

EXECUTIVE SUMMARY

Over the last four years, the Spanish Government has put in place an ambitious reform agenda that has transformed the Spanish economy. This agenda has been built over three pillars: fiscal consolidation, restructuring of the financial sector to restore lending and investment, and structural reforms.

This strategy, which has enabled the Spanish economy to regain confidence in international markets and to increase its efficiency, flexibility and ability to compete, has borne fruit. The Spanish economy is growing today at leading rates among the main economies of the Economic and Monetary Union: in 2015, the Spanish GDP grew by 3,2%, a rate that more than doubles the average rate of the Euro Area (1,6%). Only four years before, in 2011, the Spanish GDP was falling at of -1,8%.

Looking forward, the market consensus forecasts a 2,7% growth rate for 2016, very much in line with Government projections. However, preliminary data for the first quarter of 2016 point to a continuation of the strong growth rates of the previous quarter: a year-on-year growth of 3,4%, the best figure for the last 8 years, and a 0,8% quarter-on-quarter growth.

In addition, stronger economic activity is translating into job creation at unprecedented rates in Spain. In 2015, more than half a million new jobs were created, a record high. Moreover, the annual reduction of unemployment was the highest in history: 678.000 people. And almost 20% of this reduction happened in youth unemployment, with 126.000 less young unemployed in one year. This is another record. Altogether, in the last two years, almost one million jobs have been created, and, if this trend is maintained, according to main analysts, in 2016 and 2017 another million jobs would be created.

This positive trend in the labour market continues in 2016. Official data for the first quarter 2016³ show acceleration in employment creation (corrected for seasonal variations and calendar effects): quarter-on quarter, employment grew by 0.9% versus 0.7% in the previous quarter. Year-on-year, almost six hundred thousand new jobs have been created (574,800 new jobs) and unemployment diminished in 653,200 persons. This represents a 12% reduction, very close to the record high recorded in the last quarter of 2015.

Furthermore, Spanish growth is healthy: its most dynamic components are investment in capital goods and exports of goods and services. This provides a strong basis to household consumption, which, at the end of 2015, grew at a rate of 3,5%, a rate similar to pre-crisis rates. At the same time, in 2015, favorable price performance generated competitive gains for the Spanish economy: this is the fourth consecutive year with an external surplus and, in 2015, the financing capacity of the Spanish economy exceeded 22.700 million euro.

The Spanish economy also continues to attract foreign investment, both direct and portfolio investment. According to data from the Register of Foreign Investments, productive investment grew at an 11% rate in 2015 and exceeded 21.700 million euro, which constitutes the fifth highest volume since 2000.

Finally, credit is improving. Companies have access to loans at better rates, households enjoy more financing and the cost of public debt is still declining: the risk premium has been even below 100 basis points, which did not happen since 2010.

³ Encuesta de Población Activa (EPA)

The National Reform Program 2016 has been elaborated in this economic context. As for the political context, at the time of the submission of this NRP, Spain has a caretaker government, subject to constitutional and legal constraints⁴. At the same time, Spain has to comply with its obligations within the European Semester framework. Therefore, the caretaker government has decided to submit a NRP which, on the one hand, reports on measures taken during the last year to complete the reform agenda planned for the previous legislature. On the other hand, the NRP outlines the main measures that, in the opinion of the caretaker government, should be adopted in order to maintain the current pace in growth and job creation, thus consolidating the results achieved in the last four years. Moreover, the reforms highlighted in this NRP 2016 are aligned with the priorities of the Annual Growth Survey 2016, which is the starting point for National Reform Programs: structural reforms to modernize our economies and responsible fiscal policy. In addition, there is a reference to the necessary reforms at the European Union level.

The NRP 2016, firstly, shows the high level of compliance with the commitments assumed by Spain within the framework of the European Semester, in particular, with the Country Specific Recommendations (CSRs) formulated by the Council to Spain in 2015⁵. This section describes the reforms undertaken during the last twelve months as outlined in the previous NRP, which has been almost fully implemented.

Thereafter, the NRP outlines the measures that, in the opinion of the caretaker government, should be adopted to maintain the pace of growth and job creation in the years to come. These measures lay the foundations for compliance with the Europe 2020 Strategy objectives.

1. Structural Reforms at national level

The NRP 2016 reflects the need to continue the reform agenda of the last four years to consolidate growth and job creation. The caretaker Government considers that some of the most relevant areas in which further reforms are necessary are:

1.1 Employment creation and social inclusion:

Spain is now registering record levels of job creation. Among other factors, this proves the positive impact of the labor reform and subsequent reforms.

Consolidating this trend in the next few months is a priority, as well as advancing towards more inclusive and higher quality employment. Therefore, the caretaker Government considers that more reforms are needed in the following fields: in social contributions, to make permanent employment more attractive; in making employment compatible with benefits entitlements, as it is already the case in certain circumstances; in the reinforcement of active employment policies, in particular by strengthening the functioning of the Central Public Employment Service; and in the promotion of more effective solutions in education and training policies.

Job creation and labor integration are the most effective way to combat poverty and social exclusion, and they must be kept as a priority. In any case, the structural reforms implemented in the last few years have come along with the maintenance of high social protection by public authorities.

⁴ See Article 21 of the Law 50/1997 of the Government, which refers to the Caretaker Government.

⁵ http://ec.europa.eu/europe2020/pdf/csr2015/csr2015_council_spain_en.pdf

This strategy is bearing fruit, as the improvement of the labor market is starting to show an impact in recent poverty and social exclusion indicators.

To consolidate this trend, more measures must be executed in 2016 in the field of employment and education, including measures to promote indefinite contracts and training, as well as in the pensions system, in order to guarantee its sustainability and its high level of protection. At the same time, multiannual plans already approved for the attention of specific groups will continue to be implemented, such as the Integral Plan for Support to Families 2015-2017 or the National Integral Strategy for Homeless People 2015-2020.

1.2. Markets of goods and services:

Progress on Market Unity is a must, as a key way to achieve efficient and integrated markets that wholly contribute to growth and employment. Therefore, more progress must be done in adapting to national and regional regulations to eliminate unjustified burdens and barriers, and to strengthen the cooperation mechanisms among administrations.

Moreover, it will be necessary to increase competition in certain product and service markets to avoid distortions in the price-setting process. The objective is to create a friendly environment for our companies to develop their activities. This also requires measures to stimulate business competitiveness, including the reinforcement of infrastructure planning, improving digital connectivity, ensuring an efficient and sustainable functioning of our energy system, and making the financial sector more efficient and competitive.

1.3. Support of entrepreneurship and business growth

Policies for entrepreneurship promotion and SMEs support will be further developed. In this field, it is necessary to remove obstacles to SMEs growth, promote the use of the newly approved second chance mechanisms, facilitate SMEs access to finance, including alternative non-banking financing mechanisms or crowdfunding, and stimulate business internationalization.

1.4. Sustainable growth: R&D and innovation and environment:

Competitiveness of firms and economic sectors rely on their access to competitive inputs, but also on their capacity to innovate. Research, development and innovation (R&D) are key for long term growth, and thus for job creation and productivity and competitiveness gains.

For this reason, further efforts are needed to increase the participation of R&D in the generation of wealth and welfare in Spain. R&D will be further promoted along the lines of the Spanish Strategy on Science, Technology and Innovation 2013-2020 and the National Plan for Scientific and Technical research and Innovation 2013-2016, fostering efficiency and effectiveness in the use of public resources, as well as higher participation of private investments. In particular, incentives to R&D will be developed in fields such as fiscal treatment of R&D activities or participation of researchers in the returns coming from their investments.

In addition to the promotion of innovation, the policy agenda ought to ensure the sustainability and competitiveness of the economic model through the horizontal introduction of environmental considerations. Thus, the caretaker government considers a priority approving a Law on Climate Change. This legal instrument should encompass

measures to ensure compliance with our objectives and international commitments in the fields of emissions reduction, energy interconnection and renewable energy use, and energy efficiency.

1.5. Public Administration efficiency:

The reform of Public Administrations promoted in the CORA framework (Commission on Public Administration Reform) is based on the central idea that a competitive economy requires modern, transparent and agile public administrations. Out of the 222 measures identified in the CORA report, 193 measures were finalized in February 2016 and the rest were under execution, which implies a 86,94% execution rate. These measures have generated savings of 3.031 million euros. In 2016, work will continue with the implementation of the remaining measures to generate further savings.

In addition, the new laws on administrative procedure will enter into force in 2016. These laws are a step forward in the structural renovation of the public administration and will lead to more modern, agile and efficient administrations and a more efficient administrative cooperation framework.

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

2. Fiscal responsibility

In 2016, fiscal policy should be oriented towards responsible and growth friendly straightening of public finances. Fiscal consolidation within the framework of European rules and obligations should proceed. Thus, this year's update of the Stability Program of Spain, sets the deficit at 3,6%, combining both the need to reduce deficit with economic growth and job creation. In addition, specific measures to ensure compliance with deficit objectives by the Autonomous Communities were approved, as required by the Autonomous Commission Recommendation of March 9.

Spain also needs to revise the financing system of the Autonomous Communities. The aim of this revision should be to ensure equal treatment for all citizens in their access to basic services, irrespective of their region of residence. A first step in this direction has been the presentation of the conclusions by the working group of the Council on Fiscal and Financial Policies. In addition, an independent experts committee will be created.

To conclude in the fiscal field, efforts in the fight against tax fraud and tax evasion should be maintained and even intensified. Measures already implemented by the Government have allowed to raise, thanks to proceedings against tax fraud, 50.449 million euro during the period 2012-2016; the best historical figures of the Tax Agency.

3. Structural reforms at the European Union level

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

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

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

As part of this general strategy, Spain promotes a more active role for the EU in fostering growth and employment. The Investments Plan for Europe, known as the Juncker plan, is a step in the right direction. Until March 2016, The Investments Plan for Europe has committed 615 million euros for the financing of Spanish projects in the fields of infrastructure and innovation, which are expected to mobilize a total investment of 2,500 million euros and create 5,500 jobs. In addition, Spanish SMEs will receive 114 million euros in financing, which is expected to mobilize 3,500 million euros in total investment.