



**STABILITY PROGRAMME
UPDATE**

KINGDOM OF SPAIN

2017 - 2020

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1. EXECUTIVE SUMMARY

The 2017-2020 Stability Programme Update presents a prudent and realistic macroeconomic scenario based on conservative assumptions. The Independent Authority for Fiscal Responsibility (AIReF) endorses the macroeconomic projections of this Stability Programme, based on the exogenous assumptions and the defined policies. The Government acknowledges the recommendations received in relation to the purpose of the report.

In line with the forecasts of the main national and international organisations, a 2.7% GDP growth is projected for this year and 2.5% for the next, followed by a slight slowdown to 2.4% in 2019 and 2020. Growth forecasts for 2017 and 2018 have been revised upwards two and one tenth in comparison to the figures projected in the Budgetary Plan submitted to the European Commission (EC) in December last year, mainly because the most recent short-term information points to a more favourable economic outlook.

The fundamentals of the Spanish economy support the continuity of a strong growth over the forecast horizon. The structural reforms implemented in recent years support a sustainable and balanced growth path, even in the absence of some of the exogenous factors that have boosted the Spanish economy in recent years, such as the oil price reduction and the monetary stimuli of the European Central Bank (ECB). As a result, the Spanish economy has already recovered pre-crisis income levels, while the correction process of the macroeconomic imbalances continues.

The main growth driver will continue to be domestic demand, although the GDP composition will be more balanced, with both domestic demand and net external demand recording positive contributions for the entire forecast horizon. In this context, the current account balance will record surpluses close to 2% of GDP up to 2020.

One of the fundamental cornerstones on which the solid growth of the Spanish economy builds on is the 2012 labour reform, which has allowed to continue reducing the threshold of net job creation, which stands comfortably below 1%, in a context of wage moderation and competitiveness gains. Since late 2013 until the end of 2016, almost one million and a half jobs were created and the number of unemployed people has decreased in a similar amount. During the next four years, economic growth will continue to be balanced and job-intensive, expecting to create half a million net jobs per year and exceeding the figure of 20 million employed people by the end of 2019. This will enable reducing the unemployment rate by approximately two points per year, reaching 11.2% of the labour force by the end of 2020. This implies a reduction of sixteen points from the maximum unemployment rate reached in early 2013.

This update shows a fiscal scenario with a cumulative fiscal adjustment of four GDP percentage points (p.p.) during the forecast period, with a public balance that goes from registering a deficit of 4.5% of GDP, including the financial

assistance in 2016, to a balance of -0.5% of GDP in 2020. This path means that when the deficit decreases below 3% in 2018, in 2019 the EU Council would close the Excessive Deficit Procedure opened to Spain in 2009.

2. INTRODUCTION

The macroeconomic scenario on which the 2017-2020 Stability Program Update is based presents a sustained and balance economic growth based on prudent and conservative external assumptions.

The Spanish economy has maintained a high dynamism in 2016, favoured by the structural reforms implemented in recent years. These have contributed to achieve a sustained and job-intensive growth and to regain confidence, while continuing with the macroeconomic imbalances correction process.

Last year ended with an annual average growth of 3.2%, a figure equal to that registered in 2015 and almost double that of the Eurozone, in a context of world economy growth stabilisation at approximately 3%. The main economic growth driver in Spain is still domestic demand, although the pattern is more balanced now. Since the beginning of 2016, the domestic demand contribution to GDP y-o-y growth has moderated gradually, while net external demand has registered positive contributions. This external sector improvement has been reflected in the current account balance, which registered a surplus last year for the fourth consecutive year.

The deleveraging process of the private sector is continuing its trend, with a reduction of its debt to GDP ratio by over 50 percentage points from its peak reached in mid-2010, reaching levels similar to those of the Eurozone. Moreover, the deleveraging of firms and households has been compatible with the credit increase, with new operations to households and SMEs registering increases over the last three years.

The real GDP growth foreseen for 2017 and 2018 in this macroeconomic scenario implies an upward revision of two and one tenths in comparison to the figures foreseen in the Budgetary Plan for 2017 sent to the EC in December last year, up to 2.7% and 2.5%, respectively. This revision is mainly due to the fact that the most recent short-term information for the first quarter of 2017 points to a more favourable evolution than the one initially expected, at the end of last year. For the last years of the projection period, a slight slowdown is expected, with growth rates of 2.4% in 2019 and 2020.

The macroeconomic projections accompanying this Stability Programme Update are based on the continuation of the labour market dynamism, the favourable financial conditions and the confidence improvement, showing a more balanced growth pattern that creates jobs, supported both on domestic demand and on external demand over the entire projection horizon.

Among the domestic demand components, private consumption will remain strong during the entire forecast period, although a slight slowdown is projected. This slowdown is mainly due to the lower dynamism of real disposable income of households, in a context characterised by a lower intensity in job creation and a gradual reversal in some factors that contributed to boost economic growth in recent years, such as low oil prices and the

monetary stimuli of the ECB. On the other hand, investment will remain dynamic, growing at more moderate rates in 2017 and 2018 and gaining momentum as of 2019.

In line with the lower dynamism of the activity, the pace of job creation is expected to moderate to approximately 2.5%, thus reaching the pre-crisis number of employed people by the end of 2019. At the same time, the unemployment rate will continue to decline, reaching close to 11% of the labour force by the end of the projection period.

As for inflation, after rebounding since the end of last year due to a base effect associated with the sharp fall in energy prices in the last months of 2016, it is expected to return to positive values in 2017. The private consumption deflator is expected to register an average annual increase of 1.5%, and maintain its growth rate stable in the coming years.

Regarding the external sector, real exports of goods and services will remain strong, growing at rates close to 5%, boosted by competitiveness gains derived from the moderation of relative unit labour costs and the greater dynamism of the Spanish export markets. Imports will grow at slightly lower rates than exports, at approximately 4%, in line with the final demand evolution. In this context, the current account balance will record surpluses close to 2% of GDP during the entire forecast period, linking eight consecutive years of surpluses. This clearly reflects the Spanish economy growth sustainability and structural changes taking place in the growth pattern.

With regards to the public sector, this Stability Programme Update maintains the commitment to reduce the public deficit, in line with the path recommended in the EU Council Decision adopted on 8th August 2016, regarding the need to take the necessary measures to correct the excessive deficit. Thus, the deficit target for the General Government is set at 3.1% of GDP in 2017 and at 2.2% in 2018.

To ensure the achievement of the deficit target recommended by the Council for 2016 (4.6% of GDP), 2017 (3.1% of GDP) and 2018 (2.2% of GDP), as well as the other fiscal recommendations of a structural nature, the Government adopted a comprehensive package of measures last year.

The main fiscal measures included in this Stability Programme Update are, on the revenue side, the modifications introduced in the Corporate Income Tax by Royal Decrees-Law 2 and 3/2016 which affect, respectively, instalment payments and various substantive aspects of the Tax in order to increase its tax base, the limitations on deferrals or instalments of tax obligation payment, and the introduction of a new system to keep register books for VAT. On the expenditure side, the Agreement of Non-Availability (known as AND in Spanish) of credits amounting to € 5.5 billion and the adoption of measures to control the expenditure implementation during 2017, as well as the various agreements signed with Farmindustria and the Regional Governments, in order to limit the

growth of the pharmaceutical expenditure while guaranteeing the population's access to the latest health treatments can be highlighted.

The Stability Programme is considered a medium-term national fiscal plan referred to in Article 4 of Regulation (EU) No. 473/2013. This Stability Programme Update responds in content and form to the provisions of the Code of Conduct of the Stability and Growth Pact. Moreover, its content completes part of the information submitted on 10th April based on Article 10 of Regulation (EU) No. 473/2013. Specifically, it updates the information on the budgetary projections of the General Government as a whole, the cyclical and structural components of the public deficit, the measures adopted and envisaged, and the dynamics of the public debt.

The Update is divided into eight sections. After the executive summary and this introductory section, the third section describes the recent evolution and the 2017-2020 macroeconomic scenario for the Spanish economy, on which the mid-term budgetary projections are based.

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

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

Sections six and seven respectively analyse long-term sustainability of public finances and their quality. The Update ends with section eight, on the institutional framework of the fiscal policy.

3. MACROECONOMIC OUTLOOK

3.1. Recent evolution of the Spanish economy

3.1.1. International environment

The world economy growth reached 3.1% in 2016, the lowest figure since 2009, although more recent data confirm that activity gained momentum in the second half of last year, recording wide divergences among the different country groupings, especially among emerging economies. Advanced economies experienced a significant slowdown in a context of high uncertainty, volatility in financial markets, weak growth in world trade and tensions in the banking sectors of some European countries, while emerging economies maintained a stable growth, although more moderate than that registered in recent years.

In this context, the OECD, in its Economic Outlook Report mid-term review published in March this year, maintains its world economy growth forecast for 2017 at 3.3% and foresees a slight acceleration of three tenths in 2018, up to 3.6%. On the other hand, the ECB macroeconomic projections, also updated in March this year, point to a four tenths acceleration of the world GDP in 2017, excluding the Eurozone, up to 3.5%, and of three additional tenths in 2018, up to 3.8%. Similarly, in its World Economic Outlook Report published in April, the IMF slightly revised upwards, by one tenth, the world GDP growth forecast for 2017, up to 3.5%, and maintained the projection for 2018 at 3.6%, including the estimates published last January.

The economic recovery continues at a moderate pace in the Eurozone, despite the persistence of high uncertainty associated with the United Kingdom leaving the European Union, in a context of geopolitical risks. The GDP for the Eurozone ended last year with an average annual increase of 1.7%, largely boosted by the decrease in oil prices and the accommodative monetary policy by the ECB.

The latest information seems to indicate that the pace of progress of the activity in the Eurozone in the first quarter of 2017 is being maintained. In this context, the OECD has maintained the GDP growth forecast for the Eurozone in 2017 at 1.6%, as the projections of November 2016 already seemed to indicate, a rate that would continue in 2018. On the other hand, in its Winter Forecasts, the EC revised its growth forecast for the Eurozone one tenth upwards for this year and the next, up to 1.6% and 1.8%, respectively. Similarly, in the update of its macroeconomic forecasts, the ECB also revised upwards the growth for 2017 and 2018 one tenth, up to 1.8% and 1.7%, respectively. On the other hand, the IMF expects the Eurozone to grow this year and the coming year by 1.7% and 1.6%, respectively.

By country in the Eurozone, in the fourth quarter of 2016 certain heterogeneity was observed in the activity evolution. It accelerated in Germany and France and the pace of growth in Italy moderated slightly. By 2017, the IMF expects the

economic activity to slowdown in Germany and Italy and a further growth in France.

In Germany, recent indicators point to the maintenance of the activity growth rate in the first months of 2017. The OECD and the IMF revised slightly upward the growth forecast for this year, by one tenth, up to 1.8% and 1.6%, respectively. For 2018, both organisations maintain their forecasts unchanged, at 1.7% the OECD and at 1.5% the IMF. In its Winter Forecasts, the EC projected a German GDP growth rate of 1.6% for this year and a slight acceleration, of two tenths, for the coming one.

The GDP in France increased 1.1% in 2016, one tenth lower compared to the one recorded in 2015. The OECD expects an acceleration in 2017, up to 1.4%, in line with the EC forecasts, and it foresees a growth stabilisation for 2018, versus the slight rebound, up to 1.7%, forecasted by the EC. On the other hand, the IMF estimates a growth of 1.4% for this year and 1.6% for the next.

Last year the Italian economy extended the moderately expansionary path, registering a GDP growth of 1%, three tenths higher compared to the one recorded in 2015. The EC, the OECD and the IMF expect this growth rate to continue this year and the next.

Outside the Eurozone, the slowdown in the main advanced economies was widespread last year. The UK GDP grew by 1.8% in 2016, four tenths less compared to the previous year. The EC expects the slowdown to continue in 2017 and 2018, registering growth rates of 1.5% and 1.2%, respectively, due to the lower dynamism of private consumption and, above all, of investment, in a context of high uncertainty associated with the effects of the United Kingdom leaving the EU. The IMF outlook is more favourable, as it foresees a 2% growth in the UK this year and 1.5% for the next.

In the United States, after the moderation observed in 2016, of one point, down to 1.6%, the GDP growth is expected to gain momentum in 2017 and 2018, largely due to the possible adoption of fiscal stimulus measures, although there is still a high degree of uncertainty regarding its size, composition and deadlines. Thus, the EC foresees the US GDP to grow by 2.3% and 2.2%, respectively. The OECD projects a similar growth to that of the EC for 2017, standing at 2.4%, and an acceleration of four tenths for 2018, up to 2.8%. Similarly, the IMF estimates rates of 2.3% and 2.5% in the 2017-2018 two-year period.

Regarding the main emerging economies, China's GDP continued the path of gradual slowdown in 2016, growing at a rate of 6.7%. The main international organisations expect the moderation trend to continue, to 6.4% in 2017 and 6.2% in 2018, according to the EC. These rates are similar to those projected by the OECD and the IMF. In Russia and Brazil, the EC and the IMF estimate a recovery for this year and the coming one, after two consecutive years of GDP contractions. With regards to India they project a gradual acceleration, after the slowdown observed last year.

3.1.2. Recent evolution and correction of macroeconomic imbalances in Spain in 2016

In 2016 the Spanish economy maintained a high dynamism, favoured by the structural reforms implemented in recent years, which contributed to achieve a sustainable and balanced growth, allowing the recovery of employment and confidence, in parallel with the continuation of the macroeconomic imbalances correction process. In this regard, the In-Depth Review of the EC (IDR), published in February this year, recognised the remarkable progress made by Spain in correcting the macroeconomic imbalances. The good performance of the labour market and the favourable financial conditions, largely as a result of the labour reform and the restructuring and cleaning-up of the financial system, together with the improved expectations, were in turn reinforced by external factors such as the low oil prices and the ECB monetary stimuli.

GDP in volume and with calendar and seasonally adjusted data, grew by 0.7% q-o-q in the fourth quarter of 2016, a rate equal to that recorded in the previous quarter and three tenths higher than the one registered in the Eurozone. The year 2016 ended with an annual average growth of 3.2%, equal to that of 2015 and almost twice as much as that of the Eurozone (1.7%). GDP growth rates in 2015 and 2016 have been the highest since 2007. In the first quarter of 2017, the Spanish economy accelerated again, as reflected by the GDP flash estimate in the first quarter of 2017. According to the Quarterly National Accounts published by the INE, GDP in volume and with calendar and seasonally adjusted data, accelerated again in the first quarter of 2017, by 0.8% q-o-q, one tenth higher than the figure recorded in the previous quarter, resulting in fourteen consecutive quarters of increases and recovering the pre-crisis real income levels.

The main economic growth driver of the Spanish economy is still domestic demand, although the growth pattern is more balanced now. Since the beginning of 2016, the domestic demand contribution to the GDP y-o-y growth has moderated gradually, while the contribution of net external demand increased. In 2016 as a whole, the domestic demand contribution was positive for the third consecutive year, reaching 2.8 points (3.3 points in 2015), and net external demand contributed by 0.5 p.p., after two consecutive years of negative contributions (-0.1 points in 2015). Thus, in 2016 both domestic demand and net external demand registered positive contributions to GDP growth for the first time since 2000.

The favourable evolution of domestic demand is explained by the dynamism of private consumption, as well as the rise of gross fixed capital formation (GFCF). Real private consumption grew by 3.2% last year, three tenths more than in 2015, favoured by the improvement in consumer confidence and the financial conditions, as well as by the increase in real gross disposable income of households. The latter was boosted by the solid job creation, the price moderation and the lower tax burdens resulting from the tax reform. In this

context, the household saving rate declined by half a point in 2016, reaching 7.7% of its gross disposable income.

On the other hand, the final consumption expenditure of the General Government, in volume, ended last year with an average annual growth of 0.8%, 1.2 points lower than the figure registered in 2015. Public consumption in real terms registered, on an annual average, a decrease of 0.9% in the last five years. This evolution is consistent with the fiscal consolidation process carried out in the Spanish economy.

The productive investment dynamism has also contributed to the expansion of domestic demand, although in 2016 it grew more moderately than in 2015, boosted by the increase in domestic and external demand, as well as to the favourable financial conditions, the restructuring of the balance sheets of firms and the improvement of the business expectations. Last year, the GFCF experienced an average annual increase of 3.1%, almost three points lower than the figure observed in the previous year, linking three consecutive years of increases. This slowdown affected its main components and, in particular, the equipment investment, which recorded a 5% increase, after the rebound observed in 2015 (8.8%). On the other hand, construction investment experienced an annual increase of 1.9% in 2016, three points less compared to the previous year. In turn, the moderation of the construction investment growth rate is explained by the evolution of investment in other buildings and constructions, which slowed down by six points, registering a rate of 0.4%, while investment in housing intensified the pace of progress by six tenths, up to 3.7%, accumulating three years of uninterrupted positive rates.

The considerable deleveraging process of the private sector is continuing its trend, with a reduction of its debt to GDP ratio by over 50 percentage points from its peak reached in mid-2010. The non-consolidated debt of the non-financial private sector stood at 166.1% of GDP in the fourth quarter of 2016 (147.3% of GDP on a consolidated basis) the same levels of the end of 2005 and comparable to the Eurozone average, foreseeing an additional reduction of approximately 30 points of GDP in the coming four years. In addition, the deleveraging of firms and households is being compatible with the credit dynamism, with new operations to households and SMEs (using as a proxy for these credits those under one million euros) registering annual increases of 6.4% and 2.7%, respectively.

With regards to the external sector, the net external demand contributed by 0.5 p.p. to the annual GDP growth in 2016, after two years of negative contributions (-0.1 points in 2015), largely due to the favourable performance of exports. Real exports of goods and services increased by 4.4%, a rate half a point lower compared to that of 2015, and imports fell by 2.3 points, down to 3.3%, in line with the slowdown in final demand. The exports strength is largely explained by the competitiveness gains accumulated in recent years and by a greater export base. In particular, the real effective exchange rate against developed countries, measured with manufacturing unit labour costs, depreciated by 0.2%

in 2016, 6.5 points less than in 2015, due to the decrease in relative unit labour costs, despite the appreciation of the nominal effective exchange rate.

According to the figures published by the EC, the Spanish export markets for goods and services slowed down by 1.7 points last year, recording a 2.3% growth. By destination, and using Customs data, sales in volume to the EU grew by 4.8%, six tenths less than in 2015, while those to the rest of the world intensified the growth rate in an equal magnitude, up to 1.1%. Within the EU, the nominal growth of sales to Benelux, Italy, Germany and the United Kingdom stand out. Among the exports to the rest of the world, those to China stand out, as they rose by 13.4%.

The solid growth of the Spanish economy was consistent with the progress in the adjustment of external imbalances. According to the available Balance of Payments data, in 2016, the Spanish economy generated net lending to the rest of the world for the fifth consecutive year, equivalent to 2.1% of GDP, one tenth higher compared to the figure recorded in the previous year. This net lending increase was due to the higher surplus of the current account balance, which reached 2% of GDP, 0.6 points higher than in 2015 and the highest figure in the recent time series. In turn, the improvement in the current account is explained by the increase in the surplus of goods and services, which recorded a rise of half a point, up to 3% of GDP, and to a lesser extent, by the decrease of the primary and secondary income deficit, which fell by one tenth, down to 1% of GDP. The external balance improvement continued in the first months of 2017. In the first two month period of this year, the Spanish economy generated a net lending of € 351 million, versus a net borrowing of € 1.8 billion in the same period of last year. This external balance improvement is mainly due to the increase in the current account balance, which went from recording a deficit of € 1.5 billion in the first two-month period of 2016 to a surplus of € 186 million for the same period of this year.

These results helped to reduce the debtor balance of the net international investment position, standing at 85.7% of GDP in the fourth quarter of 2016, 5.6 points lower than in the previous year. On the other hand, the Spanish external debt amounted to 167.5% of GDP, a percentage 1.6 points lower than in the same period of 2015.

With regards to the labour market, the favourable evolution that began in 2014 continued in 2016, extending the intense process of job creation and the unemployment reduction. According to figures from the Labour Force Survey (LFS), the average number of employed people increased by 475,500 last year. This figure represents one-fifth of the total increase in employment in the Eurozone as a whole, and unemployment fell by almost 575,000 people on an annual average. This figure represents the largest fall of the time series. The unemployment rate reached 18.6% of the labour force by the end of last year, 2.3 points lower than the figure registered a year earlier and the lowest figure since the third quarter of 2009.

This favourable evolution of the labour market has continued in the first months of 2017, considering the evolution of the average number of Social Security covered workers, which increased by 3.4% y-o-y in the first quarter, one tenth more than in the last quarter of 2016, as well as by the largest fall in registered unemployment, which dropped by 9.6% y-o-y during this period (-9.4% in the previous quarter). In addition, LFS data for the first quarter of 2017 reflect a positive performance in employment, which increased by 408,700 people compared to a year earlier, 2.3% y-o-y, a rate equal to that of the previous quarter.

With regards to inflation, it has been conditioned by the evolution of energy and oil prices. The Consumer Price Index (CPI) y-o-y rate of the Spanish economy, after remaining negative since the beginning of last year, registered positive values again in September (0.2%), extending this upward trend until reaching 1.6% in December and 3% in January and February 2017. This strong acceleration of the general CPI in the last months of 2016 and early this year is explained by the m-o-m rises in fuel prices during that period (associated with the rebound of oil prices in international markets) and, to a greater extent, electricity prices (affected by the weather conditions in Spain during those months), as well as by the base effect associated with the sharp drop in energy prices in the same period of 2016. In March, the CPI y-o-y rate moderated by seven tenths, to 2.3%, mainly due to the slowdown of energy prices. This decrease in inflation will continue in the coming months, although a slight rebound is expected in April, up to 2.6%, according to the flash estimate of the CPI published by INE, due to the increase in tourist services prices by the effect of the different timing of the Easter Holidays, which last year was celebrated in March and this year in April.

During last year as a whole, consumer prices fell by 0.2% on an annual average, a fall three tenths lower than in 2015, while core inflation increased by two tenths, up to 0.8%. The inflation differential against the Eurozone remained favourable to our country, reaching five tenths in 2016, with the consequent competitiveness gains and the positive impact on our exports. On the other hand, the negative inflation rates had an adverse effect on tax collection and on public accounts, as in the previous two years.

In short, a continuation of the macroeconomic imbalances adjustments in Spain can be observed, contributing to consolidate the path of sustainable, balanced and strong growth, even in absence of some of the exogenous factors that boosted economic activity in recent years, such as the oil price reduction.

3.2. Assumptions of the Macroeconomic Scenario

Table 3.2.1 summarizes the main assumptions used for the macroeconomic scenario included in this Stability Programme Update. These have been prepared using mainly the information included in the EC forecasts, available for 2017 and 2018, as well as the latest forecasts published by the ECB and own estimates by the Ministry of Economy, Industry and Competitiveness.

Table 3.2.1. Basic assumptions of the Macroeconomic Scenario 2017-2020
Year-on-year % change, unless otherwise specified

	2016 (A)	2017 (F)	2018 (F)	2019 (F)	2020 (F)
Short-term interest rates (3-month Euribor)	-0.3	-0.3	-0.1	0.0	0.1
Long-term interest rates (10-year debt, Spain)	1.4	1.7	2.1	2.5	2.8
USD/euro exchange rate	1.1	1.1	1.1	1.1	1.1
Nominal effective exchange rate of the Eurozone	2.7	0.5	0.0	0.0	0.0
World excluding EU, GDP growth	3.2	3.7	3.9	4.0	4.1
Euro-zone GDP growth	1.8	1.7	1.8	1.8	1.8
World import volume, excluding EU	0.9	3.0	3.8	3.8	3.7
Spanish export markets	2.9	3.6	3.9	3.8	3.8
Oil price (Brent, Dollars/barrel)	44.8	53.5	53.2	53.2	53.2

(A) Advance; (F) Forecast.

Sources: European Central Bank, European Commission and Ministry of Economy, Industry and Competitiveness.

With regards to the international context, the EC expects the world economy, excluding the EU, to accelerate by half a point this year, up to 3.7%, and two additional tenths in 2018, up to 3.9%, projecting a 4.1% growth at the end of the forecast horizon. In this context, wide divergences are expected between countries and economic areas. With regards to the Eurozone, a relatively stable growth slightly below 2% is expected up to 2020, in a context of high uncertainty in the mid-term, associated with the United Kingdom leaving the European Union and the future economic policy measures in the United States.

In relation to the evolution of the exchange rate, the euro appreciated against the US dollar during the first months of 2016, although the European currency exchange rate showed a downward trend since June, until it settled at approximately 1.1 dollars per euro. The exchange rate is expected to remain at this level throughout the forecast period.

Regarding the export markets growth, projections point to an acceleration in 2017, which will continue in 2018, and stabilise the growth pace in 2019 and 2020 at 3.8%, in line with the demand evolution forecasted for our main trading partners.

With regards to interest rates, short-term interest rates are expected to remain relatively stable and negative in 2017 and 2018, projecting a slight increase in the last year of the forecast period. As for long-term interest rates, a slight increase is foreseen in line with the eventual normalisation of the monetary policy in the Eurozone. Thus, the 10-year Spanish public debt yield reaches 1.7% in 2017, rising progressively until reaching 2.8% in 2020.

On the other hand, the price of Brent oil showed an upward trend during last year. It went from trading below 30 dollars per barrel at the beginning of 2016 to approximately 55 dollars in the first months of 2017. This was due, among other factors, to the oil production decline. In this context, and based on the evolution currently projected for futures markets, the average price per barrel this year is expected to increase to approximately 20%, up to 53.5 dollars, and to settle at a level slightly above 53 dollars for the rest of the projection period.

3.3. 2017-2020 Macroeconomic Scenario

The macroeconomic forecasts of this Stability Programme Update have been endorsed by the Independent Authority for Fiscal Responsibility (AIReF) based on exogenous assumptions and the defined policies. The AIReF considers that the Government's macroeconomic scenario accompanying this 2017-2020 Stability Programme Update is likely as a whole.

The forecasts reflect a moderation in the real GDP growth rate for 2017, to 2.7%, followed by a slight further slowdown in 2018 and 2019, of two and one tenth, respectively, down to 2.5% and 2.4%, maintaining this last rate in 2020. These projections are based on the continuation of the labour market improvement process, favourable financial conditions and on the confidence improvement, showing a pattern of balanced job-creating growth, supported both on domestic and external demand throughout the projection horizon.

Table 3.3.1. Macroeconomic Outlook
Chain-linked volume indices
2010=100, unless otherwise specified

	ESA Code	2016 (A)	2016 (A)	2017 (F)	2018 (F)	2019 (F)	2020 (F)
		Level	year-on-year % change				
1. Real GDP	B1*g	102.0	3.2	2.7	2.5	2.4	2.4
2. Nominal GDP. Thousands of millions of Euros	B1*g	1,113.9	3.6	4.2	4.1	4.2	4.2
Components of real GDP							
3. Private consumption expenditure (*)	P.3	98.5	3.2	2.6	2.4	2.3	2.2
4. Government consumption expenditure	P.3	95.3	0.8	0.8	0.7	0.7	0.7
5. Gross fixed capital formation	P.51	93.2	3.1	2.8	2.6	3.3	3.5
6. Change in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	0.1	0.1	0.0	0.0	0.0	0.0
7. Exports of goods and services	P.6	129.2	4.4	5.5	4.9	4.7	4.5
8. Imports of goods and services	P.7	107.3	3.3	4.3	4.1	4.2	4.1
Contributions to real GDP growth							
9. Final domestic demand		-	2.6	2.2	2.1	2.1	2.1
10. Change in inventories and net acquisition of valuables	P.52 + P.53	-	0.1	0.0	0.0	0.0	0.0
11. External balance of goods and services	B.11	-	0.5	0.5	0.4	0.3	0.3
(*) It also includes households and non-profit institutions serving households (NPISH). (A) Advance; (F) Forecast. Sources: National Institute of Statistics and Ministry of Economy, Industry and Competitiveness.							

The growth pattern shows the consolidation of the dynamism of domestic demand, which is the main driver of growth, its contribution to GDP growth stabilising as of next year at 2.1 p.p. until the end of the projection period. On the other hand, net external demand records positive contributions, of half a point this year and four tenths the coming one, and slightly more moderate ones in 2019 and 2020 (0.3 p.p. both).

Among the domestic demand components, private consumption will remain strong, projecting a six tenths slowdown in 2017, down to 2.6%, and a gradual moderation of the growth rate as of 2018, to reach rates close to 2% at the end of the forecast period. This slowdown is mainly due to the lower dynamism of households' real disposable income, in a context characterised by a lower intensity in job creation and a gradual reversion of some of the factors that have contributed to boost economic growth in recent years, such as the oil

price reduction and the monetary stimuli carried out by the ECB. The household saving rate will increase progressively, returning to pre-crisis levels.

Investment will remain dynamic, growing at more moderate rates in 2017 and 2018 and gaining momentum as of 2019, in line with the expected growth in private consumption and exports of goods and services, the favourable business expectations and the context of low interest rates. By components, investment in equipment and cultivated assets will maintain the expansionary trend, the growth pace showing some moderation in the first two years and a smooth acceleration as of 2019, reaching rates of 4% at the end of the projection horizon. On the other hand, investment in construction will gradually intensify its growth, to reach 3.4% in 2020.

In line with the lower dynamism of the activity, the pace of job creation is expected to moderate, although it will remain strong and grow at rates of 2.5% throughout the forecast period. This will allow recovering pre-crisis employment levels, twenty million employed people, by the end of 2019. Since the end of 2016 until the end of 2020, almost two million jobs will be created, virtually reaching the maximum level of employed people of the current time series by the end of 2020. The unemployment rate will continue to decline gradually, reaching 11.2% of the labour force at the end of 2020, 16 points lower than the peak registered in 2013.

As a result of the expected evolution of employment and GDP, the increasing apparent productivity per full-time equivalent job will moderate slightly this year and the coming one, remaining virtually stabilised throughout the projection period. At the same time, and derived from the dynamics of the labour market itself and of productivity and wages evolution, unit labour costs will grow by 1% in 2017 and by 1.4% in 2018, the latter rate rising by one tenth, up to 1.5% in the following two years.

Table 3.3.2. Labour Market (*)

	ESA Code	2016 (A)	2016 (A)	2017 (F)	2018 (F)	2019 (F)	2020 (F)
		Level	year-on-year % change				
1. Total employment (Thousands of persons)		18,968.8	2.7	2.8	2.6	2.5	2.5
2. Full-time equivalent employment (Thousands of persons)		17,366.7	2.9	2.5	2.4	2.3	2.3
3. Employed (Thousands of hours worked)		32,159.6	2.3	2.7	2.5	2.4	2.4
4. Labour productivity per employee (Thousands Euros)		58.1	0.5	-0.1	-0.1	-0.1	-0.1
5. Labour productivity, full-time equivalent (Thousands Euros)		63.5	0.4	0.3	0.1	0.1	0.2
6. Productivity per hour worked (Euros)		34.3	0.9	0.0	0.0	0.0	0.0
7. Compensation per employee(**) (Thousands of Euros)		35.1	0.0	1.3	1.5	1.6	1.7
8. Unit Labour Cost		-	-0.4	1.0	1.4	1.5	1.5
9. Compensation of employees (Million Euros)	D.1	526,098.0	3.1	3.8	4.0	4.1	4.1
10. Unemployment rate (% of labour force)		-	19.6	17.5	15.6	13.7	11.9

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

With regards to the external sector, net external demand will register positive contributions to GDP growth throughout the period (0.5 p.p. in 2017, 0.4 points

in 2018 and 0.3 points in 2019 and 2020). Real exports of goods and services will grow at rates close to 5%, boosted by the competitiveness gains derived from the moderation of relative unit labour costs and the greater dynamism of our export markets. Imports will grow at slightly lower rates than exports, approximately 4%. In this context, the current account balance will continue registering surpluses and will remain close to 2% of GDP during the entire forecast period. From 2012 to 2020, the Spanish economy will generate € 170 billion of net lending. Out of this amount, € 80 billion were generated between 2012 and 2016 and € 90 billion will be generated in the period from 2017 to 2020.

Table 3.3.3. Prices developments

	ESA Code	2016 (A)	2016 (A)	2017 (F)	2018 (F)	2019 (F)	2020 (F)
		Level	year-on-year % change				
1. GDP deflator		101.0	0.3	1.5	1.6	1.7	1.7
2. Private consumption deflator ^(*)		105.7	-0.2	1.5	1.6	1.7	1.8
3. Public consumption deflator		99.6	0.1	1.0	1.0	1.1	1.2
4. Gross fixed capital formation deflator		95.7	1.5	2.8	2.6	2.4	1.9
5. Exports prices deflator (goods and services)		103.4	-1.1	2.9	1.9	1.9	2.3
6. Imports prices deflator (goods and services)		107.9	-1.6	3.5	2.0	2.0	2.2

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

In the process of correcting the imbalances of the Spanish economy, the prices moderation has played a relevant role. However, since the end of last year, inflation has temporarily rebounded, both in Spain and in the rest of the economies of the Eurozone, due to the base effect associated with the sharp drop in energy prices in the same period of 2016.

As of 2017, prices are expected to return to positive growth rates, boosted by the rise of oil prices, with the private consumption deflator registering gradually increasing annual growths, slightly below 2% at the end of the forecast period. As for the public consumption deflator, its growth rate is expected to gradually increase, to reach an annual rate of 1.2% in 2020, while that of the GFCF, after rebounding in 2017, progressively slows down to 1.9% at the end of the projection period. With regards to the deflators of exports and imports of goods and services, an increase of 2.9% and 3.5%, respectively, is forecast for 2017, resulting in a 1.5% increase in the GDP deflator.

Table 3.3.4. Sectorial balances
% of GDP

	ESA Code	2016 (A)	2017 (F)	2018 (F)	2019 (F)	2020 (F)
1. Net lending (+) / Net borrowing (-) vis-à-vis the rest of the world	B.9	2,0	2,0	1,9	1,8	1,7
- Balance on goods and services		2,9	3,2	3,5	3,6	3,9
- Balance of primary incomes and transfers		-1,0	-1,3	-1,7	-2,0	-2,2
- Capital account		0,2	0,1	0,1	0,1	0,1
2. Net lending (+) / Net borrowing (-) of the private sector	B.9	6,6	5,2	4,1	3,1	2,2
3. Net lending (+) / Net borrowing (-) of General Government	B.9	-4,5	-3,1	-2,2	-1,3	-0,5

(*) The figures include financial assistance.
(A) Advance; (F) Forecast.
Sources: National Institute of Statistics and Ministry of Economy, Industry and Competitiveness.

From a sectorial point of view, the evolution of the net lending of the Spanish economy is partly explained by the decreasing deficit of the General Government, which is expected to fall from 4.5% of GDP in 2016, including financial sector assistance, to 0.5% of GDP in 2020. On the other hand, the private sector moderates its net lending throughout the forecast period. In the case of households, a gradual increase of the saving rate is expected during the projection horizon, returning to its historical average. From its peak in 2010 until the end of 2016, the debt of households and non-financial corporations has decreased by more than 50 p.p. of GDP, down to 166.1%, a level that is similar to the average registered by the Eurozone. The correction of households and non-financial corporations debt will continue in the coming years and it is expected to fall some additional 30 p.p. during the forecast period, to reach 135% of GDP in 2020. The deleveraging of the private sector will, in any case, continue to be compatible with the increase in new credit to firms and households.

Methodological aspects of the 2017-2020 Macroeconomic Scenario

This box is included in the Stability Programme in order to inform about the methodological aspects that have been used to develop the macroeconomic scenario, in line with the recommendations made by the AIREF in this regard. The methodology used, as well as the basic assumptions and external assumptions on which the macroeconomic scenario is based, are detailed below.

Methodology

The forecasts made on the evolution of the different macroeconomic variables of the scenario presented, were prepared using predictive equation models in the short and long term, including co-integration ratios in error correction models. Therefore, a long-term balance relationship between economic variables and the existence of imbalances in the short term is admitted, so they are gradually corrected through partial adjustments in the correction term.

These individual equations are integrated into a model of simultaneous equations in order to ensure the consistency of the main macroeconomic aggregates forecasts.

The set of explanatory variables includes indicators of the different hypothesis of the scenario presented, as well as indicators on credit evolution and a comprehensive set of auxiliary variables such as confidence indices and labour market and prices indicators, among others. The extrapolation of the behaviour of these variables in the medium term requires the provision of single-equation prediction models for each component. The models are regularly updated with data from the National Accounts and auxiliary variables.

For the short-term forecasts, multifactorial models have also been used to obtain the growth of Gross Domestic Product (GDP) for the Spanish economy and transfer functions based on the Synthetic Activity Indicator (known in Spanish as ISA) for the Spanish economy, developed and published by the Ministry of Economy, Industry and Competitiveness¹. These models use the available information from a wide range of monthly activity indicators that summarise the global economic evolution in Spain.

These short-term growth estimates are incorporated into the predictive models in the mid and long term, feeding the initial dynamics as well as the start of the evolution of the independent variables included in the hypotheses.

To estimate the effects of the different measures affecting public spending and revenue and structural reforms, as well as to carry out the sensitivity exercises included in the Stability Programme, the main tool used is the REMS² model. The REMS model is a general equilibrium model for the Spanish economy, with a system of micro economically based equations, which includes several nominal and real rigidities and allows analysing its dynamic evolution in the presence or absence of a structural change. It describes a small and open economy, where households, firms (some of them operating in imperfect competition), economic authorities and external sector interact. In the production factors market, the physical capital and energy are exchanged in a perfectly competitive context.

Basic assumptions and external hypothesis

- Dollar/euro exchange rate

For the years 2017 and 2018, the assumptions regarding the evolution of the dollar/euro exchange rate forecast by the EC were used and for 2019 and 2020, the exchange rate assumptions remained constant at the level of 2018.

- Brent oil price

The assumptions for the Brent oil price for 2017 and 2018 coincide with those considered by the EC. In 2019 and 2020 the oil exchange rate remains constant at the level of 2018.

- Short and long-term interest rates

The three-month Euribor rates forecasts were provided by the EC and the forecasts for the 10-year interest rates of the State debt arise from the implicit rates of the State debt by 31st December of each of the years considered in the scenario.

(1) See methodology in <http://serviciosedemineco.gob.es/indeco/>.

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

- World GDP excluding the EU

The 2017 and 2018 world GDP growth forecasts excluding the EU are those provided by the EC, projecting acceleration for the next two years in line with the projections of the International Monetary Fund (IMF) for the world GDP in its latest outlook report.

- Eurozone GDP

For 2017 and 2018, the hypotheses about GDP growth in the Eurozone coincide with those published by the European Central Bank in March 2016. GDP growth in the Eurozone in the remaining years is expected to describe a similar profile to the one anticipated by the IMF, growth being moderated by one tenth in 2018, to 1.6% and remaining at that level in 2019.

- World imports volume, excluding the EU

The EC hypothesis on the evolution of this aggregate is incorporated for 2017 and 2018. In the rest of the projection period, a path consistent with the projections of global imports and EU GDP is anticipated.

- Spain's Export Markets

Export markets were calculated as a weighted average of imports of goods and services in volume for the different countries to which our exports were sent, considering the weights of the Spanish exports to those countries. In 2017-2018, the Spanish export markets were assumed to evolve according to the EC Forecasts. For 2019 and 2020, it is expected that markets will continue to accelerate, in line with the IMF's projections for imports of goods and services of advanced countries and emerging economies.

3.4. Comparison with the scenarios of other organisations

The main national and international organisations have revised upwards the growth forecasts for the Spanish economy for 2017 and 2018. The EC, the OECD and the IMF estimate a slightly lower growth than that included in the macroeconomic scenario that accompanies the Stability Programme Update. For this year, they foresee GDP growth rates of 2.3%, 2.5% and 2.6%, respectively. On the other hand, the Bank of Spain expects a growth of 2.8%, slightly higher than the one forecast by the Government. For 2018, all organisations expect a slowdown higher than that estimated by the Government. The EC and the IMF expect the Spanish GDP to grow by 2.1%, while the OECD and the Bank of Spain predict rates of 2.2% and 2.3%, respectively.

The scenarios of the main organisations consider domestic demand as the main growth driver and expect positive contributions both of domestic and external demand throughout the projection horizon. In the Government's

macroeconomic scenario, the domestic demand contribution to growth stands at 2.2 p.p. in 2017 and 2.1 p.p. in 2018. On the other hand, the OECD, the IMF and the Bank of Spain foresee a contribution to growth one tenth higher, 2.3 p.p., in 2017, while the EC sets it at 2 p.p. For 2018, the domestic demand contribution to growth would fall slightly.

According to the scenario included in this Stability Programme Update, the external sector will continue contributing positively to growth in 2017 (0.5 p.p.) and 2018 (0.4 p.p.). Likewise, the main organisations also foresee positive contributions during the above mentioned period, although slightly more moderate in general. According to the OECD and the IMF, the external sector contribution will stand at 0.3 p.p. for 2017 and, according to the EC, at 0.2 p.p., while the Bank of Spain's forecast is 0.5 p.p. For 2018, the international organisations reduce the external sector contribution to growth down to 0.1 p.p., except the Bank of Spain, which sets it at 0.3 p.p.

The private final consumption expenditure considered in the macroeconomic scenario will slow down slightly, down to 2.6% in 2017 and 2.4% in 2018. The main organisations consider that the private consumption slowdown will be steeper. Thus, the Bank of Spain expects the slowdown to reach 2.4% in 2017 and 1.6% in 2018, while according to the OECD, the rates will reach 2.2% in 2017 and 1.6% in 2018. On the other hand, this year the IMF foresees a slowdown equal to the one expected by the Government and somewhat more intense next year, down to 2.1%, while the EC estimates rates of 2.1% and 1.8%.

The main national and international organisations' estimates for final consumption expenditure growth of the General Government are in line with those of the Government for 2017 and 2018, except for the OECD, which foresees a higher growth, of 1.2% in 2018.

The GFCF growth forecast by the main organisations for the period 2017-2018 is higher than the one projected in the scenario provided in this Stability Programme (2.8% in 2017 and 2.6% in 2018). The main organisations expect rates above 3% in 2017 and of approximately 4% or above in 2018, except for the IMF, which forecasts a slowdown for next year, down to 2.7%.

According to the main organisations, foreign trade flows will register a remarkable dynamism in the horizon considered, although more moderate than that estimated by the Government (5.5% and 4.9% in 2017 and 2018, respectively). Thus, the EC, the OECD and the IMF set the goods and services exports y-o-y variation rate in 2017 at approximately 4.5% (4%, 4.3% and 4.6%, respectively). On the other hand, the Bank of Spain predicts a growth in exports greater than that of the Stability Programme, 6.1%. For 2018, all agree that the growth of total exports will stand at around 4.5%. The imports growth rate projected by the international organisations is below the official forecast for 2017 and above for 2018.

The unemployment rate expected for 2017 by the main national and international organisations is very much in line with the official estimate of 17.5%.

However, for 2018 the Government expects a greater drop than that estimated by these organisations (-15.6%).

With regards to the net borrowing of the General Government, all organisations expect it to reach between two and four tenths above the Government's estimate (3.1% of GDP).

Finally, the main national and international organisations expect net lending of the nation in the 2017-2018 period to reach approximately 2% of GDP, in line with the Government's forecasts.

Table 3.4.1. Comparison of Macroeconomic scenarios 2017-2018
Year-on-year % change, unless otherwise specified

	EC		OECD		IMF		Bank of Spain		
	Forecast February 2017		Forecast March 2017		Forecast April 2017		Forecast March 2017		
	2017	2018	2017	2018	2017	2018	2017	2018	
1. GROSS DOMESTIC PRODUCT	2.3	2.1	2.5	2.2	2.6	2.1	2.8	2.3	
2. Private consumption expenditure ^(a)	2.1	1.8	2.2	1.6	2.6	2.1	2.4	1.6	
3. Government consumption expenditure	0.9	0.8	0.9	1.2	0.7	0.7	0.8	0.8	
4. Gross fixed capital formation	3.4	3.8	3.6	4.7	3.1	2.7	3.3	4.4	
5. Change in inventories + net acquisition of valuables ^(b)	0.0	0.0	0.1	0.0	0.0	0.0	-	-	
6. Exports of goods and services	4.0	4.3	4.3	4.4	4.6	4.2	6.1	4.8	
7. Imports of goods and services	3.5	4.3	3.7	4.5	4.1	4.1	5.2	4.4	
8. Domestic demand ^{(b)(c)}	2.0	1.9	2.3	2.2	2.3	2.0	2.3	2.0	
9. External demand ^(b)	0.2	0.1	0.3	0.1	0.3	0.1	0.5	0.3	
Memo items:									
10. Net lending(+)/net borrowing(-) (% GDP)	2.2	2.0	-	-	2.2	2.2	1.9	1.8	
11. GDP Deflator	1.4	1.6	1.3	1.4	1.5	1.5	1.0	1.3	
12. Private Consumption Deflator	1.9	1.7	1.9 (1)	1.8 (1)	2.4 (5)	1.4 (5)	2.2 (5)	1.4 (5)	
13. Total employment ^(d)	2.0	1.7	2.4 (2)	1.9 (2)	2.4 (2)	1.5 (2)	2.6	1.9	
14. Unemployment rate (% of labour force)	17.7	16.0	17.5	16.1	17.7	16.6	17.5	16.0	
15. Unit labour costs	1.1	1.2	1.6 (3)(4)	1.4 (3)(4)	-	-	-	-	
16. Net lending(+)/net borrowing(-) of General Government (% GDP)	-3.5	-2.9	-3.4	-2.8	-3.3	-2.7	-3.3	-2.8	
(1) Harmonised Index of Consumer Prices.									
(2) Labour Force Survey. Millions jobs.									
(3) November 2016 projections.									
(4) OECD definition: Compensation of employees per unit of product.									
(5) Consumer Prices Index.									
(a) Households and Non-profit institutions serving households									
(b) Contribution to GDP growth.									
(c) OECD and IMF: annual growth of domestic demand.									
(d) Full-time equivalent jobs.									
Sources: European Commission, IMF, OECD and Bank of Spain.									

4. PUBLIC DEFICIT AND PUBLIC DEBT

4.1. The General Government in 2016

In 2016, the General Government recorded a deficit 4.33% of GDP. Including the financial assistance, which accounts for 0.21% of GDP, the deficit reached 4.54% of GDP. In both cases, the registered deficit is below the 4.6% set as a target for 2016 on the fiscal consolidation path established by the EU Council Decision on 8th August, and this places Spain in a favourable starting point to carry out the fiscal adjustment required for 2017 and to reduce the deficit down to 3.1% of GDP.

The 0.75 p.p. public deficit reduction in 2016 in comparison to 2015 is explained by the Regional Governments deficit reduction (0.92 p.p.), the increase in the Local Corporations surplus (0.17 p.p.) and the decrease in the Central Government deficit (0.07 p.p.), while the Social Security Funds increased their deficit by 0.4 p.p. (Table 4.1.1).

Table 4.1.1. Balance of the General Government in 2016
% of GDP

	2015	2016	2016 Target
Central Government ⁽¹⁾	-2,59	-2,52	-2,2
Regional Governments	-1,74	-0,82	-0,7
Local Governments	0,47	0,64	0,0
Social Security	-1,22	-1,62	-1,7
Total General Government⁽¹⁾	-5,08	-4,33	-4,6
<i>Net cost linked to the restructuring of the banking sector</i>	-0,05	-0,21	
Total General Government	-5,13	-4,54	
(1) Excluding net costs related to the restructuring of the banking sector. Source: General State Comptroller (IGAE).			

Including the financial assistance to financial institutions, that amounts to 0.21% of GDP, the deficit stands at 4.54% in 2016, compared to the 5.13% recorded in 2015. (Table 4.1.1).

The General Government balance improvement in 2016 was due to the increase of non-financial revenues (1.5%) and to the maintenance of expenditure (excluding the financial assistance). On the revenue side, the tax revenues increased by 1.7%.

Table 4.1.2. The General Government in 2016

	2015	2016	year-on-year % change	2015	2016	Difference
	Million €			% of GDP		
Revenues	415.539	421.672	1,5	38,63	37,86	-0,8
Tax revenues	243.036	247.160	1,7	22,59	22,19	-0,4
Direct taxes	115.458	117.628	1,9	10,73	10,56	-0,2
Indirect taxes	127.578	129.532	1,5	11,86	11,63	-0,2
Social Security contributions	132.290	136.341	3,1	12,30	12,24	-0,1
Other revenues	40.213	38.171	-5,1	3,74	3,43	-0,3
Expenditures	470.667	472.248	0,3	43,76	42,40	-1,4
Compensation of employees	119.125	121.431	1,9	11,07	10,90	-0,2
Intermediate consumption	57.142	55.949	-2,1	5,31	5,02	-0,3
Social benefits	170.401	173.939	2,1	15,84	15,62	-0,2
Interests	33.227	31.358	-5,6	3,09	2,82	-0,3
Subsidies	12.470	11.467	-8,0	1,16	1,03	-0,1
Social transfers in kind (market production)	28.376	28.902	1,9	2,64	2,59	0,0
VAT and GNI based EU own resources	9.210	10.008	8,7	0,86	0,90	0,0
Gross fixed capital formation	26.970	21.548	-20,1	2,51	1,93	-0,6
Investment grants and other capital transfers	7.097	8.845	24,6	0,66	0,79	0,1
Other expenditures	6.649	8.801	32,4	0,62	0,79	0,2
Net lending (+) / Net borrowing (-)	-55.128	-50.576	-8,3	-5,13	-4,54	0,6
<i>Net cost linked to the restructuring of the banking sector</i>	-535	-2.389	346,5	-0,05	-0,21	-0,2
Net lending (+) / Net borrowing (-)⁽¹⁾	-54.593	-48.187	-11,7	-5,08	-4,33	0,7
<i>Memo items:</i>						
Public debt	1.073.894	1.106.952	3,1	99,84	99,38	-0,5
Implicit interest rate (%)	3,19	2,92				

(1) Excluding net costs related to the restructuring of the banking sector.

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

Within the tax revenues, direct taxes rose by 1.9% mainly driven by the increase in household income and indirect taxes increased by 1.5%. On the other hand, revenues from social security contributions rose by 3.1% thanks to the strong job creation.

Non-financial expenditure of the General Government registered a slight increase of 0.3% in 2016, reducing their weight in relation to the GDP by 1.36 points compared to the previous year, reaching 42.4%. Excluding the transfers to the financial system, expenditure remained constant in comparison to the figure registered in 2015. Within expenses, the final consumption expenditure of the Public Administrations increased by 0.9%, where the rises in employee compensation (1.9%) and social transfers in kind acquired from market producers (1.9%) stood out. Likewise, social transfers other than social transfers in kind and EU own resources, VAT and GNI, showed a dynamic performance, recording rises of 2.1% and 8.7%, respectively. Interest rates and the GFCF, which fell by 5.6% and 20.1%, respectively, as well as subsidies, which decreased from € 12.5 billion in 2015 down to € 11.5 billion in 2016 and intermediate consumption (-2.1%) stand out among the groups that fell.

At the end of 2016, debt of the General Government, according to the methodology of the Excessive Deficit Procedure (EDP), amounted to € 1.107 billion (99.4% of GDP), compared to the € 1.074 billion (99.8% of GDP) recorded at the end of the previous year, representing a reduction of half a tenth of the GDP debt ratio, in line with the trend experienced the previous year.

By subsectors, the Central Government deficit (Table 4.1.3) stood at 2.52% of GDP in 2016 (excluding the financial assistance), compared with a deficit of 2.59% recorded in 2015, and the committed target of 2.2% of GDP.

Table 4.1.3. The Central Government in 2016

	2015	2016	year-on-year % change	2015	2016	Difference
	Million €			% of GDP		
Revenues	192.979	190.356	-1,4	17,94	17,09	-0,9
Tax revenues	155.770	155.670	-0,1	14,48	13,98	-0,5
Direct taxes	66.121	64.973	-1,7	6,15	5,83	-0,3
Indirect taxes	89.649	90.697	1,2	8,33	8,14	-0,2
Social Security contributions	10.584	10.556	-0,3	0,98	0,95	0,0
Current transfers within General Government	13.202	10.555	-20,0	1,23	0,95	-0,3
Other revenues	13.423	13.575	1,1	1,25	1,22	0,0
Expenditures	221.364	220.764	-0,3	20,58	19,82	-0,8
Compensation of employees	23.707	23.560	-0,6	2,20	2,12	-0,1
Intermediate consumption	8.928	8.216	-8,0	0,83	0,74	-0,1
Social benefits	16.442	17.504	6,5	1,53	1,57	0,0
Interests	29.841	28.135	-5,7	2,77	2,53	-0,2
Current transfers within General Government	110.436	108.587	-1,7	10,27	9,75	-0,5
VAT and GNI based EU own resources	9.210	10.008	8,7	0,86	0,90	0,0
Gross fixed capital formation	7.963	7.125	-10,5	0,74	0,64	-0,1
Investment grants and other capital transfers	3.346	5.929	77,2	0,31	0,53	0,2
Other expenditures	11.491	11.700	1,8	1,07	1,05	0,0
Net lending (+) / Net borrowing (-)	-28.385	-30.408	7,1	-2,64	-2,73	-0,1
<i>Net cost linked to the restructuring of the banking sector</i>	-535	-2.389	346,5	-0,05	-0,21	-0,2
Net lending (+) / Net borrowing (-)⁽¹⁾	-27.850	-28.019	0,6	-2,59	-2,52	0,1
<i>Memo items:</i>						
Public debt	940.450	969.552	3,1	87,43	87,05	-0,4
Implicit interest rate (%)	3,31	2,99				

(1) Excluding net costs related to the restructuring of the banking sector.

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

Revenues fell by 1.4%, mainly due to the lower transfers received as a result of the settlement of the Territorial Administrations during the financial year 2014, which was favourable to them, while that of 2013 was favourable to the State. Likewise, tax revenues decreased by 0.1% due to the decline in revenues from direct taxes (-1.7%), as opposed to the increase in indirect taxes (1.2%), which together with the lower current transfers received from other Public Administrations (-20.0%) explains the decline of non-financial resources.

The expenditure of the Central Government decreased by 0.3% in 2016 due to the decline in interests (-5.7%), subsidies (-20.7%) and the transfers to other Public Administrations (-1.7%), and with regards to the capital expenditure, to the declines of the GFCF (-10.5%), capital transfers within the General Government (-19.3%) and investment grants (34%). Excluding the financial assistance to the financial system and interests, non-financial expenditure recorded a 0.4% decline. Among the groups that rose, other capital transfers (169.1%), social benefits other than social transfers in kind (6.5%) and social transfers in kind (2.2%) stand out.

Table 4.1.4. The Regional Governments in 2016

	2015	2016	year-on-year % change	2015	2016	Difference
	Million €			% of GDP		
Revenues	152,254	158,336	4.0	14.15	14.22	0.1
Tax revenues	51,140	54,728	7.0	4.75	4.91	0.2
Direct taxes	38,300	41,300	7.8	3.56	3.71	0.1
Indirect taxes	12,840	13,428	4.6	1.19	1.21	0.0
Current transfers within General Government	81,656	85,953	5.3	7.59	7.72	0.1
Other revenues	19,458	17,655	-9.3	1.81	1.59	-0.2
Expenditures	170,941	167,491	-2.0	15.89	15.04	-0.9
Compensation of employees	71,353	73,400	2.9	6.63	6.59	0.0
Intermediate consumption	27,622	27,108	-1.9	2.57	2.43	-0.1
Interests	4,419	4,397	-0.5	0.41	0.39	0.0
Social transfers in kind (market production)	26,065	26,538	1.8	2.42	2.38	0.0
Current transfers within General Government	15,786	14,255	-9.7	1.47	1.28	-0.2
Gross fixed capital formation	12,699	9,355	-26.3	1.18	0.84	-0.3
Investment grants and other capital transfers	3,203	2,189	-31.7	0.30	0.20	-0.1
Other expenditures	9,794	10,249	4.6	0.91	0.92	0.0
Net lending (+) / Net borrowing (-)	-18,687	-9,155	-51.0	-1.74	-0.82	0.9
<i>Memo items:</i>						
Public debt	263,248	276,899	5.2	24.47	24.86	0.4
Implicit interest rate (%)	1.86	1.67				

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

The Regional Governments deficit, in terms of National Accounts, fell down to € 9.2 billion in 2016, which represents a drop of more than 50%, falling from 1.74% of GDP in 2015 down to 0.82% in 2016. (Table 4.1.4).

Its non-financial revenues increased by 4%, where the increase of € 8.2 billion in the revenues provided by the State through the financing system should be noted.

On the other hand, expenditure fell by 2% although the employee compensation increased by 2.9%, due to the rise in the number of public employees and to the recovery in 2016 of pending amounts still to be refund corresponding to the bonus pay withdrawn in 2012. The drop in investment stands out (-26.3%), due to the fact that it increased significantly in 2015 as a result of the reclassification of a number of investments made by the private sector through Public Private Partnership contracts amounting to € 2.3 billion.

Regarding Local Corporations (Local Governments, Council Offices, Town Councils and Island Councils), they recorded a surplus in 2016 for the fifth consecutive year, amounting to € 7.1 billion, equivalent to 0.64% of GDP (Table 4.1.5).

This good performance is explained by an increase in its resources (1.5%), driven by the rises in tax revenues (1.8%) and, to a greater extent, by current transfers from other Public Administrations (4.1%), and a decrease in expenditure (1.5%).

Expenditure fell mainly due to the decreases in current transfers to other Public Administrations (-3.7%) as a result of the final settlement of 2014, and investment (-21%). Interests fell by 7.9%. Among the expenses that increased, employee compensation (1.8%), intermediate consumption (0.2%), social benefits (1.7%), social transfers in kind (4.2%) and other capital transfers stand out, as they rose from € 28 million in 2015 up to € 253 million in 2016.

Table 4.1.5. The Local Entities in 2016

	2015	2016	year-on-year % change	2015	2016	Difference
	Million €			% of GDP		
Revenues	69,793	70,840	1.5	6.49	6.36	-0.1
Tax revenues	36,126	36,762	1.8	3.36	3.30	-0.1
Direct taxes	11,037	11,355	2.9	1.03	1.02	0.0
Indirect taxes	25,089	25,407	1.3	2.33	2.28	-0.1
Current transfers within General Government	22,330	23,244	4.1	2.08	2.09	0.0
Other revenues	11,337	10,834	-4.4	1.05	0.97	-0.1
Expenditures	64,699	63,757	-1.5	6.01	5.72	-0.3
Compensation of employees	21,514	21,912	1.8	2.00	1.97	0.0
Intermediate consumption	19,551	19,581	0.2	1.82	1.76	-0.1
Interests	722	665	-7.9	0.07	0.06	0.0
Subsidies	1,478	1,454	-1.6	0.14	0.13	0.0
Current transfers within General Government	11,162	10,746	-3.7	1.04	0.96	-0.1
Gross fixed capital formation	6,199	4,898	-21.0	0.58	0.44	-0.1
Other expenditures	4,073	4,501	10.5	0.38	0.40	0.0
Net lending (+) / Net borrowing (-)	5,094	7,083	39.0	0.47	0.64	0.2
<i>Memo items:</i>						
Public debt	35,131	32,094	-8.6	3.27	2.88	-0.4
Implicit interest rate (%)	1.88	1.89				

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

Finally, Social Security Funds registered a deficit of € 18.1 billion, equivalent to 1.62% of GDP.

Their non-financial resources decreased by 1.6%, due to the fall in current transfers received from Public Administrations, which dropped from € 23.4 billion in 2015 down to € 17.2 billion in 2016. Other resources that decreased were interests received (-36.9%) mainly due to the reduction of the Social Security Reserve Fund. On the other hand, social security contributions increased by 3.4%.

Expenditures, with a volume of € 162.1 billion, increased by 1.6% compared to the previous year, due to the 1.5% rise in social benefits other than transfers in kind, reaching € 152.2 billion, and transfers to other Public Administrations by 3.2% (Table 4.1.6).

Table 4.1.6. The Social Security Administrations in 2016

	2015	2016	year-on-year % change	2015	2016	Difference
	Million €			% of GDP		
Revenues	146,394	144,007	-1.6	13.61	12.93	-0.7
Social security contributions	121,061	125,156	3.4	11.25	11.24	0.0
Current transfers within General Government	23,440	17,183	-26.7	2.18	1.54	-0.6
Other revenues	1,893	1,668	-11.9	0.18	0.15	0.0
Expenditures	159,544	162,103	1.6	14.83	14.55	-0.3
Compensation of employees	2,551	2,559	0.3	0.24	0.23	0.0
Intermediate consumption	1,041	1,044	0.3	0.10	0.09	0.0
Social benefits	149,910	152,215	1.5	13.94	13.67	-0.3
Subsidies	2,058	2,182	6.0	0.19	0.20	0.0
Current transfers within General Government	3,244	3,347	3.2	0.30	0.30	0.0
Other expenditures	740	756	2.2	0.07	0.07	0.0
Net lending (+) / Net borrowing (-)	-13,150	-18,096	37.6	-1.22	-1.62	-0.4
<i>Memo items:</i>						
Public debt	17,188	17,173	-0.1	1.60	1.54	-0.1

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

4.2. The General State Budget for 2017

Given the caretaker nature of the Government during most of 2016, it was impossible to approve the General State Budget for 2017 before the end of last year and, as a consequence, the Budget for 2016 was extended, accompanied by an appropriation of credits amounting to € 5.5 billion and the adoption of control measures for the expenditure implementation during 2017. These measures, together with the approval of Royal Decree Law 3/2016, of 2nd December, on measures in the tax field, guarantee the expenditure in 2017 being at the same level executed in 2016, as well as achieving the public deficit target of 3.1% in 2017.

On 4th April, the Government presented the General State Budget Draft for 2017 to the Parliament. This Budget is presented in a favourable economic context, characterised by a strong sustained growth, higher than that of neighbouring economies, and a high rate of job creation, and aims to strengthen growth and ensure the sustainability of public accounts. To achieve this, the General State Budget for 2017 continues the trend set for the expenditures, so that the provisions included in the 2017 budget are broadly in line with the actual implementation levels of 2016.

The General State Budget includes the budget for the Central Government, that is, the State and its Autonomous Bodies as well as of the Social Security System, and does not include the budget for the State Public Employment Service (known in Spanish as SEPE) or the Mutual Insurance Companies for Occupational Accidents and the Wage Guarantee Fund (known in Spanish as FOGASA). The main lines of the State and Social Security budget are analysed below.

4.2.1. The State Budget for 2017

State revenue budget

The economic context will favour a collection increase. The GDP and domestic demand in nominal terms will accelerate in comparison to 2016, as will the employee compensation, which will lead to an increase in tax bases.

Total non-financial revenues (including the participation of Regional Governments and Local Corporations in Personal Income Tax, VAT and Excise Taxes) are expected to grow by 3.1% compared to the collection in 2016, up to € 220.2 billion. Out of this amount, € 133.1 billion correspond to the State, with the participation of Territorial Administrations reaching up to 87.1 billion.

Table 4.2.1.1. State Revenue Budget for 2017

	Collection		Initial budget		year-on-year % change	year-on-year % change
	2016		2017			
	State	Total ^(a)	State	Total ^(a)		
	1	2	3	4		
Tax revenues	106.187	186.249	113.830	200.963	7,2	7,9
Direct taxes	61.210	97.827	66.854	106.617	9,2	9,0
Personal Income Tax	35.799	72.416	38.264	78.027	6,9	7,7
Corporate tax	21.678	21.678	24.399	24.399	12,6	12,6
Others	3.733	3.733	4.191	4.191	12,3	12,3
Indirect taxes	42.677	86.122	44.532	91.902	4,3	6,7
VAT	31.528	62.845	33.052	67.463	4,8	7,3
Excise duties	7.738	19.866	7.811	20.770	0,9	4,6
Others	3.410	3.410	3.669	3.669	7,6	7,6
Other tax revenues	2.300	2.300	2.444	2.444	6,3	6,3
Other revenues	27.219	27.219	19.225	19.225	-29,4	-29,4
Total revenues	133.406	213.468	133.055	220.188	-0,3	3,1

(a) Including the participation of Regional Governments and Local Corporations in Personal Income Tax, VAT and Excise Taxes.

Source: Ministry of Finance and Civil Service.

Tax revenues in 2017 are estimated at € 201 billion, which means an increase of € 14.8 billion (7.9%) compared to the collection in 2016.

The Personal Income Tax revenues are expected to increase in 2017 by 7.7% compared to the collection in 2016, up to € 78.0 billion. These forecasts are based on a 4.6% increase in household income, due to a 4.5% rise in labour income. A 1.3% increase is expected in wages and the pension bills, higher than the figure registered in 2016, with a stable growth of the pensioner population (1%) and the average pension due to the effect of the new pensioners. The growth pace of business income is expected to moderate in 2017, to 6.5%. Finally, capital income will improve thanks to the recovery of capital gains, which in 2016 experienced a sharp contraction. Income from movable capital and those from real estate leases will also progress, although with less intensity.

Revenues expected from the Corporate Income Tax for 2017 amount to € 24.4 billion, meaning an increase of 12.6% compared to the end of 2016. This forecast takes into account a profit growth of approximately 10% and the impact of the measures approved in RDL 2 and 3/2016.

Revenues from Value Added Tax are expected to reach € 67.5 billion in 2017, representing an increase of 7.3% compared to the collection of 2016, mainly due to the growth of the final expenditure subject to VAT, for which a 5.3% increase is expected. Household consumption spending will grow one point more than in 2016, new housing purchases will continue to grow at a similar pace as in 2016, and Public Administrations spending will rise slightly after the reduction experienced in 2016. The other collection increase derives from the limitations on the granting of deferrals introduced in RDL 3/2016.

In 2017, Excise Duties revenues will increase by 4.6% compared to the collection of 2016, reaching € 20.1 billion, mainly due to the growth of subject consumption to the rise in electricity prices, as well as the decrease in the "sanitary cent" refunds, which will increase the net income from the Tax on Hydrocarbons.

The forecast for non-tax revenues stands at € 19.2 billion, registering a 29.4% decrease in comparison to the revenues recorded in 2016. This fall is explained by three factors: the decrease in revenues, the differences between repayment values and the issuance of public debt, the lower revenues related to the territorial financing system; and to the lower expected profits in the Bank of Spain and in the public entity ENAIRE that will imply a dividend decrease.

State expenditure budget

The non-financial expenditure of the State for 2017 amounts to € 152.0 billion³. The State's expenditure limit stands at € 118.3 billion, which results from excluding the contributions to the financing system of the Territorial Administrations (€ 33.7 billion) from the total of non-financial expenditure.

(3) Excluding the credits included in the budget for the Ministry of Defence to meet the payment commitments corresponding to special weapons programmes that have no effect on the deficit of 2017 as they are deliveries made in previous financial years.

Table 4.2.1.2. State Expenditure Budget for 2017

	2016	2017	year-on-year % change
	Initial budget		
	Million €		
	1	2	
1. Non financial expenditure budget^(*)	157.189	152.035	-3,3
2. Territorial Administrations finance	33.797	33.698	-0,3
3. Non financial expenditure ceiling	123.393	118.337	-4,1
Contribution to the budget of the State Public Employment Service and FOGASA	4.320	2.002	-53,7
Contribution to the budget of the Social Security	13.160	13.074	-0,7
Interests, Civil service pensions, European Union, Contingency fund and other expenditure not assigned to Ministries ^(**)	65.230	63.663	-2,4
4. Ministries non financial expenditure	40.682	39.598	-2,7
* Excluding Special Defense Programmes (1.818 M€), that do not impact 2017 deficit .			
** Royal Family budget, Constitutional bodies, Inter-Territorial Compensation Fund and other expenditure of Territorial Administrations.			
Source: Ministry of Finance and Civil Service.			

A number of unavoidable commitments must be addressed in the State Budget: debt interests, pensions for retired civil servants, transfers to the EU, constitutional bodies, inter-territorial compensation funds and other expenditure of Territorial Entities.

Excluding these items and the State's contributions to the Social Security, the State Public Employment Service and the Wage Guarantee Fund (known in Spanish as FOGASA), the result is the amount available for the non-financial expenditure of the ministries and, with an endowment of € 39.6 billion, it suffers a 2.7% decrease compared to 2016.

In the breakdown by chapters, current transfers fall by 3.2% compared to the previous financial year. This decrease is mainly due to the lower contribution from the State to the State Public Employment Service. This decrease is partially offset by increases in other items, among which the following stand out: the higher financing of pensions for retired civil servants, the higher transfer to the State Tax Administration Agency to strengthen the fight against fraud, the increase of credits for school reinforcement programmes, as well as the financing increase for social actions such as the family protection and fight against child poverty and the long-term care system.

Table 4.2.1.3. Economic distribution of the State Expenditure Budget for 2017

	2016	2017	year-on-year % change
	Initial budget		
	Million €		
	1	2	
Non financial expenditure	157,189	152,035	-3.3
I. Personnel expenditure	16,808	16,371	-2.6
II. Current expenditure on goods and services	3,082	3,035	-1.5
III. Interests	33,514	32,229	-3.8
IV. Current transfers	88,812	85,963	-3.2
V. Contingency fund	2,468	2,382	-3.5
VI. Real investment ^(a)	3,632	3,512	-3.3
VII. Capital transfers	8,873	8,542	-3.7

(a) Excluding Special Defense Programmes (1.818 M€), that do not impact 2017 deficit.
Source: Ministry of Finance and Civil Service.

On the other hand, as in previous financial years, social items take most of this chapter with contributions to Social Security to finance the minimum complements, non-contributory pensions or family protection. Likewise, scholarships and grants for students, transfers to Public Research Bodies, the contribution to the EU budget and those made to other public bodies dependent on the State, such as the State Tax Agency mentioned above, can be mentioned as the most significant current transfers.

With regard to financial expenses chapter, a reduction of 3.8% is recorded, derived from favourable financial conditions and the continuous improvement of the Spanish credit rating.

On the other hand, staff expenses fell by 2.6%, due to the fact that the recovery of 50% of the bonus pay for 2012 was included in 2016, what does not happen in 2017. However, the 2017 budgets do include the 1% increase of the public employees' remunerations, as well as a 2.7% increase of the funding of the mutual insurance system. The 1% increase of public employees will have an impact of € 1.2 billion in the General Government, including social security contributions paid by the employer.

Current expenditure on goods and services fell by 1.5% compared to 2016, mainly due to the fall of the electoral expenses.

Real investments fell by 3.3%, compared to the initial 2016 budget, excluding € 1.8 billion from the Ministry of Defence budget⁴. If these credits are included, real investments will increase by 46.8%. Among these credits, the increase derived from the boost to the justice modernisation also stands out.

(4) To meet the payment commitments corresponding to special weapons programmes that have no impact on the public deficit of 2017, as they are deliveries made in previous financial years

As for the capital transfers, they decreased 3.7%, mainly due to the fall of credits for loan subsidy. The total endowment envisaged for this item includes credits to finance research programmes, transport infrastructures, transfers to Autonomous Bodies, agreements with Regional Governments, etc.

4.2.2. Social Security budget

The General State Budget also includes, among other elements, the Social Security System budget, but it does not include the budgets of the SEPE and the FOGASA, which are part of the Social Security Funds subsector in National Accounts.

The consolidated Budget of non-financial revenues of the Social Security System for 2017 amounts to € 126 billion. The main source of funding are social contributions, with an amount budgeted of € 110.6 billion for this year, which allows financing over 85% of non-financial spending. Contributions from companies and employed people are included in this group, as well as unemployed contributions and those for cessation of activity of employed people.

Table 4.2.2.1. Social Security Revenue Budget for 2017

	2016	2017	year-on-year % change
	Initial budget		
	Million €		
	1	2	
Total Revenues	133,082	125,967	-5.3
Social Security contributions	117,243	110,560	-5.7
Current transfers	13,199	13,096	-0.8
of which: from the State	13,143	13,056	-0.7
Other revenues ^(a)	2,640	2,310	-12.5

(a) Property income, fees and other revenues and capital transfers.

Source: Ministry of Labour and Social Security.

Income from social security contributions is followed, due to their amount, by the contributions received from the State. For 2017, they are estimated to reach a total of € 13.1 billion, 0.7% less than in 2016. More than half of these transfers received by the Social Security are used to cover the minimum pension supplements, which with € 7.2 billion in 2017, maintain the decreasing trend. This is due to the greater amount of new pensions. In addition, to contribute to the care for dependant people, the State provides € 1.4 billion, 8.2% more than in the previous financial year.

This year, in order to contribute to the fulfilment of Social Security obligations, the State has budgeted the granting of a loan to the Social Security for € 10.2 billion.

Table 4.2.2.2. Social Security Expenditure Budget for 2017

	2016	2017	year-on-year % change
	Initial budget		
	Million €		
	1	2	
Total expenditures	136,827	142,646	4.3
Current transfers	132,751	138,550	4.4
Contributory pensions	118,942	122,777	3.2
Non-contributory pensions	2,291	2,320	1.3
Temporary disability	5,398	6,986	29.4
Maternity	2,204	2,450	11.1
Other current transfers	3,917	4,017	2.6
Other expenditures ^(a)	4,075	4,096	0.5
(a) Staff, goods and services, financial expenses, real investment and capital transfers.			
Source: Ministry of Labour and Social Security.			

The Budget for Social Security non-financial expenditure for 2017 totals € 142.6 billion, which represents a growth of 4.3% compared to the 2016 budget. Over 97% of the total non-financial expenses are allocated to benefits intended to provide for, repair or compensate the expenses arising from the occurrence of certain contingencies that imply a loss of revenue or greater expenses for those who bear them: contributory and non-contributory pensions, benefits for temporary disability and maternity benefits and other various benefits, such as family allowances and those linked to dependence.

Contributory pensions were allocated € 122.8 billion in 2017, 3.2% higher than last financial year, based on the increase in the group of pensioners, the variation of the average pension and a revaluation of 0.25%.

The credit assigned to the payment of temporary disability benefits increases by 29.4% up to € 7 billion. In previous years there had been a considerable decrease in spending on this benefit, however, since 2014 a growing trend of spending consistent with the increase of the covered workers is taking place, which is expected to continue in 2017.

Benefits for maternity, paternity and risks during pregnancy and during breastfeeding and subsidy to take care of children affected by cancer or other serious illness, have been allocated € 2.5 billion in 2017, 11.1% more than in 2016. This increase is motivated by a credit increase in the paternity subsidy of € 235 million, aimed to cover the extension of the paternity leave.

Finally, non-contributory pensions of the Social Security, which increase by 1.3%, appear in the Budget of the Institute of Social Services and the Elderly (known in Spanish as IMSERSO) with a credit of € 2.3 billion (excluding the Basque Country and Navarre). This credit will enable to cover the higher cost due to the variation in this group, the increase of the average pension and the 0.25% revaluation.

4.3. 2017-2020 Fiscal strategy. Analysis of measures and budgetary impact

4.3.1. 2017-2020 Fiscal strategy

The main objective of the fiscal strategy projected for the 2017-2020 period is to achieve sound public finances in order to provide and maintain the decreasing trend of public debt, guaranteeing the sustainability of public finances as a way to continue reinforcing the Spanish economy credibility, fostering growth and job creation, and reinforcing well-being.

The fiscal consolidation process undertaken by the Public Administrations since 2011 has allowed to reduce the public deficit by more than half in the last five years, falling from 9.3% of GDP in 2011 down to 4.3% of GDP in 2016, excluding the financial assistance. This consolidation process will continue in the coming years.

The EU Council Decision of 8th August 2017 set the consolidation path for the General Government, establishing a deficit target of 4.6% of GDP for 2016, 3.1% of GDP for 2017 and 2.2% of GDP for 2018. As a result, an Agreement of the Council of Ministers adopted on 2nd December 2016, approved the budgetary stability objective for the General Government and for each of its subsectors for the period between 2017 and 2019, setting the deficit targets at 3.1, 2.2 and 1.3% of GDP for the financial years 2017, 2018 and 2019 respectively for the General Government. As an innovation, the deficit target to be reached in 2020, which stands at 0.5% of GDP is included in this document.

The public debt will continue the downward trend started in 2015, falling down to 92.5% of GDP in the last year of the Programme projection, with an intensified annual reduction thanks to the GDP growth and the favourable evolution of the primary balance. The primary deficit is expected to drop 1.4 points, down to 0.4% of GDP in 2017. Primary surplus will be reached in 2018, and it will amount to 2.1% of GDP at the end of the programme, in 2020.

The distribution of targets from 2017 to 2020 responds to the need for all subsectors to participate in the required adjustment. According to the new path set, Regional Governments will have a deficit target of 0.6% this year, one tenth less than the target set in the previous year and 0.22 p.p. of GDP compared to the end of 2016. As for the Social Security, the deficit target is reduced by three tenths, down to 1.4% of GDP this year, mainly thanks to the expected improvement in the evolution of social security contributions, which will allow reducing this deficit in the current and the next financial years. The stability target of Local Corporations is maintained in a budgetary balance for the entire projection period. However, as a result of the application of the expenditure rule, it is expected that Local Corporations will continue to record surpluses in the coming years. On the other hand, the Central Government has set itself a strict deficit reduction target for 2017, down to 1.1% of GDP (one point and one tenth less than the target for the previous year), considering an improvement in tax collection and the extension of the public expenditure containment, among other reasons due to the application of the spending rule.

In 2018, the deficit target of the General Government is set at 2.2% of GDP, out of which a deficit of 0.7% of GDP corresponds to the Central Government, 0.3% to Regional Governments, 1.2% to Social Security and budgetary balance for Local Corporations.

The fiscal strategy for the General Government consists in keeping the public revenue to GDP ratio above 38% of GDP, with a slightly growing trend throughout the period, due to the favourable macroeconomic scenario, and the ratio of spending to GDP decreasing by almost 3 points, from 42.2% of GDP in 2016 (without financial assistance) to 39.2% of GDP in 2020.

The revenue ratio increases from 37.9% of GDP in 2016 to 38.7% of GDP in 2020. This upward trend in revenues can be explained by the consolidation effect of the recently adopted regulatory measures and by the good performance of the economy, which has had a positive impact on taxable income, generating an increase in revenues.

Social security contributions follow a growing trend, with a significant upturn in 2017, reaching a rate of 4.6% in National Accounts terms, boosted by the recovery of the labour market and the increase of the employee compensation, and maintaining its growth constant in the rest of the period at approximately 3.8%.

In terms of expenditure, the ratio since 2017 to 2020 is reduced by almost 3 points, due to the public spending restraint expected for this period, taking into account that the spending growth throughout the projection period falls below the nominal GDP growth. At this point, with sustained nominal growth rates of the economy over time, the application of the expenditure rule will play a key role at all levels of the administration, as for a containment of public expenditure.

In the functional classification of expenditure, a significant reduction in the ratios to GDP of almost all the items can be seen, where the reduction in general services as a result of the reduction of debt interests stands out. The social protection item will remain the most important throughout the whole projection period since it contains the pension expenditure, and it will also reduce its weight on GDP thanks to the unemployment expenditure reduction, boosted by the labour market dynamism.

The public consumption stands out in the expenditure evolution, which primarily consists of three items: compensation of employees, intermediate consumption and social transfers in kind. Real public consumption remains at a growth rate of approximately 0.7% in the period between 2017 and 2020. In nominal terms, public consumption grows at approximately 1.8% in the period covered. As for compensation of employees, an increase in expenditure is expected in comparison to the previous year (€ 2.3 billion) coming from a 1% increase in remunerations, included in the General State Budget Bill for 2017 backdated for the whole year, the rise in the replacement rate and part of the bonus pay still pending to be returned by Regional Governments. These increases will be only

offset by the lower expenditure this year in the part corresponding to the release of the bonus pay of 2012 made in 2016.

With regards to intermediate consumption, the evolution will be slower than the nominal GDP increases, and it will remain virtually constant in the coming years. In this group, it should be taken into account that the falls that took place in 2016 will not occur in 2017. Such falls happened as a result of the lower extraordinary expenses of approximately € 1 billion in 2015 to finance hepatitis C treatments, expenses that have already settled at around € 350 million and that, as a general item, are also expected to be stable for the coming years.

As for social transfers in kind, they fall slightly in 2017, stabilising in the rest of the period, as a result of a greater efficiency in the field of health and education accords, as well as in the hospital expenditure field.

In short, in the period between 2017 and 2020 the main items included in public consumption will rise below the nominal growth of the economy, and this is necessary to guarantee that the Public Administrations comply with the spending rule. Thus, it is required that the primary expenditure, once the cyclical items are excluded, cannot grow above the reference rate set in the standard. In an environment of low interest rates and cyclical unemployment reduction, compliance with this rule is a preventive restriction. This expenditure containment is based on efficiency measures that allow further reducing the spending to the GDP ratio but with slight increases in nominal spending. This path also complies with the Recommendations made to Spain to increase the efficiency of spending, particularly in healthcare and pharmaceutical sectors.

Interest expenditure will experience a rise in the period between 2017 and 2020, as a result of an eventual and gradual normalisation of the monetary policy in the Eurozone. Although public debt markets seem to provide for a progressive withdrawal of unconventional monetary stimulus by 2018, there are upward risks that suggest adopting a conservative scenario for interest rates.

Table 4.3.1.1. Budgetary projections
Excessive Deficit Procedure

	ESA Code	2016 (A)	2016 (A)	2017 (F)	2018 (F)	2019 (F)	2020 (F)
		Level (Million €)	% of GDP				
Net lending (+) / Net Borrowing (-) (EDP.B9)							
1. Total General Government^(*)	S. 13	-50.576	-4,5	-3,1	-2,2	-1,3	-0,5
1a. Excluding net costs linked to the restructuring of the banking sector		-48.187	-4,3	-3,0	-2,2	-1,3	-0,5
2. Central Government (*)	S. 1311	-30.408	-2,7	-1,1	-0,7	-0,3	0,0
3. Regional Governments	S. 1312	-9.155	-0,8	-0,6	-0,3	0,0	0,0
4. Local Government	S. 1313	7.083	0,6	0,0	0,0	0,0	0,0
5. Social Security funds	S. 1314	-18.096	-1,6	-1,4	-1,2	-1,0	-0,5
General governments (S. 13)							
6. Total revenue	TR	421.672	37,9	38,3	38,4	38,6	38,7
7. Total expenditure	TE	472.248	42,4	41,5	40,6	39,9	39,2
7a. Net costs linked to banking restructuring		-2.389	-0,2	-0,1	0,0	0,0	0,0
8. Net lending / Net borrowing	EDP. B9	-50.576	-4,5	-3,1	-2,2	-1,3	-0,5
8a. Net lending / Net borrowing without banking restructuring net costs		-48.187	-4,3	-3,0	-2,2	-1,3	-0,5
9. Interest expenditure	EDP. D41	31.358	2,8	2,8	2,7	2,7	2,6
10. Primary balance		-19.218	-1,7	-0,4	0,5	1,3	2,1
11. Temporary measures			0,6	0,8	0,3	0,1	0,0
Components of revenue							
12. Total Taxes		247.160	22,2	22,6	22,8	23,2	23,5
12a. Indirect taxes	D.2	129.532	11,6	11,8	11,6	11,6	11,6
12b. Direct taxes	D.5	111.273	10,0	10,3	10,7	11,0	11,4
12c. Taxes on capital	D.91	6.355	0,6	0,5	0,5	0,5	0,5
13. Social contributions	D.61	136.341	12,2	12,3	12,2	12,2	12,2
14. Property income	D.4	8.092	0,7	0,6	0,6	0,6	0,6
15. Other revenue		30.079	2,7	2,9	2,7	2,6	2,5
16. Total revenue	TR	421.672	37,9	38,3	38,4	38,6	38,7
p.m.: Tax burden		381.601	34,3	34,8	35,0	35,3	35,7
Components of expenditure							
17. Compensation of employees and intermediate consumption (17a+17b)	D.1+P.2	177.380	15,9	15,5	15,1	14,7	14,4
17a. Compensation of employees	D.1	121.431	10,9	10,7	10,4	10,2	10,0
17b. Intermediate consumption	P.2	55.949	5,0	4,9	4,7	4,5	4,4
18. Social transfers (18= 18a+18b)		202.841	18,2	17,9	17,6	17,4	17,2
18a. Social transfers in kind supplied via market producers	D.63 (1)	28.902	2,6	2,5	2,5	2,4	2,4
18b. Social transfers other than in kind	D.62	173.939	15,6	15,3	15,1	14,9	14,7
19. Interest expenditure	EDP D.41	31.358	2,8	2,8	2,7	2,7	2,6
20. Subsidies	D.3	11.467	1,0	1,0	1,0	1,0	0,9
21. Gross capital formation	P.5	21.529	1,9	2,0	2,1	2,1	2,1
22. Capital transfers		8.845	0,8	0,7	0,6	0,6	0,6
23. Other expenditure		18.828	1,7	1,6	1,5	1,5	1,4
24. Total expenditure	TE	472.248	42,4	41,5	40,6	39,9	39,2
p.m.: Government consumption	P.3	210.308	18,9	18,4	18,0	17,6	17,2

(*) Figures include net costs linked to banking restructuring included.
(1) D.63 = D.6311+D.63121+D.63131.
(A) Advance: (F) Forecast.
Sources: Ministry of Economy, Industry and Competitiveness and Ministry of Finance and Civil Service .

Expenditure on social transfers other than in kind is mainly determined by the pension expenditure which grows at 3.1% in 2017 and at a slightly lower rate at the end of the projection period. This evolution is achieved thanks to the expenditure containment from the reforms undertaken since 2011 and includes the increase of the effective retirement age and the revaluation index of the pensions, which, together with the sustainability factor, ensure their sustainability in the future. The second component of the group is spending on unemployment, which experiences a reduction in the projection period as employment increases and the unemployment rate falls. This circumstance explains that social transfers other than in kind maintain a growth standing at

2.3% y-o-y in 2017 and rise up to 3.0% y-o-y in 2020, being the growth slightly higher for the last years of the projection period, once the unemployment expenditure reduction is stabilised.

Finally, with regard to the evolution of investment spending (GFCF), it is estimated that during the period between 2017 and 2020, after a period of public spending containment, the GFCF investment will grow again in order to maintain the investments and undertake new financially sustainable investments. In any case, for the period between 2017 and 2018, this group is affected by the € 3.5 billion allocated to cover the costs derived from the judicial proceedings of the eight toll highways that are in bankruptcy proceedings, estimated to come into effect in that period.

As it can be seen in Table 4.3.1.1, which shows the evolution of the main fiscal variables, Spain will meet the 2017 deficit target set at 3.1% of GDP, as well as the required structural adjustment. This is possible thanks to the measures taken so far, in particular those adopted in December 2016, and to the public expenditure containment derived from the application of the expenditure rule. However, if budgetary execution data showed any risk of deviation from the target during the financial year, the measures already committed in the update of the Budgetary Plan submitted in December, namely environmental taxes and the tax on sweetened drinks amounting to € 500 and € 200 million respectively, will be adopted.

4.3.2. Tax policy

MEASURES ADOPTED FROM THE STABILITY PROGRAMME 2016 UNTIL THE PRESENT UNDER THE IMPLEMENTATION OF THE COUNCIL RECOMMENDATIONS

A number of measures, which are described below, came into force during 2016 and 2017.

1. Personal Income Tax

A modification has been introduced to the Personnel Income Tax Act to regulate the tax treatment of amounts received as a result of the devolution of interest rate limitation clauses of loans resulting from agreements entered into with financial entities.⁵

2. Corporate Income Tax

Royal Decree-Law 2/2016 of 30th September, which introduces tax measures aimed at reducing the public deficit, modifies the legal regime of the instalment payments of the Corporate Income Tax for taxpayers whose net turnover exceeds € 10 million.

(5) Royal Decree-Law 1/2017, of 20th January, on urgent measures to protect consumers on collar clauses, Spanish Official Gazette of 21st January.

Royal Decree-Law 3/2016, of 2nd December, which adopts measures in the tax field aimed at consolidating public finances and other urgent measures in the social field, includes three relevant measures, increasing the tax base and ensuring an adequate collection level.

The first measure refers to the non-deductibility of losses resulted from the transfer of securities representative of own equity. Any type of loss generated as a result of participating in entities located in tax havens or in territories that do not reach an adequate level of taxation is excluded from integration in the tax base.

The second measure modifies the reversal mechanism for impairment values of tax-deductible equity assets in tax periods prior to 2013. This reversal is made for a minimum annual amount, on a straight-line basis during five years, without prejudice that higher reversals result from the general application of rules.

The third measure regulates again the limit to the compensation of negative tax bases for large companies with a net turnover of at least € 20 million (50% for companies with a turnover between € 20 and € 60 million and 25% for those companies whose amount exceeds € 60 million), accompanied by a new limit on the application of deductions for international or internal double taxation.

3. Wealth Tax

The taxation is extended during 2017 (Royal Decree-Law 3/2016).

4. Value Added Tax

Royal Decree 596/2016⁶, of 2nd December, includes regulatory changes to allow the establishment of a new system for keeping register books for VAT through the Electronic Office of the State Agency of Tax Administration.

5. Excise Taxes

In the Tax on Intermediate Products and in the Tax on Alcohol and Alcoholic Beverages, the rate is increased by 5% (Royal Decree-Law 3/2016).

In the Tax on Tobacco Products, the weight of the specific component against the "ad valorem" component is increased and the minimum level of taxation is adjusted for both cigarettes and hand-rolled cigarettes (Royal Decree-Law 3/2016).

(6) RD 596/2016 for the modernisation, improvement and promotion of the use of electronic means in the management of the Value Added Tax, which modifies the Value Added Tax Regulation approved by Royal Decree 1624/1992 of 29th December, the General Regulation of the actions and the procedures for the management and tax inspection and development of the common rules for the procedures to apply the taxes, approved by the Royal Decree 1065/2007, of 27th July, and the Regulation affecting billing obligations, approved by Royal Decree 1619/2012, of 30th November (Spanish Official Gazette of 6th December).

6. General Tax Legislation

The possibility of deferring or splitting certain tax obligations is eliminated (Royal Decree Law 3/2016): tax debts corresponding to withholdings and payments on account; tax debts resulting from final negative decisions, totally or partially issued in appeals or claims, both by administrative or legal procedures, which have been previously subject to suspension in any of the abovementioned channels; tax debts derived from taxes that must be legally charged unless it is duly justified that the charged fees have not been actually paid and tax obligations to be fulfilled by the liable tax payer obliged to make instalment payments on the Corporate Income Tax.

Table 4.3.2.1. Revenue coming from the fight against customs and fiscal fraud
Million €

	2012	2013	2014	2015	2016
1. Prevention and control of fiscal fraud	10,441.70	10,133.70	11,483.40	15,188.08	14,379.13
1.1. Direct revenue due to control	8,855.90	8,221.30	8,680.10	9,686.90	9,532.95
1.2. Less tax returns	1,585.80	1,912.40	2,803.30	5501,18*	4,846.19
2. Other results of prevention and control of fiscal fraud	1,075.60	816.50	833.70	475.50	504.13
2.1. Direct revenue from extemporaneous presentations	1,075.60	816.50	833.70	475.50	504.13
TOTAL	11,517.30	10,950.20	12,317.10	15,663.58	14,883.26

(*) This number includes an extraordinary non recursive reduction in tax returns that amounts to 2,709.177 million euros. Excluded (1+2) will add up to 12,954.415 million euros. In 2015 the percentage excludes this extraordinary element.

Source: Ministry of Finance and Civil Service.

Moreover, important advances have been made in the fight against fraud, enabling to reach € 14.9 billion in revenues in 2016, thanks to the consolidation of a high inspection activity. These 2016 results mean an improvement of more than € 1.9 billion, 14.9%, over those obtained during the previous year and exceed by more than € 2.5 billion (20.8%) the results achieved in 2014, both in homogeneous terms.

Table 4.3.2.2. Tax bases of the main taxes in accrual terms
Year-on-year % change

	2014	2015	2016	III.2015	IV.2015	I.2016	II.2016	III.2016	IV.2016
Tax bases	2.5	2.5	4.3	1.3	2.0	2.7	3.1	6.2	5.2
On income	1.7	1.9	5.7	0.1	1.0	5.2	3.6	8.0	5.7
On expenditures	3.7	3.3	2.5	3.2	3.5	-0.6	2.5	3.4	4.4
· Household Gross Income	0.3	3.5	2.9	3.4	3.6	2.3	3.6	3.1	2.7
· Taxable base of CIT	10.7	-7.9	24.3	-9.4	-14.3	22.3	-	23.9	27.3
· Total final expenditure subject to VAT	4.9	4.5	3.7	3.6	5.2	1.0	3.9	5.1	4.7
· Consumption subject to excise duties	-1.9	-2.8	-4.2	1.0	-5.7	-9.4	-5.5	-4.6	2.9

Source: Tax revenue monthly report. February 2017. Tax Agency.

All these measures had a clear impact on the evolution of tax bases during 2016, accompanied by the impact of the economic evolution. Thus, the tax bases of the main taxes increased by 4.3% in 2016 as a whole, above the 2.5% of the last two years. Within the year, the bases followed a rising trend, clearer in the bases related to the expenditure (VAT and Excise Taxes), both due to the consumption improvement and to the upward trend of prices.

On the other hand, gross income of households grew by 2.9% in 2016, mainly due to the good performance of wages, which rose by 4.7%, compared to the 3.9% registered in 2015.

It is estimated that the consolidated tax base of the Corporate Income Tax grew by 24.3% in 2016. The evolution in the last two years of this base is affected by regulatory changes: in 2015 by the tax reform and in 2016 by the measures included in RDL 3/2016. On the other hand, profits, which are not affected by these changes, grew by 5.5%. The information provided by the instalment payment statements of Large Companies and groups, which are the basis of the estimate, indicates that profits grew especially in companies not included in tax groups.

Measures in the pipeline

The General State Budget Bill for 2017 was published on 6th April in the Official Gazette of the Congress of Deputies, a text that includes the following important tax measures:

1. Value Added Tax

The live cultural shows, as well as prescription of glasses frames, are taxed at 10%, which implies a drop from the current 21%.

2. Excise Taxes

The amount of the fees to be refunded for the gas oil used in agriculture and livestock is deducted from the Tax on Hydrocarbons, in order to adapt the domestic legislation to the EU law.

4.3.3. Labour Market and Social Security Measures

Changes in labour law allowed promoting a greater dynamism in the labour market and to take advantage of the economic growth for job creation. They have been complemented with a deep modernisation process of employment activation policies.

The Spanish Activation Strategy for Employment defines a model based on the programming, evaluation and financing of active employment policies and labour intermediation focused towards the achievement of objectives.

At present, all the funds distributed to the Regional Governments to implement active policies are conditioned to the management result, measured using a series of indicators previously agreed with them.

This approach has been reinforced by the development of a common portfolio of employment services, a boost to the collaboration of private employment agencies, a joint action programme to improve the assistance for long-term unemployed people or the operation of the single employment portal.

In addition, deep reforms in the system of training for employment⁷ have also been introduced. The system seeks to anticipate the productive sector needs and provide support for the innovative and competitive capacity of the company, starting with quality human resources that will enable to improve their productivity.

On the other hand, the Employment Activation Programme was extended in 2016. This Programme targeted long-term unemployed people with dependants, and required the accreditation of active job seeking, as well as the development of an individual and personalised employment itinerary and the assignment of an individual tutor.

In addition, it is possible to notice the effects of measures included in recent years, such as a greater link of active policies, or the rationalisation of the bonus system to hiring and unemployment protection programmes.

The minimum exempt of contributions of € 500 for new permanent contracts that generate net employment introduced in February 2015, in force for contracts signed up to 31st August 2016, has allowed maintaining the strong growth of permanent contracts, which is essential for fiscal growth and sustainability. Since its implementation, 327,194 jobs have benefited. Between 2014 and 2016, the new permanent contracts surpassed the new temporary hiring in dynamism, with growth rates close to 20% per year, most of them full-time.

From 2015 to 2017 there has been a decline of the State contribution to the budget of the State Public Employment Service, which fell from € 10.1 billion in 2015 down to € 1.6 billion in 2017. The trend is expected to continue in 2018 and the SEPE is expected to cover all its expenses with its own income by 2019. Therefore, the State's average contribution to the State Public Employment Service budgets will have decreased by 91.48% comparing the period 2014-2016 with the estimates for the period 2017-2019. This evolution is derived from the fact that spending on unemployment benefits fell by 24.92% from 2014 to 2016, in parallel with the decline in unemployment.

With regards to benefits, a new maternity supplement for women who had two or more children and that are beneficiaries of contributory pension of retirement, widowhood or permanent disability was introduced in 2016, ranging from 5% to 15% of the pension depending on the number of children. 180,943 female pensioners are benefiting from this supplement, and 93,495 of them are widowhood pensioners.

(7) Law 30/2015, of 9th September, which regulates the Vocational Training System for employment in the work environment.

Moreover, the paternity leave has been extended to four weeks in 2017, accompanied by a budget item endowed with € 439 million in 2017.

With regards to Social Security, the pension expenditure is expected to grow by 3.1% by 2017, although the future expenditure increases will be lower and below 3% on average, assuming an expenditure reduction in terms of GDP due to the impact of the pension reforms carried out since 2013. The effective retirement age has increased from 63.9 years in 2012 to 64.1 in 2017 and this path is expected to continue. The growth of the average pension is contained from 3.5% in 2012 to 2.1% in 2017, while a downward inflation, which became negative in the period between 2014 and 2016, has favoured an increase in purchasing power of pensions. Their revaluation was 0.25% from 2014 to 2016. In 2017, the revaluation is also 0.25%.

As for income, since 2014 contributions to Social Security by employed workers have evolved favourably, growing by 2.5%, 2.7% and 3.8% in 2014, 2015 and 2016, respectively.

The Social Security Reserve Fund has € 15.2 billion, at market value (1.35% of GDP) at the beginning of 2017. In order to contribute towards the fulfilment of the Social Security obligations, the State has budgeted the allocation of a loan to the Social Security amounting to € 10.2 billion.

In order to achieve the future objectives of the system, the Permanent Commission to monitor the Toledo Agreement is reviewing the compliance with the recommendations approved in 2011, and will prepare new recommendations allowing both the sustainability of the System and the adaptation of the benefits to the population needs.

On a separate issue, fulfilling the commitments undertaken and in execution of the Agreement of the Conference of Presidents of January 2017, works have begun to develop and implement the Social Card.

This project aims to establish a centralised database, building on the information provided by the different Public Administrations that manage economic benefits, in order to prepare a map of benefits that allows: to accurately detect situations of vulnerability, to avoid the disconnection between employment policies and social policies, to improve the public administrations coordination and to avoid lack of protection situations.

4.3.4. Reform measures of the Public Administrations

Current situation of the CORA reform

The implementation of the measures adopted by the Commission for the Reform of the Administration⁸ (known in Spanish as CORA) has reached 87%. The Regional Governments have adhered in 87% on average to the proposals

(8) Report for the second quarter of 2016.

affecting them, having signed 400 agreements with the State. More than 100 standards have been modified or approved, among which the following should be noted: the new laws on the common administrative procedure of Public Administrations and the legal regime of the public sector, the Law for the promotion of electronic invoicing and the creation of accounting records of invoices in the Public Sector, the Law for the control of commercial debt, the market unity guarantee, or basic standards such as the Stability Law and the Transparency Law.

The Administration has increased the public employment efficiency, which has prompted a 7% reduction of staff. The "streamlining" of administrative structures has also become evident, with the suppression of 2,364 public bodies and entities.

The Hiring Platform of the Public Sector has grown from 11,000 bidders in 2012 up to 40,000 at present. So far, the savings due to the centralised hiring amount to € 824 million, of which € 181 million correspond to the Regional Governments for purchases of medicines and vaccines and other sanitary material. Also, € 62 million have been saved in leases and € 637 million have been obtained from the sales of properties.

The Citizen Folder was created in 2016, and it allows accessing certificates and notifications of all Regional Governments from a single place. The Electronic Library of the General State Administration Training Centres has also been launched.

Once the new legislature started, it was necessary to provide continuity to the administrative reform process by integrating the different actions into a new Strategic Plan to Promote and Transform the Public Administration. This plan is being designed at present.

The works to continue the reform measures programme of the Public Administrations aims to develop a global transformation of the public management model, providing it with a greater efficiency, boosting the use of new technologies in the Administration and in its relations with society, increasing proximity to citizens and companies, transparency and good governance, based on a model of public employment in accordance with this transformation. This will allow consolidating the achievements already reached by the CORA reform.

This plan, currently at the stage of preparation and definition of programmes and measures, is based on four strategic pillars: digital transformation of the Administration; promotion of public Governance; Open Government strategy and improvements in Transparency; and improvement and modernisation of public employment.

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

4.4.1. Regional Governments

4.4.1a Budget for 2017

In 2017 the approval process of the Regional Governments general budgets has been influenced by the extension of the General State Budget and by the deadline for setting the stability objectives for the financial year 2017, meaning a delay of the usual dates of approval. At the time of preparing this document, twelve Regional Governments have approved their General Budgets for the financial year 2017, and the extension of the 2016 budgets for the rest⁹ has been authorised.

Some Regional Governments submitted their budget bill in accordance with a stability objective of -0.5%, corresponding to the one reported to the Council for Financial and Fiscal Policy (known in Spanish as CPFF) at the time, although this target was finally set at -0.7% of GDP. On the other hand, they also included the amounts resulting from the extension of the General State Budget for the financial year 2016 as estimates in relation to the evolution of the financing system resources. The amounts reported on 5th April, considered in the General State Budget bill for 2017 are, in general terms, higher than those foreseen by the Regional Governments in the preparation of their initial budgets. These resources will be increased in the financial year 2017 in comparison to the previous financial year by € 5.4 billion, a figure equivalent to a 5.7% growth and € 4.4 billion higher than previously reported amounts.

(9) The analysis of budgetary evolution has been carried out on the basis of the Regional Governments General Budgets report for the financial year 2017, published on 31st March 2017 by the Ministry of Finance and Civil Service. The scope of the report includes the ten Regional Governments whose numerical states have been published on that date.

Table 4.4.1a.1. 2017 Budget of the Regional Governments
Year-on-year % change

Total Regional Governments ^(*)	Budget 2017 / 2016 % change	Budget 2017 / Recognized Rights or Obligations 2016	Budget 2017 / Recognized Rights or Obligations 2016 adjusted
Chap. 1,2,4. Taxes & Current Transfers	3,50	6,46	6,46
System resources subject to payment and settlement	3,29	5,30	5,30
Inheritance and Gift Tax	-5,69	4,81	4,81
Property transfer & Stamp Duty Tax	5,75	4,27	4,27
Other tax	5,34	6,11	6,11
Other current transfers	4,42	27,32	27,32
3. Fees, public prices and other Revenues	-2,02	-14,95	-14,95
5. Property income	4,00	10,16	10,16
6. Real investment sales	42,96	680,08	680,08
7. Capital Transfers	-0,52	102,31	102,31
Non-Financial Revenues	3,16	8,25	8,25
1. Personnel Spending	2,52	1,76	1,43
2. Current spending in goods and services	7,45	-4,78	1,33
3. Financial Spending	-0,98	18,66	21,88
4. Current Transfers	4,63	3,12	4,50
5. Contingency fund	27,48	-	-
6. Real Investments	15,67	80,51	85,32
7. Capital Transfers	5,99	64,68	71,03
Non-Financial Expenditure	4,75	6,50	8,34
Non-Financial Expenditure (Without chapter III)	4,90	6,23	8,04
(*) Data regarding the ten Regional Governments that have passed their budgets for 2017 and whose accounts have been published by 31 march 2017 (Andalucia, Asturias, Islas Baleares, Canarias, Cantabria, Galicia, Extremadura, Murcia, Navarra and Comunidad Valenciana). Source: Ministry of Finance and Civil Service.			

The non-financial expenditure provided in the initial budget of the ten Regional Governments analysed for the financial year 2017 has been increased by 4.75% compared to the 2016 initial budget (4.9% excluding Chapter III on interests and other financial expenses). Furthermore, non-financial revenues forecasts increased by 3.16% in relation to the initial budget for 2016. Taking into account the remaining seven Regional Governments, on the basis of their extended budgets, the non-financial expenditure and revenue variation rates reached 2.79% and 1.78% respectively.

With regards to non- financial revenues, a 8.25% increase is foreseen in the initial budgets, mainly justified by the expected 5.3% increase in the financing system resources, even though it should be taken into account that, in general, the amounts related to these resources, provided for in the General State Budget project, are higher than the figures estimated by the Regional Governments in their respective initial budgets.

From a functional point of view, the sum of the allocations for Health, Education and Social Services of the ten Regional Governments analysed represent a 62.41% of the total expenditure budget for 2017. Likewise, it is possible to notice a growth in each of these functions when considered individually. The Health

function is increased by 4.26%; Education is increased by 3.62%; and social services by 5.15% compared to 2016 budget.

Finally, expenditures for the "Public Debt" function increased by 7.09% in 2017, so that they represent 15.4% of the budget for this financial year.

4.4.1b. Regional Governments Measures

2016 Measures

In the financial year 2016, eleven Regional Governments met their budgetary stability objective, compared to the three Regional Governments that met such target in the financial year 2015. A net borrowing improvement from the -1.74% of GDP recorded in 2015 to -0.82% was registered in the financial year 2016. For this evolution, the improvement in the system resources subject to the instalment payment and settlement, amounting to € 8.2 billion, was decisive, as it was mostly used to reduce the deficit thanks to the monitoring of the budget implementation. The activation of the coercive measures provided for in Article 25.1 of Organic Law 2/2012, of 27th April, on Budgetary Stability and Financial Sustainability contributed to the control of the expenditure growth. These measures determined the requirement to adopt agreements for the non-availability of credits in those Regional Governments where it was necessary, after breaching their adjustment plan in relation to the financial year 2015. The impact of the non-availability agreements adopted and the actions related to the end of the financial year and the credit restrictions reached approximately € 1.5 billion for the Regional Governments as a whole.

On the one hand, these agreements were complemented with the conditions associated with the adherence to the financing mechanisms, established by the Delegate Commission of the Government for Economic Affairs (known in Spanish as CDGAE) on 31st March 2016 and with measures to improve the control in the use of non-budgetary accounts.

On the revenue side, the measures communicated by the Regional Governments in the financial year 2016, mostly stem from tax measures as a result of tax reforms. The modification of tax rates, tax bases, bonuses or reductions, are the most common measures. The impact of the measures classified within the other taxes typology represent a positive amount of € 317 million and include the measures taken in relation to the overall plans to fight against fiscal fraud and actions to improve the revenue management. Moreover, new taxes have been created in some Regional Governments, such as the Tax on empty housings or the Tax on tourist accommodation.

2017 Measures

In relation to the measures communicated by the Regional Governments as a result of the submission of the medium-term budgetary plans, on the revenue side, in the financial year 2017 these mostly stem from tax measures as a result of tax and no one-off reforms. The modification of tax rates, tax bases, bonuses

or reductions, are the most envisaged measures by the Regional Governments, most of them having positive effects.

With regards to the measures communicated by the Regional Governments for the financial year 2017 in the framework of the medium-term budgetary plans, on the revenue side, these mostly stem from tax measures as a result of tax and no one-off reforms, similar to 2016

The impact in 2017 of € 42 million of the Property Transfer and Certified Legal Documents Tax should be noted, which will add to the positive evolution derived from the recovery of the real estate market and the economic activity.

In addition, the measures related to environmental taxes¹⁰ have a positive additional effect of € 32 million.

Non-tax measures, whose overall additional impact in 2017 amounted to € 42 million, consist of measures related to the disposal of real investments.

Among the expenditure measures planned for the financial year 2017 it should be noted that the expenditure increase arising from the partial restitution of the amount of the bonus withdrawn in December 2012 amounts to € 471 million in the financial year 2017, since an amount lower than that paid in the financial year 2016 was settled.

The expected additional savings due to the measures regarding spending on pharmacy and health products, derived from the actions relating to the centralised purchase or other actions are estimated at € 210 million (€ 100 million from the centralised purchase and € 110 million from the other actions).

On the other hand, Chapter II on expenditure highlights saving measures related to the provision of services and supplies, as well as other measures in Chapter II, whose additional effect means € 22 million and € 61 million, respectively.

Scenario for 2018-2020

In terms of revenues, the most important measures are those related to environmental taxes, especially in the financial year 2018, with € 96 million¹¹. Likewise, the expected positive impact in relation to other taxes should be highlighted, which amounts to € 72 million in 2017 and € 53 million in 2018¹². In addition, the impact estimated in 2018 on the Personal Income Tax is remarkable, as it amounts to € 77 million¹³.

(10) Tax on the environmental risk from the production, handling and transport, custody and emission of radio-toxic elements, etc.

(11) Taxes on polluting vehicles and on the environmental risk from the production, handling and transport, custody and emission of radio-toxic elements, corresponding to the Autonomous Community of Catalonia

(12) The Tax on tourist accommodation in the Balearic Islands, as well as the improvements in tax control procedures stands out.

(13) Consequence of the new regional scale provided for in Law 10/2015, of 28th December, on measures for the maintenance of public services in the Autonomous Community of Aragon.

On the other hand, the negative impact of non-tax measures is noticeable, its origin essentially arising from the reversal effect of investments disposal measures planned for the financial year 2017.

As for the *spending measures*, the positive effect caused by the reversal of the bonus pay release stands out, which is estimated to generate lower expenses in the financial years 2018 and 2019, amounting to € 321 million and € 356 million, respectively. It is expected that the staff replacement rate foreseen for 2017 has no impact on the following annuities.

Additionally, 2018 and 2019 also show savings from the centralised purchase of medicines, which reach € 100 million and impact each financial year, and from other measures on pharmacy and health products, that reach € 400 in the financial year 2018, taking into account the set of efficiency measures and commitments included in the Collaboration Agreement signed with the pharmaceutical industry on 29th December 2016.

Finally, under the current applicable financial conditions for funding mechanisms, a negative differential impact due to the non-application of the 0% rate is expected in the financial years 2018 and 2020 for those Regional Governments that agreed in 2015, 2016 and 2017 sharing the Finance Facility of the Financing Fund to Regional Governments.

Table A.3. in the Annex details the effects of the various measures to be adopted by the Regional Governments up to 2017.

Implementation of the LOEPSF measures

The financial year 2016 was particularly intense from the point of view of the implementation of the measures provided for in the Organic Law on Budgetary Stability and Financial Sustainability (known in Spanish as LOEPSF) and a significant acceleration took place for its implementation, applying the coercive measures envisaged in Article 25.1 thereof. In view of the European Commission Recommendation of 9th March 2016, on measures to be taken by Spain to ensure the correction of its excessive deficit, the 2016-2019 Stability Programme already included the details of the actions carried out until that moment.

After publishing the report provided for in article 17.3 of the LOEPSF regarding the fulfilment of the objectives on stability, expenditure rule and public debt for the financial year 2016, the Regional Governments affected by it will be required to formulate and present an Economic - Financial Plan for 2017-2018 whose suitability will be assessed by the CPFF.

On the other hand, it should also be noted that on 2nd March 2017, the CDGAE approved the distribution of the Financing Funds corresponding to the first and second quarters of the financial year to Regional Governments, the Regional Governments affiliated to the Supplier Payment Fund and Regional Liquidity Fund (known in Spanish as FLA) with the Ministry of Finance and Civil Service

(known in Spanish as MINHAFP) having to agree the corresponding adjustment plan as a precondition to implement access to these funds.

Measures and conditionality agreed by the CDGAE

The CDGAE Agreement of 31st March 2016 on additional conditions to be fulfilled by the Regional Governments adhered to the Financing Fund for Regional Governments, Regional Liquidity Fund 2016 compartment, limited the access to the funds corresponding to the second quarter and following of 2016 to the previous fulfilment of a series of conditions by the Regional Governments that breached the deficit target for 2015, and therefore their current adjustment plan, and that were adhered to the 2016 Regional Liquidity Fund. Among these conditions the following stand out: the Adherence to the supporting instrument for sustainability of pharmaceutical and healthcare spending of the Regional Governments, the signature of the collaboration Protocol signed between the General State Administration and Farmindustria and the Connection of the accounting records with the General Point of Entry Service for Electronic Invoices (known in Spanish as FACe), among others.

Likewise, additional conditions have been established for these Regional Governments until they meet the budgetary stability objective, spending rule and public debt, such as the prohibition to approve budget changes involving a net increase in non-financial expenditure regarding the one budgeted for the financial year 2016 and that is not funded with the contingency fund or other credits, the monthly submission of an assessment report of the general comptroller of the regional government on the degree of compliance of budgetary stability objectives, spending rule and public debt pursuant to the current financial year, as well as on the risks and circumstances that might result in a breach of any of these objectives, or the submission of a report by the general comptroller on the Regional Government general budget draft.

On the other hand, it was foreseen that the deficit deviations that Regional Governments could incur in with regards to the objectives of 2016, must be partially offset by their budgets of subsequent financial years, offsetting such deviations with lower costs or higher revenues. All this without the financing by the Regional Liquidity Fund of these deviations reaching the entire amount or exceeding the percentage decided by the Delegate Commission of the Government for Economic Affairs.

Finally, on 2nd March 2017, the CDGAE adopted several conditions that Regional Governments adhering to the 2017 FLA must meet, affecting a wide spectrum of other issues, such as the market unity, the digital Administration, accounting standards and public employment.

Other measures

In compliance with the commitment undertaken by Spain with the Commission and with the quality of public finances and transparency improvement, the computable spending of the State and Regional Governments was included

for the first time in April 2016 in order to comply with the spending rule, in the execution documents published on a monthly basis.

Likewise, information regarding the adjustment plans agreed with the Regional Governments to access the 2016 FLA, as well as the quarterly reports of the monitoring of these plans, as explained in more detail in section 8 of this update, is published for the first time.

On the other hand, the automation project in receiving Regional Governments Budgets data has been implemented, allowing their submission in a homogeneous and treatable way. This project is also intended to extend to the scope of the General Accounts data.

The criteria applicable to the accounting of operations pending to be applied to the budget have been improved. This has enabled a better and more specific monitoring of the accounts behaviour, in line with the provisions of article 25.1 of the LOEPSF.

Finally, the Presidents Conference held in Madrid on 17th January 2017 agreed to promote the revision of the regional and local financing system and to create an Expert Committee for the revision of the regional financing system and another one for the revision of the local financing system. Both commissions have a six-month period since their constitution (10th February 2017), to prepare and approve a report with their conclusions that will be sent to the CPFF, in which the AIREF is represented, as it will also participate in this reform process.

From then on, within the CPFF and under the direction and coordination of the Ministry of Finance and Civil Service, the characteristics of the new financing system will be analysed and approved. They will be finally converted into a Bill that must be approved by the Spanish General Court.

It should be noted that within the framework of this territorial financing reform, the establishment of a new tax, the Tax on sweetened and carbonated drinks, as well as the Environmental Taxation reform, will be assessed. They will contribute not only to improve taxation but also to better operate the market unity. In this context, the possibility of activating these reforms, if necessary, will be assessed to ensure compliance with the budgetary stability objectives.

4.4.2. Local entities

The Local Corporations as a whole have achieved fiscal surplus since 2012. Starting from a deficit of 0.4% in 2011¹⁴, they have achieved surpluses of 0.32% of GDP in 2012, 0.55% in 2013, 0.53% in 2014, 0.47% in 2015 and 0.64% in 2016. This result was helped by the application of the spending rule. The revenues increase together with the spending control enabled achieving the fiscal target and even surpass it.

(14) Excluding the effect of the negative settlements of the local financing system.

It should be mentioned that, with regards to the update of the estimates of the effects of Law 27/2013, of 27th December, on Rationalisation and Sustainability of the Local Administration (known in Spanish as LRSAL) contained in the Stability Programme of April 2016, this Stability Programme shows the following variations¹⁵:

- A) "Improper" expenses: In 2015 the savings from reducing these expenses was reduced and it was raised in 2016, keeping the effect estimate on the two financial years taken together.
- B) Integrated management of basic services and mergers (and modification of the service management forms):
 - a) In 2015, it was increased from € 70.7 million to € 128.8 million
 - b) In 2016, the estimate of € 223.1 million is maintained since the rate of savings is expected to be maintained and management methods driven by the Provincial Council Offices, Councils and Island Councils are considered to be raised to a greater degree,
 - c) Estimated effects for 2017 and 2018 increased, as a greater dynamism of these intermunicipal management methods is foreseen.
- C) Local public sector downsizing:
 - a) The impact of the measure in 2015 was re-estimated last year from € 393.8 million to € 150.1 million.
 - b) In 2016, the estimate is maintained at € 508.3 million, since in that year the imbalance entities that are providing some essential services will have to be dissolved and liquidated no later than 1st December 2016.
 - c) In 2017, the estimate remains at € 305.0 million. That year the effects of the subsidiaries dissolved and liquidated at the end of 2016 will be felt.
- D) Temporary staff. In 2015, it was re-estimated rising from € 10.9 million up to € 27.4 million, while in 2016, it remained at € 29.9 million. Compliance with the € 49 million savings for the period between 2014 and 2016 as a whole is considered feasible.
- E) Removal of minor Local Corporations: the effect estimate has been delayed one year (from 2015 to 2016) since the last performance corresponds to the Regional Governments and to date they have not taken any decision in this area.

The application of scaling standards for the local public sector will continue in 2017. In the second half of 2016, a total of 231 requirements were sent to those consortiums in which local corporations participated, not affiliated to any public administration; and to those dependent on local corporations, subject to the private accounting regime.

(15) Law 27/2013 of 27th December, on Rationalisation and Sustainability of the Local Administration requires the elimination of services and service integration except when there is a surplus. Therefore a lower impact on the years of the programme for these concepts was estimated. The savings stemming from the transfer of the competencies in health, education and social services to the Regional Governments has also been necessary to be reconsidered in 2016, as a result of the ruling of the Constitutional Court Sentence of 3rd March 2016, declaring unconstitutional the provisions on which the those transfers were based and leaving them to the ones that the respective Regional Governments regulate. In this case, it should be considered that no savings for Local Corporations occur.

Between 2013 and 2016, 724 dependent entities were eliminated, resulting in an expenditure reduction equivalent to € 524.8 billion (including savings in operating expenses and non-financial expenses and negative results).

Also in 2017, compliance with the fiscal rules included in the LOEPSF will be promoted, requiring the approval of economic-financial plans for breaches of the expenditure rule or of the budgetary stability objective, as well as the reinforcement of the fiscal discipline of local corporations, by controlling the application of the standards included in the LOEPSF and in the consolidated text of the Law Regulating the Local Revenue Authorities.

In the period between 2017 and 2020, the strengthening of local public management transparency will be extended, continuing the publication started in the first quarter of 2016 about the information on the balance of the account "Creditors due to operations pending to be applied to the budget" in order to disclose the obligations that the EELL recognised in their accounting but not in their budgets¹⁶.

Finally, as stated above, the revision of the local financing system is being considered, as agreed at the Presidents Conference held on 17th January 2017.

4.5. Public debt forecasts

In 2016, the public debt to GDP ratio fell in Spain for the second consecutive year, reaching 99.4% (Table 4.5.2.), a percentage half a point lower than the figure registered in the previous year. This drop is explained by the nominal GDP rise, which contributed to reduce the ratio by 3.4 points, as well as by the stock-flow adjustment, which exerted a downward effect on the borrowing need equivalent to 1.6% of GDP.

The downward effect of the stock-flow adjustment on the borrowing need in 2016 was mainly due to the fall of net acquisition of financial assets, equivalent to an amount of 1.1% of GDP (in consolidated terms within General Government) and, to a lesser extent, to the other adjustments, equivalent to an amount of six tenths of GDP, which include the effect of several factors, such as the adjustments for the difference between interest accrued and paid or for issuance or amortisation premiums. On the other hand, the net incurrence of liabilities included in other accounts payable (0.1% of GDP, on a consolidated basis) contributed to the stock-flow adjustment with a positive balance. As a result, the stock-flow adjustment in 2016 stood at -1.6% of GDP (Table 4.5.1.), in comparison to the -2.1% of GDP registered in 2015.

(16) This account has been reduced from € 1.8 billion in the first quarter of 2016 down to € 1.1 billion in the fourth quarter.

Table 4.5.1. Debt stock-flow adjustment in 2016
% of GDP

	2016
Stock-flow adjustment	-1.6
Net acquisition of financial assets ^(*)	-1.1
Other accounts payable ^(*)	0.1
Other adjustments	-0.6
(*) Operations within General Government consolidated.	
Sources: Bank of Spain and Ministry of Economy, Industry and Competitiveness.	

Conversely, the net borrowing of the General Government, including the financial assistance for bank restructuring and recapitalisation, contributed to increase the public debt in 2016 by an amount equal to 4.54% of GDP, corresponding 1.73 points to the General Government primary deficit and 2.82 points to the interests paid.

At the end of 2017, the public debt will represent 98.8% of GDP, a figure six tenths lower than the one registered at the end of 2016. This decline is explained by the nominal GDP increase, with an effect on the debt to GDP ratio of -4 points, partially offset by the upward impact of the General Government deficit (3.1% of GDP) and the stock-flow adjustment (0.4% of GDP).

As of 2018, the debt to GDP ratio will extend the downward path started in 2015, until reaching 92.5% of GDP in 2020. To such reduction will contribute the nominal GDP growth and the primary balance, which will already record a surplus in 2018, both items more than offsetting the expected positive contribution of the stock-flow adjustment and the interests' payment.

Table 4.5.2. Public debt developments
% of GDP

	2016	2017	2018	2019	2020	Variation 2016-2020
1. Gross debt / GDP ratio	99,4	98,8	97,6	95,4	92,5	
2. Change in gross debt / GDP ratio	-0,5	-0,5	-1,2	-2,1	-2,9	-6,9
Contributions to change in gross debt / GDP ratio						
3. Primary balance	-1,7	-0,4	0,5	1,3	2,1	3,6
4. Interest expenditure	2,8	2,8	2,7	2,7	2,6	10,7
5. Effect of nominal GDP growth	-3,4	-4,0	-3,9	-3,9	-3,8	-15,7
6. Other factors (stock-flow adjustment)	-1,6	0,4	0,5	0,5	0,5	1,8
p.m.: Implicit interest rate	2,9	2,9	2,8	2,8	2,8	
Source: Ministry of Economy, Industry and Competitiveness.						

4.6. Cyclical orientation of the fiscal policy

To analyse the stance of fiscal policy, this Stability Programme Update provides the growth rates of real GDP foreseen for the period between 2017 and 2020, as well as the estimates of potential GDP and output gap, following the methodology of the production function used by the European Commission and agreed within the Output Gap Working Group (OGWG).

Potential GDP and Output gap

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

Table 4.6.1. Cyclical developments⁽¹⁾
% of GDP, unless otherwise specified

	2016	2017	2018	2019	2020
1. Real GDP growth (year-on-year % change)	3,2	2,7	2,5	2,4	2,4
2. Net lending of General Government	-4,5	-3,1	-2,2	-1,3	-0,5
3. Interest expenditure	2,8	2,8	2,7	2,7	2,6
4. One-offs and other temporary measures	-0,3	-0,3	-0,1	0,0	0,0
Of which:					
- One-offs on the revenue side: general government	0,3	0,0	0,0	0,0	0,0
- One-offs on the expenditure side: general government ⁽²⁾	-0,5	-0,4	-0,2	0,0	0,0
5. Potential GDP growth (year-on-year % change)	0,6	0,8	1,0	1,2	1,4
Contributions:					
- total factor productivity	0,3	0,4	0,4	0,4	0,5
- labour	0,0	0,1	0,2	0,3	0,4
- capital	0,3	0,3	0,3	0,4	0,5
6. Output gap	-3,3	-1,5	-0,1	1,1	2,1
7. Cyclical budgetary component	-1,8	-0,8	-0,1	0,6	1,1
8. Cyclically-adjusted balance (2-7)	-2,7	-2,3	-2,1	-1,9	-1,6
9. Cyclically-adjusted primary balance (8+3)	0,1	0,5	0,6	0,8	1,0
10. Structural balance (8-4)	-2,5	-2,0	-2,0	-1,9	-1,6
11. Primary structural balance (10+3)	0,3	0,8	0,7	0,8	1,0
(1) Using Potential GDP (output function) NAWRU calculated with a forward-looking Phillips Curve.					
(2) Including financial assistance.					
Source: Ministry of Economy, Industry and Competitiveness.					

Potential GDP, after the minimum low reached in 2014, begins an expansionary path in 2015, with positive growth rates that are rising gradually and reaching 1.4% at the end of the forecast period. This acceleration is due to the contribution of the labour factor, which after five years of negative contributions to potential GDP growth, registers positive contributions as of 2017, as well as to the rising profile of capital stock and of Total Factor Productivity (TFP), which slightly increases its contribution to potential GDP growth in the projection period.

The gradual recovery of the labour factor is due to the reduction of the structural unemployment rate (NAWRU) during the whole projection period and to the increase of the potential participation rate as of 2018, which more than offset the slight reduction of working age population and the fall of hours worked per employed person. On the other hand, the capital stock growing profile contributes to the potential GDP increase throughout the period, with positive contributions, which rise from 0.3 p.p. in 2017 to 0.5 p.p. in 2020, due to the greater dynamism foreseen for the GFCF. Finally, the TFP contribution to potential growth increases slightly in the forecast period, reaching 0.5 p.p. in 2020.

As a result of real and potential GDP evolution, the output gap, after reaching the maximum absolute value of -9.8% in 2013, and falling 1.3 points in 2014, 2.7 points in 2015 and 2.5 points in 2016, will continue to decline at a more moderate pace until 2018, registering positive figures in 2019 and 2020 (1.1% and 2.1%, respectively).

Structural effort

Based on the output gap, the path of public deficit has been broken down into its cyclical and cyclically adjusted components. Regarding the cyclical balance, the more intense reduction of the output gap in 2017 in comparison to what had been estimated last year, will generate a higher correction of the cyclical deficit, so that the economic cycle would explain one point of the nominal fiscal adjustment this year. As of next year, the contribution of the cycle to the fiscal adjustment will be lower, 0.7 percentage points in 2018 and 2019. As a result of the cyclical balance evolution, which will be positive in 2019 (0.6% of GDP), and the expected path for the nominal public balance, the cyclically adjusted deficit falls four tenths this year and two tenths the coming one (Table 4.6.1).

To assess the fiscal policy stance the structural balance evolution is analysed, obtained by subtracting the non-recurrent temporary measures and the financial assistance from the cyclically adjusted balance.

In 2017, it is considered that the non-recurrent temporary measures to be taken into account for the calculation of the structural budget balance registers an amount equivalent to 0.3% of GDP.

As shown in Table 4.6.1., and to comply with the objectives set out in the EU Council Decision of 8th August 2016, as well as the other structural fiscal recommendations, measures were adopted which result in a structural effort of 0.5 points of GDP in 2017. It should be noted that in the period between 2012 and 2017, Spain carried out a cumulative structural effort of 3.9 points of GDP (0.7 points on average for each year), standing among the European countries that carried out the highest fiscal consolidation. The General Government deficit will have fallen by more than seven points of GDP in that period.

It should be noted that in the Spanish case, the methodology used to estimate the structural effort does not include the full impact of the structural reforms on the main determinants of the potential GDP. In particular, the structural unemployment rate (NAWRU) is overestimated, reducing the potential GDP and therefore, the structural balance. Furthermore, the time horizon used and the methodology itself for calculating the NAWRU¹⁷, causes its level to respond very slowly to relevant structural changes, as is the case of the labour reform of 2012.

Thus, as a result of the uncertainty and revisions affecting the potential growth figures and, therefore, the output gap, the real structural effort carried out in the Spanish economy in recent years is being underestimated. A complementary approach to assess the fiscal policy stance is to estimate the discretionary effort. In 2017, a discretionary effort standing at 0.4 points of GDP is estimated, in line with the structural effort estimated with the EU common methodology.

Table 4.6.2. Discretionary effort indicator
Billion euros, unless otherwise specified

	2017	2018
Nominal GDP	1,161.1	1,209.1
Discretionary revenues	5.0	0.5
Total expenditure	481.6	490.9
Interest	32.2	32.7
Unemployment expenditure	17.5	16.7
Expenditure excluding interest and unemployment (E)	431.9	441.5
Change in E	9.6	9.7
Reference rate (year-on-year % change)	2.1	2.4
Financial one-offs and other expenditure one-offs	-3.7	-1.8
Change in E excluding expenditure one-offs	10.5	7.8
Discretionary fiscal effort indicator⁽¹⁾	0.4	0.1
Discretionary fiscal effort indicator^{(1) (2)}	0.3	0.3
(1) Percentage points of GDP.		
(2) Estimated without one-off measures.		
Sources: Ministry of Economy, Industry and Competitiveness and Ministry of Finance and Civil Service.		

(17) The NAWRU has been calculated with a non-centred forward-looking Phillips Curve estimated using a Kalman filter.

5. COMPARISON WITH THE PREVIOUS STABILITY PROGRAMME. SENSITIVITY ANALYSIS

5.1. Comparison with the previous Stability Programme

Table 5.1.1. shows a comparison of the estimates in this Stability Programme Update for the period between 2016 and 2019, with those of the previous Update. The main differences between them appear in the adjustment path of the public sector, reflecting the decision taken by the Ecofin Council of 5th August 2016 reviewing the budgetary adjustment path of the previous update. On the other hand, growth forecasts have undergone very tight revisions. While the previous Update foresaw a slight slowdown of economic growth, from 2.7% expected in 2016 down to 2.5% in the last two years of the period, the current Stability Programme includes a 3.2% growth according to the Quarterly National Accounts in 2016, five tenths higher, while in 2017 a 2.7% GDP growth is expected, three tenths higher than in the previous forecast, and a slight growth slowdown, very similar to the previous update for the rest of the years.

Table 5.1.1. Differences with the previous Stability Programme update

	2016	2017	2018	2019	2020
GDP (% volume growth)					
Previous update	2.7	2.4	2.5	2.5	
Current update	3.2	2.7	2.5	2.4	2.4
Difference	0.5	0.3	0.0	-0.1	
Budget Balance (% GDP)					
Previous update	-3.6	-2.9	-2.2	-1.6	
Current update	-4.5	-3.1	-2.2	-1.3	-0.5
Difference	-0.9	-0.2	0.0	0.3	
EDP Debt (% PIB)					
Previous update	99.1	99.0	97.9	96.0	
Current update	99.4	98.8	97.6	95.4	92.5
Difference	0.3	-0.2	-0.3	-0.6	

Source: Ministry of Economy, Industry and Competitiveness.

The fiscal adjustment path includes the changes introduced by the decision taken by the Ecofin Council of 5th August 2016 and undergoes a substantial revision in comparison to the public deficit forecasts of the previous Programme. The fiscal adjustment continues in the period from 2016 until 2019 and the EDP is expected to be abrogated in 2018, a year later than foreseen in the previous Update, but in line with the abovementioned Ecofin Council decision.

Finally, the different deficit paths expected during the period result in debt/GDP ratios slightly different than those foreseen in the previous Update. The highest ratio level was reached in 2016, at 99.4% of GDP and this is slightly higher than the 99.1% forecast in the previous Stability Programme. In 2020 it is expected that the value of this ratio will reach 92.5% of GDP.

5.2. Risk scenarios and sensitivity analysis

In macroeconomic and fiscal projections, it is important to perform a sensitivity analysis with respect to changes in the assumptions made in the baseline scenario. The Code of Conduct of the European Commission on the format and content of the Stability Programmes urges Member States to consider the sensitivity of macroeconomic and fiscal projections to different shocks. In particular, the Code of Conduct emphasises the interest rate and exchange rate variables. Moreover, the oil prices increase in 2017 versus 2016 makes it convenient to include the sensitivity to this third shock.

The interest rate is key to the macroeconomic and fiscal scenario. On one hand, it has a direct effect on public finances, since it alters the financial burden of the debt. On the other, it has an indirect impact since it is a key determinant of GDP growth due to its influence on consumption and investment decisions of private agents. For these reasons the first sensitivity analysis considered is a possible rise in interest rates, although this is not at all a likely scenario, at least in the short term, given the normalisation of risk premiums and the different announcements made by the ECB regarding the maintenance of the monetary policy expansionary stance.

In the second analysis, the exchange rate would affect GDP mainly through net exports which, in turn, would affect public finances. This circumstance has led to simulate a negative demand shock through lower demand from trading partners. This is, again, an unlikely scenario for a drop in demand, as growth in the EU is giving positive surprises and the EU is the main destination for Spanish exports, so the exchange risk, even with non-Eurozone countries, is low. However, this same simulation could show the possible effect of a protectionism increase in other countries, mainly third countries, because the EU membership entails the free movement of goods, as well as the effects of an appreciation of the nominal exchange rate against the rest of the world.

Furthermore, oil prices affect macroeconomic aggregates through energy cost changes. Spain, as a net importer country would be affected by a shock on oil prices in two ways: the production costs and the current account balance. A sensitivity analysis should be carried out on how the main macroeconomic aggregates would be affected in case of an additional increase in oil prices over the one that had already taken place since the first months of 2017.

Simulations were carried out using the REMS¹⁸ model, a dynamic general equilibrium model with a rigorous microeconomic foundation applied to the Spanish economy. In order to interpret the simulation results, it should be noted that the REMS results are percentages of deviation with regards to a baseline scenario corresponding to the initial situation before applying the corresponding shock. For these simulations, the baseline scenario used to

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

estimate the deviations is the one reflected in the Government's economic forecasts included in this Stability Programme Update.

5.2.1. Change in interest rates

The effect on the main macroeconomic aggregates of increasing the interest rate by 120 basis points (b.p.) in the first year and maintain it at this level during the four years of the projection period, to return to its initial value, beyond the forecast horizon, has been analysed. However, in the short term this is an unlikely hypothesis as the ECB announced that it will maintain the monetary policy orientation.

According to the results detailed in Table 5.2.1.1, GDP could fall by approximately 1% compared to its level in the baseline scenario at the end of the projection period, dragged down by the lower trend of domestic demand.

This lower growth in turn influences fiscal variables. First, the public balance would be affected by the lower tax collection and the increased spending on social benefits in an environment where domestic demand and job creation would be weakened. In addition, the increase in rates means higher interest payments, although the REMS model may overestimate this effect by assuming that all the debt is short-term debt, which forces to refinance it in each period. In practice, an increase of 120 b.p. in interest rates would have an impact on interest payments lower than the one anticipated since a large percentage of the debt is medium or long term debt. At the end of the forecast period the deficit and the public debt are higher than in the baseline scenario by 0.5 and 2.5 percentage points of GDP, respectively.

Table 5.2.1.1. Impact of a 120 b.p. increase of the interest rate

Cumulated deviations from the baseline scenario, in %

	2017	2018	2019	2020
Real GDP	-0.8	-0.5	-0.8	-1.0
Private consumption	-1.0	-0.7	-0.8	-0.8
Government balance (% of GDP)	-0.4	-0.3	-0.4	-0.5
Government debt (% of GDP)	1.3	1.5	2.0	2.5
Employment (workers)	-0.3	-0.2	-0.5	-0.6

Source: Ministry of Economy, Industry and Competitiveness.

5.2.2. Change in economic growth of the trade partners

The effect on the main macroeconomic aggregates of an export market growth 4 p.p. lower than the one foreseen in the baseline scenario for 2017 has been analysed. This shock takes effect in the first year, when export markets grew 4 p.p. less than the figure forecast in the macroeconomic scenario of the Programme, growing in subsequent years according to the initial forecast and returning to its initial value beyond the forecast horizon. Even if this shock supposedly represents the combined effects of a higher protectionism and an appreciation of the exchange rate, it would be a shock of a significant

magnitude. Indeed, if the effects induced on other EU countries are ignored, the lower demand would come from non-EU trading partners, since the trade with the EU would be protected from direct protectionist measures. As the trade with the EU includes almost two-thirds of all Spanish goods export, the other third of the demand would be the one responsible for the shock.

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

The fiscal variables would also be affected by this adverse scenario, although less than in the previous shock scenario. At the end of the forecast period, the public deficit and the public debt are higher than in the baseline scenarios by 0.1 and 1 percentage points of GDP, respectively

Table 5.2.2.1. Impact of a 4 p.p. fall in export demand growth
Cumulated deviations from the baseline scenario, in %

	2017	2018	2019	2020
Real GDP	-0.6	-0.3	-0.4	-0.4
Private consumption	-0.3	-0.1	-0.2	-0.3
Government balance (% of GDP)	-0.1	-0.1	-0.1	-0.1
Government debt (% of GDP)	0.7	0.8	0.9	1.0
Employment (workers)	-0.2	-0.2	-0.3	-0.3

Source: Ministry of Economy, Industry and Competitiveness.

5.2.3. Change in oil prices

The effects on the main macroeconomic aggregates of a change in oil prices were analysed, considering a deviation from the current scenario with average levels of € 50/barrel in 2017 and € 49.3/barrel in 2018 and that would become, on average, € 6/barrel higher (€ 56/barrel in 2017 and € 55.3/barrel during 2018), as detailed in Table 5.2.3.1.

Table 5.2.3.1. Assumptions about the oil price (euros/barrel)

	2016	2017	2018	2019	2020
Baseline scenario	40.4	50.0	49.3	49.8	49.8
Alternative scenario	40.4	56.0	55.3	55.3	55.3

Source: Ministry of Economy, Industry and Competitiveness.

This € 6/barrel price increase over the programme hypothesis means an annual price increase of 38.8% in 2017 and an annual drop of 1.3% in 2018 compared to a 23.8% increase in 2017 and the 1.4% decline foreseen for 2018 resulting from the hypothesis. This shock kicks in gradually over the first four quarters and is maintained at that level for the four years of the simulation exercise, to return to the value of 2016 as of 2022.

According to the results detailed in Table 5.2.3.2., GDP could fall about 0.5% from its level in the baseline scenario at the end of the projection period, primarily as a result of the higher oil prices. Fiscal variables would also be affected by this more adverse scenario, although less than in the interest rate shock case and to a slightly higher extent compared to the shock of a lower external demand. At the end of the forecast period, the deficit and public debt are higher than those in the baseline scenario by 0.2 percentage points and 1.2 percentage points of GDP respectively.

Table 5.2.3.2. Impact of an increase in oil prices of 6 euros/barrel

Cumulated deviations from the baseline scenario, in %

	2017	2018	2019	2020
Real GDP	-0.3	-0.4	-0.5	-0.5
Private consumption	-0.1	-0.3	-0.3	-0.3
Government balance (% of GDP)	-0.2	-0.2	-0.2	-0.2
Government debt (% of GDP)	0.4	0.7	0.9	1.2
Employment (workers)	-0.2	-0.4	-0.4	-0.3

Source: Ministry of Economy, Industry and Competitiveness.

6. THE SUSTAINABILITY OF PUBLIC FINANCES

6.1. Long-term budgetary projections

Projections regarding age-related public expenditure, by the Ageing Working Group (AWG) of the Economic Policy Committee (EPC) and the European Commission, are generally made every three years by mandate of the ECOFIN Council. The latest projections published are those contained in the Ageing Report of May 2015¹⁹ (AR2015).

The updated EUROSTAT demographic projections serve as the starting point for these exercises, together with a macroeconomic scenario created following a common methodology. An essential feature of this methodology is the hypothesis that there will be no policy changes other than those already legally substantiated at the close of the projection exercise. Five public expenditure categories are analysed in this exercise: pensions, healthcare, long-term care, education and unemployment. The last exercise takes as input data EUROPOP 2013 and the European Commission's Spring 2014 Economic Forecast, the most recent ones when the AR2015 was prepared. With this data, baseline macroeconomic scenarios are created²⁰.

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

	Increase 2013-2060	2013	2020	2030	2040	2050	2060
TOTAL EXPENDITURE (1+2+3+4+5)	-0.8	25.4	25.0	23.5	24.2	25.7	24.6
1. Pension expenditure	-0.8	11.8	11.8	11.2	11.9	12.3	11.0
Old age and early retirement pensions ^(a)	0.0	8.3	8.6	8.3	9.1	9.6	8.3
Disability pensions	-0.4	1.2	1.1	1.0	1.0	0.8	0.9
Survivor pensions	-0.5	2.3	2.1	1.9	1.9	1.9	1.8
2. Healthcare expenditure	1.1	5.9	6.2	6.6	7.0	7.1	6.9
3. Long-Term care expenditure	1.4	1.0	1.2	1.3	1.6	2.1	2.4
4. Education expenditure	-0.8	4.6	4.1	3.4	3.1	3.6	3.7
5. Unemployment expenditure	-1.7	2.2	1.7	1.0	0.6	0.6	0.5
Pro-memoria: Impact of Pension Reform							
6. Pension expenditure pre-reform (AR2012)	3.3	10.4	10.6	10.6	12.3	14.0	13.7
7. Pension expenditure pre-reform (Macroeconomic Scenario)	1.7	11.8	12.5	13.0	14.6	15.8	13.5
8. Savings from 2013 reform (7 - 1)		0.0	0.8	1.8	2.7	3.4	2.5
Pro-memoria: Main Assumptions							
Potential GDP growth ^(b)	1.4	-0.4	1.7	1.7	0.8	1.5	2.2
Labour productivity growth ^(b)	1.4	1.4	0.7	1.4	1.5	1.5	1.5
Male participation rate (15-64)	-0.5	79.9	79.5	79.2	79.9	80.1	79.3
Female participation rate (15-64)	10.0	68.4	73.5	77.2	79.3	78.9	78.4
Total participation rate (15-64)	4.7	74.2	76.5	78.2	79.6	79.5	78.9
Unemployment rate (15-64)	-19.0	26.5	19.5	12.3	7.5	7.5	7.5
Population over 64/population 15 to 64	26.4	26.8	30.7	40.2	54.3	62.3	53.2
(a) Including minimum and non-contributory pensions.							
(b) The column "Increase 2013-2060" is the 2013-2060 average growth rate.							
Sources: Ageing Report 2015, Ministry of Economy, Industry and Competitiveness, OECD, UOE and ESSPROS.							

(19) Published in the European Economy magazine 3/2015.

(20) Forecast methodology details can be found in the European Economy magazine 8/2014.

Table 6.1.1 shows the national projections approved by the AWG of October 2014 and later by the EPC of February 2015. These projections include the quantification of the effect of the pension reforms adopted in 2013 on both the long-term sustainability of public finances and the macroeconomic evolution.

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

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

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

As for the pension system reforms of 2013, an expenditure moderation combined effect of 2.5 percentage points of GDP is expected in 2060 (line 8 in Table 6.1.1.) compared to the projections without reform based on the macroeconomic scenario of the AR2015 (line 7 in Table 6.1.1.).

Regarding the 2012 Ageing Report, the differences in the pension expenditure on GDP ratio are due to the new demographic and macroeconomic scenario, and to the pension reforms of 2013. Thus, in the AR2015, pension expenditure in 2013 amounted to 11.8% of GDP, 1.4 percentage points more than in the AR2012, due to the aforementioned downward revision of GDP. However, in the rest of the projection horizon the pension expenditure presents a similar profile, with a slow but steady increase between 2013 and 2050 (+0.5 percentage points) and a drop between 2050 and 2060, especially noticeable in the current revision (-1.3 percentage points) as a result of the effect of favourable demographics in this decade. This result reflects the main strength of the Index for Pension Revaluation, which for initially balanced Social Security accounts it tends to stabilise the pension expenditure weight on GDP around its starting point.

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

6.2. Strategy

The deepening on the reform of the pension system

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

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

The Royal Decree-Law 5/2013, among other measures, delays the age for early retirement. For involuntary retirement (derived from termination of employment due to reasons beyond the worker's free will), between 2013 and 2027 the age increases from 61 to 63 years and 33 years of contributions are required (as

before the reform). For voluntary retirement, a gradual age increase is expected between 2013 and 2027, from 63 to 65, and a contributory period of 35 years (previously it was 33 years) is required. Partial early retirement access is also restricted by raising the minimum age from 61 to 63 for long work histories (36.5 years or more) and from 61 to 65 for medium ones (between 33 and 36.5 years).

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

This factor ensures intergenerational fairness, i.e., that the generosity of the pension system is the same for all retirees, regardless of life expectancy of the cohort to which they belong to. It also implies that longevity does not involve risks to the sustainability of the system.

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

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

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

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

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

To prevent drops in the average pension in nominal terms, the law establishes a floor for the IPR of 0.25%. For symmetry, a ceiling equal to the inflation rate plus 0.5 p.p. is also set.

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

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

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

Consequently, as estimated in the AR2015, the reforms of 2013 have a significant effect on the participation rate, employment and real GDP. Specifically, the participation rate for ages 15 to 74 increases by 1.2 points in 2060 compared to the projected one without the reform and by 2023, the estimated increase already stands at 1 point. On the other hand, this increased participation has a positive impact on employment and therefore, on GDP. So the effect of the reform is an increase in employment of 1.9 percentage points and an increase in real GDP of 1.8 percentage points, with respect to the levels of hours worked and GDP projected for 2060 without the reform. In 2025 this increase is already noticeable, with 1 percentage point for the hours worked and 0.9 percentage points for the real GDP.

Consolidation of public finance and Social Security Reserve Fund

Long-term sustainability of public finances is mainly strengthened by the adjustment of the age-related expenditure. The most relevant indicator to assess the long-term sustainability of public finances, the so-called S2, stood in the Debt Sustainability Monitor (DSM) of Autumn 2013, the last one that describes the situation prior to the reform, at 5.6% of GDP, explained in two-thirds by the deterioration in the primary structural balance and, in the remaining part, by the increase in ageing-related costs. This result implied that,

for accrued Public Administration revenue to equal their accrued expenses in the long-term, either an increase of the tax burden should be undertaken, or a reduction of other public spending or a combination of both measures of that magnitude on a permanent basis.

As a result of the revisions of the budget balance and the pension reforms undertaken by Spain in 2013, the S2 sustainability indicator improved significantly. On one hand, the Commission's Winter Forecasts for 2017 foresee a primary structural balance of -1.0% of GDP for 2016, much more favourable than that forecast in the autumn of 2013 (-2.6% of GDP in 2015). The primary structural balance at the end of the forecast period (2018) stands at -1.1% of GDP. In the Debt Sustainability Monitor, the Commission maintains its primary structural balance forecasts since 2018 constant throughout the projection horizon of S2 in the "no policy change" scenario. In addition, the debt baseline is slightly lower in the most recent forecast: 99.8% of GDP in 2015 and 99.7% in 2016, compared to 104.3% of GDP in 2015 in the autumn of 2013 one. Both factors contribute to significantly reduce the Initial Budget Position component of S2.

As a result of the pension reforms of 2013, the Long Term Change (of the ageing cost) component has contracted by over 2 points of GDP, reducing the value of the S2 indicator, both because of the expectations of higher employment and GDP levels, and particularly because the cost containment effort. Thus, the S2 indicator went from requiring a fiscal adjustment of the primary structural balance to meet the intertemporal budget constraint over an infinite horizon of 4.8 percentage points, to 1.9 percentage points of GDP.

Table 6.2.1. Summary of S2 indicator
% of GDP

	AR2012	AR2015
S2	4.8	1.9
Initial Budgetary Position	2.9	2.3
Long Term Change	1.9	-0.5
Sources: Fiscal Sustainability Report 2012 and Debt Sustainability Monitor 2016. European Commission No Policy Change scenario.		

On the other hand, it should be noted that thanks to the surpluses accumulated by the Social Security in the past, the pension system has reserve assets available to meet future needs for contributory benefits. Thus, from its inception in 2000, subsequent allocations to the Social Security Reserve Fund allowed it to accumulate € 15.2 billion (1.36% of GDP) in December 2016, at market value. This amount is after deducting the provisions used to pay pensions, € 67.3 billion up to 2016 under the specific regulations.

The cumulative annualised return of the Reserve Fund since its creation up to the end of 2016 stands at 4.55% and the annual return in 2016 at 0.90%. The management policy of Reserve Fund assets of the Social Security, held in 2016, is based on principles of security, profitability, risk diversification and adaptation

to the time horizon of fund inflows and arrangement thereof for the coverage of contributory pensions.

Streamlining of the long-term care system

The savings from these measures approved in 2012²¹, in the total set of the System for the Autonomy and Long-Term Care known in Spanish as SAAD (Central Government and Regional Governments) for the financial years 2012, 2013 and 2014 amounted to € 2.3 billion. The transparency and the benefits control also improved through an information system that accurately reflects the work done by the Regional Governments, without reducing the quality of care for dependents, and also respecting the implementation schedule provided for in the Law.

Healthcare and pharmaceutical expenditure control

As a whole, the estimated savings between 1st July 2012 and 31st December 2016, for the implementation of the various efficiency measures included in the healthcare reform²² and other measures of pharmaceutical and health policy, being reflected in the Ministry of Health, Social Services and Equality records reached € 11.282 billion, of which € 6.6 billion correspond to savings obtained in pharmacy (€ 6.8 billion up to February 2017), thanks to the implementation of the various pharmaceutical expenditure efficiency measures.

Another positive influence on reducing expenditure has resulted from the revision of the contribution system of users in the out-patient pharmaceutical provision.

Pharmaceutical expenditure with prescription from the NHS registered a decrease of 10.98% in 2016 in comparison to 2011, which did not prevent the financing of 217 pharmacological innovations, from January 2012 to March 2017, thanks to the introduction of new funding models. Special mention deserve the arrangements applied to new antivirals for chronic hepatitis C, which allowed treating 66,000 patients up to December 2016.

Another measure that has achieved significant savings has been the implementation of the Centralised Purchase Platform in 2012, which is generating significant benefits for the National Health System

Actions have also been taken aimed at achieving greater effectiveness and efficiency both in the training of healthcare professionals and in the management of the human resources needs in the health sector in the medium and long term by the Public Administrations, such as the employment stability in the sector²³.

(21) Royal Decree Law 20/2012, of 13th July, a series of measures targeting the Streamlining of the long-term care system.

(22) Royal Decree-Law 16/2012 of 20th April, on urgent measures to guarantee the National Healthcare System and improve the quality and security of the benefits.

(23) The reform of the Continuing Training system for healthcare professions through the approval of RD 639/2015 of 10th July, regulating the Accreditation Diplomas and Advanced Accreditation Diplomas. The

Finally, in terms of human resources management in the statutory staff field, two working groups have been created, following the EU Court of Justice sentences of 14 September 2016 on precarious employment in the health sector, within the NHS Human Resources Commission and in the Field of Trade Union Negotiation, in which a consensus document is being prepared in order to reduce the temporary employment rate from the current 30% down to 10% or 8% within three years, after the approval of a global public employment offer in the health sector, with a replacement rate of 100% and whose selection processes are to be coordinated in the context of all health administrations.

6.3. Contingent liabilities

Directive 2011/85/EU on the requirements applicable to the budgetary frameworks of the Member States requires that certain information on public guarantees and other liabilities outside the balance sheet of the Public Administrations to be published in October or December of each year.

Table 6.3.1. shows the breakdown of the guarantees by the different levels of the Public Administrations.

As it can be seen, the Central Government provided a percentage in excess of 95% of the guarantees and in recent years mainly as endorsements. The main feature in the evolution of the contingent liabilities is the strong reduction experienced since 2012, as they have fallen by more than € 130 billion and reached a level just below 40%, the level registered at the end of 2012.

Only Local Corporations diverge slightly from the contingent liabilities reduction trend, increasing by € 208 million the balance of these liabilities between 2015 and 2016. In order to detail, even if just partially, this information on guarantees, the latest information available on the guarantees granted by the General State Administration, dated 31st December 2016, is detailed below, although as it can be observed in the notes included in the table, it is not totally homogeneous with the data in Table 6.3.1, basically due to the guarantees granted to the Electricity System Deficit Securitisation Fund and to the Guarantees for issues of the Fund for Orderly Bank Restructuring (known in Spanish as FROB) which are consolidated to prepare the figures in the table:

- i) **Guarantees from Royal Decree-Law 7/2008 on Urgent Economic and Financial Measures of the Concerted Action Plan in Eurozone Countries.** In Article 1, this regulation authorised the granting of State guarantees to any issues made from credit institutions after its coming into force. The outstanding balance of this concept is € 1.1 billion, a figure well below the € 2.9 billion registered in December 2015.
- ii) **Guarantees for issues of the Electricity System Deficit Securitisation Fund,** whose most recent regulation is in Royal Decree-Law 6/2010 of 9th April. The

creation of a State Register of Healthcare Professionals (RD 640/2014), will improve the efficiency of the NHS in terms of management of human resources, as it provides health Public Administrations reliable information to facilitate the improvement of planning of healthcare professionals needs.

outstanding balance at the end of 2016 stood at € 18.5 billion, below the € 22.0 billion registered in December 2015.

- iii) **Guarantees for issues of the European Financial Stability Facility**, by virtue of Royal Decree-Law 9/2010, of 28th May, for an amount of € 37.7 billion, slightly below the € 37.9 billion registered at the end of 2015.
- iv) **Guarantees for issues of Securitisation Funds for SME Financing**, regulated in Article 55 of Law 17/2012, of 27th December, on the Spanish National Budget for 2013: its outstanding balance is € 108 million, below the € 273 million registered at the end of 2016.
- v) **Guarantees for issues of the Fund for Orderly Bank Restructuring (FROB)**, created by virtue of Royal Decree-Law 9/2009, on bank restructuring and strengthening of credit institution equity, which shows an outstanding balance of € 520 million, a figure well below the € 3.0 billion registered at the end of 2015.
- vi) **Guarantees for issues of the Management Company for Assets from the Banking Sector Reorganisation (Sareb)**, created by virtue of Law 9/2012, of 14th November, on the restructuring and shutdown of credit institutions, whose outstanding balance stands at € 41.6 billion, compared to the € 43.5 billion registered on 31st December 2015.
- vii) **Guarantees to non-classified institutions**, with an outstanding amount of € 326 million, slightly higher than the € 312 million registered in the previous year. Summarising, the total risk assumed by the State for guarantees amounted to € 99.8 billion on the 31st of December 2016, and the fall exceeding slightly more than € 8 billion, explains an important part of the total contingent liabilities decrease in 2016.

Table 6.3.1. Outstanding amount of guarantees granted by General Government
Million euros

Outstanding amount of guarantees granted by General Government ^(*)	2010	2011	2012	2013	2014	2015	2016
Total General Government							
One-off guarantees							
Stock total, excluding debt assumed by government	137,713	159,567	218,179	193,152	133,627	102,955	86,527
of which: public corporations	66,069	81,986	103,175	91,108	74,048	53,538	40,848
financial corporations	132,311	153,646	212,742	188,277	129,585	99,723	83,158
Guarantees granted in the context of financial turmoil	59,506	64,659	105,093	95,604	55,090	46,385	42,656
Standardised guarantees							
Stock total	0	0	0	0	0	0	0
Administración Central							
One-off guarantees							
Stock total, excluding debt assumed by government	132,809	154,090	213,124	188,593	129,842	99,795	83,248
of which: public corporations	65,569	81,486	102,675	90,609	73,557	53,065	40,393
financial corporations	132,311	153,646	212,742	188,277	129,585	99,723	83,158
Guarantees granted in the context of financial turmoil	59,506	64,659	105,093	95,604	55,090	46,385	42,656
Standardised guarantees							
Stock total	0	0	0	0	0	0	0
Autonomous Communities							
One-off guarantees							
Stock total, excluding debt assumed by government	3,754	4,273	3,994	3,604	3,024	2,500	2,411
of which: public corporations	0	0	0	0	0	0	0
financial corporations	0	0	0	0	0	0	0
Guarantees granted in the context of financial turmoil	0	0	0	0	0	0	0
Standardised guarantees							
Stock total	0	0	0	0	0	0	0
Local Entities							
One-off guarantees							
Stock total, excluding debt assumed by government	1,150	1,204	1,061	955	761	660	868
of which: public corporations	500	500	500	499	491	473	455
financial corporations	0	0	0	0	0	0	0
Guarantees granted in the context of financial turmoil	0	0	0	0	0	0	0
Standardised guarantees							
Stock total	0	0	0	0	0	0	0
(*) Notes:							
1. These are only "one-off guarantees".							
2. Following the conclusions of the "Task Force on the implications of Council Directive 2011/85 on the collection and dissemination of fiscal data", the section "Total Stock of guarantees, excluding debt assumed by government", does not include guaranteed debt of other units of public administrations included in S.13 (FROB, FTDE...) nor guaranteed debt of the ESF.							
3. Only the guaranteed principal is included.							
Sources: Ministry of Economy, Industry and Competitiveness and Ministry of Finance and Civil Service.							

7. THE QUALITY OF PUBLIC FINANCES

The fiscal policy applied in recent years has been geared towards growth, seeking a combination of public revenue and expenditure that would allow not only to reduce the public deficit and contribute to the sustainability of public finances, but also, along with the approved structural reforms, to promote economic growth and job creation.

The significant reduction of public deficit achieved in recent years has been accomplished by preserving social spending. This has been possible thanks to the adjustment in other expenditure items, through several measures (not only consolidation), but also aimed at promoting public spending efficiency and quality.

Table 7.1. Fiscal Adjustment 2011-2016. Subsector breakdown
% of GDP

	Including 2009 settlements of the territorial financing system in year 2011				Excluding 2009 settlements of the territorial financing system in year 2011			
	2011	2016 (A)	Change		2011	2016 (A)	Change	
			pp GDP	%			pp GDP	%
Total General Government	-9,3	-4,3	5,0	-51,5	-9,3	-4,3	5,0	-51,5
Central Government	-3,3	-2,5	0,8	-19,9	-5,4	-2,5	2,9	-51,8
Regional Governments	-5,1	-0,8	4,3	-83,3	-3,4	-0,8	2,5	-74,5
Local Governments	-0,8	0,6	1,4	-	-0,4	0,6	1,0	-
Social Security	-0,1	-1,6	-1,5	-	-0,1	-1,6	-1,5	-

(A) Advance.
Excluding net costs related to the restructuring of the banking sector.
Source: Ministry of Finance and Civil Service.

7.1. Expenditure composition

The consolidation process has involved a deep restructuring of the Public Administrations with the aim of achieving savings, both through a rationalisation of its structures and through efficiency gains in the provision of public services.

Public employment restructuring

Within the framework of the fiscal consolidation process, the number of public employees has gone from 3,234,700 in the last quarter of 2011 down to 2,986,100 in the same period of 2016, according to the data in the Labour Force Survey (LFS) published by the INE, representing a reduction of approximately 250,000 people.

Table 7.1.1. Evolution of the number of public employees

	2011	2016	Change	
			Thousands	%
Central Government	552.4	498.0	-54.4	-9.8
Social Security	39.7	34.5	-5.2	-13.1
Regional Governments	1820.3	1681.8	-138.5	-7.6
Local Entities	644.0	599.2	-44.8	-7.0
Public companies and institutions	164.1	163.9	-0.2	-0.1
Other	14.2	8.7	-5.5	-38.7
Total General Government	3,234.7	2,986.1	-248.6	-7.7

Source: National Institute of Statistics.

All levels of the Spanish Public Administration have contributed to control public employment, although there are some differences in the level of adjustment carried out.

The Social Security and the Central Government have seen how their staff fell by 13.1 and 9.8% respectively, while in the Regional Governments and the Local Corporations they have fallen by 7.6 and 7% respectively. In absolute terms, the largest adjustment is the one made by the Regional Governments, whose public workforce is the largest.

However, it should be noted that the adjustment of the public employment has not affected priority sectors such as health, education, the Administration of Justice and the Law Enforcement Forces and Agencies, as it can be observed from the Central Personnel Registry. This is due to the establishment of positive and increasing replacement rates for these sectors, reaching one hundred percent in the financial year 2016.

This restructuring process of the public sector will continue in 2017 and in coming years. The General State Budget for 2017 continues to prioritise basic public services, expanding the catalogue of priority sectors that will benefit from a 100 percent replacement rate.

In addition, the 2017 public employment offer is accompanied by a plan to reduce temporariness in the public sector within 3 years, providing stability to 250,000 temporary employees, especially in the fields of education and health, thus reducing public employment temporality.

Expenditure review

While significant achievements and savings have been achieved, a step further is needed and it will be undertaken.

The Independent Authority for Fiscal Responsibility (known in Spanish as AIReF) has been entrusted with an in-depth review of the total expenditure of the General Government, in order to identify potential inefficiencies and duplications. The AIReF will work together with the Ministry of Finance and Civil Service and the rest of Spanish Ministries and Public Administrations, which is

essential given the high degree of expenditure decentralisation existing in Spain.

The aim is to carry out a comprehensive analysis of the public expenditure in different stages, in order to make this analysis exhaustive. The first stage, which will be developed in 2017 and whose lines of action are being defined together with the AIREF, will cover the subsidies and public assistance of the various Public Administrations.

7.1.1. Expenditure Review in the Regional Governments

Sustainability of healthcare spending

Organic Law 6/2015²⁴ of 12th June, progresses on the of transparency and sustainability principles of healthcare spending, as well as on the study and detailed monitoring of pharmaceutical and health spending. To this end, the Law establishes a number of obligations for the provision of periodic information to the Ministry of Finance and Civil Service and creates an instrument for the sustainability of the Regional Government expenditure on healthcare and pharmaceutical products.

The Regional Governments adhered to this instrument (twelve in the financial year 2016) commit to ensure that such expenses evolve below the applicable reference rate for the spending rule. Likewise, they shall be subject to limits on health spending that will be monitored and evaluated. Thus, the y-o-y variation in its pharmaceutical and healthcare product expenditure may not exceed the Spanish economy medium term GDP reference rate, a growth set at 1.8% for the financial year 2016.

On the basis of the data for the closing of financial year 2016, and in accordance with the provisions of article 114.2 of the General Health Law, for the first time the CDGAE will evaluate the degree of compliance with the maximum growth rate of the pharmaceutical and healthcare products expenditure. Likewise, the degree of compliance will be reported to the Inter-Territorial Council of the National Health System.

The regulatory amendments are complemented with different collaboration and cooperation actions. The collaboration protocol signed on 4th November 2015 between the Ministry of Finance and Public Administrations, the Ministry of Health, Social Services and Equality and Farmaindustria stands out in this area, as well as the Collaboration Agreement between the Ministry of Health, Social Services and Equality and Farmaindustria, signed on 29th December 2016.

In relation to the adhesion of the Regional Governments to the abovementioned instruments, it should be noted that in accordance with the CDGAE Agreement of 31st March 2016, the distribution of the FLA funds for the second quarter of 2016 is conditional to the adherence to the instrument for the

(24) Amending Organic Law 8/1980 of 22nd September, on financing of Regional Governments and Organic Law 2/2012 of 27th April on Budgetary Stability and Financial Sustainability, through its first final Provision.

sustainability of health and pharmaceutical expenditure and to the collaboration Protocol signed between the General State Administration and Farmaindustria. Thus, together with the 9 Regional Governments adhered to the FLA, the adhesion of Madrid, La Rioja and Castilla y León was formalised. This same condition is reproduced in the CDGAE Agreement of 2nd March 2017 in relation to the new agreement signed.

Another milestone that should be noted in this area is the signing of a Collaboration Agreement between the MINHAFP and the MSSSI on 15th July 2016, aiming to exchange information from both Ministries databases.

Another relevant aspect is the publication of statistics, which allow analysing the spending evolution in pharmaceutical and healthcare products during the period published facilitating their interpretation and enabling the adoption of specific corrective measures. Thus, in 2016 the total spending on pharmacy and health products (€ 21 billion) shows an increase of 1.1% compared to 2015, although this rate rises to 5.1% if the effect of the drugs to treat Hepatitis C is not taken into account, given that these drugs had a significant impact on the financial year 2015, their amount being adjusted in the financial year 2016.

In 2017, the aim is to consolidate the monitoring process of expenditure on healthcare and pharmaceutical products. Together with the new statistical sources to deepen the data analysis, it is necessary to add the information derived from the data exchange between the MINHAFP and MSSSI databases and the active participation of the Regional Governments, as a consequence of their adherence to the instrument and the agreement. This will allow progress to be made in the follow-up work and in the proposal for efficiency measures.

Restructuring of entities

The regulatory instruments regarding the processes of Reorganisation of the Regional Public Sector were the Agreement 1/2010, of 22nd March, on the Council for Financial and Fiscal Policy on sustainability of public finances 2010/2013 and the Agreement 5/2012, of 17th January, of the Council for Financial and Fiscal Policy.

These agreements allowed the effective closure of entities, including the processes in phases very close to completion, to reach 854, which represents a 168% implementation of the commitment to reduce the number of entities initially assumed by Regional Governments.

In addition, throughout 2014, 2015 and the first half of 2016, new measures were taken again by the Regional Governments, resulting in an expansion of the reduction objective of its instrumental public sector, assuming an even more ambitious reduction forecast, which, in net terms, reaches the number of 927 entities for the Regional Governments as a whole. Meeting the objectives will allow reducing the number of entities dependent on Regional Governments by 38.12%.

7.2. Composition of revenue

In recent years, Spain has experienced a change in the composition of its revenue, increasing the weight of indirect revenue, less distortive of the economic activity, and reducing the weight of direct revenue.

In December 2016, a set of measures were announced in the 2017 Budgetary Plan update to increase the Excise Taxes (tobacco and alcohol), which were included in RDL 3/2016, and to anticipate the creation of a new tax on sweetened drinks, as well as the implementation of an environmental taxation reform, already detailed in previous sections. It should be noted that these measures also generate an induced effect on the VAT collection, as the Tax Excise Taxes are part of the VAT tax base.

When analysing the composition of revenue in 2016, it is possible to see that direct taxes accounted for 52.5% of tax revenues in 2016, while indirect taxes accounted for 46.2%. By tax figures, the Personal Income Tax represented 38.9% of the collection; the Corporate Income Tax, 11.6%; the Value Added Tax, 33.7%; and Excise Taxes, 10.66%.

In 2016, tax revenues grew by 2.3% compared to 2015. Their evolution was determined by two elements. On the one hand, a positive evolution of tax bases and, on the other hand, a negative effect of the regulatory measures affecting direct taxation with an impact on 2016 revenues. With regards to the effect of regulatory measures affecting the 2016 revenues, the direct tax reform approved in 2014, which deployed its effects in 2015 and 2016, as well as the measures on the instalment payment of the Corporate Income Tax included in RDL 2/2016, should be highlighted. The direct taxation reform generated a decrease in revenue of € 6.5 billion, while the instalment payment measure had a positive impact of € 3 billion.

The Personal Income Tax collection remained stable, growing only by 0.1% since it was affected by the tax reform. On the other hand, the Corporate Income Tax registered a higher growth, by 5%, due to the regulatory changes. If RDL 2/2016 had not been approved, it is estimated that revenues could have fallen by € 8.3 billion. With regards to indirect taxation, VAT collection grew by 4.2%, in line with the estimated increase of spending subject to taxation. Excise Taxes grew by 3.8%, although most of the increase comes from the lower returns due to what is known as the 'sanitary cent'. Tax on Hydrocarbons, the tax figure with the largest weight in Excise Taxes, registered a 2.7% growth.

Fight against fiscal fraud

The results of the fight against fraud during 2016 amounted to € 14.9 billion. They are expected to improve by more than € 1.9 billion, (14.9%) those obtained in the previous year, and in more than € 2.5 billion (20.8%) the results achieved in 2014, both in homogeneous terms. Out of these € 14.9 billion, € 504 million come from income derived from control actions (extemporaneous statements filed after the deadline laid down, without prior request by the Tax Agency) and €

14.4 billion correspond to results of prevention and control of tax and customs fraud. These, in turn, are broken down into direct income from control actions, totalling € 9.5 billion, and in reduction of refunds, totalling € 4.8 billion.

These results were achieved thanks to a consolidation of a high number of inspection activities. A total of 108,338 nominal actions to check and investigate were carried out, exceeding the 107,580 registered in the previous year. Entry and registration actions carried out by the Inspection Area with the support of the Computer Audit Units (known in Spanish as UAI) personnel also had special relevance last year. The UAI participated in 2,021 actions of these nature in 2016, 24% more than the previous year. Since 2012, these IAU actions have been doubled, and they have proven to be highly effective in detecting "concealment software", obtaining evidence in general, and reducing the duration of inspections. Likewise, the on-site visits to do the-spot checks of formal and registry obligations in tax risk sectors stand out. This activity, directly focused on the detection of submerged economy, included 24,491 actions, 12% more than in 2015, where the 49% increase in those aimed at surfacing opaque rentals stands out.

New measures in the fight against fraud

A set of measures to fight against fraud were announced on the 2017 Budgetary Plan update of 9th December, with an estimated impact of an additional € 500 million in 2017. The aim is to include them in a draft law that is expected to be approved at some point in 2017, except for the new system of Immediate Delivery of Information (known in Spanish as SII) in VAT (approved in the Council of Ministers held on 2nd December 2016) and the new sealing system that, due to its legal nature, will be approved by Royal Decree.

These new measures aim not only to reduce tax fraud, but also to facilitate relations with the tax administration and its modernisation. The measures are:

- a. New system for Immediate Delivery of Information in VAT. For large companies, it means the obligation to send the invoice record detail that must be included in the VAT Invoice Registry Book, within a very short time (4 days). The collection effect of the measure is estimated to result in a collection structural increase of approximately € 700 million per year.
- b. New limit for cash payments.
The new limit is set at € 1,000 (the amount currently stands at € 2,500), similarly to what is established in neighbouring countries. The limit of € 15,000 is maintained for non-residents
- c. Regulatory changes in the publication of listings of Treasury debtors.
In relation to regulations for publishing the listing of the debtors to the Treasury provided for in article 95 bis of the General Tax Law, and in order to encourage payment of amounts owed, there will be a regulation for the possibility of not including in the lists those obligors paying the amounts owed, even after receiving the "proposal for inclusion" notification. Likewise, the wording of article 95 bis of the General Tax Law will be modified to

include those jointly and subsidiary responsible. This measure could determine an additional income of € 150 million.

- d. Modernisation of the fiscal marking system.
A series of measures will be adopted, through Royal Decree, to modernise the sealings systems of alcoholic beverage stamps or formal obligations in the field of Tobacco Duty.
- e. Other measures to fight against fraud.
A set of measures are planned to be included in the General Tax Law to increase the effectiveness of the administrative actions in the verification and collection phase.

With regard to recovering the assistance related to the Financial Goodwill, in response to the Commission's communication of 21st December 2016, Spain announced that it will recover them through the new recovery procedure approved in the last General Tax Law reform, and has provided a list with the entities that will be the subject to the actions, committing to inform about the notifications of initiation of the actions, the proposals of liquidation and of the resolutions issued in implementation of the Third Decision of the Commission, issued on 15/10/2014. The revenue estimates of this Stability Programme do not include any impact derived from this action. Therefore, the results derived from it proved a leeway to ensure compliance with the resource forecast included in the Stability Programme.

8. INSTITUTIONAL FRAMEWORK OF THE FISCAL POLICY

8.1. Public procurement

Since the end of November 2016, the Spanish General Court is negotiating two Bills on public procurement: the Public Sector Contracts Bill and the Bill on Procurement Procedures in the water, energy, transport and postal service sectors.

Both texts transpose Directives 2014/23/EU, 2014/24/EU and 2014/25/EU on public procurement and seek to increase transparency and simplification of the procedures, as well as the simplification of the access conditions and participation of economic operators in public tenders, in particular for SMEs. Finally, these texts seek to strengthen the monitoring and reporting mechanisms.

The acting Government did not have the authority to forward bills to the Spanish General Court and this prevented the parliamentary processing from starting before the end of November 2016. However, other measures of more immediate impact were implemented:

- In 2016, an electronic services application for tendering was launched in the Hiring Platform of the Public Sector. The Platform already allows to comply with the new Directive requirements on electronic contracting.
- Limitation of the negotiated procedure use, in response to the Ecofin Council Warning Decision of 8th August 2016. By the Council of Ministers Agreement of 16th December 2016, contracting bodies were instructed in the field of the state public sector to publicise all these contracts and, therefore, to advance the application of the measure contained in the Public Sector Procurement Bill being processed, which eliminates the negotiated procedure without publicity for quantitative reasons.
- Directives were partially transposed through the specific modification of the current Consolidated Text of the Law on Public Sector Procurements, which regulate:
 - The accreditation by the employer of his economic and financial solvency²⁵
 - The prohibitions to hire; and the new regulation on the grantor's responsibility, in line with the provisions of the Concessions Directive on the necessary assumption of the operational risk by the latter²⁶.
 - The new regulation on contracts reserved for special employment centres, or integration companies or those run within the framework of sheltered employment programmes²⁷.

On the other hand, the coordinating effort with Regional Governments to facilitate transparency and joint use of procurement, advertising and

(25) Royal Decree-Law 10/2015, of 11th September, by which extraordinary credits and credit supplements in the State Budget are granted and other measures on public employment and to stimulate the economy are adopted.

(26) Law 40/2015, of 1st October on Legal Regime of the Public Sector.

(27) Law 31/2015, of 9th September, amending and updating the rules on self-employment and promotion measures for self-employment and the Social Economy are adopted.

management instruments continues, both with the signing of agreements on Bidder Hiring or Register Platform, and with the creation of the Cooperation Committee on hiring, in which the three territorial bodies will participate, provided for in the Law in process.

Likewise, the new legal text establishes a new coordinating system for procurement supervision, including the approval of a National Strategy on public procurement for the entire public sector.

In order to improve the quality of Public Administrations investments, the projects feasibility will be guaranteed in the framework of the Organic Law on Budgetary Stability and Financial Sustainability through the creation of the National Office of Evaluation, which will guarantee the efficiency and sustainability of the State, Local Corporations and Regional Governments public investments.

As of its implementation, the National Office of Evaluation will analyse the financial sustainability of public services and public works concession contracts, both by the State and the Local Corporations, as well as by those Regional Governments that decide to adhere to it. To do this, it will issue mandatory reports prior to the approval of the projects that will serve as a basis for the tender procedures.

Lastly, on 28th April the Council of Ministers approved the Royal Decree regulating the legal regime of internal control in Local Public Sector entities. It regulates the legal regime of Internal Control in Local Public Sector entities, with the following objectives: to allow a more effective, homogeneous and transparent management of internal control bodies throughout the national territory; to cover the existing legal gap on Internal Control in the Entities integrating the Local Public Sector; to strengthen the role and functions of the intervention bodies; to homogenise the control procedures, by bringing them in line with the control structure set for the State Public Sector; and to ensure greater professionalism and efficiency in the exercise of internal control functions.

8.2. Relations with the independent fiscal institutions

The EC, in its report published on 22nd February 2017 on the transposition of the so-called Fiscal Compact, in the Annex dedicated to Spain in its paragraph 4, included the Commission's concern about the AIReF's limitations to access information derived from the regulation to develop the Organic Law and considered that the Organic Statute of the AIReF, as well as Order HAP/1287/2015, limit the AIReF's access to information by introducing a number of exceptions.

By means of Order HFP/232/2017, dated 14th March, articles 2, 5 and 12 of Order HAP/1287/2015 were repealed, eliminating the AIReF's eventual obstacles to access information.

8.3. Payment to suppliers

The amendment of Royal Decree 635/2014, of 25th July, develops the methodology for calculating the average payment period to suppliers by the Public Administrations, as well as the conditions and the withholding procedure for resources of funding systems, set forth in the Organic Law 2/2012, of 27th April, on Budgetary Stability and Financial Sustainability, is being carried out

This amendment involves a strict adjustment of the Royal Decree to the rules on payment and late payments eradication included in the Spanish legislation, such as the Law on Public Sector Procurements and Law 3/2004 of 29th December which establishes measures to fight late payment in commercial transactions, very positively valued by the EC as measures that have resulted in a significant advance to eradicate late payments.

Both elements have initially resulted in the suspension of the infringement procedure until the modification is carried out and its effects on the field of reducing late payment periods to those legally envisaged is assessed. In this regard, it is intended, as the intention has always been, to fully comply with the European regulations on late payment and, in particular, with Directive 2011/7/EU of the European Parliament and of the Council of 16th February 2011, which establishes measures to fight late payment in commercial transactions.

8.4. Transparency and access to public information

Transparency Portal

In December 2015, almost a year after it was put into operation, an improved version of the Transparency Portal was created, providing new information elements and greater capacity and flexibility to manage its content. Since it was implemented and up to March 2017, the information published went from just over 500,000 data records in January 2015 up to 1,549,864 that can be currently accessed. The Portal has more than 7,161,872 page visits and citizens made more than 8,375 requests to access information through the Portal.

Office of Conflict of Interest

This Office has resulted in a major advance in the management, prevention and control of conflicts of interest of the positions with greater responsibility within the General State Administration. Moreover, it should be taken into account that the come into force of Title II of Law 19/2013, of 9th December on transparency, access to public information and good governance is complemented with the mentioned standard, including an advanced and effective sanctioning regime.

With regards to the measures for 2017, at the moment a Comprehensive Draft Law to Fight against Corruption and Protection of the Complainants is under consideration by the Congress.

Scope of the Council for Transparency and Good Governance

Law 19/2013, of 9th December led to the creation of the Council for Transparency and Good Governance as the body responsible for promoting transparency in public activities, ensuring compliance with active publication obligations, safeguarding the right of access to public information and ensuring compliance with the rules of good governance.

Since it came into operation, the Council has received 2,702 citizens' initiatives and petitions from requests of information, consultations on the Law 19/2013, claims, complaints and allegations, having already resolved 1,586 complaints against rejections of the right of access to information. Likewise, the Council has also signed agreements with Asturias, Cantabria, Castilla-La Mancha, Madrid, La Rioja, Extremadura, Ceuta and Melilla to handle its citizens' complaints.

8.5. Transparency in the field of Regional Governments

The improvement of the information flow management continues, channelled through electronic means and through the General Comptrollers, and giving effective application to the Order HAP/2105/2012, of 1st October, which develops the obligations to provide information set for in the LOEPSF.

Likewise, progress is being made in the quality and detail of the information published through the Public Administrations Information Centre, including the following contents in 2016, for the first time:

- Information on the adjustment plans agreed for the adherence to the 2016 FLA, since May 2016.
- Quarterly monitoring reports on the adjustment plans in force. Healthcare and pharmaceutical expenditure indicators.
- Actions on the measures aimed at fulfilling the objectives.
- Actions in relation to the fulfilment of the Average Payment Period (known in Spanish as PMP).
- Actions in relation to the conditionality foreseen by adherence to financing mechanisms.
- Content of the communications in the scope of their adherence to the fiscal conditionality to which they are subject as a result of being part of the extraordinary financing mechanisms or due to the application of the LOEPSF.
- Reports submitted by the General Comptrollers in compliance with the provisions of the CDGAE Agreement of 31st March 2016.
- Compliance indicator of the monthly certificate submission set forth in the CDGAE Agreement of 20th November 2015, on reinforced conditionality in Catalonia.
- Content of the information supply requirements made pursuant to Order HAP/2105/2012, of 1st October, on the development of the obligations to supply information provided in the LOEPS.

ANNEX

Table A.1. Expected budgetary impact of the measures adopted and planned: Tax

Measures	Description	Target (expenditure/revenue)	Accounting principle	Level of implementation	Additional budgetary impact (Million €)			
					2016	2017	2018	2019
Personal Income Tax (PIT)					-4,152	-491	6	0
2013 and 2012 measures	Includes measures like the elimination of house compensation, partial restoration of the Christmas and summer bonus for public servants, 20% reduction on net profits in first 2 years (flat rate regime) and "Business angels": 20% deduction on the investment and exemption from capital gains	Revenues	Cash & National Accounts	Royal Decree Law 20/2012, 13th of July, Law 16/2012, 27th of December, Law 11/2013, 26th of July, of measures to support entrepreneurship and growth stimulus and job creation Law 14/2013 of Support to Entrepreneurship	254	-603		
Changes in the limits of objective assessment scheme regarding the PIT instalment payments and withholding of subscription rights	Limits to the tax payers that can apply the objective assessment scheme criteria	Revenues	Cash & National Accounts	Law 48/2015, State Budget for 2016	81	48	6	
PIT reform	Wide modification on the PIT: tax brackets have been changed, tax rates reduced, different treatment to certain investment products, introduction of new family tax credits	Revenues	Cash & National Accounts	Law 26/2014, 27th November, that modifies the Law 35/2006, 28th of November of Personal Income Tax, the consolidated text of the Law of Non Resident Income tax Royal Legislative Decree 1/2004 5th of March, and other tax rules	-4,487	64		
Corporate Income Tax (CIT)					1,047	1,518	-352	0
Changes in CIT instalment payments	Modification of the CIT instalment payments regime, increasing them to 23% for non financial companies with an accounting profit of more than 10 M euros, and 25% for financial companies. These percentages are increase for companies declaring under tax base regime 19/20	Revenues	Cash & National Accounts	Royal Decree Law 2/2016	2,967	-2967		
Reforma IS	Rate reduction to 25% in two years, creation of a capitalization reserve and levelling reserve. (Ex post)	Revenues	Cash & National Accounts	Law 27/2014 of 27th of November, Corporate Income Tax	-1920	-180		
2017 measures	Limits to negative tax bases and to deduction for double taxation. Refor of reversals of impairment losses of equity assets. Non deductibility of losses resulting from the transfer of securities representative of own equity	Revenues	Cash & National Accounts	Royal Decree Law 3/2016	0	4,655	-355	
Withholding tax of subscription rights						10	3	

Table A.1. Expected budgetary impact of the measures adopted and planned: Tax

(Continued)								
Measures	Description	Target (expenditure/revenue)	Accounting principle	Level of implementation	Additional budgetary impact (Million €)			
					2016	2017	2018	2019
New Environmental taxation	Tax to the value of extracted gas, petroleum or condensates	Revenues	Homogeneous Cash & National Accounts	Law 8/2015, of 21st of May	0	2	0	0
Other Direct Taxes	Non Resident Income Tax	Revenues	Homogeneous Cash & National Accounts		-82	-6	0	0
VAT					1,237	-41	-14	0
New import VAT regime	The Law 28/2014 includes the possibility that, under certain conditions, the import tax payments are done in the tax declaration corresponding to the period when the document, that contains the notification of the tax liquidation done by the Administration, is received	Revenues	Homogeneous Cash & National Accounts	RDL 9/2011, of 19th August	1,162			
Health and Notaries tax at the general rate	Adaptation of the VAT Law to the EU legislation	Revenues	Homogeneous Cash & National Accounts		75	-41	-14	
Excise duties					485	128	8	0
Hydrocarbon	Refunds under the tax on hydrocarbons judgment	Expenditure	Homogeneous Cash & National Accounts	Application of the judiciary sentence that forces to refund amounts collected under the tax on hydrocarbons	491			
Electricity	Partial tax exemption for large consumers	Revenues	Homogeneous Cash & National Accounts	Law 16/2013, 29th of October, of environmental taxation	-6			
Taxes on tobacco products, alcohol and on sweetened beverages	Changes in the minimum specific rate and ad valorem rate. Increase of 5% of the alcohol tax. Creation of a new tax on sweetened beverages	Revenues	Homogeneous Cash & National Accounts			128	8	
Other indirect and environmental taxes					16	560	15	0
Tax on fluorinated greenhouse gases. A tax on emissions of halogenated hydrocarbons	New environmental tax on certain consumptions	Revenues	Homogeneous Cash & National Accounts	Ley 16/2013 de fiscalidad medioambiental	16	60	15	
Reform in the field of environmental taxation	Fulfilment of the national greenhouse gas emission targets and achieve a progressive convergence with the EU environmental taxation average	Revenues	Homogeneous Cash & National Accounts			500		
Fees and other taxes					-324	-65	0	0
Levy on the use of water for electrical production	Levy to protect and improve the public domain on water through Confederaciones Hidrográficas	Revenues	Homogeneous Cash & National Accounts	RDL implementing art. 112 of the Law of water	-251			
Judiciary Levies		Revenues	Homogeneous Cash & National Accounts	Law 10/2012 and 2013 and 2015 modifications	-73	-65		
Changes in the treatment of Deferred Tax Asset	Only DTA complying with certain requirements and below the threshold of taxes effectively paid on Corporate Income Tax will be allowed to be converted into guaranteed DTA each year	Revenues	Homogeneous Cash & National Accounts	Ley 48/2015, State Budget for 2016		400		
TOTAL					-1,773	2,005	-337	0
Plan on measures against tax fraud		Revenues	Homogeneous Cash & National Accounts	General Taxation Law	1,000	1,000	0	0
Measures against tax fraud 2017	System of Immediate Information Supply, deferrals, art. 95 bis measures, limits to cash payments. Most of them have impact in VAT collection	Revenues	Homogeneous Cash & National Accounts			1,800	350	
TOTAL					-773	4,805	13	0

Source: Ministry of Finance and Civil Service.

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Table A.2. Expected budgetary impact of the measures adopted and planned (expenditure / revenue). Central Government, Labour market and Social Security

Measures	Description	Target (expenditure / revenue)	Level of implementation	2015	2016	2017	2018	2019
Agreement on the non-availability of budgetary credits of the Central Government	Agreement on the non-availability of credits amounting to 2000 M€ in the State Budget to ensure the fiscal consolidation commitments with the European Union shared between government departments	Expenditure	Agreement of the Council of Ministers		3,000			
Repairing the damage caused by floods and other effects of rainstorms, snowfall and strong winds that occurred in the months of January, February and March 2015	Urgent measures, which have as a direct cause the rainstorms, snowfall and strong winds force majeure	Expenditure	Royal Decree Law 2/2015 6th of March, on urgent measures taken to repair the damage caused by floods and other effects of rainstorms, snowfall and strong winds occurred in the months of January, February and March 2015	-106	106			
Refund of the extra payment (Christmas bonus) and increase of 1% of salary	Reimbursement of 25% of the corresponding extra payment suppressed in December 2012 to the public employees	Expenditure	Law 48/2015, 29th October, General State Budget 2016	-579	-1,430	1,470	1,528	362
Replacement rate	0% replacement rate except for priority areas at 50% in 2015. The replacement rate increases in the General State Budget 2016	Expenditure	Law 48/2015, 29th October, General State Budget 2016	202	202			
Establishing a Flat Rate in employer contributions to Social Security and its extension in 2015. Minimum exempt as from 2015	In order to encourage permanent contracts and fostering net job creation, a flat rate is established in employer contribution to Social Security. In order to consolidate the positive development of permanent contracts and increase its impact for groups with greater difficulties for a stable employment, a minimum exempt is set in the employer contribution for common social security contingencies, which will benefit all companies for permanent hires and net employment creation. 500€ of the corresponding monthly contribution basis for common contingencies shall be exempt from employer contribution for full-time contracts. In the case of part-time contracts, that amount is reduced in proportion to the percentage decrease in working hours, which must not be less than 50% of the daily working time of full-time workers. Duration 01-03-2015 to 31-08-2016	Revenue	Royal Decree Law 3/2014, 28th February, on urgent measures to foster employment and permanent contracts. Royal Decree law 17/2014, 26th December, of measures for autonomous communities and local entities sustainability. Royal Decree law 1/2015, 27th February, of second chance mechanism, reduction of financial burden and other social measures	-285	427	260		
New direct settlement scheme for the Payment of Social Security Contributions	Entails a change in the Spanish scheme of Social Security contributions. The change involves replacing the current self-declaration form with a direct-settlement form (or direct billing)	Revenue	Law 34/2014, 26th of December, of measures related to settlement and payment of quotas of the Social Security	25	114	126		
Mutualism Act	It entails modernisation of the functioning and management of these entities. It increases transparency and efficiency. It contributes to a better use of resources and to absenteeism reduction, and to social security sustainability. Temporal disab 206M: 330M revenues from health services use to third parties and sale of prevention services; 25M savings as for management control	Revenue / expenditure	Law 35/2014, 26th of December, of measures related to settlement and payment of quotas of the Social Security	587	-26			
Update of the maximum cap and maximum contribution bases in the Social Security system	Updates the amounts of the of the contribution to Social Security base cap, in the regimes that have it established, as well as the maximum bases of quotation in each of them, increasing them by 3 percent with respect to those in force in 2016	Revenue	Royal Decree Law 3/2016, 2nd December, approving fiscal measures aimed at the consolidation of public finances and other urgent social measures			300		
Extraordinary activation programme for employment	A programme for long-term unemployed people who have seen their benefits and allowances ending and who meet the requirement established and have family responsibilities. The activation programme combines specific actions to foster employment and temporary financial assistance of six months which is compatible in case of being employed. Thus contributing to two goals. On the one hand, address the situation of these unemployed and help keep them active. On the other hand, to promote the modernization of public employment services, ensuring a personalized treatment of beneficiaries and a stronger link between active and passive policies. The Programme will be up to 15th of April 2016 and an assessment of its impact is expected in terms of employability	Expenditure	Royal Decree law 16/2014, of 19th December, which regulates the Programme of Activation for the Employment	-160	-127	10		

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Table A.2. Expected budgetary impact of the measures adopted and planned (expenditure / revenue). Central Government, Labour market and Social Security

(Continued)

New access requirements for the Active insertion income	Requirements for access to the RAI were modified to increase its links with employment policies and strengthen compliance with the activity commitment	Expenditure	Royal Decree law 16/2014, of 19th December, which regulates the Programme of Activation for the Employment. Third final provision	19	105	108		
Completion of the programme for subsidies and replacement of measures of employment regulation	The "replacement right" and several employment subsidies were suppressed in 2014 because of the forecast improvement in the economic activity	Expenditure	Royal Decree-law 1/2013, 25th of January. Law 3/2012, 6th of July	233	294	-294		
CORA's Organizational rationalization in Central Government	It involves the suppression, merger, integration or rationalization of state public sector entities	Expenditure	Law 15/2014 of streamlining the public sector and other administrative reform measures: Royal Decree 701/2013 of rationalization of the Public Sector; Several Agreements of the Council of Ministers	135	110			
CORA's Elimination of administrative duplications	It Involves the execution of 120 diagnostic and elimination of duplication measures, both within the state sector and between state sector and Autonomous Communities or local entities, if any. Examples: joint planning contributions to international organizations; unique e-procurement platform; surveys centralization	Expenditure	70 CORA measures implemented. 30 in an advanced stage and 20 running	260	160			
CORA improvements in the management of Central Government	Internal state sector rationalization measures: Real estate plan, automobile fleet rationalization, centralization of public procurement, travel and subsistence allowance; Improving of Cash Management (public treasury)	Expenditure	Rationalization of property leases and sale plan for underutilized assets: Law 15/2014 of rationalization in the state sector and other measures for administrative reform: an Official Inventory of Vehicles has been created; Ministry of Finance's regulation about travel and subsistence allowance (in force since 2013); Royal Decree 256/2012 modified; creation of DG for Rationalization and centralization of public procurement (framework agreements and centralized contracts); General Regulations on tax collection was also improved	412	225			
ICT improvements for the state sector management	ICT development measures for more efficient delivery of services to citizens: e-Appointments, portals, and shared services between administrations. It produces savings for citizens and businesses, but also for Central Government	Expenditure	Creation of the Directorate for the ICT (modification of the Royal Decree 256/2012), ICT developments	144	130			
CORA's ICT simplification measures in the health field: interoperable electronic recipe; digital medical history; DB for health card	Spreading out interoperable electronic prescriptions from any Autonomous Community, with availability of digital medical records, enhancing the DB for electronic health card	Expenditure	Royal Decree 702/2013, 20th September that regulates the individual health card and amends Royal Decree 183/2004, 30th January; Agreements with Regional Governments. Measures in advanced stages of implementation	46	104			
New Strategic Plan for the Transformation of the Public Administration 2017-2019		Expenditure	Strategic Plan to be developed				900	
Social Security Pensions System reform	Pension reforms since 2011 and 2013 (retirement, partial and early retirement, revaluation index and sustainability factor), Differential impact on future pension spending	Expenditure	Law 27/2011, of the Social Security reform; Royal Decree Law 5/2013; Law 23/2013 of 23rd December, regulating the Sustainability Factor and the Revaluation Index	1,000	1,148	1,200		
TOTAL				1,934	4,542	3,180	2,428	362

Source: Ministry of Finance and Civil Service.

Table A.3. Regional Governments. Expected budgetary impact of the measures adopted and planned

Measures	Description	Target (expenditure/ revenue)	Additional budgetary impact (Million €)		
		ESA Code	2015	2016	2017
Personnel expenditure	Management measures/ staff planning/ remuneration	D1	-2.064	-325	300
	No replacement	D1	589	295	
Agreement on the non-availability ART. 25.1 LOEPSF ⁽¹⁾	Agreement on the non-availability budgetary credits	Various codes	0	1.500	0
Pharmaceutical expenditure and health products	Pharmaceutical expenditure due to centralized procurement	D63	10	100	100
	Other measures regarding pharmacy and health products expenditure	D63	48	35	450
Current spending and public provision	Saving measures related to provision of services and supplies	P2	37	67	101
	Other measures from Chapter II	P2	0	0	0
Financial expenses and interests (No impact in General Government)	Interest savings, improving conditions of funding mechanisms	D41	3.121	-760	0
Current transfers	Other from Chapter IV	Other current expenditure	79	-120	50
Capital transfers	Other from Chapter VII	D92,D99	0	0	0
Other measures	Other measures (investment)	P51	0	0	0
Total expenditure measures			1.819	791	1.001
Personal Income Tax and other direct taxes		D51	29	-14	-17
Inheritance and Gift Tax		D91	30	-23	5
Wealth Tax		D5	0	36	-5
Environmental taxes		D29	44	13	32
Transfer tax and Stamp duty		D21	4	62	26
Hydrocarbons Tax		D21	-74	16	-7
IGIC AIEM		D21	5	1	0
Fees		D29	31	60	0
Other taxes (IDEC, others)		D29	130	240	7
Non-tax Revenues		-P51	-510	243	-180
Total revenue measures			-312	633	-138
Total Regional Governments measures			1.507	1.425	1.158
(1) 2017 includes the consolidation of 2016 budget year measures regarding non availability agreements (with no additional impact). However, the final impact will be conditioned by the content of the budgets approved or extended by the Regional Governments. However, measures have been adopted in order to control non budgetary accounts to guarantee the complete effectiveness of the agreements that should be finally adopted.					
Source: Ministry of Finance and Civil Service.					

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Table A.4. Local Entities. Expected budgetary impact of the measures adopted and planned

Measures	Description	Target (expenditure / revenue)	Additional budgetary impact (Million €)					
			ESA Code	2015	2016	2017	2018	2019
Personnel	Remuneration	D1	-459	-204	459	58	59	52
	No replacement	D1	233	233	82	82	0	0
Current expenditure	Cost reduction in purchases of goods and services	P2	402	201	62	62	0	0
	Company dissolution	P2	394	508	305	0	0	0
Suppression of services	Disappearance of minor local entities and deletion of services that are not under local competencies	P2, other current expenditure	574	139	0	0	0	0
	Transfer of competencies in health, education and social services	D1, P2		0	0	0	0	0
Integrated management and mergers	Integrated management of Public services and municipal mergers	D1, P2	71	223	69	15	0	0
Total expenditure			1,214	1,100	977	217	59	52
Taxes	Tax increases, deletion of exemptions and voluntary bonuses	D29	926	427	347	544	767	288
Taxes	Fees and public prices	D29 Y P11				-21	89	-98
Total revenues			926	427	347	523	856	190
Total Local Entities			2,140	1,527	1,324	740	915	242

LRSAL: Law 27/2013, 27th of December of rationalization and sustainability of local governments.
Source: Ministry of Finance and Civil Service.

Table A.5.1. - Quarterly budgetary execution for the General Government and its subsectors

Million €	2016				2017
	T1	T2	T3	T4	Up to February*
Overall balance by subsector					
1. General Government	19,607	-1,200	18,433	10,177	nd
2. Central Government	9,496	-9,698	2,584	-3,951	7,114
3. Regional Governments	1,741	-69	9,878	6,507	772
4. Local Governments	4,955	5,584	10,152	5,330	nd
5. Social security	3,415	2,983	-4,181	2,291	2,395
For each subsector	General Government				
6. Total revenue	195,131	372,163	582,960	831,707	nd
7. Total expenditure	175,524	373,363	564,527	821,530	nd

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

Table A.5.1. - Quarterly budgetary execution for the General Government and its subsectors

(Continued)

Million €	2016				2017
	T1	T2	T3	T4	Up to February*
Overall balance by subsector					
1. General Government					
2. Central Government	9,496	-9,698	2,584	-3,951	7,114
3. Regional Governments					
4. Local Governments					
5. Social security					
For each subsector	Central Government				
6. Total revenue	77,118	126,962	207,342	289,167	55,859
7. Total expenditure	67,622	136,660	204,758	293,118	48,745
Public accounting data. Non consolidated data.					
* Accumulated data at the end of the reference period.					
Source: Ministry of Finance and Civil Service.					

Table A.5.1. - Quarterly budgetary execution for the General Government and its subsectors

(Continued)

Million €	2016				2017
	T1	T2	T3	T4	Up to February*
Overall balance by subsector					
1. General Government					
2. Central Government					
3. Regional Governments	1,741	-69	9,878	6,507	772
4. Local Governments					
5. Social security					
For each subsector	Regional Governments				
6. Total revenue	60,159	129,785	200,614	290,939	40,524
7. Total expenditure	58,418	129,854	190,736	284,432	39,752
Public accounting data. Non consolidated data.					
* Accumulated data at the end of the reference period.					
Source: Ministry of Finance and Civil Service.					

Table A.5.1. - Quarterly budgetary execution for the General Government and its subsectors

(Continued)

Million €	2016				2017
	T1	T2	T3	T4	Up to February*
Overall balance by subsector					
1. General Government					
2. Central Government					
3. Regional Governments					
4. Local Governments	4,955	5,584	10,152	5,330	nd
5. Social security					
For each subsector	Local Governments				
6. Total revenue	19,179	40,436	61,556	82,540	nd
7. Total expenditure	14,224	34,852	51,404	77,210	nd
Public accounting data. Non consolidated data.					
* Accumulated data at the end of the reference period.					
Source: Ministry of Finance and Civil Service.					

Table A.5.1. - Quarterly budgetary execution for the General Government and its subsectors

(Continued)

Million €	2016				2017
	T1	T2	T3	T4	Up to February*
Overall balance by subsector					
1. General Government					
2. Central Government					
3. Regional Governments					
4. Local Governments					
5. Social security	3,415	2,983	-4,181	2,291	2,395
For each subsector	Social Security				
6. Total revenue	38,675	74,980	113,448	169,061	25,992
7. Total expenditure	35,260	71,997	117,629	166,770	23,597
Public accounting data. Non consolidated data.					
* Accumulated data at the end of the reference period.					
Source: Ministry of Finance and Civil Service.					

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Table A.6.1. – Quarterly budgetary execution in accordance with ESA standards for the General Government and its subsectors

ESA 2010		Accumulated data				Non accumulated data				2017
Million €	ESA Code	2016				2016				Up to February*
		T1	T2	T3	T4	T1	T2	T3	T4	
B.9 EDP Net lending (+) / net borrowing (-)										
1. General Government	S.13	-7,823	-33,629	-30,843	-50,576	-7,823	-25,806	2,786	-19,733	nd
2. Central Government	S.1311	-9,170	-21,537	-29,192	-30,408	-9,170	-12,367	-7,655	-1,216	-11,459
3. Regional Governments	S.1312	-1,191	-7,154	-1,494	-9,155	-1,191	-5,963	5,660	-7,661	-836
4. Local Governments	S.1313	675	1,646	6,064	7,083	675	971	4,418	1,019	nd
5. Social Security	S.1314	1,863	-6,584	-6,221	-18,096	1,863	-8,447	363	-11,875	1,315
General Government										
6. Total revenue	TR	98,617	197,019	305,806	421,672	98,617	98,402	108,787	115,866	nd
Of which										
Taxes on production and imports	D.2	35,493	67,671	99,979	129,532	35,493	32,178	32,308	29,553	nd
Current taxes on income, wealth, etc.	D.5	21,631	42,987	75,126	111,273	21,631	21,356	32,139	36,147	nd
Capital taxes	D.91	1,331	3,417	4,698	6,355	1,331	2,086	1,281	1,657	nd
Social contributions	D.61	33,274	67,514	101,562	136,341	33,274	34,240	34,048	34,779	nd
Property income	D.4	2,074	3,278	4,643	8,092	2,074	1,204	1,365	3,449	nd
Other ^(b)		4,814	12,152	19,798	30,079	4,814	7,338	7,646	10,281	nd
7. Total expenditure	TE	106,440	230,648	336,649	472,248	106,440	124,208	106,001	135,599	nd
Of which										
Compensation of employees	D.1	26,927	59,802	87,484	121,431	26,927	32,875	27,682	33,947	nd
Intermediate consumption	P.2	13,677	27,553	40,367	55,949	13,677	13,876	12,814	15,582	nd
Social transfers	D.62, D.632 ^(c)	44,741	100,485	145,760	202,841	44,741	55,744	45,275	57,081	nd
Interests expenditure	D.41	7,901	15,754	23,572	31,358	7,901	7,853	7,818	7,786	nd
Subsidies	D.3	1,542	4,291	6,440	11,467	1,542	2,749	2,149	5,027	nd
Gross capital formation	D.51	5,079	10,498	15,738	21,548	5,079	5,419	5,240	5,810	nd
Capital transfers (includes financial assistance)	D.9	1,238	3,669	4,624	8,845	1,238	2,431	955	4,221	nd
Other ^(d)		5,335	8,596	12,664	18,809	5,335	3,261	4,068	6,145	nd

^(b) P.11+P.12+P.131+D.39rec+D.7rec+D.9rec (other than D.91rec).
^(c) Under ESA95: D6311_D63121_D63131pay: in ESA2010 D632pay.
^(d) D.29pay+D.4pay (other than D.41pay) +D.5pay+D.7pay+P.52+P.53+K.2+D.8.
^(e) According to Regulation (EC) No 479/2009.
* Consolidated and accumulated data for the General Government, Regional governments and Social Security Funds up to February.
Source: Ministry of Finance and Civil Service.

Table A.6.1. – Quarterly budgetary execution in accordance with ESA standards for the General Government and its subsectors

(Continued)

ESA 2010		Accumulated data				Non accumulated data				2017
million €	ESA Code	2016				2016				Up to February*
		T1	T2	T3	T4	T1	T2	T3	T4	
B.9 EDP Net lending (+) / net borrowing (-)										
1. General Government	S.13									
2. Central Government	S.1311	-9,170	-21,537	-29,192	-30,408	-9,170	-12,367	-7,655	-1,216	-11,459
3. Regional Governments	S.1312									
4. Local Governments	S.1313									
5. Social Security	S.1314									
Central Government										
6. Total revenue	TR	44,267	86,341	134,894	190,356	44,267	42,074	48,553	55,462	22,111
Of which										
Taxes on production and imports	D.2	26,722	49,061	71,726	90,697	26,722	22,339	22,665	18,971	14,726
Current taxes on income, wealth, etc.	D.5	10,937	22,341	39,163	63,888	10,937	11,404	16,822	24,725	3,979
Capital taxes	D.91	271	994	1,021	1,085	271	723	27	64	257
Social contributions	D.61	2,286	5,192	7,510	10,556	2,286	2,906	2,318	3,046	1,483
Property income	D.4	1,879	3,005	4,297	7,706	1,879	1,126	1,292	3,409	491
Other ^(b)		2,172	5,748	11,177	16,424	2,172	3,576	5,429	5,247	1,175
7. Total expenditure	TE (EDP)	53,437	107,878	164,086	220,764	53,437	54,441	56,208	56,678	33,570
Of which										
Compensation of employees	D.1	5,108	11,889	17,040	23,560	5,108	6,781	5,151	6,520	3,359
Intermediate consumption	P.2	1,981	4,067	6,075	8,216	1,981	2,086	2,008	2,141	1,292
Social transfers	D.62, D.632 ^(c)	3,700	9,302	13,254	18,619	3,700	5,602	3,952	5,365	2,428
Interests expenditure	D.41	7,122	14,179	21,205	28,135	7,122	7,057	7,026	6,930	4,386
Subsidies	D.3	255	1,716	2,493	5,061	255	1,461	777	2,568	32
Gross capital formation	D.51	1,567	3,321	5,121	7,125	1,567	1,754	1,800	2,004	1,046
Capital transfers (includes financial assistance)	D.9	1,050	3,166	3,975	7,529	1,050	2,116	809	3,554	1,208
Other ^(d)		32,654	60,238	94,923	122,519	32,654	27,584	34,685	27,596	19,819

^(b) P.11+P.12+P.131+D.39rec+D.7rec+D.9rec (other than D.91rec).
^(c) Under ESA95: D6311_D63121_D63131pay: in ESA2010 D632pay.
^(d) D.29pay+D.4pay (other than D.41pay) +D.5pay+D.7pay+P.52+P.53+K.2+D.8.
^(e) According to Regulation (EC) No 479/2009.
* Consolidated and accumulated data for the General Government, Regional governments and Social Security Funds up to February.
Source: Ministry of Finance and Civil Service.

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Table A.6.1. – Quarterly budgetary execution in accordance with ESA standards for the General Government and its subsectors

(Continued)

ESA 2010	million €	ESA Code	Accumulated data				Non accumulated data				2017 Up to February*
			2016				2016				
			T1	T2	T3	T4	T1	T2	T3	T4	
B.9 EDP Net lending (+) / net borrowing (-)											
1. General Government		S.13									
2. Central Government		S.1311									
3. Regional Governments		S.1312	-1,191	-7,154	-1,494	-9,155	-1,191	-5,963	5,660	-7,661	
4. Local Governments		S.1313									
5. Social Security		S.1314									
Regional Governments											
6. Total revenue		TR	35,722	72,095	117,728	158,336	35,722	36,373	45,633	40,608	
Of which											
Taxes on production and imports		D.2	2,961	6,273	9,636	13,428	2,961	3,312	3,363	3,792	
Current taxes on income, wealth, etc.		D.5	8,887	17,677	29,927	38,887	8,887	8,790	12,250	8,960	
Capital taxes		D.91	505	1,106	1,680	2,413	505	601	574	733	
Social contributions		D.61	79	162	247	335	79	83	85	88	
Property income		D.4	72	183	355	555	72	111	172	200	
Other ^(b)			23,218	46,694	75,883	102,718	23,218	23,476	29,189	26,835	
7. Total expenditure		TE (EDP)	36,913	79,249	119,222	167,491	36,913	42,336	39,973	48,269	
Of which											
Compensation of employees		D.1	16,345	36,025	52,986	73,400	16,345	19,680	16,961	20,414	
Intermediate consumption		P.2	6,683	13,402	19,621	27,108	6,683	6,719	6,219	7,487	
Social transfers		D.62, D.632 ^(c)	6,815	14,406	21,622	30,272	6,815	7,591	7,216	8,650	
Interests expenditure		D.41	994	2,077	3,183	4,397	994	1,083	1,106	1,214	
Subsidies		D.3	504	1,070	1,652	2,770	504	566	582	1,118	
Gross capital formation		D.51	2,293	4,699	6,920	9,355	2,293	2,406	2,221	2,435	
Capital transfers (includes financial assistance)		D.9	231	857	1,341	3,495	231	626	484	2,154	
Other ^(d)			3,048	6,713	11,897	16,694	3,048	3,665	5,184	4,797	

^(b) P.11+P.12+P.131+D.39rec + D.7rec + D.9rec (other than D.91rec).
^(c) Under ESA95: D6311_D63121_D63131pay: in ESA2010 D632pay.
^(d) D.29pay+D.4pay (other than D.41pay) + D.5pay+D.7pay+P.52+P.53+K.2+D.8.
^(e) According to Regulation (EC) No 479/2009.
* Consolidated and accumulated data for the General Government, Regional governments and Social Security Funds up to February.
Source: Ministry of Finance and Civil Service.

Table A.6.1. – Quarterly budgetary execution in accordance with ESA standards for the General Government and its subsectors

(Continued)

ESA 2010	million €	ESA Code	Accumulated data				Non accumulated data				2017 Up to February*
			2016				2016				
			T1	T2	T3	T4	T1	T2	T3	T4	
B.9 EDP Net lending (+) / net borrowing (-)											
1. General Government		S.13									
2. Central Government		S.1311									
3. Regional Governments		S.1312									
4. Local Governments		S.1313	675	1,646	6,064	7,083	675	971	4,418	1,019	
5. Social Security		S.1314									
Local Governments											
6. Total revenue		TR	15,295	31,778	50,791	70,840	15,295	16,483	19,013	20,049	
Of which											
Taxes on production and imports		D.2	5,810	12,337	18,617	25,407	5,810	6,527	6,280	6,790	
Current taxes on income, wealth, etc.		D.5	1,807	2,969	6,036	8,498	1,807	1,162	3,067	2,462	
Capital taxes		D.91	555	1,317	1,997	2,857	555	762	680	860	
Social contributions		D.61	64	135	199	294	64	71	64	95	
Property income		D.4	107	227	346	458	107	120	119	112	
Other ^(b)			6,952	14,793	23,596	33,326	6,952	7,841	8,803	9,730	
7. Total expenditure		TE (EDP)	14,620	30,132	44,727	63,757	14,620	15,512	14,595	19,030	
Of which											
Compensation of employees		D.1	4,926	10,620	15,616	21,912	4,926	5,694	4,996	6,296	
Intermediate consumption		P.2	4,758	9,574	13,917	19,581	4,758	4,816	4,343	5,664	
Social transfers		D.62, D.632 ^(c)	287	583	870	1,199	287	296	287	329	
Interests expenditure		D.41	168	337	503	665	168	169	166	162	
Subsidies		D.3	368	643	925	1,454	368	275	282	529	
Gross capital formation		D.51	1,173	2,386	3,555	4,898	1,173	1,213	1,169	1,343	
Capital transfers (includes financial assistance)		D.9	114	242	373	912	114	128	131	539	
Other ^(d)			2,826	5,747	8,968	13,136	2,826	2,921	3,221	4,168	

^(b) P.11+P.12+P.131+D.39rec + D.7rec + D.9rec (other than D.91rec).
^(c) Under ESA95: D6311_D63121_D63131pay: in ESA2010 D632pay.
^(d) D.29pay+D.4pay (other than D.41pay) + D.5pay+D.7pay+P.52+P.53+K.2+D.8.
^(e) According to Regulation (EC) No 479/2009.
* Consolidated and accumulated data for the General Government, Regional governments and Social Security Funds up to February.
Source: Ministry of Finance and Civil Service.

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Table A.6.1. – Quarterly budgetary execution in accordance with ESA standards for the General Government and its subsectors

(Continued)

ESA 2010 million €	ESA Code	Accumulated data				Non accumulated data				2017 Up to February*
		2016				2016				
		T1	T2	T3	T4	T1	T2	T3	T4	
B.9 EDP Net lending (+) / net borrowing (-)										
1. General Government	S.13									
2. Central Government	S.1311									
3. Regional Governments	S.1312									
4. Local Governments	S.1313									
5. Social Security	S.1314	1,863	-6,584	-6,221	-18,096	1,863	-8,447	363	-11,875	1,315
Social Security										
6. Total revenue	TR	37,403	73,221	109,262	144,007	37,403	35,818	36,041	34,745	25,217
Of which										
Taxes on production and imports	D.2	0	0	0	0	0	0	0	0	0
Current taxes on income, wealth, etc.	D.5	0	0	0	0	0	0	0	0	0
Capital taxes	D.91	0	0	0	0	0	0	0	0	0
Social contributions	D.61	30,845	62,025	93,606	125,156	30,845	31,180	31,581	31,550	21,658
Property income	D.4	399	702	964	1,214	399	303	262	250	140
Other ^(b)		6,159	10,494	14,692	17,637	6,159	4,335	4,198	2,945	3,419
7. Total expenditure	TE (EDP)	35,540	79,805	115,483	162,103	35,540	44,265	35,678	46,620	23,902
Of which										
Compensation of employees	D.1	548	1,268	1,842	2,559	548	720	574	717	338
Intermediate consumption	P.2	255	510	754	1,044	255	255	244	290	174
Social transfers	D.62, D.632 ^(c)	33,939	76,194	110,014	152,751	33,939	42,255	33,820	42,737	22,842
Interests expenditure	D.41	0	0	0	2	0	0	0	2	0
Subsidies	D.3	415	862	1,370	2,182	415	447	508	812	290
Gross capital formation	D.51	46	92	142	170	46	46	50	28	31
Capital transfers (includes financial assistance)	D.9	0	0	0	0	0	0	0	0	0
Other ^(d)		337	879	1,361	3,395	337	542	482	2,034	227

^(b) P.11+P.12+P.131+D.39rec+D.7rec+D.9rec (other than D.91rec).
^(c) Under ESA95: D6311_D63121_D63131pay; in ESA2010 D632pay.
^(d) D.29pay+D.4pay (other than D.41pay) +D.5pay+D.7pay+P.52+P.53+K.2+D.8.
^(e) According to Regulation (EC) No 479/2009.
* Consolidated and accumulated data for the General Government, Regional governments and Social Security Funds up to February.
Source: Ministry of Finance and Civil Service.

Table A.7. – Amounts to be excluded from the expenditure benchmark

	2016 (A)	2016 (A)	2017 (F)	2018 (F)	2019 (F)	2020 (F)
	Level (Million €)	% of GDP				
Expenditure on EU programmes fully matched by EU funds revenue	2,882	0.3	0.3	0.3	0.3	0.3
Cyclical unemployment benefit expenditure	4,503	0.4	0.2	0.0	-0.1	-0.3
Effect of discretionary revenue measures	-560	-0.1				
Interest expenditure	31,358	2.8	2.8	2.7	2.7	2.6

(A) Advance; (F) Forecast.
Source: Ministry of Finance and Civil Service.

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Table A.8a. Expenditure Policy

	2013		2014		2015		2016		2017	
	% of GDP	% Total Expenditure	% of GDP	% Total Expenditure	% of GDP	% Total Expenditure	% of GDP	% Total Expenditure	% of GDP	% Total Expenditure
Education ⁽¹⁾	4.10	9.00	4.10	9.13	4.09	9.34	4.01	9.45	3.93	9.47
Health ⁽¹⁾	6.17	13.54	6.12	13.64	6.19	14.16	6.07	14.31	5.95	14.34
Employment ⁽²⁾	3.32	7.29	2.72	6.05	2.28	5.21	2.04	4.81	1.94	4.68

(1) These figures must match the table 8b.
(2) This category of expenditure includes expenditure related to active employment policies, including public employment services.
Source: Ministry of Finance and Civil Service

Table A.8b. Change in General Government expenditure by function

Function	COFOG code	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
		% of GDP									
1. General public services	1	6.20	6.63	7.22	7.01	6.50	6.12	6.03	5.87	5.76	5.65
2. Defence	2	1.04	0.93	0.96	0.86	0.97	0.94	0.96	1.04	0.99	0.90
3. Public order and safety	3	2.17	2.04	2.05	2.01	2.03	1.91	1.88	1.82	1.78	1.75
4. Economic affairs	4	5.66	7.97	4.63	4.57	4.38	4.12	3.85	3.69	3.63	3.58
5. Environmental protection	5	0.95	0.89	0.84	0.88	0.86	0.81	0.80	0.78	0.76	0.75
6. Housing and community amenities	6	0.57	0.46	0.46	0.50	0.48	0.45	0.44	0.43	0.43	0.42
7. Health	7	6.47	6.22	6.17	6.12	6.19	6.07	5.95	5.79	5.67	5.57
8. Recreation, culture and religion	8	1.51	1.22	1.15	1.15	1.13	1.08	1.06	1.03	1.01	1.00
9. Education	9	4.40	4.17	4.10	4.10	4.09	4.01	3.93	3.81	3.73	3.67
10. Social protection	10	16.83	17.56	17.98	17.69	17.12	16.89	16.58	16.33	16.11	15.91
11. Total Expenditure	TE	45.80	48.09	45.58	44.90	43.76	42.40	41.48	40.60	39.87	39.19

Sources: National Institute of Statistics, Ministry of Economy, Industry and Competitiveness and Ministry of Finance and Civil Service.