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COMMISSION STAFF WORKING DOCUMENT

Analysis of the draft budgetary plan of Spain

Accompanying the document

COMMISSION OPINION

on the draft budgetary plan of Spain

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1. INTRODUCTION

Spain submitted its Draft Budgetary Plan (hereafter DBP) for 2019 on 15 October in compliance with Regulation (EU) No 473/2013. Spain is currently subject to the corrective arm of the Pact. The Council opened the Excessive Deficit Procedure for Spain on 27 April 2009. The country is required to correct the excessive deficit by 2018. As from 2019, Spain is expected to be subject to the preventive arm of the Pact and should ensure sufficient progress towards its medium term budgetary objective (MTO).

As the debt ratio is expected to be 96.9% of GDP in 2018 (the deadline for correcting the excessive deficit), exceeding the 60% of GDP reference value, during the three years following the correction of the excessive deficit Spain is also subject to the transitional arrangements to make sufficient progress towards compliance with the debt reduction benchmark.

The DBP was submitted to the Commission and the Eurogroup without a draft Budget Law being submitted in parallel to the Spanish parliament. The DBP also does not give a complete picture of the planned measures and does not contain all the information required according to the Code of Conduct of the Two Pack.[1] Therefore, on 19 October 2018, a letter was sent from the Commission to the Spanish authorities inviting them to provide the missing data and additional information on the measures. A reply was received on the same day and over the subsequent days, the Commission received additional information.

Section 2 of this document presents the macroeconomic outlook underlying the DBP and provides an assessment based on the Commission 2018 autumn forecast. The following section presents the recent and planned fiscal developments, according to the DBP, including an analysis of risks to their achievement based on the Commission 2018 autumn forecast. In particular, it also includes an assessment of the measures underpinning the DBP. Section 4 assesses the recent and planned fiscal developments in 2018-2019 (also taking into account the risks to their achievement) against the obligations stemming from the Stability and Growth Pact. A box on the application of constrained judgement is contained in this section

[1] In particular, it does not contain a no-policy change scenario, data on investment expenditure fully financed by EU funds, a break-down of one-offs in revenue and expenditure items and data on employment (hours worked) and labour productivity (hours worked).

for Spain as it is flagged by the plausibility tool. Section 5 provides an analysis of implementation of fiscal-structural reforms in response to the latest country-specific recommendations in the context of the European Semester adopted by the Council in July 2018, including those to reduce the tax wedge. Section 6 summarises the main conclusions of the present document.

2. MACROECONOMIC DEVELOPMENTS UNDERLYING THE DRAFT BUDGETARY PLAN

The macroeconomic scenario underpinning the 2019 DBP projects real GDP growth to reach 2.6% in 2018, after 3.0% in 2017. Domestic demand is expected to drive growth, with private consumption decelerating compared to last year, but with investment picking up. Net exports are projected to have a slightly negative contribution to growth. Compared to the 2018 Stability Programme (hereafter SP) submitted in April, the DBP projects real GDP growth to be 0.1 percentage points lower this year, due to a lower expected contribution of net exports, and despite stronger domestic demand.

The Commission 2018 autumn forecast also projects real GDP growth at 2.6% this year, with small divergences in the composition of growth compared to the macroeconomic scenario underpinning the DBP. Both exports and imports are projected to grow at a slower pace in the Commission forecast, with a slightly more negative contribution of the external sector to growth. However, this is offset by a slightly higher contribution of domestic demand. The main differences between the DBP and Commission forecasts for 2018 refer to employment growth, which is expected to be 0.3 percentage points higher in the DBP than in the Commission forecast, and prices, which are projected to increase faster in the Commission forecast. The private consumption and GDP deflators are expected to be 0.3 and 0.1 percentage points higher, respectively, in the Commission forecast than in the DBP (the DBP does not provide a forecast for HICP inflation). Nominal GDP growth in 2018 is thus 0.1 percentage points higher in the Commission forecast than in the DBP.

In 2019, the DBP forecasts real GDP growth to decelerate to 2.3%, due to private consumption and investment slowing down. The deceleration of private consumption in the DBP takes place in a context of higher wage growth than the previous year, as household increase their savings' rate. Compared to the 2018 SP submitted in April, the DBP forecasts real GDP growth to be 0.1 pp lower in 2019, again mainly due to a lower contribution of net exports to growth.

The Commission 2018 autumn forecast also projects real GDP growth to slow down next year, by slightly more than in the DBP, to 2.2%, due to slightly lower consumption and investment than in the DBP. The Commission also forecasts lower exports and imports than the DBP, but overall resulting in a similar contribution of net exports to growth. The main differences between the Commission forecast and the DBP relate to employment and wages. The Commission forecast projects employment growth to be lower, also due to a more negative projected impact of the planned increase of the minimum wage than the DBP. However, lower employment growth in 2019 in the Commission forecast is accompanied by higher wage growth, resulting in the same increase in total compensation of employees next year in both forecasts. Since the Commission projects lower private consumption, this implies a slightly higher increase in the gross savings rate in the Commission forecast than in the DBP. Again, since the DBP does not provide a forecast for HICP inflation, the comparison for the evolution of prices has to be done on the basis on the deflators, which are 0.1 percentage points lower in the Commission forecast than in the DBP in 2019, for both private consumption and GDP. Higher real GDP growth and a higher GDP deflator result in nominal GDP growth in 2019 being 0.2 percentage points higher in the DBP than in the Commission forecast.

Both macroeconomic scenarios imply a widening of the positive output gap. The increase in the output gap in 2019 is larger in the Commission forecast than in the DBP despite lower real GDP growth, as a consequence a lower estimate for potential output growth in the Commission forecast (1.4%) than the (recalculated) one from the DBP (1.5%).

Overall, the macroeconomic projections underlying the DBP are plausible with regard to GDP growth and its composition in 2018 and 2019. Some of its elements, such as employment growth, are subject to some uncertainty, partly as a consequence of the uncertainty surrounding the macroeconomic impact of the planned increase in the minimum wage.[2]

Box 1: The macroeconomic forecast underpinning the budget in Spain

The macroeconomic forecasts underpinning the 2019 DBP have been endorsed by Spain's independent fiscal institution –Autoridad Independiente de Responsabilidad Fiscal (AIReF) in a report published on AIReF's website on 25 October 2018.[3]

AIReF's mandate is broad, thus allowing it to play a relevant role in Spain's budgetary processes. Its mandate includes issuing reports assessing the SP, the DBP, compliance of fiscal policy, including the regions' economic and financial plans, with the domestic numerical fiscal rules, and giving advice on the activation of the correction mechanisms set out in Spain's Organic Law on Budgetary Stability and Financial Sustainability.

AIReF deems the macroeconomic scenario as "prudent" and the growth composition as "credible". It considers the external assumptions underpinning the growth projections as "feasible", but identifies the risks attached to them as being tilted to the downside. AIReF also considers the macroeconomic impact of the budgetary measures contained in the DBP as "feasible". These measures are estimated to have an overall neutral impact on GDP growth in 2019, but they could have a negative impact on growth beyond 2019.

In the same report, AIReF considers it "achievable" for Spain to reach a nominal general government deficit of 1.8% of GDP or better, attaching a 45% likelihood to this outcome (rising to 48% when also considering the additional measure of hiking the maximum base of social contributions, not included in the DBP but communicated by the government to AIReF).

[2] Estimates regarding the impact of the minimum wage on employment range from about 40,000 to at least 150,000 job losses, according to AIReF and Banco de Espana, respectively. These estimates omit the impact on employment of induced wage spillovers on the rest of the wage distribution. Both sources highlight the uncertainty regarding these estimates.

[3] Available at: http://www.airef.es/wp-content/uploads/2018/10/NOTICIAS/JLE_COMISION_PRESUPUESTOS/Informe-DBP-2019_version-publicacion.pdf

Table 1. Comparison of macroeconomic developments and forecasts

	2017	2018			2019		
	COM	SP	DBP	COM	SP	DBP	COM
Real GDP (% change)	3.0	2.7	2.6	2.6	2.4	2.3	2.2
Private consumption (% change)	2.5	2.0	2.3	2.3	1.8	1.9	1.8
Gross fixed capital formation (% change)	4.8	4.7	5.3	5.4	4.4	4.4	3.9
Exports of goods and services (% change)	5.2	4.8	3.2	2.6	4.6	3.4	3.3
Imports of goods and services (% change)	5.6	4.1	4.0	3.5	4.2	3.8	3.5
Contributions to real GDP growth:							
- Final domestic demand	2.8	2.3	2.7	2.8	2.2	2.3	2.2
- Change in inventories	0.1	0.0	0.0	0.0	0.0	0.0	0.0
- Net exports	0.1	0.4	-0.1	-0.2	0.3	0.0	0.0
Output gap[1]	-0.4	1.1	0.9	1.0	1.6	1.6	1.8
Employment (% change)	2.6	2.6	2.5	2.2	2.3	2.0	1.7
Unemployment rate (%)	17.2	15.5	15.5	15.6	13.8	13.8	14.4
Labour productivity (% change)	0.1	0.2	0.1	0.2	0.1	0.3	0.4
HICP inflation (%)	2.0			1.8			1.7
GDP deflator (% change)	1.2	1.5	1.3	1.4	1.8	1.8	1.6
Comp. of employees (per head, % change)	0.3	1.2	1.0	1.0	1.5	2.0	2.4
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	2.2	1.9	1.5	1.5	1.8	1.3	1.3

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:
Stability Programme 2018 (SP); Draft Budgetary Plan for 2019 (DBP); Commission 2018 autumn forecast (COM); Commission calculations

3. RECENT AND PLANNED FISCAL DEVELOPMENTS

3.1. Deficit developments

The DBP projects a headline deficit of 2.7% of GDP in 2018, which is in line with the Commission 2018 autumn forecast, but 0.5 percentage points above the target of the 2018 SP. In the DBP, the revenue ratio is projected to be slightly higher than in the SP, while the expenditure ratio is set to be significantly higher, reaching 41.3% of GDP, 0.7 percentage points above the targeted level according to the DBP. Expenditure is higher across the board, but in particular for social transfers, reflecting the additional increases in pensions included in the final 2018 budget bill adopted in July 2018 (0.15 percentage points). Also the category "other expenditure" is expected to be significantly higher in 2018 than foreseen in the SP (0.3 percentage points).

The DBP aims at achieving a deficit reduction in 2019 of the same magnitude as the one targeted in the 2018 SP. However, as the deficit in 2018 is expected to be 0.5 percentage points higher than in that programme, this translates into a deficit target of 1.8% of GDP, rather than the 1.3% of GDP targeted in the SP. The composition of the planned consolidation is also different, relying to a greater extent on revenue increases than expenditure restraint compared to the strategy outlined in the SP. The DBP projects the revenue ratio to increase by 0.6 percentage points to 39.1% of GDP in 2019 rather than by only 0.2 percentage points in the SP, whereas the expenditure ratio is expected to decrease by 0.4 percentage points to 40.9% of GDP rather than by 0.8 percentage points projected in the SP.

The baseline scenario of the DBP (i.e. no-policy-change, excluding the new measures announced in the DBP) projects a headline deficit of 2.2% of GDP in 2019, based on a revenue ratio of 38.6% of GDP and an expenditure ratio of 40.8% of GDP. Hence, the impact of the planned measures reported in the DBP is expected to raise the revenue ratio by about 0.5 percentage points, whereas the expenditure ratio is expected to increase by 0.1 percentage points. This is lower than the sum of the reported impacts of expenditure measures, at EUR 2.1 billion or almost 0.2% of GDP (see section 3.3 for more details). All the major revenue categories are expected to contribute with higher revenues (mostly reflecting the various measures included in the DBP), whereas higher expenditure is concentrated on compensation of employees and social benefits.

The Commission 2018 autumn forecast expects the headline government deficit to only narrow to 2.1% of GDP in 2019, 0.3 percentage points higher than in the DBP. Differences between the DBP and the Commission forecast stem from a higher deficit in the baseline no-policy-change scenario as well as a different estimate of the impact of the measures included in the DBP. In particular, on a no-policy-change basis, the Commission expects a deficit of 2.4% of GDP, around 0.2 percentage points above the no-policy-change scenario underpinning the DBP, mainly on account of social contributions growing at a somewhat slower pace in the Commission forecast. The Commission estimates the impact of revenue-increasing measures contained in the DBP at 0.4% of GDP, 0.1 percentage point below the impact estimated in the DBP, whereas additional expenditure is estimated to add 0.3% of GDP, compared to 0.2% in the DBP (See Section 3.3 for more details).

Moreover, the DBP claims to include expenditure one-offs of about EUR 1 billion (about 0.1% of GDP) in its deficit forecast for 2019, relating to court orders affecting regional governments (including the cancellation of an ATLL water concession). The Commission forecast treats this as a contingent liability, as the time of recording was still uncertain at the cut-off date of the forecast. Hence, the different treatment of this amount hides a bigger underlying difference between the headline deficits of the two respective forecasts.

The DBP reports an improvement in the structural balance of 0.4% of GDP in 2019 thanks to the measures included. Without the latter, the structural balance would have remained unchanged compared to 2018. According to the Commission 2018 autumn forecast, the structural balance is likely to remain unchanged, mirroring the difference in headline deficits. In particular, the Commission forecast assumes an underlying deterioration of the structural balance of about 0.2 percentage points in its baseline scenario, which is offset by the net impact of the measures included in the Commission forecast.

The DBP considers the impact of the liquidation of distressed toll motorway companies as a one-off measure (with an expected impact of 0.1% of GDP in 2018), whereas the Commission forecast does not consider it to be a one-off, but only a measure with a temporary effect. Moreover, the Commission forecast treats as one-off expenditure the tax credit requested by one of Spain’s largest banks in July 2018, with an impact in 2018 amounting to EUR 1 billion

(0.1% of GDP), while the DBP is silent on this. Lastly (and as mentioned above), the DBP factors in a one-off effect on expenditure in 2019 deriving from court rulings at regional level of 0.1% of GDP, whereas the Commission forecast treats them as contingent liabilities.

Euro area sovereign bond yields remain at historically low levels, with 10-year rates in Spain currently standing at 1.66%.[4] As a consequence, total interest payments by the general government have continued to decrease as a share of GDP. Based on the information included in the DBP, interest expenditure in Spain is expected to fall from 2.6% of GDP in 2017 to 2.4% in 2018 and is projected to decrease further next year, to 2.3% of GDP, well below the peak of 4.3% recorded in 2014. The picture stemming from the DBP is broadly confirmed by the Commission forecast.

[4] 10-year bond yields as of 24 October 2018. Source: Bloomberg

Table 2. Composition of the budgetary adjustment

(% of GDP)	2017	2018			2019			Change: 2017-2019
	COM	**SP**	**DBP**	**COM**	**SP**	**DBP**	**COM**	**DBP**
Revenue	**37.9**	**38.3**	***38.5***	**38.4**	**38.5**	***39.1***	**38.8**	**1.2**
of which:								
- Taxes on production and imports	11.6	11.6	*11.7*	11.7	11.8	*11.9*	11.9	0.3
- Current taxes on income, wealth, etc.	10.2	10.4	*10.5*	10.4	10.5	*10.7*	10.6	0.5
- Capital taxes	0.5	0.5	*0.5*	0.5	0.5	*0.5*	0.5	0.0
- Social contributions	12.3	12.4	*12.4*	12.4	12.4	*12.5*	12.4	0.3
- Other (residual)	3.4	3.4	*3.4*	3.5	3.3	*3.5*	3.5	0.1
Expenditure	**41.0**	**40.5**	**41.2**	**41.1**	**39.8**	**40.9**	**40.9**	**-0.1**
of which:								
- Primary expenditure	38.4	38.2	38.8	38.7	37.5	38.5	38.7	0.1
of which:								
Compensation of employees	10.5	10.3	10.4	10.5	10.1	10.4	10.4	-0.1
Intermediate consumption	5.0	4.9	5.0	5.0	4.8	5.0	4.9	-0.1
Social payments	17.8	17.7	17.9	17.8	17.7	18.0	18.2	0.2
Subsidies	1.0	1.0	1.0	1.0	0.9	0.9	1.0	-0.1
Gross fixed capital formation	2.0	2.2	2.2	2.2	2.1	2.1	2.0	0.1
Other (residual)	2.0	2.1	2.3	2.2	1.9	2.1	2.1	0.1
- Interest expenditure	2.6	2.4	2.4	2.4	2.3	2.3	2.3	-0.2
General government balance (GGB)	**-3.1**	**-2.2**	**-2.7**	**-2.7**	**-1.3**	**-1.8**	**-2.1**	**1.3**
Primary balance	**-0.5**	**0.1**	**-0.3**	**-0.3**	**1.0**	**0.6**	**0.1**	**1.1**
One-off and other temporary measures	0.0	-0.2	-0.2	-0.1	0.0	-0.1	0.0	-0.1
GGB excl. one-offs	**-3.1**	**-2.0**	**-2.5**	**-2.6**	**-1.3**	**-1.7**	**-2.1**	**1.4**
Output gap[1]	-0.4	1.1	0.9	1.0	1.6	1.6	1.8	2.0
Cyclically-adjusted balance[1]	-2.9	-2.8	-3.2	-3.2	-2.2	-2.7	-3.1	0.2
Structural balance (SB)[2]	**-2.9**	**-2.5**	**-2.9**	**-3.1**	**-2.1**	**-2.6**	**-3.1**	**0.3**
Structural primary balance[2]	-0.3	-0.2	-0.5	-0.7	0.2	-0.3	-0.8	0.1

Notes:

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

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

Source:

Stability Programme 2018 (SP); Draft Budgetary Plan for 2019 (DBP); Commission 2018 autumn forecast (COM); Commission calculations

3.2. Debt developments

The DBP projects the debt-to-GDP ratio to decline from 98.1% of GDP in 2017, to 97.0% in 2018 and to 95.5% in 2019.[5] For 2018, this is identical to the ratio presented in the 2018 SP, despite a higher primary deficit and somewhat lower inflation. This is thanks to a fully offsetting revision to the stock-flow adjustment. For 2019, there is a similar pattern, only that the debt-reducing revisions to the stock-flow adjustments do not fully offset the debt-increasing revisions to the other factors, leading to a debt ratio in 2019 that is 0.3 percentage points higher than in the SP. In 2019, both the primary balance and the snow-ball effect are still expected to contribute to debt reduction, but to a lower extent than in the SP. The DBP indicates a debt-increasing stock-flow adjustment of 0.7 percentage points in 2019, which does not appear to be fully consistent with the macroeconomic and budgetary projections in the DBP. Using the latter, the Commission calculates the implicit stock-flow adjustment at 0.5% of GDP.

Compared with the DBP, the Commission 2018 autumn forecast projects a marginally lower debt ratio in 2018 and a somewhat higher ratio in 2019. In 2018, the difference mainly reflects higher inflation in the Commission forecast. In 2019, the debt ratio decreases by 0.7 percentage points less in the Commission forecast, mainly due to a 0.5 percentage points smaller primary surplus. The Commission 2018 autumn forecast foresees the debt-to-GDP ratio to reach 96.9% in 2018 and 96.2% in 2019.

[5] This planned reduction of the general government debt to GDP ratio over 2018-2019 does not seem to comply with the pace of reduction set out in the Stability Law (requiring a reduction by at least 2 percentage points once Spain's real GDP or net employment grows by at least 2%).

Table 3. Debt developments

(% of GDP)	2017	2018			2019		
		SP	DBP	COM	SP	DBP	COM
Gross debt ratio[1]	**98.1**	**97.0**	**97.0**	**96.9**	**95.2**	**95.5**	**96.2**
Change in the ratio	-0.8	-1.1	-1.1	-1.2	-1.9	-1.5	-0.7
Contributions [2] *:*							
1. Primary balance	**0.5**	**-0.1**	**0.3**	**0.3**	**-1.0**	**-0.6**	**-0.1**
2. "Snow-ball" effect	**-1.4**	**-1.6**	**-1.2**	**-1.3**	**-1.6**	**-1.4**	**-1.3**
Of which:							
Interest expenditure	2.6	2.4	2.4	2.4	2.3	2.3	2.3
Growth effect	-2.8	-2.5	-2.5	-2.4	-2.3	-2.1	-2.0
Inflation effect	-1.2	-1.4	-1.2	-1.3	-1.6	-1.7	-1.5
3. Stock-flow adjustment	**0.1**	**0.7**	**-0.1**	**-0.1**	**0.7**	**0.5**	**0.7**

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

Source:

Stability Programme 2018 (SP); Draft Budgetary Plan for 2019 (DBP); Commission 2018 autumn forecast (COM); Commission calculations

3.3. Measures underpinning the DBP

The 2019 DBP reports a considerable amount of planned new revenue and expenditure measures while building on the estimates of measures provided in the 2018 SP for 2019.

The planned new revenue and expenditure measures total EUR 7.2 bn (0.6% of GDP) and EUR 2.5 bn (0.2% of GDP) in 2019, respectively (see table 4). The DBP therefore aims at improving the deficit by 0.4% of GDP while increasing expenditure, in particular on social transfers.

New revenue measures consist of the following (estimated budgetary impact in brackets):

- Increases in corporate income tax by taxing (in part) subsidiaries' dividends and capital gains generated abroad and by setting out a minimum tax rate on large companies' taxable base (EUR 1.7 billion).
- Reduction in the corporate income tax rate for SMEs (EUR 260 million).
- Increases in the personal income tax rate for high wage earners and on savings (EUR 328 million)
- Increases in the wealth tax rate for tax payers with net assets exceeding EUR 10 million (EUR 339 million).
- Creation of a tax on financial transactions (EUR 850 million), which levies 0.2% on the value of acquisitions of shares of large Spanish companies.
- Creation of a tax on revenues from digital activities (EUR 1.2 billion), which is levied on the revenues from the provision of online advertisement services, online intermediation services and the sale of user data.

- Reductions in VAT for veterinary services and for female hygiene products (EUR 53 million).
- Increases in taxation on diesel oil for non-professional consumers (EUR 670 million).
- New legislative measures to fight against tax fraud (EUR 828 million), which consist of publishing the identity of a larger number of tax payers in arrears *vis-a-vis* the tax authorities, further restricting the use of cash between companies and consumers, prohibiting the use of sales suppression software and strengthening the unit within the tax authority to oversee the tax declarations of high net worth individuals.
- In addition, the DBP estimates at EUR 1.5 billion the increase in social security contributions originating from the 2019 increase in the minimum wage. This amount includes both the second-round effect of the minimum wage increase on social security contributions and the automatic increase in the social security's minimum contributory base, which is linked to the minimum wage.

On the expenditure side, the DBP reports a list of planned spending measures for 2019, although it fails to quantify their individual budgetary impact. The amounts shown below, totalling EUR 2.5 bn (0.2% of GDP), were communicated by the Spanish authorities in reply to the letter sent by the Commission on 19 October 2018. The new expenditure measures fall into the following categories:

- Full pension indexation in 2019 and 2020 based on the consumer price index and 3% increase in minimum and non-contributory pensions (EUR 736 million).
- Increase in scholarships and in aid for the acquisition of school supplies (EUR 200 million).
- Social policies (EUR 1.3 billion): aid and for children’s' canteens, child care support for low income families, promotion of free childcare facilities, increased spending on long term care policies (*dependencia*), reinstatement of the unemployment benefit for long term unemployed aged 52 or more and bringing gradually the conditions for paternity leave to the same level as conditions for maternity leave.
- Increase in R&D spending (EUR 150 million).
- Other (EUR 50 million): aid for movie production in official and co-official languages, to fight against gender violence and to set up offices to fight against depopulation in twenty rural areas.

The Commission 2018 autumn forecast considers up to 0.4% of GDP in new revenue measures and 0.3% in new expenditure measures, thus implying a net deficit reducing impact of 0.1% of GDP. On the revenue side, the main differences between the measures reported in the updated DBP and in the Commission forecast are the following:

- The Commission 2018 autumn forecast factors in a lower yield of revenues from the planned financial transactions tax (FTT), having considered the amounts collected in France and Italy’s FTT, upon which the still-to-be adopted tax is based.
- The Commission forecast also considers less revenue from the planned tax on revenues from digital activities than the DBP. This is based on the estimation provided in the Commission's impact assessment accompanying the proposal for a directive on a digital services tax on revenues from the provision of certain digital services,[6] while at the same time acknowledging that the planned tax could affect a higher number of companies in

[6] SWD(208) 81 final/2

Spain than in the Commission's proposal.[7] Moreover, at the time of writing, the draft laws setting out the financial transactions tax and the tax on revenues from digital activities had been adopted by the government, but not yet transmitted to parliament. There is therefore a significant risk that they may not be in force on 1 January 2019, thus reducing the likelihood of reaching the expected tax collection in that year.

- The forecast does not take the full expected amount of a planned wealth tax increase either. It should be noted that wealth tax is devolved to regional governments, which have wide normative powers, such as on setting the tax rate. Against this backdrop, this measure – if adopted – could only apply to the four regional governments (Aragon, Canarias, Castilla-la Mancha, Castilla-Leon) that have not adopted their own wealth tax rate, but rather, refer to the tax rate set out in the wealth tax law adopted by the national parliament. As the amounts collected by these on wealth tax are low (EUR 89 million in 2016), an expected increase of EUR 339 million following the planned increase in the tax rate is highly unlikely.
- It also reduces the expected amount of revenue from measures to fight against tax fraud, due to uncertainties surrounding their implementation.
- The Commission forecast only treats as a measure the additional social security contributions originating from the automatic increase in the minimum contributory base (assumed to be EUR 750 million), while the additional social contributions paid by minimum wage earners are treated as a second round effect.

On the expenditure side, the main differences between the measures reported in the updated DBP and in the Commission autumn forecast are the following: the Commission forecast considers that the planned authorisation for local governments to spend EUR 330 million on developing childcare facilities will entail an increase in expenditure relative to the baseline. The reason is that this spending is treated as 'financially sustainable investment', and that therefore, local governments do not have to compensate it with reductions in other spending categories to comply with the domestic expenditure rule.

The Commission forecast also considers additional EUR 362 million originating from the gradual elimination of co-payments and a small spending increase deriving from the government's decision to give back healthcare coverage to illegal migrants.[8] The reason is that both measures are new since the spring forecast.

There is uncertainty regarding the yield of some of the new tax measures, as well as the fiscal impact of the planned increase of the minimum wage. In addition, some of the planned expenditure measures may not be fully executed. Regarding downside risks, compensation payments due following the Supreme Court decision of February 2018 to declare void the ATLL water concession may add to the deficit forecast.

[7] The planned tax sets out a lower revenue threshold (EUR 3 million for companies operating in Spain vs EUR 5 bn in the Commission proposal).

[8] Royal Decree Law 7/2018 on universal access to the national health system.

Table 4. Main discretionary measures reported in the DBP

A. Discretionary new measures planned/taken by General Government - revenue side

Components	Budgetary impact (% GDP) (as reported by the authorities) 2019
Taxes on production and	0,3
Current taxes on income,	0,2
Capital taxes	
Social contributions	0,1
Property Income	
Other	
Total	0,6

Note:

The budgetary impact in the table is the aggregated impact of measures as reported in the DBP, i.e. by the national authorities. A positive sign implies that revenue increases as a consequence of this measure.

Source: Draft Budgetary Plan for 2019

B. Discretionary new measures planned/taken by general Government- expenditure side[9]

Components	Budgetary impact (% GDP) (as reported by the authorities) 2019
Compensation of employees	0,0
Intermediate consumption	0,0
Social payments	0,2
Interest Expenditure	
Subsidies	
Gross fixed capital formation	0,0
Capital transfers	
Other	
Total	0,2

Note:

The budgetary impact in the table is the aggregated impact of measures as reported in the DBP, i.e. by the national authorities. A positive sign implies that expenditure increases as a consequence of this measure.

Source: Draft Budgetary Plan for 2019

[9] As the DBP fails to quantify all individual new expenditure measures, table 4 includes the quantification of new expenditure measures communicated by the Spanish authorities to the Commission staff on 19 October 2018.

4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT

Spain is currently subject to the corrective arm of the Pact, but is expected to enter the preventive arm in 2019. Box 2 recalls the main features of the Excessive Deficit Procedure opened by the Council on 27 April 2009 and the latest country specific recommendations in the area of public finances.

Box 2. Council recommendations addressed to Spain

On 8 August 2016, the Council gave notice to Spain under Article 126(9) of the Treaty to correct its excessive deficit by 2018. According to that notice, Spain shall reduce the general government deficit to 4.6 % of GDP in 2016, to 3.1 % of GDP in 2017 and to 2.2 % of GDP in 2018. This improvement in the general government deficit is consistent with a deterioration of the structural balance by 0.4 % of GDP in 2016 and a 0.5 % of GDP improvement in both 2017 and 2018, based on the updated Commission 2016 spring forecast. Spain shall also use all windfall gains to accelerate the deficit and debt reduction. In addition to the savings already included in the updated Commission 2016 spring forecast, Spain shall adopt and fully implement consolidation measures for the amount of 0.5 % of GDP in both 2017 and 2018. Spain shall stand ready to adopt further measures should risks to the budgetary plans materialise. Fiscal consolidation measures shall secure a lasting improvement in the general government structural balance in a growth-friendly manner. Moreover, Spain shall adopt measures to strengthen its fiscal framework, in particular with a view to increasing the automaticity of mechanisms to prevent and correct deviations from the deficit, debt and expenditure targets and to strengthening the contribution of the Stability Law's spending rule to public finance sustainability. Furthermore, Spain shall set up a consistent framework to ensure transparency and coordination of public procurement policy across all contracting authorities and entities with a view to guaranteeing economic efficiency and a high level of competition. Such framework shall include appropriate ex-ante and ex-post control mechanisms for public procurement to ensure efficiency and legal compliance.

On 13 July 2018, the Council addressed recommendations to Spain in the context of the European Semester. In particular, in the area of public finances, the Council recommended that Spain ensures compliance with Council Decision (EU) 2017/984 giving notice under the excessive deficit procedure, including through measures to enforce the fiscal and public procurement frameworks at all levels of government. Thereafter, ensure that the nominal growth rate of net primary government expenditure does not exceed 0.6 % in 2019, corresponding to an annual structural adjustment of 0.65 % of GDP. Use windfall gains to accelerate the reduction of the general government debt ratio.

4.1. Compliance with EDP recommendations

After achieving the headline deficit target of 3.1 % of GDP in 2017 as required by the Council decision of August 2016, the Commission 2018 autumn forecast projects that the headline deficit target of 2.2 % of GDP for 2018 will not be fulfilled. However, at 2.7 % of GDP, the headline deficit is forecast to be below the Treaty reference value of 3.0%, in line with the deadline set by the Council. The Council decision requires Spain to improve the structural balance by 0.5 percentage points in 2018. Instead, the Commission 2018 autumn forecast projects a widening of the structural deficit in 2018 of 0.2 percentage points. Correcting for the change in the estimated potential growth between the projections underlying the Council decision and the Commission 2018 autumn forecast, as well as revenue windfalls projected for 2018 compared to the Council decision, the estimated change in the structural balance was -0.7 percentage points. On a cumulative basis over 2016-2018, the estimated gap with the requirement amounts to 1.2% of GDP when measured against the unadjusted change in the structural balance, and to 1.4% of GDP when adjusted. The bottom-up estimate of the fiscal effort falls short of the requirement by 1.3% of GDP over 2016-18.

Table 5. Compliance with the EDP recommendation

(% of GDP)	2017	2018	
	COM	**DBP**	**COM**
Headline balance			
Headline budget balance	-3.1	-2.7	-2.7
EDP requirement on the budget balance	-3.1	-2.2	
Fiscal effort - change in the structural balance			
Change in the structural balance[1]	0.4	-0.1	-0.2
Cumulative change[2]	-0.4	-0.5	-0.6
Required change from the EDP recommendation	0.5	0.5	
Cumulative required change from the EDP recommendation	0.1	0.6	
Fiscal effort - adjusted change in the structural balance			
Adjusted change in the structural balance[3]	0.3	-	-0.7
of which: *correction due to change in potential GDP estimation (α)*	-0.1	-	-0.1
correction due to revenue windfalls/shortfalls (β)	-0.1	-	0.4
Cumulative adjusted change [2]	-0.1	-	-0.8
Required change from the EDP recommendation	0.5	0.5	
Cumulative required change from the EDP recommendation	0.1	0.6	
Fiscal effort - calculated on the basis of measures (bottom-up approach)			
Fiscal effort (bottom-up)[4]	0.3	-	-0.9
Cumulative fiscal effort (bottom-up)[2]	0.6	-	-0.3
Requirement from the EDP recommendation	0.5	0.5	
Cumulative requirement from the EDP recommendation	0.5	1.0	

Notes

[1] Structural balance = cyclically-adjusted general government balance excluding one-off measures. Structural balance based on DBP is recalculated by the Commission on the basis of the Draft Budgetary Plant scenario using the commonly agreed methodology. Change compared to t-1.

[2] Cumulated since the first year for correction in the lastest EDP recommendation.

[3] Change in the structural balance corrected for unanticipated revenue windfalls/shortfalls and changes in potential growth compared to the scenario underpinning the EDP recommendation.

[4] The estimated budgetary impact of the additional fiscal effort delivered on the basis of the discretionary revenue measures and the expenditure developments under the control of the government between the baseline scenario underpinning the EDP recommendation and the current forecast.

Source :

Draft Budgetary Plan for 2019 (DBP); Commission 2018 autumn forecast (COM); Commission calculations.

4.2. Compliance with the debt criterion

Assuming Spain corrects its excessive deficit by the 2018 deadline, Spain will enter a three-year (2019-2021) transition period, during which it should make sufficient progress (as defined by the minimum linear structural adjustment or MLSA) towards compliance with the debt reduction benchmark by the end of the transition period. According to the Commission 2018 autumn forecast, Spain is not expected to make sufficient progress towards compliance with the debt reduction benchmark in 2019. The change in the structural balance is expected to be 0.0% of GDP, which is 0.6% of GDP below the required adjustment.

Table 6. Compliance with the debt criterion*

	2017	2018			2019		
		SP	DBP	COM	SP	DBP	COM
Gross debt ratio	98.1	97.0	97.0	96.9	95.2	95.5	96.2
Structural adjustment [1]	0.4	0.4	-0.1	-0.2	0.4	0.4	0.0
To be compared to:							
Required adjustment [2]							0.6

Notes:

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

[2] Defines the remaining minimum 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 2018 (SP); Draft Budgetary Plan for 2019 (DBP); Commission 2018 autumn forecast (COM); Commission calculations

4.3. Adjustment towards the MTO

In 2019, Spain would be subject for the first time to the requirements of the SGP preventive arm. It will therefore need to ensure an appropriate adjustment path towards its MTO, defined as a balanced budget in structural terms. Taking into account the uncertainty surrounding the output gap estimates for Spain (see assessment in Box 2 of the Commission Assessment of the 2018 SP for Spain of 23 May 2018), the Council recommended Spain to ensure that the nominal growth rate of net primary government expenditure does not exceed 0.6% in 2019, corresponding to an annual structural adjustment of 0.65% of GDP.

The DBP targets a face-value growth rate of net primary expenditure of 1.7%, which would translate into a deviation of slightly less than 0.5% of GDP. However, based on a correct calculation, including also the net impact of one-offs, the growth rate implied by the DBP is 2.2%, which results in a deviation of 0.6% of GDP. The DBP plans an improvement in the (recalculated) structural balance of 0.4% of GDP.

According to the Commission 2018 autumn forecast, growth in nominal expenditure net of discretionary revenue measures and one-offs is forecast not to comply with the applicable benchmark rate of 0.6%. The gap is projected to reach -1.1% of GDP (see Table 7), thus pointing to a risk of significant deviation. The Commission projects the change in the structural balance to be close to zero, 0.6 % of GDP below the required improvement, which also points to a risk of significant deviation. The higher gap for the expenditure benchmark (relative to the structural balance indicator) is mostly due to the lower potential growth rate factored in in the expenditure benchmark calculations than in the structural balance; while the former uses as reference a 10-year moving average of annual potential growth estimates, including years with negative potential growth, the latter relies on an estimate of potential growth in 2019.

Following an overall assessment based on the Commission 2018 autumn forecast, the adjustment path towards the MTO points to a risk of a significant deviation from requirements of the preventive arm.

Box 3. Implementation of the "constrained judgement" approach and its impact on fiscal surveillance

The objective of the "constrained judgement" approach is to have a transparent and economically grounded tool to statistically test the plausibility of the output gap estimates for individual Member States estimated on the basis of the commonly agreed methodology. To this end, the Commission developed, in consultation with the Member States, an objective screening tool based on a set of cyclically relevant indicators as well as thresholds/ranges to signal cases when the outcomes of the common method could be interpreted as being subject to a large degree of uncertainty and therefore deserving of further investigation on the part of the Commission. In such cases, the Commission carries out an "in depth" analysis which could lead to the application of a "constrained" degree of judgement in conducting Member States' budgetary assessments.

The plausibility tool indicates that the output gap for 2018, estimated on the basis of the commonly agreed methodology, may be counterintuitive. Based on the Commission's autumn forecast, the tool provides a central value of -0.6% of potential GDP, significantly lower than the value of 1.0% obtained through the common methodology. Applying the same 1.6 percentage points of potential GDP difference in 2019, would lead to output gap estimates ranging from 0.2% to 1.8% of potential GDP. This different assessment could be related to the fact that Spain is still expected to record one of the highest unemployment rates in the EU in 2019 and the number of employed persons is forecast to still be almost one million below its pre-crisis peak in 2008. This should contribute to contain wage pressures, especially in the private sector, as well as inflation, which is projected to remain below 2%. The very high share of involuntary part-time work, temporary employees as well as in-work poverty are further signs that the remaining slack in the labour market could be larger than implied by the output gap estimated with the production function approach. Moreover, output gap estimations for 2019 provided by other national and international institutions vary greatly and are generally lower than the estimate based on the commonly agreed methodology.

The above-mentioned factors confirm that for Spain the output gap estimate based on the common methodology is subject to a high degree of uncertainty. An assessment was already carried out for Spain in spring 2018[10] which indicated that the output gap estimate for 2019 based on the common methodology was subject to a high degree of uncertainty. This has been

[10] https://ec.europa.eu/info/sites/info/files/economy-finance/09_es_sp_assessment_0.pdf

reflected in the 2018 Council recommendations which include an adjustment requirement of 0.65% of GDP for 2019, instead of the requirement of 1% of GDP.

Table 7: Compliance with the requirements of the preventive arm

(% of GDP)	**2019**	
Initial position[1]		
Medium-term objective (MTO)	0.0	
Structural balance[2] (COM)	-3.1	
Structural balance based on freezing (COM)	-	
Position vis-a -vis the MTO[3]	Not at MTO	
(% of GDP)	**2019**	
	DBP	**COM**
Structural balance pillar		
Required adjustment[4]	0.65	
Required adjustment corrected[5]	0.65	
Change in structural balance[6]	0.4	0.0
One-year deviation from the required adjustment [7]	-0.3	-0.6
Expenditure benchmark pillar		
Applicable reference rate[8]	0.6	
One-year deviation adjusted for one-offs [9]	-0.6	-1.1

Notes

[1] The most favourable level of the structural balance, measured as a percentage of GDP reached at the end of year t-1, between spring forecast (t-1) and the latest forecast, determines whether there is a need to adjust towards the MTO or not in year t. A margin of 0.25 percentage points (p.p.) is allowed in order to be evaluated as having reached the MTO.

[2] Structural balance = cyclically-adjusted government balance excluding one-off measures.

[3] Based on the relevant structural balance at year t-1.

[4] Based on the position vis-à-vis the MTO, the cyclical position and the debt level (See European Commission: Vade mecum on the Stability and Growth Pact, page 38.).

[5] Required adjustment corrected for the clauses, the possible margin to the MTO and the allowed deviation in case of overachievers.

[6] Change in the structural balance compared to year t-1.

[7] The difference of the change in the structural balance and the corrected required adjustment.

[8] 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 corrected rate applies as long as the country is adjusting towards its MTO, including in year t.

[9] Deviation of the growth rate of public expenditure net of discretionary revenue measures, revenue increases mandated by law and one-offs from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

Source :

Draft Budgetary Plan for 2019 (DBP); Commission 2018 autumn forecast (COM); Commission calculations.

5. COMPOSITION OF PUBLIC FINANCES AND IMPLEMENTATION OF FISCAL STRUCTURAL REFORMS

Implementation of fiscal structural reforms

The Council Decision of 8 August 2016 required Spain to strengthen its fiscal framework, in particular by increasing the automaticity of mechanisms to prevent and correct deviations from the deficit, debt and expenditure targets and strengthening the contribution of the Stability Law's spending rule to public finance sustainability.

However, the 2019 DBP does not report any new measures to enhance the automaticity of the mechanisms to prevent and correct deviations from the fiscal targets. Neither does it include measures to review the Stability Law’s expenditure rule to strengthen its contribution to fiscal consolidation[11] and given Spain’s likely transition to the preventive arm of the SGP in the near future, remove inconsistencies with the SGP expenditure benchmark and setting criteria to allocate the maximum rate of net expenditure growth across levels of government.

The Council notice of 8 August 2016 also required Spain to strengthen its public procurement policy framework, in particular, to include appropriate ex-ante and ex-post control mechanisms for public procurement to ensure efficiency and legal compliance. Law 9/2017, on public sector contracts, in force since 9 March 2018, sets out a new structure governing Spain’s public procurement and an obligation to set out a nation-wide public procurement strategy, to among other things, combat corruption, improve professionalism and promote economic efficiency. The implementation of the new governance structure is ongoing. The President of the new Independent Office for Regulation and Supervision was appointed in July 2018. However, while the Office enjoys organic and functional independence, the existing setup, such as the low administrative ranking of its president in Spain’s public administration, could undermine her influence on other institutions involved dealing with public procurement. Moreover, the drawing up and adoption of the Procurement Strategy is delayed.

Lastly, on 11 July 2017, the Council, upon recommendation by the Commission, recommended Spain to undertake a comprehensive expenditure review in order to identify possible areas for improving spending efficiency. The review is expected to be completed by early 2019.

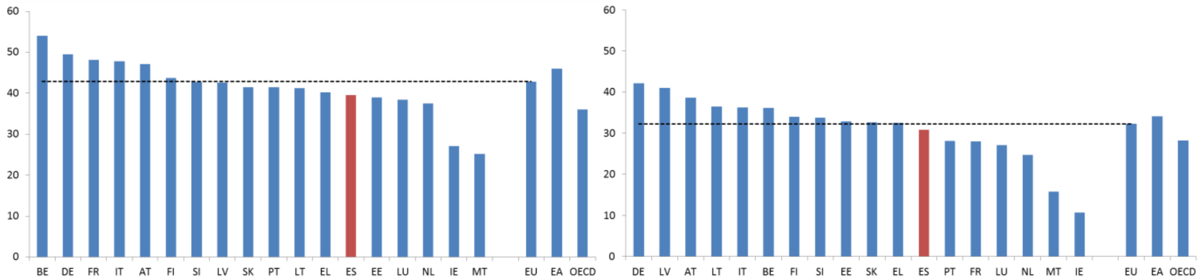
[11] As noted in previous assessments of the DBP, Spain’s expenditure rule could be strengthened by broadening its scope (to include the general government), by calling on non-compliant public administrations to make up for spending slippages after their occurrence and by setting the reference rate of growth of eligible expenditure in due consideration of whether Spain has reached the MTO or not.

Box 4 – Addressing the tax burden on labour in the euro area

The tax burden on labour in the euro area is relatively high, which weighs on economic activity and employment. Against this background, the Eurogroup has expressed a commitment to reduce the tax burden on labour. On 12 September 2015, the Eurogroup agreed to benchmark euro area Member States' tax burden on labour against the GDP-weighted EU average, relying in the first instance on indicators measuring the tax wedge on labour for a single worker at average wage and a single worker at low wage. It also agreed to relate these numbers to the OECD average for purposes of broader comparability.

The tax wedge on labour measures the difference between the total labour costs to employ a worker and the worker’s net earnings. It is made up of personal income taxes and employer and employee social security contributions. The higher the tax wedge, the higher the disincentives to take up work or hire new staff. The graphs below show the tax wedge in Spain for a single worker earning respectively the average wage and a low wage (50% of the average) compared to the EU average.

The tax burden on labour in Spain at the average wage (left) and at low wage (right) – 2016



Notes: No recent data is available for Cyprus. EU and EA averages are GDP-weighted. The OECD average is not weighted.
Source: European Commission Tax and Benefit Indicator database based on OECD data.

Benchmarking is only the first step in the process towards firm, country-specific policy conclusions. The tax burden on labour interacts with a wide variety of other policy elements such as the benefit system and the wage-setting system. A good employment performance indicates that the need to reduce labour taxation may be less urgent while fiscal constraints can dictate that labour tax cuts should be fully offset by other revenue-enhancing or expenditure-reducing measures. In-depth, country-specific analysis is necessary before drawing policy conclusions.

Spain's DBP contains the following measures that affect the tax wedge on labour:

- Increased personal income tax rate for high wage earners at a budgetary cost of slightly more than EUR 300 million, which corresponds to about a quarter of a decimal point of GDP.
- A 21% increase of the minimum wage is expected to lead to an automatic increase in the minimum bases for social contributions also for groups not being paid the minimum wage. The DBP quantifies the extra revenues stemming from the rise in the minimum wage at EUR 1.5 billion (0.1% of GDP), but this amount also includes the second-round effect on social security revenues from workers currently being paid the minimum wage and who will be receiving a higher wage as a result.

These tax increases forms part of the package of measures presented in the DBP and so contribute to financing the additional expenditure included therein and the planned structural reduction of the deficit. The EUR 1.5 billion additional revenue estimate does not include the impact on the self-employed currently paying a minimum social contribution linked to the minimum wage, as the government is considering to reform the parameters of the social contribution system for that group. There are also plans to raise the maximum contribution base, not yet included in the DBP. Were these measures finally to be adopted, their overall immediate and medium-term impacts would need to be carefully assessed, but it is likely they would result in additional revenues.

6. OVERALL CONCLUSION

Based on the Commission 2018 autumn forecast, Spain is expected to achieve a headline deficit of 2.7% of GDP in 2018, which is above the required target of 2.2% of GDP. Spain is also expected to miss all the fiscal effort targets, both regarding 2018 and accumulated for the period 2016-2018. However, since the headline deficit is expected to be below the reference rate of 3.0% of GDP in 2018 and to continue declining in both 2019 and 2020, Spain is currently expected to correct the excessive deficit in a durable manner by the 2018 deadline set by the Council. In that case, Spain will be subject to the preventive arm of the Stability and Growth Pact from 2019 onwards and to the transition period as regards compliance with the debt criterion as from 2019.

Overall, the Commission is of the opinion that the Draft Budgetary Plan of Spain for 2019 is at risk of non-compliance with the provisions of the Stability and Growth Pact. In particular, the Commission assessment points to a risk of significant deviation from the recommended adjustment path to Spain's medium term objective. This follows from both the expenditure benchmark and the structural effort indicators. Moreover, Spain is not expected to make sufficient progress towards compliance with the debt reduction benchmark.

The Commission is also of the opinion that Spain has made limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 13 July 2018 in the context of the European Semester, relating to the fiscal framework and public procurement. On the former, the updated DBP is silent about the review of the Stability Law's spending rule. It does not report either on measures to enhance the automaticity of the Stability Law's mechanisms to prevent and correct deviations from the fiscal targets. On the latter, the new law on public sector procurement can improve public procurement practices in Spain, but much of its success in doing so will depend on the ambition of decisions taken at the time of its implementation.

ANNEX. EDP RELATED TABLES

Table A1. Forecast of key macroeconomic and budgetary variables under the baseline scenario

		2015	2016	2017	2018
Real GDP growth	%	3.2	2.9	2.3	2.1
Nominal GDP growth	%	3.8	3.4	3.6	3.6
Potential GDP growth	%	0.0	0.4	0.7	0.9
Structural balance	% of pot. GDP	-2.7	-3.1	-3.2	-3.2
General government balance	% of GDP	-5.1	-4.6	-3.3	-2.7
Change in structural balance	% of pot. GDP	-0.9	-0.4	-0.1	0.0
p.m. Output Gap	% of pot. GDP	-4.0	-1.7	-0.2	0.9
Source: Commission Staff Working Document accompanying the Decision to give notice to Spain.					

Table A2. Forecast of key macroeconomic and budgetary variables under the EDP scenario

		2015	2016	2017	2018
Real GDP growth	%	3.2	2.9	1.7	1.5
Nominal GDP growth	%	3.8	3.4	3.1	3.0
Potential GDP growth	%	0.0	0.4	0.7	0.9
Structural balance	% of pot. GDP	-2.7	-3.1	-2.6	-2.1
General government balance	% of GDP	-5.1	-4.6	-3.1	-2.2
Change in structural balance	% of pot. GDP	-0.9	-0.4	0.5	0.5
p.m. Output Gap	% of pot. GDP	-4.0	-1.7	-0.8	-0.1
Source: Commission Staff Working Document accompanying the Decision to give notice to Spain.					

Table A3. Current estimates of the macroeconomic and fiscal developments

		2015	2016	2017	2018
Real GDP growth	%	3.6	3.2	3.0	2.6
Nominal GDP growth	%	4.2	3.5	4.3	4.0
Potential GDP growth	%	0.8	0.8	1.1	1.3
Structural balance	% of pot. GDP	-2.6	-3.3	-2.9	-3.1
General government balance	% of GDP	-5.3	-4.5	-3.1	-2.7
Change in structural balance	% of pot. GDP	-0.9	-0.8	0.4	-0.2
p.m. Output Gap	% of pot. GDP	-4.5	-2.2	-0.4	1.0
Source: Commission 2018 Autumn Forecast					

Table A4. Adjustment of apparent structural effort for the revision in potential growth - details of calculations

ES	Potential GDP growth underlying the 2016 Council decision to give notice (%)	Potential GDP growth at the time of assessment (%)	Forecast error (%)	Structural expenditure (% of potential GDP)	Correction coefficient α (% of nominal potential GDP)
	(1)	(2)	(3)=(1)-(2)	(4)	(5)=(3)*(4)/100
2016	0.4	0.8	-0.3	41.0	-0.1
2017	0.7	1.1	-0.3	40.7	-0.1
2018	0.9	1.3	-0.3	40.8	-0.1

Table A5. Adjustment of apparent structural effort for the expected revenue windfalls/shortfalls - details of calculations

ES	Change in current revenues (yoy) (billions)		Discretionary current revenue measures (billions)		Nominal GDP growth assumptions (%)		Change in output gap		Current revenues in year t-1 (billions)		Revenue gap (billions)*	Nominal GDP	Correction coefficient β (% of nominal GDP)
	notice (1)	assessment (1')	notice (2)	assessment (2')	notice (3)	assessment (3')	notice (4)	assessment (4')	notice (5)	assessment (5')	(6)=[(1')-(2')-[(3')+(ε-1)*(4')/100]*(5')]-[(1)-(2)-[(3)+(ε-1)*(4)/100]*(5)]	assessment (7)	(8)=100*(6)/(7)
2016	4.1	8.2	-8.0	0.8	3.4	3.5	0.0	0.0	407.1	409.0	-7.2	1118.7	-0.6
2017	23.8	19.8	5.5	-0.6	3.6	4.3	0.0	0.0	411.1	417.1	2.3	1166.3	0.2
2018	16.0	21.7	0.2	-0.4	3.6	4.0	0.0	0.0	434.9	436.9	4.6	1212.7	0.4

Table A6. Forecast of key variables for the computation of the fiscal effort under the baseline scenario

			2016	2017	2018
Enters top-down	α	*Structural expenditure (% of potential GDP)*	*41.08*	*41.37*	*41.39*
		Potential GDP growth (%)	*0.45*	*0.72*	*0.9*
	β	*Current revenue (national currency)*	*411.13*	*434.88*	*450.87*
		Discretionary measures wih impact on current revenue (national currency)	*-8.04*	*5.53*	*0.19*
		Nominal GDP growth (%)	*3.4*	*3.63*	*3.56*
		p.m Output gap (% of Pot. Output)	*-1.73*	*-0.23*	*0.92*
Enters bottom-up		*Discretionary measures wih impact on total revenue net of one-offs and other temporary measures (national currency)*	*-2.75*	*5.52*	*0.19*
		Total expenditure net of one-offs and other temporary measures (national currency)	*469.48*	*480.62*	*490.7*
		Interest expenditure (national currency)	*31.47*	*30.52*	*29.61*
		Total unemployment	*4542.96*	*4136.8*	*3765.64*

Source: Commission Staff Working Document accompanying the Decision to give notice to Spain.