COMPREHENSIVE GROWTH STRATEGY:

SPAIN

A. ECONOMIC OBJECTIVES

Current state of growth in the economy

Spain is firmly committed to strengthening its macroeconomic and structural reform agenda through this National Growth Strategy, with the view of achieving the G20 objective of strong, sustainable and balanced growth and contributing to lift G20’s collective GDP by more than 2 per cent above the trajectory implied by policies included in the October 2013 IMF WEO baseline over the coming years to 2018.

Over the last two years, Spain has already adopted a far-reaching program of reforms, structurally changing the economy through an unprecedented process of adjustment and correction of external, fiscal and financial imbalances, therefore contributing to the G20’s objectives of sustainable and balanced growth. Through these ambitious reforms, the Spanish economy has gained efficiency, flexibility and ability to compete globally.

Results have already come: The Spanish economy started to grow in the last two quarters of 2013, and continued growing in the first three quarters of 2014. Structural reforms implemented increase the effectiveness of demand-side economic policies, with positive impact on potential economic growth.

Labour market data has been showing net year-on-year job creation for a number of months. In the third quarter of 2014, employment increased by 151,000 persons compared to the previous quarter, resulting in a year on year job creation of nearly300.000 jobs (+1,6%). Unemployment was reduced by more than 500.000 (-8,7%), despite modest economic growth, confirming the positive trend that started in the second half of 2013. Unemployment rate dropped to 23,7%, a reduction of 2pp from last year. Thus, Spain´s new labour market regulation allows for job creation from lower economic growth (1%), as opposed to previous patterns where higher growth was necessary.

The economy is rapidly regaining external competitiveness, as shown by the strength of our exports, the current account balance, and the evolution of the main price indicators, signalling the structural adjustment of the current account balance and the closure of the productivity and cost-gap built up during the initial years of the previous decade, through wage moderation and enhanced flexibility mechanisms. The financial sector has completed a deep restructuring and recapitalization process, and is today in a much more robust and resilient position to provide financing to the economy. The positive completion of the Comprehensive Assessment and the steps towards banking union are also key to allow the financial sector to contribute to growth.

Confidence is back and the recent evolution of the risk premium, the change in financing conditions and the latest economic confidence indicators attest to this (August 2014’s indicator of consumers’ confidence has shown an annualized rate of increase in relation with the same month a year before of 27.8% and reaches 87.7).

The correction of the fiscal position is taking place in line with the committed path in a growth friendly manner. The 2014 deficit target has been revised down to 5.5% in April. The tax reform of 2014 aims at reducing taxation on labour, to strengthen competitiveness, to promote saving and investment, and to modernise Personal and Income Tax, while reinforcing the fight against tax fraud. The positive economic effects and efficiency gains on the expenditure side of tax reform dominate lower implied tax collection due to cuts in effective tax rates.

Short-term economic objectives

The Spanish economic short-term objective focuses on two mutually reinforcing action paths: implementing and deepening the structural reforms, and favouring a sustained and balanced economic recovery and job creation. To achieve this, five priority areas have been identified, also in line with EU policy objectives: (i) pursuing differentiated, growth-friendly fiscal consolidation; (ii) restoring lending to the economy; (iii) promoting growth and competitiveness for today and tomorrow; (iv) tackling unemployment and the social consequences of the crisis; and (v) modernizing public administration. By laying down the foundations of stronger potential growth and reducing the negative cyclical impact, this action plan will contribute to G20 objective of strong growth.

Medium-term economic objectives

The macroeconomic scenario for the years 2014-2017 predicts that the recovery that began in the second half of 2013 will strengthen and will be followed by a period of continuous growth. It displays a change to a sustainable, balanced and job creating economic growth model. As a reflection of the structural change in the Spanish economy the new economic pattern anticipates a net lending capacity external position. In 2013 the economy registered a surplus in the current and capital accounts equivalent to 1.5% of GDP which is estimated to rise to around 2.5% in 2017. External demand plays and will continue to play an important role as a driver for growth, thanks to reforms in factors markets and in goods and services markets that have allowed for important competitiveness gains, even though internal demand may retake its role with an expansion in private consumption and investment in capital goods.

The outlook for the economy is founded on the prospects enhanced for job creation, the positive tone of consumer and corporate sector´s expectations, continuation in price and wage moderation, a gradual improvement in financial conditions for household and businesses, and a dynamic external sector.

In the years that lie ahead, the reform momentum will be maintained and Spain will continue correcting accumulated past imbalances. Fulfilling the objective of reducing fiscal deficit is a priority, in line with the foreseen fiscal consolidation path. In 2013 the economy achieved structural primary surplus (+2.2% of GDP) for the first time since 2007. Debt to GDP will peak in 2015, and a primary surplus is to be reached in 2016, reversing the Debt to GDP trajectory.

Microeconomic reforms will continue to be implemented during the next years allowing for productivity gains and enhancing job creation, which in turn will increase growth potential and, ultimately, reduce imbalances and contribute to the objective of a strong, sustainable and balanced growth.

Key Commitments

1. Fiscal reform
2. Public administration reform
3. Market unity reform
4. Insolvency reform, refinancing and restructuring of business debt
5. Dis-indexation law

B. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

Current and Future Growth Prospects

	Key Indicators					
	2013	2014	2015	2016	2017	2018
Real GDP (% yoy)	-1.2	1.3	2.0	2.5	3.0	n/a
Nominal GDP (% yoy)	-0.6	1.4	2.7	3.4	4.5	n/a
Output Gap (% of GDP)*	-9.5	-8.5	-6.5	-4.1	-1.4	n/a
Inflation (%, yoy)	0.9	0.2	0.6	1.3	1.6	n/a
Fiscal Balance (% of GDP)**	-6.3	-5.5	-4.2	-2.8	-1.1	n/a
Unemployment (%)	26.1	24.7	22.9	21.7	19.8	n/a
Savings (% of GDP)	19.0	19.3	19.9	20.4	21.1	n/a
Investment (% of GDP)	18.2	18.0	18.2	18.6	19.4	n/a
Current Account Balance (% of GDP) ***	1.4	0.9	1.1	1.7	1.8	n/a

*** A positive (negative) gap indicates an economy above (below) its potential.**
**** A positive (negative) balance indicates a fiscal surplus (deficit). Financial one-off package not included**
***** Capital account surplus (0.7%) not included.**

The Spanish economic strategy is fully in line with the policies committed within the European Monetary Union, and included in the Spanish National Reform Programme 2014 (NRP), published on April 30. The NRP´s and most recent Draft Budgetary Plan's Spanish economy projections predict above potential growth throughout the period, even as potential growth is increasing (from -0.2% in 2014 to 0.5% in 2017). Labour will reduce its negative contribution which is expected to be positive for 2018-2022, while capital contribution will strengthen by 0.2 points and total factor productivity will remain in the 0.4-0.5 GDP points range. Thus, the output gap will close progressively and actual GDP will catch up with potential GDP in 2018.

Key Drivers

After five years of negative contribution, the domestic demand will add to growth from 2014 onwards, progressively increasing its weight as the restoration of confidence and the most favourable performance of household income will strengthen absorption. This will also reflect the effects of employment recovery as 2014 will be the first year with net employment creation since the crisis started. However, as shown in the table below, the dynamism of domestic demand is not expected to jeopardize the external equilibrium. Although the external sector will reduce its positive contribution to growth, which has been unusually high due to absorption's reduction, the competitiveness gains in the Spanish economy are mostly structural. The recovery is expected to be based on a reform driven improvement of productive supply and continued strong export growth, thanks to increased competitiveness. Therefore, the increase of the domestic demand will have a lower impact in the balance of payments than in the past. In this sense, we consider that the reduction of global international imbalances would add up to the efforts made by the Spanish economy in increasing its productivity and regaining competitiveness.

From the supply side, one of the main drivers has to be productivity. Recent structural reforms will make TFP increases the main economic growth driver. To this regard, implementation of reforms and constant momentum for structural reforms are one of our commitments.

SPAIN MACROECONOMIC SCENARIO 2014-2017
(% change vs. previous year unless otherwise indicated)
30 September 2014

SPAIN MACROEOCONOMIC SCENARIO 2014-2017					
(% change vs. Previous year unless otherwise indicated)					
SEC-2010					
		Forecast			
	2013	2014	2015	2016	2017
Private consumption Expenditure (a)	-2,3	2	2,1	2,3	2,8
Gross Fixed Capital Formation	-3,8	1,5	4,5	4,6	6,7
Equipment and other products	3,4	7	6	6,2	7,3
Construction	-9,2	-3,3	3,1	3,1	6,1
Domestic demand (contribution to GDP growth)	-2,7	1,4	1,8	1,9	2,6
Exports of goods and services	4,3	3,6	5,2	6,3	6,5
Imports of goods and services	-0,5	4,4	5	5,8	6,3
Net foreign balance (contribution to GDP growth)	1,4	-0,1	0,2	0,4	0,3
Real GDP	-1,2	1,3	2	2,3	3
GDP deflator	0,7	0,1	0,6	1,2	1,5
Private Consumption Expenditure deflator	0,9	0,2	0,6	1,3	1,6
Total Employment (b)	-3,3	0,7	1,4	1,5	2,3
Unemployment rate (% of labour force)	26,1	24,7	22,9	21,7	19,8
Public Sector net borrowing (*) (% of GDP)	6,3	5,5	4,2	2,8	1,1
Net lending with the Rest of the World (% of GDP)	2,1	1,5	1,7	2,5	2,5

(a) Households and Not-for-profit institutions serving housholds
(b) Full-time equivalent jobs

(*) 2013 Public sector net borrowing does not include support to Financial Institutions

Sources: INE and Ministerio de Economía y Competitividad

Assessment of Obstacles and Challenges to Growth

As mentioned above, the Spanish economic strategy for 2014 is the continuation of an intense Government reform agenda already undertaken in 2012 and 2013 and expanded into 2014 and 2015, which has been complied thoroughly so far. However, gaps and policy challenges remain ahead.

(A) On the macroeconomic side, the need to continue to ensure fiscal stability via growth-friendly fiscal adjustment that helps to reduce imbalances is a priority.

(B) On the structural side: (i) It is macro-critical to tackle high unemployment rates, with a special attention given to youth and long term unemployed. Job creation via strong and sustainable growth is the goal. (ii) We see the opportunity for a better access to finance for the private sector and further repairing of households and companies' balance sheets that will potentially increase growth through investment, while the housing sector continues to stabilise. (iii) Improving the net external stock position and eliminating policy gaps in this area will be addressed by persevering in structural policies that aim at reducing competitiveness gaps and productivity gaps by trade policy and competition policy. In the short run, global economic developments and European developments are also a key back-up to address the aforementioned gaps. In this sense, a lack of demand rebalancing and low inflation may hamper the unwinding of imbalances.

(C) A major challenge for the economy over the long term is population ageing and the associated problems in the labour market (labour supply) and subsequent financial pressures to the public pension system which will require continuing the current efforts. On the same page, in the long run Spain is committed to increase its potential growth and recent structural reforms reflect that fact.

C. POLICY RESPONSES TO LIFT GROWTH

The achievement of budgetary stability has been central to economic policy in Spain since 2012 as it is a necessary condition for sustainable economic growth and job creation. The achievements in this area over the last two years have helped regain confidence of the economic agents in the Spanish economy and have allowed for an improvement in financing conditions. The development of structural reforms has helped as a complement to lift potential growth. In this sense all the reforms aim at reducing policy gaps and generate a strong, sustainable and balanced growth. Spain has developed one of the most intense structural reform agenda since the outburst of the crisis, and the measures specified here continue to reflect the commitment of the authorities with growth.

New Macroeconomic Policy Responses

Fiscal policy

Spain is deeply committed to preserving the sustainability of public finances in the medium term, as proven by a solid track record of deficit reduction in 2012 and 2013, in line with EU fiscal governance rules and targets. The fiscal effort pursued by all Government levels has been among the highest in advanced economies. Spain has also greatly enhanced its overall fiscal framework by reinforcing discipline, control and transparency, with a number of actions including the introduction of a constitutional fiscal rule (which limits the debt-to-GDP ratio to 60% and requires a balanced structural budget), and a reform aimed at guaranteeing the long-term sustainability of the pension system. Looking forward, the consolidation of public accounts and the achievement of budgetary stability will continue to be central to economic policy in Spain. Fiscal policies will be designed to ensure that the nominal deficit falls below 3% by 2016. The main action in this regard is the fiscal reform approved in August 2014, which will enter into force in January 2015. A new Independent Fiscal Responsibility Authority began operations in July 2014, Other measures envisaged include continuing with the ongoing efforts to enhance the transparency of the economic and financial information and eliminating late payments within the administration.

Key policy actions[1]

(i) Fiscal reform:

The Government is undertaking a comprehensive tax reform that, while enhancing revenue collection capacity, allows for the promotion of growth and employment. This reform was approved by the Council of Ministers in August 2014 and will modernize the tax system in accordance with international best practices and will be designed to boost employment and correct low revenue collection. It will enter into force in January 2015.

This structural reform seeks to reduce taxes for all: workers, companies and families and also to strengthen economic growth, stimulate savings and investment through a modern tax system that fosters job creation.

The average Personal Income Tax reduction will amount to 12.5%. Moreover, 72% of taxpayers, those with an income lower than 24,000 euro/year, will have an average reduction of 23.5%. The number of income tax (IRPF) brackets will be reduced from the current 7 to 5. The tax rate of the lowest bracket will stand at 20% next year, dropping to 19% in 2016. The tax rate of the highest bracket will stand at 47% in 2015, dropping to 45% in 2016. Those citizens that have total income from employment of less than 12,000 euro/year will be exempt from paying PIT. Finally, the so-called 'negative taxes' will be extended, including direct aids from the Treasury and earmarked for certain groups, such as large

[1] A detailed budgetary impact of the reforms can be found in Annex 5 of the Spanish Draft Budgetary Plan 2015

families and families with dependent children and disabled members. New social protection vehicles are created while maintaining aid for working mothers. In each case, €1,200 per annum may be received in advance, at a pace of 100 euro per month. These 'negative taxes' will be accumulative.

Corporate Income Tax: the general tax rate for Corporate Income Tax will be reduced from its current 30% to 28% in 2015 and to 25% in 2016. A business capitalization reserve will be created, meaning that companies can earmark a tax-free provision to own resources of up to 10% of the profit made in the tax year, which will be used to promote business self-financing and reduce dependency on outside sources. In the case of SMEs, a levelling-down reserve is created whereby an additional reduction of 10% in the tax base can be enjoyed, up to a limit of 1 million euros. The reduced tax rate for new entrepreneurs will be maintained at 15%.

(ii) Enhancing the efficiency and quality of public expenditure

A competitive economy requires modern, transparent and dynamic public administrations. The Commission for the Reform of the Public Administration (Comisión para la Reforma de la Administración or CORA) was created in 2012, and has delivered the most thorough review of the Spanish public sector of the last decades. Actions identified by the CORA report have been and are currently being implemented. By 2014 an estimated 50% of all the measures will be completed. The following should be highlighted:

- The future Law on Public Administration and Common Administrative Procedure directed to making the regulation of the Spanish Public Sector organization clear and coherent.
- The reform of the General Law of public grants in order to reinforce the transparency in the concession of grants; limit public financing of certain modalities of private spending; eliminate duplicities, among others.

Additionally, new measures to improve the efficiency in the management of the Government's liquidity, to streamline and eliminate duplicities, to increase efficiency in public employment structure and management, to impulse electronic administration, and to reduce administrative burden, will be taken. Moreover, in 2014, the local administration adaptation process to the new model defined by the 2013 law on Rationalization and Sustainability of the Local Administration will be completed.

Reform of public administrations: reform to control commercial debt and avoid public sector arrears. In addition, work will continue to enhance the transparency of the economic and financial information and eliminate late payments within the public administration through the current implementation of electronic billing and the law on commercial debt control passed in December 2013.

In order to maintain the momentum in June 2013 the Office for Execution of the reform of Public Administrations, OPERA, has been created, whose main objective is to safeguard the execution of CORA measures, and if necessary add more.

(iii) Law regulating the Sustainability Factor and Pension System Revaluation Index

Parliament approved the reform of Pension System on December 19, 2013 and the law came into force on January 1st, 2014. The legal text approved concluded a process that was started with the commissioning of a committee of experts, with the aim of ensuring a consolidated public pension system that would be sustainable over time; that is, to provide a response to the demographic challenges and guarantee sufficient and adequate pensions for pensioners both now and in the future with comparable contributions.

The new legislation establishes a new Revaluation Index that guarantees the annual pension increase, setting maximum and minimum levels. As from 2014, the minimum and maximum annual revaluation levels were set, respectively at 0.25% and at CPI plus 0.5% (in a favourable economic environment). The sustainability factor that ties the amount of the pension to life expectancy will be applied as from 2019.

The text also adds control mechanisms that will allow for the impact of the measures implemented to be evaluated. On the one hand, every five years the Government will issue an evaluation report to the Lower House of Parliament and to social partners that will allow the sufficiency of pensions to be verified. On the other hand, the opinion of an Independent Fiscal Responsibility Authority will be sought on the values calculated by the Ministry of Employment and Social Security, both in the determination of the Pension Revaluation Index, applicable each year, and the Sustainability Factor.

Intended impact of policy actions on growth and employment

The first measures of the Fiscal reform will result in a GDP increase of 0.55% in the period 2015-2016 initially, and aim at reducing tax impact on growth in the medium run.

The combined impact of the Reform of the Public Administration[2] for the period 2013-2016 on GDP is 0.58 percentage points whereas the impact on employment for the same period (on employment levels) is 0.20 points.

The Law regulating the Sustainability Factor and Pension System Revaluation Index will add 0.8 percentage points to GDP and employment levels over ten years after implementation (2014). More importantly it addresses one of the main long term gaps in advanced economies, population ageing.

Adjustment facilitation, positive spillovers and global rebalancing

The reform will have the following general objectives: (i) modernizing the tax system in accordance with international best practices; (ii) solving the current problems of the tax system: the tax bias against employment and the low revenue collection; (iii) contributing to fiscal consolidation and job creation; (iv) favouring economic development, ensuring market unity and fiscal neutrality and enhancing the competitiveness of the Spanish economy. The objective is to ensure sufficient tax income and to increase revenue collection by paying special attention to narrow tax bases and to tax fraud, without discouraging job creation. In addition, work will continue to enhance the transparency of the economic and financial information and eliminate late payments within the administration.

Hence, the adjustment of the Spanish fiscal position will firstly preserve the sustainability of public finances in the medium term and provide a solid track for future growth. Moreover, the adjustment of the Spanish fiscal position will reduce the public need of financing, hence adding to the private efforts to reduce external imbalances.

New Structural Policy Responses

Investment

In addition to the policy responses to lift growth included in this growth strategy, restoring lending is essential for the consolidation of economic recovery. The significant improvement in financial conditions and the completion of the restructuring process of the banking sector have paved the way for restoring normal lending to the economy.

The fall in aggregate lending and investment in Spain in recent years is consistent with the need for continued deleveraging. Therefore, policy efforts in Spain focus on creating the appropriate framework and investment climate, with particular attention to SMEs, to ensure that new investment is directed to the most productive uses and that growth is lifted in the long run.

The Government wants to foster this process and to provide alternative funding sources for economic agents. To achieve that goal, Spain is focusing its efforts in improving its investment environment and measures will be taken to facilitate both bank financing, particularly for SMEs, and non-bank financing sources.

The rationale for promoting non-baking financing sources lies in the fact that Spanish SMEs, as most European SMEs, have mostly relied on bank financing. This dependency, which accounts for about 70% of their total financing, can pose problems when banks are going through a difficult moment in terms of prudential requirements, lack of confidence or macroeconomic developments. Diversifying the financing channels would endow SMEs with greater financing stability and improve their financing conditions. Furthermore, bank financing has often been less prone to reach youngest start-ups or new businesses, focusing only in companies with mid to high capitalization. Bank financing for investment in technology, training, communication and innovation, is usually restricted as it faces more difficulties in providing real guarantees.

[2] See Annex III of the Spanish National Reform Program 2014 for details on the assumptions of the impact of each measure.

At the same time, bank financing can and must continue to play an important role in the financing of Spanish companies. The Government has taken several steps to increase transparency and to encourage the strengthening of banks´ balance sheets so that credit can flow again to the real economy. The launch of the European Banking Union on 4th November will join all these efforts to dissipate doubts about banks at EU level and to eliminate financial fragmentation.

1. Investment climate

Key policy actions:

Spain is taking several steps to improve its investment environment:

(i) The "Law on Entrepreneurship and Internationalization". It foresees the development of public opinion surveys about business climate and smart regulation, the conclusions of which will be incorporated to the Strategic Plan for the Internationalization of the Spanish Economy 2014-2015. The idea is to publish periodically this information and exchange better regulation practices in the Ministry of Economy's working groups in order to inform policy actions, foster regional competitiveness and enhance transparency.

(ii) Subnational Doing Business. In collaboration with the World Bank a Subnational "Doing Business" report will be carried out to capture differences in business regulations and their enforcement across regions in Spain. It will provide data on the ease of doing business, identify best regulatory practices, and recommend reforms to improve performance in each of the indicator areas.

(iii) International mobility program. Starting in 2014, Spain has streamlined the procedures to allow international mobility of investors and professionals. This is already facilitating the setting of investors, entrepreneurs, highly qualified professionals, researchers and company relocations.

(iv) A Regulation streamlining plan on "Market Unity". As a development of the "Market Unit Program" and to guarantee full implementation to the Law on Market Unity, this plan will go further with the detection and removal of regulatory barriers to the internal market, analyzing the legislation at national and regional levels and, when necessary modifying them. In a first stage, during 2013, Ministries have carried out an identification and evaluation of pieces of legislation to be simplified and adapted to the new framework, grouped into 29 economic sectors. Now, a second stage of the Regulatory Rationalization Plan is being carried out where regional governments are evaluating regional and local rules.

(v) Royal Decree-Law on urgent measures on refinancing and restructuring of corporate debt. It aims at fostering pre-insolvency agreements and focuses on the identification and the preservation of the value of those corporations that are truly viable but at the same time over-indebted. This will help to advance on the deleveraging process required because of the high level of debt of some Spanish non-financial corporations. Among other changes, we can underline the following: once the settlement is judicially ratified, the number of creditors and liabilities than can be affected by a decision of the majority of creditors is now higher; the settlement can involve not only payment deferments, but also haircuts and debt swaps into capital; out of court negotiations are simplified and promoted with the possibility of suspending singular executions for a period of time. This measure also includes the reform of the insolvency administrators´ regime. A new set of principles governing insolvency administrators has already been introduced and its completion is pending on the implementation of secondary regulations. These new guidelines are aimed at improving the quality standards of insolvency administrators, streamlining their appointment to better fit the insolvency administrator to the complexity of the case and striking the right balance between the right set of incentives and a sufficient retribution

(vi) Royal Decree-Law on urgent measures on the revamping of the Bankruptcy Law. Already passed and in force, it improves the features of insolvency agreements and facilitates the transmission of productive units and businesses as a whole when liquidating a firm. Insolvency agreements are enhanced by introducing four creditor classes (labor, public, financial and others), setting new rules to quantify the value of guarantees and improving majority schemes.

(vii) New measures on pre-insolvency negotiations for SMEs and self-employed businesses. The Government is working on a Code of Good Practices to stimulate the refinancing of small and medium enterprises and self-employed businesses. The aim is to standardize proceedings and to create a general framework for the out of court settlements on payments when the company is going through difficulties to comply with its payments in the short term.

Intended impact of policy actions on growth and employment

The "Law on Entrepreneurship and Internationalization" (excluding fiscal incentives) is expected to have an impact on aggregate growth of 0.33 points of GDP over the four years after implementation (2014). The impact on employment level is estimated to be of 0.33 points over the same period.

The "Market Unity Law" is expected to have an impact of 1.68 points on GDP growth in four years' time. The expected effects on employment levels are 1.75 points over the same period.

The Royal Decree-Law on urgent measures on refinancing and restructuring of corporate debt will increase GDP by 1.30 points in the four years after implementation (2014-2017). Employment levels will also benefit from this measure, with an expected rise of 1.50 points over the next four years.

Adjustment facilitation, positive spillovers and global rebalancing

These measures aim to improve investment climate thanks to increased competitiveness of national companies and markets, contributing thus to stronger growth and correcting external imbalances as it boosts the Spanish supply of goods and services.

2. Bank financing

Key policy actions

(i) Law to promote corporate financing. This Law, that will be passed this year, will improve SME rights vis-à-vis credit institutions with the objective of reducing informational asymmetries when SMEs seeks for other sources of funding. Moreover, the legal framework of securitization will be revised with 3 main objectives. First, update the regime of securitizations in Spain, making it comparable to the rules applicable in other Member countries. Second, enhance transparency requirements and regulate the "association of bondholders", guaranteeing the protection of the interests of the investors. Third, ensure legal certainty by clarifying the applicable rules, which are dispersed. Finally, the Law will improve the functioning of the Mutual Guarantee Funds for the SMEs to benefit from a reduction in the cost of funding.

(ii) Modification and simplification of the regime of guarantees for bank credit. SMEs will be able to use a higher range of collaterals, and the movable property register along with the legal regime of the pledge will be modernized, reducing the administrative costs for SMEs.

(iii) Role of the Instituto de Crédito Oficial (ICO). The Spanish Government will increase its budget in 2 billion euro, focusing on the creation of SMEs and companies with an internationalization strategy. In this sense a new guaranty scheme for SMEs has been created of around 12,000 million euro in relation to guaranty schemes of International Financial Institutions. Given that this financing is given through banks, it will boost credit activity, as it did during the first quarter of 2014.

(iv) Reform of the covered bonds regime: A new Task Force has been created with the aim of eliminating certain deficiencies and enhancing the Spanish regime. For instance, the Task Force will review aspects such as asset encumbrance and the transparency and liquidity of emissions.

Intended impact of policy actions on growth and employment

The described policy will help to reactivate bank credit for SMEs, which will have an impact on employment and growth. Thus one possible way to quantify the impact of the package is by examining the evolution of bank credit in the coming months.

The impact of the Law on corporate financing is expected to add 0.62 points of GDP in the period of 2014-2017. The estimated impact on employment levels is 0.57 points over the same time horizon.

Concerning ICO funds and the increase of disposable credit for SMEs, GDP could be increased by 0.10 points and the impact on employment levels could be of 0.07 points over the next four years.

Adjustment facilitation, positive spillovers and global rebalancing

The policy actions described above will be a useful tool to achieve some of the objectives already mentioned in section A. More concretely, facilitating bank credit to SMEs supports the objective of restoring lending to the economy. This is, mainly, a demand-oriented policy with positive spillovers, given that it will increase confidence in the Spanish economy, thus attracting productive investment but at the same increasing imports from other countries. Supply side effects resulting from greater investment should also gradually emerge.

3. Non-bank financing

Key policy actions

The Spanish authorities have designed a package aimed at diversifying the financing sources of SMEs and improving the venture capital framework to promote alternative financing channels to banks as well as reducing credit constraints.

(i) Alternative Fixed Income Securities Market (MARF). It was created at the end of 2013 as a platform where professional investors can acquire bonds issued by solvent medium-sized companies. Similar to other markets in the EU, MARF is set up as a multilateral trading facility, with more flexible requirements and lower costs than regulated markets. Up to date there have been nine bond and commercial paper emissions and we expect that this market will gain momentum in the coming months.

(ii) Venture capital. A law and regulation detailing a package of reforms in this field is expected to be passed shortly. Apart from adapting to the EU Directive 2011/61, which regulates alternative investment fund managers, a new type of vehicle will be created, called venture capital SME. Also administrative burdens that hurdle the creation of capital vehicles will be reduced. Venture capital SMEs will have to invest at least 70% of their assets in SMEs and they will be able to assess these SMEs as well as take part in their activity.

On the market side, Fond ICO Global was launched aimed at promoting venture capital and private equity in Spain. Since its inception late 2013, it has already awarded two tenders: seven tickets awarded to venture capital and another seven to growth capital, mobilizing EUR 4.4 billion of which 437 million belong to Fond ICO Global. A third and fourth tenders will be awarded in November. Its initial results are encouraging as the fund has reinvigorated the Spanish capital market.

(iii) Law to promote corporate financing. The Spanish Parliament will pass this law this year, which includes the elimination of hurdles to debt issuances. The Alternative Stock Market (Escalator Funding Law) will be fostered by facilitating the transition between the Stock Exchange and the Alternative Stock Market. A clear regulation on crowd funding is being subject to public consultation with a view to set up a clear framework that fosters this new way of funding while at the same time guaranteeing a high level of investor protection. A specific legal regime for “Establecimientos financieros de crédito” (EFC) is foreseen. A legal framework is created under the supervision of the Spanish Central Bank, reinforcing their role as an alternative source of funding to traditional banks, which has been significant in consumer financing at sales point. Finally, the Law creates the vehicle of institutional investment fund, only made up of professional investors. Given that these investors require lower protection standards, some requirements such us information provision or the number of investors are made more flexible to better reach the objectives.

Intended impact of policy actions on growth and employment

The Law on venture capital is expected to increase GDP in 0.22 points over the next four years. The effects on employment levels will be of 0.18 points in the same period.

Adjustment facilitation, positive spillovers and global rebalancing

The diversification of SMEs financing sources is key to support the credit channel and will improve the performance of the economy due to its positive effects on financial stability and potential growth. This policy is compatible with the deleveraging process of the Spanish economy, given that total debt of the private sector can go on the downward path.

Employment

Addressing the high unemployment levels, notably youth unemployment, has been and will continue to be one of the top priorities of the Spanish economic policy strategy. The thorough reform adopted in 2012 is already underpinning a deep transformation of the Spanish labour market. Thus, the Employment Strategy launched in 2012, initiated a set of profound and coherent reforms that target both short and long term objectives:

In the short term, the measures focus on stabilizing the labour market amidst an economic crisis, limit employment destruction during downturn and foster fast quality employment creation in the recovery.

In the long term, the measures face high structural unemployment, high long term and youth unemployment, excessive labour segmentation, high volatility of employment, limited efficiency of passive and active labour policies, skills mismatch, ageing labour force and the lack of flexibility of labour markets that erodes competitiveness. The main labour legislation reforms have been already implemented and the emphasis now is on strengthening active labour market policies and promoting quality employment creation and more job opportunities for the young.

Key policy actions

(i) Labor market regulation

Spain has transformed its labour market regulation through a major labour reform (February 2012) that increased internal flexibility within firms, rationalized external flexibility and modernized collective bargaining. This reform was followed by several regulatory developments during 2012. In 2013, a report on the impact of the reform was published by the Government and complemented with an OECD specific report on the same issue. These reports were followed by fine tuning measures and additional measures, such as a part-time contracts reform on December 2013. Monitoring of these developments continues while economic agents get used to the new legal framework that is already delivering positive results.

Among short term measures one should highlight a new open-ended contract for smaller firms with one year trial period (no severance payment) and linked to hiring subsidies.

(ii) Flat-rate National Insurance contribution of € 100 during the first 24 months

It is in this spirit that a new lower flat-rate national social security (national insurance) contribution has been launched. With the objective of promoting net creation of stable employment companies, irrespective of their size, that maintain the net job creation for three years will be able to save up to 75% of the national insurance contribution. The measure, which came into force on February 25th will remain in force for the next 24 months will limit the employer common contingency contribution to 100 euros per month (1,200 euros per year). This reduction, in the case of an average gross annual salary of 20,000 euros, would result in a saving for the employer of 3,250 euros per year in National Insurance contributions for each new job position created.

(iii) Activation policies

Spain is modernizing its activation policies in close collaboration with the Spanish Regional Governments. In 2012-2013 a new programming and coordination framework has been developed through a multi-annual Activation Strategy and Annual Employment Plans. This initiative includes the development of common objectives, strategies and concepts. It creates a new result-oriented framework in which funding is linked to efficiency thanks to common monitoring tools. It includes the sharing and spreading of best regional practices and a common IT system.

At the same time, Spain is introducing regulatory reforms that deliver new tools to impulse the modernization of public employment services towards a more personalized and efficient treatment of every worker:

- The reform of training for the employment and the development of a new vocational training strategy and regulatory framework are essential in the new Activation Strategy and is expected to be in place before the end of 2014. Training priorities will better match firms´ real needs, the selection of providers will be made through open competition, monitoring will be enhanced and online training and the official certification of training will be developed further. These reforms are coherent with basic education system reform, target skill mismatch and encourage permanent training of the workforce. They will ease transitions from education to work and enhance lifelong learning at the workplace.
- The Spanish public employment services are going to count on the private sector specialized firms to ameliorate matching in the labour market. Private firms have been selected through an open, transparent and competitive selection process. A new National employment website will also collaborate in this objective and will enhance labour mobility.
- Spain has restructured hiring subsidies and has introduced an improved design process that includes a better ex ante and ex post monitoring. Several short term hiring subsidies have been

introduced targeting the youth, small firms and open ended contracts.

- Spain also fosters a better targeting and a closer linkage between active labour policies and unemployment benefits. Important developments have already been introduced with the reform of several non-contributory subsidies and the new framework of the PREPARA program that targets long term unemployed.

(iv) Youth employment

The new Strategy for the employment and entrepreneurship was launched in 2013 with 15 short term measures and 85 long term measures. It constitutes the cornerstone of the development of the European youth guarantee in Spain. On July 4th the Royal Decree-Law regulating the National Youth Guarantee System was approved. It ensures that people aged between 16 and 25 that are neither employed nor in training will receive an employment offer, education, apprenticeship or work placement. It introduces the following actions:

- The new Youth Guarantee telematic register and Website, provides a meeting point between young people, the public administration services, companies and all those entities taking part in managing the system. It will provide information on the Entrepreneurship and Youth Employment Strategy and the Youth Guarantee and, the requirements.
- Tax break of up to 300 euros over six months for permanent hiring of people benefiting from the Youth Guarantee. It will be compatible with other permanent employment incentives already in place. This incentive will remain in force until June 30th 2016.
- Increased reduction of social security contributions by companies hiring workers benefiting of the Youth Guarantee, under the dual vocational training contract ("contrato para la formación y el aprendizaje")
- Additional reductions for internships hiring of beneficiaries of the youth guarantee, up to 100% of the social security contribution.
- Extension of the reduction of social security contributions, for a period of up to 12 months, when hiring for a part time job linked to training, unemployed under 30 that benefit from the Youth guarantee.
- New tax breaks of up to 100% of social contribution are established for paid internships by university students (Curricular internships) and vocational training internships, from August.

(v) Active ageing and Social Security sustainability

Spain is fostering the adjustment of the real and legal retirement age so as to face the problems related with a rapidly-ageing population. Additionally to the social security reform, mentioned earlier, a reform on partial and early retirement was introduced in 2013, accompanied by new possibilities to make pension and work compatible for older workers. Furthermore, the inclusion of older than 50 years old in collective dismissals is subject to extraordinary contributions to the Treasury.

(vi) Fight against fraud

A new Plan to fight against fraud and the informal sector has been developed and accompanied with new regulatory developments. The collaboration with fiscal and police authorities has intensified, new IT tools are being developed and penalties have been upgraded. A report on the impact of the new Strategy in 2012-2013 is about to be delivered. The system of collecting social security contributions will be enhanced in 2014 to reduce red tape and increase control and monitoring.

Intended impact of policy actions on growth and employment

The impact of this policy action is particularly designed to increase employment levels and economic growth. Past measures would lead to a much higher job creation given an economic expansion. For the same expansionary shock the scenario under reform yields during 2012-2015 a GDP level 5.63 points higher and a number of total employment 14.35 points higher. This is by large, the highest impact on employment and growth of all policy actions included in this growth strategy.

Additional measures, such as the lower-flat rate for National Insurance contribution will increase GDP by 0.2 points over the next four years. The global effect on the employment level is neutral, as this quality measure is directed to increase the number of open ended contracts (and not the level of employment by itself). Nevertheless, the impact in the first year after implementation will be of 0.1

points on the employment level.

Adjustment facilitation, positive spillovers and global rebalancing

According to the OECD, the Spanish Labour market reform has promoted the internal flexibility of firms and reduced dismissal costs for permanent workers. The reform has contributed to significant wage moderation and increased hiring on permanent contracts. It is therefore contributing to job creation and to the reduction of unemployment. Additionally it supports global aggregate demand, and contributes to sustainable and balanced growth and the reduction of inequalities.

Competition

Spain is implementing an ambitious competition and product reform agenda to raise productivity at firm level, facilitate the ongoing adjustment process, improve the medium and long-term growth potential and further increase competitiveness.

Each measure is designed to tackle specific obstacles in the way to a more competitive and job rich economy. While the reform of the professional services is designed to further open this sector to competition, reducing prices and increasing chances for new jobs, the program on market unity 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. For its part, the Entrepreneur Support Law aims at achieving a more business friendly environment that promotes and assists company creation, and to ensure that viable projects can be fully developed and become international. Lastly, the objective of the dis-indexation law is to reduce inflation inertia by preventing certain “second-round" effects on price formation. To this end, the law reduces the scope of indexation in the public sector and, in particular, prohibits the use of general price indices. This limits the influence on the Spanish economy of major exogenous price shocks and ensures that inflation is closer to the fundamentals of the economy itself.

Key policy actions:

(i) Reform of professional services

During 2014, the Law on Associations and Professional Services will be passed. Its main objective is to provide professional services activities with a common, modern legal framework consistent with the principles of good regulation. This law will help to eliminate barriers that currently hinder unnecessarily access and development of these activities.

The Law will set a new framework for the regulation of professional services based on a general principle of freedom of access and exercise. Restrictions to this principle will only remain where justified in accordance with the principles of non-discrimination, necessity and proportionality. The law will also review the compulsory requirements for the exercise of regulated professions. The goal is to reduce the number of regulated professions and entry barriers, liberalizing the professional services sector, and therefore fostering competitiveness and productivity into the economy. A specialized Commission for the Reform of Professions will be created, with consultancy and proposal capacity. This Commission will have to inform of every new reserve of activity based on its compliance with the principles of this law.

Regarding Professional Associations, the Law will define the professions requiring registration in a Professional Organization (Colegio Profesional) and review the rules on membership fees, transparency and accountability of professional bodies, among other issues.

Up to the Saint Petersburg Summit, Spain had committed to enhance its competition framework through several measures: limiting indexation in the public sector, promoting entrepreneurship and internationalization of companies and ensuring market unity across the Spanish territory, among others. This ongoing process will require new efforts in the coming years, which include:

(ii) Program on market unity

In addition to the already approved law (Ley de Garantía de Unidad de Mercado, LGUM) addressing internal market fragmentation for product markets and reducing business licensing requirements and other administrative burdens will require the following actions:

- Creation of the Counsel of Market Unity Guarantee which will include representatives from the

State, the Autonomous and local authorities regions to boost the law effectiveness.

- Implementation of information sharing systems among different administration layers and an integrated registration.
- A Regulation streamlining plan (see Investment and Infrastructure section).

(iii) <u>Limiting indexation in the public sector</u>

The Disindexation Law (Ley de desindexación de la Economía Española), aims at avoiding the continuous competitiveness loss due to cumulative price differentials with the rest of the EMU, which resulted in lack of growth and employment destruction.

To achieve this objective, the law seeks to reduce inflation inertia by the public sector, and, in particular, by forbidding the use of general price indexes. The law also intends to set a benchmark for the private sector in price formation practices. To this end, the law also creates the Competitiveness Guarantee Index (Índice de Garantía de la Competitividad or IGC) to be used for price updating. The law is currently being discussed in Parliament and the necessary regulation implementation is already being drafted. Indexation schemes in the Spanish legislation, at all levels of the administration, will have to adapt to the new law. Once approved, the law will both limit indexation in the public sector and guide the private sector in its pricing decisions.

(iv) <u>Promoting entrepreneurship and internationalization of companies</u>

The Parliament approved on September 27, 2013 the Entrepreneurship Support Law (14/2013, de Apoyo a los Emprendedores y su Internacionalización, LAEI) which includes measures of fiscal support, financing and internationalization measures, improvement of business climate actions and measures aimed at reducing the administrative burden of companies and at fostering access by entrepreneurs to public sector contracts. In this last regard, during 2014 new efforts will be taken and, in particular, three important measures contained in the Law will be implemented:

- Entrepreneur service point (Puntos de Atención al Emprendedor, or PAE): Special window to assist the entrepreneur and guide him through the different administrative processes and to inform him about activity support measures.
- Fast track to create limited liability societies. The measure was included in the LEAI but its effective application requires new regulations that the Government has committed to put in place during the first half of the year.
- The Law requires the implementation of the one-in, one-out clause, which requires that for every new administrative burden created, another should be eliminated.

Intended impact of policy actions on growth and employment

The reform of the professional services is expected to increase GDP by 0.59 points ten years after implementation while impact on employment level is 0.31 points in the same period.

The Law 20/2013 of Market Unity is expected to increase GDP by 1.42 points ten years after implementation. As a result of this action employment level is expected to rise by 0.75 points in the same period.

Regarding the Law of Disindexation, estimates show that a disindexed economy would benefit more from a positive external shock than an indexed economy. In particular, an increase of 2.5 percentage points in world demand increases GDP by an additional 0,41 percentage points in the case of an disindexed economy, one year after the shock (and employment by 1.05 percentage points) Lastly, the fiscal incentives associated with Entrepreneurship Support Law (14/2013) will increase GDP by 0.28 points and employment levels by 0.15 points ten years after implementation.

Adjustment facilitation, positive spillovers and global rebalancing

The accumulated loss of price competitiveness against other Eurozone countries is one of the factors that have contributed the most to the accumulation of imbalances in the Spanish economy. Measures to increase market competition contribute to increase efficiency and promote growth. Together with its effects on price moderation, enhanced competition in the Spanish markets is key to regain competitiveness, and thus improve our export share, helping in this way to achieve the necessary current account surpluses to reduce the indebtedness of the economy.

Trade

Spain has run persistent current account deficits in the past two decades, mirroring other countries large surpluses, reflecting the build-up in global imbalances. International trade and investment are at the core of Spain´s growth strategy and new economic growth model, aiming at rebalancing its economy and contributing to the larger rebalancing of the global economy.

Spain has experienced a sizeable improvement in the current account balance and has reached a surplus of 0.7% in 2013, coming from a deficit close to 10% of GDP in 2007. Even though this has happened in a context of significant reduction in internal absorption, this improvement has been driven to a great extent by solid export growth which can be related to a significant structural recovery in cost and non-cost competitiveness, and by shifts in demand composition.

From the investment perspective, net FDI reached €15.5 billion in 2013 from the -€3.91 registered in 2012, reflecting a major improvement.

Key policy actions

Trade is central in the Spanish economic agenda, where efforts to increase Spain´s competitiveness through structural reforms are resulting in stronger exports, sustained international share in global exports and the restoration of international attractiveness.

Key policy actions for 2014-2015 are contained in the Strategic Plan for the Internationalization of the Spanish Economy approved by the Spanish Government in February, 28 2014. It comprises 41 internationalization measures in the fields of market access, business climate, access to finance, trade promotion, human capital and innovation. It includes more than 30 relevant indicators to monitor its implementation. A summary of policy actions of the Plan is presented in Annex 2.

As a member of the European Union, Spain actively supports the EU trade agenda. The WTO remains the primary negotiating forum on global trade rules. Spain, within the EU, remains firmly committed to the successful conclusion of the Doha Development Agenda. In parallel to multilateral initiatives, further business opportunities are being created by the negotiation of plurilateral agreements for increased openness in trade of environmental goods, information technology goods, services and international public procurement. Finally, Spain is also actively supporting the bilateral trade agenda of the EU, with several ongoing negotiations at different stages.

Moreover, a rapid and ambitious implementation of the Trade Facilitation Agreement reached in Bali is vital, and can save significant amounts of red tape and costs for trade around the world, in particular for SMEs. Spain as the rest of EU member countries, assumes all compromises of the Trade Facilitation Agreement as *category A* commitments, i.e. applicable as of entry into force of the Agreement. Spanish customs authorities are committed to apply high standards, including many articles that could only be included in the TFA as *best endeavour clauses.* Spanish Customs authorities are currently working to develop a Customs Single Window together with other EU authorities. In addition, they cooperate with the EU in the negotiation of mutual recognition agreements in the field of Authorised Economic Operators.

In the field of services, previously mentioned reforms, namely the labour and financial sector reform, and competition policy are having an important impact in Spain´s price and non-price competitiveness. The latest OECD Service Trade Restrictiveness Index (STRI), shows that Spain has a lower STRI than the average in 15 out of 18 sectors, especially in distribution, banking and construction services, reflecting increased competition and competitiveness.

Measures for the improvement of the business climate have already been described previously. Although not solely oriented to international operations, the measures in this area will have a particular impact on international trade and investment. They will help the Spanish economy to benefit from the progressive opening of world markets by streamlining and simplifying procedures to do business in Spain. Measures incorporated in the Strategic Plan to Internationalize the Spanish Economy 2014-2015, building on the Law on Entrepreneurship and Internationalization of companies will help to broaden the Spanish exporting business base -in particular SMEs-, diversify foreign markets, and will facilitate foreign companies and workers presence in Spain. Among other, the following policy actions can be highlighted:

- Improved regulation where it hinders business and external trade (see section on investment).
- Improved international mobility of investors through a specific program directed to entrepreneurs,

researchers, highly qualified professionals and intra-company transferees, facilitating foreign businesses' activities in Spain, as well as the internationalisation of Spanish companies abroad.

- Establishment of a global information window to support companies in its internationalization process. It already channels/directs information on available instruments in the area of internationalization towards eight different institutions
- Facilitating SMEs access to opportunities in global markets, with specific actions aiming at initiating SMEs to exporting activities, and human capital formation in trade activities and internationalization.
- Improving companies' access to emerging and fast growing economies and diversifying Spanish export markets from more traditional markets, such as the EU.
- Fostering innovation: among others a special program to facilitate direct investment in the IT sector in Spain.
- Establishing a periodic private sector consultation mechanism, to reinforce the reach out efforts to the Spanish business community and therefore the B20.
- All these commitments will be regularly monitored through a given set of indicators, described in annex 2.

Finally, to fully benefit from the potential gains offered by global trade, the G20 must ensure that goods, services, foreign investment and international procurement markets remain open. Within the EU, Spain actively supports the G20 standstill and roll back commitments, and the monitoring mechanisms put forward by the G20.

Intended impact of policy actions on growth and employment

The main objective of the above mentioned measures is to ensure a positive contribution of the external sector to economic growth and qualified job creation, allowing for a more sustainable growth, and to do so in a structural manner, in order to increase the resilience of the Spanish economy in the long run. A dynamic external sector is already one of the pillars of a sustainable growth model and an engine of job creation in Spain.

Previous chapters have already indicated impacts on GDP derived from actions to improve business climate. Moreover it is worth pointing out, as a mere example, that studies on the common EU trade policy have estimated that gains from concluding the current ambitious EU trade agenda would result in GDP growth of 2 per cent EU and approximately two million new jobs [3] for the whole European Union.

Adjustment facilitation, positive spillovers and global rebalancing

Policy actions in trade will help to correct external imbalances and reduce vulnerabilities of the Spanish economy. As the Strategic Plan to Internationalize the Spanish Economy, focuses on internationalization efforts towards emerging and fast growing economies, it also addresses Spain´s largest bilateral trade deficits, contributing to global rebalancing.

Other measures

(i) Education and human capital

The Law for the Improvement of Educational Quality (LOMCE) entered into force in 2014, with a projected gradual implementation. This Law is expected to reduce early dropping out from the school system and to adequate the education methods to the capacities of students, among others.

(ii) Research and development and new technologies

The Government is aware of the importance of research, development, innovation and new technologies on long-term economic growth and gains on competitiveness. In 2014 the budget for R+D+i has been increased by 6.4% for the first time since 2009, and it has been increased again

[3] http://trade.ec.europa.eu/doclib/docs/2013/april/tradoc_151052.pdf

another 4,8% in the budget for 2015. The aim is that private investment in this field steps up from 0.60% en 2014 to 1.2% of GDP in 2020.

Moreover, measures to support our budget effort have been designed: increase the quality and quantity of human resources devoted to these activities; we are going to create a National Agency to increase the efficiency of public resources on R+D+I; a new system of specific financial instruments and fiscal incentives to increase private investment; and more collaboration with our European partners.

(iii) Justice

The main objective will be the reduction of the delays in dispute settlements. To this aim, measures will focus on increasing efficiency, flexibility and agility of the judicial system. For instance, a Provincial Lower Courts will be created to optimize the resources and to better distribute the different issues. If a case does not involve a dispute but the intervention of a judicial body is required, then the process will be simplified.

ANNEX 1: ST. PETERSBURG FISCAL TEMPLATE — UPDATE

1. Update on Fiscal Strategy

Spain’s fiscal strategy for achieving a sustainable debt-to-GDP ratio has not changed since the last submission. It is governed by the Organic Law for Sustainability and Budgetary Stability (2012) in accordance with the Stability and Growth Pact (SGP), a rule-based framework for the coordination of national fiscal policies in the European Union.

The new projections for the -Debt-to-GDP ratio are contained in the common macroeconomic scenario of the 2015 Draft Budgetary Plan, which is complemented by the Stability Programme and the National Reform Plan, the two main documents in the design of economic policy, which set targets, measures and timetables. The two documents´ latest version covering the period 2014-2017 were released on April 30th, while the Draft 2015 Budgetary Plan was presented on October the 15th.

In 2013 the debt-to-GDP ratio increased almost 7.7 percentage points to 92.1%, compared with an increase of 15.2 points registered in 2012. This lower ratio increase is due to a reduction in the financial transactions carried out by the State compared with those carried out in the preceding year (restructuring and bank recapitalization and liquidity provision to regional governments to finance their payments to suppliers). In particular, in 2013 the impact on the government deficit of the aid to financial institutions was 3.2 GDP points lower than in 2012. In addition, there was a repayment of net liabilities embodied in other accounts payable by the general government up to 0.9% of GDP, thus exerting a lower upward effect on the state financing needs of 1.8 points than in 2012.

At the end of 2014, public debt is forecasted to represent 97.6% of GDP, 5.5 points higher than in late 2013. This increase is mainly explained by a deficit for 2014 of 5.5% of GDP. In addition, a deficit-debt adjustment of 1.7% will be added (substantially offset by the increase in nominal GDP, with an effect on the debt-to-GDP ratio of -1.6 points). In 2014, reduced requirements of net issuance by the Treasury (6 billion euros) will alleviate pressures on the debt level (from 65 billion to 59 billion). This has been possible mainly due to the decline in bond yields.

The path of public debt is slightly higher than projected in the previous update of the Stability Programme (which informed the St. Petersburg Fiscal Template), especially as a result of the deviation of nominal GDP levels. Debt as a percentage of GDP will reach its maximum level in 2015 and from 2016 it will begin a downward trajectory, falling below 100% at the end of the forecast period.

Regarding the budget balance, the projected deficit has been slightly revised. Public deficit in the base year, 2013, is 0.1 percentage points higher than proposed in the St. Petersburg Fiscal Template of GDP as a result of both the downward revision of nominal GDP in 2012 and the lower than expected deflators growth.

With the objective of further balancing the necessary fiscal effort to achieve the medium term deficit target, the Government sets a public deficit for 2014 of 5.5% of GDP, compared to 5.8% required. The conservative economic forecasts and the firm commitment of the Government to allocate the effects of increased growth to deficit reduction, make compliance feasible. For 2015 and 2016 targets of 4.2% and 2.8% of GDP are maintained. The deficit projection for the last year of the period places the path of deficit reduction at 1.1% of GDP. Achieving these objectives will require further structural deficit efforts. In 2013 a structural primary surplus of 2.2% of GDP has been achieved for the first time since 2007. This surplus will continue to grow to 3.0% of GDP at the end of the program period.

Progress in fiscal consolidation in the last two years and the ones projected in the following years will allow achieving a primary surplus of 0.6% of GDP in 2016, which will be expanded to 2.3% of GDP in 2017. As already mentioned advances in public deficit consolidation will reduce the growth of public debt and reverse the trend from 2016, having peaked in 2015.

Based on complementary metric, the effort to be developed in the coming years is very substantial. For the period 2014-2017 changes in the cyclically adjusted primary balance, used as a rough indicator of the stance of fiscal policy, are estimated at 2.0, 2.6, 3.2 and 3.8 points of GDP, respectively.

2. Medium-term projections, and change since last submission:

		Estimate	Projections				
	2013*	2014	2015	2016	2017	2018	2019
Gross Debt	92.1	97.6	100.3	100.2	97.9	n/a	n/a
• ***ppt change†***	-1.8	-1.9	-1.4	-1.3	-0.6	n/a	n/a
• **Net Debt**	n/a	n/a	n/a	n/a	n/a	n/a	n/a
• ***ppt change***	n/a	n/a	n/a	n/a	n/a	n/a	n/a
• **Balance (-sign means deficit)****	-6.33	-5.5	-4.2	-2.8	-1.1	n/a	n/a
• ***ppt change (- means downward revision)***	0.27	0	0	0	0	n/a	n/a
• **Primary Balance**	-3.1	-2.2	-0.8	0.6	2.3	n/a	n/a
• ***ppt change(- means downward revision)***	0.6	-0.2	-0.2	0.3	0.4	n/a	n/a
• **CAPB**	0.9	-1.0	-0.7	-0.6	-0.4	n/a	n/a
• ***ppt change***	0	0	0	0	0	n/a	n/a

* Calendar years

** Excluding one-off measures

† Percentage points change since last submission

3. Economic Assumptions, and change since last submission:

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

		Estimate	Projections				
	2013*	2014	2015	2016	2017	2018	2019
Real GDP growth	-1.2	1.3	2.0	2.3	3.0	n/a	n/a
• ***ppt change†***	+0.1	+0.1	+0.2	0	0	n/a	n/a
• **Nominal GDP growth**	-0.6	1.4	2.7	3.4	4.5	n/a	n/a
• ***ppt change***	-0.8	-0.3	+0.1	0	0	n/a	n/a
• **ST interest rate****	0.2	0.2	0.2	0.8	0.9	n/a	n/a
• ***ppt change***	0	-0.2	-0.4	0	0	n/a	n/a
• **LT interest rate*****	4.6	2.8	2.6	3.9	4.0	n/a	n/a
• ***ppt change***	0	-0.9	-1.2	0	0	n/a	n/a

* Calendar years

** Three-month euribor

*** Spanish ten-year Government Bond

† Percentage points change since last submission

ANNEX 2: NEW POLICY COMMITMENTS[4]

1. Macroeconomic Policy Responses

The New policy action:	Fiscal Reform
Implementation path and expected date of implementation	**Objective:** to ensure sufficient tax income and to increase revenue collection by paying special attention to thin fiscal bases and to tax fraud, promoting job creation. **Implementation:** This reform has been approved in June 2014 and will be effective as from January 2015
What indicator(s) will be used to measure progress?	Tax collection, fraud reduction
Explanation of additionality (where relevant)	

The New policy action:	Enhancing the efficiency and quality of public expenditure
Implementation path and expected date of implementation	**Objective**: The Commission for the Reform of the Public Administration (Comisión para la Reforma de la Administración or CORA) was created in 2012 with the objective of building a transparent and dynamic public administration. **Implementation**: By 2014 an estimated 50% of all the measures will be completed. New measures for this year include the future Law on Public Administration and Common Administrative Procedure and the reform of the General Law of public grants.
What indicator(s) will be used to measure progress?	Expenditure adjustment
Explanation of additionality (where relevant)	New measures not included in the 2012 report, creation of OPERA office.

The New policy action:	Pension reform
Implementation path and expected date of implementation	Sustainability Factor and Pension System Revaluation Index **Objective**: ensuring sustainability of the consolidated public pension system, providing a response to the demographic challenges and guaranteeing pension's sufficiency and adequacy, for pensioners with comparable contributions, both now and in the future. **Implementation**: 2019 (sustainability factor) and 2014 (revaluation index) Active Ageing and social Security sustainability **Objective**: since 2013 Spain has reformed partial and early retirement, as well as started to increase the possibility to increase labour years. This is part of a strategy to increase labour

[4] The indicators used in this Annex 2 should not necessarily be understood in all cases as proxies for measuring progress with the implementation of reforms. In some cases, they are just some of the economic variables on which the reform can be expected to have an impact.

	participation of the elderly and will continue in future years. **Implementation**: from 2013 onwards.
What indicator(s) will be used to measure progress?	The minimum and maximum annual revaluation levels, which as of 2014 are, respectively at 0.25% and at CPI plus 0.5% (in a favourable economic environment).
Explanation of additionality (where relevant)	The reform of pension system is focused to reduce a long term gap, such as the problem of ageing population. Hence implementation of measures that reduce retirement age and aim to increase labour participation of elderly is a continuous effort.

2. Investment

The New policy action:	Investment climate
Implementation path and expected date of implementation	i. Plan on Market Unity **Objective:** to increase the competitiveness of national companies and markets. **Implementation**: a set of measures that fully implement the Law of Guarantee of Market Unity: as the creation of the Counsel of Market Unity Guarantee. . ii. Law on Entrepreneurship and Internationalization and new measures to support the Entrepreneurship Law. **Objective**: Increase the information about business climate .and new measures included to enforce and achieve the goal of increasing business friendliness. iii. Deleveraging measures. **Objective**: Deleverage and increase growth capacity for business specially SMEs. **Implementation**. The framework of out of court debt restructuring is being modified in order to help those companies going through temporary illiquidity via the new Royal Decree-Law on urgent measures on refinancing and restructuring of corporate debt. Further actions implementing a Code of good practices to SMEs and a further reform the Insolvency Code.
What indicator(s) will be used to measure progress?	Number of norms adjusted to facilitate the establishment and free circulation of economic operators (already 2.700 norms identified); Number of complains handled, number of reports about business climate in Spain; number of reports suggesting regulatory reforms; number of pre insolvency negotiations, number of companies that reschedule their debt and avoided liquidation. Amount of rescheduled debt .
Explanation of additionality (where relevant)	All these measures are part of a strategic objective to improve the investment climate. In this sense these measures are all additional and new to others as they tackle different gaps towards the same objective. (i)The Law of Guarantee of Market Unity requires a full regulatory adaptation process and creates specific resolution mechanisms that the economic operators can use as a new way to discipline public administration actions through the civil society participation, process, which is complementary to the protection of rights foreseen in the mentioned Law.(ii) Market Unity is more a programme than a single law; identification of barriers, remotion, analysis and evaluation will take place in a near future and form some time on. (iii) The reform of the insolvency regime in order to favour deleveraging implies a set of measures that will be promoted as part of a fully-fledged strategy. (iv) The implementation measures for the entrepreneurship Law add and imply new measures toward the objective of reducing barriers to business.

The New policy action:	Bank financing
Implementation path and expected date of implementation	**Objective:** to relaunch banks´ lending activity, especially to Small and Medium Enterprises, given their limited capacity to access alternative sources of financing. **Implementation:** The Law to promote corporate financing will possibly be passed at the end of 2014, whereas the new legislation on refinancing and debt restructuring is already on implementation. Increase the role of the Instituto de Crédito Oficial (ICO), increasing the budget of ICO by 2 billion euro, focusing on the creation of SMEs and companies with an internationalization strategy.
What indicator(s) will be used to measure progress?	New bank credit to SMEs (amount of the credits, and number of operations)
Explanation of additionality (where relevant)	The participation creation of law that aims to reduce informational asymmetries and improve functioning of Mutual Guarantee Funds goes further to the commitments in Saint Petersburg , that were of a different nature.

The New policy action:	Non-bank financing
Implementation path and expected date of implementation	**Objective:** to diversify the financing sources of Spanish firms, given their traditional excessive dependency on bank financing. **Implementation**: The new alternative fixed income securities market (MARF) is on implementation since the end of 2013. Whereas the new law on venture capital and other investment institutions is expected to be in place at the end of 2014.
What indicator(s) will be used to measure progress?	Number of emissions in the new fixed income securities market, number of venture capital SMEs created under the new Law and financing extended.
Explanation of additionality (where relevant)	

3. Employment

The New policy action:	National Youth Guarantee System
Implementation path and expected date of implementation	**Objective**: ensure that people aged between 16 and 25 neither employed nor in training receive an employment offer, education, apprenticeship or work placement. **Implementation:** approved in July 4th. The new Youth Guarantee Website, has been launched in July. The tax breaks for permanent hiring, hirings under the dual vocational training contract, for internships, part time jobs linked to training, for people benefiting from Youth guarantee, as well as the new tax breaks for paid internships and vocational training internships are being launched in July and from august 2014.
What indicator(s) will be used to measure progress?	Number of employments created among young people, youth unemployment rate. Number of permanent young employees.
Explanation of additionality (where relevant)	

The New policy action:	Reform of training for the employment and new vocational training strategy
Implementation path and expected date of implementation	**Objective**: provide a better match between firms´ needs and the current offer of training and formation. **Implementation:** before the end of 2014 the training for the employment will be reformed and the new vocational training strategy and regulatory framework will be launched.
What indicator(s) will be used to measure progress?	Number of people attending training under the new system.
Explanation of additionality (where relevant)	

The New policy action:	Flat Flat-rate National Insurance contribution of 100€ during 24 months
Implementation path and expected date of implementation	**Objective**: promoting net creation of stable employment companies, irrespective of their size, that maintain the net job creation for three years will be able to save up to 75% of the national insurance. **Implementation:** The measure, which came into force on February 25th, will remain in force for the next 24 months and will limit the employer common contingency contribution to 100 euros per month (1,200 euros per year).
What indicator(s) will be used to measure progress?	Number of stable employments created (over the trend).
Explanation of additionality (where relevant)	

4. Competition

The New policy action:	Reform of the Professional Services
Implementation path and expected date of implementation	**Objective**: new common, modern legal framework for professions **Implementation:** 2014
What indicator(s) will be used to measure progress?	The reform does not set specific performance indicators, not least because it has yet to be adopted. However, the final goal of this wide-scale reform is to enhance competition among professionals, which is expected to lead to a higher investment rate, job creation and economic growth. Likewise, the pro-competitive effects are expected to lower the profit margins in the professional service sector, thus increasing our economy competitiveness.
Explanation of additionality (where relevant)	

The New policy action:	Market Unity measures
Implementation path and expected date of implementation	**Objective**: addressing internal market fragmentation for product markets and reducing business licensing requirements and other administrative burdens **Implementation:** 2014
What indicator(s) will be used to measure progress?	Effectiveness indicators of the Counsel of Market Unity Guarantee and of e Implementation of information sharing systems among different administration layers and an integrated registration. Number of coordination mechanisms involved in the process and number of agreements adopted.
Explanation of additionality (where relevant)	Additional action in the Program on market unity. (i) Creation of the Counsel of Market Unity Guarantee (ii) .Implementation of information sharing systems. (iii). A Regulation streamlining plan.

The New policy action:	Disindexation Law
Implementation path and expected date of implementation	**Objective**: reduce inflation inertia by limiting indexation in the public sector. **Implementation:** 2014
What indicator(s) will be used to measure progress?	No specific indicators have been determined at this point to follow the effects of the reform, especially considering that it has not been approved yet. It ultimately intends to affect variables such as inflation inertia.
Explanation of additionality (where relevant)	The Law was approved by Council of Ministers on December 2013, and is currently being discussed in the Parliament. Once approved and in force, full implementation of dis-indexation policies will require further implementation legislation and the revision/adaptation of existing laws and rules, when needed.

5. Trade

The New policy action:	Strategic Plan for the Internationalization of the Spanish Economy 2014-2015.
Implementation path and expected date of implementation	Wide range of actions for the internationalization of the Spanish Economy, covering six axis 1.- Business climate 2.- Trade facilitation and market access 3.- Access to finance 4.- Trade promotion 5.- Human capital 6.- Innovation Content of measures within the 6 axis are mentioned beneath. **Implementation:** Approved by the Cabinet on February 28, 2014, it is being implemented over 2014 and 2015. Implementation path of the Plan: Entry into force: Second quarter 2014 First quarter 2015: Indicators assessment and reevaluation of the diagnosis. Intermediate results will be published. First quarter 2016: Updating of the diagnosis and indicators. Publication of the evaluation and concluding report.
What indicator(s) will be used to measure progress?	Degree of implementation and results are evaluated through a detailed set of indicators, (more than 30 different indicators) annexed to the Plan. (Relevant indicators are mentioned beneath). Set of indicators also subject to review in 2016.
Explanation of additionality (where relevant)	The additionally of the Plan derives from new actions, improvement of previous existing ones, its systematic approach and set of monitor indicators. It has been elaborated by the Ministry of Economy and Competitiveness with the involvement of other Ministries and the private sector.

The New policy action:	1.- Business climate
Implementation path and expected date of implementation	Overall improvement of business climate for boosting the internationalization of the Spanish economy. **Actions:** Diffusion of the International mobility programme (described beneath under Human Capital) Setting up a "Doing Business Subnational" ranking in Spain in cooperation with the World Bank and other stakeholders Create a new mechanism of consultation with international operators on specific proposals to improve business climate. **Implementation:** 2014-2015
What indicator(s) will be used to measure progress?	Business Climate Survey – National Statistics Office. International competitiveness indicators (World Bank, World Economic Forum, International Institute for Management Development) Development of regional business climate indicators (Doing Business Subnational).

The New policy action:	2.- Trade facilitation and market access
Implementation path and expected date of implementation	Objectives: to reduce costs for trade and investment and increase market access in third countries. Active national support for EU Trade Agenda: multilateral, plurilateral, bilateral negotiations. **Actions** include: National implementation of the WTO Trade Facilitation Agreement by Spanish Customs Authorities. It includes EU Customs Single Window project and signing of EU Mutual Recognition Agreements with third parties in the field of Authorised Economic Operators. Issue of periodical reports on trade and investment barriers affecting Spanish firms. International programs on patents: New platform with Latin-American countries for SMEs cooperation; Patent Prosecution Highway. Entry into force of already signed Bilateral Investment Agreements. Negotiation of new agreements for the elimination of Double Taxation. **Implementation:** 2014-2015
What indicator(s) will be used to measure progress?	Evolution of international trade, investment and international public procurement. Number of regular exporting companies Participation of SMEs in international trade and investment Technological content of exports
The New policy action:	**3.- Access to finance**
Implementation path and expected date of implementation	Spanish companies' internationalization process is fostered by a greater access to finance, in particular to SMEs. **Actions** include**:** Creation of new financial instruments: internationalization bonds, linked to internationalization credits**.** In place July 2014 New guarantee instrument provided by ICO for international institutions. It will facilitate Spanish companies´ access to finance, and opportunities in international institutions projects. Approved July 2014. Greater flexibility to the "Overseas Investment for Small and Medium Enterprises (FONPYME)", by COFIDES. Approved July 2014. Improving access to guarantees for internationalization CESCE- Ongoing 2014-2015 Creation of a new line (FIEM- Facilidades UE) to facilitate access to EU financing facilities by Spanish firms, with an initial endowment of 50 million Euro. Second semester 2014.
What indicator(s) will be used to measure progress?	Volume of public finance used by enterprises FIEM, COFIDES, ICO. Number of operations CESCE.

The New policy action:	4.- Trade promotion and business support
Implementation path and expected date of implementation	Better support for companies in their internationalization process. **Actions** include: Launch of a Global Information Window to support companies in its internationalization process. It already canalizes information on available instruments in the area of internationalization towards eight different institutions. **Start: April 2014.** Launch of new program in support of integration of SMEs for internationalization activities. **2014-2015** Launch of new programs to promote Health tourism: **2014-2015** **2014-2015**
What indicator(s) will be used to measure progress?	Most indicators are common to axis 3. Number of consultations to the new Global Information Window, including those that require tailor-made responses.
The New policy action:	**5.- Human capital**
Implementation path and expected date of implementation	Increase human capital and global awareness for internationalization issues. **Actions** include: Reform of Spanish legislation in order to retain and attract human capital internationally. Increased international mobility of professionals, post-graduates, highly qualified staff, executives and directors of companies and new business projects. Visa facilitation. **In force since early 2014.** Proposal for new academic programs on internationalization in cooperation with universities and private sector. **2014-2015** Development of a strategic plan for the internationalization of universities. **2014-2015** Increased cooperation with Business Schools and public administrations in the field of internationalization. **2014-2015**
What indicator(s) will be used to measure progress?	Number of students on internationalization programs. Number of nationals in international institutions.

The New policy action:	6.- Innovation
Implementation path and expected date of implementation	Increased cooperation between trade promotion offices abroad (OFECOMES) and the Centre for Development of Technology (CDTI) **In force, mid 2014** Specific promotion activities of foreign investment in ICT sector. **2014-2015**
What indicator(s) will be used to measure progress?	Volume of exports in medium-high technology sectors.