ADJUSTED GROWTH STRATEGY: SPAIN

SPAIN'S ADJUSTED GROWTH STRATEGY, 2015

*The purpose of this document is to highlight changes and new additions to members' **growth** strategies since Brisbane :*

Changes to section A (Economic Objective)

Please discuss changes to the economic objectives, if any.

The economic objectives and key commitments of the Brisbane Growth Strategy remain unchanged. Work has been progressing in the implementation of the macroeconomic and structural reform agenda towards the achievement of the objectives stated in the strategy: the acceleration of the economic recovery and employment creation, including measures to tackle the social consequences of the crisis; growth-friendly fiscal consolidation; restoring normal lending to the economy; increasing market competition, raising productivity at firm level, and national competitiveness; and modernizing public administration. Structural reforms already in place allow for a better response to positive demand and supply side shocks, such as the ECB monetary easing, the reduction in the oil price and the Euro exchange rate depreciation, and have led to a significant growth differential of the Spanish economy compared to its peers.

Top commitments from the Brisbane growth strategy.

1. Implementation of the fiscal and tax reform measures to promote growth and employment creation.
2. Advancing in the deleveraging process. Facilitate the refinancing and restructuring of corporate debt. Fostering pre-insolvency negotiation and agreements.
3. Boosting employment through regulatory reforms and other active labour market policies (ALMPs).
4. Continue implementing the regulatory simplification plan under the Market Unity Law aimed at
fostering economic activity and increasing competeviness of companies.

5. Increasing the efficiency and quality of public expenditure and enhancing the transparency and efficiency of Public Administration.

6. Eliminate inflation inertia by limiting indexation in the public sector. Dis-indexation policy.

The Spanish National Reform Programme (NRP) 2015 (in Spanish) can be found at:

http://www.lamoncloa.gob.es/consejodeministros/Documents/SP%20PNR%20%202015%20FINAL.pdf

An executive summary in English of the NRP can be found at: http://www.thespanisheconomy.com/stfls/tse/ficheros/2014/Executive_Summary_PNR_2015_FINAL.pdf

The Stability Programme Update (SPU) 2015-2018 (in Spanish) can be found at:

http://www.minhap.gob.es/Documentacion/Publico/GabineteMinistro/Varios/PE%202015-18%2030_04_2015.pdf

An English translation of the Stability Programme Update can be found at:

http://ec.europa.eu/europe2020/pdf/csr2015/sp2015_spain_en.pdf

Changes to section B (Economic Outlook and Challenges to Growth)

Please discuss changes to the economic outlook and challenges, and if desired, highlight any new and existing gaps remaining to be addressed. Add discussion of risk of persistent stagnation, if relevant.

Update table of key indicators as follows:

Over the last four years, the Spanish government has implemented an ambitious reform agenda that has transformed the Spanish economy. This agenda is built on three pillars: pro-growth 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 market confidence and to increase its efficiency, flexibility and capacity to compete, has borne fruits. The turning of the economic cycle is already a reality.

The Spanish economy is in an upward and accelerating trend of growth led by the private sector. The economy has now posted nine straight quarters of positive growth, becoming the fastest-growing economy among the leading Eurozone nations. Key indicators show a more balanced contribution between domestic and external demand to growth in the period 2015-2018.

The key to the recovery is in the breadth and depth of the structural reform program, and its steady implementation; favorable external developments and a less restrictive fiscal stance have added impulse. Structural reforms (labour and products markets, the financial system, budgetary framework and tax system or the public sector) are improving flexibility in the economy facilitating the process of more efficient resource reallocation and allowing for a better response to positive demand shocks. Consumer confidence and industrial capacity is recovering strongly, while economic uncertainty is gradually fading. Economic activity expansion is resulting in job creation and a decrease in unemployment, reinforcing positive trend expectations.

Key Indicators (*****)

	2014	2015	2016	2017	2018	2019
Real GDP (% yoy)	1.4	3.3	3.0	2.9	2.9	-
Nominal GDP (% yoy)	0.9	3.8	4.0	4.3	4.6	-
Output Gap (% of GDP)*	-8.3	-5.7	-3.6	-1.8	-0.2	-
Inflation (%, yoy)**	-0.5	0.5	1.1	1.4	1.6	-
Fiscal Balance (% of GDP)***	-5.8	-4.2	-2.8	-1.4	-0.3	
Unemployment (% of labour force)	24.4	22.0	19.7	17.6	15.5	-
Employment (%)****	1.2	3.0	3.0	2.9	2.9	-
Savings (% of GDP)	20.1	21.1	21.7	22.2	22.7	-
Investment (% of GDP)	19.5	19.9	20.5	21.1	21.8	-
Current Account Balance (% of GDP)	0.6	1.2	1.2	1.0	0.9	-

A positive (negative) gap indicates an economy above (below) its potential. ** GDP deflator. *** Excluding Financial Assistance. A positive (negative) balance indicates a fiscal surplus (deficit). * Annual change in the number of full time equivalent jobs. *****Data included in this table (either 2014 or forecasts) do not incorporate the revision of the annual accounts published by the INE in mid-September 2015**

The aim of the 2012 major labour market reform has been to address Spain´s most important imbalance; together with other reforms it has contributed to a significant change in the dynamics of the labour market. The new regulatory framework has allowed for a reduction in the threshold of GDP growth needed for net private sector employment creation, while maintaining productivity growth with wage moderation. Employment creation is broad-based and structural unemployment is declining since 2014; with over 650.000 jobs to be created in 2015, the unemployment rate is expected to fall below 20% in

2016 and to continue its declining trend falling to 15.5% in 2018. The number of new companies is rising and the reduction in unemployment is being achieved in paralell to a subtantial reduction in public sector employment in absolute terms, which has contributed to fiscal consolidation.

Steps have been taken to guarantee budgetary sustainability, and a primary surplus is expected in 2016, reversing the Debt to GDP upward trajectory, that is set to peak in 2015. Fiscal consolidation and increased credibility have contributed to substantial savings on debt service. The tax reform has started to be implemented in 2015, with positive revenue effects from growth expected to dominate the effect of lower rates on tax collection, while expenditure reduction is mainly driven by the implementation of past measures and continued efficiency gains in the Public Administrations.

The financial sector has experienced a considerable improvement since the major reforms undertaken over 2012 and 2013 and has been further bolstered by the EU bank Comprehensive Assessment exercise, where Spanish banks got the best results under the asset quality review and the second best under the whole exercise, and the European banking union. All financial indicators are improving. New credit flows to non-financial corporates and households as a whole have been experiencing increasingly positive year-on-year variation rates since February 2015. Non-performing loan levels started to fall in September 2014, with a consistent acceleration in the downward path ever since. Bank profitability has notably improved. Although private and public indebtedness are still high, deleveraging of the private sector is continuing, with both non-financial corporates and households having progressively reduced their leverage despite recent trends in consumption and investment, and gradually switching from traditional debt to equity in the case of corporates. More specifically, the non-financial private debt to GDP ratio has been reduced by 38 percentage points from its peak. The cost of this indebtedness has been declining for both the private and public sectors The costs for public debt financing continue the reduction trend, with sovereign debt yields and spreads having adjusted downwards. Finally, this deleveraging process is following a healthy pattern, by being more intense in those sectors that had grown the most disproportionately in the past and needed greater adjustment (namely, real estate), while resources are being reallocated to more dynamic sectors in the economy.

Increased competitiveness is contributing to the positive evolution of the external sector, allowing to maintain a current account surplus for a third consecutive year in 2015 coupled with a recovery in domestic demand. Price-based competitiveness has been increasing due to a combination of lower inflation, depreciation of the euro and falling unit labour costs. Non-cost competitiveness is also on the upside. The weight of exports to GDP is increasing (from 21.9% of GDP in 2009Q1 to 32.4% by 2015Q2), with greater geographical diversification towards faster growing economies. Increased imports of capital goods are related to higher investment and capacity utilisation in the manufacturing sector, while its cost, in terms of trade deficit, has been offset by lower oil import value. The intensity of imports of intermediate goods signals structural changes in the economy. The current account balance is in positive territory despite the recovery of domestic demand. Direct inbound foreign investment shows renewed confidence in Spain.

National demand made a stronger contribution to aggregate GDP growth, even in a context of negative or very low CPI growth, which points at positive (supply-side) rather than negative (demand-side) deflationary pressures, while external demand remains below expectations due to weak demand from key partners. On the other hand, external factors such as the QE programme launched by the ECB, lower than expected oil prices, the depreciation of the Euro against major currencies and gradual improvement in European growth are contributing to enhance confidence in the economic recovery and buttress the external sector.

The economy still faces gaps and policy challenges, both on the macroeconomic side, and on the structural side. The adjusted growth strategy is built on goals and measures corresponding to the last phase of the reform agenda that the present Spanish government designed for its four year legislative term. This agenda revolves around the axes of structural reforms and fiscal responsibility.

Spain actively participates in the definition of reforms at the European Union level.

Changes to section C (Policy Responses to Lift Growth)

Please indicate any adjustments to measures taken in Brisbane Growth Strategies as well as new high impact policy measures taken since Brisbane.

Please include both macroeconomic and structural policy responses.

Fiscal Policy: On the fiscal front, the government strategy has been implemented gradually. The initial first phase during 2012 and 2013 prioritized the strengthening of public finances as a necessary condition to recover confidence, complying both with the EU Stability and Growth Pact consolidation requirements and the need to maximize its impact on growth and job creation. Starting in mid-2013, as financial conditions started to improve, fiscal policy gradually introduced measures in revenues and expenditures in support of employment creation and entrepreneurship, contributing to fostering economic growth without sacrificing the committed fiscal consolidation path. Spain has followed a frontloaded adjustment, with most of the adjustment anticipated with a structural effort of 4.2 of the GDP between 2012 and 2013.

The 2014 Fiscal Reform that entered into force in 2015, was aimed at making tax collection more conducive to economic growth by reducing the tax wedge on labour, corporates and families, increasing disposable income and strengthening domestic consumption and investment. It also creates a more equitable tax system bringing the highest reduction for low and middle incomes, and social benefits for families with children and dependents The Government decided an advance in the implementation of the reform by bringing forward to July 2015 the reduction of the tax burden borne by all personal income tax payers that was due in 2016The measure was possible because of the improvement in tax revenues associated to personal and corporate income taxes and stronger growth. The anticipation of the reform is targeted to stimulate growth and push job creation by reducing taxes in another 1.5 billion euro.

New specific reforms have been passed and approved in 2015: The General Tax Law update (*Ley General Tributaria*) entered into force in October 2015 also contributing to finalize the budgetary governance framework reform. It specifies new measures to reinforce the fight against tax fraud and to improve the functioning of the system (speeding and clarifying special tax proceedings). It determines the publication by end 2015 of defaulting tax debtors above 1 million EUR. Another Act (Law 10/2015) determines the publication of some relevant personal data in judgments on tax fraud and evasion to strengthen its effectiveness and transparency. Concerning environmental taxation, the new tax on the exploration and production of hydrocarbons will enter into force in January 2016, and a new tax linked to the use of water resources in hydroelectricity power production is already in place. Measures have also been adopted or are in the process to implement progress achieved in Base Erosion and Profit Shifting (BEPS) action plan (for tackling hybrid mismatches and aggressive tax planning, adoption of the nexus approach to the patent box regime and Country-by-Country reporting) and the new single global Standard on Automatic Exchange of Tax Information. Measures in property taxation were also introduced or extended in 2015.

The General State Draft Budget for 2016 was approved by the Council of Ministers on 31st July 2015 and by Parliament on 20th October. The Budget is aimed at complying with the fiscal consolidation objectives already committed by Spain. It is framed within the improved economic situation, resulting in both higher tax revenue, and reduced expenditure as a direct consequence of the improvement of the labour market. In addition, there are savings in interests of public debt, due to the improvement of the credit quality of Spain.

Monetary Policy: For the Euro Area´s monetary policy and other EU level measures please refer to the EU adjusted growth strategy.

Investment and encouragement of entrepreneurship: In 2015 the bankruptcy law has been improved and a specific procedure governing the insolvency of individuals has been created (Law on the 'second opportunity' mechanism reducing the financial burden and other measures) to prevent that failure in an entrepreneurial initiative results in an unsurmountable obstacle for future entrepreneurship and to provide a solution to the insolvency of individuals not entrepreneurs. The aim is to facilitate an orderly restructuring of debt for responsible debtors, while respecting creditors' rights.

Spain is supporting the EU Investment Plan for Europe (Juncker Plan) through new financial commitments (up to 1.5 billion euro during the estimated duration of the Plan) and project identification.

Progress is being made in the improvement of the overall business and investment climate, which is key to increase competitiveness. Complementing fiscal, financial, and labour market activation policies included in the key commitments, other new measures will be put in place specifically in support of entrepreneurship and job creation, including the allocation of a significant amount of EU Structural Funds to improve competitiveness of SMEs.

To promote more efficient channeling of saving to corporate financing and improved access to finance for smaller firms, a legal reform was put in place (Law 5/2015 on promoting corporate financing). Firms´ guarantees have been strengthen and new transparency obligations have been imposed on credit institutions to reduce informational asymmetries. The new legislation fosters alternative channels to corporate financing, as well as greater diversification of financing sources.

Measures are detailed in the Draft Investment Strategy.

Employment and Labour policy: New measures focus on labour market activation policies, as outlined in the corresponding key commitments in Annex 3; and new measures specified in Annex 1. They represent a significant improvement towards completing the institutional framework, including the modernization of public employment services; making use of new tools to prevent duality and to facilitate participation of the youth, elderly and long-term unemployed; enhancing labour market efficiency, including new training and education policies; and increasing efficiency in fighting labour and social security fraud.

Competition and Markets: Spain will continue to implement measures to contribute to a more competitive functioning of markets and 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. The Law on Market Unity is being implemented at a rapid pace in order to accelerate the reduction of administrative burdens across a wide range of sectors and at all levels of Administration.

Public Administration Reform: Several new measures are being implemented to reinforce this key commitment in 2015. New laws on Public Administration; and on Common Administrative Procedures have recently been approved, while the public consultation on the draft bill on Public Procurement finalized in May. Progress will be made in reducing administrative burdens, in particular those affecting productive activity. Infrastructures and technological services will be rationalized. Legislation in the field of judiciary administration will result in a swifter functioning of the judiciary, which is essential for economic activity.

External balance: The Spanish economy is deeply connected with the global economy through international trade in goods and services and financial flows. Spanish companies are present around the world and contribute to generate growth and employment in many countries. As a former high external deficit economy, Spain has been a major contributor to the reduction of global imbalances, at a high cost in terms of domestic absorption and employment thus contributing to the G20 goal of global balanced growth. The external position as measured by the International Investment Position is an important stock imbalance in the economy. Its correction requires continuation in productivity gains and in price competitiveness. Labour refom and the recently approved Dis-indexation Law are key to maintain this trend in the long term. The good performance of the Spanish trade balance and the services balance are the main factors explaining the correction of the current account balance in recent years. The aggregate balance of the capital and the current account shows a net lending capacity to the rest of the world, in sharp contrast with the borrowing needs of previous years. The rapid correction of the fiscal position is also contributing to the reduction of the public need of financing.

Inclusive growth. The key to address inclusive growth and inequality is the recovery in employment creation and integration into the labour market. Macroeconomic stability, a policy framework conducive to enhanced growth and job creation, and the labour reform have produced a sharp shift in unemployment trends. Recent developments and improvements are facilitating the adaptation to the consequences of globalization and fast technological change and alleviating the social consequences of the crisis. This line of action will continue to be prioritized through active employment policies, human capital adaptation and measures in the labour market. Together with the strengthening of actions 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. Social expenditure has remained stable as a percentage of GDP and in terms of its share in total expenditure throughout the period 2010-2015 notwithstanding the fiscal consolidation efforts.

Policy actions and spillovers: The macroeconomic policy framework and structural reform program put in place is leading to domestic growth with greater stability, enhanced flexibility and more balanced fundamentals.

These conditions result in a more favourable position to limit exposure to external negative spillovers while allowing for a better response to positive shocks. A sustained and balanced economic recovery increases confidence in the Spanish economy, attracting international financial flows and productive investment in particular, and produces new opportunities for exporting countries. It all results in current account surpluses therefore contributing to global imbalances correction.

The overhaul of the Spanish financial system in recent years resulted in a significant restructuring and consolidation. The excellent results of Spanish banks at the EU comprehensive assessment has shown that the financial reforms have borne fruit. Efforts led to the strengthening of the bank´s solvency position, a quick return of confidence in the system, and thus to credit flowing again to the real economy. The latter is an important addition to providing stability and resiliency and preventing negative spillovers and fostering positive spillovers at the European and global level.

Spain has been actively supporting the banking union project, and actively participates in the debate to further complete the Economic and Monetary Union, which is a solid anchor of stability and growth.

ANNEX 1: NEW AND ADJUSTED POLICY COMMITMENTS FOR 2015

New and Adjusted Commitments since Brisbane

This annex is for describing new measures introduced since Brisbane or Brisbane commitments that have been adjusted or modified.

Please complete a table for each new or adjusted commitment put forward in 2015. We would expect each policy commitment table to be no longer than 1 page.

• New and Adjusted Commitments since Brisbane**The new or adjusted policy action:**	**Insolvency Law. Second opportunity mechanism**
Implementation path and expected date of implementation	Royal Decree-Law 11/2014, 5 September, on refinancing and restructuring of corporate debt focuses on both the agreement and the liquidation phases. With regard to the former, it introduces a higher degree of coherence between the insolvency and the pre-insolvency arrangements by extending the valuation rules of secured claims to the insolvency proceeding too. Thanks to the new legal framework, all types of creditors will have to vote, and not just ordinary creditors. Regarding preferred creditors, four different types of groups (financial creditors, public creditors, labour creditors and other types of creditors) have been created, in order to make the content of the agreement more flexible and adaptable to the needs of the parties involved. With the means of facilitating the adoption of agreements that ensure the viability of the debtor, non- participating or dissenting creditors will be also bound by the agreement when certain majorities (which are lower than the ones required for the pre-insolvency phase) are met. The liquidation phase is also reformed in order to promote wholesale instead of piecemeal liquidations, which will allow more businesses to go on with their activities. It also makes Out of Court Agreements on Payments (OCAP) more flexible, by extending their scope of application (from now on they can be applied not only to business owners or companies, but also to individuals with liabilities under EUR 5 million) and removing some limitations on their content (the voting majorities and opportunities given to the negotiating parties have been aligned with those of the refinancing agreements, e.g. debt write-offs, payment extensions, extending the effects of agreements to dissenting creditors). Following the recommendations of several IOs, the so called second opportunity has been reformed: i) by extending the subjective scope of application of the OCAP to natural persons, natural persons without economic activity may also request the exoneration of their debts via OCAP, ii) the cases in which the debtor acted in good faith, which is a requirement to access the OCAP, are better defined, iii) the scope of debts that may be exonerated is extended, iv) the final exoneration of debts is conditional on compliance with a payment plan for those debts that cannot be exonerated. Law 25/2015, of July 28, 2015, on the second opportunity mechanism, reducing the financial burden and other measures of a social nature is in force. Originating from Royal Decree-Law (RDL) 1/2015, it consolidates in the Insolvency Law (*Ley Concursal*). On the other hand, as a new key development, a system of debt relief for natural person debtor under the bankruptcy proceeding is instituted. The exemption system has two pillars: the good faith of

	the debtor and the previous liquidation of his assets. Fulfilled the above conditions, the debtor may be exempted of his outstanding debts, subject to satisfy in full the claims against the bankrupt's estate, the privileged credits and, if he has not tried any out-of-court settlement, 25 % of ordinary insolvency claims. Alternatively, if the debtor has not been able to satisfy these claims and the debtor agrees to a payment plan that can last up to 5 years, the debtor will be relieved of all its credits, except public and food ones and those against the bankrupt's estate and those who enjoy general privilege The Law added some new changes to RDL 1/2015 such as the fee protection account for insolvency managers, limits on the remuneration of insolvency managers and the introduction of greater flexibility to a number of elements of the second chance mechanism.
What indicator(s) will be used to measure progress?	Royal Decree-Law 1/2015 has been passed as Law 25/2015 and is in force since end July 2015.
Explanation of additionality or adjustment	Reform of the Out of Court Agreements on Payments (OCAP), introduced by Law 14/2013 on Entrepreneurship and Internationalization; and reform of the so called second opportunity mechanism, reducing the financial burden for future entrepreneurship facilitating an orderly restructuring of debt for responsible individual debtors, while respecting creditors' rights.

• The new or adjusted policy action:	**General Tax Law Update**
Implementation path and expected date of implementation	The reform has already entered into force in October 2015. The government has brought forward the Personal Income Tax reduction of rates foreseen in the reform of 2014 to July 2015.
What indicator(s) will be used to measure progress?	Increased transparency. Increased legal certainty and reduced regulatory conflict. Reinforcement of the fight against tax fraud.
Explanation of additionality or adjustment	The General Tax Law update (*Ley General Tributaria*) complements the process of fiscal reform initiated in 2014, and is in force since 2015 as a revision and improvement of the tax legal system. It includes new measures to reinforce the fight against tax fraud, promote transparency in public proceedings, and to improve the functioning of the system (speeding and clarifying special tax proceedings)

• The new or adjusted policy action:	**New measures in support of entrepreneurship aimed at complementing previous reforms and actions towards employment creation**
Implementation path and expected date of implementation	Fiscal measures: Social security contributions from 2015Q1 minimum exempt of €500 for permanent hiring. Reduction of social security contributions to all self-employed. Measures to promote financing and the internationalization of companies: Expansion of the *Instituto de Crédito Oficial* (ICO) activities with particular emphasis in SME. Enhanced access to financing for export companies by modifying financing funds *FIEX* and *FONPYME*.

	Structural Funds: Special emphasis given to programme allocation of Structural Funds 2014- 2020: €5,988 million through Thematic Objective 3: Enhancing the Competitiveness of SME. SME Initiative endowed with €800 million plus an additional participation of Horizon 2020 with €15 million in innovation loans to SME. Additional €268.6 million of the Operative Programme for Intelligent Growth dedicated to internationalization, innovation and productive investment. Simplification of new activity procedures and integration of information services for entrepreneurs.
What indicator(s) will be used to measure progress?	Employment creation

• The new or adjusted policy action:	Markets: More competitive functioning of markets and systemic efficiency and sustainability
Implementation path and expected date of implementation	**Energy**: • **Electricity**: The Reform of the electricity sector has managed to put an end to the tariff deficit and to endow the electricity system with greater certainty. Some developments of this Reform have already been approved, such as a new Royal Decree for self-consumption and a new retribution framework for the non-peninsular systems. Other measures contributing to a more competitive market and a more efficient and sustainable system are in the pipeline, like a modification of the retribution decree for the electric networks (transport and distribution); and a new act for capacity mechanisms. • **Gas**: A reform has been passed to close the tariff deficit in the gas sector. Law 8/2015 amending Law 34/1998 on the Hydrocarbons sector has continued with the main objective of creating a secondary organised market that reflects the wholesale price, improving the efficiency of the system and competition. A Royal Decree developing this act has been approved. • **Oil**: Spain has implemented measures to promote competition at the retail level and will continue to do so as needed. • **Interconnections**: Spain is working in the development of new interconnection projects with France and Portugal. **Transport** • **Railway**: A new Bill 38/2015 has been passed on September 29th integrating the European Directive establishing a single European railway area. In addition, the Law will allow for a more rigorous planning of the railway infrastructure, and more competition. • **Infrastructure**: An Advisory council for the analysis of major infrastructure projects was set up in May 2014. The new Roads Act and the new Railways Act confer competences to this Advisory Council in their respective fields. The National Evaluation Office has been set up, to thoroughly evaluate the financial sustainability for concession contracts, • **Air Transport**: in 2014 a new framework for airport regulation and supervision was adopted. AENA´s partial privatization process: In January 2015 49% of assets were successfully distributed between institutional investors, retail investors and workers.

What indicator(s) will be used to measure progress?	Deficit of the electric system/ Deficit of the gas system/Level of competition in the wholesale gas market/Level of competitions in the retail oil market and oil prices/Level of interconnections.

ANNEX 2: PAST COMMITMENTS – ST. PETERSBURG FISCAL TEMPLATE – UPDATE

Please update as necessary. In particular, please update tables as follows:

Medium-term projections, and change since last submission *(required for all members)*:

Projections* are contained in the 2016 Budgetary Plan, the Stability Programme 2015-2018 and the 2015 National Reform Plan. It does not take account of the recent Annual National Accounts Revision.

Estimate Projections

	2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Gross Debt	97.7	98.7	98.2	96.1	92.8	-	-
ppt change	0.1	-1. 6	-2.0	-1.8	n/a		
Net Debt	n/a	n/a	n/a	n/a	n/a	-	-
ppt change	n/a	n/a	n/a	n/a	n/a		
Deficit	-5.9**	-4.2	-2.8	-1.4	-0.3	-	-
ppt change	-0.4	0	0	-0.3	n/a		
Primary Balance	-2.5	-1.2	0.1	1.2	2.2	-	-
ppt change	-0.3	-0.4	-0.5	-1,1	n/a		
CAPB	1.9	1.9	2.0	2.2	2.3	-	-
ppt change	-0.4	-0.8	-0.8	-0.8	n/a		

**It includes financial assistance amounting to 0.1% of GDP

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

Estimate Projections

	2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Real GDP growth	1.4	3.3	3.0	2.9	2.9		
ppt change[1]	0.1	1.3	0.7	-0.1	n/a		
Nominal GDP growth	0.9	3.8	4.0	4.3	4.6		
ppt change1	-0.5	1.1	0.6	-0.2	n/a		
ST interest rate	0.2	0.0	0.0	0.1	0.2		
ppt change	0	-0.2	-0.8	-0.8	n/a		
LT interest rate	2.7	2.1	2.6	1.1	1.1		
ppt change	-0.1	-0.5	-1.3	-2.9	n/a		

[1] Ppt changes since submission of the Comprehensive Growth Strategy November 2014

*Projections for 2015-2017 are included in the 2016 Budgetary Plan. For 2017 and 2018, assumptions are contained in the 2015-2018 Stability Programme.

ANNEX 3: PAST COMMITMENTS – BRISBANE COMMITMENTS

The purpose of these tables is to monitor the implementation of commitments from members' Brisbane growth strategies.

Key Commitments for Monitoring Purposes

The detailed table below is for the monitoring of key commitments, as identified by members. Please complete a table for each key commitment.

• **The policy action:**	Implementation of the fiscal and tax reform measures to promote growth and employment creation		
Detailed implementation path and status	Interim Steps for Implementation	Deadline	Status
	The Fiscal Reform seeks to reduce taxes for all: workers, companies and families and also to strengthen economic growth by stimulating savings and investment through a modern tax system that fosters job creation. 1 – Law 26/2014 of Personal Income Tax and Non-resident Income Tax 2 – Law 27/2014 of Corporate Income Tax 3 – Fine tuning measures in Value Added Tax and excise duties in Law 28/2014	Fiscal reform was approved in 2014 and entered into force in January 2015 as indicated in the Growth Strategy; regulations have been adapted.	Progressive reduction of tax rates in 2015 and 2016. All measures currently under implementation.
Impact of Measure	Simplification of the system and making it more conducive to economic growth by: reducing the tax wage on labour, via personal income tax (PIT), reduction in social contributions, and reduction of withholding taxes to self-employed; reducing the tax wedge on capital, in the Corporate Income Tax. Measures to support self-employment. Incentivize industrial activity, investment in R+D+I, and cultural activities. Shifting taxation towards consumption (VAT). Shifting taxation against environmental damaging activities. Provide stability of revenue. Widen the tax base. The impact of the fiscal reform on growth will result in a GDP increase of 1,14 % in the long run (10 years), and aim at reducing tax impact on growth in the medium run, through consumption and investment and will contribute to job creation (0,57 % in 10 years).		

• **The policy action:**	Advance in the deleveraging process. Facilitating the refinancing and restructuring of corporate debt to help companies experiencing temporary illiquidity. Fostering pre-insolvency negotiation and agreements.		
Detailed implementation path and status	Interim Steps for Implementation	Deadline	Status
	1 –Measures aimed at refinancing and restructuring of corporate debt. 2 – Revamping of the bankruptcy Law. 3 –Measures to promote corporate financing. To facilitate access to banking credit for SMEs and to set the grounds so that direct funding can have a more important role in the medium term.	1 –Royal Decree-Law RDL 4/2014 Already in force 2 – Royal Decree-Law 11/2014. Already passed and in force 3 –Law 5/2015. In force	All measures currently on the implementation phase.
Impact of Measure	1. The main purpose of RDL 4/2014 on urgent matters in relation to Refinancing agreements and Debt Restructuring is to amend the previous Insolvency Law, in order to ease the successful completion of refinancing and debt restructuring processes. The measures aim at fostering pre-insolvency agreements and the preservation of the value of viable but over-indebted corporations 2. Measures on the revamping of the Bankruptcy Law improve the features of insolvency agreements and facilitate the transmission of productive units and businesses as a going concern when liquidating a firm (Royal Decree-Law 11/2014). Insolvency agreements are enhanced by introducing four creditor classes, setting new rules to quantify the value of guarantees and improving majority schemes. 3. Law 5/2015 on promoting corporate finance has been passed. Measures to promote corporate financing include: A specific legal regime for Financial Credit Establishments (EFC) is foreseen. A legal framework is created under the supervision of Bank of Spain, reinforcing their role as an alternative source of funding to traditional banks, which has been significant in consumer financing at sales point. Revision of the legal framework of securitization, making it comparable to the rules applicable in other Member States; enhance transparency requirements and guaranteeing the protection of the interests of the investors; ensure legal certainty by clarifying the applicable rules. Fostering the Alternative Stock Market by facilitating the transition for growing companies to the Stock Exchange (transparency requirements; rules on investor protection). Improvement on debt issuances. Limitations foreseen in the Company Law are eliminated in order to reduce Spanish firms' exposure to bank lending. First, Limited Liability Companies are allowed to issue bonds, subject to the existence of audited financial reports of the last two years. Leverage is limited to twice the		

	amount of own resources. Second, the limitation on leverage of Public Limited Companies is eliminated. Finally, homogeneous requirements on investor protection are established independently of the nationality of the company. Regulation on Crowdfunding. The main aim is to avoid legal uncertainty faced by the increasing number of platforms, mainly generated by the fact that the border between this activity and some regulated activities, such as investment services or payment services is blurred.

• **The policy action:**	Boost employment through regulatory reforms, improvement in training, matching in labour market and other active labour market policies (ALMPs).		
Detailed implementation path and status	Interim Steps for Implementation	Deadline	Status
	1 – 2014-2016 Employment Strategy approved September 2014. 2014 Annual Plan. Employment Activation Program RDL 1/2015. 2 – New reduction in social contributions to boost the creation of permanent employment. The first 500 euros of salary for new permanent employment contracts will be exempt from social security contributions and, in excess of this amount a sliding scale will be applied. This reduction targets the hiring of social groups with more difficulties to access stable employment. Royal Decree-Law 1/2015 3 –Reform in in-job professional training. Royal Decree-Law 4/2015 of march, and Law 30/2015 of September on reform of Professional Training. This reform aims at increasing the quality of training both for the employed and the unemployed; a better coordination framework; a strategic planning in professional training; promote the creation of stable and quality	Currently on the implementing phase. Mostly during 2015-16	Legislation passed and into force. Activation policies complement the labour reform. The new multiyear scenario provides a common framework for objectives and principles of action for public employment services. Policy guidance is based on compliance, evaluation of results determining the distribution of funds to subsequent years. The Annual Plan for Employment Policy 2014 is based on cooperation, common objectives; transparency and sharing of information available. Law 30/2015 of 9 September regulating Professional Training in force.

	employment; contribute to corporate competitiveness; provide employability and career development for workers; consolidate training and lifelong learning practices.		
Impact of Measure	With a clear results-oriented strategy, its main targets are to enhance labour market efficiency, reform of the public employment services and launching new tools to fight duality and to facilitate inclusion in the labour force of the youth, elderly and long term unemployed. In 2014 and 2015 Spain is at the forefront of unemployment reduction and employment creation in the Eurozone, albeit from a very high level unemployment level. This shows the positive impact of the 2012 labour market reform and subsequent measures. Employment Activation Program RDL 1/2015: impact on growth is estimated to result in a GDP increase of 0,35% and will contribute to 1,18% in job creation in ten years. Royal Decree-Law 1/2015: impact on growth is estimated to result in a GDP increase of 0,19% in ten years.		

• **The policy action:**	Implementing and developing Market Unity measures to increase competitiveness of national companies.		
Detailed implementation path and status	Interim Steps for Implementation	Deadline	Status
	The programme is based on several lines of action. In 2013, the Law on Market Unity was passed (*Ley 20/2013*) with the aim of addressing internal market fragmentation for product and service markets and reducing business licensing requirements and other administrative burdens. 1 – Creation of the Council of Single Market to include representatives from the State, the Autonomous regions and Local authorities. 2 – Screening process. 3 – Resolution mechanisms 4 – Technical instruments to guarantee cooperation among administrations.	1 – The Council was created in January 2015. 2 – More than 100 sectorial regulations adapted or amended. All the remaining in the drafting phase 3 – Completely in force. 4 –E-Platforms operative.	A comprehensive plan was developed to ensure an ambitious implementation of the Law on Guarantee of Market Unity at all levels of administration. Significant progress has been reached. More than 100 State regulations have been adapted in 2014 and 2015. In 2015, 36 priority State regulations have been selected for their adaptation. As a result of the revision of regulation at the regional level, more than 85 regulations have been already amended. More than 25 Sectoral Conferences have been convened to accelerate this work at the regional level. The

			council of Ministers is closely monitoring and encouraging the whole process.
Impact of Measure	The programme is designed to increase the productivity of investments as excessive and disperse regulations hampers effective competition and prevents exploiting economies of scale of operating in a larger market. This discourages investment, reduces productivity, competitiveness, economic growth and employment and is therefore a cost to citizens in terms of welfare. The Law will translate into a permanent reduction in administrative burden for economic activity. The impact on growth is estimated to result in a GDP increase of 1,60% and will contribute to 0,85% in job creation in ten years.		

• **The policy action:**	Enhancing the efficiency and quality of public expenditure. Implementation of measures of public administration reform		
Detailed implementation path and status	Interim Steps for Implementation	Deadline	Status
	1 –222 actions identified in the Commission for the Reform of the Public Administration (CORA) report 2 – Annual Report on the Reform of the Public Administration (with quarterly updates). 3 – Legislation and regulations. (Some of the) most relevant next steps: Law on Public Administration and the Law on Common Administrative Procedure. Law on Public Procurement. ICT and Digital Strategy. Laws for a more efficient judiciary administration.	1 - Currently on the implementing phase. Mostly during 2015 2 – Published January 2015 3 –Law 40/2015 on Public Administration and Law 39/2015 on Common Administrative Procedure for Public Administration in force October 1, 2015.	CORA was created to deliver the most important review of the Spanish public sector in decades. By the end of 2015Q2, 76% of the actions already implemented. Most of the remaining being at an advanced stage in the process of implementation.
Impact of Measure	A competitive economy requires modern, transparent and expeditious public administrations. The OECD acknowledges that the broad public administration reform plan in Spain is one of the most advanced and ambitious, given in particular the high degree of decentralisation of competencies, and an important positive influence for growth. Steady savings and greater efficiency is being generated as all the mechanisms are deployed and the necessary legislation is passed. It is playing an important role in fiscal consolidation efforts. The Law on Public Administration introduces an important reform on public procurement: the reform of compensation upon early termination of concession to establish adequate risk sharing. In addition the law will reduce the Administrations´ contingency liabilities.		

	Spain is now ranked 12th in the United Nations global E-Government Survey 2014 of the UNPAN of more efficient, transparent and accountable e-governments. The impact on growth is estimated to result in a GDP increase of 1,66% and will contribute to 0,27% in job creation in ten years.

• **The policy action:**	Reduce inflation inertia by limiting indexation in the public sector. Dis-indexation policy		
Detailed implementation path and status	Interim Steps for Implementation	Deadline	Status
	Spain has undertaken a dis-indexation policy through the implementation of several measures in various sectors of the economy. The dis-indexation policy seeks to establish a rational new price revision system, consistent with a low inflation economic context and, thus, allowing an efficient allocation of resources and not distorting the price system. Law 2/2015 on dis-indexation of the Spanish economy, approved in March 2015.	This policy has been culminated by the horizontal approach of the law 2/2015 on dis-indexation of the Spanish economy, which was approved in March 2015.	The Government is currently working on the regulatory development of the law, which is expected to be completed in 2015, 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.
Impact of Measure	This reform eliminates indexation practices in the public sector, setting a benchmark for the private sector to avoid a continued loss in competitiveness due to cumulative price differentials with the rest of the EMU, which is a negative factor for growth and employment. The objective is that the price system correctly transmits signals to the economic agents, which will ultimately result in efficiency gains.		

Other Brisbane Commitments

This table is for the monitoring of other Brisbane commitments (non-key commitments). Please complete a table for each commitment.

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

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

ANNEX 4: PRE-BRISBANE COMMITMENTS

Please include a maximum of 5 important structural reform commitments from Action Plans prior to Brisbane. Please also include all relevant monetary and exchange rate commitments. Fiscal commitments will be accounted for in the St. Petersburg Fiscal Template in Annex 2.

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

Economic Structural Reforms
Public Sector Reforms
Financial Sector Reforms

Labour Market Reform	
Structural reform: labour market	**Action Plan**
Rationale for carrying forward	*The 2012 Spanish labour market reform was approved in 2012. Subsequently, several legal provisions were introduced in order to implement the reform. The reform modified several aspects of the Spanish labour market regulation, including collective bargaining rules and collective and individual redundancy procedures and costs.* *The objective of the reform of collective bargaining was to restore competitiveness by aligning labour costs more closely to productivity and allow easier internal flexibility for employers in the presence of adverse company shocks.* *The objective of changes with respect to dismissal legislation was to make the labour market more dynamic and less segmented, thereby increasing productivity growth and reducing the share of precarious jobs.*
Update on Progress	*The new regulatory framework has reduced the minimum GDP growth needed for net private sector job creation, while maintaining productivity growth. The lag between GDP growth and employment creation has diminished to one quarter.* *The reform had a positive impact on unit labour costs reduction. Real labour productivity has steadily increased due to the shift from non-tradable goods towards tradable goods and services.* *Employment creation is broad-based. Full-time, open ended contracts have increased. The share of part-time jobs in total jobs has increased, but still remains well below EU average. In contrast the share of temporary contracts has declined to minimum levels, but is above EA- average levels.* *The impact on growth is estimated to result in a GDP increase of 4.74% and will contribute to 10,34% in job creation in ten years.*

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

Update on Progress	*Implementation of the reform has been steadfast. Measures included the following: Asset Quality Review and independent stress test; recapitalisation and restructuring; transfer of assets to a new asset management company (SAREB) for recapitalised banks; new frameworks for bank resolution, regulation and supervision; savings banks reform; reform of the insolvency regime; stricter criteria on forbearance; additional provisioning requirements; improving access to market-based finance, especially SMEs.* *Next steps will include completion of the reform for the savings bank sector; transposition of the Banking Recovery and Resolution Directive & Deposit Guarantee Directive.*

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

Budgetary Stability and Sustainability Reform	
Structural reform: Stability and Sustainability	**Action Plan: Fiscal discipline principles at all levels of public administration**
Rationale for carrying forward	*Implementation of Constitutional reform (Art 135). The Organic Law of Budgetary Stability and Financial Sustainability (LEP by its Spanish abbreviation) was approved in 2012 and it includes a transitory period to 2020. The Law sets three types of restrictions on general government: not to run a budget deficit in structural terms; public spending to be at most that of the economy´s potential growth; and public debt/GDP ratio not to exceed 60%.*
Update on Progress	*The reform has marked a substantial improvement in updating the framework of budgetary rules. It includes institutional elements identified by the European Commission as best practices: enshrinement in the Constitution, setting quantitative limits on the structural deficit, debt targets, a public spending rule, surveillance*

	and control procedures, improved transparency on general government conduct and explicit inclusion of the cross-government non-bailout principle. *The Commission for the Reform of the Public Administration (CORA) was set up to increase efficiency.* *An independent fiscal institution (AIReF) tasked with fiscal policy analysis, advisory and monitoring functions to ensure government compliance was established in 2013.*

Pension System Reform	
Structural reform: pension system	**Action Plan:**
Rationale for carrying forward	*The 2011 pension reform extended the retirement age form 65 to 67 years; more years of contribution (to 25) to compute initial pension and more years (35) to full pension.* *The 2013 pension reform (Law regulating the Sustainability Factor and Pension System Revaluation Index) added sustainability factors for new pensions, and determined an index for annual nominal growth of the public pensions*
Update on Progress	*In December 2013 the Pension System Reform was approved. It introduced two sustainability factors to which pensions will be linked:* *- A yearly update factor which links pensions to the financial situation of the pension system, to the number of pensioners and to average pension* *- Life expectancy factor; will enter into force in 2019 and will be evaluated every 5 years.* *Projections towards 2030-2060 point towards a stabilisation in gross expenditure in public pensions.* *A guarantee has been made to ensure pensions are not frozen or lowered. A minimum increase of 0.25% was approved, which, within a context of very low prices, increases the purchasing power of pensioners.*