

SPANISH
STRATEGY OF
ECONOMIC
POLICY

**BALANCE
AND STRUCTURAL
REFORMS**
NEXT SEMESTER

27th September 2012



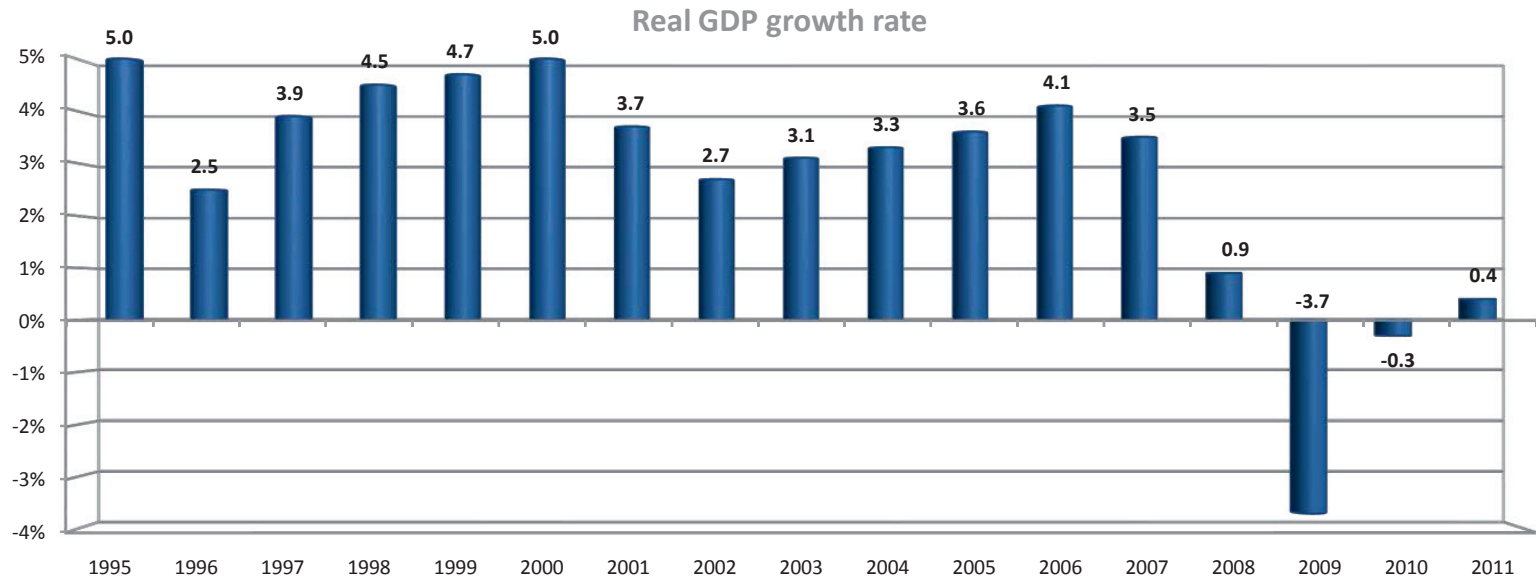
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I. THE STARTING POINT

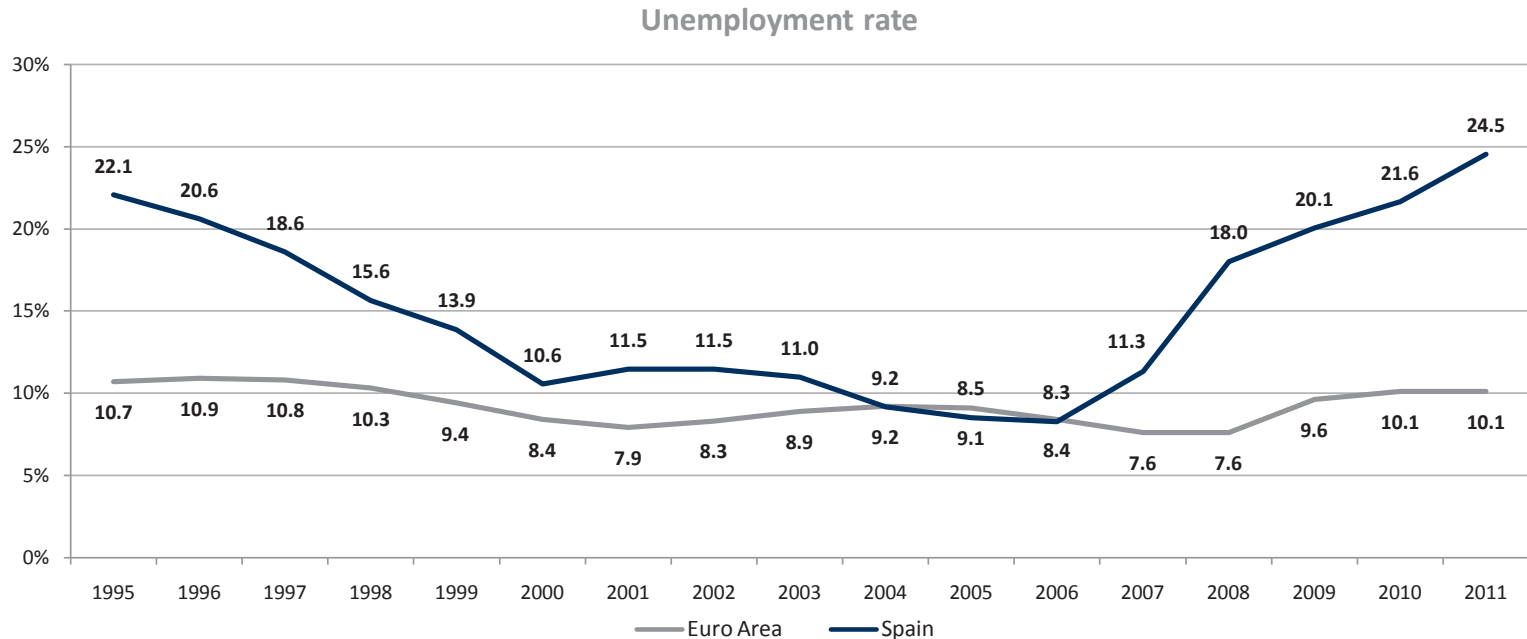
1. Economic recession



Source: Eurostat

- The entry into the euro, with the prospects of a stable currency and financial conditions more favorable to investment, produced an **unprecedented improvement in the living standards and employment** of Spaniards.
- Nevertheless, high indebtedness and competitiveness loss accumulated over the last years have caused the current **recessionary cycle** that has been prolonged and aggravated firstly by the financial crisis and, secondly, by the doubts on the viability of the Euro.

2. High unemployment

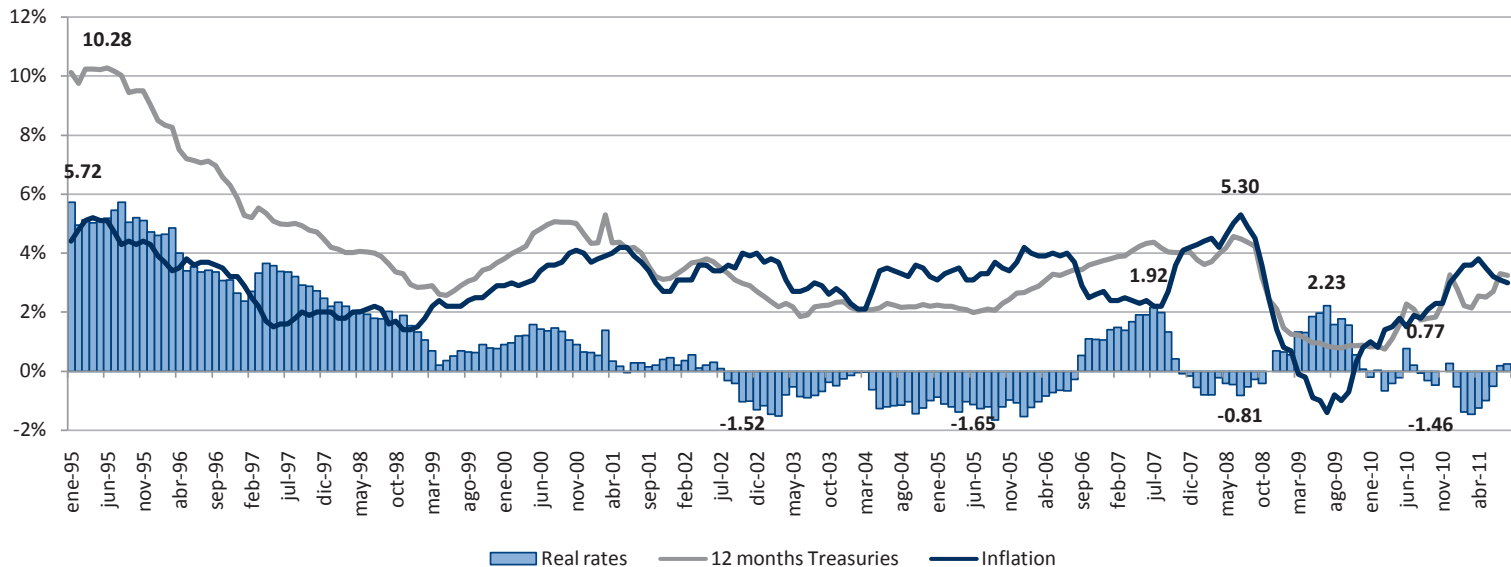


Source: Eurostat

- The Spanish economy has featured **excessively abrupt adjustments in the labor market**. During the last 15 years job creation has been very intense in times of growth, but so has been job destruction in times of crisis.
- The high unemployment rate reached **an unacceptable level among the young**: one in two young people under 25 is jobless (53%).

3. High funding costs

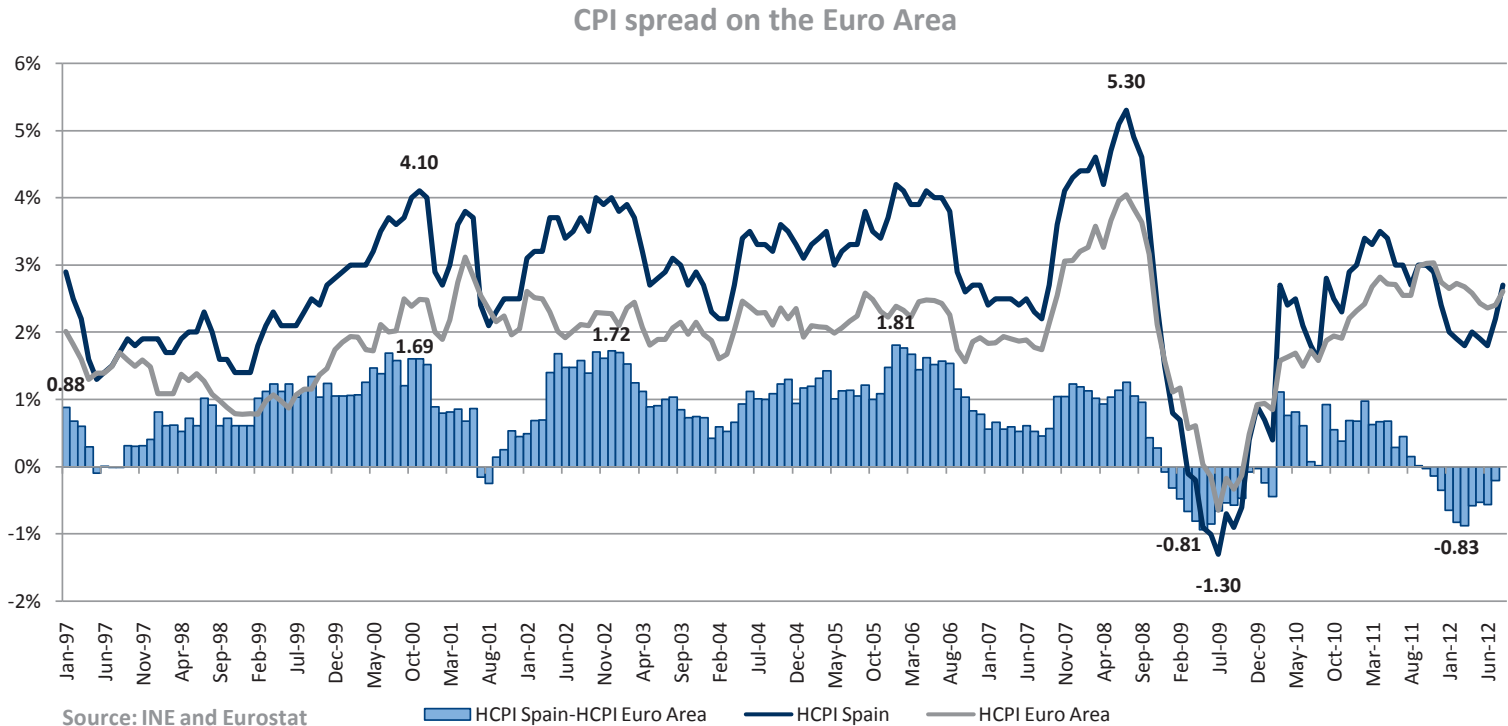
12 month real interest rate (Treasury bills 12m – year-on-year CPI rate)



Source: INE and Ministry of Economy and Competitiveness

- The entry into the Euro, together with the fiscal consolidation, generated an **important improvement in funding costs**. From 2003 these costs reached abnormally low levels, stimulating excessive private sector indebtedness.
- The financial crisis sharply reversed this situation, **particularly affecting highly indebted countries such as Spain**.

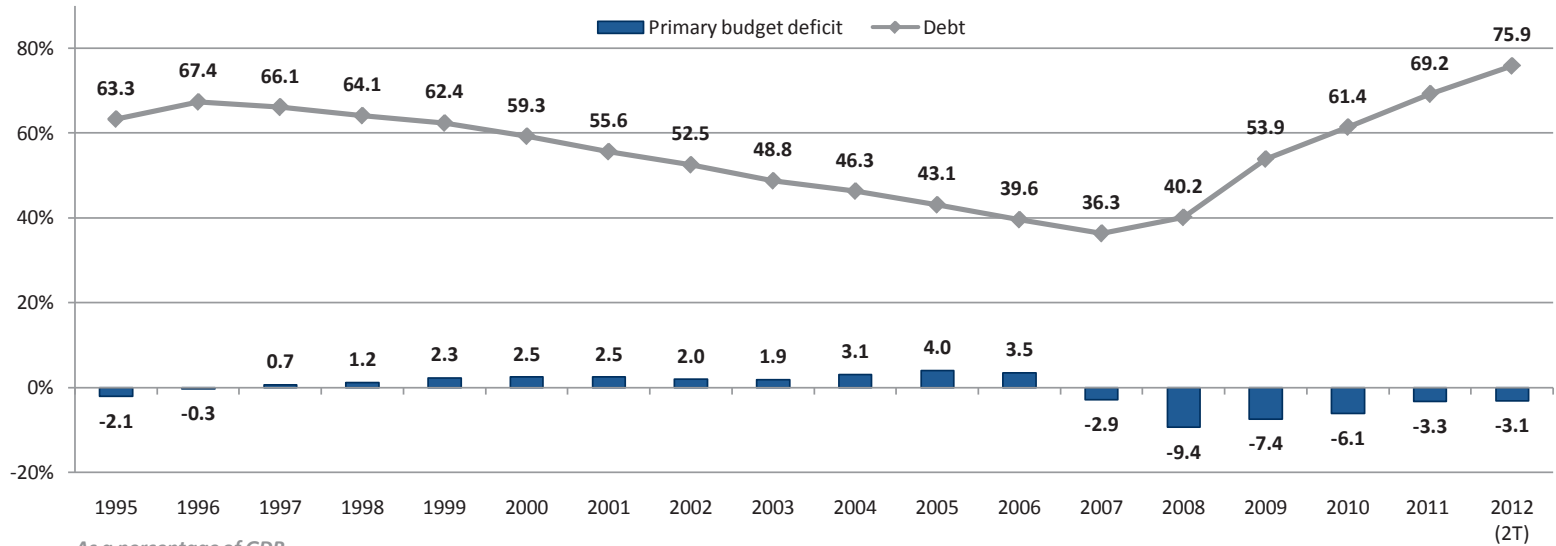
4. Loss of competitiveness



- Since entering the Euro Area the Spanish economy has accumulated **negative competitiveness spreads**.
- However, in recent times a **process of competitiveness improvements has begun**, not only due to falling domestic demand but also to productivity improvements.

5. High public deficit

Evolution of the primary budget balance and public debt

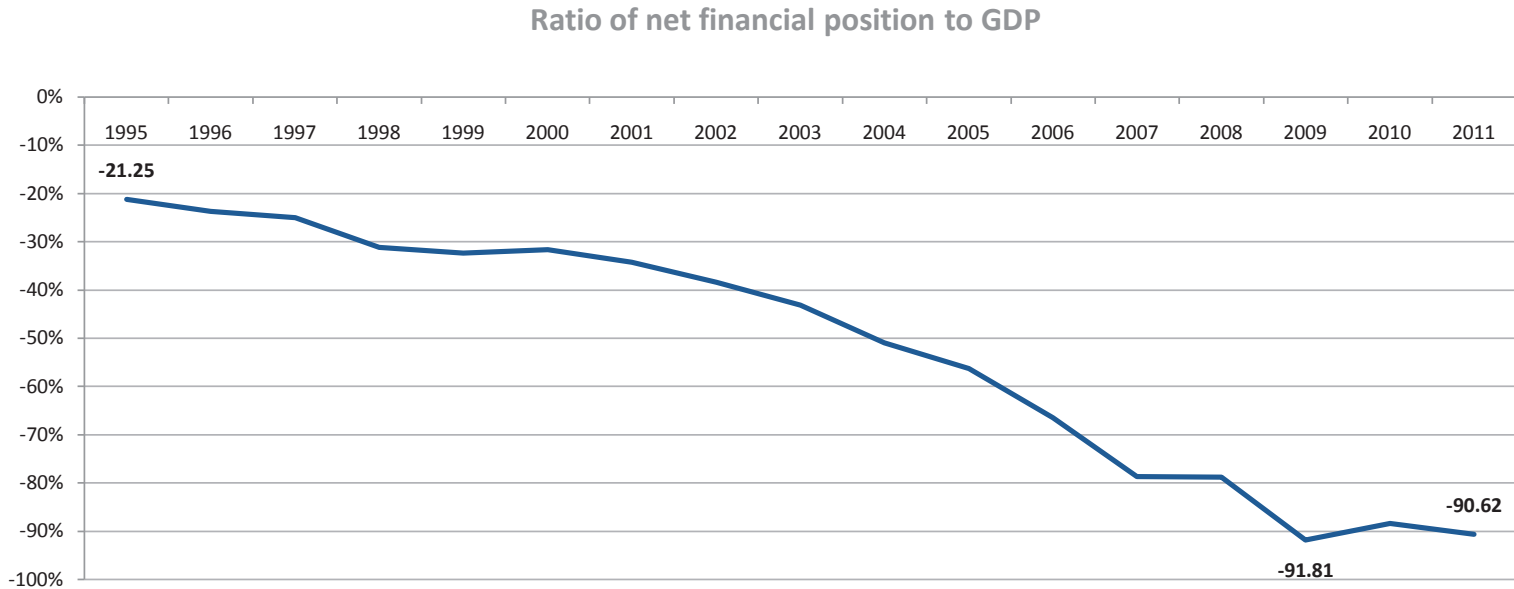


As a percentage of GDP

Source: European Commission and Bank of Spain.

- Spain is the country in the European Union that has made **the greatest deficit and public debt consolidation effort** during the times of growth.
- However, **high public deficits** over the last years **have reverted this trend to an unsustainable path.**

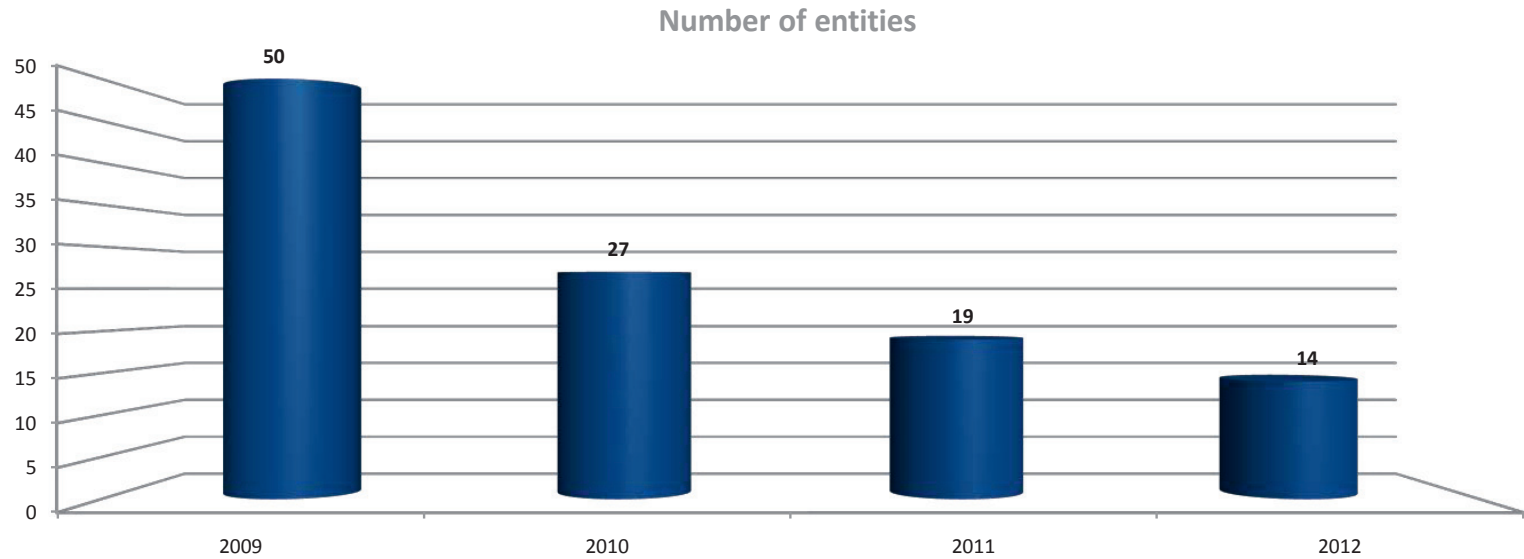
6. Excessive External Indebtedness of the Spanish economy



Source: National Statistics Institute (INE) and Ministry of Economy and Competitiveness

- The accumulation of external deficits, within a context of competitiveness loss and excess liquidity, **doubled the net external debt in only four years, currently reaching 90% of GDP.**
- However, the fast correction of the current and capital accounts have caused **Spain to be the first peripheral country in the euro area who has started to reduce external indebtedness.**

7. A financial sector in need of restructuring



Source: Ministry of Economy and Competitiveness (It does not include credit unions and foreign banks)

- The financial sector is in a **weak position**, since it has been the instrument for the high indebtedness of the Spanish economy.
- As a result of the recession, **the balance sheets of banks hold a substantial volume of assets that need to be cleaned up.**

II. THE STRENGTHS **OF THE SPANISH ECONOMY**

Strengths of the Spanish Economy

1. Geopolitical situation

- **Fourth economy in the euro area and fourth country by population**, with 47 million consumers, 57 million tourists per year and access to 1,250 million consumers, serving as a bridge between different continents.
- **Spanish is a global language** and has critical importance for business, is official in 22 countries and counts over **500 million speakers**.
- Great natural, historical and cultural heritage have made **Spain the first vacational destination in the world**.
- A **consolidated democracy** with a **stable Government**, at the beginning of a legislature with **an absolute majority in Parliament**.

Strengths of the Spanish Economy

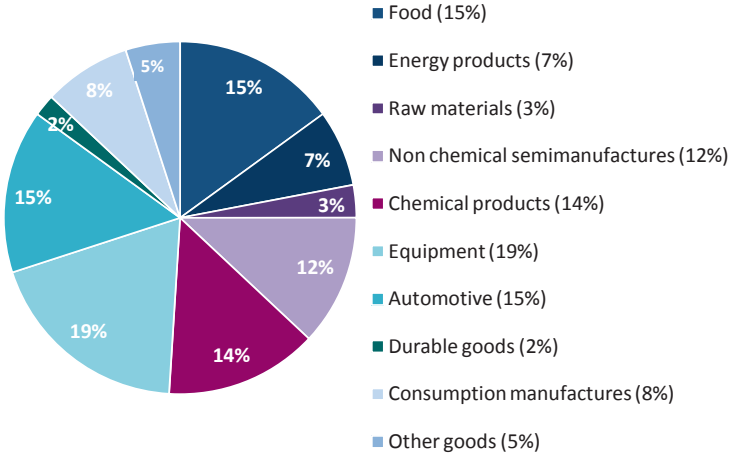
2. World-class infrastructure

- Spain ranks among the top ten countries with best infrastructure quality in the world (Global Competitiveness Index 2012-2013).
 - ✓ It has the **largest European motorways and highways network** (14,262 Km).
 - ✓ It **ranks fifth** among EU-15 countries in terms of **extension of the railway network** (13,853 Km).
 - ✓ **Third country in Europe** in terms of **air passenger traffic** (153,387,014 passengers).
 - ✓ It holds the **fourth position** in the EU in terms of **maritime transportation of goods** (376,391,000 Tn).

Strengths of the Spanish Economy

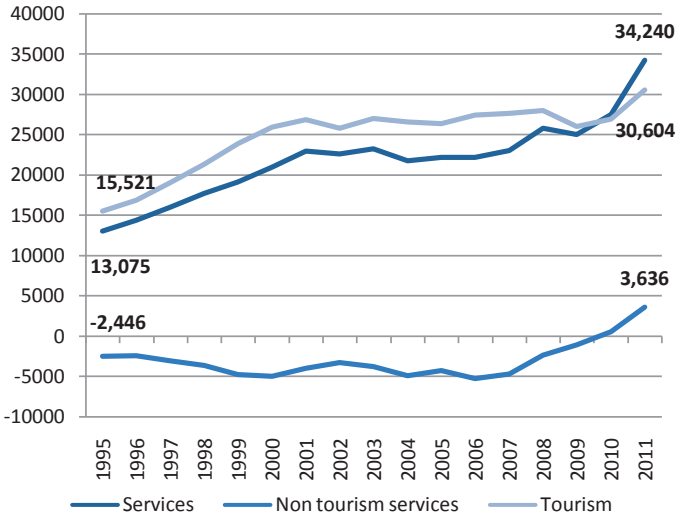
3. Diversification of exports

Exports by sector of activity



Source: Department of Customs and Tax Administration (2011)

Balance of services



Source: Bank of Spain (million euro)

- The structure of Spanish exports mirrors a globally diversified and competitive business fabric, with leading companies in different sectors.
- Revenues from non-tourism services have increased by 350% from 1996, contributing to the surplus they have recorded since 2010.

Strengths of the Spanish Economy

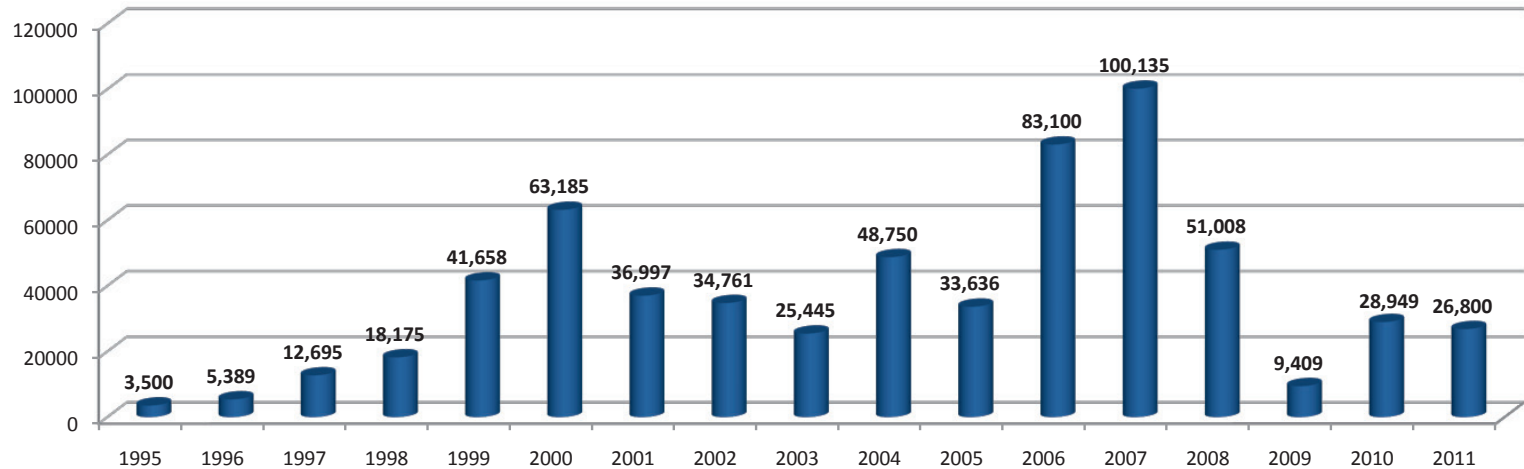
4. Large companies, global leaders

- **Spanish firms lead** in sectors as diverse as infrastructure development, renewable energies, tourism, banking, fashion, healthcare, aerospace technology, the food industry, or the automotive industry.
 - ✓ **Seven out of the ten largest infrastructure companies in the world** are Spanish.
 - ✓ **Three out of five flights** around the world are controlled by Spanish navigation systems.
 - ✓ Spain is the world's second powerhouse in **desalination and water treatment technologies**.
 - ✓ **Five major European fashion firms** are Spanish – including the world leader.
 - ✓ **Two of the world's major financial institutions** are Spanish, and two Spanish insurers are among the leaders in their respective sub-sectors.

Strengths of the Spanish Economy

5. Foreign investment

Spanish foreign direct investment



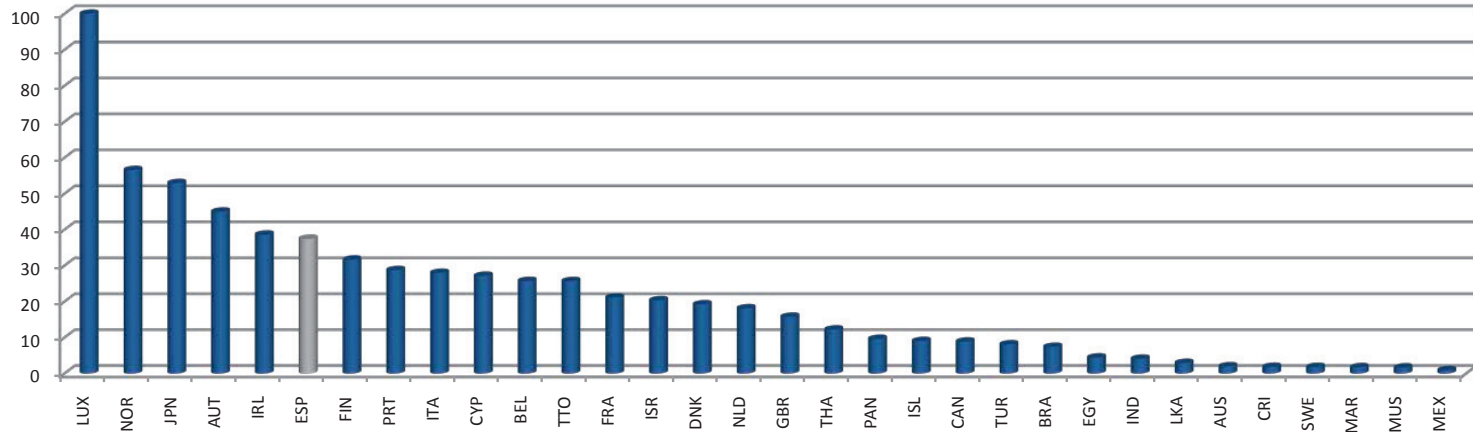
Source: Ministry of Economy and Competitiveness (million euro)

- Spain is the tenth global investor, with an accumulated direct investment abroad amounting to **€500bn** (50% of GDP).
- Between 2006 and 2010, Spain was the tenth global destination for foreign direct investment. On average, direct investments worth **€32.5 bn** have entered the country every year.

Strengths of the Spanish Economy

6. Spain is a success story

Countries that have grown faster than the U.S.
in per capita and purchasing power parity terms (1950-2010)



Source: Penn Tables. Heston & Summer. University of Pennsylvania

- According to the Geary-Khamis method, **Spain is the sixth fastest growing economy in per capita terms from 1950 to 2010.**
- The weight of Spain in the EU-15 GDP has almost **tripled** from 1960: from 3.7% to 9.1%.
- **Spain has always overcome economic crisis successfully:** it happened with the energy crisis in the 70s and with the European Monetary System crisis in the 90s.

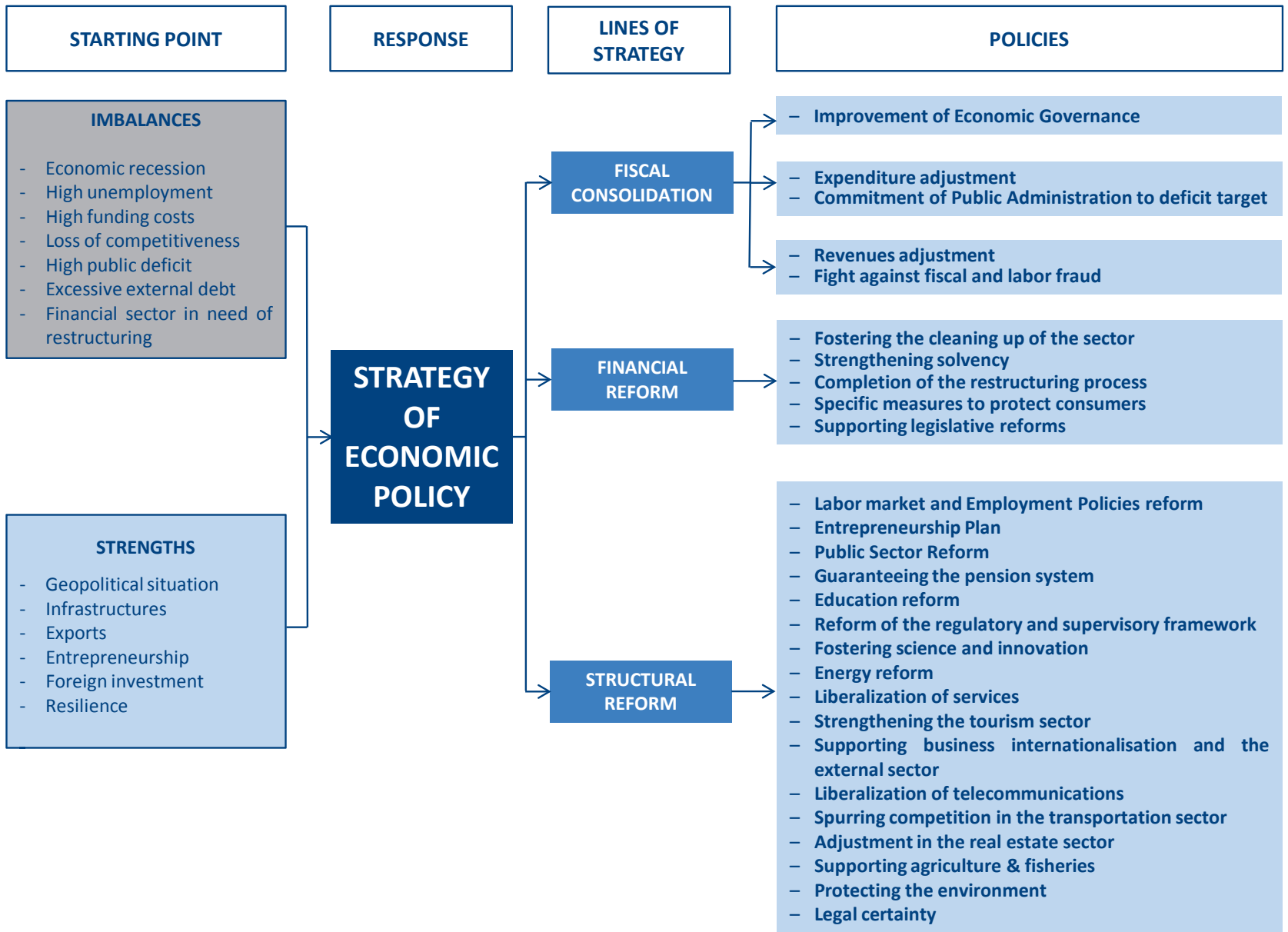
III. ECONOMIC POLICY STRATEGY

Economic Policy Strategy

- *Objectives:*
 - Providing sufficient **macroeconomic stability** to the Spanish economy in terms of public deficit, external deficit and inflation.
 - Achieving a high degree of **flexibility** that allows the adjustment of relative prices and prevents the accumulation of competitiveness losses, which always imply traumatic corrections.
 - Achieving levels and costs of **funding** that are compatible with investment levels that create jobs.

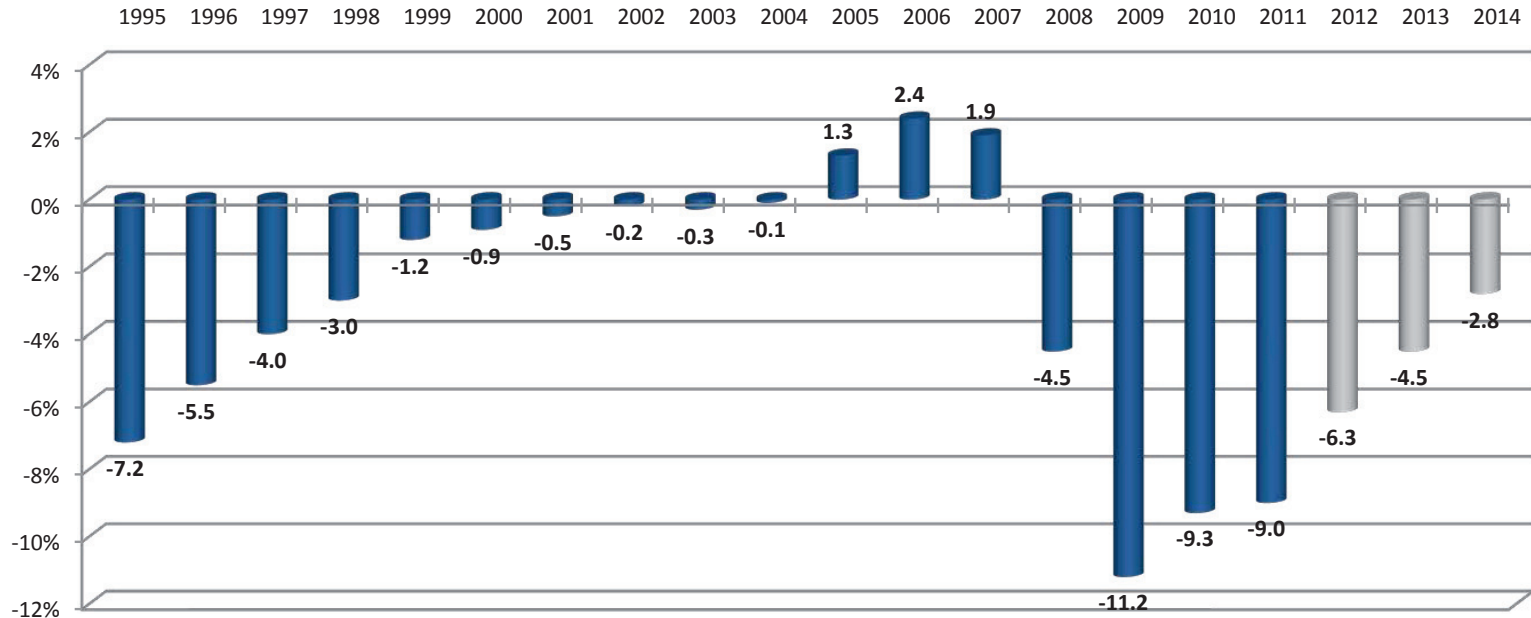
Economic Policy Strategy

- *Strategic lines:*
 - A) Fiscal Consolidation:** Getting back to a sustainable public debt path, in order to restore the credibility of the Spanish economy, facilitate access to credit, improve the external balance and ensure compliance of the Spanish fiscal policy with commitments under the Monetary Union.
 - B) Financial Sector Reform:** Achieving solid and solvent institutions with full access to financial markets and channelling back savings into productive investment.
 - C) Structural Reforms:** Providing flexibility and fostering competition to help contain margins and business costs, improving the quality of production factors and facilitating the allocation of resources to the sectors with a competitive edge.



A. FISCAL CONSOLIDATION

Evolution of the budget balance
Net lending (+)/ borrowing (-) (% GDP)



Source: Eurostat and Ministry of Finance and Public Administration. (*) Forecasts for 2012, 2013 and 2014.

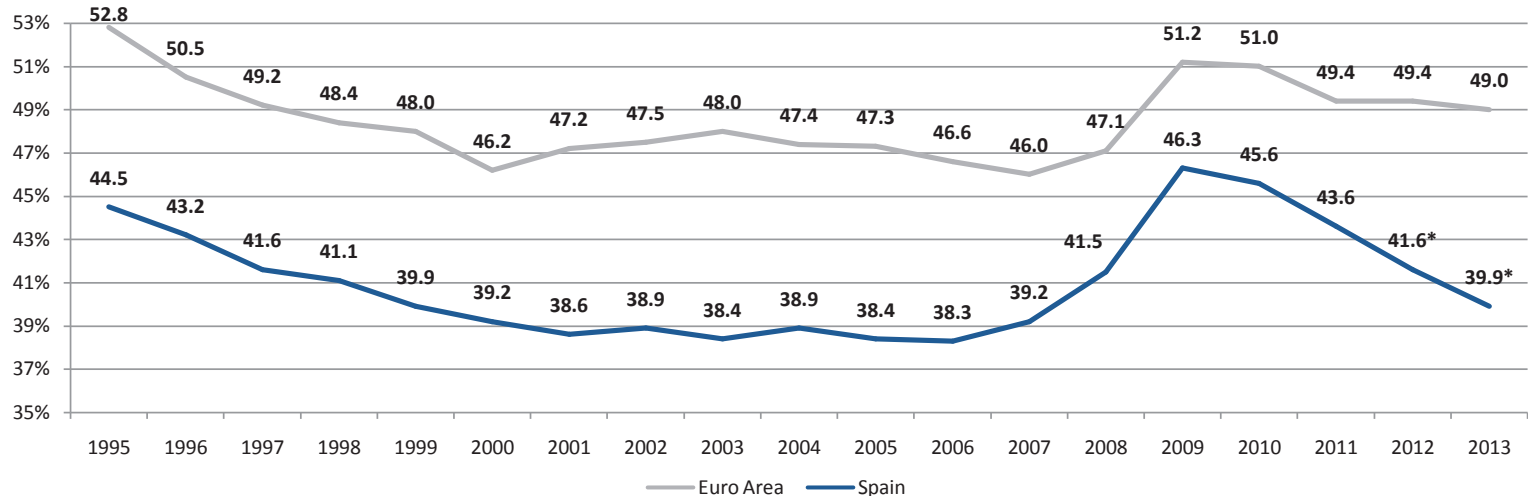
- From a surplus situation, resulting from an exemplary fiscal consolidation within the EU framework, the **deterioration of public accounts reached unsustainable levels.**

- Now, Spain is again committed to an **unprecedented deep fiscal consolidation exercise.**

1. Improving economic governance: Greater control and discipline

- *Adopted measures:*
 - **Constitutional Reform** to include the principles of budgetary stability and financial sustainability.
 - Approval of an **Organic Law on Budget Stability and Financial Sustainability**, with spending limits, control mechanisms and sanctioning instruments, for all levels of Government.
 - **Plan of Payments to Public Providers:** Transparency in public accounts and reduction of late payments.
 - **Liquidity Fund for Autonomous Communities** linked to compliance with fiscal and financial commitments and prioritization of payments.
- *Next measures:*
 - Approval of the **Law on Transparency, Public Information Access and Governance:** More accountability in the management of public resources (4th Q. 2012).
 - Setting up an **Independent Fiscal Authority** to ensure compliance with budget regulations and early detection of potential fiscal slippages (1st Q. 2013).

Evolution of public expenditure as a percentage of GDP in Spain and the Euro Area



Source: European Commission. (*) Stability Programme of the Kingdom of Spain 2012-2015

- In Spain, public expenditure over GDP **grew sharply especially between 2007 and 2011**, registering an increase of almost 8 percentage points of GDP, nearly twice as much as the Euro Area average.

• **Currently, a reduction in structural expenditure, that affects all levels of the Public Administration, is being implemented.**

2. Expenditure adjustment: Administrative Structure

- *Measures adopted at the General Government Administration level:*
 - **Reduction in personnel expenditure:**
 - ✓ Reduction in the **number of high officials** (20%).
 - ✓ Adjustments to the **Public Service**: capping the Public Employment Offer, extending the legal working hours, holding up the 14th month salary (savings of €5,425M).
 - **Reduction in other operating expenses**, especially in publications advertising and institutional communications (savings of €89.1M).
 - **Public Real Estate Management Plan** (savings of €29.8M in rents, until September).
 - **Restructuring the State-Owned Enterprises and Public Foundations**: Reduction in the number of entities, rationalization of management, reduction of salaries (elimination of 230 positions in Boards of Directors).
 - **Reduction in the funding of Political Parties**: De-indexation of public grants to CPI and 20% reduction in 2012.
- *Next measures:*
 - **Rural Property Enhancement and Sale Plan** (1st Q. 2013).
 - Extension of **centralised purchasing platforms for goods and services** (4th Q. 2012).
 - Reduction in the **transfers to political parties by an additional 20% in 2013** (4th Q. 2012).

Expenditure adjustments and financial sustainability of Public Administrations

	2012	2013	2014
Fiscal measures	4,975	15,069	15,425
Measures on the structure of Administration	5,425	3,723	5,372
Labor and Social Security	1,958	4,706	3,438
Basic Legislation of the State	760	5,091	7,473
AACC Specific Adjustment Measures		6,867	12,867
Municipal Administration Reform and Adjustment Plans		3,500	5,500

(million euro)

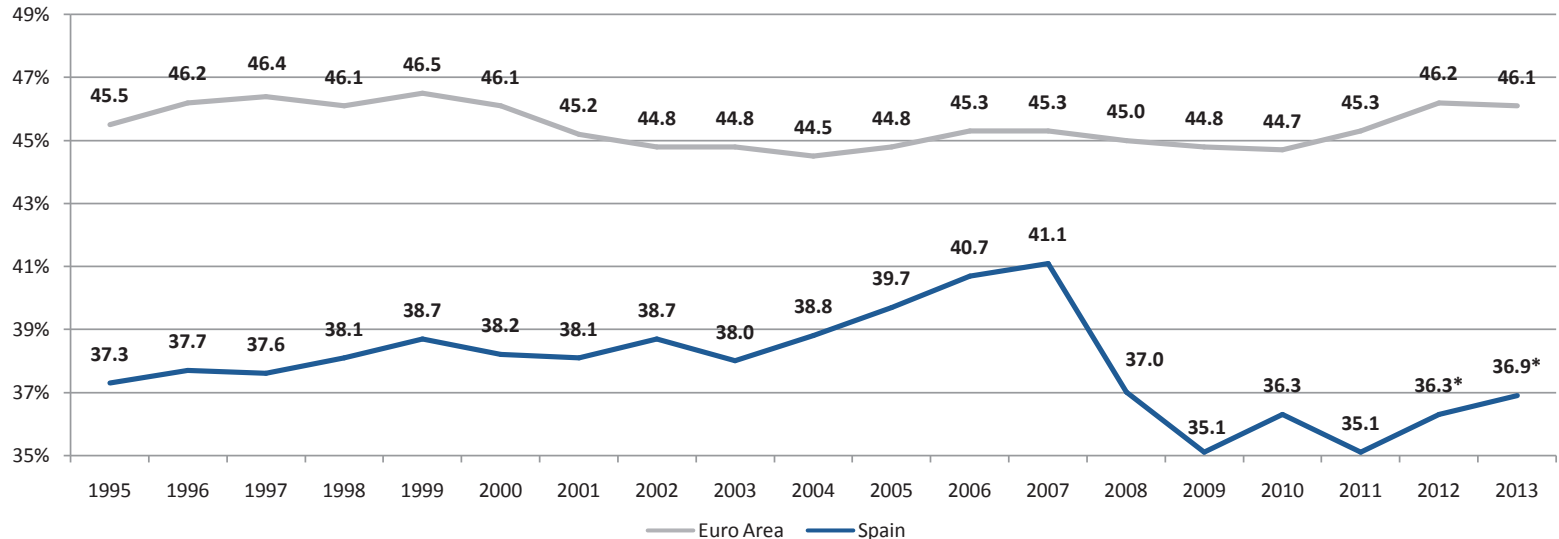
Source: Budgetary Plan 2013 and 2014. Ministry of Finance and Public Administration

3. Commitment of Public Administrations to deficit targets

- *Measures adopted by Autonomous Communities:*
 - All Autonomous Communities have approved their **Economic & Financial Plans** with fiscal consolidation measures in order to attain the 1.5% GDP deficit target in 2012.
 - These Plans include expenditure savings and increases in revenues amounting to **€18,425M** in 2012.
- *Measures adopted by Municipalities:*
 - Municipalities have also adopted **Adjustment Plans**, that comprise both expenditure savings and increases in revenues, and have committed to comply with the 0.3% of GDP deficit target in 2012.

Fiscal Consolidation

Evolution of public revenues as a percentage of GDP in Spain and the Euro Area



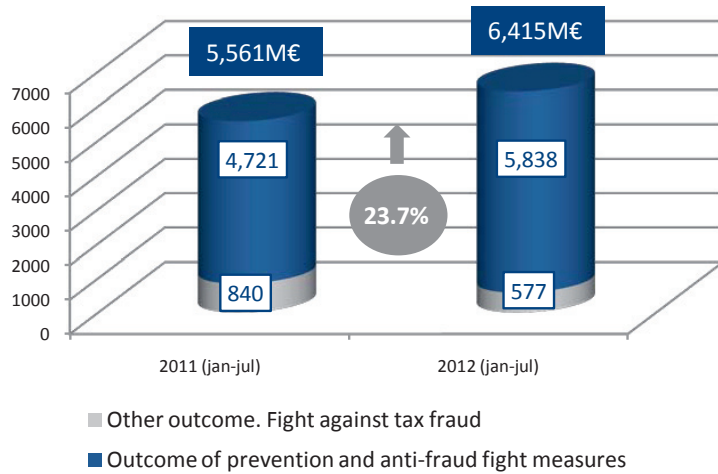
Source: European Commission. (*) Stability Programme of the Kingdom of Spain 2012-2015

- In Spain, **public revenues as a share of GDP have deteriorated significantly** as a consequence of the economic crisis. Just in the first years of the crisis, 2008 and 2009, 68,000 M€ of revenues were lost.
- Even though a similar phenomenon has occurred elsewhere in the Euro Area, **it is quantitatively sharper in Spain.**

4. Revenues adjustments

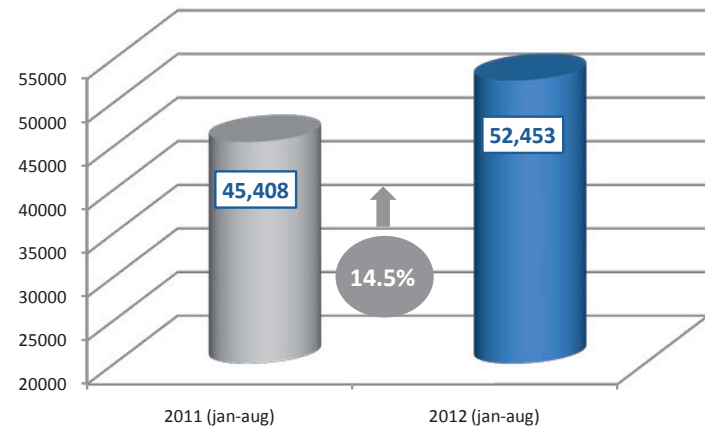
- *Adopted measures:*
 - **Raising** the standard **VAT** rate from 18% to 21%, and the reduced rate from 8% to 10%. Several goods and services have been reclassified and now fall under the new standard rate.
 - Establishing a **supplementary, temporary and progressive levy** on the **income tax base** of up to 7%. The withholding rate is temporarily raised from 15% to 21% for withholdings related to professional activities.
 - In-depth **reform** of the **corporate tax** to prevent large differences in the effective rates.
 - Increase of the excises on **tobacco**.
 - Increase of **municipal levies** on real estate, affecting high value housing and urban land.
 - Definition of a new tax regime for **energy sustainability**.
- *Next measures:*
 - Review of the **income tax**, in order to increase the equality and efficiency of the tax: adjustment of taxation of short-term capital gains, elimination of the fiscal benefits for first-home purchases, elimination of exemptions on prizes awarded by the National Lotteries Administration (4th Q. 2012).
 - **Corporate Tax:** reform of the amortization regime (4th Q. 2012).

Fight against tax fraud and evasion



Source: Tax Administration (million euro)

Formalisation of formerly undeclared jobs



Source: Ministry of Employment and Social Security

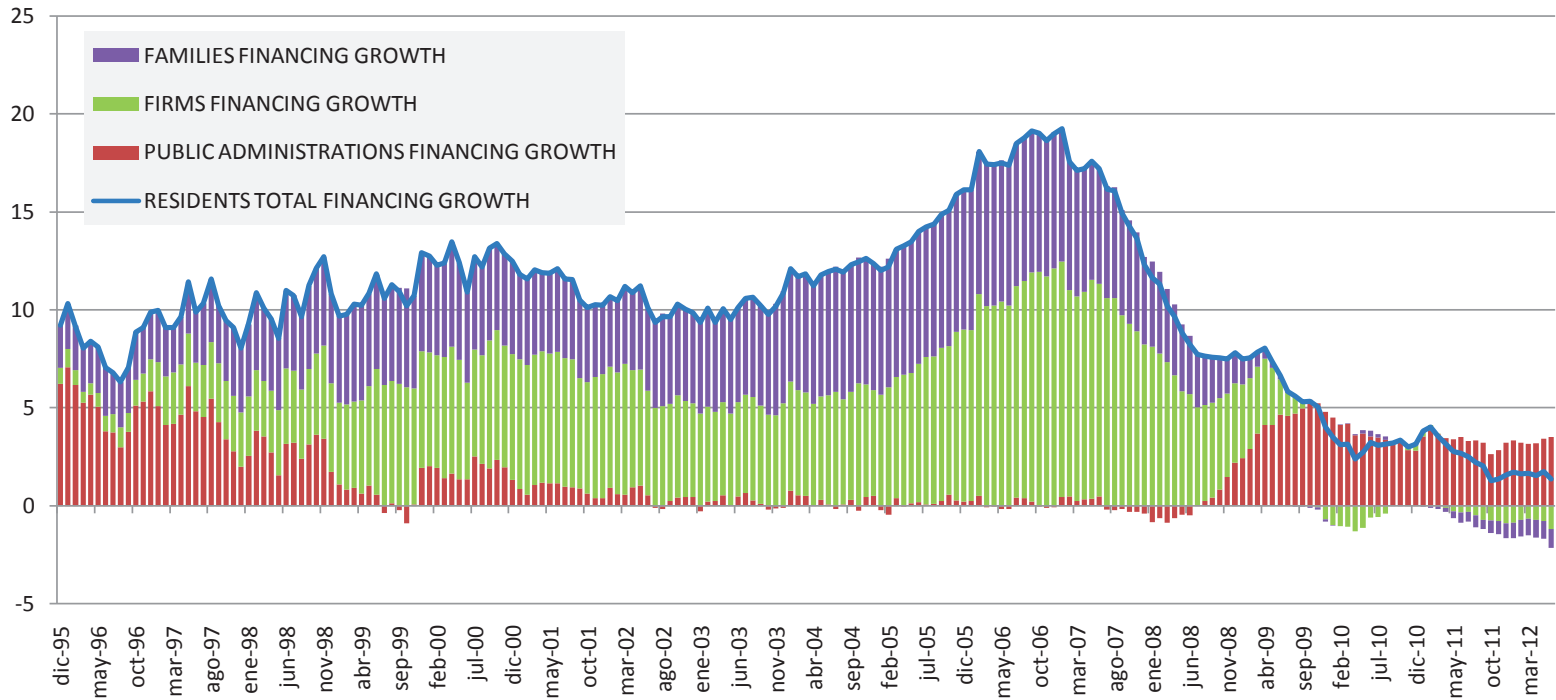
5. Fight against Fiscal and Labor Fraud

- *Adopted measures:*
 - **The strengthening of inspection and control activities** has enabled an increase in the results of prevention and fight against fraud activities by **25%**. Total collection linked to the fight against tax fraud has increased by **15.3%** during the first seven months of the year.
 - The **Plan to Fight Undeclared Employment and Social Security Fraud** has led to an increase in the discovery of fraud related to unemployment benefits, during the first eight months of the year, by 30% for companies and by more than 47% for individual workers.
- *Next measures:*
 - **Law on Prevention and Fight against Tax Fraud:** It will strengthen the collection capacities of the Tax Administration and include new measures such as limiting cash payments to transactions below €2,500 (4th Q. 2012).
 - **Law to Fight Undeclared Employment and Social Security Fraud:** It will strengthen the capacity of the Labor and Social Security Inspectors and it will extend current controls, for instance, to the dismissal of older workers (4th Q. 2012).
 - **Amendment of the Criminal Code:** It will include an aggravated type for tax offences and offences against the Social Security (4th Q. 2012).

B. FINANCIAL SECTOR REFORM

Financial System Reform

Evolution of financing in Spain 1996-2012



Source: Bank of Spain

- Credit to firms and families expanded rapidly since 2004 and experienced a **sharp correction since 2007**, aggravated by **the monopolization by Public Administrations of scarce available financing**.
- Credit will only recover with **fiscal consolidation and the clean-up of the financial system**.

1. Adopted measures

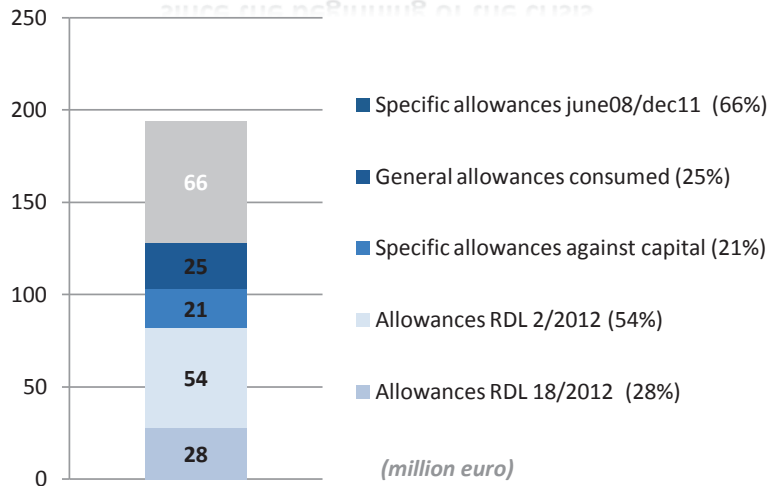
- **First Stage: Encouraging the Clean-up of the Financial Sector**
 - ✓ Clean-up of real estate assets: €54bn in bad loans allowances. Capital increases through the market or with the financial support of FROB by presenting a restructuring plan.
 - ✓ Strengthening the sector: incentives for mergers and concentration.
 - ✓ Limits to compensation and severance payments for managers of publicly supported entities (€600,000).
- **Second stage: Strengthening the Financial Sector**
 - ✓ Strengthening the allowances for non troubled real estate assets: €28bn.
 - ✓ Obligation to incorporate special purpose vehicles for the management of real estate assets.
- **Third Stage: Completion of the restructuring and resolution process for credit entities**
 - ✓ Independent assessment exercise on the financial system: according to July 2012 estimates, capital needs would amount to a maximum of €62bn under a severely stressed scenario.
 - ✓ Agreement to activate financial support for the banks (€100bn) by signing a Memorandum of Understanding.
 - ✓ Asset Management Company (AMC) to isolate troubled assets from credit institutions.
 - ✓ Protection for small savers: requirements of 50% of professional investors and minimum investment of €100,000 (€25,000 if it is a public company) for hybrid products.
 - ✓ Additional reduction in the compensation and severance payments of managers (€500,000).
- Other measures: **Protection for mortgage debtors** with no income and Good Practices Code.

2. Future measures

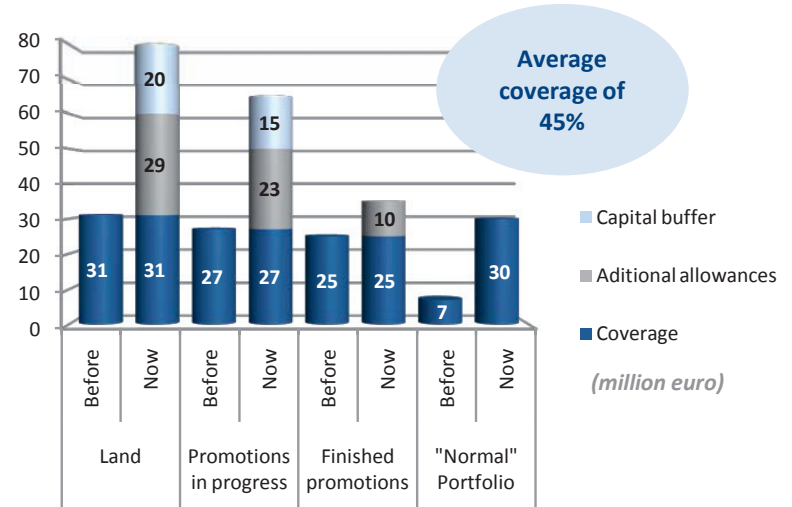
- Regulatory implementation and launch of the **asset management company** (4th Q. 2012).
- Recapitalization and launch of **restructuring and resolution plans for institutions**:
 - ✓ Group 1 (nationalized institutions): Approval by the European Commission in November 2012.
 - ✓ Group 2 (in need of public support to recapitalize): Approval expected at the end of December.
 - ✓ Group 3 (capable of recapitalizing on their own): They will have up to 30th June 2013 to raise the necessary capital.
- **Legislative Reform** to strengthen the financial sector:
 - ✓ Revision of regulation on financial intermediaries and supervision of financial conglomerates, to incorporate European directives (4th Q. 2012).
 - ✓ Reform of the Law of Collective Investment Undertakings, venture capital institutions and their management companies, to assimilate them to the European regulations (4th Q. 2012).
 - ✓ Reform of the Law of the Securities Market, to apply the European Regulation on short-selling and specific aspects of credit default swaps (4th Q. 2012).
 - ✓ Modification of the conditions necessary for the issuance of securities, applying European directives (4th Q. 2012).

3. Results

Restructuring effort made by the financial system since the beginning of the crisis

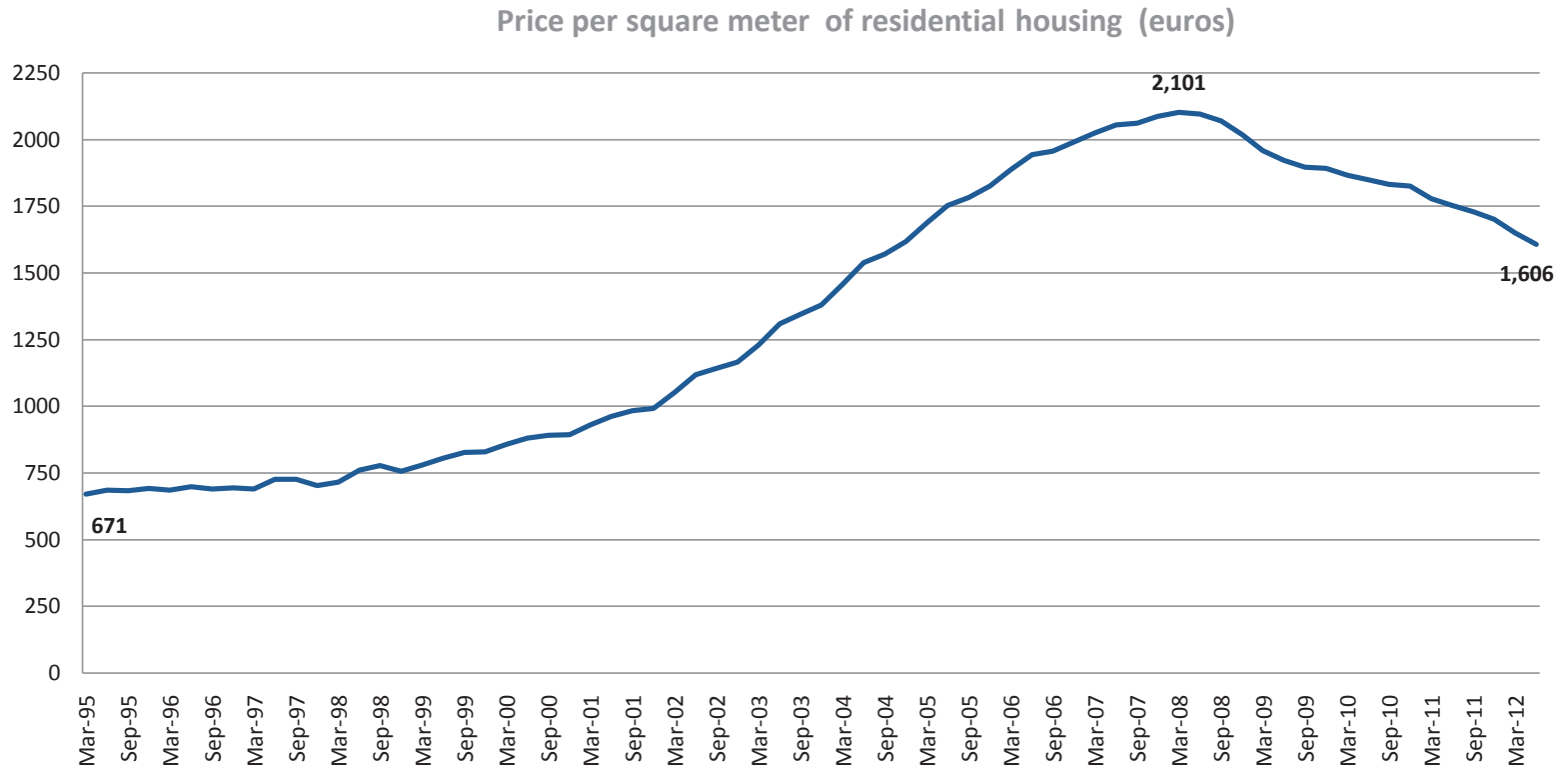


Coverage of real estate exposures



- The restructuring effort of the Spanish banks will amount to 20% of GDP.

4. Effects

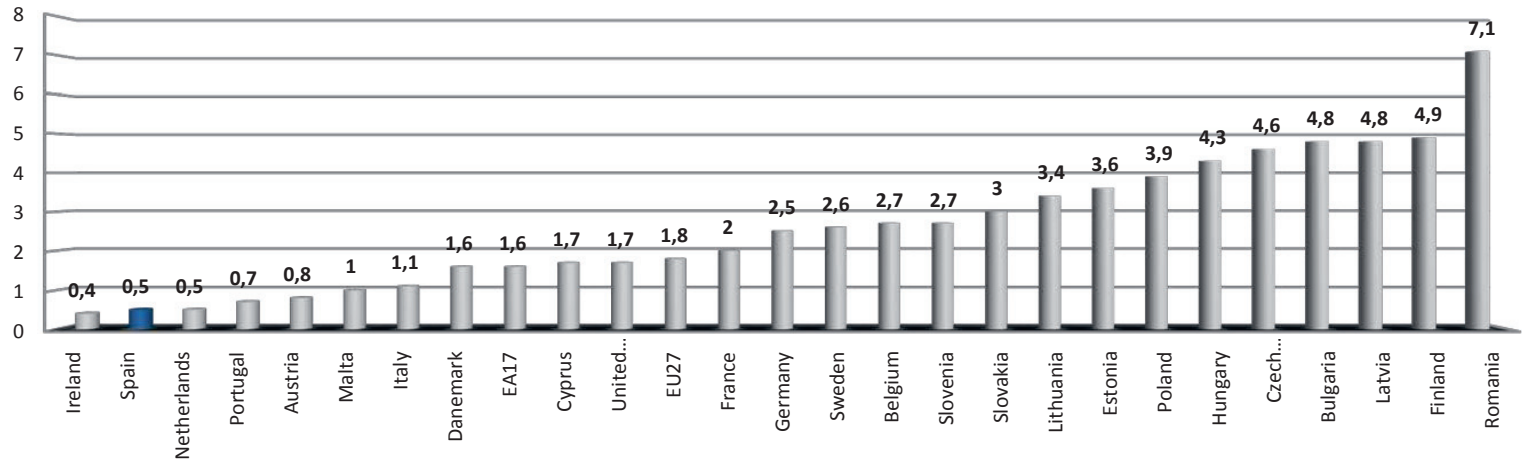


Source: Ministry of Public Works

- The correction of real estate prices in Spain already compares to the correction experienced in the United States and the United Kingdom.

C. STRUCTURAL REFORMS

Unit labor cost by hour 2Q2012
(% interannual increase)



Source: Eurostat

- **The average wage increase set** in collective agreements for 2012 (1.47% until August) is sensibly **more moderate** than in previous years (2.24% in 2009; 2.16% in 2010; 2.62% in 2011).
- **The average wage increase in newly signed collective agreements** up to August 2012 was **0.87%** (1.03% for annual agreements and 0.78% for multiannual agreements). In the same period of 2011, the increase was 1.60% (1.38% and 1.75% for annual and multiannual agreements, respectively).

1. Labor and Employment Policies Reform

- *Adopted measures:*
 - **II Agreement of social partners on Employment and Collective Bargaining 2012, 2013 and 2014:** Wages will not grow over **0.5% in 2012** and 0.6% in 2013, including a revision clause linked for the first time to European inflation.
 - **Comprehensive reform of the labor market:**
 - ✓ Fostering internal flexibility as an alternative to employment destruction and encouragement of firm mobility.
 - ✓ Modernization of collective bargaining, to make it more balanced and close to productive needs, giving priority to the application of firms' agreements.
 - ✓ Fostering **workers employability**: cooperation between Temporary Work Firms and Public Employment Services and intensification of workers right to vocational training.
 - ✓ Fostering **employment creation and labor duality reduction**: New permanent contract to support entrepreneurs, banning of succession of temporary contracts, fostering part-time contracts, regulation of distance work.
 - ✓ Greater **efficiency in the labour market**: rationalization of dismissal costs and simplification of the regime of individual and collective dismissal due to objective economic circumstances.
 - **Revision of employment policies:**
 - ✓ Global rationalization of the **rebates system** for new contracts.
 - ✓ Rationalization of unemployment **benefits and subsidies**.
 - ✓ **Annual Employment Policy Plan (2012)**: instrument for the coordination of active employment policies of the different regions and for the assessment of the actions developed, that will be taken into account when assigning funds.

1. Labor and Employment Policies Reform

- *Results*

- ✓ **Collective agreements** signed in 2012 are **more coherent** with the cyclical situation, particularly multiannual agreements.
- ✓ **Unit labor costs** fell by -0.4% and by -0.7% in the first and second quarters of 2012, according to OECD data, whereas in the euro area they increased (0.3%; 0.4%).
- ✓ Up to september, **56,656 contracts have been signed under the new category of permanent contract to support entrepreneurs**, of which almost 50% (26,771) affect workers under 30.
- ✓ During the first semester of 2012, **the increase in the number of workers employed under part-time contracts was 25% higher** than in the same period of 2011.
- ✓ Between March and June 2012, the number of **contracts for training and apprenticeship** for workers under 30 increased by 5.4% compared to the same period in the previous year.
- ✓ Between March and July 2012, the number of workers affected by collective dismissals has fell by 25%. This data, significant in the middle of a recession, signals a **trend to use alternative options to firing after the labor reform.**

1. Labor and Employment Policies Reform

- *Next measures:*
 - **Encouragement of vocational training** to foster young employment, through the development of a contract for education and apprenticeship, and the establishment of the foundations to launch a dual vocational training system through close cooperation between the educational system and firms (4th Q. 2012).
 - **Employment and Young Entrepreneurship Strategy**, to encourage labour insertion and entrepreneurial spirit, and tackle youth unemployment (4th Q. 2012).
 - **Labor calendar reform** to prevent malfunctioning and favor competitiveness in our economy (4th Q. 2012).
 - Encouragement of **public-private partnerships** for intermediation in the field of **public employment services** (4th Q. 2012).
 - **Regulatory implementation of the procedure for collective measures**, including discouragement of collective measures for aged workers (4th Q. 2012).
 - **Assessment of active employment policies**, so as to determine future employment priorities, and concentrate resources in measures with a greater impact on employability of workers with greater difficulty in finding a job (1st Q. 2013).

2. Entrepreneurs Plan

- *Adopted Measures:*
 - Implementation of the **Plan for the Payment of Public Providers**, with a liquidity injection of **€27bn** that has benefitted **29,108** Autonomous Communities' providers and **114,935** municipalities' providers, of which 99% are SMEs and autonomous workers.
 - Creation of the **Contract to Support Entrepreneurs** under the framework of the Law of Labor Reform. **56,656 contracts** have been signed:
 - ✓ Fiscal deductions:
 - Fiscal deduction of €3,000 for hiring the first worker(<30 years).
 - Fiscal deduction of 50% of the employment subsidy for workers hired during one year. The worker can receive 25% of the subsidy as well.
 - ✓ Fiscal and Social Security incentives:
 - Rebate of up to €3,600 for contracting young unemployed workers (16-30 years).
 - Rebate of up to €4,500 for contracting long-duration unemployed workers (>45 years).
 - Obligation to incorporate a **quantified credit increase objective** to families and SMEs in the integration projects of credit institutions, as a requirement in the first stage of the financial sector reform.
 - Enlargement and improvement of the **ICO Lines 2012, increasing the amount up to €22bn.**
- **The number of autonomous workers increased by 5,022 between March and August 2012, whereas it fell by 7,874 workers during the same period of 2011, despite the different cyclical situation.**

2. Entrepreneurs Plan

- *Next measures: Entrepreneurs Plan, horizontal, dynamic and open to the needs of Spanish autonomous workers and SMEs*
 - **Supporting Entrepreneurial Spirit:**
 - ✓ Creation of the figure of limited responsibility entrepreneur.
 - ✓ Fostering second chances, with measures such as the new non-judiciary payment agreement and the reform of the regulation of the bad debtor registry.
 - ✓ Encouraging own and third parties financing for entrepreneurs through individual investors in entrepreneurship, professional venture capital, fostering the creation of an Alternative Fixed Income Market, ICO-AXIS initiative and FTPYMES reform, etc.
 - ✓ Speeding up procedures to start entrepreneurship projects.
 - ✓ Incorporation in every educational level, of competences and knowledge necessary to undertake entrepreneurship.
 - ✓ Enable the access to a autonomous work permit for people who have come to Spain to complete their education or hold a resident card or a work permit, and who wish to start an economic activity in our country.
 - **Support for the growth, development and internationalisation of corporate projects:**
 - ✓ Improving fiscality for entrepreneurs.
 - ✓ Fostering R&D&I through the regulation of the Young Innovative Firm and the reduction of costs and burdens on industrial property procedures.
 - ✓ Promotion of internationalization, enabling access and adapting existing instruments.
 - ✓ Reducing administrative burden and statistic information.
 - ✓ Enabling access to public procurement.
 - ✓ Reducing bad loans in commercial transactions.
 - ✓ Facilitating the transmission of firms.

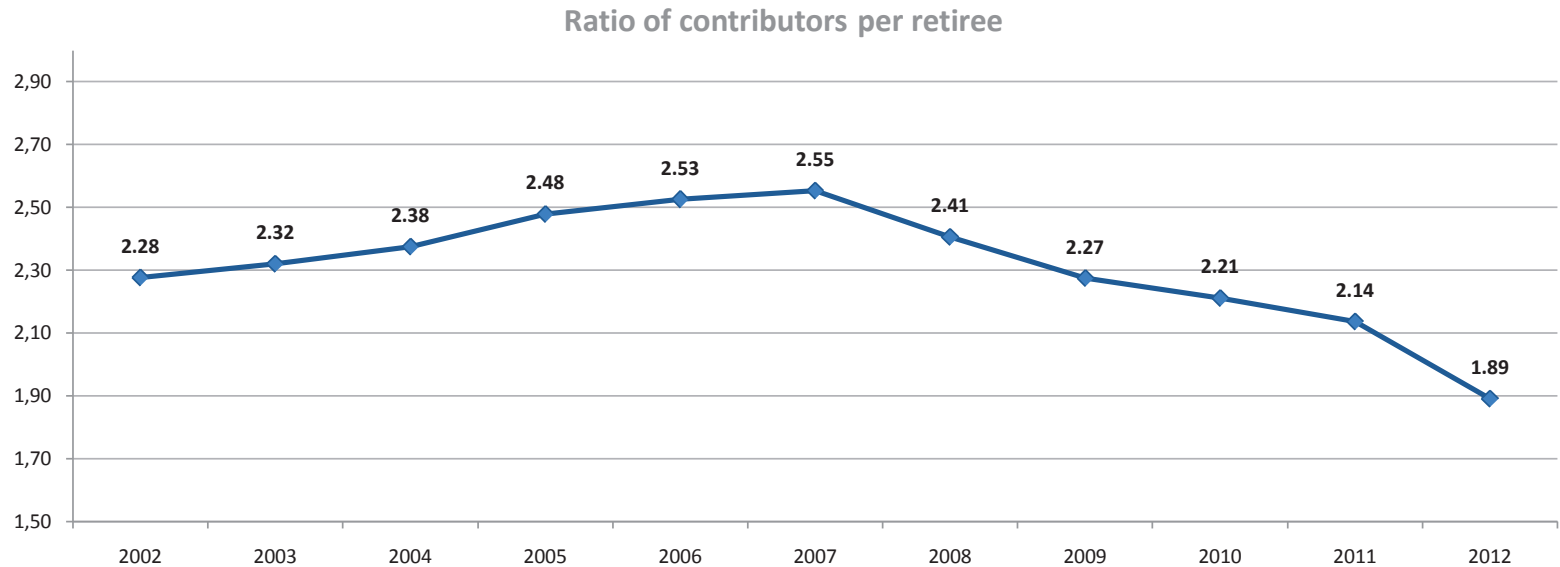
3. Public Sector Reform: Streamlining administrative structures

- *Next measures:*
 - **Autonomous Communities:**
 - ✓ Reduction of structures and expenditure assumed in the Economic and Financial Plans: reduction of current expenditures by almost €9.5bn, reduction of personnel expenditure by €3.6bn, reduction of subsidies and transfers or reprogramming of investments.
 - ✓ Development of the process of reduction of firms and public foundations.
 - ✓ Monthly transparency in public accounts (4th Q. 2012).
 - **Municipal Administration:**
 - ✓ Approval of the **Law of Rationalisation and Sustainability of the Municipal Administration**, to set limits on municipal competences, avoid overlapping and eliminate redundant administrative structures (Minor Municipalities and Mancomunidades). Savings are estimated at €3.5bn in 2013 (4th Q. 2012).
 - ✓ Reduction in the number of municipal government members with the reform of the Organic Law on Electoral Regime, expected for the end of the year (4th Q. 2012).
 - ✓ Making mayors compensation homogeneous, establishing a scale in the **Budget Law** (4th Q. 2012).

3. Public Sector Reform: Public services guarantee

- *Adopted measures:*
 - **Measures to rationalize health expenditure and guarantee the quality of services:**
 - ✓ Rationalization of access to health services.
 - ✓ Unification of a basic portfolio of services, common to every Autonomous Community.
 - ✓ Reduction of drugs expenditure: New model of users contributions as a function of income, updating of the Nomenclator, promoting the use of generics, adjusting the number of doses in the packages.
 - ✓ Efficiency in health expenditure: Centralized Purchases Platform (Savings of €37M in vaccines).
 - **Measures to rationalise expenditure in education, safeguarding coverage and quality:**
 - ✓ Increasing the number of pupils per class in non university education (20% increase over the maximum of 25 pupils for Primary Education and 30 pupils for Secondary Education).
 - ✓ Modifications in the teachers' regime, in terms of hours and permits.
 - ✓ Rationalization of educational offer in High School, Vocational Training and Universities.
 - ✓ Revision of the University registration fees to approximate them to the real cost and inclusion of criteria related to academic results.
 - ✓ Redesigning the grants system, to incorporate performance stimuli.
 - **Measures to guarantee the viability of the dependency attention system:**
 - ✓ Simplification of the scales and adjustment of the services to the needs of dependency.
 - ✓ Revision of the economic benefits when the provision of help is carried out by the family.
 - ✓ Adjustment of the contribution of the user to economic capacity, with common criteria in all the territory.
 - **Reform of the General Law of Audiovisual Communication**, so that Autonomous Communities can choose the management model of the public service of television, including privatization.
- *Next Measures:*
 - **Development of the health reform**, making progress in the regulación of health portfolios(1st Q. 2013).
 - Reform of the **Law of Guarantees and Rational Use of Drugs and Sanitary Products**, to conform it to European standards (4th Q. 2012).

4. Guarantee of the Pension System



Source: Ministry of Employment and Social Security

- Demographic aging and the increase in unemployment have caused a worrying **descent in the ratio of contributors per retiree**.
- So as to ensure the sustainability of the pension system we must prioritise employment creation policies as the best guarantee to the system, and favor **the adaptation to the new social reality**.

4. Guarantee of the Pension System

- *Adopted measures:*
 - **Progressive increase** in Social Security contributions: equal treatment of computable concepts regarding contributions to the system of labor income taxation and establishing a ceiling on concepts excluded from taxation.
 - **Reinforcement of the obligation to contribute**, harmonizing surcharges for late payment of contributions at 20%.
 - **Fostering longer working lives**, by **prohibiting mandatory retirement clauses in collective agreements**, and introducing a requirement for **profitable companies that undertake collective dismissals affecting workers over 50** to make a contribution to the Treasury.
 - Rationalization and streamlining of the **system of rebates**.
 - Rationalization of employment benefits for workers older than 55.
 - Implementation of the schedule foreseen in Law 27/2011 for rising the **retirement age**.
- *Next measures:*
 - Advance the modernization of the pension system, by **regulating the sustainability factor**, as a guarantee of its viability, to be submitted to the Pact of Toledo (4th Q. 2012).
 - Amend the **regulation on early retirement and partial-time retirement**, to enforce the statutory retirement age (4th Q. 2012).
 - Reform of **Mutual Insurance Companies for Working Accidents and Professional Diseases**, modernizing their management in order to reach higher levels of efficiency and better contribute to fighting absenteeism. (4th Q. 2012).

5. Education Reform

- Spain devotes \$10,094 per year to public education expenditure per pupil, 21% more than the OECD and the EU-21 average. **The financing of the Spanish education system is higher than in other neighbour countries at every single level: infants, primary, secondary and tertiary.**
- However, Spain obtained **481 points in the latest PISA scores (2009)**, 12 points less than in 2000 and 12 points below the OECD average.
- Our country ranks **18th among the 25 European countries assessed in PISA 2009 and 26th among the 34 OECD countries.**
- In the last 20 years, **Secondary Education graduation rates** have increased 2 points since 2000, reaching 48% in 2010.

5. Education Reform

- *Next measures:*
 - **Organic Law for the Improvement of Education Quality:** integral reform of the education system to reduce early school drop-out, favor acquisition of capacities and employability and bring objectiveness to the assessment of education centers (4th Q. 2012).
 - **Vocational training** reform, to establish a **new dual system** through which the students can combine theoretical education at an academic center and practice at a payed job (4th Q. 2012).
 - Approval of the **Statute of Non University Teachers**, with a new access framework, professional career development and rights and obligations (1st Q. 2013).

6. Reform of the regulatory and supervision framework

- *Next measures:*
 - Launch of a **Program for the Integrity of the Market**, with a view to establish, at every Administration level, a more efficient regulatory model of economic activities, enabling scale economies and eliminating barriers for economic development (4th Q. 2012).
 - ✓ **Approval of a Law to Guarantee the Integrity of the Market** to ensure free movement of goods and free provision of services in the whole national territory.
 - ✓ **Identification, assessment and modification**, if necessary, of the regulation affecting market integrity at every competential and sectoral level.
 - ✓ Development of **administrative cooperation systems** to implement market integrity in practice and establishment of an agile system for **conflict resolution**.
 - Creation of a **National Commission for Markets and Competition**, which concentrates at a single body all the functions of supervisory organisms, favoring greater simplification and efficiency and better guaranteeing the correct functioning of markets (4th Q. 2012).
 - Launch of a **Program for Quality and Regulatory Simplification**, to provide legal certainty and favor regulatory burden reduction (1st Q. 2013).

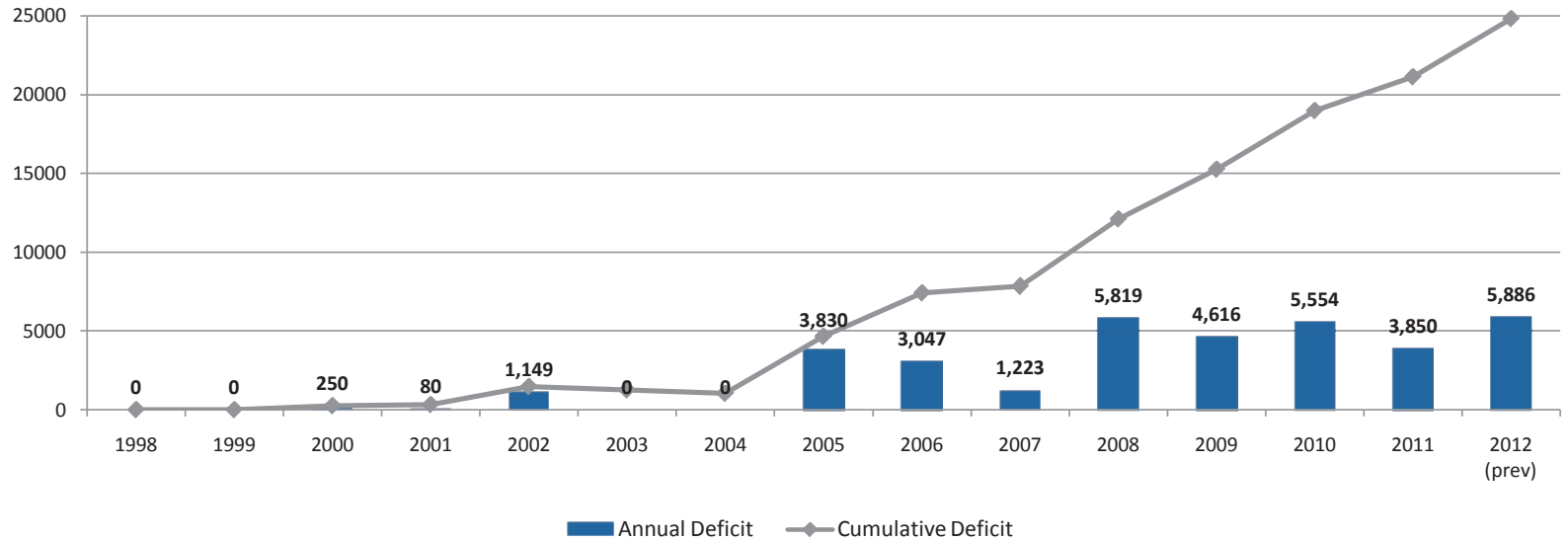
7. Development of Science and Innovation

- *Next measures:*

- Creation of a **State Agency for Research**, which will manage, finance, assess and verify scientific, technical and public initiative innovation activities (1st Q. 2013).
- New planning of **Spanish Strategies for Science, Technology and Innovation**, in order to specify principles, aims and priorities of public policies for R&D&I from 2013 to 2020, and the requirements for the necessary coordination of Public Administrations. These strategies will be specified before the end of the year in the corresponding **State Plans** (1st Q. 2013).
- Creation and regulation of the **Advisory Council for Science, Technology and Innovation, in order to establish strategy proposals for science, technology and innovation**, encouraging the participation of the scientific, technological and entrepreneurial communities in R&D&I policies (1st Q. 2013).

8. Energy Reform

Tariff deficit (M€)



Source: National Energy Commission. (million euro)

8. Energy Reform

- *Adopted measures:*

- Adoption of **urgent measures to contain** the accumulated tariff deficit, which reached €24bn in 2011.
 - ✓ Suspension of economic incentives for the building of new subsidized facilities.
 - ✓ Measures for the correction of imbalances between costs and revenues in the electric and gas sectors.
- Building of a **Centralized Temporary Warehouse for nuclear waste** and a technological centre.

- *Next measures:*

- Adoption of **structural measures to correct the tariff deficit in a conclusive way**, through the approval of the **Law of Fiscal Measures for Energy Sustainability** (4th Q. 2012).
- Launch of a new **Law for the Electric Sector**, to deepen its liberalization, improve consumer protection and address inefficiencies detected through accumulated experience (1st Q. 2013).

9. Liberalization Programme of the Services Sector

- *Adopted measures:*
 - Implementation of a **Regulatory Programme to Improve the Efficiency of the Retail Sector**, to contribute with enhanced flexibility, dynamism and competitiveness in the development of retail trade:
 - ✓ Elimination of mandatory licences to open up retail outlets up to 300 m2.
 - ✓ Replacing previously mandatory municipal opening and activity licences with a private statement.
 - ✓ Liberalization of business hours and sale activities.
- *Next measures:*
 - **Law on Measures in the Area of Professional Services:** Encouraging competition in the area of professional services, in line with the recommendations of the European Semester 2012-2013 (4th Q. 2012).
 - Regulatory reform of the **Official Chambers of Commerce, Industry and Navigation:** Facilitating nationwide coordination and contribution to the foreign visibility of Spanish firms (4th Q. 2012).
 - **Law on the Supervision of Private Insurers:** Adapting insurance regulation to the legal and economic framework of the European Union (4th Q. 2012).

10. Strengthening of the Tourism Sector

- *Adopted measures:*

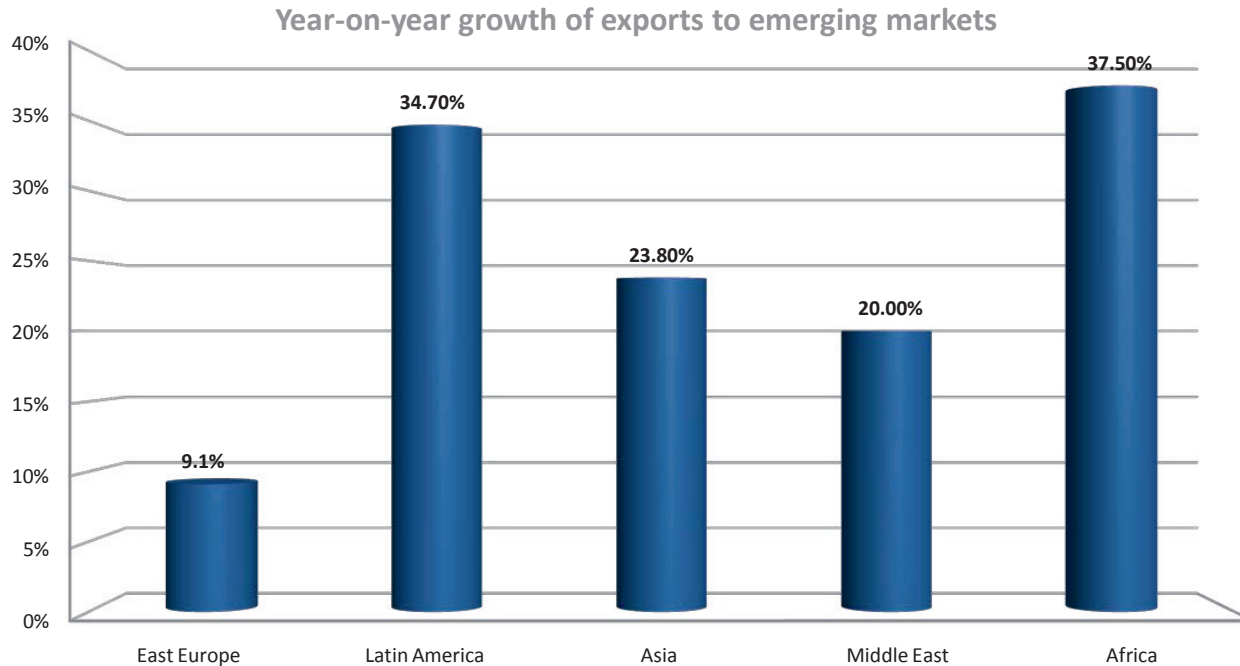
- A **Comprehensive National Tourism Plan (PNIT)** for the period 2012-2016 has been approved which aims at: increasing tourism activity and profitability, generating high-quality jobs, boosting market integrity by developing a common policy framework, improving cohesion and Spain brand awareness; and promoting collaboration between the public and private sectors.
- The legal certainty in the sector has been strengthened, by improving the regulation of **timeshare resort assets contracts** (time-sharing), and increasing consumer protection.

- Between January and July, Spain hosted **33 million tourists**, with a year-on-year increase of 3,3%.
- Spain achieved a record high mark in July with the **arrival of 7.7 million international tourists**, a 4,4% increase on the same month of 2011.

- *Next measures:*

- Implementing **PNIT** with the first evaluation report to be made under the National Plan (4th Q. 2012).
- Kicking-off the first **Loyalty Programme** in the British and German markets (1st Q. 2013).
- Kicking-off a **Programme for Specialization of Agents** and creation of new forms of professional meetings (1st Q. 2013).
- Development of **new initiatives to promote tourism in Spain** through new technologies, online campaigns, and specific applications for mobile devices (1st Q. 2013).

11. Support to Globalisation and the Foreign-Oriented Sector



Source: Department of Customs, Tax Administration.

Spain makes its way to new markets.

11. Support to Globalisation and the Foreign-Oriented Sector

- *Adopted measures:*
 - Several **measures have been implemented to spur growth in exports and foreign trade**, comprising:
 - ✓ The call for **privatization of the Spanish Export Credit Insurance Company (CESCE)**.
 - ✓ **Integration of Invest in Spain**, State Society for the Promotion and Attraction of Foreign Investment, **with the Spanish Foreign Trade Institute (ICEX)**.
 - ✓ Approval of **measures to foster export credits**, making them more attractive for financial entities to provide funding to entrepreneurs that sell abroad.
 - Supporting internationalization and foreign trade, through the set-up of a **Commissioner for the Spain Brand**, in order to strengthen our country's reputation abroad and promote the visibility of our companies.
- *Next measures:*
 - Setting-up an **Internationalization Agency (SECEX)**, in order to take advantage of synergies of various public instruments to foster Spanish exports and attract foreign investment in the real economy (1st Q. 2013).

12. Liberalization of Telecoms

- *Mesures adopted:*
 - **Digital dividend:** Approval of the Plan to foster DTT and technological innovation, which facilitates the deployment of new 4G mobile networks, as of January 2014. The television sector is rearranged.
 - **Transposition to the Spanish legal framework of the European directives** on electronic communications of 2009.

- *Next measures:*
 - Approval of the **new General Telecommunications Law**, that aims at facilitating the deployment of networks and provision of services; ensuring a more efficient use of radio-electric spectrum; promoting market integrity and reducing the administrative burden on operators, and allowing access by telecom operators to other sectors' networks (4th Q. 2012).
 - Approval of the **Digital Agenda for Spain** that intends to facilitate connectivity, develop the digital economy for growth, enhance the development and safety of the electronic Administration, and boost overall R&D&I in the field of ICTs (1st Q. 2013).

13. A more dynamic transportation sector

- *Next measures:*

- **Liberalization of the railway transportation of passengers**, opening up the market for passenger traffic on railways from **31 July 2013**. Preparing public companies (Renfe, Adif, Feve) to operate in a liberalized market:
 - ✓ Renfe, by creating four companies: Goods, Manufacturing and Maintenance, Passengers and Renting of Rolling Materials.
 - ✓ Adif, a process of rationalization of railways and infrastructures will start, recovering real costs by establishing appropriate fees.
 - ✓ FEVE, will be integrated in Renfe and Adif.
- **Measures to improve the results and competitiveness of AENA**, establishing a new regulatory framework that enables, maintaining the network concept, an increase in its value by generating scale economies, and better risk diversification as a first step to its opening to private capital, as well as reducing operating and investment expenses with a view to increasing efficiency, reducing debt and improving value for future privatization (4th Q. 2012).
- **Reform of the Law Regulating Land Transportation**, so as to increase the competitiveness and efficiency of the sector, improve public services and enhance transparency and control over land transportation, both for goods and passengers (4th Q. 2012).
- Presentation of the **Infrastructure, Transportation and Housing Plan (PITVI) 2012-2024**, to foster the maintenance of existing infrastructures, guarantee high-quality mobility and help overcome territorial inequalities in the current infrastructure network and foster urban renewal and residential renting (4th Q. 2012).

14. Adjustment of the Real Estate Sector

- *Next measures:*
 - Approval of the **Law of measures on flexibility and promotion of the rental market**, so as to make the regulatory regime more flexible, strengthen legal security, improve the regulation of eviction in case of default and establish fiscal stimuli (4th Q. 2012).
 - ✓ Flexibilization: The contracting parties will be prioritised and landlord and tenant are given more flexibility to terminate the contract.
 - ✓ Legal safety: the role of Property Registrars is strengthened and regulation on eviction in case of default is improved.
 - ✓ Fiscality: criteria for deduction of rents in the Corporate Tax are modified, the fiscal regime and requirements for Real Estate Investment Companies are improved.
 - Presentation of a new **Law on Refurbishment, Regeneration and Urban Renewal**, which spurs dynamism in the construction sector and its ancillary industries, and enables employment creation with a view to foster refurbishment and the conservation of the architectural heritage (4th Q. 2012).

15. Support for the Primary Sector

- *Next measures:*
 - **Law on measures to improve the functioning of the agro-food chain** to introduce mechanisms that guarantee the balance and transparency in its functioning (4th Q. 2012).
 - **Promotion of the integration of agricultural cooperatives and other agro-food entities**, with a new Law, to favor their redimensioning, competitiveness and internationalization (4th Q. 2012).
 - Strengthening the capacity to interact of the sector representatives, by defining a new regulatory framework to determine the **representativeness of professional agrarian organisations** (1st Q. 2012).
 - **Approval of strategic lines for the internationalization of the agro-food sector**, not only by increasing exports but by enhancing the presence, dynamism and influence of the agro-food industry in international markets as well.
 - **Actions to regulate national fisheries**, so as to adapt our fishing capacity to the actual situation of the country, and improve **control of fishing activities in Spain** (4th Q. 2012).

16. Environment Protection

- *Adopted Measures:*
 - Approval of **urgent measures on the Environment**, to **streamline and speed up administrative procedures on environmental management**, improving the effectiveness of water management, protection of the natural heritage, or management of waste and polluted soil.
 - **Regulatory adjustment for the auctioning of emission rights**, enabling the access of Spanish firms to the prospective system of allocating emission quotas through a competitive and equal access with the rest of Europe, with the aim of fighting climate change.
- *Next measures:*
 - Reform of the **coastal management regulations**, in order to provide legal security to coastal property and facilities, reinforce government intervention on urban activities in the coast and guarantee a sustainable use of the coast, reconciling environment protection and economic development (4th Q. 2012).
 - Simplification of **proceedings of environmental assessment** for professional, business and industrial activities (4th Q. 2012).
 - Launch of a new **Law for National Parks** to provide the necessary tools for the adequate protection and sustainability of national parks, and to promote cooperation (4th Q. 2012).
 - Review of **rules concerning forests and natural heritage** to enhance simplification, given the overlapping of instruments of country planning and regulatory fragmentation (4th Q. 2012).

17. Legal Certainty

- *Adopted measures:*
 - Approval of a **Law on Civil and Commercial Arbitration**, to introduce a new responsive, flexible and thrifty voluntary mechanism to solve conflicts, which will favor the reduction of litigation and will alleviate the workload of the Administration of Justice.
- *Next measures:*
 - New measures to **provide the Administration of Justice with more responsiveness and greater guarantees** in its functioning:
 - ✓ **Revision of judicial fees**, to rationalize the functioning of the Administration of Justice and guarantee the support of the costless justice system for citizens without resources to go to court (4th Q. 2012).
 - ✓ Strengthening the guarantees for **free legal assistance** with a new regulation (4th Q. 2012).
 - ✓ Presentation of a **new Law on Voluntary Jurisdiction** to contribute to an agile functioning of the Administration of Justice (4th Q. 2012).
 - ✓ Approval of a new Law of the Civil Registry, which will speed up proceedings, introduce digital records and foster effectiveness by eliminating formal obligations (4th Q. 2012).
 - ✓ The Reform of the Criminal Code will eliminate minor criminal faults, so that **those that do not deserve criminal consequences will be dealt with in administrative non judiciary instances. The remainder will be treated as crimes** (1st Q. 2013).

SPANISH
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