270	15,155	8,562
3. Regional Government					
4. Local Government					
5. Social Security Funds					
For each subsector	**Central Government**				
6. Total revenue	**83,391**	**159,000**	**216,740**	**319,514**	**60,762**
7. Total expenditure	**63,934**	**135,523**	**201,470**	**304,359**	**52,200**

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

Table A.8.3. - Quarterly budgetary execution on cash basis for the General Government and its subsectors

(Continued)

Million €	2014				2015
	Q1	Q2	Q3	Q4	Up to February*
Overall balance by subsector					
1. General Government					
2. Central Government					
3. Regional Government	13,904	7,210	11,802	4,907	1,326
4. Local Government					
5. Social Security Funds					
For each subsector	**Regional Government**				
6. Total revenue	**72,623**	**133,530**	**199,033**	**283,577**	**35,836**
7. Total expenditure	**58,719**	**126,320**	**187,231**	**278,670**	**34,510**

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

Table A.8.4. - Quarterly budgetary execution on cash basis for the General Government and its subsectors

(Continued)

Million €	2014				2015
	Q1	Q2	Q3	Q4	Up to February*
Overall balance by subsector					
1. General Government					
2. Central Government					
3. Regional Government					
4. Local Government	4,865	5,082	9,021	3,364	nd
5. Social Security Funds					
For each subsector	**Local government**				
6. Total revenue	**18,140**	**38,403**	**58,830**	**80,562**	**nd**
7. Total expenditure	**13,275**	**33,321**	**49,809**	**77,198**	**nd**

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

Table A.8.5. - Quarterly budgetary execution on cash basis for the General Government and its subsectors

(Continued)

Million €	**2014**				**2015**
	Q1	**Q2**	**Q3**	**Q4**	**Up to February***
Overall balance by subsector					
1. General Government					
2. Central Government					
3. Regional Government					
4. Local Government					
5. Social Security Funds	4,173	7,802	362	2,038	4,124
For each subsector	**Social Security Funds**				
6. Total revenue	**39,894**	**79,833**	**117,041**	**167,720**	**26,844**
7. Total expenditure	**35,721**	**72,031**	**116,679**	**165,682**	**22,720**

Public accounting data. Non consolidated data.

* Accumulated data at the end of the reference period

Source: Ministry of Finance and Public Administrations

Table A.9.1. – Quarterly budgetary execution in accordance with ESA standards for the General Government and its subsectors

ESA 2010		*Accumulated data*				*Not accumulated data*				
million €	ESA Code	**2014**				**2014**				**2015**
		Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Up to February***
Net lending (+) / Net borrowing (-)										
1. General Government	S.13	-6,325	-35,212	-38,457	-61,391	-6,325	-28,887	-3,245	-22,934	na
2. Central Government	S.1311	-7,774	-23,984	-30,950	-38,264	-7,774	-16,210	-6,966	-7,314	-11,591
3. Regional Government	S.1312	-2,855	-10,499	-11,004	-17,541	-2,855	-7,644	-505	-6,537	-865
4. Local Government	S.1313	928	756	3,511	5,616	928	-172	2,755	2,105	na
5. Social Security Funds	S.1314	3,376	-1,485	-14	-11,202	3,376	-4,861	1,471	-11,188	2,171
General Government										
6. Total revenue	TR	**98,327**	**189,789**	**290,094**	**399,733**	**98,327**	**91,462**	**100,305**	**109,639**	**na**
Of which										
Taxes on production and imports	D.2	33,965	62,224	90,871	118,431	33,965	28,259	28,647	27,560	na
Current taxes on income, wealth, etc.	D.5	23,123	44,662	73,649	105,611	23,123	21,539	28,987	31,962	na
Capital taxes	D.91	1,403	2,548	4,052	5,591	1,403	1,145	1,504	1,539	na
Social contributions	D.61	32,517	64,669	97,228	129,924	32,517	32,152	32,559	32,696	na
Property income	D.4	2,552	4,046	5,559	9,566	2,552	1,494	1,513	4,007	na
Other [b]		4,767	11,640	18,735	30,610	4,767	6,873	7,095	11,875	na
7. Total expenditure	TE	**104,652**	**225,001**	**328,551**	**461,124**	**104,652**	**120,349**	**103,550**	**132,573**	**na**
Of which										
Compensation of employees	D.1	25,762	56,503	82,887	114,521	25,762	30,741	26,384	31,634	na
Intermediate consumption	P.2	13,564	27,094	39,594	55,107	13,564	13,530	12,500	15,513	na
Social transfers	D.62, D.632[c]	44,052	97,780	142,155	198,636	44,052	53,728	44,375	56,481	na
Interest expenditure	D.41	8,547	17,148	25,794	34,542	8,547	8,601	8,646	8,748	na
Subsidies	D.3	1,253	3,780	5,806	10,980	1,253	2,527	2,026	5,174	na
Gross fixed capital formation	D.51	5,173	10,798	15,746	21,113	5,173	5,625	4,948	5,367	na
Capital transfers (includes financial assistance)	D.9	671	1,677	3,216	8,064	671	1,006	1,539	4,848	na
Other [d]		5,630	10,221	13,353	18,161	5,630	4,591	3,132	4,808	na

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

[c] Under ESA95: D6311_D63121_D63131pay; in ESA2010 D632pay

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

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

Source: Ministry of Finance and Public Administrations

Table A.9.2. – Quarterly budgetary execution in accordance with ESA standards for the General Government and its subsectors

(Continued)

ESA 2010		*Accumulated data*				*Not accumulated data*				
million €	ESA Code	**2014**				**2014**				**2015**
		Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Up to February***
Net lending (+) / Net borrowing (-)										
1. General Government	S.13									
2. Central Government	S.1311	-7,774	-23,984	-30,950	-38,264	-7,774	-16,210	-6,966	-7,314	-11,591
3. Regional Government	S.1312									
4. Local Government	S.1313									
5. Social Security Funds	S.1314									
Central Government										
6. Total revenue	TR	**46,713**	**87,454**	**135,561**	**185,977**	**46,713**	**40,741**	**48,107**	**50,416**	**25,631**
Of which										
Taxes on production and imports	D.2	25,703	45,475	65,662	82,869	25,703	19,772	20,187	17,207	15,533
Current taxes on income, wealth, etc.	D.5	12,905	25,139	42,871	63,772	12,905	12,234	17,732	20,901	6,415
Capital taxes	D.91	503	570	832	890	503	67	262	58	256
Social contributions	D.61	2,317	5,250	7,555	10,449	2,317	2,933	2,305	2,894	1,513
Property income	D.4	3,076	5,149	7,266	11,221	3,076	2,073	2,117	3,955	590
Other [b]		2,209	5,871	11,375	16,776	2,209	3,662	5,504	5,401	1,324
7. Total expenditure	TE	**54,487**	**111,438**	**166,511**	**224,241**	**54,487**	**56,951**	**55,073**	**57,730**	**37,222**
Of which										
Compensation of employees	D.1	5,151	11,537	16,679	23,189	5,151	6,386	5,142	6,510	3,595
Intermediate consumption	P.2	2,024	4,119	6,051	8,268	2,024	2,095	1,932	2,217	1,350
Social transfers	D.62, D.632[c]	3,528	8,049	11,775	16,716	3,528	4,521	3,726	4,941	2,284
Interest expenditure	D.41	7,811	15,614	23,542	31,456	7,811	7,803	7,928	7,914	5,047
Subsidies	D.3	79	1,255	1,972	4,934	79	1,176	717	2,962	35
Gross fixed capital formation	D.51	1,691	3,482	5,162	6,795	1,691	1,791	1,680	1,633	1,000
Capital transfers (includes financial assistance)	D.9	359	882	2,233	6,337	359	523	1,351	4,104	233
Other [d]		33,844	66,500	99,097	126,546	33,844	32,656	32,597	27,449	23,678

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

[c] Under ESA95: D6311_D63121_D63131pay; in ESA2010 D632pay

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

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

Source: Ministry of Finance and Public Administrations

Table A.9.3. – Quarterly budgetary execution in accordance with ESA standards for the General Government and its subsectors

(Continued)

ESA 2010		*Accumulated data*				*Not accumulated data*				
million €	ESA Code	**2014**				**2014**				**2015**
		Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Up to February***
Net lending (+) / Net borrowing (-)										
1. General Government	S.13									
2. Central Government	S.1311									
3. Regional Government	S.1312	-2,855	-10,499	-11,004	-17,541	-2,855	-7,644	-505	-6,537	-865
4. Local Government	S.1313									
5. Social Security Funds	S.1314									
Regional Government										
6. Total revenue	TR	**33,535**	**67,496**	**106,198**	**145,815**	**33,535**	**33,961**	**38,702**	**39,617**	**22,919**
Of which										
Taxes on production and imports	D.2	2,726	5,547	8,549	11,959	2,726	2,821	3,002	3,410	1,772
Current taxes on income, wealth, etc.	D.5	8,343	16,563	25,267	33,686	8,343	8,220	8,704	8,419	5,843
Capital taxes	D.91	424	961	1,621	2,413	424	537	660	792	324
Social contributions	D.61	88	172	249	353	88	84	77	104	54
Property income	D.4	124	275	408	752	124	151	133	344	62
Other [b]		21,830	43,978	70,104	96,652	21,830	22,148	26,126	26,548	14,864
7. Total expenditure	TE	**36,390**	**77,995**	**117,202**	**163,356**	**36,390**	**41,605**	**39,207**	**46,154**	**23,784**
Of which										
Compensation of employees	D.1	15,395	33,757	49,655	68,392	15,395	18,362	15,898	18,737	10,592
Intermediate consumption	P.2	6,688	13,226	19,307	26,724	6,688	6,538	6,081	7,417	4,565
Social transfers	D.62, D.632[c]	6,436	13,752	20,608	29,143	6,436	7,316	6,856	8,535	4,179
Interest expenditure	D.41	1,905	3,928	5,846	7,411	1,905	2,023	1,918	1,565	656
Subsidies	D.3	466	1,022	1,549	2,514	466	556	527	965	235
Gross fixed capital formation	D.51	2,158	4,553	6,471	8,672	2,158	2,395	1,918	2,201	1,447
Capital transfers	D.9	559	1,475	2,166	4,711	559	916	691	2,545	179
Other [d]		2,783	6,282	11,600	15,789	2,783	3,499	5,318	4,189	1,931

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

[c] Under ESA95: D6311_D63121_D63131pay; in ESA2010 D632pay

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

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

Source: Ministry of Finance and Public Administrations

Table A.9.4. – Quarterly budgetary execution in accordance with ESA standards for the General Government and its subsectors

(Continued)

ESA 2010		*Accumulated data*				*Not accumulated data*				
million €	ESA Code	**2014**				**2014**				**2015**
		Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Up to February***
Net lending (+) / Net borrowing (-)										
1. General Government	S.13									
2. Central Government	S.1311									
3. Regional Government	S.1312									
4. Local Government	S.1313	928	756	3,511	5,616	928	-172	2,755	2,105	nd
5. Social Security Funds	S.1314									
Local Government										
6. Total revenue	TR	**14,997**	**29,869**	**46,846**	**66,590**	**14,997**	**14,872**	**16,977**	**19,744**	**nd**
Of which										
Taxes on production and imports	D.2	5,536	11,202	16,660	23,603	5,536	5,666	5,458	6,943	
Current taxes on income, wealth, etc.	D.5	1,875	2,960	5,511	8,153	1,875	1,085	2,551	2,642	
Capital taxes	D.91	476	1,017	1,599	2,288	476	541	582	689	
Social contributions	D.61	47	102	157	232	47	55	55	75	
Property income	D.4	118	238	399	571	118	120	161	172	
Other [b]		6,945	14,350	22,520	31,743	6,945	7,405	8,170	9,223	
7. Total expenditure	TE	**14,069**	**29,113**	**43,335**	**60,974**	**14,069**	**15,044**	**14,222**	**17,639**	**nd**
Of which										
Compensation of employees	D.1	4,661	9,971	14,736	20,400	4,661	5,310	4,765	5,664	
Intermediate consumption	P.2	4,549	9,150	13,353	18,891	4,549	4,601	4,203	5,538	
Social transfers	D.62, D.632[c]	277	554	833	1,113	277	277	279	280	
Interest expenditure	D.41	275	527	817	1,147	275	252	290	330	
Subsidies	D.3	328	689	1,077	1,435	328	361	388	358	
Gross fixed capital formation	D.51	1,268	2,661	3,968	5,469	1,268	1,393	1,307	1,501	
Capital transfers	D.9	122	264	437	674	122	142	173	237	
Other [d]		2,589	5,297	8,114	11,845	2,589	2,708	2,817	3,731	

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

[c] Under ESA95: D6311_D63121_D63131pay; in ESA2010 D632pay

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

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

Source: Ministry of Finance and Public Administrations

Table A.9.5. – Quarterly budgetary execution in accordance with ESA standards for the General Government and its subsectors

(Continued)

ESA 2010		*Accumulated data*				*Not accumulated data*				
million €	ESA Code	**2014**				**2014**				**2015**
		Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Up to February***
Net lending (+) / Net borrowing (-)										
1. General Government	S.13									
2. Central Government	S.1311									
3. Regional Government	S.1312									
4. Local Government	S.1313									
5. Social Security Funds	S.1314	3,376	-1,485	-14	-11,202	3,376	-4,861	1,471	-11,188	2,171
Social Security Funds										
6. Total revenue	TR	**38,733**	**77,375**	**114,261**	**149,389**	**38,733**	**38,642**	**36,886**	**35,128**	**25,543**
Of which										
Taxes on production and imports	D.2	0	0	0	0	0	0	0	0	0
Current taxes on income, wealth, etc.	D.5	0	0	0	0	0	0	0	0	0
Capital taxes	D.91	0	0	0	0	0	0	0	0	0
Social contributions	D.61	30,065	59,145	89,267	118,890	30,065	29,080	30,122	29,623	20,003
Property income	D.4	678	1,305	1,897	2,494	678	627	592	597	360
Other [b]		7,990	16,925	23,097	28,005	7,990	8,935	6,172	4,908	5,180
7. Total expenditure	TE	**35,357**	**78,860**	**114,275**	**160,591**	**35,357**	**43,503**	**35,415**	**46,316**	**23,372**
Of which										
Compensation of employees	D.1	555	1,238	1,817	2,540	555	683	579	723	366
Intermediate consumption	P.2	303	599	883	1,224	303	296	284	341	194
Social transfers	D.62, D.632[c]	33,811	75,425	108,939	151,664	33,811	41,614	33,514	42,725	22,416
Interest expenditure	D.41	0	0	0	0	0	0	0	0	0
Subsidies	D.3	380	814	1,208	2,097	380	434	394	889	243
Gross fixed capital formation	D.51	56	102	145	177	56	46	43	32	38
Capital transfers	D.9	0	0	0	0	0	0	0	0	0
Other [d]		252	682	1,283	2,889	252	430	601	1,606	115

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

[c] Under ESA95: D6311_D63121_D63131pay; in ESA2010 D632pay

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

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

Source: Ministry of Finance and Public Administrations

Table A.10. Assessment of the aggregated impact on the budget balance and GDP growth of the scenario without measures

	2013	2014	2015	2016	2017	2018
Budgetary balance (% GDP) (1)	-6.3	-5.7	-4.2	-2.8	-1.4	-0.3
Fiscal consolidation measures (% GDP) (2)	3.1	0.7	0.7	0.6	0.4	0.2
Effect of the fiscal consolidation measures on GDP growth						
Effect of expenditure measures on GDP growth (multiplier 0.75)	1.1	0.3	0.5	0.4	0.2	0.1
Effect of revenue measures on GDP growth (multiplier 0.4)	0.7	0.1	0.0	0.0	0.1	0.0
Effect on GDP growth (% of the level)	-1.7	-0.4	-0.5	-0.4	-0.3	-0.1
Central scenario output gap	-9.4	-8.2	-5.9	-3.8	-1.9	-0.2
Base cyclical balance	-5.1	-4.5	-3.2	-2.1	-1.0	-0.1
Output gap difference, with and without measures						
Output gap shift when potential GDP changes the 50% of the variation in GDP due to the effect of the measures	-0.9	-0.2	-0.3	-0.2	-0.1	-0.1
Output gap shift when potential GDP changes the 20% of the variation in GDP due to the effect of the measures	-1.4	-0.3	-0.4	-0.3	-0.2	-0.1
Cyclical balance difference, with and without measures						
With potential GDP variation of 50% of the change in GDP growth (3)	-0.5	-0.1	-0.1	-0.1	-0.1	0.0
With potential GDP variation of 20% of the change in GDP growth (4)	-0.7	-0.2	-0.2	-0.2	-0.1	-0.1
Cyclical balance without measures						
With potential GDP variation of 50% of the change in GDP growth	-4.6	-4.3	-3.1	-1.9	-1.0	-0.1
With potential GDP variation of 20% of the change in GDP growth	-4.4	-4.3	-3.0	-1.9	-0.9	-0.1
Budgeatry balance at constant policies (year on year)						
Balance with no policy change (50%) (1-2-3)	**-9.0**	**-6.3**	**-4.7**	**-3.2**	**-1.8**	**-0.4**
Balance with no policy change (20%) (1-2-4)	**-8.7**	**-6.2**	**-4.7**	**-3.1**	**-1.7**	**-0.4**
Source: Ministry of Economy and Competitiveness.						

Table A.11. Degree of execution of CORA measures

	Initial stage	Medium stage	Advanced stage	Implemented	Total
Subcommissions					
General measures			3	8	11
Administrative duplicities		20	30	70	120
Administrative simplification		4	13	28	45
Common services and resources	1	6	11	20	38
Institutional Administration	1		4	3	8
Total	**2**	**30**	**61**	**129**	**222**

Source: Ministry of Finance and Public Administrations