2016
GROWTH STRATEGY
SPAIN

A. Economic Objective and Context

The ambitious reform agenda launched in recent years in response to the crisis has successfully transformed the economy, restored credibility in the Spanish economy and has earned the confidence of international markets. The economy has increased its efficiency is now more flexible and better able to compete internationally. Solid growth is leading employment creation in the euro area. These developments are underpinned by a sound fiscal consolidation effort, the successful restructuring of the financial sector and the strong commitment to implement a targeted package of structural reforms.

GDP in Spain grew by a robust 3.2% in 2015, significantly above the euro area average, and the Government projection for 2016 is of a growth rate of 2.9%. This growth is also more balanced; its more dynamic components are investment in capital goods and exports of goods and services. The economy is set to continue expanding going forward mainly driven by domestic demand, primarily investment followed by private consumption. Stronger broad-based activity is being translated into job creation, with an enhanced responsiveness of employment to growth as result of the flexibility added by the labour market reform, which was pivotal to the process of correcting imbalances.

Domestic demand is supported by improving labour market conditions, better access to credit and enhanced confidence, a growth friendly fiscal stance and the positive impact of the tax reform. The increase in disposable income allows households to increase their savings rate. Investment growth forecasts, particularly in equipment but also in construction activities, are positive, underpinned by domestic demand, supporting financing conditions and export growth prospects for next year.

Monetary policy measures, together with progress in European Monetary Union governance, also favourably impacted financing conditions.

Banks have ample access to liquidity, and their solvency and the quality of their assets have further strengthened. The stabilization of the financial sector continues facilitated by low funding costs and the strength of the economic recovery. The deleveraging of households and firms is advanced and ongoing, making it compatible with increases in investment and consumption, again supported by favourable growth conditions and steadily improving employment. New bank lending to households and investors with potential profitable projects, mainly in the tradable sector and also to SMEs, continues to grow, and supports economic activity.

Several legal reforms to ensure budget discipline and sustainability facilitated the fiscal adjustment of recent years, the bulk of which was made through a severe economic recession and under difficult past financial market conditions. The fiscal stance during 2015 was more expansive but deficit continues to narrow mainly due to the economic recovery sustaining tax revenues. The government debt to GDP ratio has stabilized and started a descending trend in 2015. The government has recently taken action to reinforce its commitment to fiscal consolidation and with a view to fulfilling fiscal targets by all tiers of government.

The performance of the external sector in recent years has been remarkable due to improved competitiveness. The current account balance has recorded a surplus during the past three years accelerating the rebalancing of the economy and is expected to remain positive. The Spanish economy continues to attract foreign capital flows, both direct and portfolio investment. Notwithstanding the sluggishness of international trade and moderate global growth, exports of goods and services have been a key driver, gaining market share owing to improvements in cost competitiveness and market diversification. Some external factors like a relative weakness of the euro and a reduced cost of energy also contributed positively.

Reforms in the labour market, policies to foster competition in the product markets, the restructuring of the financial system, institutional improvements, better public finances, or a more efficient public sector, had an evident differential positive growth effect in the Spanish economy. The impact of the reform-led adjustment was demonstrated at an early stage, simultaneously interacting and allowing a comparatively stronger impulse to our economy, and is still fostering a strong recovery.

In spite of this firm recovery and the swift correction of some of the imbalances that built up in the expansionary years previous to the crisis and in the early years of the crisis, further reforms need to address remaining challenges and support economic growth and job creation. To ensure a strong, sustainable, balanced and more inclusive growth with more and higher quality employment, and improving total productivity, it is paramount to persevere with the process of structural reforms, monitoring the implementation of ongoing reforms and designing new reforms, including those aimed at strengthening the quality of institutions.

While being the main contributor to employment creation in the euro area since 2014, Spain should still reduce the structural unemployment rate and solve the duality in its labour market. The process of fiscal consolidation must be completed within the framework of European Union fiscal governance commitments (exit the Excessive Deficit Procedure by 2017), and the regional financing system be revised. The deleveraging process is set to continue while maintaining public debt in a descending trend. Competitiveness gains must be maintained and the net international investment position needs to continue its rebalancing. In the field of markets of goods and services, more progress must be done in adapting national and regional regulations to eliminate unjustified burdens and barriers, and to strengthen the cooperation mechanisms among administrations. It is also necessary to improve the environment for Spanish companies to develop their activities and to increase the participation of R&D in the generation of wealth and welfare in Spain.

B. Macroeconomic Policy Actions to Support Growth

Spain is the fourth largest economy in the euro area. The EU Growth Strategy update presents the monetary and exchange rate framework applicable in Spain, as a member of the euro area.

Spain held general parliamentary elections in December 2015. Following failed negotiations, new elections were held in June 2016 and political parties are at present negotiating to form a government. At the time of presenting this Growth Strategy Update Spain has a caretaker government, which is subject to constitutional limitations.

A budget for 2016 was approved before the end of the year, but the fiscal strategy laid out in the fiscal plans for the years 2016-2019 is that of the caretaker government. The fiscal plan is presented in the Stability Programme document and is based on economic governance rules under the Stability and Growth Pact within the European Union, which has fiscal discipline as a pivotal element of macroeconomic stability.

The Stability Programme Update (SPU) 2016-2019 (in Spanish) can be found at:
http://www.lamoncloa.gob.es/consejodeministros/Documents/Programa%20Estabilidadtexto.pdf
An English translation of the Stability Programme Update can be found at:
http://www.thespanisheconomy.com/stfls/tse/ficheros/2016/Stability_Programme_2016_2019.pdfA fiscal reform was implemented during 2015 and 2016 in Spain. The overall objective of the reform was to incentivize economic growth and employment, by revising the composition of revenue to reduce the tax burden on economic agents and promote employment, consumption and investment. The tax reform has been neutral in terms of public deficit in spite of reducing direct taxes (on personal and corporate income) thanks to increases in indirect taxation income and to expanding the tax base. Overall, the reform is having an expansionary impact on domestic demand and growth.

Spain has made a nominal deficit reduction of 4.3 p.p. of GDP in the period 2012-2015, against the backdrop of a severe recession, in a context of lower-than-expected inflation, with all levels of government contributing to the fiscal adjustment. More than 80% of this reduction (3.5 p.p.) is a structural effort, meaning a permanent correction. On the composition of expenditure, a differential adjustment in spending policies was applied to preserve social spending, in the specific difficult context of the labor market and growth in the number of pensioners, and health and education spending, now at pre-crisis levels. At the same time the reform of the public administration consists in a thorough revision of public spending efficiency. The fiscal deficit for 2015 reached 5% of GDP, above the initially projected 4.2%. Measures adopted to contain slippage in regional finances where the deviation in 2015 deficit figures were concentrated, include coercive, corrective and preventive measures, and enhanced conditionality applied to regions seeking the assistance of existing liquidity funds.

The fiscal strategy for the period 2006-19 continues the process of gradual consolidation[1]. In 2016, fiscal policy is oriented towards responsible and growth friendly straightening of public finances.

Growth in government consumption in real terms will be maintained below the economy´s GDP overall growth, with expenditure containment supported by increased efficiency. Expenditure in gross fixed capital formation will grow in 2016 directed to maintaining previous investments and to new financially sound investments.

The macroeconomic scenario 2016-2019 includes a gradual decline in the ratio of public debt to GDP, supported by economic growth and the favourable outcome of the primary budget balance, low interest rates and inflation. In terms of income and expenditure, the strategy aims at maintaining a ratio of income to GDP slightly above 38% of GDP, with a rising trend in the period, and a descending rate in the expenditure ratio to GDP from 43.2% to 40.1% in 2019.

C. Structural Reform Priorities

C1. Implementation of Past Growth Strategy Commitments

Details on implementation are provided in annex 1.
Spain reports extensively on measures taken during the last year in the 2016 National Reform Programme (NRP): http://www.lamoncloa.gob.es/consejodeministros/Documents/PNR%202016%20-%20SPAIN.PDF which has been almost fully implemented. The NRP 2016 shows the high level of compliance with the commitments assumed to complete the structural reform agenda planned for the past four years to modernize the economy.

C2. New Structural Reform Measures

Details of these new high-impact policy commitments are included in the tables in Annex 2.
At the time of presenting this draft Growth Strategy Update Spain has a caretaker government, which is subject to constitutional limitations. A budget for 2016 was approved before the end of the year. Actions outlined below are thus some of the main measures that in the opinion of the caretaker government should be adopted in the near future to continue the reform agenda of the last four years in order to maintain the current pace in growth and job creation.

The Spanish National Reform Programme (NRP) 2016 (in Spanish) can be read at:
http://www.lamoncloa.gob.es/consejodeministros/Documents/PNR%202016%20-%20

[1] Fiscal data included in Annex 3 and Annex 5 are the latest official data published in the Stability Programme Update 2016-19. Since then, a new macroeconomic scenario has been updated in July 29, and the Council of the European Union took a Decision (August 8) to postpone the end to the excessive deficit situation by 2018. Fiscal consolidation measures must secure a lasting improvement to the government's budgetary balance in a manner conducive to economic growth. A new Budget shall be prepared by the incoming Government for approval by the Parliament.

SPAIN.PDF
An executive summary in English of the NRP can be found at: http://www.thespanisheconomy.com/stfls/tse/ficheros/2016/Executive_Summary_PNR_2016.pdf

Trade

Spain needs to maintain a balanced growth, increase its export competitiveness, and benefit from open markets and a stable trade and investment international framework. Notwithstanding a weak and gradual recovery in world trade, rapid growth in international trade and foreign investments in recent years has made Spain one of the most internationally-oriented countries globally. The weight of exports of goods and services in GDP has increased from 22.7% in 2009 to 33.1% by 2015, growing at a faster pace than export markets and in line with the number of Spanish regular exporter firms. International tourist arrivals reach historical high levels; export of other services is expanding at notable growth rates. As regards investment, Spain is one of the main recipients of investment worldwide and one of the main foreign direct investors. GDP growth is not linked to current account deficits as in previous growth cycles. The last four years the current and capital balance with the rest of the world ended in surplus. In 2015 the NIIP improved led by the private sector, and it will continue to be supported by primary current account surpluses and favorable GDP growth. Further advances in structural reforms may foster significant additional reductions in debtor NIIP by increasing external competitiveness, including a better regulation and business climate that promote firm growth and increase internationalization.

Competition

More progress towards market unity is essential. Markets need to function efficiently and in an integrated manner without unjustified barriers to facilitate growth and employment to its full potential. All regulations must be implemented to eliminate unjustified burdens and barriers, including by strengthening the cooperation mechanisms among administrations in adapting to national and regional regulations.

It is also necessary to increase competition in certain product and service markets to avoid distortions in the price-setting process. The objective is to create a friendly environment for entrepreneurial activity. This also requires measures to stimulate business competitiveness, including the reinforcement of infrastructure planning in the medium to long term including a rigorous evaluation of cost-benefit and value for new investments; improving digital connectivity and extending high capacity networks; guaranteeing an efficient and sustainable functioning of our energy system also safeguarding its financial stability; and making the financial sector more efficient and competitive, ensuring financial regulation follow the highest international standards.

Competiveness of firms and economic sectors rely on their access to competitive inputs, but also on their capacity to innovate. Research, development and innovation are the foundation for long term growth, and thus for job creation and productivity and competitiveness gains. Hence, further efforts are needed to increase the participation of R&D&I in the generation of wealth and welfare in Spain. They will be further promoted along the lines of the Spanish Strategy on Science, Technology and Innovation 2013-2020 and the National Plan for Scientific and Technical research and Innovation 2013-2016, fostering efficiency and effectiveness in the use of public resources, as well as higher participation of private investments, and establishing effective mechanisms of collaboration.

In addition to the promotion of innovation, the policy agenda ought to ensure the sustainability and competitiveness of the economic model through the horizontal introduction of environmental considerations. Thus, the caretaker government considers a priority approving a Law on Climate Change. This legal instrument should encompass measures to ensure compliance with our objectives and international commitments in the fields of emissions reduction, energy interconnection and renewable energy use, and energy efficiency.

Employment

Employment creation is still the main priority. Spain is registering record levels of job creation in the last three years, with a strong recovery in open-ended contracts, and less reliance on temporary contracts, proving the positive impact of the labour market reform; and has maintained the high level of social protection. Access to more and better quality jobs is the most effective means to promote inclusive growth. More reforms are needed to further stimulate open-ended employment contracts by reforming social contributions; making employment compatible with benefits entitlements; strengthening the Central Public Employment Service; and promote more effective solutions in education and skills policies. Special mention must be made to active employment policies, which will take profit of modern techniques of individualized support, labour orientation, training and placement. Moreover, these policies must be evaluated to guarantee their maximum effectiveness in labour integration.

Measures are needed in the pensions system in order to further guarantee its sustainability and its high level of protection. Also at the social protection level, together with other social security benefits and transfers, free public health and education services, multiannual plans already approved for the attention of specific groups will continue to be implemented, such as the Integral Plan for Support to Families 2015-2017 or the National Integral Strategy for Homeless People 2015-2020. The results oriented Annual Employment Policy Plan was approved in August 2016, with emphasis on ameliorating the employability of young and the long term unemployed, also improving the quality of training to better match workers with jobs.

Other Productivity Enhancing Measures

On the fiscal framework, the financing system of the Regions needs a revision to ensure fairness to all citizens in their access to basic services, irrespective of their region of residence. An independent experts committee will be created in parallel to the working group of the Council on Fiscal and Financial Policies. Efforts in the fight against tax fraud and tax evasion should be maintained and even intensified.

The reform of Public Administrations will be complemented by a firm promotion of e-administration and digital transformation, as a strategic component of the Public Administrations reform. Implementation and development of the Central Administration Digital Transformation Plan will have a central role in this strategy, as well as measures to favor mutual assistance in e-administration solutions among public administrations.

The European Union and the single market constitute fundamental spheres of action for economic policy. This is of particular importance for euro countries participating in the European Monetary Union (EMU), which requires two conditions to ensure an efficient and balanced functioning: flexible and integrated markets to foster internal adjustment mechanisms and promote economic cycle convergence; and a stable fiscal framework that averts currency pressures and incorporates correcting mechanisms for the asymmetric effects of cycles.

In this scenario, reforms at the European level are indispensable to join reforms carried out by Member States. That is, fiscal responsibility and structural reforms at the national level must go hand in hand with sufficient mechanisms at EMU level to correct asymmetric cyclical situations within the Union.

In this spirit, Spain actively participates in the European debates on institutional architecture of the Union. The Spanish proposal is based on fostering advances in three main areas: (1) a deeper and efficient internal market, with higher labor mobility; (2) better coordination of economic policy to promote a European orientation of its objectives, while ensuring respect to national competences and the subsidiarity principle. Therefore, Spain proposes the establishment of a convergence process similar in inspiration to the Maastricht process that led to the adoption of the single currency; and (3) greater fiscal integration, which implies, in the long run, a single fiscal authority and a single budget with debt emission capacity for the Eurozone. In the short term, advances in fiscal harmonization and the fight against tax fraud are essential. All these reforms should be accompanied by steps towards greater political integration to ensure democratic legitimacy of the decision making process.

D. Investment Addendum

Details of these new high-impact policy commitments should be included in the tables in Annex 2.

Spain has implemented almost every measure included in its Brisbane and Antalya growth strategy, as well in its 2015 Investment Strategy. Regarding actions to improve investment ecosystem, Spain has implemented important and deep reforms to preserve macroeconomic stability and to build up market confidence, particularly a major tax reform, an ambitious revision of the Spanish public sector, or the programme on market unity.

As for infrastructure, the Infrastructure, Transport and Housing Plan, PITVI, 2012-2024 is accomplishing its short and mediums targets in order to achieve its primary goal: to complete the main structuring transport axes to strengthen the intermodal connections and to provide certain strategic infrastructures. Apart from PITVI, other plans such as the National Energy Efficiency Fund or the new model for urban water management are being implemented to improve the basic infrastructures and energy efficiency. Spain has also enhanced energy interconnections by agreeing in March 2015 a series of measures to attain a fully functioning and interconnected EU internal energy market, in particular cross-border interconnections of the electricity and gas networks. Moreover, new laws namely the Law on the Railway Sector, the Law on Road Infrastructures or the law on Public Administration and Common Administrative Procedure have been adopted to increase the efficiency in the provision of infrastructures.

Concerning SMEs, Spain has implemented several and ambitious measures in order to boost SME's investment mainly by diversifying the financing sources of SMEs and improving the venture capital framework to promote alternative financing channels to bank as well as reducing credit constraints.

Moreover, Spain has approved several laws to improve insolvency and pre-insolvency regulations and implemented several actions to remove regulatory barriers that discourage business growth. Apart from the above mentioned reforms, the Spanish NDB, ICO (Instituto de Crédito Oficial) has provided loans or capital and quasi-capital instruments to enhance investment opportunities of Spanish enterprises, particularly SMEs.

As a result, one of the most dynamic components of the Spanish economy is currently investment in capital goods. Besides that, the improvement in investment ecosystem has spurred foreign investment, both direct and portfolio investment. According to date from the Register of Foreign Investments, productive investment grew at an 11% rate in 2015 and exceeded 21.7000 million euro, which constitutes the fifth highest volume since 2000.

The caretaker government considers that further reforms are necessary in order to continue to spur investment in Spain. In this regard, several measures should be implemented in order to improve the functioning of the markets of goods and services in order to achieve more efficient and fully integrated markets and to create a friendlier environment for companies to develop their activities. To this end, further progress on Market Unity is needed as well as new measures to stimulate business competitiveness, including the reinforcement of infrastructure planning, improving digital connectivity, ensuring an efficient and sustainable functioning in Spanish energy system and making the financial sector more efficient and competitive. Additionally, policies for entrepreneurship promotion and SMEs support should be further developed. In this field, it is necessary to remove obstacles to SMEs growth, promote the use of the newly approved second chance mechanisms, facilitate access to finance including alternative non-banking financing mechanisms or crowdfunding, and stimulate business internationalization. Furthermore, Spain should continue to participate actively in the Investment Plan for Europe, in order to increase the number of Spanish projects involved, especially in the fields of energy interconnections, climate change, water management, energy efficiency and digital economy.

Annex 1. Past commitment – Brisbane and Antalya commitments

The purpose of these tables is to monitor the implementation of members' previous commitments.

Brisbane and Antalya Key Commitments for Monitoring Purposes

• **The policy action:**	Implementation of the fiscal and tax reform measures to promote growth and employment creation		
This measure was included in the Brisbane growth strategy. **Detailed implementation path and status**	Interim Steps for Implementation	Deadline	Status
	The Fiscal Reform seeks to reduce taxes for all: workers, companies and families and also to strengthen economic growth by stimulating savings and investment through a modern tax system that fosters job creation. 1 – Law 26/2014 of Personal Income Tax and Non-resident Income Tax 2 – Law 27/2014 of Corporate Income Tax 3 – Fine tuning measures in Value Added Tax and excise duties in Law 28/2014 4 – RDL 9/2015 on urgent measures to reduce the fiscal burden on PIT	Fiscal reform was approved in 2014 and entered into force in January 2015 as indicated in the Growth Strategy; regulations have been adapted.	Progressive reduction of tax rates in 2015 and 2016. The monitoring of the 2016 budget implementation strengthened, in particular at the regional level to enable preventive and corrective measures, if necessary All measures currently under implementation.
Impact of Measure	Simplification of the system and making it more conducive to economic growth and job creation by: reducing the tax wage on labour, via personal income tax (PIT), reduction in social contributions, and reduction of withholding taxes to self-employed; and reducing the tax wedge on capital, in the Corporate Income Tax. Measures to support self-employment. Incentivize industrial activity, investment in R+D+I, and cultural activities. Shifting taxation towards consumption (VAT) and investment. Shifting taxation against environmental damaging activities. Provide		

	stability of revenue. Widen the tax base. Additional GDP and employment in 2016 is estimated by the REMS model at 0.57% and 0.53%. The impact of the fiscal reform on growth in the long run (10 years) will result in a GDP increase of 1.22%, and aim at reducing tax impact on growth in the medium run, through consumption and investment, and will contribute to job creation (0,63 % in 10 years). The accumulated effect on gross capital formation is estimated at 1.83% in ten years.

• **The policy action:**	Advance in the deleveraging process. Facilitating the refinancing and restructuring of corporate debt to help companies experiencing temporary illiquidity. Fostering pre-insolvency negotiation and agreements.		
This measure was included in the Brisbane growth strategy. **Detailed implementation path and status**	Interim Steps for Implementation	Deadline	Status
	1 –Measures aimed at refinancing and restructuring of corporate debt. 2 – Revamping of the bankruptcy Law. 3 –Measures to promote corporate financing. To facilitate access to banking credit for SMEs and to set the grounds so that direct funding can have a more important role in the medium term.	1 –Royal Decree-Law RDL 4/2014 2 – Royal Decree-Law 11/2014. 3 –Law 5/2015 on promoting corporate finance	All measures have already been adopted.
Impact of Measure	1. The main purpose of RDL 4/2014 on urgent matters in relation to Refinancing agreements and Debt Restructuring is to amend the previous Insolvency Law, in order to ease the successful completion of refinancing and debt restructuring processes. The measures aim at fostering pre-insolvency agreements and the preservation of the value of viable but over-indebted corporations. In 2015, out-of-court agreements on payments amounted to 398 and this figure is increasing while judicially-approved refinancing agreements amounted to 94, tripling the figure of 2014		

	2. Measures on the revamping of the Bankruptcy Law improve the features of insolvency agreements and facilitate the transmission of productive units and businesses as a going concern when liquidating a firm (Royal Decree-Law 11/2014). Insolvency agreements are enhanced by introducing four creditor classes, setting new rules to quantify the value of guarantees and improving majority schemes. RDL 4/2014 and Law 11/2014 on Insolvency impact on growth is estimated with the REMS model to result in a 1.02% higher GDP and 0.58% higher employment level in ten years´ time. 3. Law 5/2015 to promote corporate financing includes a set of measures to diversify the sources of financing, facilitating access to banking credit as well as favouring the use of capital markets. By reducing credit restrictions and by increasing capital profitability the impact is estimated to increase GDP by 0.69% and employment by 0.22% in the long run (10 years). With regard to credit, it increases the level of information and efficiency of the credit system by obliging banks to inform SMEs whose credit line is being significantly reduced in advance and to provide them with a standardised document with their credit history. Besides, a specific legal regime for Financial Credit Establishments (EFC) is foreseen under the supervision of Bank of Spain, reinforcing their role as an alternative source of funding to traditional banks. Revision of the legal framework of securitization; enhance transparency requirements and guaranteeing the protection of the interests of the investors; ensure legal certainty by clarifying the applicable rules. Fostering the Alternative Stock Market by facilitating the transition for growing companies to the Stock Exchange (transparency requirements; rules on investor protection). In this sense, the Alternative Stock Market channeled €106m to small and medium enterprises in 2015. Total capitalization amounts to €1,811M with 34 firms Improvement on debt issuances. Limitations foreseen in the Company Law are eliminated in order to reduce Spanish firms' exposure to bank lending. Limited Liability Companies are allowed to issue bonds, subject to the existence of audited financial reports of the last two years. Leverage is limited to twice the amount of own resources. The limitation on leverage of Public Limited Companies is eliminated. Finally, homogeneous requirements on investor protection are established independently of the nationality

	of the company. Regulation on Crowdfunding. The main aim is to avoid legal uncertainty faced by the increasing number of platforms, mainly generated by the fact that the border between this activity and some regulated activities, such as investment services or payment services is blurred.

• **The policy action:**	Boost employment through regulatory reforms, improvement in training, matching in labour market and other active labour market policies (ALMPs).		
This measure was included in the Brisbane growth strategy. **Detailed implementation path and status**	Interim Steps for Implementation	Deadline	Status
	1 – 2014-2016 Employment Strategy approved September 2014. Annual Plan. Employment Activation Program RDL 1/2015. 2- RDL 16/2014 Extraordinary programme of employment activation for the long term unemployed. Extended in April 2016. 3 –Reform in in-job professional training. Royal Decree-Law 4/2015, and Law 30/2015. *Aims* at increasing the quality of training; a better coordination framework; a strategic planning in professional training; promote the creation of stable and quality employment; contribute to corporate competitiveness; provide employability and career development for workers; consolidate training and lifelong learning practices.	Implementation continues during 2016. The State contributed 1,543 M€ to implementing ALMP, adding to Regions own resources and EU Structural fund Resources.	The multiyear scenario provides a common framework for objectives and principles of action for public employment services. Policy guidance is based on compliance evaluation of results (70% of financing subject to indicators), determining the distribution of funds. The 2015 Annual Plan based on cooperation, common objectives; transparency and sharing of information. A common portfolio of services to all Regions has been defined. Preponderant weight to specific business training. Increased financial resources for the orientation for long-term

	4- Strategy 2013-2016 for Youth Entrepreneurship and Employment.		unemployed
Impact of Measure	Activation policies complement the labour reform. With a clear results-oriented strategy, its main targets are to enhance labour market efficiency, reform of the public employment services and launching new tools to fight duality and to facilitate inclusion in the labour force of the youth, elderly and long term unemployed. RDL 16/2014: In 2016 GDP and Employment, according to the REMS model, should have increased by 0.09% and 0.32% respectively. The effect of the strategy for youth entrepreneurship and employment measure on GDP and employment in 2016 is 0.24% and 0.65%. Long-term (ten years), increases in GDP and employment of 0.20 % and 0.51% respectively are estimated.		

• **The policy action:**	Implementing and developing Market Unity measures to increase competitiveness of national companies.		
	Interim Steps for Implementation	Deadline	Status
This measure was included in the Brisbane growth strategy. **Detailed implementation path and status**	The programme is based on several lines of action. In 2013, the Law on Market Unity was passed (*Ley 20/2013*) with the aim of addressing internal market fragmentation for product and service markets and reducing business licensing requirements and other administrative burdens. 1 – Creation of the Council of Single Market to include representatives from the State, the Autonomous regions and Local authorities. 2 – Screening process.	1 – The Council was created in January 2015. 2 – More than 100 sectorial regulations adapted or amended. All the remaining in the drafting phase 3 – In force. 4 – E-Platforms operative.	A comprehensive plan was developed to ensure an ambitious implementation of the Law on Guarantee of Market Unity at all levels of administration. 112 State regulations have been adapted. In 2015, 22 priority State regulations have been adapted. Regional governments have approved adaptation of 144 norms and another 56 are in the process as of April 2016.

	3 – Resolution mechanisms 4 – Technical instruments to guarantee cooperation among administrations.	The council of Ministers is closely monitoring the process	More than 25 Sectorial Conferences have been convened, with 43 working groups created to accelerate this work at the regional level. The protection mechanisms for market operators are functioning effectively.
Impact of Measure	The programme is designed to increase the productivity of investments as excessive and disperse regulations hampers effective competition and prevents exploiting economies of scale of operating in a larger market. This discourages investment, reduces productivity, competitiveness, economic growth and employment and is therefore a cost to citizens in terms of welfare. The Law will translate into a permanent reduction in administrative burden for economic activity. The simulation in REMS yields levels of GDP and employment 0.94% and 1.98% higher in the short run and 1.6% and 1.97% higher in the long run.Compared to the baseline scenario, GDP and employment are 1.98% and 1.97% higher in 2016.		

• **The policy action:**	Enhancing the efficiency and quality of public expenditure. Implementation of measures of public administration reform		
This measure was included in the Brisbane growth strategy. **Detailed implementation path and status**	Interim Steps for Implementation	Deadline	Status
	1 –222 actions identified in the Commission for the Reform of the Public Administration (CORA) report 2 – Annual Report on the Reform of the Public Administration (with quarterly updates). 3 – Legislation and regulations. (Some of the)	1 - In 2016, work will continue with the implementatio n of the remaining measures to generate further savings. 2 – Published	Out of the 222 measures identified in the CORA report, 193 measures were finalized in February 2016 and the rest were under execution, which implies a 86.94% execution rate. These measures have generated

	most relevant steps: Law 40/2015 on Public Administration and Law 39/2015 on Common Administrative Procedure. Law on Public Procurement. ICT and Digital Strategy. Laws for a more efficient judiciary administration.	yearly 3 –New laws on administrative procedure will enter into force in 2016. Implementation of the Central Admin. Digital Transformation Plan will have a central role in this strategy	savings of 3.031 million euros. Most of the remaining being at an advanced stage in the process of implementation.
Impact of Measure	A competitive economy requires modern, transparent and expeditious public administrations. CORA was created to deliver the most important review of the Spanish public sector in decades. The OECD acknowledges that the broad public administration reform plan in Spain is one of the most advanced and ambitious, given in particular the high degree of decentralisation of competencies, and an important positive influence for growth. Steady savings and greater efficiency is being generated as all the mechanisms are deployed and the necessary legislation is passed. It is playing an important role in fiscal consolidation efforts. The Law on Public Administration introduces an important reform on public procurement: the reform of compensation upon early termination of concession to establish adequate risk sharing. In addition the law will reduce the Administrations´ contingency liabilities. Spain is now ranked 12th in the United Nations global E-Government Survey 2014 of the UNPAN of more efficient, transparent and accountable e-governments. As the result of greater efficiency, model REMS estimates medium and long term levels of GDP and employment higher than in the baseline scenario (1.41% and 0.21%, respectively). In 2016 the differences to the baseline are of 0.55% for GDP and 0.21% for employment.		

• **The policy action:**	Reduce inflation inertia by limiting indexation in the public sector. Dis-indexation policy

<table>
<tr><td rowspan="2">This measure was included in the Brisbane growth strategy.

Detailed implementation path and status</td><td>Interim Steps for Implementation</td><td>Deadline</td><td>Status</td></tr>
<tr><td>Spain has undertaken a dis-indexation policy through the implementation of several measures in various sectors of the economy. The dis-indexation policy seeks to establish a rational new price revision system, consistent with a low inflation economic context and, thus, allowing an efficient allocation of resources and not distorting the price system.

Law 2/2015 on dis-indexation of the Spanish economy.</td><td>This policy has been culminated by the horizontal approach of the law 2/2015 on dis-indexation of the Spanish economy, which was approved in March 2015.</td><td>During 2015 technical work was completed pending approval by the Council of Ministers regulating development principles that will govern price revisions and adaptation process.</td></tr>
<tr><td>Impact of Measure</td><td colspan="3">This reform eliminates indexation practices in the public sector, setting a benchmark for the private sector to avoid a continued loss in competitiveness due to cumulative price differentials with the rest of the EMU, which is a negative factor for growth and employment. The objective is that the price system correctly transmits signals to the economic agents, which will ultimately result in efficiency gains.

Law 2/2015. The effects of a much reduced indexation have been simulated in REMS by tracing the effects of a 2.5% increase in external demand in a highly indexed economy and in an economy much less indexed.. The differential effect of the shock on GDP and the full-time equivalent jobs will be higher (0.41% and 0.79% respectively in the first year) in a scenario without indexation. In 2016 the differential effect of this shock would be 0.89% and 1.16%, respectively. In the long term the REMS model does not reflect differential effects.</td></tr>
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<table>
<tr><th>• The policy action:</th><th colspan="3">Insolvency Law. Second opportunity mechanism</th></tr>
<tr><td rowspan="2">This measure was included in the Antalya adjusted growth strategy.

Implementation path and expected date of implementation</td><td>Interim Steps for Implementation</td><td>Deadline</td><td>Status</td></tr>
<tr><td>Law 14/2013 on Entrepreneurship and Internationalization reforms the Out of Court Agreements on Payments.

Royal Decree-Law 11/2014, on refinancing and restructuring of corporate debt focuses on both the agreement and the liquidation phases.

Law 25/2015 on the second opportunity mechanism is in force since end July 2015.</td><td></td><td>The second opportunity was reformed: i) by extending the subjective scope of application of the OCAP to natural persons, ii) the cases in which the debtor acted in good faith are better defined, iii) the scope of debts that may be exonerated is extended, iv) the final exoneration of debts that cannot be exonerated is conditional on compliance with a payment plan.</td></tr>
<tr><td>Impact of Measure</td><td colspan="3">Law 14/2013 on Entrepreneurship and Internationalization´s estimated impact in the REMS model after ten years are a higher GDP (0.31%) and employment levels (0.15%).
Royal Decree-Law 11/2014 introduces a higher degree of coherence between the insolvency and the pre-insolvency arrangements. The liquidation phase is also reformed in order to promote wholesale instead of piecemeal liquidations. It also makes Out of Court Agreements on Payments more flexible, by extending their scope of application and removing some limitations on their content.
Law 25/2015 reduces the financial burden for future entrepreneurship facilitating an orderly restructuring of debt for individual debtors, while respecting creditors' rights. It consolidates into the Insolvency Law (Ley Concursal). A system of debt relief for natural person debtor under the bankruptcy proceeding is instituted. The exemption system has two pillars: the good faith of the debtor and the previous liquidation of his assets. The Law added some new changes to RDL 1/2015 such as the fee protection account for insolvency managers, limits on the remuneration of insolvency managers and the introduction of greater flexibility to a</td></tr>
</table>

	number of elements of the second chance mechanism.

• **The policy action:**	**New measures in support of entrepreneurship aimed at complementing previous reforms and actions towards employment creation**		
	Interim Steps for Implementation	Deadline	Status
This measure was included in the Antalya adjusted growth strategy. **Implementation path and expected date of implementation**	1. New reduction in social contributions to all self-employed to boost the creation of open ended employment contracts. RDL 1/2015. The first 500 euros of salary for new permanent employment contracts are exempt from social security contributions. In excess of this amount a sliding scale will be applied. This reduction targets the hiring of social groups with more difficulties to access stable employment. 2. Measures to promote financing and the internationalization of companies: Expansion of the *Instituto de Crédito Oficial* (ICO) activities with particular emphasis in SME. Enhanced access to investment financing for export companies by modifying financing funds *FIEX* and *FONPYME*. 3. Structural Funds: Special emphasis given to programme allocation of Structural Funds 2014-2020: €5,988 million	1. Exemption on the basis of business contributions to Social Security for common contingencie s for contracts made since its entry into force until September 30, 2016 2. Regulation already passed to reform the FIEX (2015), FONPYME (2016), and CARI (2015) 3. The allocation of funds expand until 2020 4. October 2015 Council of Ministers passed the Digital Transformati	1. Since its introduction in March 2015, 194,186 permanent contracts have benefited from the exemption. 2. Regulations of FIEX FONPYME, CARI have been last modified in February 2016 to improve their management, eliminate restrictions and expand their scope.

	through Thematic Objective 3: Enhancing the Competitiveness of SME. SME Initiative endowed with €800 million plus an additional participation of Horizon 2020 with €15 million in innovation loans to SME. Additional €268.6 million of the Operative Programme for Intelligent Growth dedicated to internationalization, innovation and productive investment. 4. Simplification of new activity procedures and integration of information services for entrepreneurs.	on Plan of the General State Administration and its public bodies	
Impact of Measure	Employment Activation Program RDL 1/2015: impact on growth in 2016 is estimated to result in a GDP increase of 0.30% and will contribute to 0.34% in job creation. The impact on growth in ten years is estimated to result in a GDP increase of 0.21% and 0.05% in employment. The final evaluation of the Strategic Plan for the Internationalization of the Spanish Economy (2014-2015), of which 95% of measures have been implemented, will provide the starting point for the 2016-17 Plan. Better and increased access to financing through FIEM, FONPYME, and CARI has contributed to gains in competitiveness and exports growth reflecting progress on internationalization of firms.		

• **The policy action:**	**Markets: More competitive functioning of markets and systemic efficiency and sustainability**		
.	Interim Steps for Implementation	Deadline	Status
This measure was included in the Antalya adjusted growth strategy.	**Energy**: • Electricity: The Reform of the electricity		• Electricity. New regulation includes a new

Implementation path and expected date of implementation	sector has put an end to the tariff deficit and provided greater certainty to the system. • Gas: A reform to close the tariff deficit in the gas sector. • Oil: Measures were implemented to promote competition at the retail market level. • Interconnections: Spain is working towards developing new interconnection projects with neighbouring countries. **Transport:** • Railway: Law 38/2015 integrates the European Directive establishing a single European railway area. • Infrastructure: The Advisory council for the analysis of major infrastructure projects was set up in 2014. The new Roads Act and the new Railways Act confer competences to this Advisory Council in their respective fields. • Air Transport: A new framework for airport regulation and supervision was adopted.		retribution framework for the non-peninsular systems; a more competitive market and a more efficient and sustainable system, a correction of the retribution norm for the transport and distribution networks. • Gas. Law 8/2015 on the Hydrocarbons sector maintains the objective of creating a secondary organised market reflecting the wholesale price, improving the efficiency of the system and increasing competition. Secondary regulation approved. • Interconnection Development Plan 2015-2020 for the network transmission of electricity includes major investments in energy interconnections. • Railway: The Law allows for a more rigorous planning of the railway infrastructure, and competition. • Infrastructure: The National Evaluation Office was established to

			evaluate financial sustainability for concession contracts. • Air Transport: AENA was partially privatized in January 2015 to institutional investors, retail investors and employees.
Impact of Measure	According to the National Authority on Markets and Competition (CNMC), the electric sector registered a surplus of 550 Million euros in 2014, and for 2015, a surplus of 250 Million euros is expected once the final adjustments are taken into account. Regarding the gas system, financial equilibrium is expected since 2015. Costs cuts on regulated activities have significantly contained system costs combined with the addition of new sources of revenues (such as corporate taxes), re-balancing the system. Until March 2016, the Investment Plan for Europe has committed 615 million euros to finance infrastructure projects in Spain and innovation, which is expected to mobilize a total investment of 2,500 million and create 5,500 jobs. REMS model design is a very simplified representation of the impact of energy on economic activity. However, these measures have prevented an increase in 42% of electricity bills and successive increases in subsequent years (that will not occur after the reform), which would have had very negative consequences on economic activity and employment.		

Other Non-key Commitments

• The policy action:	Catalyse higher private R&D spending by boosting public expenditure in this area
Implementation path and expected date of implementation	R&D&I expenditure in Spain has been constrained by fiscal consolidation in the past years. However, the Spanish economy is starting to recover and the government believes R&D will play an important role in the years to come. In this regard, after increasing the sum for R&D activities by 6.4% in the 2014 budget for the first time since 2009, the 2015 budget foresees a new increase of 4.8% in the R&D allocation. The aim is that private investment in this field steps up from 0.60% en 2014 to 1.2% of GDP in 2020.

	In 2015 the National Research Agency was established to increase the efficiency of public resources on R&D&I.
Status of Implementation and Impact	R&D&I are of the utmost importance for economic development. Therefore, despite the intense process of fiscal consolidation, in 2015 the Government has made an effort to boost public and private investment both through direct budget support as well as through fiscal incentives within the fiscal reform that entered into force in 2015. The Strategy on Science, Technology and Innovation 2013-2020 and the National Plan on Scientific and Technological Research 2013-2016 include future actions. A peer review of the Spanish R&D&I system has just been conducted by a Commission of International Experts. The conclusions were published in April 2015 and they will be taken into account in future public actions.

Investment Strategy Commitments

	Facilitators	Safeguards
Investment Ecosystem	• Programme on market unity The Council of Single Market was created in 2015. Central administration has adapted more than 100 regulations in 2014 and 2015. In 2015, 22 priority State regulations have been adapted. • International mobility program The program has facilitated and accelerated visa and residence authorizations concessions to investors, entrepreneurs and highly qualified professionals. • Promoting R&D&I The National Research Agency has been created in 2015 to increase the efficiency of public resources in R&D&I.	• The 2016 Doing Business Report highlighted the reinforcement of minority investor protections and the reduction of rates for corporate income, capital gains and environment taxes. • Law on Entrepreneurship and Internationalization The Strategic Plan for the Internationalization of the Spanish Economy 2014-2015 has contributed to improve the business environment and the external competitiveness of the Spanish economy.

Infrastructure	• PITVI (Plan de Infraestructuras, Transporte y Vivienda) PITVI, 2012-2024 is accomplishing its short and mediums targets in order to achieve its primary goal • National Energy Efficiency Fund In 2015, the new and expansion programmes financed by the National Energy Efficiency Fund will generate savings equivalent to 188.6 ktoe/year. In total, savings amounts 319.6 ktoe/year. • Investments co-funded by European Structural Funds During the period 2014-20 around EUR 2.5 bn. will be invested in transport infrastructure and EUR 4 bn. in the field of energy. Additionally, the Investment Plan for Europe has committed EUR 615 million for the financing of Spanish projects in the field of infrastructure and innovation. • Enhance energy interconnections: In 2015, a series of measures were agreed at the Madrid Summit to attain a fully functioning and interconnected EU internal energy market.	• Law on the Railway Sector. The law adopted in 2015 has allowed for a more rigorous planning of the railway infrastructure, and more competition. • Law on Road Infrastructures. The law approved in 2015 establishes the need to conduct a cost-benefit analysis before introducing significant changes in the network or in the characteristics of its sections. • Review concessional periods of ports The concessional periods are being adapted to those in Europe in order to maintain international competitiveness. • Law on Public Administration and Common Administrative Procedure. The law permits to reduce administrative burdens particularly those that most affect productive activity and includes the elaboration of an impact analysis of the new legislation on market unity.

SMEs	• Measures aimed at refinancing and restructuring corporate debt These measures have fostered pre-insolvency agreements. • Measures on the revamping of the Bankruptcy Law These measures have improved the features of in-court composition agreements. • Second opportunity mechanism. The Extrajudicial Settlement of Payments (ESP), an out-of-court mechanism, has been reformed. • Measures to promote corporate financing These measures has increased the access to credit for SMEs and reinforced the non-banking financing, including on crowdfunding. • Alternative Fixed Income Securities Market (MARF) Since MARF start of operation, 18 have issued variety of securities, up to EUR 1.2 bn. • Role of NDBs In 2015, Spanish NDB provided almost 10 bn. euros through its bridging loans line. Direct financing increased 70% in 2015	• Measures to address data gaps and reduce international asymmetries In order to guarantee that SMEs have enough time to find alternative sources of funding when their credit line is being cancelled or significantly reduced, credit institutions shall notify the SME three months in advance. SMEs are also entitled to receive free of charge the "SME- credit information" when their credit line is being cancelled or significantly reduced. • Improvement of the functioning of the Mutual Guarantee Funds Legal changes have been introduced to CERSA, the counter-guarantee public Spanish company, which has improved the functioning of the Mutual Guarantee Funds.

Annex 2. New and Adjusted Policy Commitments since Antalya

At the time of presenting this draft Growth Strategy Update Spain has a caretaker government, subject to constitutional limitations. Measures outlined below are thus some of the main measures that in the opinion of the caretaker government should be adopted in order to maintain the current pace in growth and job creation.

These are some of the measures included in the National Reforms Plan 2016 the caretaker government considers should be taken, also laying the foundation for compliance with the EUROPE 2020 Strategy objectives.

- Promotion of indefinite contracts through a reduction of social contributions.
- Measures to guarantee the sustainability and high level protection of the pensions system.
- Reinforcement of active employment services, in particular by strengthening the functioning of the Central Public Employment Service.

- Promotion of more effective solutions in education and training policies.
- Making employment compatible with benefits entitlements.
- Reinforcement of active employment policies, which will take profit of modern techniques of individualized support, labour orientation, training and placement. Moreover, these policies must be evaluated to guarantee their maximum effectiveness in labour integration.
- Elimination of unjustified burdens and barriers in the field of product markets and services, and strengthening the cooperation mechanisms among administrations.
- Stimulation of business competitiveness, including the reinforcement of infrastructure planning, improving digital connectivity, ensuring an efficient and sustainable functioning of the energy system, and making the financial sector more efficient and competitive.
- New policies to promote entrepreneurship and SMEs support: removing obstacles to SMEs growth, promoting the use of the newly approved second chance mechanisms, facilitating SMEs access to finance –including alternative non-banking financing mechanisms or crowdfunding-, and stimulating business internationalization.
- Increase the participation of R&D in the generation of wealth and welfare in Spain through the implementation of the programs already approved. In particular, incentives to R&D will be developed in fields such as fiscal treatment of R&D activities or participation of researches in the returns coming from their investments.
- The policy agenda ought to ensure the sustainability and competitiveness of the economic model through the horizontal introduction of environmental considerations. Thus, a Law on Climate Change should be approved to encompass other measures to ensure compliance with our objectives and international commitments in the fields of emissions reduction, energy interconnection and renewable energy use, and energy efficiency.
- The recent reforms aimed at having modern, transparent and agile public administration should complemented with the promotion of e-administration and digital transformation. Implementation and development of the Central Administration Digital Transformation Plan will have a central role in this strategy, as well as measures to favor mutual assistance in e-administration solutions among public administrations.
- With regard to fiscal responsibility, the financing system of the Autonomous Communities should be revised. The aim of the revision should be to ensure equal treatment for all citizens in their access to basic service, irrespective of their region of residence. Moreover, efforts in the fight against tax fraud and tax evasion should be maintained and even intensified.

Annex 3. Past commitment – St. Petersburg fiscal commitment

Structural reforms have also been implemented on the fiscal side, including the strengthening of the fiscal framework. The intense cumulative structural consolidation effort conducted in the period 2012-2015 (Please refer to Section B) has been accompanied by a thorough reform of the legal framework to ensure fiscal discipline at all levels of the administration and promote transparency and good governance.

The Budget Stability Law provides for a sound legal base to enforce observance of fiscal rules across all general government subsectors, in particular, at sub-central government level.

An independent fiscal institution (AIReF) was established and is fully operational, entitled to assess and deliver opinions on a large number of public finance developments, thus contributing to enforcing fiscal discipline and endorsing the stability programme.

Commercial arrears to public sector suppliers have been cleared and efforts have been made to streamline the efficiency of the public sector, leading to structural savings in public administration, healthcare, education and local administration.

Pension reform has also had a positive impact on the fiscal consolidation process, putting the pension system on a sustainable footing for the future.

Continuing with improvements in efficiency of public expenditure and in particular to promote the quality of public investment, a National Evaluation Office was established in 2015. The Office's main function is to conduct a comprehensive analysis of the financial sustainability of works and services concession contracts by the central government and local corporations. The Office will conduct a medium- and long-term analysis of investments and an assessment of the criteria and instruments used.

				Estimate Projections[2]			
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Gross Debt	99.2	99.1	99.0	-	-	-	-
ppt change							
Net Debt	n/a	n/a	n/a	-	-		
ppt change	-	-	-				
Deficit	-5.0	-3.6	-2.9	-	-	-	-
ppt change							
Primary Balance	-2.0	-0.8	-0.2	-	-	-	-

[2] Fiscal data are the latest official data published in the Stability Programme Update 2016-19. See footnote under Section B of the Document

	Estimate Projections[2]						
	2015	2016	2017	2018	2019	2020	2021
ppt change							
CAPB	1.0	1.1	0.8	-	-	-	-
ppt change							

The debt-to-GDP ratio and deficit projections are contingent on the following assumptions for inflation and growth:

	Estimate Projections						
	2015	2016	2017	2018	2019	2020	2021
Real GDP growth	3.2	2.9	2.3	-	-	-	-
ppt change							
Nominal GDP growth	3.8	3.7	3.7	-	-	-	-
ppt change							
ST interest rate[3]	0.0	-0.3	-0.3	-	-	-	-
ppt change							
LT interest rate[4]	1.7	1.7	1.9	-	-	-	-
ppt change							

[3] Euribor 3 months

[4] 10Y Government bonds

Annex 4. Pre-Brisbane commitments

The purpose of these tables is to monitor the implementation of members' Pre-Brisbane commitments.

<u>Pre-Brisbane Commitments</u>

<table>
<tr><th colspan="6">Four years of structural reforms (main reforms)</th></tr>
<tr><td colspan="6">2012: First Generation Reforms</td></tr>
<tr><td colspan="2">Labour Market</td><td colspan="2">Budgetary Framework</td><td colspan="2">Financial Sector</td></tr>
<tr><td colspan="6">2013: Second Generation Reforms</td></tr>
<tr><td colspan="2">Labour Market Reforms</td><td colspan="2">Budgetary Plan 2014-2014</td><td colspan="2">Financial Sector Reform</td></tr>
<tr><td colspan="2">Services / Product markets</td><td colspan="2">Pension System Reform</td><td colspan="2">Strategic Plan for Exporters</td></tr>
<tr><td colspan="2">Serv. Market Liberalization</td><td colspan="2">Local Administrations</td><td colspan="2">ICO Mediation Credit Lines</td></tr>
<tr><td colspan="2">Single Market Law</td><td colspan="2">De-Indexation</td><td colspan="2"></td></tr>
<tr><td colspan="6">Main Reforms 2014-2015</td></tr>
<tr><td colspan="6">Implementation of Reforms Adopted in 2012 and 2013</td></tr>
<tr><td>Job Activation Strategy and Plan for Youth Employment</td><td>Reform of the Active Labour Market Policy Framework</td><td>Reform of the Tax System</td><td>New Legal Framework for Disintermediation and Promotion of Capital Markets for SMEs</td><td>Measures to Facilitate Corporate Recovery & Debt Restructuring. Reform of the Insolvency Regime</td><td>Second Opportunity Law</td></tr>
</table>

Economic Structural Reforms	
Public Sector Reforms	
Financial Sector Reforms	

<table>
<tr><th colspan="2">Labour Market Reform</th></tr>
<tr><td>Structural reform: Labour market</td><td>Action Plan: Cannes</td></tr>
<tr><td>Rationale for carrying forward</td><td>The Spanish labour market reform was approved in 2012. Subsequently, several legal provisions were introduced in order to implement the reform. The reform modified several aspects of the Spanish labour market regulation, including collective bargaining rules and collective and individual redundancy procedures and costs.

The objective of the reform of collective bargaining was to restore competitiveness by aligning labour costs more closely to productivity and allow easier internal flexibility for employers in the presence of adverse company shocks.</td></tr>
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	The objective of changes with respect to dismissal legislation was to make the labour market more dynamic and less segmented, thereby increasing productivity growth and reducing the share of precarious jobs.
Update on Progress	*The new regulatory framework has reduced the minimum GDP growth needed for net private sector job creation, while maintaining productivity growth. The lag between GDP growth and employment creation has diminished to one quarter.* *The reform had a positive impact on unit labour costs reduction. Real labour productivity has steadily increased due to the shift from non-tradable goods towards tradable goods and services.* *Employment creation is broad-based. Full-time, open ended contracts have increased. The share of part-time jobs in total jobs has increased, but still remains well below EU average. In contrast the share of temporary contracts has declined to minimum levels, but is above EA- average levels.* *The impact on growth is estimated to result in a GDP increase of 4.74% and will contribute to 10.34% in job creation in ten years.*

Financial Sector Reform	
Structural reform: Financial sector	**Action Plan**
Rationale for carrying forward	*The reform has strengthened the system´s solvency and liquidity, through additional loan-loss provisioning and other measures for cleansing balance sheets (stricter criteria on forbearance, transfer of bad assets to an asset management company –SAREB-, asset quality review). The capitalization also helped to contain losses to taxpayers and bank creditors.* *Financial market conditions have improved dramatically, with risk premia on external borrowing by Spain´s banks and sovereign having come down back to pre-sovereign crisis levels and equity prices having come up regaining a considerable share of the losses accumulated over the crisis years.* *Transposition of the Bank Recovery and Resolution and Deposit Guarantee Schemes Directives are being completed along 2015. These Directives will contribute to set up a solid framework on resolution of entities based on the principles of*

	absorption of losses by shareholders and creditor and a full protection of depositors.
Update on Progress	*Implementation of the reform has been steadfast. Measures included the following: Asset Quality Review and independent stress test; recapitalisation and restructuring; transfer of assets to a new asset management company (SAREB) for recapitalised banks; new frameworks for bank resolution, regulation and supervision; savings banks reform; reform of the insolvency regime; stricter criteria on forbearance; additional provisioning requirements; improving access to market-based finance, especially SMEs.* *Recent steps include completion of the reform for the savings bank sector; transposition of the Banking Recovery and Resolution Directive & Deposit Guarantee Directive.* *The impact on growth (via risk premia) is estimated to result in a GDP increase of 2.22% and will contribute to 0,33% in job creation in ten years.*

Energy Sector Reform	
Structural reform: Energy sector	**Action Plan**
Rationale for carrying forward	*Reform of the Electricity Sector, applying a solution for the elimination of its tariff deficit, providing the system with a definitive solution and ensuring financial stability.* *Adapt the retributions to regulated activities within the electricity system, guaranteeing a reasonable return for renewable installations, cogeneration and waste and an adequate compensation for network based activities.* *Ensuring the electricity supply at the lowest possible cost to consumers and promoting competition in the system.*
Update on Progress	*The new transparent, stable and with clear rules remuneration framework has already been developed for the electricity system that introduces regulatory certainty and provides confidence to agents and investors.* *Progress in the field of energy interconnections with neighbouring countries.*

Budgetary Stability and Sustainability Reform	
Structural reform: Budgetary Stability and Sustainability	**Action Plan: Cannes**
Rationale for carrying forward	*Fiscal discipline principles at all levels of public administration .Implementation of Constitutional reform (Art 135). The Organic Law of Budgetary Stability and Financial Sustainability (LEP by its Spanish abbreviation) was approved in 2012 and it includes a transitory period to 2020. The Law sets three types of restrictions on general government: not to run a budget deficit in structural terms; public spending to be at most that of the economy´s potential growth; and public debt/GDP ratio not to exceed 60%.*
Update on Progress	*The reform has marked a substantial improvement in updating the framework of budgetary rules. It includes institutional elements identified by the European Commission as best practices: enshrinement in the Constitution, setting quantitative limits on the structural deficit, debt targets, a public spending rule, surveillance and control procedures, improved transparency on general government conduct and explicit inclusion of the cross-government non-bailout principle.* *The Commission for the Reform of the Public Administration (CORA) was set up to increase efficiency.* *An independent fiscal institution (AIReF) tasked with fiscal policy analysis, advisory and monitoring functions to ensure government compliance was established in 2013.*

Pension System Reform	
Structural reform: Sustainability of the pension system	**Action Plan: Los Cabos**
Rationale for carrying forward	*The 2011 pension reform extended the retirement age form 65 to 67 years; more years of contribution (to 25) to compute initial pension and more years (35) to full pension.* *The 2013 pension reform* (*Law regulating the Sustainability Factor and Pension System Revaluation Index*) *added sustainability factors for new pensions, and determined an index for annual nominal growth of the public pensions*
Update on Progress	*In December 2013 the Pension System Reform was approved. It introduced two sustainability factors to which pensions will*

	be linked: *- A yearly update factor which links pensions to the financial situation of the pension system, to the number of pensioners and to average pension* *- Life expectancy factor; will enter into force in 2019 and will be evaluated every 5 years.* *Projections towards 2030-2060 point towards a stabilisation in gross expenditure in public pensions.* *A guarantee has been made to ensure pensions are not frozen or lowered. A minimum increase of 0.25% was approved, which, within a context of very low prices, increases the purchasing power of pensioners.*

Annex 5. Key Economic Indicators

Key Indicators[5]

	2015	2016	2017	2018	2019	2020
I. Macroeconomic Indicators						
Real GDP (% yoy)	3.2	2.9	2.3	-	-	-
Nominal GDP (% yoy)	3.8	3.7	3.7	-	-	-
Output Gap (% of GDP)*	-5.6	-3.5	-2.0	-	-	-
Inflation** (%, yoy)	-0.5	-0.2	1.2	-	-	-
Fiscal Balance (% of GDP)***[6]	-5.0	-3.6	-2.9	-	-	-
Unemployment (% of LF)	22.1	19.7	17.8	-	-	-
Employment (% yoy)****	3.0	2.7	2.2	-	-	-
Savings (% of GDP)	22.1	22.9	23.1	-	-	-
Investment (% of GDP)	20.7	21.2	21.6	-	-	-
Public Fixed Capital Investment (% GDP)	2.5	2.0	2.1	-	-	-
Private Fixed Capital Investment (% GDP)	18.2	19.2	19.5	-	-	-
Total Fixed Capital Investment (% GDP)	20.7	21.2	21.6	-	-	-
Current Account Balance (% of GDP)	1.4	1.7	1.5	-	-	-

*** A positive (negative) gap indicates an economy above (below) its potential.**

**** Private consumption deflator**

***** A positive (negative) balance indicates a fiscal surplus (deficit).**

****** Full time equivalent jobs**

[5] Data are the latest official data published in the Stability Programme Update 2016-19, and in the July 29 Macroeconomic Scenario. See footnote 1 under Section B of the Document