

EXECUTIVE SUMMARY

Over the last three years, the Spanish government has implemented an ambitious reform agenda that transformed the Spanish economy. This agenda is built on 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 international markets confidence and to increase its efficiency, flexibility and capacity to compete, has bear fruit. The turning of the economic cycle is already a reality.

En 2014, el PIB español creció un 1,4% y las previsiones de crecimiento para 2015 de los analistas económicos están en el entorno del 2,6%. En el primer trimestre de 2015, según datos preliminares, la economía española creció un 2,6% en términos interanuales, el mejor dato de los últimos siete años, tras haber registrado avances positivos durante siete trimestres consecutivos.

In 2014 the Spanish GDP grew by 1.4% and markets consensus forecasts a 2.6% growth for 2015. Preliminary data for the first quarter of 2015 point to a 2,6% growth, year-on-year, the best figure for the last 7 years, after 7 consecutive quarters of positive growth. Economic activity expansion is resulting in job creation: 504,200 jobs were created in the last twelve months⁵; 289,700 of which were under permanent contracts. Additionally, unemployment decreased by 488,700 individuals, the highest annual reduction since 2002.

Moreover, data show an increase in business creation, exports remain dynamic, and prices remain competitive. In fact, inflation has been below Eurozone average for 20 consecutive months. This is confirmed by balance of payments figures: Spain had an external surplus of 13.000 million euro and since 2013 Spain has a positive balance in our exchanges with the rest of the world. The Spanish economy is also attracting external investment, both direct investment (that grew by 9.8% up to 17.000 million euros in 2014), as well as portfolio investments. Finally, credit is improving, corporates have access to loans at lower rates, households have more financing and the costs for public debt financing continue to diminish: risk premium reached the below 100 basic point thresholds, for the first time since 2010.

In this context, the 2015 NRP is built on goals and measures corresponding to the last phase of the reform agenda that the Spanish government designed for its four year legislative term. In addition, the three axis of this reform agenda coincide with the priorities of the 2015 Annual Growth Survey, which is the starting point for National Reform Programs formulation: Impulse of reforms at the European Union Level, reforms at the national level and fiscal responsibility.

The 2015 NRP is conceived, thus, as the last part of a 4 year strategy. As such, it has two self-reinforcing priorities: to conclude initiated reforms and to foster current economic recovery and job creation. Furthermore, in line with the 2015 Annual Growth Survey, the 2015 NPR includes a new section on the need to promote reforms at the European Union level featuring Spanish priorities and initiatives in this area.

The 2015 NRP takes stock, firstly, of the high degree of compliance of the commitments made by Spain in the framework of European semester, in particular regarding the country specific recommendations formulated by the Council to Spain in 2014⁶. This

⁵ Latest available data (first quarter 2015)

⁶ http://ec.europa.eu/europe2020/pdf/csr2014/csr2014_council_spain_en.pdf

section covers the intense reform activity of the last twelve months as outlined in the 2014 NRP, which has been practically fully executed.

Then, the NRP sets forth the main measures that the government will implement in the course of 2015 in the three priority areas established in the 2015 Annual Growth Survey: structural reforms at the European Union level, structural reforms at the national level, and fiscal responsibility. These measures also set the basis for the fulfillment of the objectives of the 2020 Strategy.

In this context, the following measures of the 2015 NPR can be highlighted:

1. 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 accompany reforms carried out by Member States**. That is, fiscal responsibility and structural reforms at national level must go hand in hand with sufficient mechanisms to correct asymmetric cyclical situations within the Union. This entails, firstly, a **deeper fiscal integration** that requires, on one hand, the reinforcement of transparency and fiscal harmonization and, on the other hand, a truly European orientation of economic policy fostering investment, economic growth and employment. Secondly, **a deepening of the internal market is also necessary**.

In this spirit, Spain has actively participated in the European debates on the institutional architecture of the Union, the definition of economic policy priorities and the achievement of an increasingly integrated and efficient single market. In 2015 actions will be reinforced on a set of priority areas described in this NRP: EMU architecture, extension of the principles established by the Services Directive to any economic activity, Energy Union, Single Digital Market, taxation and fight against fraud, or investment promotion and the Juncker Plan.

2. Structural reforms at the national level

The 2015 NRP reflects the Government's intention to complete its four-year horizon reform agenda. Some of the most important areas are:

2.1. Improvements in the functioning of the labour market and the fight against unemployment

In 2014, Spain has led unemployment reduction and employment creation in the Eurozone. This shows the positive impact of the 2012 labour market reform and subsequent measures. This trend continues in 2015.

Over the last twelve months⁷, the unemployed decreased by 488,700 persons, the biggest annual reduction since 2002. Furthermore, in this period, the employed increased by more than half a million people (504,200), an increase rate of 2.97%,

⁷ EPA first quarter 2015

greater than the increase in growth, and the highest increase since the beginning of 2007. In addition, there was a significant rise in permanent employment: 289,700 persons, almost 60% of new employment.

In 2015 new measures are being launched to continue to promote job creation. Together with the improvement in **active labour market policies** and **training and education** policies, special attention will be given to measures to **improve the functioning of the labour market** by reducing business expenses on social contributions. In this regard:

- In 2015 a **new reduction in social contributions has been launched to boost the creation of permanent employment.** In particular, this reduction targets the hiring of social groups with more difficulties to access stable employment. In addition, a **reorganization of existing bonuses and reductions in Social Security contributions** is foreseen.
- **New measures to support self-employment and entrepreneurship through social economy entities** will be implemented. For example: strengthening bonuses to Social Security quotas to facilitate the early stages of these activities, as well as other measures aimed at improving the balancing of family and working life for the self-employed.
- The Government will continue to implement the **Spanish Strategy for Employment Activation**, with new follow-on measures.
- **The new reform in in-job professional training will be deployed.** This reform aims at increasing the quality of training both for the employed and the unemployed, while increasing transparency in public resources management.
- In the field of human capital, the implementation of the **reform for the quality in education** will continue and the government will initiate the deployment of the reform that increases the flexibility in the **duration of university degrees.**

2.2. Protection and social inclusion

The most effective way to combat poverty and social exclusion is **employment creation and integration in the labour market.** This line of action will continue to be prioritized by the government in 2015, through **active employment policies, human capital adaptation and measures in the labour market.**

Together with the strengthening of measures to promote labour market integration, measures will be implemented to guarantee the provision of basic social services to the most disadvantaged groups in the context of the **National Action Plan for Social Inclusion 2013-2016** or the **National Strategy for the Homeless.**

2.3. Promotion of growth and competitiveness

In 2015, the government will continue to implement measures to guarantee the flexible functioning of the markets and allow for moderate price adjustment. This is especially important in the context of the monetary union, where devaluation is not an option. In addition, the government will launch measures to promote medium term growth, by improving training and research.

The following reforms can be underlined:

- **De-indexation of the Spanish Economy** to avoid the continued loss in competitiveness due to cumulative price differentials with the rest of the EMU, which is a negative factor for growth and employment.

This reform eliminates indexation practices in the public sector, setting a benchmark for the private sector. To this end, the law creates the Competitiveness Guarantee Index *Índice de Garantía de la Competitividad (IGC)*, to be used for price updating. Once the law has been approved, in 2015 the government will work on its regulatory development, completing the last phase of the revision and adaptation process of all the regulation that includes indexation to price indexes clauses in all levels of the Administration.

- **Plan for Regulatory Simplification under the Law on Guarantee of Market Unity (LGUM)**. The LGUM required a very ambitious and continuous adaptation process of **national, local and regional regulation**. This regulatory adaptation process is complementary to the protection of economic agent's rights against violations of the LGUM, as foreseen in the Law.

In 2014 important progress has been made in this process. In the Central Administration, 90 regulations have been adapted and all the remaining identified regulations are in the approval process or in drafting phase. In 2015 this adaptation process will be accelerated.

Since this exercise not only affects State-level regulation, it is being carried out through Sectorial Conferences and others coordination bodies with the Autonomous Regions and municipal administrations. The Council on Market Unity has been set and the Autonomous Communities foresee actions in more than 500 regulations.

- **Second chance**. In 2015 new mechanisms will be implemented in bankruptcy law and procedures to prevent that failure in an entrepreneurial initiative results in an unsurmountable obstacle for future entrepreneurship. The aim is to facilitate an orderly restructuring of debts for responsible debtors, while respecting creditors' rights.
- **Markets**. In 2015, the government will continue to implement measures to contribute to a more competitive functioning of the markets and to systemic efficiency and sustainability in various areas: energy (electricity, gas and oil), transport and infrastructures (railway, roads) or in the agri-food sector, among others.

2.4. Business Investment and Financing

In 2015 the Government will continue to put in place measures to improve business investment climate. This includes both measures regarding access to financing, as well as measures to reduce existing barriers and increase the attraction of investment and talent to Spain.

Investment in Research, Development and Innovation (R&D&I) is of the utmost importance for economic development. Therefore, despite the intense process of fiscal consolidation, in 2015 the Government has made an effort to boost public and private investment both through direct budget support as well as through fiscal incentives within the fiscal reform that entered into force in 2015. Furthermore, in 2015 the State Agency for Research will be set up.

2.5. Increasing efficiency in Public Administration

A competitive economy requires modern, transparent and expeditious public administrations. To achieve this, the Commission for the Reform of the Public Administration (*Comisión para la Reforma de la Administración – CORA*), was created in 2012, and since then it has delivered the most important review of the Spanish public sector of the last decades. The OECD has acknowledged the relevance, leadership and thoroughness of this exercise.

Out of the 222 actions identified by the CORA report, 144 have already been completed and the rest are currently being implemented. In 2015 the implementation of these measures will go on and calculations will be made on the savings obtained. By the end of April 2015 an estimated 68% of all the measures will have been completed and total savings will sum up to an accumulated amount of 20.352 million euros. The following measures should be highlighted:

De las 222 medidas identificadas en el informe CORA, están finalizadas 144 y en proceso de ejecución todas las demás. En 2015, se continuará con la ejecución de las medidas y se computarán los ahorros obtenidos. Se estima que a finales de abril de 2015 las medidas finalizadas ascenderán aproximadamente a un 68% del total y se alcanzarán unos ahorros acumulados desde 2012 de 20.352 millones de euros. Destacan:

- Approval of the **Law on Public Administration and the Law on Common Administrative Procedure**. These new laws improve the process of drawing up legislation and foster organizational rationalization, since now the creation and maintenance of new bodies or public entities has to be duly justified.
- The Law on Public Procurement, which will endow public activity with more transparency and rationality and will increase the efficiency of public procurement.
- Progress will be made in the administrative rationalization and the reduction of administrative burdens, with particular emphasis in the procedures affecting productive activity and especially those that promote the electronic administration. More concretely, work is on-going for the launching of a Plan for Digital Transformation of the Central Administration (ICT Strategy).
- Infrastructures and technological services of the Central Administration will be rationalized, with the setting up of the entrepreneur help desk, a general desk to Access Public Administration, and the facilitation of on-line procedures for the creation of a company, among others.
- In the field of judiciary administration, different laws will be passed for a more efficient share of the workload and to lessen the burden that falls on the courts, by establishing out-of-court procedures in certain cases. This will result in a swifter functioning of the judiciary, which is also essential for economic activity.

3. Fiscal responsibility

During 2015 fiscal policy will combine **responsible fiscal policies** to keep on the track of fiscal consolidation at a reasonable pace, with **measures oriented to promote economic growth and job creation**.

Measures to reduce expenditures and the improvement in the efficiency of the tax system⁸ have resulted in a **substantial public deficit reduction**, which has dropped from 8.9% of GDP in 2011 to 5.7% in 2014, that is, 3.2 GDP points; largely fulfilling the established stability objective. Efforts in reducing public consumption and investment can be highlighted.

Thus, after a first phase that prioritized the straightening of public finances as a necessary condition to recover confidence, and to return to growth and job creation, **in 2015 the fiscal policy includes** measures in revenues and expenditures that contribute to fostering economic growth without sacrificing the committed fiscal consolidation path. Furthermore, this strategy is in full coherence with the guidelines of the Annual Growth Survey 2015.

To conclude in the fiscal field, the Government will continue to fight **tax fraud**, by the reform of the **General Tax Law**, which will foresee new mechanisms to fight fraud, by increasing investigation powers and by making public the list of debtors with the Administration, as well as of those convicted for fiscal crimes.

The measures already implemented by the Government have allowed raise, thanks to proceedings against fraud, 34.785 million euros during the period 2012-2014; the best historical figures of the Tax Agency.

⁸ Largely thanks to the fight against fraud and fiscal evasion.