



EUROPEAN COMMISSION

DIRECTORATE GENERAL
ECONOMIC AND FINANCIAL AFFAIRS

Brussels, 20 February 2014

SPAIN – REVIEW OF PROGRESS ON POLICY MEASURES RELEVANT FOR THE
CORRECTION OF MACROECONOMIC IMBALANCES

Contents

Executive summary	3
1. Introduction	5
2. Recent macroeconomic developments	5
3. State of play with MIP-related reforms	7
3.1 Measures to improve the quality of public expenditure and taxation and to make public administration more efficient	7
3.2 Measures to foster financial sector stability and an orderly deleveraging of the private sector..	10
3.3 Measures to improve the functioning of the labour market and enhance human capital	11
3.4 Structural measures to promote growth and competitiveness	12
Annex I — State of play with regard to the recommendations relating to the MIP	15
Annex II — List of abbreviations.....	26

Executive summary

This note¹ reviews the latest economic developments and the main policy measures taken by Spain to rebalance the economy since the October 2013 progress report under the macroeconomic imbalances procedure.²

The Spanish economy has continued to stabilise. Consumer and business confidence have been on the rise. GDP recorded positive quarter-on-quarter growth rates in the second half of 2013, with domestic demand contributing positively. Moreover, the rate of employment destruction is bottoming down, with seasonally adjusted data showing net employment creation in the last quarter of 2014 and the unemployment rate has slightly decreased from its peak and now stands at 26%. Inflation has remained low, with HICP year-on-year rates from September to December 2013 averaging 0.2%.

Imbalances are being corrected, with some variables adjusting more quickly than others. The current account balance is estimated to have reached a surplus of 1.4% of GDP in 2013 vs. a deficit of 1.2% in 2012. This has been backed by improvements in price and cost competitiveness indicators. Private sector deleveraging has continued, with corporates reducing debt levels more rapidly than households.

However, the correction of imbalances will have to be sustained over the next few years. The decrease in the unemployment rate in the second half of 2013 has been mostly due to decreases in the labour force and to seasonal factors. Besides, a substantial share of unemployment is long-term. Deleveraging is taking place against a background of still elevated domestic and external debt stocks and subdued credit flows. The status of imbalances will be analysed in detail in the forthcoming 2014 In-Depth Review.

Implementation of the Country Specific Recommendations related to the Macroeconomic Imbalances Procedure has continued. In spite of delays in some areas, a considerable number of flagship measures with implementing the 2013 National Reform Programme (NRP) have finally been approved before the end of 2013, thus bringing the enactment of the 2013 NRP legislative measures much closer to completion.

On the fiscal structural side, a series of relevant reforms got parliamentary approval in the fourth quarter of 2013. For example, the law on local administration reform, the law revising pension indexation and regulating the sustainability factor and the amendments to the Budgetary Stability Organic law to reduce public sector commercial arrears. The Spanish Parliament passed the organic law providing for the creation of an independent fiscal institution (IFI) in November 2013, although, by the cut-off date for this report, (30 January 2013), the statutes of Spain's IFI had not been adopted. Nevertheless, the government plans to have the IFI operational in time to assess the 2014 Stability Programme. Draft legislation to reduce the reliance on indexation clauses in the public sector was sent to Parliament in December 2013. In parallel, on-going reforms of public administration (other than local governments) aim to reduce administrative burdens and create budget savings, in the context of a complex distribution of powers between the central and regional governments. Finally, an

¹ The cut-off date for this note is 30 January 2013.

² The October 2013 report on the monitoring of policy progress under the macroeconomic imbalances procedure is annexed to the fourth compliance report on the Financial Assistance Programme for the Recapitalisation of Financial Institutions in Spain (see link below): http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/pdf/ocp163_en.pdf

independent group of experts is preparing a proposal for a reform of the tax system to be submitted to the government by February 2014.

The financial sector programme was successfully ended on 22 January 2014, although the reform of the banking sector will continue beyond the programme. The programme has helped restore financial stability and confidence. However, the still fragile economic situation and the resulting challenges for asset quality and bank profitability warrant continuous monitoring. The Commission will continue monitoring closely economic and financial sector developments under the relevant EU surveillance processes and state aid rules.

Additional measures have been taken to complement the 2012 labour market reform, although there may be room for further action. The goals of the adopted measures are to facilitate part-time jobs, to make information on contract templates more user-friendly and to reduce youth unemployment. Work continues on the reform of active labour market policies (ALMP) and on strengthening their links with passive policies. However, the modernisation of employment services is moving at a slow pace. So far, the 2012 labour market reform has been officially assessed twice: first by the government in August 2013 and then by the OECD in December 2013. There is a shared view that the reform has increased labour market resilience and helped moderate wages. However, there is no sufficient evidence of a reduction in labour market duality. More may need to be done in this area.

Some flagship product market reforms have been passed, while the reform of professional services has been further delayed. Firstly, the December 2013 law on the guarantee of market unity aims to overcome regulatory fragmentation in Spain's internal market and instil better regulation principles across all general government levels. Now that the law has been approved, the focus is on implementing it. Secondly, the reform of professional services keeps being delayed due to resistance from pressure groups. The degree of ambition of the first draft law should be kept so that the reform has the desired effects on GDP growth and price moderation. Hence, a bold approach in areas such as the definition of the professions requiring registration in a professional organisation, the provisions on fees, transparency and accountability of professional bodies and the repeal of unjustified activities reserved to holders of specific qualifications is needed for the reform to have these effects. Lastly, a new law on the electricity sector was passed in December 2013. However, contrary to initial reform plans, the tariff deficit of 2013 is expected to remain large. Following amendments to sectoral laws, the budgetary appropriations initially earmarked were unpaid at the end of 2013 to help reach the 2013 general government deficit target. The five incumbent electricity companies will have to finance that deficit, receiving in turn collection rights which could eventually be securitised with a state guarantee.

Overall, the pace of structural reforms to adjust imbalances has been visibly accelerated over the last few months. Despite delays in some cases, the reforms are progressively being adopted in line with the CSRs related to the MIP adopted by the Council in July 2013. However, adjustment needs remain very large and the reform process is not yet complete.³ In addition, the implementation of the recently adopted reforms will be in some cases at least as challenging as their legal adoption. In line with the conclusions of the October 2013 progress report, the reform momentum, which has contributed to the positive shift in sentiment towards Spain, should therefore be maintained.

³ Some relevant reforms (e.g., the law on dis-indexation, on professional services and the tax reform) still need to be adopted in Parliament. In addition, secondary legislation (e.g., ministerial decisions) are needed in several reforms to implement primary legislation.

1. Introduction

In April 2013, under the Macroeconomic Imbalances Procedure (MIP), the Commission concluded that Spain's macroeconomic imbalances were excessive. In July the Council drew up a set of country-specific recommendations (CSRs) for Spain mostly aimed at helping it correct these imbalances, and it was agreed to monitor policy progress in October 2013 and in January 2014.

This note reviews the latest economic developments and the main policy measures taken by Spain since October 2013 to help rebalance its economy. The analysis draws on the findings of the review mission that took place from 4 to 5 December 2013, at the same time as the fifth review mission of the bank recapitalisation programme.

Box no. 1. Background

On 28 November 2012, the European Commission presented its second Alert Mechanism Report (AMR) which concluded that an in-depth analysis was required to ascertain whether imbalances existed or risks had emerged in Spain. The subsequent "in-depth review" (IDR), published on 10 April 2013, examined the nature, origin and severity of macroeconomic developments in Spain.⁴ The Commission concluded that *"despite significant progress in 2012, Spain still has excessive macroeconomic imbalances. Spain should maintain the reform momentum by including comprehensive and detailed policy measures in its forthcoming National Reform Programme (NRP) and Stability Programme"*.⁵

On 30 April 2013, the Spanish authorities submitted the Stability Programme and the NRP. After assessing the two documents, the Commission proposed a set of policy recommendations to address macroeconomic imbalances which were adopted by the Council on 9 July 2013. The recommendations related to the MIP, aiming to tackle macroeconomic imbalances cover (i) fiscal policy, the adequacy of the tax system, the effectiveness of public expenditure and the functioning of the public sector in general; (ii) the stability of the financial sector and debt deleveraging; (iii) the functioning of the labour market and the performance of the education system; and (iv) structural measures to boost growth and competitiveness. An overview of the recommendations related to the MIP, NRP commitments and related deadlines is provided in Annex 1.

On 15 November 2013, the Commission published its assessment of effective action in the framework of the Excessive Deficit Procedure, along with the assessment of Spain's Draft Budgetary Plan and Economic Partnership Programme. Though also MIP relevant, these issues will not be covered in this report, in order to avoid an overlap of surveillance processes. In the same spirit, issues pertaining to the implementation of the bank recapitalisation programme have been addressed in the Fifth Review Report which was submitted to the Eurogroup in January 2014.

2. Recent macroeconomic developments

Economic activity returns to modest growth. Spain returned to positive GDP growth in the second half of 2013. GDP grew by 0.1% and 0.3%⁶ (quarter-on-quarter) in the third and fourth quarter of 2013, respectively. This took place amidst improved confidence, a relaxation of financial conditions and less tight fiscal policy (as per the relevant EDP recommendation for Spain). In the third quarter of 2013, the contribution of domestic demand to GDP growth stood at 0.3pp, the first positive contribution in the past 11 quarters. By contrast, net external demand contributed negatively. This is

⁴The IDR concluded that "Spain is experiencing excessive macroeconomic imbalances. Although adjustment is taking place, the magnitude of the necessary correction requires continuous strong policy action. In particular, very high domestic and external debt levels continue to pose risks for growth and financial stability. The decisive policy action at the EU level and by Spain has resulted in a visible adjustment of flows, a reduction in financing costs and a reduction of immediate risks". See: http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/pdf/ocp134_en.pdf

⁵[http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/pdf/com\(2013\)_199_final_en.pdf](http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/pdf/com(2013)_199_final_en.pdf)

⁶ Flash estimate referred for the fourth quarter of 2013.

mainly the result of decreasing exports, linked to weakening demand from emerging economies. Despite this decrease, exports remain backed by improvements in price and cost-competitiveness.

According to the 2013 autumn economic forecast, GDP growth is expected to reach 0.5% in 2014, after a contraction of 1.3% in 2013. While the latest data point to small upside risks to this forecast, the acceleration of activity is likely to be moderate, as high unemployment, balance-sheet adjustment and relatively tight credit conditions for smaller borrowers will continue to affect growth. Domestic demand is expected to gain some momentum, with net external demand recording positive but decreasing contributions.

Inflation remains low. HICP inflation dropped to 0% in October 2013 (year-on-year) and rose to 0.3% in November and in December. Inflation is expected to remain low due to weak domestic demand.

Employment destruction is bottoming out. The latest labour force survey figures (referred to Q4 2013) show a 0.3% quarter-on-quarter seasonally adjusted increase in occupation, supporting the expectation that employment will start showing positive y-o-y growth rates in 2014. The unemployment rate stabilised at 26.0%, the same rate as in Q3.⁷ This stabilisation is largely due to a further decrease in the active population, which offsets the fall in the number of unemployed. The unemployment rate is particularly high in the 16-24 age bracket. In addition, a substantial share of unemployment is long-term.

The general government deficit is expected to narrow to 6.5% of GDP in 2013,⁸ although downside risks remain. Consolidated monthly data for central government, regional governments and social security up until November 2013 shows a deficit of around 5.4% of annual GDP.⁹ To help reach the target for public finances in 2013, the relevant law was changed at the end of last year in order not to pay the €2.2 bn special credit previously made available to cover the electricity tariff deficit.¹⁰ Against a background of positive, albeit weak, real GDP growth, the general government deficit is expected in the autumn forecast to shrink to 5.9% of GDP in 2014.¹¹ At the end of last year, the government also took budgetary measures yielding additional savings of around €3 billion (0.3% of GDP) for 2014.

General government debt is high and rising. The debt-to-GDP ratio rose from about 86% of GDP at the end of 2012 to around 93.4% in the third quarter of 2013. The increase was mostly due to the high deficit and to some frontloading of public debt issuance. The average cost of issuance has been falling, in line with trends in secondary market rates, while the average maturity of issuance lengthened.

The current account is in surplus. The current account recorded a surplus of 0.7% of GDP in the third quarter of 2013,¹² (3.1 percentage points higher than in the third quarter of 2012) due to an increasing surplus in the goods and services trade balances (2.5% of GDP in the third quarter of 2013).¹³ The improvement in both balances is consistent with the dynamism of Spanish exports and the crisis-induced contraction of imports. The net lending position of the Spanish economy was in surplus by 1.4% of GDP in the third quarter of 2013.¹⁴ However, the Net International Investment Position (NIIP) to GDP ratio has been deteriorating since the third quarter of 2012 due to negative valuation effects and to the decline in nominal GDP. In the third quarter of 2013 the NIIP reached -97.8% of GDP,

⁷ Fourth quarter of 2013 LFS non-seasonally adjusted data. Institute for National Statistics (INE).

⁸ 2013 Autumn Economic forecast. Net of measures to support the financial sector of about 0.5% of GDP.

⁹ This excludes the impact of measures supporting the banking sector.

¹⁰ See paragraphs on the electricity sector on page 12 of this report.

¹¹ Progress on fiscal consolidation was analysed in detail in the autumn fiscal package under EU surveillance. The Commission concluded that in 2013 Spain appeared to have taken effective action in line with the Council EDP recommendation. However, there was a risk that the Draft Budgetary Plan for 2014 might not fulfil the requirements in the EDP recommendation as the headline deficit target was subject to downside risks and the recommended structural effort might not be taken.

¹² Four quarter accumulated data.

¹³ Four quarter accumulated data.

¹⁴ Four quarter accumulated data.

down from -89.2% one year before. The negative valuation effects are largely related to a recovery in Spanish financial asset prices.

Both the household and the corporate sector are reducing their debt overhang, but levels remain high. Household debt (including non-profit institutions) has fallen from 87.4% of GDP in the second quarter of 2010 to 78.2% in the third quarter of 2013, i.e. by 9.2 percentage points. The reduction of the debt level of non-financial corporations was steeper. From a peak of 128.1% of GDP in the second quarter of 2010, their debt fell to 109.4% in the third quarter of Q3 2013, i.e. a reduction of 18.7 percentage points.¹⁵ Shorter debt maturities and greater recourse to insolvency procedures explain this faster advance than for households.

Lending to the economy continued to contract sharply in December 2013. Excluding transfers to SAREB, the stock of credit to the domestic private sector decreased by 7.7% year-on-year following a contraction of 7.4% in November. The fall¹⁶ was sharper for non-financial corporations (10.3% decrease in December) than for households (5.3%). The reasons for the credit contraction, as explained in the October report, point mostly to weak demand but also to some frictions on the supply side affecting SMEs in particular. These frictions relate to the on-going restructuring process (where some lender/borrower relationships might be cut), regulatory changes (e.g. reinforced capital requirements) and persisting euro area financial market fragmentation.

Despite a severe correction, the housing market adjustment is taking place. New residential buildings permits were granted for around 29,000 dwellings over January-November 2013. This compares to more than 600,000 annual permits throughout 2005-2006, an abnormally high figure, though. As a consequence, the share of the residential construction sector in GDP is at a historic low and still falling (from 12.2% of GDP in 2007 to 4.2% in the third quarter of 2013). The stock of unsold new dwellings is large – around 580,000, according to official estimates¹⁷ - because demand has remained low. House prices have adjusted sharply. The cumulative fall since the third quarter of 2007 has reached 36.2% in nominal terms and 43.8% in real terms. However, in the third quarter of 2013 house prices recorded the first quarter-on-quarter increase (+0.7%) since the second quarter of 2010 (while still dropping by 7.9% on a year-on-year basis).

3. State of play with MIP-related reforms

3.1 Measures to improve the quality of public expenditure and taxation and to make public administration more efficient

This section gives an update of fiscal structural measures taken since the October 2013 progress report under the macroeconomic imbalances procedure. Relevant policy developments in response to the 2013 Country Specific Recommendations include the following: i) the creation by law of an independent fiscal institution (§1); ii) the recently adopted provisions to reduce arrears in public sector commercial debt (§2); iii) the reform of local administrations (§3); iv) the pension reform (§4) and v) measures on public administration reform (§5). In addition, the dis-indexation draft law was submitted to the parliament (§6) and progress has been made in enforcing Spain's' fiscal responsibility law in relation to non-compliant regional governments (§7). Finally, an independent group of experts is preparing a proposal for a reform of the tax system to be submitted to the government by February 2014 (§8).

1. **Spain's independent fiscal institution (IFI) has been created by law, although it is not yet operational.** The law providing for the creation of an independent fiscal institution received

¹⁵ Consolidated data excluding derivatives.

¹⁶ Data adjusted for the transfer of assets to SAREB.

¹⁷ Source: Ministry of Public Works. Estimation referred to the stock of unsold new dwellings as of 31 December 2012.
http://www.fomento.gob.es/NR/rdonlyres/88A7D54A-A73E-4C1C-9956-2A0DC1D0D399/122300/SVN_12.pdf

parliamentary approval on 14 November 2013. Its president was appointed by the government on 24 January 2014 and his nomination needs to be confirmed by the relevant parliamentary committee. However, by the cut-off date for this note, the statutes of Spain's IFI had not been adopted. The government plans to have the IFI operational in time to assess the 2014 Stability Programme.¹⁸ The IFI has a budget of around €4 million for 2014. While the forthcoming entry into operation of the IFI is welcome, it is past the deadline set out in EU law¹⁹ to have such monitoring institutions in place by 31 October 2013.

2. ***Measures have been taken to reduce public sector commercial arrears.***²⁰ To that end, the Budgetary Stability Organic Law²¹ was amended on 20 December 2013. The changes aim to enforce an average payment period to commercial suppliers of 30 days across all general government levels.²² This is done by periodically publishing payment periods and by strengthening powers of the Ministry of Finance to impose penalties on non-compliant administrations. The amendments build on more than past two years' experience in reducing large public sector arrears.²³ They can improve transparency and put pressure on at all general government levels to speed up payments to commercial suppliers.
3. ***The law on local administration reform was passed on 27 December 2013.*** It aims to clarify the powers/competencies of municipalities in order to remove duplications at local level with other general government sub-sectors, to streamline the number of local entities,²⁴ to rationalise the services they provide, and make the cost of providing local public services more transparent.²⁵ Implementing the law is expected to bring significant budgetary savings, the bulk of which will be concentrated in 2015 (€5.1 billion, 63.9% of total savings according to the government estimates). However, the final figure could differ due to uncertainties surrounding the implementation of provisions on mergers of municipalities or the coordination of "essential" and "non-essential services" of smaller municipalities by provincial councils.
4. ***A reform of the pension system was approved on 23 December 2013.*** Law 23/2013 revising pension indexation and regulating the pension sustainability factor complements the 2011 reform and the measures to curb access to early and partial retirement adopted in March 2013. It changes as of 2014 the yearly indexation of pensions by linking it to the financial balance of the system

¹⁸ Compared to the last draft, the law strengthens to a greater extent the independence of the newly created institution. The most relevant change concerns the extension of the IFI's president's term to six years (non-renewable), compared with three years (renewable) in the initial draft. Moreover, the law provides that the removal of the President, which can only occur in pre-defined cases, will be communicated to the parliament.

¹⁹ See Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area.

²⁰ See Organic law 9/2013 of 20 December, on the control of public sector commercial debt.

²¹ The Budgetary Stability Organic law is one of Spain's most relevant pieces of legislation providing for fiscal discipline across all general government sub-sectors.

²² As per the applicable EU legislation.

²³ Several other provisions of the BSOL have been amended by organic law 9/2013. These include the following: i) Art. 21 now states that in the event of non-compliance with the fiscal stability target, public debt target or spending rule, the administrative body concerned shall draw up an economic/financial plan to achieve compliance with the targets or the spending rule throughout the year in course and over the following year (vs. one year in the former text); ii) Art. 25.1 states that if the economic/financial plan or the rebalancing plan is not submitted, not approved or not implemented, the public administrative body must: (...) b) lodge *at the request of the ministry of Finance* an interest-bearing deposit in the Bank of Spain equivalent to 0.2 per cent of its nominal Gross Domestic Product. The deposit shall be returned when the measures guaranteeing compliance with the targets are implemented (the text in italics has been added following the amendments).

²⁴ In particular, the number of sub-municipal entities while limiting the creation of legal entities depending on municipalities).

²⁵ In addition, the reform i) incorporates the principles of budgetary stability and financial sustainability into the legislation on local entities; ii) strengthens the role of the control function of municipalities by improving the procedure to recruit (at nation-wide level) civil servants to work for local entities (currently representing only 1% of the local administration's workforce) and by strengthening the role of the local comptroller, who will report its findings to Spain's *Cour de Comptes*; iii) it also aims to simplify business licensing; vi) sets out a number of caps on the wage bill of local entities and vi) creates incentives for the efficient provision of services by municipalities. This is done by: a) benchmarking the effective costs for the provision of services by municipalities, b) increasing the role of provincial councils (*diputaciones provinciales*) in coordinating the provision of such services for smaller local entities and c) providing fiscal incentives for the merger of municipalities.

and introduces, starting from 2019, an automatic adjustment of future retirees' new pensions to changes in life expectancy. Compared with the initial draft, it raises the ceiling of the updated pension indexation formula from 0.25% to 0.5% in real terms (over the Consumer Price Index). This has been justified by the need to improve the purchasing power of pensioners in times of prosperity. Based on Law 23/2013, the Government adopted at the end of December a nominal indexation of pensions by 0.25% for 2014.

5. ***Regional governments continue downsizing their institutions, albeit at an uneven pace*** (i.e., the public sector entities attached to regional governments, including foundations, consortia, public sector enterprises, etc.). The reported reduction²⁶ in the regions' institutional administration has been considerable when evaluated in terms of the number of entities that have either been wound down or are about to be liquidated.²⁷ However, savings in non-financial expenditure have been more modest.²⁸ Regions have contributed unevenly to the reduction effort (either in the number of entities liquidated or in terms of savings generated).²⁹ This suggests that there might be scope to further downsize the so-called institutional administration in the interest of an efficient use of public resources.
6. ***In November 2013, four regions were required to adopt additional measures in order to reach their 2013 fiscal target.*** On 25 November 2013, the Ministry of Finance published a detailed assessment of the 2013 regional economic and financial plans³⁰ covering the five regions that had not reached the 2012 fiscal deficit target.³¹ The assessment noted that there were slippages in the implementation of fiscal consolidation measures in four regions.³² Judging from the foreseeable implementation of these plans by 31 December 2013, the report concluded that plans were insufficient to reach the 2013 regional fiscal targets. Hence, on 25 November 2013, the Minister for Finance asked the four regions to take additional corrective measures³³ in order to minimise the risk of slippages. In 2014, failure to reach the fiscal target, could lead to the imposition of additional (stricter) penalties provided for in the Budgetary Stability Organic Law.³⁴
7. ***The draft law on dis-indexation was submitted for parliamentary approval on 20 December 2013.*** The reform aims to discontinue current indexation schemes on fees, administered prices and public sector contracts. It forbids automatic and periodic updates of prices based on general price indices. However, it permits the periodic updating of those values on an exceptional basis, based on the evolution of elements such as the price of raw materials or intermediate goods, the details

²⁶ See the Ministry of Finance's report on the rationalisation of the region's public sector (cut-off date: 1 July 2013).

<http://www.minhap.gob.es/Documentacion/Publico/PortalVarios/FinanciacionTerritorial/Autonomica/Informe%20Reordenación%2001-07-2013.pdf>

²⁷ As of 1 July 2013, the number of entities liquidated or close to liquidation stood at 607, vs. a targeted reduction of 751 entities. Once the reduction process is over (supposedly, by 31 December 2013), the total number of entities attached to regional governments would stand at 1,614, vs. 2,126 in 2010. This means going back to 2003 levels.

²⁸ The Ministry of Finance estimates at €4.083 billion the savings between 2011 and 2013 from the reduction in the number of entities (€1.793 billion) and from the efficiency measures on entities not subject to restructuring (€2.289 billion). €4.083 billion represents 4.8% of 2010 non-financial expenditure (*obligaciones reconocidas*) in personnel costs and in intermediate consumptions.

²⁹ To illustrate, in terms of regional GDP, the reported savings are lowest in the following six regions: Cataluña, La Rioja, Extremadura, Galicia, Andalucía and Aragón. The Basque regional government has not submitted data on this reform to the Ministry of Finance.

³⁰ According to the Budgetary Stability Organic law, in the event of non-compliance with the fiscal stability target, public debt target or spending rule, the administrative body concerned shall draw up an economic/financial plan to achieve compliance with the targets or the spending rule, with the content and scope set out in the law.

³¹ I.e., Andalusia, Catalonia, Balears, Valencia and Murcia.

³² All of the above barring Balears.

³³ The Ministry of Finance asked the non-compliant regions to i) take and / or to replace measures that are unlikely to be implemented with others that will be implemented before the end of the year; ii) to freeze budgetary appropriations; iii) to submit additional information to justify the expected outcome of selected revenue and expenditure measures at risk of deviation.

³⁴ These could include sending a commission of experts to the non-complying administration, under the direction of the Ministry of Finance, to assess the economic/budgetary situation of the administration concerned and to propose measures, which would be binding on the non-complying administration.

of which are left to secondary legislation.³⁵ The draft law allows for new indexation mechanisms to be applied on a voluntary basis on privately agreed prices, such as housing rents. Indexation schemes on collective bargaining, financial sector instruments and pensions³⁶ are excluded from the scope of this reform, as some of them have their own dedicated legal instrument (e.g., on pensions, see below). This reform is an attempt by the Spanish legislator to tackle the adverse impact of second-round effects on competitiveness. By contributing to lower inflation inertia, the dis-indexation law could also boost purchasing power.

8. ***An independent group of experts is expected to submit a proposal for a tax reform in February 2014.*** This follows the May 2013 Council recommendation to Spain to conduct a systematic review of the tax system by March 2014, with a view to making it simpler as well as employment- and growth-friendlier, while respecting fiscal consolidation needs.

3.2 Measures to foster financial sector stability and an orderly deleveraging of the private sector

On the financial sector side, the main developments since the October 2013 progress report have been the following: the Commission, along with the ECB, concluded the fifth and last review mission of the bank recapitalisation programme in December 2013 (§9); the parliament passed a law setting out a comprehensive reform of Spain's savings banks model (§10); in addition, progress has been made on developing non-bank financial intermediation (§11).

9. ***The financial sector assistance programme was officially completed on 22 January 2014.***³⁷ The programme has contributed to restoring financial stability and confidence, although challenges remain. The fragile economic situation and prospects as well as the repercussions of these on asset quality and bank profitability warrant continuous monitoring by supervisors and policy-makers.³⁸ The reform of the financial sector also needs to continue beyond the finalisation of the programme.
10. ***On the legislative side, the most salient feature in the fourth quarter of 2013 is the approval of a law on savings banks.***³⁹ This law fulfils a double requirement in the financial sector programme Memorandum of Understanding to i) strengthen the governance structure of savings banks (*cajas de ahorro*) and of commercial banks controlled by them⁴⁰ and ii) reduce gradually the participations of savings banks on credit institutions to non-controlling levels.⁴¹ The law will re-define the savings bank model in Spain in ways that address its pre-crisis shortcomings, such as weak governance and lack of adequate risk assessment and management.⁴²
11. ***Progress has been made on developing non-bank financial intermediation and alleviating credit shortages for SMEs.*** The aim is to reduce the currently excessive reliance on banks and to widen the types of capital available to companies, in particular SMEs. Measures include i) the

³⁵ The details are left to a ministerial decision, which should be issued in the six months after the law is passed.

³⁶ The indexation on pensions is addressed by the dedicated instrument; see the section on pension reform.

³⁷ Background: following acute financial sector stress, the Eurogroup agreed on 9 July 2012 on a financial assistance programme for the recapitalisation of Spanish banks. The bank-specific conditionality and horizontal policy conditions attached to the financial assistance were specified in the related Memorandum of Understanding (MoU) signed on 23 July 2012.

³⁸ The Commission and ECB press release is available at: http://europa.eu/rapid/press-release_MEMO-13-1153_en.htm

³⁹ See Law 26/2013 on savings banks and on bank foundations of 27 December 2013.

⁴⁰ The law provides for the conversion of savings banks into the so-called banking foundations (*fundaciones bancarias*), a newly created legal figure with no banking licence. Prior to the law, the banking activity of the former savings banks had been transferred (with some exceptions) to newly created or existing banks where banking foundations hold stakes. The law now sees to reduce gradually the participations of savings banks on credit institutions to non-controlling levels. The law also deals with incompatibilities between the governing bodies of savings banks and bank foundations. Small savings banks may continue providing banking services, but with strict limits on the volume and scope of their operations.

⁴¹ Or alternatively, to hold a reserve fund to provide the bank with sufficient capital support.

⁴² In particular, several savings banks balance sheets showed a high concentration of risks, mainly linked to real estate activities, without a proper capital structure to back those risks.

creation of an alternative bond market for SMEs (MARF), with its first issuance taking place in December 2013, ii) greater availability of funds from the public *Instituto de Crédito Oficial* (ICO) for banks to lend to SMEs,⁴³ and iii) strengthening of the mutual guarantee system for SMEs. In addition, to increase the availability of venture and development capital, ICO Fond Global (managed by the AXIS Fund)⁴⁴ was set-up and the first six tenders for the allocation of investment commitments in specific funds took place with strong interest from foreign investors. This has the potential to double the venture capital market in Spain. Furthermore, the EIF-AXIS business co-investment fund "*Fondo Isabel la Católica*" was registered in November 2013. Lastly, the regulation on covered bonds was amended to create a more flexible instrument, *bonos de internacionalización* (internationalisation bonds).

3.3 Measures to improve the functioning of the labour market and enhance human capital

Since October 2013, the main policy developments in the labour market and education policy areas consist of the approval of the organic law on the improvement of the quality of education (§12) and some measures to complement the 2012 labour reform, namely to facilitate stable part-time employment and to make information on contract categories more user-friendly. This has been followed by the presentation of the National Youth Guarantee Implementation Plan (§13). Meanwhile, the OECD has published an independent assessment of Spain's 2012 labour market reform (§14).

12. ***The organic law on the improvement of the quality of education*⁴⁵ was adopted on 9 December 2013.** It will enter into force by stages, starting in the 2014-2015 academic year, up until 2016-2017. It aims to improve the quality of education and the links between the Spanish labour market and the education system. To this end, it provides for i) the compulsory evaluation of student performance after the completion of primary and secondary education cycles, ii) a new two-year vocational training module to allow those without a basic compulsory education diploma to access vocational training and iii) increased flexibility in the certification paths. Once implemented, the law could help reduce the percentage of early leavers from education and training in Spain,⁴⁶ currently among the highest in the EU28.
13. ***Measures were taken in December 2013 to make information on contract categories more user-friendly*⁴⁷ and to facilitate part-time employment.⁴⁸ A National Youth Guarantee Implementation Plan has been submitted to the Commission.⁴⁹ The Guarantee complements ongoing initiatives⁵⁰ to combat youth unemployment. It includes actions targeting people below 25 years not in employment, education or in training (NEET).**

⁴³ The volume of loans in 2013 was close to an all-time record.

⁴⁴ <http://www.axispart.com/>

⁴⁵ See *Ley Orgánica 8/2013 para la Mejora de la Calidad Educativa – LOMCE*, of 9 December 2013.

⁴⁶ I.e., persons aged 18 to 24 who have completed no more than a lower secondary education and are not involved in further education or training. Their number can be expressed as a percentage of the total population aged 18 to 24.

⁴⁷ This was done by uploading on the Ministry of Labour's website an online tool grouping the current 42 contract templates into four categories (indefinite, temporary, training and apprenticeship and internship).

⁴⁸ See Royal Decree-Law 16/2013, of 20 December, on measures to foster stable employment and improve workers' employability.

⁴⁹ The Youth Guarantee is a new approach to tackling youth unemployment which ensures that all young people under 25 – whether registered with employment services or not – get a good-quality, concrete offer within four months of their leaving formal education or becoming unemployed. The good-quality offer should be for a job, apprenticeship, traineeship, or continued education and be adapted to each individual's need and situation.

⁵⁰ These include those referred to in the labour reform and in the Youth Entrepreneurship and Employment Strategy 2013-2016. The government's report evaluating the impact of the 2012 labour market reform quotes that 38% of the 100 measures in the strategy have been implemented or are included in legislation being prepared, 73% in the case of emergency or high-impact ones.

14. ***However, there seems to be room to strengthen further labour market institutions.*** The OECD has produced an evaluation of the 2012 labour market reform⁵¹ which reports progress in a number of areas. These include greater internal flexibility of firms to limit job destruction, wage growth moderation, greater priority given to collective bargaining agreements at firm level over sectoral and regional level agreements, greater possibilities given to firms to opt-out of a collective agreement, reduced compensation costs for unfair dismissal and a lower number of dismissals challenged in court. However, the assessment notes that the reform has been less successful in curbing labour market duality. While the share of open-ended workers in the total stock of employees increased by 8.3% year-on-year in December 2013, temporary contracts still account for 92.4% of the total new labour contracts signed.⁵² More may need to be done in this area in the coming period.
15. ***There is also scope to further fine tune the revised approach for active labour market policies, where resources are allocated among regions depending on results.***⁵³ The evaluation of the 2013 Annual Employment Plan in 2014⁵⁴ could be an opportunity to further strengthen incentives to allocate ALMP funds. In the future, the new active labour market policy approach could ideally be complemented by the launch of the single job portal, which will gather all central and regional government public employment services' information for jobseekers and employers and be linked to the modernisation of employment services.
16. ***In most cases, the implementation of these policies requires effective co-operation between the central and regional governments.*** It is also worth noting that no specific actions have been taken to date to modernise public employment services, in order to provide effective, individualised counselling and job search assistance to job seekers. There also needs to be a better link between education and labour market policies to eliminate unnecessary overlaps between formal education vocational training programmes and work-based training, and to better align actions and incentives in education and training.

3.4 Structural measures to promote growth and competitiveness

The most salient policy developments since the October interim report in response to the 2013 CSRs are the approval of the law on the guarantee of market unity (§17), the decisions leading to the electricity tariff deficit outcome for 2013 (§18) and the new law on the electricity sector (§19). The adoption of other flagship product market reforms, such as the reform of professional services, continues to be delayed (§20), while there have not been additional measures to reduce barriers to entry for large-surface outlets (§21). Finally, work is on-going to promote competition in railway freight (§22).

17. ***The law on the guarantee of market unity entered into force on 11 December 2013.***⁵⁵ Now that the law has been passed, the focus is on implementing it. This includes making changes to sector-

⁵¹ See <http://www.oecd.org/els/emp/spain-labourmarketreform.htm>

The goals of the July 2012 labour market reform are to reduce the gap in employment protection for permanent and temporary employees, increase flexibility in internal working conditions, adapt collective bargaining to firm conditions, reduce duality, improve employability through training and effective labour market mediation and to combat fraud. The reform was first assessed by the Government on 29 August 2013. The OECD evaluation was published on 18 December 2013.

⁵² Data from December 2013. In December 2013 the number of new contracts increased by 22% year-on-year. Newly signed open-ended contracts increased by 8.3% year-on-year, representing around 6.5% of all new contracts. 92.4% of new contracts were temporary. The remaining 1.1% were training and apprenticeship contracts.

⁵³ On 8 November 2013, the Spanish Government approved the first distribution of funds to the regions (totalling €1,342.58 million) for the implementation of active labour market policies, corresponding to 2013.

⁵⁴ The first evaluation results will be available in April 2014, allowing for the first distribution of the result-based instalment of funding.

⁵⁵ The law aims to remove measures that may directly or indirectly obstruct the free movement of goods and services and the establishment of economic operators throughout Spain. To that end, it sets out a series of general principles and provides for their application in practice. For example, applying the principles of necessity and proportionality to the regulation of economic activities is likely to reduce the number of cases where authorisations (or other administrative acts) are required by authorities. Applying the principle of effectiveness throughout

specific legislation, to remove inconsistencies. The government estimates at 2,700 the number of legal texts from central (30%) and regional (70%) government levels that need amendments covering 29 economic sectors. The government plans to discuss these legislative amendments with regions in the context of the sectoral conferences.⁵⁶ In total, the government is organising 25 conferences over three months, starting in January 2014. Good coordination and close cooperation among the different general government levels is therefore critical for the successful implementation of the law. This is especially the case when it comes to amending legislation falling under the exclusive competence of regions⁵⁷ that, despite not being in direct violation of the law, can potentially hinder freedom of establishment and the free movement of goods and services in Spain.

18. ***The electricity tariff deficit of 2013 is expected to remain large.*** This contrasts with initial plans to balance the system. In November, the government pressed for legal changes to cancel the use of the once earmarked budgetary resources to cover the electricity tariff deficit, thus creating a gap. In particular, the special credit line of €2.2 bn provided for in law 15/2013 was unpaid and the financing of extra-peninsular systems (€0.9 bn) was suspended for 2013. Moreover, 58% of revenues from the tax on the consumption of natural gas (the "green cent", €0.5 bn) were exceptionally diverted to increase the revenues of regional governments. The five incumbent electricity companies will have to finance that deficit, receiving in turn collection rights which could eventually be securitised with a state guarantee.
19. ***A new law on the electricity sector⁵⁸ was passed on 26 December 2013.*** The law validates Royal Decree Law 9/2013.⁵⁹ In addition, i) it provides for the principle of sufficiency of the system (which requires automatic increases in access tariffs should these fail to cover the system's costs in the future), ii) it also revises current consumer tariffs, and iii) taxes electricity generated for self-consumption. At the end of December 2013 the government also passed royal-decrees on the remuneration of transmission and the distribution of electricity. The reform is relevant, but strict implementation, including the automatic balancing mechanism, will be crucial for bringing the electricity sector into equilibrium.
20. ***The draft law on professional services is at a crossroad.⁶⁰*** The adoption of this reform has been delayed the longest, as it faces strong resistance from interest groups. The long run impact of the reform is estimated by the government at 0.7% of additional potential GDP and lower inflation of 0.24% relative to the baseline. A bold approach in areas such as the definition of the professions requiring registration in a professional organisation, the provisions on fees, transparency and accountability of professional bodies and the repeal of unjustified activities reserved to holders of specific qualifications is needed for the reform to have these effects. It is therefore important not to reduce the degree of ambition of the first publicly available draft law.
21. ***In spite of recent measures,⁶¹ barriers to entry for large-surface retail establishments continue to limit competition in the retail sector.⁶²*** The transposition of the Services Directive eliminated,

Spain aims to guarantee that all legally established economic operators, or all goods legally produced and placed on the market in a given part of Spain, may, a priori, perform the economic activity, or circulate throughout the whole Spanish territory, without additional authorisations or formalities being required by other competent authorities ("single licence" system). The law also provides for institutional arrangements to monitor the application of the law.

⁵⁶ According to the law, at the sectoral conferences the competent authorities will analyse the requirements needed for the access to or exercise of an economic activity and will promote legal amendments needed for compliance with the principles of the law on market unity.

⁵⁷ E.g., in tourism and urban planning.

⁵⁸ See Law 24/2013.

⁵⁹ For a description of those measures, see the October 2013 report on policy progress under the macroeconomic imbalances procedure.

⁶⁰ The draft includes i) an updated legal framework for professional associations, including a list of professions requiring mandatory membership of a professional association and caps to membership fees; ii) a procedure to re-assess the activities reserved to engineers and architects in the building sector, and iii) the repeal of reserved activities in other professional fields, namely that of bailiffs.

⁶¹ Reforms since 2012 have i) increased the minimum number of opening hours during which shops can remain open during the week and on Sundays and public holidays; ii) liberalised the end-of-season sales period; iii) removed municipal licenses for the premises or the operation of small shops (i.e., those whose usable area for display and sale to the public does not exceed 700 m²).

as a general rule, the requirement to obtain a specific licence from the competent regional government in order to set up large retail establishments, in addition to municipal authorisations, which had given rise to a dual licensing system. However, the revised rules authorise regional governments to set up specific authorisation schemes in the light of overriding requirements relating to the public interest. The revised rules on authorisations allow *de facto* the continuation of the previous dual licensing system for setting up large retail establishments.⁶³ In addition, since 2001, six regions passed legislation imposing taxes on large retail establishments. Against this backdrop, the government and the regions could explore ways of limiting barriers to entry for large-surface establishments in the context of the sectoral conferences.

22. ***There has been some progress in transport policy, barring the creation of an independent observatory for major infrastructure projects.*** Policies to promote competition in railway freight are in the pipeline (e.g. splitting the incumbent railway operator, or reviewing access charges to railway infrastructure). The splitting up of the incumbent *Renfe Operadora* has been approved, so that four entities (passenger, freight, maintenance of rolling stock and leasing of rolling stock) should be operational in 2014. In January 2014, the government adopted Royal Decree Law 1/2014 which aims to strengthen the independence of the body setting railway access charges and the airport slot coordinator. The other measures planned to strengthen competition in rail freight include setting up a single window for administrative procedures, opening freight terminals to new entrants and breaking *Renfe's* quasi-monopoly in rolling stock. The government is also considering ways of minimising negative spillovers from unprofitable motorways on public finances. However, there has been no progress in the creation of an independent observatory to help assess future major infrastructure projects.

⁶² The regulatory barriers to the retail sector have to be seen in the context of Spain's federal organisation. In particular, the power to regulate internal trade lies with the regions, although the national administrative bodies remain empowered to establish framework laws (*leyes de bases*).

⁶³ See CNC (2011), Report on the relations between manufacturers and retailers in the food sector. All regions (barring Madrid) either have authorisation schemes for the opening of department stores or stores with supra municipal impact or make the issuance of a report by the competent regional department of commerce a condition to open such stores.

Annex I — State of play with regard to the recommendations relating to the MIP

Main components of CSR	Measures announced in NRP	NRP deadline	Progress
1: Measures to improve the quality of public expenditure and taxation and the efficiency of public administration			
Improve the efficiency and quality of public expenditure at all levels of government and conduct a systematic review of major spending items by March 2014.			21.6.2013: report by CORA (<i>Comisión para la reforma de las administraciones públicas</i>), with 217 recommendations to be implemented over a three years. 20.9.2013: publication of the first monitoring report of CORA. Healthcare measures: see below. 23.12.2013: Law 23/2013, revising pension indexation and regulating the sustainability factor, adopted.
Make the healthcare sector more cost-effective, while maintaining accessibility for vulnerable groups. The sector could be made more cost-effective by reducing hospital pharmaceutical spending, strengthening coordination across different types of care and improving incentives to efficiently use resources.	The measures include reviewing the design of the basket of services, together with the co-payment schemes for some services; continuing to reform the reference pricing of pharmaceuticals; developing a new platform for centralised health procurement; developing a digital clinical record for patients; putting the electronic prescription system into use; other improvements aimed at making health management more participative.	2013.	30.7.2013: signature of the Pact for the Sustainability and Quality of the National Health System. 30.8.2013: the Ministry of Health publishes a press note on the savings made possible by the co-payment in pharmaceutical expenditure (EUR 2 125 million in the last 13 months). 20.9.2013: adoption by the government of a Royal Decree amending the 2004 regulation on the personal healthcare card (to allow its use in all regions).
Adopt the dis-indexation law to reduce the degree of price inertia in public expenditure and revenue, in time to have it in force by the beginning of 2014. Consider additional steps to limit the application of indexation clauses.	Dis-indexation law.	Draft proposal in May 2013. The aim is to bring it into force in 2014.	27.9.2013: Council of Ministers adopts the first draft of the dis-indexation law. 20.12.2013: dis-indexation law sent to Parliament.
By the end of 2013, finalise the regulation of the sustainability factor to ensure the long-term financial stability of the pension system, including by increasing the effective retirement age by aligning retirement age or pension benefits with changes in life expectancy.	Aligning the legal and the real retirement age and regulating the sustainability factor for pensions. The sustainability factor for pensions introduced by Law 27/2011, will also be regulated.	First half of 2013: Sustainability Experts Group to present its conclusions to the Toledo Pact Committee. Before the end of 2013: adoption of a draft law by the Government.	March 2013: Royal Decree Law 5/2013 on early and partial retirement adopted. 7.6.2013: independent experts report sent to Parliament (Toledo Pact Committee). The government should adopt a draft law before the end of the year. 2.8.2013: Law 11/2013 on the social protection of part-time workers. 27.9.2013: the government approves the draft law on regulating the sustainability factor of pensions,

Main components of CSR	Measures announced in NRP	NRP deadline	Progress
			and sends it to Parliament. 23.12.2013: Law 23/2013 revising pension indexation and regulating the sustainability factor adopted.
Conduct a systematic review of the tax system by March 2014.			1.7.2013: independent experts group set up to analyse the tax system and submit a proposal to the government in February 2014.
Consider further limiting tax expenditure in direct taxation.	The full impact of measures adopted in 2012 was felt in 2013. The bias of housing taxation in favour of ownership and against rental has been addressed. Wealth taxation, initially envisaged for 2011 and 2012, was extended to 2013 (thus contributing to additional regional revenues).	The full impact of measures adopted in 2012 was felt in 2013.	28.6.2013: the government adopted a draft law reducing the tax rebate enjoyed by firms on unrealised losses on securities holdings (e.g. resulting from a loss of value of the equity in a foreign subsidiary). 19.9.2013: Law 14/2013 on entrepreneurship and its internationalisation adopted by Parliament. The law provides for new tax expenditures, such as incentives for business angels and tax credits on reinvestment.
Explore the scope to further limit the application of reduced VAT rates.		The full impact of measures adopted in 2012 was felt in 2013.	
Take additional steps in environmental taxation, notably with regard to excise duties and fuel taxes.			28.6.2013: the government adopts a draft law introducing a new environmental tax on the use of fluorocarbon greenhouse gases (e.g. used in air conditioning or some industrial applications), with effect from 2014. 28.6.2013: Law 7/2013, increasing excise duties on alcohol (except beer and wine) and tobacco adopted.

Main components of CSR	Measures announced in NRP	NRP deadline	Progress
Take further measures to address the debt bias in corporate taxation.			19.9.2013: Law 14/2013 on entrepreneurship and its internationalisation adopted by Parliament. The law provides for a tax deduction of 10% or retained profit invested in fixed assets and immovable property connected to business activities; deduction of 20% of the amounts invested — up to EUR 50000 a year — in shares of newly set up companies with capital of up to EUR 400000 in personal income tax.
Intensify the fight against the shadow economy and undeclared work.	Law 7/2012 modifying the budgetary and tax frameworks. Reinforcement of the Spanish Tax Agency's (AEAT) activities to tackle the informal economy. Setting up of the National Bureau on International Taxation. 2013 plan to combat irregular work and social security fraud.	Adopted in October 2012. In 2013 (according to the 2013 Tax Control Plan). 2013. Launched in April 2012.	2.8.2013: (PLMPs) Law 11/2013, which clarifies the competence framework of the sanctioning powers of the national and regional public employment services. It also clarifies the requirement to be registered as a job seeker (and to renew such a demand) in order to receive and retain unemployment benefits and allowances. It also defines as an infraction the non-communication of collective measures (the suspension of a contract or the reduction of working hours) by the employer. 5.8.2013: creation of single mailbox to denounce labour fraud practices. 11.10.2013: joint report of the Ministries of Finance and Public Administration, Internal Affairs and Labour and Social Security on the results of the measures against fraud implemented since 2012 (showing that approximately EUR 22500 million was recovered).
Reform local administration in line with the current time frame and draw up a plan to make public administration more efficient overall by October 2013.	Publication of the final report, with the conclusions of the Commission for the Reform of Public Administration (CORA), on reducing and simplifying administrative barriers and duplicity.	June 2013	21.6.2013: Report by CORA (<i>Comisión para la reforma de las administraciones públicas</i>). The report has 217 recommendations, to be implemented over three years. 20.9.2013: CORA's first monitoring report (<i>Comisión para la reforma de las administraciones públicas</i>) published.
	Law on the rationalisation and sustainability of local administration. After the law is fully in force (2014–15), the electoral law will be amended, reducing the number of city councillors.	To be sent to Parliament in July, and approved during the second or third quarter of 2013.	26.7.2013: draft law on the reform of local administration approved and submitted to Parliament. 19.12.2013: Parliament adopts the law on the reform of local administration.

Main components of CSR	Measures announced in NRP	NRP deadline	Progress
	Law on transparency, access to information and good governance.	2013	9.12.2013: law on transparency, access to information and good governance adopted by Parliament.
Adopt and implement the reforms to make the judicial system more efficient.	The judicial system made more efficient: the professionalisation of the judiciary has been reinforced, court fees have been changed and out-of-court conflict resolution has been reinforced. A final text on reforming the Civil Procedure Law is currently being discussed. At the end of 2013, two new draft laws will be discussed, one on the judiciary and one on criminal prosecution. A Voluntary Jurisdiction Law will be passed in 2013 to reduce the workload for judges.	Professionalisation of the judiciary: Organic Law 8/2012, adopted on 27 December 2012. Out-of-court conflict resolution was reinforced through Law 5/2012 Implementation is ongoing.	11.10.2012: the government adopts a draft organic law to reform the Criminal Code; currently pending an opinion from the State Council. 11.1.2013: the government adopts a draft law on free legal aid; currently pending an opinion from the State Council. 03.5.2013: report on the draft law on reforming civil procedure; currently pending reports from the consultative bodies (General Council of the Judiciary, General State Prosecutor, lawyers' professional association). The Spanish Competition Commission (CNMC) has already published its report: ' <i>Informe del anteproyecto de Ley de Reforma de Enjuiciamiento Civil</i> '.
2: Measures to make the financial sector stable and make sure that deleveraging of the private sector goes smoothly			
Implement the financial sector programme for the recapitalisation of the financial institutions, including the measures promoting non-bank intermediation adopted in November 2012.	Finish restructuring and recapitalising the banking system and strengthen the regulatory and supervisory framework in the context of the financial sector programme. SAREB, the asset management company, will also be continuously monitored by the Bank of Spain to prevent deviations from its business plan. Expanding the Official Institute for Credit's (ICO) funding facilities for business, up to EUR 22 000 million. Other measures are being implemented, such as the ICO-CAF credit facility (EUR 300 million), the venture capital fund of Fond ICO Global (up to EUR 1 200 million), or the facility for helping to set up the alternative bond market (MARF) for SMEs (EUR 3 billion). First transactions of the new MARF. Elevator Law to soften the impact of fluctuations between the stock market and the alternative stock		27.9.2013: adoption of the Entrepreneur Support Act (Law 14/2013) promoting alternative channels of financing, including a new instrument — <i>bonos de internacionalización</i> (internationalisation bonds). 27.9.2013: the definition of SME changed to align it with the definition prevailing at European level, as specified in Commission Recommendation 2003/361/EC (Bank of Spain Circular CBE 4/2013). 31.10.2013: the Fond ICO Global closes the first tender processes. The second round has been announced and will start on 21 February 2014. November 2013: registration of the EIF-AXIS fund ' <i>Fondo Isabel la Católica</i> ' to provide equity to business angels and other non-institutional investors for the financing of innovative companies in the form of co-investments.

Main components of CSR	Measures announced in NRP	NRP deadline	Progress
	market. The venture capital legal framework will be changed in 2013.		29.11.2013: adoption of Law 14/2013 on urgent measures to adapt Spanish law to European Union legislation on the supervision and solvency of financial institutions allowing banks and other companies to transform a portion of DTAs into direct refundable tax credits from January 2014. This law also contains a provision empowering the Bank of Spain to forbid or restrict any bank capital release during 2014 if it would reduce the buffer over minimum capital requirements calculated according to the 'capital principal' definition decided on 31 December 2013. November to December 2013: ICO received a loan of EUR 1 billion from the European Investment Bank to make it easier for SMEs and mid-cap companies to access funding. It also received loans from KfW (EUR 200 million) and the Council of Europe's Development Bank (EUR 300 million) to fund Spanish SMEs. 18.12.2012: Banesco wins the auction to buy <i>Nova Caixa Galicia</i>. 19.12.2013: first issuance on the alternative bond market (MARF). 27.12.2013: Parliament adopts the law on savings banks and bank foundations. The regulation on covered bonds was streamlined and made more flexible, and a new instrument (<i>bonos de internacionalización</i>, internationalisation bonds) was created.
By March 2014, review the effectiveness of the regulatory framework to support the development of the rental housing market.	Law on measures to increase flexibility and develop the rental market.	n/a.	23.5.2013: Parliament adopts the law on the liberalisation and promotion of the rental housing market (Law 4/2013), providing more flexibility in setting the level of rents and in eviction procedures.

Main components of CSR	Measures announced in NRP	NRP deadline	Progress
Change insolvency frameworks for companies and individuals, including by limiting the personal liability of entrepreneurs and making it easier for failed businesses to get a second chance.	Law on entrepreneurship (to limit the personal liability of entrepreneurs and make it easier for failed businesses and individuals to get a second chance). No specific measures aimed at changing insolvency frameworks for individuals.	Parliamentary approval of the law on entrepreneurship before the end of 2013.	14.5.2013: Law 1/2013 adopted. It sets out measures to reinforce the protection of mortgagors and on debt restructuring and social rent, including provisions for partial debt discharge and extending the application of out-of-court settlements. 19.9.2013: Parliament adopts law on entrepreneurship, containing provisions limiting the personal liability of entrepreneurs and making it easier for failed businesses and individuals to get a second chance.
3: Measures to improve the functioning of the labour market and enhance human capital			
Finalise the evaluation of the 2012 labour market reform by July 2013, covering the full range of its objectives and measures.	Assessment of the impact of the 2012 labour market reform from several perspectives, such as the main labour market indicators, job creation, unemployment reduction and the reduction in the share of temporary jobs. An independent body, such as the OECD, will review the report.	Before July 2013	2.8.2013: Council of Ministers examined the government's evaluation of the impact of the labour market reform. 29.8.2013: the government's evaluation presented to Parliament and published. 18.12.2013: publication of the independent OECD evaluation of the labour market reform.
If necessary, put forward amendments to the reform plan by September 2013.		n/a.	2.8.2013: adoption of Law 11/2013, introducing some modifications to the collective dismissal procedure. 20.12.2013: adoption of Law 16/2013 to promote part-time work. 1.1.2014: implementation of the administrative simplification of the contractual templates (from the current 42 to 4: indefinite, temporary, training and apprenticeship, internship).
Adopt the 2013 National Employment Plan by July 2013.	2013 Annual Employment Plan (the targets and measures of the 2013 Plan will be approved on the basis of the assessment of the actions carried out by the regions, and the results of the assessment will determine the distribution of funding for the next period).	Second quarter of 2013	2.8.2013: Council of Ministers adopts the Annual Employment Plan for 2013 (PAPE 2013). 2.8.2013: Law 11/2013 adopted, allowing public-private partnerships (PPP) of the public employment services with placement agencies and introduces some modifications to the requirements for getting unemployment benefits. 8.11.2013: the Spanish government approves the distribution of funds to the regions for the

Main components of CSR	Measures announced in NRP	NRP deadline	Progress
			implementation of active labour market policies, in 2013. A total of EUR 1 342.58 million will be transferred to the regions.
Carry out swiftly a result-oriented reform of active labour market policies, including by improving the targeting and efficiency of guidance.	Pluri-annual Strategy for Employment Activation (2014–16).	Last quarter of 2013	The government is currently finalising the 2014–16 Activation Strategy, which has already been discussed and agreed with the regions.
Reinforce and modernise public employment services to ensure that the unemployed are given effective personalised assistance according to their profiles and training needs.		n/a.	-
Improve re-skilling training programmes for older and low-skilled workers.		n/a.	2.8.2013: the government adopted 19 Royal Decree Laws, which establish 82 professional certificates at different levels, corresponding to several professional categories.
Fully operationalise the Single Job Portal.	Single Job Portal: a common database, for the entire national territory, that will include all the training or employment offers managed by public funds.	To be fully operational in October 2013.	IT systems should become compatible from early 2014.
Speed up the implementation of public-private partnership in placement services to ensure its completion in 2013.	Public-private partnership is under way in the field of labour intermediation (private agencies will be paid for each insertion accomplished, according to the characteristics of the unemployed and the job).	Framework agreement to be signed by the regions in the second half of 2013.	2.8.2013: the Council of Ministers adopts framework agreement for public-private partnership in placement services. Fourteen out of 17 regions join the framework.
Implement and monitor closely the effectiveness of the measures to fight youth unemployment set out in the 2013–16 Youth Entrepreneurship and Employment Strategy, for example through a youth guarantee scheme.	2013–16 National Youth Entrepreneurship and Employment Strategy.		2013–16 Youth Entrepreneurship and Employment Strategy adopted in March 2013; 40 % of the measures are in place. The Ministry of Labour will perform an annual assessment of the results of the Strategy. The first

Main components of CSR	Measures announced in NRP	NRP deadline	Progress
			evaluation will be published in October 2013. 19.12.2013: National Youth Guarantee Strategy sent to the Commission.
Continue taking steps to increase the labour market relevance of education and training, to reduce early school leaving and to enhance life-long learning, namely by expanding dual vocational training beyond the current pilot phase and by introducing a system for comprehensive monitoring of pupils' performance by the end of 2013.	Reform of the educational system (including decreasing the early school leaving rate to 15% by 2020).	To be fully implemented by the 2016–17 school year (implementation starts in the 2014–15 school year).	28.11.2013: adoption of the organic law on improving the quality of education by Parliament.
4: Structural measures promoting growth and competitiveness			
Urgently adopt and implement the draft law on market unity and speed up all complementary actions needed for its swift implementation.	Law on market unity plus screening and adaptation of sector-specific regulations.	Submission to Parliament by the end of the second quarter of 2013. Law to be adopted under the emergency procedure before the end of 2013.	5.7.2013: draft law adopted by the Council of Ministers and submitted to Parliament. 10.12.2013: Parliament adopts the law on the guarantee of market unity.
Ensure the effectiveness, autonomy and independence of the newly created regulatory authority.	Law on Spain's new Competition Commission.	Law to be adopted before the end of June 2013.	4.6.2013: entry into force of Law 3/2013 on the new competition commission (CNMC). 30.8.2013: adoption of the CNMC Statutes.
By the end of 2013, adopt and implement the law on professional associations and services, to remove any unjustified restriction on access to and the exercise of professional activities.	Law on professional associations and services.	Approval of the first draft before the end of June 2013. Parliamentary adoption of the law before the end of 2013.	2.8.2013: the government adopts the first draft law on professional associations and services for public consultation.
Adopt and implement the law on entrepreneurship.	Law on entrepreneurship.	Parliamentary approval of the law before the end of 2013.	28.9.2013: Publication and entry into force of the law on entrepreneurship.
Regroup and concentrate support schemes for the internationalisation of firms.			26.7.2013: draft law on Chambers of Commerce adopted by Government and submitted to Parliament. 19.9.2013: Law on entrepreneurship adopted by Parliament.

Main components of CSR	Measures announced in NRP	NRP deadline	Progress
Reduce the number of and shorten licensing procedures, including those for industrial activities, and extend the use of the 'express licence' approach to activities other than retail.	Law on the guarantee of market unity.	Submission to Parliament by the end of the second quarter of 2013.	05.7.2013: draft law adopted and submitted to Parliament. 10.12.2013: the law on the guarantee of market unity adopted by Parliament.
	Law on the reform of local administration.	Submission to Parliament in July 2013. Parliamentary approval before the end of 2013.	26.7.2013: draft reform law adopted by the Council of Ministers and submitted to Parliament. 19.12.2013: adoption of the law on the reform of local administration by Parliament.
	Issuance of sample municipal ordinances (<i>ordenanza tipo</i>).	n/a.	25.6.2013: the governing council of the Spanish Federation of Municipalities and Provinces adopts the sample municipal ordinances for retail trade activities.
	Law on entrepreneurship (for express licensing).		28.9.2013: publication and entry into force of the law on entrepreneurship. The simplification of licensing for manufacturing activities in that law covers small businesses only (i.e. those with a surface area under 500 square metres). The law on the guarantee of market unity raises this threshold to 700 square metres.
	Simplification of environmental licensing.		9.12.2013: law on environmental assessment adopted by Parliament.
	No specific measures on the simplification of licensing for manufacturing activities in NRP.	n/a.	-
Remove unjustifiable restrictions on the establishment of large-scale retail premises.	No specific measure in NRP.	n/a.	-

Main components of CSR	Measures announced in NRP	NRP deadline	Progress
Tackle the electricity tariff deficit by adopting and implementing a structural reform of the electricity sector by the end of 2013.	Electricity tariff deficit. In 2013 the legally binding target is a zero ex ante deficit. In December 2012 the law imposing taxes on electricity generation was passed (Law 15/2012). Law 2/2013, to reduce the regulated system costs and premiums for renewable electricity generation, has been approved. In March 2013 Government passed a draft law to reduce non-mainland extra costs and consequently the national tariff deficit. The law on the reform of the electricity sector aims to revise regulated costs (remuneration) and is another step towards financially stabilising the electricity sector.	To be adopted by the Council of Ministers before 30 June 2013.	12.7.2013: the Council of Ministers approves a law setting out urgent measures to guarantee the financial stability of the electricity sector. The government aims to definitively balance the electricity sector, prevent new imbalances and ensure supply to consumers at the lowest cost. To correct the deficit, electricity sector costs will be reduced by EUR 2.7 billion, the state budget will provide EUR 900 million and access tariffs will increase by EUR 900 million. 20.9.2013: the government adopted the draft law on the reform of the electricity sector and sent it to the national Parliament. 19.12.2013: adoption of Law 24/2013 on the reform of the electricity sector by Parliament. 20.12.2013: adoption of Law 17/2013, setting up a temporary mechanism to calculate electricity prices to be paid by households in Spain in the first quarter of the year (it sets the price rise at 2.3 % in the first quarter of 2014, while the result of the electricity auction cancelled by the government would have meant a price rise of more than 10.5 %). 27.12.2013: adoption of Law 1047/2013 and Law 1048/2013 on the remuneration of transmission and distribution of electricity.
Do more to complete the electricity and gas interconnections with neighbouring countries.			28.5.2013: approval of the information memorandum setting out the requirements and procedures for the joint attribution of gas interconnection capacity between Spain and Portugal.
Reduce contingent liability for public finances stemming from unprofitable transport infrastructure.	Reform of the 1987 Land Transport Organisation Law.	Second quarter of 2013.	4.7.2013: 1987 law on land transport organisation amended. 5.7.2013: Council of Ministers approves a plan to streamline railway passenger services (AVANT - Medium-distance high-speed rail passenger services) and ex-FEVE - narrow gauge railways), resulting in savings of around EUR 10 million in 2013.

Main components of CSR	Measures announced in NRP	NRP deadline	Progress
	Implementation of the airport efficiency plan.	In 2013 the legal framework for slot allocation will be completed, removing obstacles access to the internal market and fostering competition.	
	New 2012–24 Plan for Infrastructure, Transport and Housing.	Draft presented in September 2012.	
Set up an independent observatory to help assess future major infrastructure projects.	n/a.		-
Take measures to ensure effective competition in freight and railway passenger services.	Liberalisation of railway passenger transport.		In February 2013 (RDL 4/2013), the government decided that competition would only apply to services for tourists (Law 4/2013). Competition in commercial railway passenger services will be developed later. On July 12, the authorities announced that railway passenger services would be liberalised from 31 July 2013 (Law 22/2012). 2.8.2013: Law 11/2013 includes provisions reviewing the rules on access to railway infrastructure. The incumbent <i>Renfe Operadora</i> is being split into four entities (passenger, freight, maintenance of rolling stock and leasing of rolling stock).

Annex II — List of abbreviations

ALMP	Active Labour Market Policies
AMR	Alert Mechanism Report
AXIS	The Venture Capital entity of the <i>Instituto Crédito Oficial</i> (ICO)
BSOL	Budgetary Stability Organic Law
CNC	<i>Comisión Nacional de Competencia</i>
CSR	Country Specific Recommendation
ECB	European Central Bank
EDP	Excessive Deficit Procedure
EIF	European Investment Fund
GDP	Gross Domestic Product
HICP	Harmonised Index of Consumer Prices
ICO	<i>Instituto de Crédito Oficial</i>
IDR	In-Depth Review
IFI	Independent Fiscal Institution
INE	<i>Instituto Nacional de Estadística</i>
MARF	<i>Mercado Alternativo de Renta Fija</i>
MIP	Macroeconomic Imbalances Procedure
NEET	Not in Education, Employment, or Training
NIIP	Net International Investment Position
NRP	National Reform Programme
OECD	Organisation for Economic Co-operation and Development
SAREB	<i>Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria</i>
SME	Small and medium-sized enterprises