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Assessment of the 2013 national reform programme and stability programme for SPAIN

Accompanying the document

Recommendation for a Council Recommendation

on Spain's 2013 national reform programme and delivering a Council Opinion on Spain's 2013 stability programme for 2012-2016

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Economic Outlook

The economic situation in Spain remains challenging, even though external financing pressures have eased since summer 2012. The economy is forecast to remain in recession in 2013 (with real GDP falling by 1.5%) as the negative drag from domestic demand continues to prevail over the positive contribution of net exports. The unemployment rate is set to stabilise around an already very high level of 27.2% at the beginning of 2013. Robust exports and falling imports have driven a major improvement in the current account balance, from a deficit of -10% of GDP in 2007 to a projected surplus of 1.6% of GDP in 2013.

The recession and the shift to a less tax-rich growth pattern have complicated the reduction in the high government deficit, while public debt has been rising fast. The headline government deficit (net of capital transfers to banks) narrowed from 9% of GDP in 2011 to 7.0% in 2012 (higher than originally targeted) and the Commission projects a deficit of 6.5% of GDP in 2013. Spain's planned adjustment path to reduce the deficit to below the 3% reference value by 2016 appears realistic, striking a balance between the need for ambitious fiscal consolidation and the difficult economic situation. Government debt has increased sharply from a low of about 36% of GDP in 2007 to 84% of GDP in 2012 and is forecast to approach 97% of GDP in 2014.

Key Issues

Overall, Spain continues to go through a deep structural adjustment following the build-up of large external and internal imbalances during the housing and credit boom. Adjustment needs remain large, while structural rigidities and financing constraints have been hindering a faster adaptation of the real economy and have aggravated the employment situation. The 2013 in-depth review[1] (IDR) pointed to the persistence of substantial fragilities and risks as levels of domestic and external debt remain high, and as corroborated by the funding stress in 2012. In the Communication accompanying the IDRs, the Commission concluded that excessive imbalances exist in Spain.

In response to the 2012 country specific recommendations (CSRs), the government announced a comprehensive reform plan covering fiscal, labour market, education and product market reforms, as well as measures to improve the business environment. However, progress in implementation has been uneven as key reforms, such as the establishment of an independent fiscal council, a law on market unity and further liberalisation of professional services, have been delayed. The 2013 national reform programme reinforces and provides further detail on content and timetable of the reform agenda. Novel initiatives are foreseen to reduce the negative economic impact of indexation and to strengthen corporate governance. While the proposed reform agenda is comprehensive and goes in the right direction, Spain should adopt and swiftly and effectively implement determined reforms so that they can start deploying the expected positive effects on growth and employment and support the correction of imbalances.

[1] http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/pdf/ocp134_en.pdf.

The main challenge for Spain is to boost economic growth and employment and correct the excessive macroeconomic imbalances. Continued fiscal consolidation and stronger fiscal institutions are needed to ensure sustainable public finances. Completing financial sector repair and restructuring is paramount to support the real economy. Competitiveness and export capacity need to be further improved, while competition in domestic goods and services sectors is still insufficient. Most crucially, the labour market situation remains critical. Early school leaving and a vocational training system which is insufficiently tailored to market needs remain a problem. Poverty and social exclusion are on the rise.

- **Public finances**: The fiscal impact of the crisis and projected population ageing compound each other and make fiscal sustainability a significant challenge. The 2012 deficit target of 6.3% of GDP was missed in spite of large consolidation efforts, and while the Spanish authorities' plans are broadly on track to correct the excessive deficit by 2016, some measures are not sufficiently specified. The 2011 pension reform has not yielded sufficient savings. Reforms in public administration and public procurement could generate further savings, in particular given the decentralised system government (with the Autonomous Communities accounting for about a third of total government expenditure). The independent fiscal council is to be set up during 2013.

- **Financial sector:** The financial sector adjustment programme is on track, though credit conditions for borrowers – especially SMEs – remain tight. Households and corporations remain exposed to very high debt levels (total private debt reached 211% of GDP as of 2012 Q4) and non-performing loans keep rising (10.5% of total loans in March 2013 excluding assets transferred to Sareb). Meanwhile, despite the fall in house prices in 2012, there is still large stock of unsold houses coupled with low demand, which means prices may not stabilise before 2014.

- **Labour market:** The strength of exports and improvements in competitiveness are not yet supporting job creation. Unemployment is amongst the highest in the EU, while long-term unemployment (44.5% of total unemployment) and youth unemployment (55.7%) are on the rise. Despite the first notable effects of the 2012 labour market reform, there are still very high levels of temporary employment. The implementation of further reforms to help the unemployed back to work has lagged behind. Social problems are growing, with 27% of the population at risk of poverty or social exclusion. Early school leaving (24.9%) and insufficient use of vocational training remain a problem, as 35.2% of unemployed people lack formal qualifications.

- **Product and service markets:** It is taking longer than envisaged to address weaknesses in the business environment, such as barriers to doing business, and increase decisively competition in product and services markets, which, are holding back growth and job creation and keeping prices higher for consumer. Reforms are also needed in the electricity and transport sectors, while more needs to be done to strengthen research and innovation activities and encourage spill-overs to business.

1. INTRODUCTION

In May 2012, the Commission proposed a set of country-specific recommendations (CSRs)[2] for economic and structural reforms in Spain. On the basis of these recommendations, the Council of the European Union adopted eight CSRs[3] in the form of a Council Recommendation. These CSRs concerned public finances, pension reform, restructuring of the financial sector, tax policies, labour market, access to finance for small and medium-sized enterprises (SMEs), research and innovation, education and training, social inclusion and the functioning of product and services markets. This staff working document assesses the state of implementation of the 2012 country-specific recommendations, identifies current policy challenges and, in this light, examines the policy plans adopted.

The SWD also assesses policy measures against the background of the Commission's Annual Growth Survey for 2013 (2013 AGS)[4] and the second annual Alert Mechanism Report (2012 AMR), which were published in November 2012, as well as the in-depth review (IDR) published in April 2013. The 2013 AGS sets out the Commission's proposals for building the necessary common understanding about the priorities for action at national and EU level in 2013. It identifies five priorities to guide Member States to renewed growth: pursuing differentiated , growth-friendly fiscal consolidation; restoring normal lending to the economy; promoting growth and competitiveness for today and tomorrow; tackling unemployment and the social consequences of the crisis; and modernising public administration. The 2012 AMR served as an initial screening device to determine whether macroeconomic imbalances exist or risk emerging in Member States, and found positive signs that macro-economic imbalances in Europe are being corrected. To ensure that a complete and durable rebalancing is achieved, Spain and 12 other Member States were selected for a review of developments in the accumulation and unwinding of imbalances. The 2013 IDR and its accompanying communication pointed to the persistence of risks and negative economic trends linked to macroeconomic imbalances. In the communication, the Commission concluded that it would consider at the end of May whether further steps are needed under the Excessive Imbalances Procedure on the basis of the assessment of the National Reform Programme and the stability programme.

Against this background, Spain transmitted its National Reform Programme (NRP) and Stability Programme (SP) on 30 April 2013. The programmes provide details of progress made since June 2012 and plans going forward, addressing most of the challenges identified in last year's Staff Working Document, and broad consistency between the two documents has been ensured. The national reform programme confirms Spain's commitment to addressing shortcomings in the areas identified by last year's country-specific recommendations, the 2013 AGS and the 2013 IDR.

The programmes submitted went through a consultation process involving local and regional authorities in the areas of their competence and the most important stakeholders.

2 http://ec.europa.eu/europe2020/pdf/nd/csr2012_spain_en.pdf
3 http://register.consilium.europa.eu/pdf/en/12/st11/st11273.en12.pdf
4 http://ec.europa.eu/europe2020/pdf/ags2013_en.pdf

Overall assessment

Spain has made some progress to address the 2012 Council Recommendation. Swift and full implementation of the reforms that have suffered delays and of the other measures in the NRP and SP will be critical to support the correction of macroeconomic imbalances.

The national reform programme confirms Spain's current strategies and provides details of new plans in the areas of, among others, entrepreneurship and competition in product and service markets, active labour market policies, education and cooperation between different layers of public administration. The proposal for a law on de-indexation and the measures on corporate governance are new elements in the NRP. Overall, the policy plans submitted by Spain are relevant to address the policy challenges facing the country, but need to be implemented without further delay, and, in some cases, need to be complemented by further action. Moreover, effective implementation and regular monitoring of the impact of the reforms against their objectives is important to identify slippages and take corrective action in a timely manner. In particular, Spain's dismal unemployment performance calls for openness to review thoroughly and, possibly, strengthen past reforms in the light of the forthcoming assessment of their effects.

Concerning public finances, the fiscal position was further improved in 2012 thanks to a strengthened institutional framework and better budgetary execution control. Nevertheless, the 2012 general government deficit target of 6.3 % of GDP was missed (outcome: 7 % of GDP, net of bank recapitalisation measures) as a result mainly of major revenue shortfalls and in spite of large consolidation efforts. The implementation of the new Budgetary Stability Law implied major progress in 2012 in terms of timely and more transparent reporting on budgetary outcomes at sub-central government level, although there is scope to strengthen further the monitoring instruments envisaged. Plans for setting up an independent fiscal council have been delayed, but a first draft law was approved by the government in April 2013. The 2013 stability programme confirms the authorities' commitment to advancing with fiscal consolidation over the medium-term. The programme envisages an adjustment path which is broadly consistent with correcting the excessive deficit by 2016. However, the budgetary adjustment path is not sufficiently supported by measures, particularly towards the end of the programme period.

The deficit in the social security system is widening against the background of falling employment and rising unemployment. The projected reduction in age-related public expenditure through the 2011 pension reform is not sufficient. Activating the pension sustainability factor only in 2027 would place the major burden of this reform on future generations. Additional measures were adopted in March 2013 which curbed access to early retirement schemes and to partial pensions and which will contribute to enhancing sustainability in the medium and long term. Plans to legislate the sustainability factor are being advanced and a decision is to be taken by the end of 2013.

A number of tax measures were adopted during 2012 to support fiscal consolidation. In line with the CSRs of 2012, there was some rebalancing of the relative tax burden towards consumption and environmental taxes, and a reduction in the tax-induced bias towards indebtedness and home ownership. Limited fiscal space impeded the originally planned reduction in employers' social security contributions, which was intended to deepen the tax shift. The 2013 NRP does not provide for additional major changes to the tax system, apart from some tax expenditure measures.

The financial sector adjustment programme is on track. In particular, the necessary recapitalisation has been carried out, and the asset management company Sareb has been set up. The restructuring of banks, in accordance with decisions under state aid rules, will require continued attention in the coming years. Still, credit conditions for bank-dependent borrowers remain tight, notably for SMEs. State-guaranteed credit lines have been strengthened and some initiatives to widen the financing options for firms have also been launched. In parallel, Spain has implemented a major plan to pay the public administration's commercial debts (EUR 27.3 billion), which has been extended to 2013 (EUR 2.6 billion).

Available data suggest that the 2012 labour market reform has started to lead to greater internal flexibility, to some reduction in dismissal costs and to increasing wage moderation. However. progress appears more mixed as regards duality and the use of opt-out clauses. An official assessment of the reform against its stated objectives, with a view to stepping up its implementation where needed, was announced for July 2013 in the NRP. The national Youth Employment and Entrepreneurship Strategy 2013-2016, presented in March 2013, incorporates a range of short- and longer-term measures intended to improve employment opportunities for young people. Recently adopted measures should foster closer cooperation between national and regional public employment services (with the creation of a Single Job Portal) and between public employment services and private placement agencies, but remain to be made fully operational. The implementation of reform measures in the field of active labour market policies (ALMPs) has lagged behind and actions to modernise and reinforce the public employment service itself are still needed.

A high proportion of unemployed people without formal qualifications (35.2% in Q4-2012) and the insufficient relevance of education and training to the labour market contribute to the high youth unemployment rate. Early school leaving, although decreasing, continues to represent a major challenge, and vocational training remains insufficiently used. The NRP highlights the importance of a swift implementation of the reform of the educational system and improvements in the quality of education and training. Moreover, dual vocational training has been introduced and pilot projects have started in 2012, but other measures to be included in the draft organic law on quality of education have not advanced. Poverty and social exclusion keep increasing, mainly as a result of the labour market situation, high household debt levels and the limited effectiveness of the social protection system to respond to growing needs.

In the area of competition in product and service markets, progress is taking longer than envisaged in the September 2012 reform plan, in spite of the fact that weaknesses in the business environment (e.g. the segmentation of Spain's domestic market and entry barriers in services) also hold back job creation. The first draft law (anteproyecto de ley) on market unity was adopted by the government in January 2013 and its final approval by Parliament is foreseen by end-2013. The approval of the draft law on professional services is scheduled for the end of the first half of 2013 only. The law to support entrepreneurs and their internationalisation is expected to be approved by Parliament before the end of 2013. The electricity tariff deficit, which represents a potentially sizeable contingent liability for the budget and non-negligible macroeconomic risks, has not yet been tackled conclusively. The 2013 NRP announces a draft law further reforming the electricity sector by the end of June 2013. The 2013 NRP does not set out a comprehensive response to the existing challenges in the transport sector.

The functioning of the public administration could be streamlined. While progress has been made on coordination between the various public administrations, with the presentation by the government of draft legislation on market unity and on local administration reform, efforts in the field of public procurement policy could be stepped up, inter alia to contribute to fiscal savings. Reforms to improve the efficiency of the judicial system are also ongoing.

2. ECONOMIC DEVELOPMENTS AND CHALLENGES

2.1. Recent economic developments and outlook

Recent economic developments

The rebalancing of the Spanish economy is causing a deep contraction of domestic demand, which is only partially offset by external demand. Weak domestic demand resulted in a recession in 2012, with real GDP falling by 1.4% after some positive growth in 2011 (0.4%). The most important reasons for the weakness of domestic demand were the continuing adjustment in the construction sector, deleveraging by households and non-financial corporations, tight financing conditions, fiscal consolidation, and the high level of unemployment.

The recession was accompanied by further massive employment destruction. So far, since 2007, around 3.6 million jobs have been lost. Employment contraction further gathered pace in 2012, as employment fell by 4.6%. [5] The job losses are the consequence partly of the depressed cyclical position, but also of structural adjustment, notably the sustained downsizing of the construction sector, skill mismatches and the sluggish adjustment of wages. In 2012, wage moderation markedly intensified, partly fostered by the 2012 labour market reform and public sector wage cuts. The unemployment rate surged in 2012 and early 2013, reaching 27.2% in the first quarter of 2013, more than 6.2 million people, while the active population has been falling (by 1% in 2013 (Q1), year-on-year growth rate).

Although export growth decelerated, Spain continued to gain export market share in 2012. New products and markets helped to sustain export performance. The loss of momentum of exports was more than offset by a deep contraction of imports, as a consequence of weak domestic demand. The result was a significant improvement in the current account, leading to a small current account deficit of 0.8% of GDP for 2012, despite the considerable drags from the energy trade balance and income payments.

The 2013 Commission spring forecast expects a further 1.5 % fall in real GDP in 2013. The drivers of the contraction in 2012 are expected to persist in 2013, although with a diminishing intensity, and GDP is expected to bottom up towards the end of the year. While domestic demand will continue to be a drag on growth, exports are projected to grow faster, in line with higher growth of export markets and further market share gains. An additional fall in unit labour costs, due to significant growth of labour productivity and moderated wage growth, will support the recovery in cost competitiveness. As a result, the external rebalancing of the economy is expected to advance in 2013.

[5] Source: National Statistics Institute, Labour Force Survey, Q1-2013.

Additional employment destruction is expected in 2013, although to a lesser extent than in 2012. The labour market reform allowed firms to use alternative adjustment mechanisms to job destruction, and wages have become more sensitive to the cyclical position. These effects will not, however, be sufficient to stem a further increase in the unemployment rate this year given that activity levels are falling.

The macroeconomic scenario underlying the NRP and the SP is similar to the Commission services' spring forecast. For 2013, the positive contribution of net external demand (2.4%) and the negative contribution of domestic demand (-3.7%) are comparable to the outlook in the Commission's 2013 spring forecast. The stability programme forecasts economic growth of 0.5% in 2014, 0.9% in 2015 and 1.3% in 2016. The path of general government deficits after 2013 is more favourable in the Spanish outlook, which, contrary to the Commission's spring forecast, includes the government's fiscal consolidation plans.

Despite the difficulties of pinpointing and quantifying the shocks represented by the reforms, the NRP includes estimates of their macroeconomic impact. According to these estimates, the reforms will have a significant impact on growth and employment in the short- term, ane even more so in the long- term. Among the estimates provided, the impact of the labour market reform and of unifying the domestic market are of special importance, with a significant effect on GDP in the long run, estimated at 4.5 % and 1.5 %, respectively.

2.2. Challenges

The economic situation in Spain remains challenging even though external financing pressures have eased since summer 2012. The economy is still going through a deep structural adjustment following the build-up of large external and internal imbalances during the housing and credit boom. House prices are still falling and the construction sector is shrinking. Households and companies are rebuilding their balance sheets. The financial sector is undergoing thorough restructuring. Faltering domestic demand is pushing firms to boost productivity and expand their exports. Part of the past loss of cost competitiveness has been reversed, although this is partly through the impact of massive labour shedding on apparent labour productivity. Robust exports and falling imports have driven a major improvement in the current account balance, from a deficit of -10% of GDP in 2007 to -0.8% of GDP in 2012 (and a projected surplus in 2013). However, part of this adjustment seems to be cyclical in nature. In order to ensure a steady decline in the still very large net external liabilities, and taking into account the drags from the energy trade and income deficits, further advances in competitiveness would be necessary. Structural rigidities and financing constraints have been hindering a faster adaptation of the real economy to post-bubble conditions. Acute funding stress during 2012 showed that an adjustment process of this size brings with it significant risks for growth and financial stability. Negative feedback loops between a protracted economic recession, ongoing deleveraging and volatile market financing conditions remain a tangible threat that requires a comprehensive policy response.

Households and corporations remain exposed to very high debt levels and non-performing loans keep rising, despite efforts to deleverage. The correction in the housing market is still ongoing. Despite the acceleration of the fall in house prices witnessed in 2012, the still large stock of unsold houses together with subdued demand conditions (*via* lower disposable income, tighter financing conditions and high uncertainty) imply that a stabilisation of house prices may not occur before 2014, notwithstanding considerable variation in housing market conditions across regions.

In spite of improvements in wholesale financial markets, financing conditions for bank-dependent borrowers remain tight in the aftermath of the crisis. Sovereign spreads have fallen and corporate issuance on international financial markets has resumed. The financial sector adjustment programme for Spain[6] has reinforced the stability of the banking sector and hence is setting the foundations for banks to provide adequate financing to the households and companies. While the observed fall in lending is consistent with the need for deleveraging, indicators of the availability and cost of financing point to tight financing conditions for some categories of borrowers, notably SMEs. The impact of credit constraints on SMEs is intensified by the scarcity of alternative sources of financing, such as venture capital, business angels, equity markets and other equity funding. Facilitating access to finance throughout the firm's life-cycle would help job creation and support the growth and internationalisation of businesses.

The fiscal impact of the crisis and of projected demographic developments compound each other and make fiscal sustainability a significant challenge. The high structural primary deficit and substantial increases in gross public debt observed in the wake of the crisis are symptoms of fiscal stress. In the medium and long term, Spain faces population ageing, which will impact public finances due to higher spending on pensions, healthcare and long-term care. The reforms already introduced will moderate the increase in age-related expenditure. Gradual improvements in the structural primary balance and further reforms containing age-related expenditure growth are necessary to maintain the sustainability of public finances in the long term and to ensure the adequacy of pensions.

The taxation system can contribute to the rebalancing of the economy. Even after the tax measures taken to support fiscal consolidation, Spain has a relatively low tax-to-GDP ratio. The ratio has been falling since the start of the crisis, partly as a consequence of the shift in the composition of activity towards exports. The tax system can continue to support both fiscal consolidation and economic adjustment by keeping the course of shifting taxation away from productive factors towards consumption and environmental taxes, scaling down tax expenditures and other possible distortive measures, closing loopholes that and fighting fraud, so as to provide a level-playing-field for companies.

Regaining competitiveness and boosting employment remain key challenges. The strength of exports and the improvement of relative cost competitiveness indicators are positive developments but not yet sufficient to support the growth of activity and employment. Improvements in structural competitiveness through more efficient resource allocation and firm-level knowledge-based productivity growth are needed to consolidate these gains. Swift completion and implementation of the structural reform agenda will help regain competitiveness, in particular through a more efficient public administration, stronger competition in domestic services and product markets, further measures in the labour market, improvement in the business environment (also by significantly reducing and shortening licencing procedures, including for industrial activities), support to research and innovation, the development of market-relevant human capital and skills, and adequate access to finance.

[6] http://ec.europa.eu/economy_finance/assistance_eu_ms/spain/index_en.htm.

The labour market situation remains critical. Skills mismatches, lack of skills and qualifications, the fall in domestic demand and insufficient job creation, among other factors, have contributed to the rise in unemployment up to 27.2% at the beginning of 2013 (the youth unemployment rate was 55.7 %; long-term unemployment has more than doubled since 2008 and accounts for 44.5 %). The fall in employment has especially affected labour-intensive sectors (such as construction and the public sector), thus supporting apparent labour productivity growth and the further fall in unit labour costs (-3.4% in 2012). In spite of a considerable increase in female labour market participation during the last decade, women still show very low employment rates. The active population has started to shrink and, despite the changes brought by the 2012 labour market reform, the labour market remains segmented, with still very high levels of temporary employment. Wages, partly following the reform, have started to respond to the slack in the labour market. Unemployment creates social hardship and constrains the capacity of households to meet debt repayment obligations. A prolonged period of high unemployment could dampen potential output growth via hysteresis effects.

Spain has moved further away from its target of reducing the number of people at risk of poverty and/or social exclusion. On the contrary, the latter rose by 0.7 million in 2011 alone, on top of the 1.1 million increase in 2010. Meanwhile, the social protection system has been intensely challenged by the recession.

There is a need to reinforce the contribution of the education and training system at all levels to human capital formation. Major challenges in the education system are the transition from education and training to the labour market, a persistently high rate of early leavers from education and training (24.9 %[7] in 2012) and insufficient tailoring of skills and capabilities to market needs. Some 29 % of 25-29 year-olds in Spain are not in employment, education or training, and vocational training remains insufficiently used.

Lasting rebalancing of the economy requires well-functioning and competitive product and service markets. The considerable inertia of consumer prices, despite major falls in unit labour costs, may partly reflect ongoing corporate balance sheet repair but may also indicate a lack of competition in certain product and service markets. Barriers to competition prevent more productive firms from growing and gaining market shares and hold back innovation. Weaknesses in the business environment (e.g. segmentation of Spain's domestic market, entry barriers in services' industries, a lack of efficiency in the judicial system) also reduce market contestability and hold back job creation. As regards the energy sector, the potentially sizeable contingent liability for the budget implied by the electricity tariff deficit remains a non-negligible macroeconomic risk. The extensive network of transport infrastructure entails high maintenance and renewal costs, and low traffic flows often do not cover operating costs of infrastructure.

These interrelated and complex challenges require a comprehensive and ambitious policy response. This response should centre on pressing competitiveness- and growth-enhancing reforms of product and labour markets and of the public administration.

[7] Estimated, EUROSTAT.

Box 1. — Summary of the 2013 in-depth review (IDR) under the Macroeconomic Imbalance Procedure (MIP)

The 2013 IDR takes a broad view of the Spanish economy in line with the scope of the surveillance under the Macroeconomic Imbalance Procedure (MIP). The main observations and findings from of the analysis are that the risks and negative economic trends associated linked to macroeconomic imbalances, as identified in the 2012 IDR, are still powerful and have partly materialised:

- Negative feedback loops between a protracted economic recession, ongoing deleveraging and volatile market financing conditions remain a tangible threat.
- The unemployment rate is at a record high and projected to rise further. The share proportion of long-term unemployment is increasing, and with it the probability of hysteresis effects that would lower the growth potential of the economy. Wages have only belatedly and gradually started to respond to the slack in the labour market, partly in reaction to the 2012 reform of the labour market.
- The private sector faces strong pressures to deleverage. Despite a significant adjustment in terms of credit flows, private- sector debt remains particularly elevated high and non-performing loans are set to increase further. Falling house prices and rising unemployment are weakening household capacity to repay debt.
- External debt level remains close to its historical peak and large net external liabilities increase the vulnerability of the Spanish economy to external financial shocks. Notwithstanding the sizeable improvements in the current account balance, further competitiveness gains will be needed to underpin the dynamism of exports and import substitution, and thereby bring about a significant reduction of net external debt over time.
- High and fast- rising general government debt has been the flip side of the ongoing adjustments in the private sector. The full unwinding of macroeconomic imbalances also requires that the negative impact on public finances is to be corrected as well.

The IDR also discusses the policy challenges stemming from these imbalances. The interrelated nature of the imbalances requires a comprehensive and ambitious policy response. Notwithstanding the measures already adopted or proposed, a number of areas can be considered for further reform, including inter alia deepening the structural reform agenda to open up product and factor markets, grounding fiscal consolidation on structural measures and reinforcing the institutional framework, further reviewing the tax system to enhance its growth-friendliness and to ensure that it supports the internal and external rebalancing of the economy, strengthening the business environment as well as deepening and complementing the labour market reform.

3. Assessment of the policy agenda

3.1. Fiscal policy and taxation

Budgetary developments and debt dynamics

The main goal of the medium-term budgetary strategy outlined in the stability programme is to bring the budget deficit below the 3% reference value by 2016. The stability programme provides for meeting the medium-term objective (MTO), which remains a balanced budgetary position in structural terms, by 2018, which is beyond the programme horizon. The MTO more than adequately reflects the requirements of the Stability and Growth Pact.

Additional consolidation measures in combination with a strengthened institutional framework and budgetary execution control led to a further improvement of the underlying fiscal position in 2012. The general government deficit net of capital transfers to banks, which are considered as one-off operations, narrowed from 8.9 % of GDP in 2011 to 7.0 % in 2012. This exceeds the revised government and EDP target of 6.3% of GDP. By level of government, the main consolidation effort was achieved at the regional and local level, with the regions as a whole missing the deficit target of 1.5% of GDP by slightly more than 0.2 pps.[8] In contrast, the social security sector balance deteriorated by around 1 pp, resulting in a deficit of almost 1 % of GDP. The deviation from the general government target was linked to a combination of weaker-than-expected revenues (taking into account the impact of discretionary measures and the base effect) and some expenditure overruns, including higher intermediate consumption and social transfers. The less tax-rich growth composition and a stronger-than-expected deterioration in the labour market implied major revenue shortfalls as well as higher social expenditure.

For 2013, the stability programme aims at achieving a general government deficit of 6.3 % of GDP, compared with a target of 4.5 % originally set in the July 2012 EDP recommendation (Box 2). This revision reflects the worse starting position in 2012 and a downward adjustment of the macroeconomic scenario. The planned narrowing of the deficit in 2013 will be mainly revenue-driven, as a result of higher tax revenue due to the expected full-year effect of the increase in VAT in September 2012 and hikes in excise duties. On the expenditure side, savings in compensation of employees, intermediate consumption, and gross fixed capital formation will be largely offset by higher interest expenditure and social spending. In total, the consolidation in the programme relies on adopted discretionary measures with a budgetary impact estimated by the government at 3.6 % of GDP. In its 2013 spring forecast, the Commission projects a deficit of 6.5 % of GDP. The small difference is largely explained by a slightly lower growth forecast and the fact that the programme assumes an additional impact of measures of about 0.2-0.3 pp, which are not clearly specified in the programme.

The stability programme confirms the authorities' commitment to advance with fiscal consolidation over the medium term. The headline deficit is expected to fall to 5.5 % of GDP in 2014 and to be reduced to 2.7 % of GDP in 2016. The fiscal consolidation plan (net of bank recapitalisations in 2012) is back-loaded, with most of the fiscal adjustment to be

[8] For a number of regions, the slippage was larger.

delivered in 2015 and 2016 in terms of the headline, primary, and structural balances, which is appropriate given the current macroeconomic environment. The current programme targets differ significantly from those in the previous update, reflecting a substantial downward revision of the underlying macroeconomic and budgetary projections. According to the programme, the consolidation would be mainly expenditure-based from 2014 onwards. The expenditure-to-GDP ratio is projected to fall by 3.7 % of GDP between 2012 and 2016 while the revenue ratio is expected to increase by 0.7 % of GDP. The planned expenditure restraint mainly falls in the areas of compensation of employees and intermediate consumption and less in social payments and gross fixed capital formation. The central government plans to reduce its deficit by 2.1 pps of GDP between 2012 and 2016: the regional governments will have to deliver a deficit reduction of 1.6 pps of GDP, and social security a reduction of 0.5 pp of GDP.

The envisaged budgetary adjustment is not sufficiently supported by measures in the programme, particularly towards the end of the programme period (Box 2). For 2014, the stability programme indicates an additional consolidation of 1 pp of GDP on the expenditure side partly offset by a drop in the revenue ratio (0.2 pp) due to lower social security contributions. According to the programme, the consolidation will be underpinned by the extension of certain temporary revenue measures taken in previous years, such as changes to the corporate and personal income taxation, which were supposed to expire in 2014, and by (still to be specified) revenue measures at regional level. On the expenditure side, the main discretionary measures with an incremental impact in 2014 are the continued freeze in public sector hiring, various measures restricting early or partial retirement and unspecified savings at regional level and under the local administration reform, which remain to be adopted. For 2015, the programme states that the planned budgetary adjustment requires measures of 1.5-1.7 % of GDP, whereas measures of only 1.3 % of GDP are presented. Moreover, the programme refers to future measures in the field of social security that are expected to add 0.2-0.3 pp in 2014-15, which, however, are not specified. The main measures for 2015 presented in the programme concern planned savings at regional level and further savings from the local administration reform. For 2016 the programme does not specify any measures necessary to underpin the achievement of the target.

There are some downside risks to the deficit adjustment path presented in the stability programme. The source of additional regional revenues from 2014 onwards is not sufficiently specified and previously introduced temporary measures are extended only to 2014. In addition, the programme announces a number of deficit-increasing tax expenditure measures in the area of corporate taxation effective as from 2014 that risk eroding the tax base. For 2016, the programme does not present any measures, and this could jeopardise the achievement of the proposed deficit target. The planned savings from the 2014 local government reform are subject to significant implementation risks since the draft law has not yet been submitted to Parliament. Moreover, maintaining the public sector pay and hiring freeze may prove increasingly difficult the longer it has been in place. Other risks to budgetary strategy are larger deficits in the social security system (if employment growth falls short of expectations and pensions expenditure proves more difficult to contain) and the greater sensitivity of revenues to the on-going structural adjustment. Fully implementing the reforms already adopted with regard to the pension system and reaching an agreement on the sustainability factor, including de-indexation of pensions, would mitigate the risk of shortfalls in the social security system. Moreover, there is uncertainty regarding macroeconomic developments, given the uncertainties surrounding the economic and financial situation and the need to correct excessive macroeconomic imbalances. A further risk stems from contingent liabilities linked with asset protection schemes/guarantees.

The adjustment path presented in the programme is realistic, striking a balance between ambitious fiscal consolidation and the difficult economic situation. In terms of the structural balance,[9] the programme foresees an improvement in the (recalculated) structural deficit from 5.5 % of GDP in 2012 to 4.2 % of GDP in 2013 and, thereafter, a fall to 2.1 % of GDP in 2016. In 2014, the effort is slightly below 0.5 pp. The overall consolidation implies a cumulative structural fiscal effort of 3.4 pps. of GDP over the entire programme period. The programme does not foresee the achievement of the MTO within the programme period. The Commission's 2013 spring forecast projects the structural deficit to be only slightly higher in 2013 and 1¾% of GDP higher than the programme target in 2014 (based on a no-policy-change assumption). For the period after the correction of the excessive deficit, the programme foresees adequate progress towards achieving the MTO. According to the programme, the structural deficit decreases by 1.2 pps in 2017 and turns into a structural surplus in 2018 with further improvement in 2019.

The general government debt-to-GDP ratio has been on an upward path since reaching a low of about 36% of GDP in 2007. In 2012, it rose further to exceed 84 % of GDP. The debt ratio is projected to continue to increase over the programme period, peaking at close to 100 % in 2016, well above the Treaty reference value in all years. This increase in debt is mainly driven by high interest payments and to a lesser extent by the dynamics in the primary deficit, which is expected to turn into a surplus in 2016. Stock-flow adjustments contribute around 1 pps of GDP on average over 2013-16. The trend in the debt ratio may be more unfavourable than projected in the programme if risks related to the budgetary targets materialise. The Commission's 2013 spring forecast projects a similar trend in the public debt, based on a no-policy-change scenario.

Box 2. Main measures

After raising a number of taxes in 2012-13, such as personal and corporate income taxes and VAT, the focus of the measures presented in the programme is more clearly tilted towards the expenditure side in the latter years of the programme. Notably, the programme relies heavily on the hiring freeze and continued expenditure restraint at regional and local government level. The reform of local government and other savings at local level are expected to yield increasing savings, reaching about ½ pp. of GDP in 2015. This item is subject to substantial implementation risk, as the local government reform has not yet been submitted to Parliament. Moreover, neither revenue nor expenditure measures at regional level as from 2014 are well specified and could thus be subject to significant risk. With the previously implemented hikes in personal income tax being extended only to 2014, there is a risk of a negative budgetary effect in 2015. The programme does not present any measures for 2016.

Main budgetary measures

9 Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission on the basis of the information provided in the programme, using the commonly agreed methodology. These estimates have to be interpreted with great caution given the major uncertainties surrounding the methodological estimation of potential growth and output gaps in an economy like Spain, facing profound structural transformations.

Revenue	Expenditure
2012	
• Income tax and taxes on non-residents (0.3 % of GDP) • Corporate income tax (0.4 % of GDP) • Tax amnesty and measures combatting fraud (0.1 % of GDP) • VAT (0.1 % of GDP) • Property tax (0.1 % of GDP) • Revenue measures at regional level (0.4 % of GDP) • Fight against social security fraud (0.2 % of GDP)	• Public employment (0.5 % of GDP) • Employment policies (0.1 % of GDP) • Regional measures, excl. public employment measures (0.9 % of GDP) • Local government reform and adjustment plans (0.1 % of GDP) • Other, incl. reforms of regional government (0.8 % of GDP)
2013	
• Income tax and taxes on non-residents (0.3 % of GDP) • Environmental taxes (0.2 % of GDP) • VAT (0.8 % of GDP) • Excise duties (0.2 % of GDP) • Revenue measures at regional level (0.3 % of GDP) • Social contributions (0.2 % of GDP)	• Public employment (-0.2 % of GDP) • Employment policies (0.4 % of GDP) • Long-term care (0.1 % of GDP) • Regional measures, excl. public employment measures (0.6 % of GDP) • Local government reform and adjustment plans (0.2 % of GDP) • Other, incl. reforms of regional government (0.4 % of GDP)
2014	
• Corporate income tax (0.3 % of GDP) • Measures combatting fraud (0.1 % of GDP) • Revenue measures at regional level (0.2 % of GDP)	• Public employment (0.2 % of GDP) • Long-term care (0.1 % of GDP) • Regional measures, excl. public employment measures (0.2 % of GDP) • Local government reform and adjustment plans (0.3 % of GDP) • Other, incl. reforms of regional government (0.1 % of GDP) • Social security (0.1 % of GDP)
2015	
• Corporate income tax (-0.1 % of GDP) • VAT (0.1 % of GDP) • Revenue measures at regional level (0.2 % of GDP)	• Public employment (0.1 % of GDP) • Regional measures, excl. public employment measures (0.2 % of GDP) • Local government reform and adjustment plans (0.5 % of GDP) • Other, incl. reforms of regional government (0.1 % of GDP) • Social security (0.1 % of GDP)

Note: The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities. A plus sign implies that revenue / expenditure increases / decreases as a consequence of this measure.

Among **macro-structural measures** affecting potential growth, the main measures are the successive labour market reforms. A series of labour market reforms in 2010 and 2011 and again in February 2012 aimed to reduce labour market segmentation and to make the collective bargaining system more flexible (see Section 3.3).

Box 3. Excessive deficit procedure for Spain

On 27 April 2009, the Council decided that an excessive deficit existed in Spain. The most recent Council Recommendation under Article 126(7) TFEU was adopted on 10 July 2012. The Council recommended that Spain puts an end to the present excessive deficit situation by 2014. Specifically, in order to bring the headline government deficit below the 3 % of GDP reference value by 2014 the Spanish authorities were recommended to deliver an improvement of the structural balance of 2.7 % of GDP in 2012, 2.5 % of GDP in 2013, and 1.9 % of GDP in 2014, based on the Commission's update of the 2012 spring forecast. The headline deficit targets were 6.3 % of GDP for 2012, 4.5 % of GDP for 2013, and 2.8 % of GDP in 2014. Spain was also recommended to (a) implement the measures adopted in the 2012 budget and in the Autonomous Communities' rebalancing plans; (b) adopt the announced multi-annual budget plan for 2013-14 by end of July 2012; (c) adopt without delay additional measures in 2012 to ensure the fulfilment of the budgetary plans for 2012; (d) stand ready to adopt further measures should risks to the budgetary plans materialise and accelerate the reduction of the deficit in 2013 and 2014 if economic or budgetary conditions turn out better than currently expected; (e) strictly apply the new provisions of the Budgetary Stability Law regarding transparency and control of budget execution; (f) to establish an independent fiscal institution to provide analysis, advice and monitor fiscal policy, (g) maintain the enforceability of its medium-term budgetary framework; (h) closely monitor adherence to the budgetary targets throughout the year for all the levels of the general government sector. On 14 November 2012, the Commission concluded that, based on its 2012 autumn forecast, Spain had taken effective action in compliance with the revised Council recommendation of 10 July 2012 and that no further steps in the excessive deficit procedure were required.

An overview of the current state of excessive deficit procedures is available on: http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/index_en.htm (please refer to country sections at the bottom of the page).

Long-term sustainability

Spain is facing a risk of fiscal stress, primarily the fiscal front, but in part also on the macro-financial and competitiveness fronts. Full implementation of the planned adjustment would go a long way towards reducing the risk of fiscal stress. Spain also faces high risks to sustainability in a medium-term perspective and medium risks in the long run. Returning to a higher structural primary balance, around -0.5% of GDD as it was on average in the period 1998-2012, would help containing these risks. The 2013 reform of early retirement schemes is expected to contribute to the long-term sustainability of the social security system. However, further measures to contain age-related expenditure growth appear necessary, e.g. via the appropriate regulation of the sustainability factor foreseen by the 2011 reform of the pension system. In addition, government debt (84.2% of GDP in 2012 and expected to continue to rise) needs to be reduced.

The government has complemented the 2011 pension reform with additional measures to improve the sustainability of the pension system. The 2011 pension reform was an important step towards strengthening long-term sustainability.[10] In addition, in early 2013, the government curbed access to early and partial retirement, which contributes to improving sustainability in the medium and long term.[11] The prohibition of forced retirement in collective agreements, and tightened access to special unemployment benefit for older workers were other measures introduced in 2012 and 2013. The pension sustainability factor, which the 2011 reform foresaw to be triggered only in 2027, has not yet been regulated. An independent experts group established in April 2013 to propose the details of the sustainability factor has been tasked to report to the Toledo Pact parliamentary committee by the end of May 2013. The specification of the sustainability factor will need to include a clear link between the retirement age and gains in life expectancy, to ensure the long-term financial stability of the system, and could take into account other relevant factors. A prolonged period of high unemployment and a falling active population pose challenges to the sustainability of the pension system in the short and the long term. The social security system has been in deficit since 2011, reflecting labour market weakness. High unemployment, the transition to inactivity, and the prevalence of involuntary part-time work prevent many workers, particularly women, from building adequate future pension rights, adding pressure on non-contributory pensions or social assistance.

According to the latest long-term projections, public healthcare spending will increase by 1.3 percentage points (pps) of GDP by 2060. Crisis-related expenditure cuts have helped contain the growth in spending. Public healthcare expenditure decreased from 7.1 % of GDP in 2010 to 6.7 % in 2011. In 2010 and 2011 savings originated from cuts in the wage bill and pharmaceutical expenditure. In 2012, measures specifying the common basket of healthcare benefits and an extension of co-payments on pharmaceutical products were adopted. However, sustainability challenges remain. Reducing long-term expenditure pressures further would be difficult without better control of pharmaceutical expenditure, particularly in hospitals, strengthening the relative role of primary care provision, better coordination across types of care, incentive-improving changes in remuneration systems, and greater interregional mobility for professionals. The 2013 NRP announces that more measures improving

[10] According to the Fiscal Sustainability Report 2012 public pension expenditure in Spain will increase from 10.1% of GDP in 2010 to 13.7% in 2060, higher than the EU average of 12.7% in 2060. The budgetary effect of the latest restrictions in early retirement has not yet been taken into account in these projections.

[11] Royal Decree Law 5/2013, of 15 March.

efficiency in healthcare and pharmaceutical expenditure will be adopted later in the year, e.g. revising reference prices and centralising purchasing of pharmaceutical products, and extending co-payments.

Fiscal framework

The Budgetary Stability Organic Law, which entered into force on 1 May 2012, strengthens fiscal discipline across all levels of government, by introducing tighter fiscal rules, including expenditure ceilings for regions and local governments, as well as providing for corrective mechanisms and sanctions in the event of non-compliance with fiscal targets. As part of the law, transparency of budget execution, especially by regional and local governments, has improved considerably with the publication of more timely, systematic and higher-frequency data. Starting from May 2013, the Ministry of Finance is publishing budgetary execution data for regions and social security on a monthly and national accounts basis. More systematic information on the regions' budgetary laws has also become available.[12]

In addition, the Budgetary Stability Organic Law provides for the creation of financing mechanisms for sub-central government levels, such as the suppliers' payment scheme (plan de pago a proveedores) and the regional liquidity fund (fondo de liquidez autonómica). The former aims at enabling regions and local entities to pay commercial arrears (see section 3.2). The latter is a credit line to allow regions with no or limited market access to service their public debt. Access to both facilities is subject to financial and fiscal conditionality, which combined with the provisions of the Budgetary Stability Organic Law, contributed in 2012 to enhanced fiscal discipline at sub-central government level.

However, implementation of the preventive and corrective mechanisms of the law was not fully effective and could have been more timely and transparent. For example, corrective measures provided for in the law were only applied with a delay. The regions ' economic and financial plans were approved in May, but the first quarterly report on their implementation in line with Article 24 was issued only at the end of December. An earlier assessment and issuance of warning letters (requerimientos) would have given more time for the correction of budgetary slippages in 2012 in a number of regions, where there were early indications that the 2012 deficit target was unlikely to be met. Moreover, the first assessments of the regions' economic and financial plans could have been more informative and the publication of other reports provided for in the law could have been more timely.

Plans to set up an independent fiscal institution to provide analysis, advice and monitor fiscal policy have been delayed. A first draft organic law was approved by the government in April 2012. The draft organic law providing for its constitution is expected to be submitted to Parliament in June and to be adopted in the second half of 2013. This means that, contrary to initial plans, the new authority will have only a limited role in the preparatory stage of the 2014 budgetary process. The new authority is expected to enhance fiscal monitoring and transparency at all levels of government, provided that it is given sufficient powers, legal standing and resources to carry out its duties.

[12] See: http://www.minhap.gob.es/Documentacion/Publico/PortalVarios/FinanciacionTerritorial/Autonomica/Resumen%20Ejecutivo%20Presupuestos/Resumen%20ejecutivo%20PRESUPUESTOS%20CC.AA.%202013.pdf.

Tax system

Spain has a low tax-to-GDP ratio (32.3 % in 2012), compared to the EU-27 average and the national average over the last decade. The tax-to-GDP ratio has decreased considerably since the start of the crisis, partly as a consequence of the rebalancing of the economy towards a less tax-rich growth pattern. Both direct and indirect taxes (including social security contributions) have are lower shares inas percentage of GDP than the EU average (2012 indirect taxes in ES: 10.2 % of GDP, EU27 average: 13.3 %; direct taxes in ES: 10.1 %, EU27 average: 13 %).

Some rebalancing of the relative tax burden towards consumption and environmental taxes took place in 2012. In line with the 2012 country-specific recommendations, the very narrow VAT base was broadened by reducing the scope of application of the super-reduced and reduced tax rates. The standard (from 18 to 21 %) and the reduced rate (from 8 to 10 %) were increased, while the 4 % super-reduced rate has remained unchanged. However, a number of goods and services remain subject to the reduced and super-reduced rates (e.g. food and health products, and some tourist services). Some excise duties have also been increased (e.g. on tobacco and kerosene). Limited fiscal space impeded the originally planned reduction in employers' social security contributions. Going forward, there appears to be scope for further limiting the application of the reduced rates of VAT or increasing those rates.

Revenues from environmental taxes as a percentage of GDP were the lowest in the EU in 2011, with low revenues from energy, transport fuel, and pollution and resource-use taxes. The package of taxes on electricity generation introduced in December 2012 to cover the electricity tariff deficit (see section 3.4) could yield around 0.2 % of GDP annually. Excise duties on petrol and diesel are currently below the EU average and those in neighbouring countries. Also in view of the reforms that Spain launched in the field of fuel distribution, there would seem to be scope for a tax increase to further improve the functioning of the market and promote energy savings. Moreover, as in other Member States, there is scope to address the preferential tax treatment of diesel compared with petrol. The municipal vehicle circulation taxes in practice do not always reflect the environmental performance of the vehicles. Revising landfill and other waste taxes as well as a better water pricing policy could help achieve environmental objectives and fiscal consolidation.

High tax expenditure in direct taxation reduces fiscal revenues and causes distortions.[13] In consequence, the effective tax rates are much lower than the statutory rates. In personal income tax, the tax allowance for contributions to pension plans[14] has a regressive effect and distorts the composition of savings. In corporate income tax, there are important reductions in calculating the tax base, which lower the effective rate to around 60 % of the statutory rate.[15]

[13] See 'Tax Reforms in EU Member States. 2012 Report', European Economy No 6/2012 and *Taxation Paper No 34*, European Commission.

[14] The allowance amounted to over EUR 5.7 billion in 2009. Source: *Memoria de la Administración Tributaria 2010* (2010 Report of the Tax Administration).

[15] This is due to, among other reasons, the increased number of entities applying reduced tax rates, e.g. for the maintenance or increase in employment, the tax credit for reinvestment of capital gains from assets amounted EU 863,8 million and the tax credit for R&D amounted EUR 326,9 million in 2009. See *Memoria de la Administración Tributaria 2010* (2010 Report of the Tax Administration)

Despite the reduced corporate income tax rate of 25 % for companies under a certain turnover threshold, SMEs pay on average a higher effective rate than bigger companies.[16] The broadening of the tax base could improve the overall efficiency of the tax system. The 2013 NRP envisages some discretionary measures with a deficit-increasing impact, e.g. deductions against income tax for reinvestment of retained profits and R&D activities, and fiscal incentives for informal investors ('business angels').

There has been progress in addressing the debt bias in corporate income tax and in the treatment of housing in personal income tax, in line with the 2012 CSR. Corporate income tax deductions for interest payments implied an incentive for high indebteness and leverage ratios. These incentives were partly reduced by introducing a ceiling on the deduction of net financial costs for corporate groups and associated companies. Moreover, in 2012 Spain also withdrew tax compensation in personal income tax for house purchases made before 2006 and removed home mortgage deductions against personal income tax[17] for purchases from 2013 onwards.

The current design of recurrent property taxation does not provide means to secure additional revenue. The wealth tax has a temporary nature -currently applicable until 2014- and substantial exemptions reduce the tax base. Heterogeneous regional allowances applied in property, inheritance and donation taxes lead to significant differences in tax liabilities and reduce the efficiency of the system.

Spain has introduced measures to combat tax evasion and improve revenue collection. In October 2012, an act strengthening the fight against tax fraud and evasion entered into force. Its provisions include stronger penalties, limits on cash payments, new reporting obligations for assets held abroad, and application of the VAT reverse charge mechanism for some high-risk sectors. Moreover, in March 2013 Spain established a new international tax office to deal with international tax audits. These measures go in the right direction. Nevertheless, there remains scope for further action so as to ensure that taxes are collected in line with the tax law.

3.2. Financial sector

The banking sector was seen in last year's SWD as a source of vulnerability with respect to financial stability and credit provision to the real economy. The growing market tensions in the run-up to Spain's request for financial assistance confirmed this assessment. The banking sector programme, lasting 18 months,[18] started on 23 July with the signature of a Memorandum of Understanding (MoU). The core of the programme is the sufficient recapitalisation and restructuring of Spanish banks, where needed, for which up to EUR 100 billion was made available by the European Financial Stability Facility / European Stability Mechanism.

[16] *Memoria de la Administración Tributaria 2010* (2010 Report of the Tax Administration)

[17] Tax credits for housing amounted to EUR 5 billion in 2009. *Memoria de la Administración Tributaria 2010* (2010 Report of the Tax Administration)

[18] The programme expires at end-December 2013. However, the restructuring of the banks receiving public support under the State aid rules is expected to take up to five years.

Fulfilment of the conditions set out in the MoU is on track.[19] The specific capital needs of each participating bank were established and the banks requiring state aid submitted their restructuring plans to the European Commission. The restructuring plans of banks needing injections of capital from the state were approved by the end of December. The asset management company has been set up under the name of Sareb as a majority-private-owned company. Regarding horizontal conditionality, the bank resolution framework has been upgraded, bank supervision and the regulatory powers of the banking regulator strengthened, and the governance structure of savings banks enhanced.

Disbursements made so far, totalling EUR 41.4 billion, were sufficient to recapitalise the weaker banks and for the Spanish Fund for Orderly Bank Restructuring to inject capital into Sareb. The other Spanish banks either did not have a capital shortfall according to the bank-by-bank stress test or were able to cover the shortfall without recourse to state aid.

In spite of the easing of financial market tensions, tight financing conditions remain a major factor constraining the operations and growth of businesses in Spain, particularly of SMEs. Fragmented business structures and large numbers of micro-firms have resulted in Spanish firms being highly dependent on bank financing. Meanwhile, the general tightening of credit standards has made access to bank loans more difficult. In this context, several initiatives have been taken or are underway to alleviate credit and liquidity constraints for companies, in particular SMEs. Measures promoting non-bank intermediation, announced in November 2012 in the context of the banking sector programme, are being implemented and are further detailed and developed in the NRP. They address the financing needs of businesses at various stages of development, although in the short term they cannot be expected to fully address the structural lack of equity financing from private sources. Funds under the European Regional Development Fund (ERDF) have been recently reprogrammed (approximately EUR 320 million) to improve access of SMEs to credit. There is room for further ERDF reprogramming into new national or regional financial instruments that may cover loans, guarantees, seed and working capital for SMEs.

Measures are being taken to alleviate businesses' liquidity problems stemming from long delays in payments. Spain was one of the Member States with the longest payment times by public authorities in 2011 (160 days, well above the EU average[20]), and in business-to-business transactions (97 days[21]). Long delays create liquidity problems for companies and imply higher costs for the state, as providers factor in payment delays in their prices. In 2012 the government provided EUR 27.4 billion to settle the arrears of local and regional governments for commitments made before January 2012.[22] The scheme has been extended to 2013 (for EUR 2.6 billion) under Royal Decree Law 4/2013, which also transposes EU Directive 2011/7/EU in this field. The amount of arrears outstanding following the application of the scheme remains unclear, however. According to the 2013 NRP, a third round of the scheme to settle arrears of public administrations will be launched later in 2013.

[19] http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/pdf/ocp130_en.pdf
[20] Source: 2012 European Payment Index, which refers to 2011 data.
[21] European Payment Index 2012, *Intrum Justitia*.
[22] Royal Decree Law 4/2012 of 24 February, and Royal Decree Law 7/2012 of 9 March.

3.3 Labour market, education and social policies

Labour market

The implementation of the 2012 labour market reform[23] continues, against the background of a deteriorating labour market situation. The extent of the unemployment challenge means the impact of the 2012 labour market reform must be closely monitored and the need for the reform to be complemented by accompanying measures carefully analysed. Although it is still early to draw definitive conclusions on all aspects of the 2012 reform, and the assessment is complicated by the ongoing contraction of the economy, available data indicate that the reform has started to have some positive effects on internal flexibility, the reduction of dismissal costs, the use of collective dismissals and wage moderation. On the other hand, the new permanent contract for SMEs is apparently not yet being used extensively, and, overall, labour market segmentation remains high. The government's evaluation of the labour market reform, planned in the NRP to be completed in the first half of 2013, could identify areas where follow-up measures may be necessary to achieve the initial objectives of the reform, such as the role of indefinite validity of collective agreements (*ultraactivity*), the use of op-out clauses and the gap between dismissal costs across different contracts.

The employment rate stands at 59.3 % (2012), far from the national employment target of 74 % by 2020. Older workers (44.5 %) and women (55.5 %) have lower employment rates. In the case of women this is affected by the affordability of childcare and long-term care services, and tax considerations for second earners.[24] The 2012 reform is expected to contribute to increasing the employment rate over the medium term.

The government has adopted measures to increase the efficiency of active labour market policies, but the pace of reform could have been faster. Passive labour market policies and their link with active labour market policies were revised in July 2012.[25] Unemployment benefit and assistance conditions were reformed and, overall, job-search requirements were tightened: active and proven job search is required from unemployment benefit recipients, and participation in actions to improve employability is voluntary for the first 30 days and becomes compulsory after that. Furthermore, the gross unemployment benefit after six months has been reduced from 60 % to 50 % of the reference wage and the unemployment assistance has been raised from 75 % to 80 % of the IPREM (*Indicador público de renta de efectos múltiples*). Eligibility conditions for the active income for jobseekers scheme (*Renta activa de inserción*) have also been amended and the links with active job seeking reinforced. These measures go in the direction indicated in the 2012 country-specific recommendation, but their effectiveness needs to be closely monitored. Moreover, it is expected that the new integrated system for management of the unemployment benefits will be finalised in 2013. This new tool will make easier the control on the participation in ALMP, training and will have links to other national databases with fiscal, financial or social security information.

[23] On 10 February 2012 the Spanish government approved Royal Decree- Law 3/2012. Parliament passed the subsequent Law 3/2012 in July 2012.

[24] The average effective tax rate for second earners is high when entering the labour market at the same income level: the second earner's income is taxed at the same marginal rate as that of the main earner when partners file jointly, whereas the main earner loses the deduction for dependent spouse if partners file individually.

[25] Royal Decree-Law 20/2012, of 13 July.

Also, the PREPARA programme[26] has been amended and extended, with an automatic rollover until the unemployment rate falls below 20 %. Although so far, its results are not showing the expected impact on labour market reintegration, [27] PREPARA has played a role in some cases as a non-negligible last-resort safety net for the beneficiaries.

Reform of public employment services is lagging behind. Initial steps have been taken to develop the regulatory framework for cooperation between public employment eervices (PESs) and private placement agencies. A positive element in this cooperation framework will be the performance-based evaluation of the contribution of the private agents depending on the profile of the unemployed person offered a job and the contract duration. Nevertheless, the work of these private employment agencies might start only in late 2013 after the adoption of the legal framework and the respective agreements between the national PES and the employment services of the regions. Moreover, new measures concerning cooperation and sharing of information among PESs concerning job vacancies have been adopted in February 2013,[28] including the creation of a Single Job Portal. These measures are still not fully operational and a swift implementation and monitoring remain important. No specific measures were taken to modernise and reinforce the public employment service itself to provide effective, individualised counselling and job search assistance to those looking for jobs.

ALMPs need to be further reinforced to provide an effective individualised approach to the activation and skills upgrading of the unemployed. This is needed to reorient skills towards current and foreseeable demand by companies. In this context, specific attention may have to be paid to the groups most affected by unemployment, like the young, women, the long-term unemployed and the low skilled. The employability and working conditions of older workers, partially addressed with the measures on early and part-retirement introduced in March 2013, also deserve attention to support the planned increase in the statutory and the effective retirement age.[29]

The Government is preparing a more comprehensive reform of active labour market policies in cooperation with the Autonomous Communities. This reform relies on the objectives set by the 2012 Annual Plan on Employment Policies, passed on 6 July 2012: to reduce youth unemployment, improve the employability of the unemployed, support entrepreneurship, step up public-private cooperation on placement services, reinforce employment opportunities for specific groups (such as people with disabilities), and fight fraud. In relation to these objectives, some measures have been adopted with the reforms introduced in July 2012 and the National Youth Entrepreneurship and Employment Strategy. Most importantly, the 2012 National Employment Plan provides the basis for an assessment of the implementation of ALMPs by the regional governments, which will serve as a basis for identifying good practices and reallocating budget resources towards effective and well-

[26] 'PREPARA' provides for financial support for long-term unemployed people who have no further right to unemployment benefit or insurance, and who are receiving job-search-related training and guidance.

[27] Of the 307 000 who completed the programme up to July 2012, 70 % have not found employment yet. However, the specific profiles of the beneficiaries combined with the shortage of job opportunities in the current context of crisis, also need to be taken into account.

[28] Royal Decree-Law 4/2013, adopted on 22 February.

[29] The Royal Decree Law 5/2013 introduced relevant measures, such as an increase of penalties to be paid by companies with more than 100 employees when including workers over 50 years of age in collective dismissals, up to 50 % of which would be reinvested in ALMPs for older workers. It also opens up the possibility of being an active pensioner, by continuing working while receiving 50 % of the pension.

targeted training, and career guidance measures - 15 % of the financial allocation for ALMPs that is transferred from the central government to the regions will be linked to a performance evaluation- . However, the performance indicators for 2012 have yet to be evaluated. The forthcoming Annual Plan 2013, with new objectives and indicators, as set in the NRP, is to be adopted before the end of the first half of 2013.

Responding to the 2012 CSR, the national Youth Employment and Entrepreneurship Strategy 2013-2016 provides measures to fight the high youth unemployment. The Strategy, adopted in March 2013, incorporates a range of new measures - 15 for the short-term[30] and 85 for the medium to long-term intended to fight youth unemployment,[31] including new fiscal rebates and hiring subsidies for young people, new contractual arrangements for young people and new measures to foster entrepreneurship, increase youth employability and improve the intermediation in the labour market. Complementing the reallocation of structural funds to youth employment-related actions that took place in 2012, the Strategy is to be funded with EUR 3.5 billion, EUR 2.4 billion from the national budget and EUR 1.1 billion from European Social Fund (ESF). The strategy may contribute to generating employment and job opportunities and is an important step towards delivering a Youth Guarantee Scheme.[32] Close monitoring of its implementation and effectiveness will be needed, especially since hiring incentives have not always proved successful in the past and the new contractual forms introduced could result in an increase of duality.

The Spanish authorities adopted in 2012 the National Plan against irregular work and social security fraud.[33] Apart from some measures for improving coordination among relevant bodies, the plan aims to intensify checks and toughen legal action. These measures seem to have produced initial results, as at the end of 2012 more than 90000 irregular jobs were detected in checks (12 % more than in 2011) and social security contributions increased by EUR 95 million.

Education and training

Structural weaknesses in the education and training system have contributed to the high youth unemployment rate and are still largely unresolved. These weaknesses include: high early school leaving rates, skills mismatches and insufficient labour market relevance and attractiveness of vocational education and training. To be effective in the long run, improvements in education need to enable access to quality education, to prevent and remedy early school leaving, and to obtain the skills and knowledge needed for effective social and labour market inclusion. Coordination of all levels of government remains key in education and training **policies**.

Reinforcing the quality and relevance of education and training remains a challenge. Despite a continued reduction from 31.2 % in 2009 to 24.9 %[34] in 2012, early school leaving (ESL) represents a major problem, shows important disparities among regions (ranging from 32.5 % in Andalucía to 12 % in Navarra) and stands far from the target of 15 % by 2020.

[30] Most of the short-term measures were included in Royal Decree-Law 4/2013, of 22 February.

[31] The new measures will be applicable as long as the unemployment rate stands above 15 %.

[32] Council Recommendation of 22 April 2013 on establishing a Youth Guarantee (2013/C 120/01) to ensure that all young people under the age of 25 receive a good-quality offer of employment, continued education, an apprenticeship or a traineeship within four months of becoming unemployed or leaving formal education.

[33] *Plan de Lucha contra el Empleo Irregular y el Fraude a la Seguridad Social* (2012-2014).

[34] Estimated, EUROSTAT.

Measures put in place in recent years have, to some extent, contributed to a reduction in early-school leavers, but a comprehensive, adequately funded strategy is still to be implemented. There have been national and regional measures in recent years, including the ’Plan to fight ESL’ (preventive and intervention measures such as analysis, awareness raising, follow up of early school leavers to support their reintegration into the education and training system), a guidance and support programme (the PROA) and an initial professional qualification programme (the PCPI). While funding for the ’Plan to fight ESL’ (EUR 40 million) and PROA (EUR 60 million) was maintained in the 2012 national budget, this was not supplemented by co-financing by the Autonomous Communities as in previous years. In addition, the 2013 national budget does not provide funding for measures. Reducing early school leaving is also the main objective of the draft Organic Law for the Improvement of Quality of Education (LOMCE), which aims to increase the percentage of students completing upper secondary education and obtaining initial and intermediate vocational training diplomas by making educational pathways more flexible and making vocational education more attractive (e.g. by introducing a two-year basic vocational training module).

Spain has initiated a reform of the vocational education and training (VET) system to better adapt the skills and competences of young people to labour market needs and to make VET more attractive. Apart from the basic vocational training to be introduced under the LOMCE, measures[35] have been introduced to develop the training and apprenticeship contract and establish the basis for dual vocational training. In 2012, 4000 students and 500 enterprises participated in pilot projects. The measures concerning VET seem adequate but in the present economic and labour market situation their full implementation remains a challenge. Further continued efforts jointly involving public authorities, education providers and employers will be required to extend and consolidate the dual VET system in Spain and, above all, to increase participation rates in vocational training. Participation rates in lifelong learning, especially for low-skilled and older people, also remain low.

Additional steps are required to reduce the number of young people not in employment, education or training (NEETs) and the high number of young unemployed without formal qualifications, partly by developing a system of early career counselling (cooperation between schools and PES), job-search assistance for the young unemployed and early school leavers and improved systems for the validation of competences acquired at work to facilitate re-entry to education and training and targeted re-skilling. The national Youth Entrepreneurship and Employment Strategy contains some measures and plans to address the challenge of the high number of young unemployed without formal qualifications, but its swift implementation remains key. Poor language skills constitute an important obstacle to studying and working mobility, with negative implications for youth employment.

While tertiary educational attainment is comparatively high (40.1 %[36] in 2012), Spain is still lacking a comprehensive strategy to effectively match tertiary education skills to market needs. In the framework of the Bologna Process, the Spanish authorities have announced their intention to reform the Spanish university system to make it more innovative and competitive in the longer term.

[35] Royal Decree 1529/2012, adopted on 8 November, which complements the 2012 labour market reform.
[36] Source: EUROSTAT.

Social policies

Largely due to the strong deterioration of the labour market and limited effectiveness of social protection in reducing poverty, Spain is below the EU average in the main key indicators measuring poverty and social exclusion. No progress has been made towards meeting the target of reducing the number of people at risk of poverty and social exclusion by 1.4-1.5 million by 2020. Severe material deprivation affected 3.9 % of the total population in 2011, while the at-risk-of-poverty rate rose to 21.8 % and the at risk of poverty and social exclusion to 27 %.[37] The share of people living in households with very low work intensity rose to 12.2 % in 2011. In-work poverty rates remained at 12.3 % in 2011, above the EU average, reflecting the deterioration of the situation for some clusters of the employed population (notably young people, the low skilled and temporary workers). Children are at particular risk of poverty, showing the highest rate among all age groups, especially in low work intensity households.[38]

Overall, no major improvements were made in the development of new policy measures for active inclusion and poverty reduction. The NRP does not include information on the content or the timeframe for approval of the National Action Plan on Social Inclusion 2013-2016, which could be the basis for further modernising the Spanish social protection system, in line with the priorities of the 2013 AGS [39] by improving its sustainability, as well as its effectiveness in preventing poverty and ensuring essential safety nets. The key challenges are to rationalise targets and resources under an adequate policy framework, improve governance and inter-institutional coordination at national, regional and local level, simplify procedures for social assistance claimants, review mobility barriers, strengthen the link between social assistance and activation measures through more personalised support, and improve the articulation of in- and out-of-work benefits to better address in-work poverty while reducing disincentives to work. Particular attention should be paid to the weakest in the labour market and to those exposed to the risk of suffering discrimination, such as foreign nationals, persons with disabilities or Roma population.[40]

Limited progress was made on measures to tackle child poverty and improve the efficiency of family support services in 2012. The Second National Strategic Plan for Children and Adolescents 2013-2016 (PENIA II)[41] was adopted in April 2013, although it

[37]National provisional data for the year 2012 (LCS, October 2012) show a slight decrease in the at-risk-of poverty and social exclusion rate to 26.8%, due to the decrease to 16.9% for the group over 65 years old. For the group below 16 years old, it decreased to 25.9%, while for the group between 16 to 64 years old rose to 21%. The number of persons in low work intensity households increased in 2012, standing now at 1,833,700 (EPA, QIV-2012). Provisional data showed also an increase in in-work poverty up to 13.3 % in 2012.

[38] 27.2% of children in ES are at risk of poverty, against 21.8% for the overall population in ES (EU rate of children at risk of poverty: 20.6%). 30.6% for children in ES are at risk of poverty or social exclusion, against a rate of 27% for the overall population in ES (EU average of children at risk of poverty or social exclusion: 27%). Moreover, this rate increased by more than 4pp since 2008.

[39] Annual Growth Survey 2013, 'Pursuing differentiated, growth-friendly fiscal consolidation' (p. 5).

[40] To this end, Spain approved a National Strategy for the Social Inclusion of Roma Population 2012-2020 and an Action Plan on Drugs 2013-2016, containing actions for these specific groups, but budget allocations for implementation remain to be confirmed. The NRP also refers to the future preparation of an Action Plan for the Spanish Strategy on Disabilities 2012-2020, but not timetable for approval has yet been set.

[41] Adopted on 5 April 2013. The plan has a budget of EUR 5.159 million for the next 4 years, to be implemented by the state, regions and local entities. It comprises eight objectives and 125 measures, covering the following areas: knowledge and awareness raising, family support and conciliation, emphasis on groups at risk of social exclusion or special needs, prevention and rehabilitation of conflictive cases, safe use of new technologies,

needs to be complemented by the Comprehensive Plan for Family Support (PIAF), approval of which is still delayed. Households were increasingly exposed to financial stress, with growing numbers of persons unable to face housing costs. Temporary measures were adopted in 2012 to protect the weakest households from evictions,[42] including the creation of a social housing fund. As a follow up, on 18 April 2013, Parliament's economy and competitiveness committee approved a draft law on measures to strengthen the protection of mortgage debtors, debt restructuring and social rent, which is now before the Senate. In parallel, the potential impact on eviction processes of the recent European Court of Justice ruling[43] needs to be considered.

3.4. Structural measures promoting growth and competitiveness

Product and services market reforms

Progress in addressing structural obstacles to growth and competitiveness in product and services markets, as addressed by the 2012 CSR, has been mixed. Reforms are crucial to create the right framework conditions and incentives so that the reallocation of resources towards tradable sectors continues and spurs growth and employment creation.

The draft law on market unity aims at addressing the fragmentation of the domestic market, which hinders competition and prevents businesses from taking advantage of economies of scale and scope. The law was announced as part of the September 2012 reform plan for Q4-2012. A first draft was adopted by the Council of Ministers on 25 January 2013. The parliamentary adoption of the law is foreseen in the NRP by the end of 2013 under urgency procedure. The draft is inspired by the EU's Services Directive, but it is broader in scope. It provides for principles favouring free establishment and movement of goods and services in Spain[44] and for their application in practice. Once in force, all legal texts enacted at local, regional and central government level that may be considered inconsistent with the market unity law will have to be amended in the following six months. This process will be supported by enhancing administrative cooperation, and setting up a procedure for responding quickly to complaints about obstacles to the single market. An ambitious law on market unity would be a key step towards improving the business environment and competition by facilitating establishment, circulation of goods and services throughout Spain and by simplifying business licensing requirements.

Further liberalisation of professional services has been delayed. Available data[45] show that professional services are less productive than in the EU average. In addition to the job creation potential, reforming professional services would lift the competitiveness of the overall economy, given that they are an input for other sectors of the economy. The 2013 NRP commits again to this reform, which builds on the transposition of the Services Directive of 2009. According to the 2013 NRP, the forthcoming reform will provide for a common framework for professional services based on the general principle of freedom of access to

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quality education, health and participation in the environment. The Plan includes measures to fight against child poverty, including the preparation of a National Plan to Fight against Child Poverty (also priority objective in the NAPin).

[42] Royal Decree-Law 27/2012.

[43] Court case C-415/11, of 14 March.

[44] E.g. non-discrimination, necessity and proportionality of restrictions, mutual cooperation, national validity of administrative requirements, administrative simplification and transparency.

[45] See Eurostat’s Annual detailed enterprise statistics for services (NACE-rev2).

and exercise of those activities. It can potentially increase the mobility and competition among providers of professional services throughout Spain, provided that limitations to the general principle are minimised and justified by overriding reasons of public interest. Once the law is approved, the consistency of sector specific legislation, including regional legislation and professional organisations' internal rules, with the new regulatory framework will need to be swiftly ensured so that the liberalisation starts deploying its effects.

The measures adopted to support entrepreneurship need to be complemented with the announced law on entrepreneurship and company internationalisation, the adoption of which is now planned by the NRP by the end of 2013.[46] The law is supposed to *inter alia* provide for the creation of a regime of limited liability for entrepreneurs, the establishment of out-of-court settlement mechanisms to allow formerly bankrupt entrepreneurs a fresh start, and fiscal, financial and other measures to support company growth. The law could have a positive impact on company and job creation as well as on resource reallocation. The 2012 simplification of licensing for small retail outlets ("express licence"), which will be extended in 2013, the planned revision of licensing regimes at local level and the creation of an online mechanism for submitting the required declarations to start an economic activity could also contribute to fostering entrepreneurship. Broader use of the declaration and notice systems (with *ex-post* controls) simplifies licensing procedures and may promote new business creation while reducing barriers to firm growth, entry and exit.

There appears to be scope for a greater role of industrial activity in the economy. Spain has a relatively small share of manufacturing activities (13.3% of gross value added compared to 15.3% for the EU-27 in 2012), and a need to rebalance the economy towards the tradable sector in a lasting way. Ongoing and planned initiatives to simplify licencing requirements and more generally the business environment, may benefit the industrial sector to some extent. However, specific initiatives to simplify industrial licensing should be considered.

Structural rebalancing of the economy requires greater price responsiveness to economic conditions. Gains in cost competitiveness have so far not been accompanied by similar gains in domestic price competitiveness, which would be important to boost also intra competitiveness. In the 2013 NRP, to address the issue of price inertia, the authorities plan to implement a new indexation rule, which would be applied to all public revenues, expenditures, charges and prices currently indexed by the consumer price index (CPI). The rule would be based on core inflation at constant tax rates with an upper limit of 2 % and is expected to be adopted by the end of 2013. It is hoped that the new rule will become a benchmark for the private sector as well. Further steps would have to be considered to reduce the prevalence of indexation clauses in the Spanish economy more generally. It is, for example, questionable whether indexation should be applied to that part of public expenditure related to long-term public contracts.

A review of the insolvency framework could contribute to easing entry and exit conditions for business and to orderly deleveraging in the private sector. The ability of many SMEs and households to service their debts has been damaged by the crisis. The current

[46] Only some measures of the plan to support entrepreneurship (*Plan de estímulo económico y de apoyo al emprendedor*) of 22 February 2013 have been formally adopted through Royal Decree Law 4/2013 of 22 February (*Medidas de apoyo al emprendedor y de estímulo del crecimiento y de la creación de empleo*).

insolvency regime appears to be unduly complex and costly, especially for households.[47] Inefficient bankruptcy procedures, which are compounded by long judicial resolution periods, may have encouraged creditors to use the mortgage system to secure their loans and hence biased firms towards investing in assets which can serve as collateral, notably tangible fixed assets. In general, difficulties in recovering loans from insolvent firms have resulted in higher collateral requirements from borrowers, while low opportunities for discharge may have dented entrepreneurship.[48] Overall, streamlining the insolvency framework for the Spanish private sector, beyond the measures that were announced in the context of the above mentioned Law on entrepreneurship and company's internationalisation, while preserving lending discipline, might contribute to smoother entry and exit of firms and bring significant economic benefits in the medium term. These measures could be flanked by possible actions to restructure the debt of viable firms and give entrepreneurs a second chance, thereby promoting entrepreneurial activity and helping to reallocate resources within the economy.

Barriers to entry for large retail outlets limit competition in the retail sector. Recent reforms, in particular the more flexible shop opening hours, liberalisation of sales periods, and simplification of licensing procedures for small retail outlets approved in 2012, could enhance competition in the retail sector. However, regional authorisation schemes for large retail outlets limit the entry of new operators with the ability to increase competitive pressure on incumbent retailers. Increased concentration in food distribution has resulted in retailers gaining bargaining power over suppliers. Extending the simplified licensing regime to larger outlets (e.g. over 500 m^2) could enhance competition. Given the role of the distribution chain in final price formation, effective competition along the chain would facilitate the pass-through of cost moderation (including raw materials) on final prices, and as a consequence on inflation.

Market regulation and competition oversight

More competition is needed to raise productivity at firm level and further increase competitiveness. In 2011 and 2012, labour cost adjustments were partially absorbed by widening profit margins, thus partly offsetting the positive effect of cost moderation on price competitiveness. Profit margins grew faster particularly in market services (e.g. in professional activities, trade, transport and the hospitality sector), which could point to the need for firms to rebuild their finances in the context of tight credit conditions, but also weaknesses in effective competition in an environment of sluggish domestic demand. Restrictions on competition are often linked to the highly devolved institutional structure of the country. The National Competition Authority refers to numerous competition problems at regional level (especially restrictive regulation) and local level (protection of incumbents in the area of public services). Regional restrictions often counteract the effect of pro-competitive regulation adopted at national level, an issue that will be addressed by the upcoming law on market unity.

Arrangements for the planned merger of regulatory and competition oversight authorities in the initial government proposal have raised some objections from the European Commission. In September 2012 the government adopted a draft law to merge the national competition authority with supervisory and regulatory authorities in six sectors

[47] *Crisis Económica y deudores hipotecarios: actuaciones y propuestas del Defensor del Pueblo*, Defensor del Pueblo 2012.

[48] *OECD Economic Surveys: Spain*, OECD 2012.

(energy, telecommunications, postal services, audio-visual industries, railway and air transport) thus creating a single body — the National Commission for Markets and Competition (CNMC). The aim of this reform is to provide for consistent application of competition principles across the various economic sectors. The Parliament approved the law on 22 May 2013, the challenge ahead lies on its swift implementation. The reform has raised some concerns regarding the financing of the new body, the transfer of competences and functions currently exercised by independent sectoral regulators to line ministries, and the early termination of the mandate of some board members. In addition, while the draft preserves the enforcement powers of the competition authority, it seems to blur the existing range of advocacy tools. Some of these concerns may be addressed, however, through implementing regulations and internal rules for the new Competition and Regulatory Authority.

Rental market

Efforts to create a larger and more efficient rental market, which would support labour mobility, are still at an early stage. Only 17% of the population in Spain lives in rented accommodation. High home ownership rates limit incentives to geographical mobility and thus reduce the potential for swift adjustment of economic imbalances. However, numerous restrictions on rental contracts (e.g. minimum compulsory duration and long resolution procedures) hamper the development of the rental market. To ease the rebalancing process within the Spanish housing market, a developed and well-functioning rental segment is essential, as it would provide an alternative to ownership, diminish the pressure on house prices and reduce their volatility. Social housing has also been traditionally geared to ownership rather than renting. Removing the tax deductibility of mortgage interest payments and repayments in 2012 was essential to shifting incentives away from home ownership. In August 2012 the government presented a proposal for rental market reform, finally adopted by Parliament in May 2013. The reform gives parties more flexibility in designing rental contracts, strengthens legal certainty in real estate transactions, and changes eviction procedures. The housing plan adopted in April 2013 aims to achieve various social and economic goals, including financial support for tenants in rented accommodation.

Energy, transport, infrastructure and environment

Energy represents a major input cost for the economy that could be reduced by greater efforts to enhance energy efficiency. The energy trade deficit has been increasing since 2009, to reach more than 4% of GDP in 2012, partly due to higher world energy prices, which limit the scope for achieving a sustainable trade surplus. Significant improvements in energy efficiency could be achieved in the buildings, transport and industrial sectors. Meanwhile, measures to improve energy efficiency have not always followed the Second National Energy Efficiency Plan 2011-2020,[49] and are not always being achieved at the lowest possible cost, for example, the car fleet renewal scheme has limited benefits for the environment but a high budget allocation. In other cases, they only address part of the potential energy saving, e.g. the focus on lighting appliances instead of a broader range of actions for SMEs. Intelligent transport systems, parking policies and congestion pricing are not always fully exploited to reduce congestion in big metropolitan areas.

[49] *Informe sobre el sector energético español, Comisión Nacional de Energía,* March 2012, http://www.cne.es/cne/Publicaciones?accion=3&id=3026&id_nodo=32

The recent trend in gross margins in the fuel distribution sector is characteristic of uncompetitive markets.[50] Consumers have to bear the burden of high pre-tax fuel prices (compared with international fuel prices); they are among the highest in the EU due to sizeable distribution margins. This might be due to high concentration in the automotive fuel sector, the high level of vertical integration between supply, refining and retail activities, the low market share of low-cost fuel retailers, burdensome administrative processes required for opening new service stations, and low competition between service stations located on major roads. In February 2013, the government simplified procedures for opening service stations and introduced some measures which reduce the power of established distributors against independent retailers.

There is scope for improving competition in the retail electricity market.[51] The market is to a large extent vertically integrated. The energy regulator (CNE) does not have sufficient powers to carry out investigations into the functioning of the wholesale market. Most domestic consumers are supplied under the 'last resort tariff',[52] which has a negative impact on switching rates between suppliers and upholds concentration in the retail market. Consumers are often not provided with sufficiently clear information on electricity consumption and related prices.[53]

The 'electricity tariff deficit' involves a considerable contingent liability for the budget and non-negligible macroeconomic risks. The deficit, i.e. the gap between the regulated 'access tariffs' paid by consumers and various regulated costs (including distribution costs and subsidies for renewable energy production) stood at over EUR 5 billion in 2012, exceeding the approved level of EUR 1.5 billion by a wide margin. In recent years the deficit has been driven also by failure of regulated tariffs to follow increases in costs, primarily the unexpectedly high growth in support to renewable energy sources, repayment of the tariff debt from the previous years, and electricity transmission costs. High investment in renewable technologies was due to their falling costs and generous support for renewable energy sources, fostered by the indexation of regulated costs. The cumulative tariff debt is EUR 29 billion (equivalent to almost 3% of GDP), which to a large extent has been securitised by the Electricity Debt Amortisation Fund, backed by a government guarantee.

Measures to contain the electricity tariff deficit have been insufficient so far. New taxes on energy production to cover the deficit were adopted in December 2012.[54] In February 2013 the government proposed simplifying the system of support for renewable energy and revising the annual adjustment of regulated costs.[55] In addition, an extraordinary credit from the state budget of EUR 2.2 billion was made available. Eliminating the deficit will require a comprehensive approach, based on a combination of gradual adjustment of electricity tariffs, a downward review of costs and a reassessment of revenues (e.g. possibly sharing costs with

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[50] *Informe sobre la consulta efectuada por la Secretaría de Estado de Economía y Apoyo a la Empresa sobre el mercado de carburantes de automoción en España.* Comisión Nacional de la Competencia, 2012. http://www.cncompetencia.es/Inicio/Informes/InformesyEstudiossectoriales/tabid/Default/aspx

[51] *Informe sobre el sector energético español*, Comisión Nacional de Energía, March 2012 http://www.cne.es/cne/Publicaciones?accion=3&id=3026&id_nodo=32.

[52] Low voltage electricity consumers whose contracted power does not exceed 10 kW are entitled to this tariff.

[53] *The functioning of retail electricity markets for consumers in the European Union*, European Commission, 2010.
http://ec.europa.eu/consumers/consumer_research/market_studies/docs/retail_electricity_full_study_en.pdf.

[54] Law 15/2012. Law 17/12 allocates 90 % of the revenues from the EU ETS allowances to the tariff deficit.

[55] Royal Decree-Law 2/2013.

other energy sectors) and of subsidies discouraging energy efficiency. In the 2013 NRP, the government announced that a draft law further reforming the energy sector and allowing for periodic reviews of regulated costs will be presented by the end of June 2013. The government has announced that the existing support for electricity generated using domestic coal will expire after 2014.[56]

The low cross-border transmission capacity with France has contributed to inefficiencies and higher costs. It prevents Spain from engaging in cross-border trade in electricity and gas, and from profiting from its overcapacity in electricity generation (only 44 GW is used at peak demand compared with 100 GW installed). A new 2 000 MW electricity interconnection with France is being built and could be operational in 2014. A sixth, 4 000 MW, interconnection is planned to be built by 2020. Building cross-border gas interconnections with Portugal and France (as part of the Africa-Spain-France gas corridor) would foster competition between gas companies, increase the liquidity of the market, allow diversity of supply, and help use the potential of the Spanish liquefied natural gas terminals. Better coordination between the central and regional governments on authorisation procedures would facilitate installation of power plants, both conventional and renewable.

The extensive network of motorways, high-speed railway lines, airports and ports entails high ongoing maintenance and renewal costs. The transport infrastructure deficit of the past has, to a large degree, been addressed. Reducing public investment and focusing on maintenance of the networks as has recently been the case seems appropriate. More stringent cost-benefit analysis of proposed projects is needed to avoid further over-investment and to optimise existing infrastructure. The 2013 NRP presents some conflicting goals for transport policy, e.g. reduction of the operation costs of the network and continued construction of high-speed railway lines. Setting up an independent observatory, as planned by the authorities would help to assess projects in a more transparent way based on objective criteria.

Low traffic flows in many cases do not cover the operational costs of transport infrastructure. Road transport users do not bear a proportionate share of the overall maintenance costs of the infrastructure. Operators of several toll motorways face financial difficulties, which imply a significant contingent liability for public finances. The network of airports is vast and unprofitable regional airports continue to put an unnecessary burden on public finances. The regulatory framework for airports is not entirely complete and offers room for improvement, notably in relation to airport charges and airport slot coordination. As announced in the 2013 NRP, the authority attributing time slots should be given more independence.

In recent years, railway freight transport has been losing market share, partly due to weak connections to seaports and weak cross-border connections. The low competitiveness of railway freight stems from underinvestment in freight lines and weak development of intermodal nodes. Due to underdevelopment of the Mediterranean and Atlantic axis, very little cargo is transported from and to seaports by rail, and standard gauge lines generally do not reach the major ports. The establishment in Spain of rail freight corridors[57] should contribute to the development of domestic and cross-border rail freight.

[56] The scheme for remuneration of domestic coal compensates for costs derived from a public service obligation and was approved by the European Commission. The capacity remuneration scheme is remuneration for availability and environmental investment under the Large Combustion Plant Directive.
[57] EU Regulation 913/2010.

This calls for ambitious targets for the development of the rail freight corridors, and in particular their technical standards. Spain has several ports which are large by European standards (e.g. Barcelona, Valencia, Algeciras), but also a considerable number of smaller ports, as investment in port infrastructure has very often been guided by regional priorities. A coherent national strategy concentrating resources and focusing on the improvement of railway connections to the major ports is lacking in the NRP 2013. While the management model for ports has seen some liberalisation, there are still restrictions on competition that have a detrimental effect on the efficiency of the sector.

To bring effective competition in railway transport, liberalisation would need to be accompanied by additional measures. The national rail passenger market is supposed to be liberalised from 31 July 2013, but initially only tourist lines will be opened to competition. This does not create effective competition in the sector. Opening up the freight market should by now be fully achieved, but technical and legal obstacles prevent effective competition. Low interoperability with the rest of the European railway network (e.g. different gauge, rolling stock, and technical requirements) could prevent potential new entries into the market.

Spain faces considerable challenges in the area of water and waste management and air quality. As one of the most arid countries in the EU, Spain needs relatively high investment in infrastructure and sophisticated institutional arrangements to harness the productive potential of water. While sectors like agriculture, tourism and energy are heavily dependent on water supply, water tariffs are among the lowest in the EU, despite serious water stress. A discrepancy between fees and operating costs and inappropriate supply and demand management mean that available resources may not be put to their most efficient, priority use. Major water-saving potential in agriculture has not been yet fully exploited, e.g. by means of adequate pricing or improvements in the water supply network. Apart from economic incentives, changes to governance (e.g. identification of priorities, improved institutional coordination, raising awareness) could also be envisaged. More than 50 % of municipal waste goes to landfill, while waste prevention and recycling are not fully developed. Individual transport exacerbates seasonal problems with air quality in the major cities. The 2013 NRP does not propose explicitly how to improve waste or water management.

Research and innovation

Public and private funding for research and innovation (R&I) has markedly decreased over the last four years. The considerable increase in public and private research and development (R&D) expenditure over the decade 2000-09 has had a positive impact on science performance but did not boost innovation significantly.[58] Public funding has fallen since 2009 and it does not currently provide sufficient incentives for universities and public research organisations to cooperate with industry and societal stakeholders. The result is a low rate of transformation of R&I into commercial products and services. Spanish firms are reluctant to integrate R&D into their business models, and private expenditure on R&D remains insufficient. Innovation policy is increasingly taking on a regional dimension, requiring reinforced coordination between national and regional policies. There is scope for improving the efficiency of public expenditure in R&D with more elements of performance-based funding, including for universities and research-performing organisations. An evaluation of the impact of R&D tax credits could also be carried out to understand why business expenditure on R&D does not appear responsive towards those incentives.

[58] Source: Innovation Union Scoreboard.

In response to these challenges, in February 2013 the Spanish authorities adopted a new national strategy for science, technology and innovation, together with a state plan for scientific and technical research and innovation. In response to the 2011 law on science, technology and innovation, a new national research agency is being set up. The agency would represent progress in terms of flexibility in handling multi-annual budgets and facilitating the management and evaluation of publicly funded research and innovation activities. For the first time Spain has drafted a comprehensive strategy which covers the whole spectrum of R&D and innovation measures, from human capital and skills, through strengthening Spain's excellence base, to fostering the development of industrial leadership in R&I. The strategy is aligned with the Framework Programme for Research and Innovation ('Horizon 2020') and reflects the Europe 2020 strategy. It covers supply-side and demand-side policies, aims to incorporate key enabling technologies into traditional industries, and creates stronger incentives for public-private cooperation and private funding of R&I. Implementation of the strategy and the plan and evaluation in line with international peer review standards will be crucial for their success.

Spanish enterprises do not use the potential of e-commerce to boost their sales in the domestic market and abroad. Only a small proportion of Spanish SMEs sell online. The slow uptake of e-commerce may also be linked to a poor performance of the market for internet services provision.[59]

3.5. Modernisation of public administration

The highly decentralised setting calls for enhanced coordination between the various public administrations, both to reduce costs and to limit the administrative burden on companies and households. The Autonomous Communities account for around 35% of total general government expenditure and have legislative powers in the policy areas provided for in their statute laws, such as health and social policies. Local governments are responsible for some 13% of expenditure. Several legislative initiatives have been undertaken or will be completed in the course of 2013 to enhance control and improve coordination among the national, regional and local administrations.

Several reform initiatives to modernise the public administration are under way. First, the 2012 Budgetary Stability Organic Law reinforced fiscal discipline at all levels of government (see section 3.1). Second, in February 2013, the government presented a draft law on local administration reform (to be adopted by Parliament by the end of 2013), which aims at clarifying the powers of municipalities, streamlining their structure, rationalising their staffing and enhancing financial and budgetary supervision of local entities. Third, the creation on an Office for Fiscal Responsibility is expected to enhance fiscal monitoring and transparency at all levels of government (see also section 3.1). Fourth, several committees reporting to the Minister of Finance[60] are, among others, screening administrative structures for duplications between the central government and the regions and are identifying burdens in administrative procedures, with a deadline of mid-2013 for the submission of conclusions and quantification of potential savings. However, the NRP lacks detail on the potential follow-up to the work of the committee, whose final report is expected to be issued by the end

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[59] *Eighth Consumer Markets Scoreboard*, December 2012, European Commission, http://ec.europa.eu/consumers/consumer_research/editions/cms8_en.htm. *The functioning of the market for internet access and provision from a consumer perspective*, Study on behalf of the European Commission.

[60] E.g.., the *Comisión para la Reforma de las Administraciones Públicas* (CORA).

of June 2013. Finally, the draft laws on market unity and on local administration reform may ease business licensing requirements, by *inter alia*, reducing the number of cases in which the Spanish public sector requires permits. While all these initiatives go in the right direction, they will eventually be tested against the expected improvement in the efficiency of public spending, the quality of public services, and enhanced fiscal discipline and transparency.

An efficient public procurement policy could contribute to transparency and fiscal savings. While Spain boasts a relatively developed system of electronic publication of contract notices,[61] available statistics show that the size of pooled volumes procured by central purchasing bodies is below the EU average (around 3 % of the total value of public procurement in Spain from 2006 to 2010, compared with an EU average of 12 %). Given the well-known advantages of procurement centralisation (in terms of lower prices), these figures suggest that savings could be reaped from additional pooled purchases. In this respect, the 2013 NRP points to strengthening centralised procurement for health supplies. The use of electronic means in public procurement is another way of economising on resources. Spain has set an ambitious target of conducting 50 % of public procurement above EU thresholds by electronic means. However, the (few) available data show that e-procurement take-up[62] is currently below the target. Moreover, the current dispersion of the e-procurement platforms used by contracting authorities at regional level increases companies' compliance costs.

Reforms to improve the working of the judicial system are being prepared, although some measures have been delayed. An effective justice system enhances trust and stability and thus is an important component of an attractive business environment. The EU Justice Scoreboard shows areas of concern in the efficiency of the Spanish judiciary, in terms of lower clearance rates, a higher case backlog and relatively lengthy proceedings.[63] In 2012, the Authorities already acknowledged the need to enhance the efficiency of the judicial system with a view to facilitating investment and economic activity. To this end, the 2012 NRP included measures such as reorganising the judiciary and the courts, implementing the electronic judicial file, promoting out-of-court solutions to conflicts and amending specific procedural and substantial legal provisions relevant to businesses. While certain measures have been adopted recently, others are still in preparation. For example, the draft legislation on court and judiciary reorganisation is now scheduled for the end of 2013. This important reform will be accompanied by amendments to the codes of criminal and civil procedure. Significant investment has been made in information and communication technologies (ICT), with Law 18/2011 providing for the use of ICT tools in courts so as to increase the efficiency of the judicial system. However, these are not yet readily available throughout Spain. Lastly, there are no data as of yet to assess the new legal framework on mediation and on court fees adopted in 2012.[64]

[61] It is expected that the platform for the publication of contract notices and awards (*Plataforma de Contratación del Estado*) will become mandatory for all general government entities upon the entry into force of the market unity law (currently, it is mandatory for the central government only). This change will ease access to information on business opportunities, which will no longer be scattered across various portals.

[62] E-procurement take-up is measured as value of procurement carried out using electronic submission of tenders divided by the total value of procurement.

[63] http://ec.europa.eu/justice/effective-justice/files/justice_scoreboard_communication_en.pdf

[64] Law 5/2012, of 6 July, *de mediación en asuntos civiles y mercantiles.*

4. OVERVIEW TABLE

<table>
<tr><th>2012 commitments</th><th>Summary assessment</th></tr>
<tr><td colspan="2" align="center">Country-specific recommendations (CSRs)</td></tr>
<tr><td>CSR 1: Deliver an annual average structural fiscal effort of above 1.5 % of GDP over the period 2010-13 as required by the Council recommendation under the EDP by implementing the measures adopted in the 2012 budget and adopting the announced multiannual budget plan for 2013-14 by end July 2012. Adopt and implement measures at regional level in line with the approved rebalancing plans and strictly apply the new provisions of the Budgetary Stability Law regarding transparency and control of budget execution and continue improving the timeliness and accuracy of budgetary reporting at all levels of government. Establish an independent fiscal institution to provide analysis, advice and monitor fiscal policy. Implement reforms in the public sector to improve the efficiency and quality of public expenditure at all government levels.</td><td>Spain has implemented the CSR only partially.

Spain has implemented a structural effort in 2012 and 2013 which, account taken of the unexpected adverse economic developments compared to when the Council recommendation was issued, is in line with the EDP recommendation. However, Spain will not meet the nominal budgetary targets established in the Council Recommendation of 10 July 2012.

The provisions of the Budgetary Stability Laws regarding the envisaged early warning and corrective mechanisms to limit deviations from the budgetary targets of the Autonomous Communities have not been implemented in a fully transparent, timely, and effective way. Specifically, the first assessments of the regions' economic and financial plans published in late December 2012 should have been done one quarter earlier, thereby giving regions more time for the correction of emerging budgetary deviations. Progress has been made with respect to budgetary reporting at central, regional, and social security levels by publishing monthly budgetary execution data on national accounts basis. However, achieving a higher degree of fiscal transparency would require more comprehensive, consistent, and timely reporting on a consolidated general government basis in line with ESA 95.

The submission of the draft law providing for the setting up of an independent fiscal authority was submitted to the Council of Ministers in April 2013; contrary to initial expectations the authority is unlikely to be fully operational in the 2014 budgetary procedure.</td></tr>
<tr><td>CSR 2: Ensure that the retirement age is rising in line with life expectancy when regulating the sustainability factor foreseen in the recent pension reform and underpin the Global Employment Strategy for Older Workers with concrete measures to develop lifelong learning further, improve working conditions and foster</td><td>There is some progress in relation to this CSR.

In early 2013, access to early and partial retirement was curbed. An experts group has been set up to assess the sustainability factor, but a proposal on the technical details is still pending.</td></tr>
</table>

the reincorporation of this group in the job market.	The 2012-2014 Global Employment Strategy for Older Workers has not yet been underpinned by concrete measures, except for some progress in the recognition and accreditation of professional competencies based on work experience and formal and non-formal learning and revision of the rules on combining work and pension entitlements.
CSR 3: Introduce a taxation system consistent with the fiscal consolidation efforts and more supportive of growth, including a shift away from labour towards consumption and environmental taxation. In particular, address the low VAT revenue ratio by broadening the tax base for VAT. Ensure less tax-induced bias towards indebtedness and homeownership (as opposed to renting).	**Spain has implemented the CSR partially.** With effect from September 2012, VAT rates were increased (the standard rate from 18% to 21%, and the reduced rate from 8% to 10%). The scope of application of the standard VAT rate was also extended (second set of measures in November 2012). New environmental taxes (on electricity generation) were introduced in 2013. A 1% reduction in employers' social security contributions in 2013 and 2014 previously announced was postponed until further notice due to the challenge of fiscal consolidation. The abolition of mortgage payment deductibility was adopted in December 2012.
CSR 4: Implement the reform of the financial sector, in particular complement the on-going restructuring of the banking sector by addressing the situation of remaining weak institutions, put forward a comprehensive strategy to deal effectively with the legacy assets on the banks' balance sheets, and define a clear stance on the funding and use of backstop facilities.	**Implementation is ongoing in the framework of the bank recapitalisation programme.**
CSR 5: Implement the labour market reforms and take additional measures to increase the effectiveness of active labour market policies by improving their targeting, by increasing the use of training, advisory and job matching services, by strengthening their links with passive policies, and by strengthening coordination between the national and regional public employment services, including sharing information about job vacancies.	**Spain has implemented the CSR partially.** Implementation of the 2012 labour market reform continues; its impact will be subject to an evaluation currently being developed by the government. The Royal Decree-Law of 13 July 2012 on measures to ensure budget stability and promote competitiveness has strengthened the links between active and passive labour market policies, tightening job-search conditionality and revising conditions for unemployment assistance. New measures were taken in the area of ALMPs, namely as regards youth unemployment and the links between ALMPs and PLMPs. Further reform

	is considered urgent to increase employability. Coordination between the national and regional public employment services (PESs) has been improved with the adoption of the measures contained in the RDL 4/2013, which sets the conditions for information sharing among PES and introduces regulatory changes for public-private cooperation in the field of job intermediation and placement. No other measures have been taken or announced so far concerning the reinforcement or modernisation of PES themselves.
CSR 6: Review spending priorities and reallocate funds to support access to finance for small and medium-sized enterprises (SMEs), research, innovation and young people. Implement the Youth Action Plan, in particular as regards the quality and labour market relevance of vocational training and education, and reinforce efforts to reduce early school-leaving and increase participation in vocational education and training through prevention, intervention and compensation measures.	**Spain has implemented the CSR partially.** Following the work of the youth action team, € 286.3 million from the European Social Fund and €1026.9 million from European Regional Development Fund have been reallocated. The Youth Employment and Entrepreneurship Strategy 2013-2016 (in the pipeline) will encompass around 100 short, medium and long-term measures to support education and training, counterbalance youth unemployment and enhance entrepreneurship, with an overall budget of 3.5 billion. Early school leaving (ESL), although decreasing, is still very high (25 % in 2012). Measures to fight ESL have been maintained in 2012 in cooperation with the Autonomous Communities, but funding is no longer provided in the 2013 budget. The main objective of the draft Organic Law for the Improvement of Quality in Education (LOMCE) is also fight against ESL. The 2012 labour market reform significantly amended the contract for training and apprenticeship, and foundations were laid to launch a dual vocational training system (Royal Decree 1529/2012 of November 2012). The 2013 NRP does not provide for the reallocation of public spending to research and innovation, where no progress has been made since 2009.
CSR 7: Improve the employability of vulnerable groups, combined with effective child and family support services in order to improve the situation of people at risk of poverty and/or social exclusion, and consequently to achieve the well-being of children.	**There is limited progress in relation to this CSR.** The 2012 labour market reform presented a set of general measures tending to promote employability, but failed to take a specific approach to support the active inclusion in the labour market of those furthest away from the labour market. No additional measures have been announced since the reform, except for the revision and extension of the

	PREPARA programme until unemployment rates fall below 20 %. Spain also approved a National Strategy for the Social Inclusion of the Roma Population 2012-2020 and an Action Plan on Drugs 2013-2016, but budget allocations are yet to be confirmed. Limited progress was made on measures to tackle child poverty and improve the efficiency of family support services, although the approval in April 2013 of the Second National Strategic Plan for Children and Adolescents 2013-2016 (PENIA II) gives a positive signal.
CSR 8: Take additional measures to open up professional services, including highly regulated professions, reduce delays in obtaining business licences and eliminate barriers to doing business resulting from overlapping and multiple regulations by different levels of government. Complete the electricity and gas interconnections with neighbouring countries and address the electricity tariff deficit in a comprehensive way, in particular by improving the cost efficiency of the electricity supply chain.	**There is limited progress in relation to this CSR.** Submission of the draft Law on Professional Services has been repeatedly delayed. The Entrepreneurship Plan[65] was announced in February 2013 and confirmed in the NRP 2013. It comprises several measures to promote business growth, entrepreneurship, employment and competitiveness, and to ease access to finance. The measures announced are being formally adopted[66] and should contribute to introducing more dynamism into the economy. The first draft of the Market Unity Law was approved by the Council of Ministers on 25 January 2013. If the degree of ambition of the current text is maintained through the adoption process, it could help to eliminate barriers to operating across the national territory and to further simplify administrative requirements. The electricity tariff deficit was around EUR 5 billion in 2012. Measures adopted in December 2012 (e.g. taxes on electricity generation), and more announced in February 2013 (e.g. revised support for renewable energy sources) are intended to reduce the deficit in 2013 and to finance the remainder from the state budget. Additional systemic measures are needed. Works to improve electricity interconnection capacity with Portugal and France are ongoing, but there is still a lack of integration with the French energy market. This means that the potential for trade in gas and electricity to boost Spain's economic growth is underexploited.

[65] *Plan de Estímulo Económico y de Apoyo al Emprendedor*.
[66] Various measures have been adopted already through Royal Decree Law 4/2013 of 22 February.

Europe 2020 (national targets and progress)	
Employment rate target: 74 %	Employment rate population aged 20-65, 62.5 % in 2010, 61.6 % in 2011 and 58.5 % in 2012 Q4
R&D target: 2 %	In 2011, Spanish R&D intensity was 1.33 %. The government R&D budget was reduced by 4.12 % in 2010, by 7.38 % in 2011 and by 25.6 % in 2012 (estimate subject to Eurostat calculation).
Greenhouse gas (GHG) emissions target: National Target: -10 % (compared to 2005 emissions, ETS emissions not covered by the national target)	Change in non-ETS greenhouse gas emissions between 2005 and 2011: -10 % *According to the latest national projections submitted to the Commission and when existing measures are taken into account, the target is expected to be missed: -1 % in 2020 compared to 2005 (with a projected gap of 9 percentage points).*
Renewable energy target: 20 % Share of renewable energy in all modes of the transport sector: 10 %	The share of total renewable energy in gross final energy consumption was 15.1 % in 2011 and 5.9 % in the transport sector. (Source: Eurostat. April 2013. For 2011, only formally reported biofuels compliant with Articles 17 and 18 of Directive 2009/28/EC are included.)
Indicative national energy efficiency target for 2020: 20 % energy savings to be achieved in 2020. This implies reaching a 2020 level of 135 Mtoe final/primary energy consumption in 2020.	Spain has set an indicative national energy efficiency target in accordance with Articles 3 and 24 of the Energy Efficiency Directive (2012/27/EU). However, it has neither expressed it with the clarity required by Article 3 of Directive 2012/27/EU, in terms of absolute primary and final energy consumption, nor has provided information on how and on the basis of which data the target was calculated.
Early school leaving target: 15 %	Early leavers from education and training (percentage of the population aged 18-24 with at most lower secondary education and not in further education or training): 28.4 % in 2010, 26.5 % in 2011 and 24.9 % in 2012. The decreasing trend since 2009is also due to the effect of the economic crisis.
Tertiary education target: 44 %	Spain has been performing well with regard to the Europe 2020 tertiary educational attainment target. Tertiary educational attainment 40.6 % in 2010 and 2011, and 40,1% 2012.
Risk of poverty or social exclusion target: reduction of 1.4 -1.5 million people at risk	The number of people at risk of poverty or social exclusion was 11 675 000 in 2010 and 12 371 000 in 2011. No progress has been made towards achieving the target, on the contrary.

5. ANNEX

Table I. Macroeconomic indicators

	1995-1999	2000-2004	2005-2009	2010	2011	2012	2013	2014
Core indicators								
GDP growth rate	3.7	3.6	1.7	-0.3	0.4	-1.4	-1.5	0.9
Output gap [1]	-1.1	1.6	0.3	-4.7	-4.1	-4.6	-4.6	-2.3
HICP (annual % change)	2.8	3.2	2.7	2.0	3.1	2.4	1.5	0.8
Domestic demand (annual % change) [2]	4.2	4.2	1.5	-0.6	-1.9	-3.9	-4.1	-0.4
Unemployment rate (% of labour force) [3]	17.2	11.2	11.1	20.1	21.7	25.0	27.0	26.4
Gross fixed capital formation (% of GDP)	22.5	26.7	28.6	22.3	21.1	19.1	17.6	17.3
Gross national saving (% of GDP)	22.0	22.6	20.8	18.4	17.8	18.8	19.7	20.7
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-4.2**	**-0.4**	**-2.0**	**-9.7**	**-9.4**	**-10.6**	**-6.5**	**-7.0**
Gross debt	**64.7**	**52.5**	**42.6**	**61.5**	**69.3**	**84.2**	**91.3**	**96.8**
Net financial assets	**-52.6**	**-39.3**	**-25.2**	**-40.2**	**-49.5**	**n.a**	**n.a**	**n.a**
Total revenue	37.9	38.4	38.7	36.6	35.7	36.4	36.8	35.9
Total expenditure	42.1	38.8	40.7	46.3	45.1	47.0	43.3	42.9
of which: Interest	4.5	2.7	1.7	1.9	2.5	3.0	3.3	3.5
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**0.2**	**-3.2**	**-5.7**	**2.0**	**3.8**	**9.5**	**7.6**	**8.5**
Net financial assets; non-financial corporations	**-89.1**	**-104.3**	**-140.2**	**-136.6**	**-124.8**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**0.4**	**3.1**	**4.4**	**14.7**	**13.2**	**n.a**	**n.a**	**n.a**
Gross capital formation	13.6	15.4	16.1	13.1	13.5	13.1	12.5	12.5
Gross operating surplus	20.6	19.4	19.3	21.1	22.5	23.7	24.5	25.4
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**4.0**	**0.2**	**0.2**	**3.9**	**2.4**	**0.9**	**1.2**	**2.0**
Net financial assets	**114.3**	**100.9**	**86.4**	**75.2**	**70.9**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	38.5	38.1	37.7	38.1	37.1	35.5	34.4	33.7
Net property income	3.8	4.0	3.6	3.3	3.0	2.8	2.7	2.6
Current transfers received	20.8	19.8	19.8	22.8	22.8	23.4	23.7	23.6
Gross saving	8.9	7.4	8.3	8.8	7.2	5.3	5.0	5.6
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**0.2**	**-3.4**	**-7.6**	**-3.8**	**-3.2**	**-0.2**	**2.2**	**3.5**
Net financial assets	**27.7**	**40.5**	**75.3**	**88.2**	**91.5**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	-0.1	-2.8	-5.2	-2.2	-0.8	1.0	3.6	4.9
Net primary income from the rest of the world	-0.9	-1.3	-2.0	-1.3	-2.0	-1.1	-1.2	-1.3
Net capital transactions	1.1	1.0	0.6	0.6	0.5	0.6	0.6	0.6
Tradable sector	50.2	46.8	42.7	43.3	44.6	45.4	n.a	n.a
Non tradable sector	41.3	43.6	47.8	48.0	47.3	46.5	n.a	n.a
of which: Building and construction sector	8.4	10.4	12.4	10.0	9.3	8.4	n.a	n.a
Real effective exchange rate (index, 2000=100)	92.8	92.7	105.5	104.6	102.3	95.4	94.7	92.9
Terms of trade goods and services (index, 2000=100)	96.1	97.7	100.6	100.9	97.8	95.6	95.6	95.8
Market performance of exports (index, 2000=100)	100.7	104.0	99.1	100.3	104.6	108.9	112.9	114.1

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.

[2] The indicator on domestic demand includes stocks.

[3] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source :

Commission services' 2013 spring forecasts (COM); Stability programme (SP).

Table II. Comparison of macroeconomic developments and forecasts

	2012		2013		2014		2015	2016
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	-1.4	-1.4	-1.5	-1.3	0.9	0.5	0.9	1.3
Private consumption (% change)	-2.1	-2.1	-3.1	-2.5	-0.1	0.0	0.4	0.8
Gross fixed capital formation (% change)	-9.1	-9.1	-7.6	-7.1	-1.1	-0.9	2.0	4.3
Exports of goods and services (% change)	3.1	3.1	4.1	4.1	5.7	5.9	6.9	7.1
Imports of goods and services (% change)	-5.0	-5.0	-4.0	-3.7	2.0	2.6	4.7	6.2
Contributions to real GDP growth:								
- Final domestic demand	-3.9	-3.9	-4.0	-3.7	-0.4	-0.8	-0.1	0.6
- Change in inventories	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Net exports	2.5	2.5	2.6	2.4	1.3	1.3	1.0	0.7
Output gap[1]	-4.6	-4.7	-4.6	-4.5	-2.3	-3.2	-2.4	-1.3
Employment (% change)	-4.2	-4.2	-3.4	-3.5	0.0	-0.2	0.5	1.0
Unemployment rate (%)	25.0	25.0	27.0	27.1	26.4	26.7	25.8	24.8
Labour productivity (% change)	3.2	2.9	2.0	2.4	0.9	0.6	0.3	0.3
HICP inflation (%)	2.4	2.4	1.5	1.7	0.8	1.6	1.7	1.8
GDP deflator (% change)	0.1	0.1	1.6	1.4	1.0	1.4	1.5	1.8
Comp. of employees (per head, % change)	-0.3	-0.3	1.4	1.1	0.1	0.4	0.5	0.5
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	-0.2	-0.2	2.2	1.9	3.5	2.9	3.6	3.9

Note:

[1]In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source :

Commission services' 2013 spring forecasts (COM); Stability programme (SP).

Table III. Composition of the budgetary adjustment

(% of GDP)	2012	2013		2014		2015	2016	Change: 2012-2016
	COM	COM	SP	COM[1]	SP	SP	SP	SP
Revenue	**36.4**	**36.8**	**37.0**	**35.9**	**36.8**	**37.1**	**37.1**	**0.7**
of which:								
- Taxes on production and imports	10.2	10.7	10.8	10.6	10.8	10.9	10.9	0.6
- Current taxes on income, wealth, etc.	10.1	9.9	10.4	9.2	10.5	10.8	11.0	0.9
- Social contributions	12.9	12.8	12.5	12.5	12.3	12.2	12.1	-0.8
- Other (residual)	3.2	3.4	3.2	3.6	3.2	3.2	3.1	-0.1
Expenditure	**47.0**	**43.3**	**43.3**	**42.9**	**42.3**	**41.2**	**39.7**	**-7.3**
of which:								
- Primary expenditure	44.1	40.0	40.0	39.4	38.8	37.6	36.1	-7.9
of which:								
Compensation of employees	11.1	11.2	10.9	10.9	10.4	9.8	9.3	-1.8
Intermediate consumption	5.7	5.4	5.4	5.4	5.2	4.9	4.6	-1.0
Social payments	18.8	19.0	18.9	19.0	18.9	18.6	18.3	-0.5
Subsidies	1.0	0.9	1.1	0.9	1.0	0.9	0.9	-0.1
Gross fixed capital formation	1.7	1.4	1.5	1.3	1.5	1.4	1.3	-0.4
Other (residual)	5.9	2.1	2.2	2.0	1.9	1.8	1.7	-4.2
- Interest expenditure	3.0	3.3	3.3	3.5	3.5	3.6	3.6	0.6
General government balance (GGB)	**-10.6**	**-6.5**	**-6.3**	**-7.0**	**-5.5**	**-4.1**	**-2.7**	**8.0**
Primary balance	**-7.7**	**-3.2**	**-3.0**	**-3.6**	**-2.0**	**-0.5**	**0.9**	**8.6**
One-off and other temporary measures	-3.0	0.0	0.0	-0.4	0.0	0.0	0.0	3.0
GGB excl. one-offs	**-7.7**	**-6.6**	**-6.4**	**-6.6**	**-5.4**	**-4.1**	**-2.7**	**5.0**
Output gap[2]	-4.6	-4.6	-4.5	-2.3	-3.2	-2.4	-1.3	3.3
Cyclically-adjusted balance[2]	-8.4	-4.3	-4.2	-5.9	-3.9	-3.0	-2.1	6.4
Structural balance (SB)[3]	**-5.5**	**-4.4**	**-4.3**	**-5.5**	**-3.9**	**-3.0**	**-2.1**	**3.4**
Change in SB	*1.8*	*1.1*	*1.2*	*-1.1*	*0.4*	*0.9*	*0.9*	-
Two year average change in SB	*1.0*	*1.4*	*1.5*	*0.0*	*0.8*	*0.6*	*0.9*	-
Structural primary balance[3]	-2.5	-1.0	-1.0	-2.0	-0.4	0.6	1.5	4.0
Change in structural primary balance		*1.5*	*1.5*	*-1.0*	*0.6*	*1.0*	*0.9*	-
Expenditure benchmark								
Applicable reference rate[4]	-0.19	-0.19	-0.19	-1.12	-1.12	-1.12	-1.12	-
Deviation[5] (% GDP)	-0.9	-6.4	-7.0	1.1	-1.8	-1.0	-0.5	-
Two-year average deviation (% GDP)	-1.2	-3.6	-4.1	-2.6	-4.4	-1.4	-0.7	-

Notes*:*

[1]On a no-policy-change basis.

[2]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

[3]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

[4] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A lower rate applies as long as the country is adjusting towards its MTO, including in year t.The reference rates applicable to 2014 onwards have been updated in 2013.

[5] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A positive sign implies that expenditure growth exceeds the applicable reference rate.

Source :

Stability programme (SP); Commission services' 2013 spring forecasts (COM); Commission services' calculations.

Table IV. Debt dynamics

(% of GDP)	Average 2007-2011	2012	2013		2014		2015	2016
			COM	SP	COM	SP	SP	SP
Gross debt ratio[1]	**52.2**	**84.2**	**91.3**	**91.4**	**96.8**	**96.2**	**99.1**	**99.8**
Change in the ratio	5.9	15.0	7.1	7.2	5.5	4.7	2.9	0.7
Contributions[2] *:*								
1. Primary balance	**4.7**	**7.7**	**3.2**	**3.0**	**3.6**	**2.0**	**0.5**	**-0.9**
2. "Snow-ball" effect	**1.3**	**3.9**	**3.2**	**3.1**	**1.7**	**1.8**	**1.4**	**0.6**
Of which:								
Interest expenditure	1.9	3.0	3.3	3.3	3.5	3.5	3.6	3.6
Growth effect	0.0	1.0	1.2	1.1	-0.8	-0.5	-0.8	-1.3
Inflation effect	-0.6	-0.1	-1.4	-1.2	-0.9	-1.2	-1.4	-1.7
3. Stock-flow adjustment	**0.0**	**3.4**	**0.7**	**1.0**	**0.2**	**1.0**	**1.0**	**1.0**
Of which:								
Cash/accruals diff.								
Acc. financial assets								
Privatisation								
Val. effect & residual								

	2012	2013		2014		2015	2016
		COM / SP[3]	SP[4]	COM / SP[3]	SP[4]	SP	SP
Gap to the debt benchmark[5,6]	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.
Structural adjustment[7]	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.
To be compared to:							
Required adjustment[8]	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.

Notes:

[1]End of period.

[2]The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

[3] Assessment of the consolidation path set in SP assuming growth follows the COM forecasts.

[4]Assessment of the consolidation path set in the SP assuming growth follows the SP projections.

[5]Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

[6]Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

[7]Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

[8]Defines the remaining annual structural adjustment over the transition period which ensures that - if followed – Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (SP) budgetary projections for the previous years are achieved.

Source :
Stability programme (SP); Commission services' spring 2013 forecasts (COM); Commission services' calculations.

Table V. Sustainability indicators

	ES		EU27	
	No-policy change scenario	**Programme (SCP) scenario**	**No-policy change scenario**	**Programme (SCP) scenario**
S2	5.6	2.1	3.0	1.3
of which:				
Initial budgetary position (IBP)	3.7	0.4	0.8	-0.9
Long-term cost of ageing (CoA)	1.9	1.7	2.2	2.2
of which:				
Pensions	2.3	2.3	1.0	1.1
Health care	1.2	1.1	0.9	0.8
Long-term care	0.4	0.4	0.6	0.6
Others	-2.0	-2.1	-0.4	-0.3
S1 (required adjustment)*	6.1	1.8	2.2	0.5
of which:				
Initial budgetary position (IBP)	4.1	-0.8	0.0	-1.8
Debt requirement (DR)	2.3	2.9	1.9	1.9
Long-term cost of ageing (CoA)	-0.3	-0.3	0.3	0.4
S0 (risk for fiscal stress)**	0.45		:	
Debt, % of GDP (2012)	84.2		87.0	
Age-related expenditure, % of GDP (2012)	23.9		25.8	

Note*:*
The 'No-policy change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves according to the Commissions' spring 2013 forecast until 2014. The 'Programme (SCP)' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented.
* The required adjustment of the primary balance until 2020 to reach a public debt of 60% of GDP by 2030.
** The critical threshold for the S0 indicator is 0.44.

Source *:*
Commission services; 2013 stability programme.

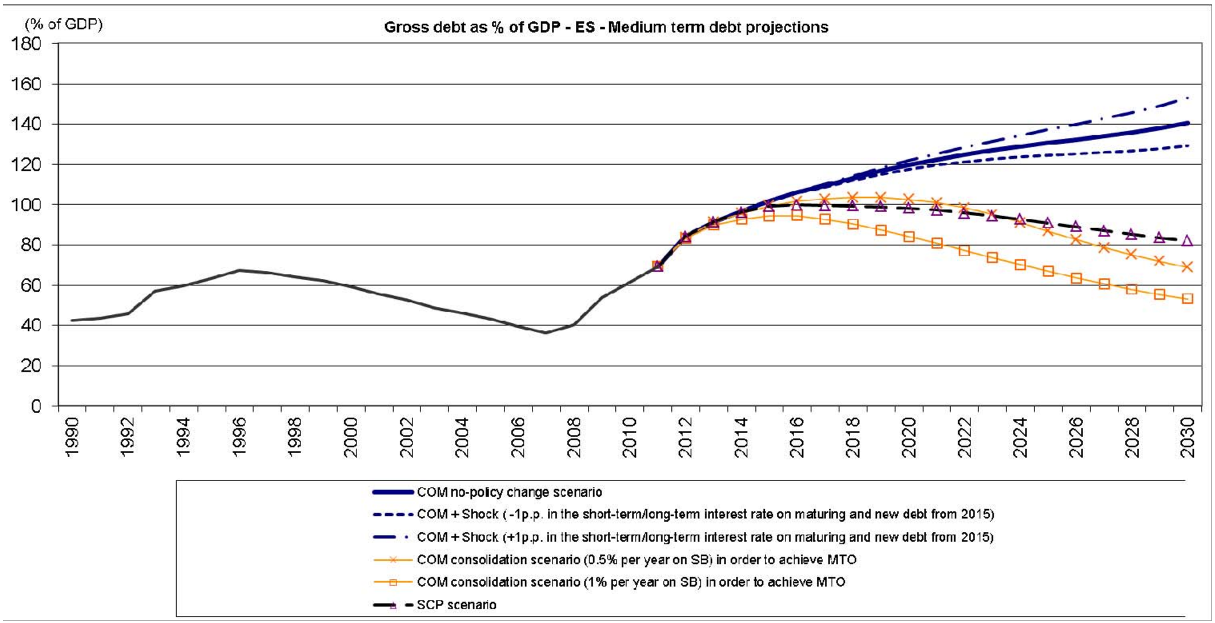

Table VI. Taxation indicators

	2002	2006	2008	2009	2010	2011
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	34.2	36.8	33.0	30.7	32.1	31.4
Breakdown by economic function (% of GDP)[1]						
Consumption	9.5	9.9	8.2	7.3	8.8	8.4
of which:						
- VAT	5.8	6.5	5.1	4.1	5.6	5.4
- excise duties on tobacco and alcohol	0.9	0.8	0.8	0.9	0.9	0.8
- energy	1.7	1.4	1.3	1.3	1.4	1.3
- other (residual)	1.1	1.1	1.0	0.9	1.0	0.9
Labour employed	15.7	15.6	16.0	15.7	16.0	15.9
Labour non-employed	0.8	0.8	1.0	1.3	1.4	1.4
Capital and business income	6.0	7.1	5.6	4.8	4.2	4.2
Stocks of capital/wealth	2.9	3.8	2.8	2.5	2.6	2.4
p.m. Environmental taxes[2]	2.1	1.9	1.7	1.7	1.7	1.6
VAT efficiency[3]						
Actual VAT revenues as % of theoretical revenues at standard rate	52.4	59.2	44.5	35.3	42.4	40.6

Note:

[1] Tax revenues are broken down by economic function, i.e. according to whether taxes are raised on consumption, labour or capital. See European Commission (2013) Taxation trends in the European Union, for a more detailed explanation.

[2] This category comprises taxes on energy, transport and pollution and resources included in taxes on consumption and capital.

[3] The VAT efficiency is measured via the VAT revenue ratio. The VAT revenue ratio is defined as the ratio between the actual VAT revenue collected and the revenue that would theoretically be raised if VAT was applied at the standard rate to all final consumption. A low ratio can indicate a reduction of the tax base due to large exemptions or the application of reduced rates to a wide range of goods and services ('policy gap') or a failure to collect all tax due to e.g. fraud ('collection gap'). See European Commission (2012), Tax reforms in EU Member States, European Economy 6/2012 and Taxation Papers 34/2012 for a more detailed explanation.

Source: Commission

Table VII. Financial market indicators

	2008	2009	2010	2011	2012
Total assets of the banking sector (% of GDP)	313.4	328.9	330.9	340.5	341.6
Share of assets of the five largest banks (% of total assets)	42.4	43.3	44.3	48.1	…
Foreign ownership of banking system (% of total assets)	10.6	10.2	…	…	…
Financial soundness indicators:					
- non-performing loans (% of total loans)[1),2)]	2.8	4.1	4.7	6.0	7.1
- capital adequacy ratio (%) [1)]	11.3	12.2	11.9	12.4	11.4
- return on equity (%) [1), 3)]	12.6	9.2	7.9	3.0	-2.9
Bank loans to the private sector (year-on-year % change)	6.7	-1.0	1.3	-1.9	-7.5
Lending for house purchase (year-on-year % change)	5.1	0.1	0.9	-1.2	-3.3
Loan to deposit ratio	114.5	110.8	110.6	108.7	108.1
CB liquidity as % of liabilities	3.3	3.1	2.4	5.9	12.0
Banks' exposure to countries receiving official financial assistance (% of GDP)[4)]	6.3	7.0	7.1	6.5	6.2
Private debt (% of GDP)	175.7	179.7	180.5	173.1	158.5
Gross external debt (% of GDP)[5)]					
- Public	21.5	28.7	27.5	25.8	24.5
- Private	58.6	60.7	58.7	55.6	52.9
Long term interest rates spread versus Bund (basis points)*	0.4	0.8	1.5	2.8	4.4
Credit default swap spreads for sovereign securities (5-year)*	59.2	92.9	203.4	318.1	427.2

Notes:

1) Latest data (June 2012).

2) Includes loans to private sector, public administration, other credit institutions, and nonresidents.

3) After extraordinary items and taxes. Includes only the net income attributable to the group.

4) Covered countries are CY, EL, LV, HU, IE, PT and RO.

5) Latest data 2012Q3.

* Measured in basis points.

Source :

Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission (long-term interest rates), World Bank (gross external debt) and ECB (all other indicators).

Table VIII. Labour market and social indicators

Labour market indicators	2007	2008	2009	2010	2011	2012
Employment rate (% of population aged 20-64)	69.5	68.3	63.7	62.5	61.6	59.3
Employment growth (% change from previous year)	3.0	-0.1	-6.5	-2.5	-1.5	-4.3
Employment rate of women (% of female population aged 20-64)	58.0	58.3	56.3	55.8	55.5	54.1
Employment rate of men (% of male population aged 20-64)	80.7	78.1	71.0	69.1	67.6	64.5
Employment rate of older workers (% of population aged 55-64)	44.6	45.6	44.1	43.6	44.5	44.0
Part-time employment (% of total employment, 15 years and more)	11.8	12.0	12.8	13.3	13.8	14.8
Part-time employment of women (% of women employment, 15 years and more)	22.8	22.7	23.0	23.2	23.5	24.5
Part-time employment of men (% of men employment, 15 years and more)	4.1	4.2	4.9	5.4	6.0	6.6
Fixed term employment (% of employees with a fixed term contract, 15 years and more)	31.7	29.3	25.4	24.9	25.3	23.6
Transitions from temporary to permanent employment	5.4	4.3	2.4	2.2	1.6	:
Unemployment rate1 (% of labour force, age group 15-74)	8.3	11.3	18.0	20.1	21.7	25.1
Long-term unemployment rate2 (% of labour force)	1.7	2.0	4.3	7.3	9.0	11.2
Youth unemployment rate (% of youth labour force aged 15-24)	18.2	24.6	37.8	41.6	46.4	53.2
Youth NEET rate (% of population aged 15-24)	12.2	14.4	18.3	18.0	18.5	18.8
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	31.0	31.9	31.2	28.4	26.5	24.9
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	39.5	39.8	39.4	40.6	40.6	40.1
Formal childcare (from 1 to 29 hours; % over the population less than 3 years)	24.0	22.0	18.0	20.0	20.0	:
Formal childcare (30 hours or over; % over the population less than 3 year)	16.0	16.0	18.0	18.0	19.0	:
Labour productivity per person employed (annual % change)	0.5	1.1	2.9	2.0	2.2	3.2
Hours worked per person employed (annual % change)	-0.9	0.3	0.4	0.2	0.6	0.1
Labour productivity per hour worked (annual % change; constant prices)	1.3	0.7	2.5	2.0	1.4	2.9
Compensation per employee (annual % change; constant prices)	1.4	4.4	4.3	-0.4	-0.3	-0.6
Nominal unit labour cost growth (annual % change)	4.1	5.6	1.3	-2.0	-1.5	-3.1
Real unit labour cost growth (annual % change)	0.8	3.2	1.2	-2.4	-2.4	-3.1

Notes:

[1] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed.

[2] Long-term unemployed are unemployed persons for at least 12 months.

Sources:
Commission (EU Labour Force Survey and European National Accounts)

Expenditure on social protection benefits (% of GDP)	2006	2007	2008	2009	2010
Sickness/Health care	6.33	6.39	6.80	7.31	7.21
Invalidity	1.52	1.53	1.59	1.74	1.79
Old age and survivors	8.42	8.49	8.92	10.02	10.67
Family/Children	1.20	1.26	1.36	1.52	1.51
Unemployment	2.10	2.06	2.51	3.69	3.55
Housing and Social exclusion n.e.c.	0.17	0.18	0.19	0.20	0.22
Total	19.98	20.17	21.59	24.73	25.19
of which: means tested benefits	2.73	2.75	2.95	3.62	0.00
Social inclusion indicators	**2007**	**2008**	**2009**	**2010**	**2011**
At-risk-of-poverty or social exclusion[1] (% of total population)	23.1	22.9	23.4	25.5	27.0
At-risk-of-poverty or social exclusion of children (% of people aged 0-17)	26.4	26.3	26.2	29.8	30.6
At-risk-of-poverty or social exclusion of elderly (% of people aged 65+)	29.7	28.2	26.1	22.6	22.3
At-Risk-of-Poverty rate[2] (% of total population)	19.7	19.6	19.5	20.7	21.8
Severe Material Deprivation[3] (% of total population)	3.0	2.5	3.5	4.0	3.9
Share of people living in low work intensity households[4] (% of people aged 0-59)	6.3	6.2	7.0	9.8	12.2
In-work at-risk-of poverty rate (% of persons employed)	10.7	10.7	11.4	12.7	12.3
Impact of social transfers (excluding pensions) on reducing poverty	17.6	18.7	20.1	26.3	26.8
Poverty thresholds, expressed in national currency at constant prices[5]	7223	7555	7451	7318	6888
Gross disposable income (households)	671161	716959	720945	700087	696592
Relative median poverty risk gap (60% of median equivalised income, age: total)	24.1	23.6	27.7	30.6	30.8

Notes:

[1] People at-risk-of poverty or social exclusion (AROPE): individuals who are at-risk-of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in household with zero or very low work intensity (LWI).

[2] At-risk-of poverty rate (AROP): share of people with an equivalised disposable income below 60% of the national equivalised median income.

[3] Share of people who experience at least 4 out of 9 deprivations: people cannot afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish, or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour tv, or ix) have a telephone.

[4] People living in households with very low work intensity: share of people aged 0-59 living in households where the adults (excluding dependent children) work less than 20% of their total work-time potential during the previous 12 months.

[5] For EE, CY, MT, SI, SK, thresholds in nominal values in Euros; HICP - index 100 in 2006 (2007 survey refers to 2006 incomes)

Sources:
For expenditure for social protection benefits ESSPROS; for social inclusion EU-SILC.

Table IX. Product market performance and policy indicators

Performance indicators	2003-2007	2008	2009	2010	2011	2012
Labour productivity[1] total economy (annual growth in %)	-0.1	1.0	3.0	2.2	2.0	3.0
Labour productivity[1] in manufacturing (annual growth in %)	2.1	-2.1	0.8	9.6	3.8	n.a.
Labour productivity[1] in electricity, gas, steam and air conditioning supply (annual growth in %)	-2.5	5.2	-10.5	3.1	3.8	n.a.
Labour productivity[1] in the construction sector (annual growth in %)	-2.1	12.6	18.5	-1.9	11.5	n.a.
Total number of patent[2] applications per million of labour force	59.7	61.8	62.1	63.2	n.a.	n.a.
Policy indicators	**2003-2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Enforcing contracts[3] (days)	515	515	515	515	515	510
Time to start a business[3] (days)	74	47	47	47	28	28
R&D expenditure (% of GDP)	1.1	1.4	1.4	1.4	1.3	n.a.
Tertiary educational attainment (% of 30-34 years old population)	37.2	39.8	39.4	40.6	40.6	40.2
Total public expenditure on education (% of GDP)	4.27	4.62	5.01	4.97	n.a.	n.a.
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Product market regulation[4], Overall (Index; 0=not regulated; 6=most regulated)	n.a.	1.0	n.a.	n.a.	n.a.	n.a.
Product market regulation[4], Retail (Index; 0=not regulated; 6=most regulated)	n.a.	2.7	n.a.	n.a.	n.a.	n.a.
Product market regulation[4], Network Industries[5] (Index; 0=not regulated; 6=most regulated)	1.6	n.a.	n.a.	n.a.	n.a.	n.a.

Notes:

[1] Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.

[2] Total number of patent applications to the European Patent Office (EPO) per million of labour force

[3] The methodologies, including the assumptions, for this indicator are presented in detail on the website http://www.doingbusiness.org/methodology.

[4] The methodologies of the product market regulation indicators are presented in detail on the website http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html. The latest available product market regulation indicators refer to 2003 and 2008, except for Network Industries.

[5] Aggregate Energy, Transport and Communications Regulation (ETCR).

*figure for 2007.

Source:
Commission, World Bank - *Doing Business* (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).

Table X. Green Growth

		2002-2006	2007	2008	2009	2010	2011
Green Growth performance							
Macroeconomic							
Energy intensity	kgoe / €	0.19	0.18	0.18	0.17	0.17	0.17
Carbon intensity	kg / €	0.58	0.55	0.50	0.47	0.46	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	1.18	1.18	1.01	0.84	n.a.	n.a.
Waste intensity	kg / €	n.a.	n.a.	0.19	n.a.	0.18	n.a.
Energy balance of trade	% GDP	-2.4%	-3.1%	-3.7%	-2.4%	-3.0%	-3.6%
Energy weight in HICP	%	n.a.	10	10	10	10	11
Difference between change energy price and inflation	%	n.a.	-0.9	6.3	-1.6	4.3	12.6
Environmental taxes over labour taxes	ratio	12.5%	10.8%	9.6%	9.7%	9.6%	n.a.
Environmental taxes over total taxes	ratio	5.7%	4.9%	4.8%	5.2%	5.0%	n.a.
Sectoral							
Industry energy intensity	kgoe / €	0.20	0.18	0.18	0.17	0.16	n.a.
Share of energy-intensive industries in the economy	% GDP	9.6	9.3	9.1	8.5	n.a.	n.a.
Electricity prices for medium-sized industrial users**	€ / kWh	n.a.	0.10	0.10	0.11	0.11	0.11
Gas prices for medium-sized industrial users***	€ / kWh	n.a.	0.03	0.03	0.03	0.03	0.03
Public R&D for energy	% GDP	n.a.	0.02%	0.03%	0.03%	0.03%	0.02%
Public R&D for the environment	% GDP	n.a.	0.04%	0.04%	0.05%	0.03%	0.03%
Recycling rate of municipal waste	ratio	36.8%	39.0%	48.3%	42.1%	42.1%	n.a.
Share of GHG emissions covered by ETS*	%	n.a.	43.2%	41.0%	37.8%	34.8%	37.9%
Transport energy intensity	kgoe / €	n.a.	0.69	0.65	0.63	n.a.	n.a.
Transport carbon intensity	kg / €	n.a.	1.75	1.64	1.58	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	n.a.	79.6%	81.3%	79.2%	76.8%	76.4%
Diversification of oil import sources	HHI	n.a.	0.07	0.06	0.06	0.06	n.a.
Diversification of energy mix	HHI	n.a.	0.31	0.32	0.32	0.31	0.29
Share renewable energy in energy mix	%	n.a.	6.8%	7.4%	9.5%	11.5%	11.4%

Country-specific notes:
The year 2012 is not included in the table due to lack of data.
General explanation of the table items:
Source: Eurostat unless indicated otherwise; ECFIN elaborations indicated below
All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2000 prices)
Energy intensity: gross inland energy consumption (in kgoe) divided by GDP (in EUR)
Carbon intensity: Greenhouse gas emissions (in kg CO2 equivalents) divided by GDP (in EUR)
Resource intensity: Domestic Material Consumption (in kg) divided by GDP (in EUR)
Waste intensity: waste (in kg) divided by GDP (in EUR)
Energy balance of trade: the balance of energy exports and imports, expressed as % of GDP
Energy weight in HICP: the share of the "energy" items in the consumption basket used in the construction of the HICP
Difference between energy price change and inflation: energy component of HICP, and total HICP inflation (annual %-change)
Environmental taxes over labour or total taxes: from DG TAXUD's database "Taxation trends in the European Union"
Industry energy intensity: final energy consumption of industry (in kgoe) divided by gross value added of industry (in 2005 EUR)
Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP
Electricity and gas prices medium industrial users: consumption band 500 - 2000MWh and 10000 - 100000 GJ; figures excl. VAT.
Recycling rate of municipal waste: ratio of municipal waste recycled over total municipal waste
Public R&D for energy or for the environment: government spending on R&D (GBAORD) for these categories as % of GDP
Share of GHG emissions covered by ETS: based on greenhouse gas emissions as reported by Member States to EEA (excl LULUCF)
Transport energy intensity: final energy consumption of transport activity (kgoe) divided by transp industry gross value added (2005 EUR)
Transport carbon intensity: greenhouse gas emissions in transport activity divided by gross value added of the transport sector
Energy import dependency: net energy imports divided by gross inland energy consumption incl. energy consumption international bunkers
Diversification of oil import sources: Herfindahl index (HHI), calculated as the sum of the squared market shares of countries of origin
Diversification of the energy mix: Herfindahl Index over natural gas, total petrol products, nuclear heat, renewable energies and solid fuels
Share renewable energy in energy mix: %-share in gross inland energy consumption, expressed in tonne oil equivalents
*Provisional data (15 April 213). Commission Services and EEA.
** For 2007 average of S1 & S2 for DE, LU, NL, FI, SE & UK. Other countries only have S2.
*** For 2007 average of S1 & S2 for IT, NL, FI, SE & UK. Other countries only have S2.