NATIONAL REFORM PROGRAMME[1]

KINGDOM OF SPAIN

2013

[1] The English version of the Spain's 2013 National Reform Programme is just for informational purposes and the only official version of the Programme is the original version in Spanish.

I. INTRODUCTION

Since drafting the previous National Reform Programme (NRP) in April 2012, the Spanish economy has had to deal with an unfavourable international environment, marked by the increased financial instability caused by the debt crisis in the Eurozone. Financial tensions have particularly affected the peripheral economies above all, and have been reflected in the volatility of capital flows, increased risk premiums and difficulties in market access.

Although there has been some improvement in financial conditions in recent months, the instability has affected the whole European economy, which has suffered a major contraction in domestic demand. This fact can be seen in the fall in GDP of 0.3% in the European Union and of 0.6% in the Eurozone in 2012, compared with initial forecasts of growth of 0.6% and 0.5%, respectively (European Commission, *European Economic Forecast*, Nov. 2011). In Spain, where GDP growth was initially estimated at 0.7%, the fall in GDP was 1.4%.

Despite the turbulence in European economies and the major cost in terms of growth and employment, last year the Spanish economy has shown significant progress in correcting its macroeconomic imbalances. Our economy has undergone a major transformation in 2012, based on the restructuring of balance sheets in the private sector, strengthening of public finances, realignment of prices and reallocation of production factors; all this is aimed at recovering competitiveness and laying the foundations for growth and job creation.

This transformation has required a comprehensive revision of economic policy throughout last year. The Government of Spain has carried out priority actions in three areas. First, fiscal consolidation: this is an essential element for guaranteeing the sustainability of public finances in the fragile economic environment of the Eurozone. Second, recapitalisation and restructuring of the banking sector, so that doubts regarding its solvency are dispelled once and for all and credit can be reactivated to households and companies. And finally, the adoption of structural reforms that relaunch our competitiveness and correct our external funding needs.

The NRP 2013 is fully integrated into the Government's economic strategy and is a further boost to last year's reform agenda. It is an ambitious programme that includes measures aimed at increasing the efficiency, flexibility and competitive capacity of the Spanish economy, together with other second-generation measures that are designed to fully exploit all existing instruments at a national level to overcome the most urgent bottleneck now faced by the Spanish economy for growth and job creation: the difficulties in finding finance in an environment of fragmented financial markets in the Monetary Union.

This NRP fulfils Spain's commitments under the European Semester. The actions included here correspond to the priority areas identified in the Annual Growth Survey 2013 (AGS) in November: fiscal consolidation; restoring lending to the economy; structural reforms; tackling unemployment and the social consequences of the crisis; and modernising public administration. These reforms ultimately lay the foundations for compliance with the Europe 2020 strategy.

In line with the above, the NRP 2013 continues with the reforms begun in 2012. However, what is new is that as well as shock treatment that aims to boost competitiveness and above all the flexibility of the Spanish economy, there is greater focus on those elements that represent the biggest restrictions to growth.

These restrictions have been identified for all the countries in the European Union as a whole in the Annual Growth Survey. In the case of Spain they focus specifically on the difficulty for companies to access finance, in particular for SMEs, the need for a more favourable environment for entrepreneurs and the social consequences of the economic crisis.

The **limitations on the use of macroeconomic** policies derived from Spain's commitments within the **framework of Economic and Monetary Union** are well known: It is impossible to adjust the exchange rate to recover price competitiveness against countries in the Eurozone; and there are limitations on the use of active demand policies to boost growth (monetary policy is managed by the European Central Bank and fiscal policy is conditioned by the surveillance and discipline mechanisms established within the framework of the Union). This is the reason why **structural reforms,** which provide the necessary relative price adjustment against the rest of the countries in the Eurozone, i.e. the internal devaluation of the economy, are so important.

In the Eurozone, with the lack of a centralised budget, the national economies exposed to **asymmetric shocks** are obliged to take a number of different measures, including the improvement of the quality of the institutional framework that determines the setting and updating of prices and income, so that the **adjustments are produced by prices rather than by amounts**. In other words, the integration of the Eurozone requires **greater flexibility**, for example in the institutional framework of the labour market or in the operation of the markets for goods and services.

The most outstanding results of this process of reforms begun in 2012 are already being seen in the increased foreign competitiveness of the Spanish economy, with a net external surplus of nearly 4% of GDP in the last quarter of the year and an improvement of 3.4% in unit labour costs. Also notable are the efforts to reduce the government's structural primary deficit, which amounts to over 3% according to IMF estimates, although a great effort still has to be made in this respect. Finally, the competitiveness gained means that private agents now have a net borrowing capacity and they have already managed to reduce their stocks of external debt. In particular, households and non-financial companies as a whole have reduced their external debt by 2.8 points of GDP to 37%.

In short, the correction of the main imbalances is already taking place and will continue throughout 2013 and 2014, as shown by the forecasts of the Stability Programme.

The **NRP** explains the Government's **reforming agenda to increase the competitiveness and above all the flexibility of the Spanish economy**. It deals with the structural reforms that have been adopted last year, and also explains those that will be introduced in the upcoming months.

Of all the measures included in the NRP, **eight reforms** are worth highlighting **due to the impact** they will have on the Spanish economy. They are summed up below:

1. Fiscal consolidation of the public accounts: fiscal consolidation and Social Security measures

As was the case in 2012, the fiscal consolidation of the public accounts is an axis of the NRP that is explained in more detail in the update of the Stability Programme 2013-2016.

The fiscal consolidation initiatives can be divided into two types:

- **The improvement of economic governance**, which improves the budgetary discipline of public administration services.

  In 2012, the fundamental milestone in the **improvement of budgetary discipline** was the approval of Organic Law 2/2012, dated 27 April, on Budgetary Stability and Financial Sustainability, which will be strengthened by approval in 2013 of the Law on Transparency, Access to Public Information and Good Governance.

  In addition, particular attention is being paid to the creation of an **Independent Fiscal Responsibility Authority** to oversee compliance with budgetary stability at all tiers of government. The Constitutional Law creating this authority is in the consultation phase and it is expected to be submitted to Parliament in June, so that it can be passed before the preparation of the national budget for 2014.

  These measures are completed with those already adopted in data transparency for budgetary performance and the measures that will be implemented to **combat late payments by public authorities**.

- **Measures to raise revenues and contain expenditure** to comply with the budgetary stability targets for the period 2013-2016. However, the strategy of fiscal consolidation is developed in more detail in the Stability Programme.

With respect to Social Security, actions are already underway for the **legal regulation of the sustainability factor**, with the aim of revising the basic parameters of the Social Security system according to changes in life expectancy and other demographic and economic factors. A committee of experts has been appointed to prepare a report on the sustainability factor. It will be submitted to Parliament before 31 May so that the Toledo Pact Commission can prepare its recommendations between June and July, leading to a law regulating the sustainability factor, which will be passed later in 2013.

2. Monitoring the labour market reform

The labour market reform of 2012 establishes a new framework for labour relations, aimed at modifying the pattern and procedure used for restructuring in the Spanish labour market. This is a key aspect in terms of **preparing for an economic recovery that can generate jobs.** Its main objectives are to promote measures of internal flexibility through instruments that allow companies to adapt to economic circumstances without large-scale job cuts and that improve the employability of workers.

It is essential to supervise the level of implementation of the law and evaluate its impact, in order to assess whether the reform fulfils the objectives set for it. The preparation of new monitoring indicators, improved employment statistics and monitoring of court decisions related to labour reform, allow any problems in applying the law to be identified and corrected at an early stage.

That is why in 2013 monitoring of the reform will continue through groups and committees set up for this purpose. An **initial evaluation report of its effects** in its first year of application will be published once the data from the Active Population Survey for the first quarter of 2013 are known. The evaluation report that analyses the impact of the reform on the main labour market indicators, job creation, the decline in unemployment and the rate of temporary employment will be **checked by a prestigious independent body before July 2013**. This report will help define future actions in this area.

3. Law on the De-indexing of the Spanish Economy

The **accumulated loss of price competitiveness** against other Eurozone countries is one of the factors that have contributed most to the **accumulation of imbalances**. As there is no exchange-rate adjustment mechanism (due to membership of the Eurozone), systemically higher inflation than that of our trading partners leads to this loss of price competitiveness. Thus, **price moderation is essential** in order to increase the pace of recovery of the competitiveness that has been lost.

This necessary moderation has been reflected in the **Second Agreement for Employment and Collective Bargaining 2012, 2013 and 2014.** In it the social partners **expressly reject direct indexing of wages to the CPI**, so that moderation of wage income can boost growth and job creation. In this context, **the public authorities must contribute to the** responsible coordination of income as proposed by the social partners.

In this situation, an initial Draft **Bill on De-indexing the Spanish Economy** has been drawn up. This law will introduce a **new index to be used as a reference instead of the CPI** in regular updates of items such as income and expenditure, prices, tariffs, fees and revenues for the public authorities. The new index will be more demanding than the CPI and will take into account the level of inflation of 2% considered as the level of price stability by the European Central Bank.

The main aim of this law is to **prevent certain "second-round" effects on price formation**. The new reference index aims to **neutralise the effect of variables that do not depend on economic fundamentals** on successive rounds of price and wage formation and that can affect the competitiveness of the Spanish economy. 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**.

The bill is expected to be presented to **the Spanish Council of Ministers at the end of May** this year, so it can enter into force in **January 2014**, when most prices are updated.

4. Law on Market Unity Guarantee and the Regulatory Streamlining Plan

The draft **Law on Market Unity Guarantee** will be approved as swiftly as possible via an urgent procedure with the aim of ensuring the freedom of establishment and free movement of operators in Spain. This law establishes a rigorous framework for good regulation, based on the principles of necessity and proportionality to be observed at all tiers of government in regulating economic activities. The Law will be made up of four basic sections:

- Principles guaranteeing freedom of establishment and movement, which have to be respected by all provisions and acts by the public authorities.
- Institutional cooperation to eliminate obstacles, ensure that new obstacles are not introduced and ensure appropriate supervision.
- A new model of regulation based on the principles guaranteeing freedom of establishment and movement.

- Flexible mechanisms to resolve the problems of operators with the government through two basic channels, which count with the intervention of the new National Markets and Competition Commission to ensure a focus on economic efficiency.

The **Regulatory Streamlining Plan** has already begun to be applied in adapting current law to the Law on Guaranteeing Market Unity. The Plan is made up of the following milestones:

- Regulation identification phase. Over 5,000 regulations have been identified affecting different sectors. All this information has been systematised and introduced into a database.
- Regulation evaluation phase, which has already begun. The evaluation phase of the regulations that have been identified is being carried out through an evaluation questionnaire, which has been prepared in accordance with the principles of market unity and good economic regulation contained in the Draft Bill.
- Regulation modification phase. If there is a need to modify any provision, the Draft Bill includes its amendment within six months from its entry into force.

5. Entrepreneurial Support Act and its Internationalization

With the aim of achieving a more favourable business environment that promotes and assists company creation, and to ensure that viable projects can be developed fully and become international, the **Entrepreneurial Support Act and its Internationalisation** will be approved in 2013. It contains the following measures:

- **Measures aimed at boosting entrepreneurship**, including training for entrepreneurship, creation of the legal status of Limited Liability Entrepreneur (*Emprendedor de Responsabilidad Limitada*) and Progressively Formed Limited Liability Company (*Sociedad Limitada de Formación Sucesiva*), the possibility of creating limited liability companies in 24 hours, the introduction of Entrepreneur Service Points, and provision of a second chance through an extra-judicial payment mechanism.

- **Fiscal measures supporting entrepreneurs**: in particular, the timing of VAT obligations will be based on actual cash payments, tax allowances will be introduced for reinvestment of profits, there will be allowances for R&D, and tax incentives for informal investors in entrepreneurs.

- **Measures to boost finance for entrepreneurs,** specifically: elimination of charges to create incentives for issue of securities on the Alternative Fixed-Income Market (MARF); more flexible regulation of refinancing agreements; and a boost to new instruments for financing internationalisation projects.

- **Measures to promote business growth:** the list of activities not subject to municipal licences will be extended and the obstacles for access by entrepreneurs to public contracts will be eliminated.

- **Measures to boost the internationalisation of the Spanish economy:** A new system of visas and residence permits is planned to attract talent and investment from abroad; and a Spanish strategy for internationalisation will be developed within a defined time-frame.

6. Modernise and streamline public administration services: Law on Rationalisation and Sustainability of Local Authorities

At a time like the present when compliance with European commitments to fiscal consolidation is a key priority, it is essential that local authorities also contributes to this objective by streamlining their structure, which is oversized in some cases, and guaranteeing their financial sustainability.

Among the measures that will be implemented to promote growth and increase the current and future competitiveness of the Spanish economy is the **Draft Law on Rationalisation and Sustainability of Local Authorities**, which will be submitted to Parliament in July.

The Draft Law represents a marked progress at the municipal level, without involving a reduction in the competence of local institutions. It is a **streamlining measure designed to save public expenditure** that will help Spain return to growth based on stability at all its tiers of government, while guaranteeing its citizens that the resources they finance through taxation are used optimally.

The Law aims for **four basic objectives:** clarify the municipal competences to prevent duplication; streamline the organisational structure; guarantee more rigorous financial and budgetary control; and aim to ensure that regulation encourages private economic initiative. To do so, the law **reorganises local government structure** to provide a better financial balance, efficiency in the exercise of its activities and more professionalism from all the officials and staff involved, both at a political and administrative level.

At the same time as the process of clarifying the powers of local government, a similar process will be carried out with the regional authorities by reviewing the activities financed by agreement.

7. Law on Professional Associations and Services

The Draft **Bill on Professional Associations and Services** will be passed in the first half of 2013. It will eliminate obstacles to the access to and exercise of a large number of professional activities. The Bill lays down a general regulatory framework for access to and exercise of professional activities.

First, it sets out the **common or horizontal conditions** that have to be respected by all regulations affecting access to or exercise of the different professions. The general principle will be one of free access and exercise; the limitations to this general principle must respond to the principles of necessity, proportionality and non-discrimination.

Second, the restrictions based on **professional qualifications** for access to an activity may only be required by law provided that they are needed for reasons of general interest, thus limiting restrictions on activity. The Bill includes regulations on professional associations, which will be amended to underpin the model of coexistence of obligatory and voluntary associations and clarify their rules of operation, adapting them to current reality. The obligation to join an association may only be imposed on professions requiring a degree and by national law, when it is more efficient for the associations to supervise the activity than for the public authorities. Membership of other professional associations will become voluntary.

As well as limiting restrictions on activity, reducing the obligation to join associations and simplifying the requirements for access and performance of professional activity, it will clarify a number of other points, including: the model of coexistence of obligatory and voluntary associations; their geographical scope; ethical and disciplinary functions; financial rules and dues; effective exercise of supervision by the corresponding government administration; and the functions of their general councils.

Obviously, pursuant to the Law on Guaranteeing Market Unity, access to a professional activity will guarantee access to exercise the activity in the whole of Spain, and no additional requirements may be demanded to those of the area where access was gained to the profession in question. The government will have to prepare and maintain online access to a list of all the professions regulated in the country, the requirements for accessing them, the cost of joining the corresponding association, where appropriate, etc.

8. Reform of corporate governance

The aim is to reform and extend the current framework of Good Corporate Governance in Spain in order to improve the efficiency and accountability in the management of Spanish companies, while at the same time place national standards at the highest level of compliance compared with international good governance criteria and principles. To this end, an analytical study will be carried out on the best international corporate governance standards and the areas in which Spain can improve its current framework so that the necessary reforms can be implemented within a year.

In particular, the role of shareholder meetings will be strengthened in monitoring the remuneration schemes of management bodies and senior management in companies; the recommendation of the Unified Code of Good Governance for Listed Companies will be improved and extended; the possibility of preparing a new code of good practice for unlisted Spanish companies will be studied; and new improvements will be introduced in the governance of credit institutions in line with the legal developments in the European Union.

Steps have already been taken in this direction in the financial sector. Thus the continuous control and supervision of the Bank of Spain has also been extended to the members of the governing bodies and the holders of key positions in credit institutions and other financial institutions, to ensure that they control and comply with the **requirements of good repute, experience and good governance** set out by the European Banking Authority (EBA).

In addition, in 2013 a reform of the legislative framework of **savings banks** will be approved to clarify **their role in the control of credit institutions as shareholders**.

II. BACKGROUND AND MACROECONOMIC SCENARIO

2.1. Background and macroeconomic scenario 2013-2016.

The macroeconomic scenario 2013-2016, which forms the basis for updating the Stability Programme and the National Reform Programme, reflects the result of the intense process of correcting imbalances and transformation that the Spanish economy has been immersed in since 2012.

The result of this process is clear in the medium term. The Spanish economy will register net external lending of close to 4% of GDP in 2016. The net lending capacity of the private sector will remain high, at between 10.4% of GDP in 2012 and 6.6% of GDP in 2016. Net borrowing requirement by the general government will fall from 7% to 2.7% in the same period. As a result of this, Spain's net international investment position will begin to improve in 2013, with a cumulative correction of 10 percentage points between 2013 and 2016.

The correction implied by the above figures will occur at the same time as the recovery of activity in the different domestic markets: employment will grow at a positive annual average rate starting in 2015 (though in 2014 it will already do so in quarterly terms); there will be some recovery of consumption and private investment in the product markets and a tight restriction on prices, as a result not only of persistent wage moderation, but also greater competition.

The reforms carried out by Spain since the start of 2012, together with the process of fiscal consolidation under way constitute the basis for recovery. These reforms allow a more efficient combination of the factors of production and a more flexible and competitive operation of the markets. They provide the basis for sustained and balanced growth. Although their effects will make themselves felt, above all, in the medium and long term, some of them are already making an impact in the short term. In addition, as the Spanish economy's gains in credibility lead to lower financing costs and this is complemented sufficiently at a European level, the positive effects of the transformation under way in the Spanish economy will become clearer and have a quicker impact.

It is precisely in order to boost the positive effects of an improvement in financing conditions for the Spanish economy that this National Reform Programme specifically includes measures aimed at making the best use of the available instruments at a national level to allow funding to reach the economic agents and support entrepreneurship.

The following table describes the estimated observed GDP growth rates for the period 2013-2016, as well as potential GDP in the following years.[2] Potential GDP has been calculated using a methodology[3] that aims in part to offset the notably pro-cyclical

[2] The potential growth rate has been calculated as usual on the basis of the European Commission methodology. The estimates in a 10-year horizon use techniques for constructing scenarios in the medium term that were approved by the Economic Policy Committee in 2013.

[3] The non-accelerating wage-rate of unemployment (NAWRU) has been constructed by taking the forward expectations in wage formation (as analysed by the Output Gap Working Group in January 2013). This makes the potential growth trend obtained less pro-cyclical, although it does not fully correct it. Annex IB

effect of the standard European Commission methodology, which tends to replicate closely the trend in observed GDP. The most direct consequence of this excess pro-cyclicality is to underestimate the output gap during recessions such as the one we are currently experiencing; it thus overestimates structural deficits and underestimates structural efforts.

Table 1. Observed and potential medium-term GDP. Alternative NAWRU.

	2012	2013	2014	2015	2016	2017-21
Observed GDP	-1.4	-1.3	0.5	0.9	1.3	
Potential GDP	0.1	-0.3	-0.3	-0.3	-0.2	1.2
Contribution of labour	-0.6	-0.7	-0.6	-0.5	-0.5	0.5
Contribution of capital	0.2	0.1	0.1	0.1	0.2	0.3
TFP	0.5	0.3	0.2	0.1	0.2	0.4

It is worth noting that both Total Factor Production (TFP) and capital accumulation will make a positive contribution to potential GDP over the next few years, thus supporting apparent labour productivity. The initial slowdown in TFP is due to the adjustment in the construction sector. As this process is completed and the structural measures are fully deployed, the contribution from this element will once more recover.

Potential growth improves substantially as from 2017, which is closely linked to the range of reforms adopted. This improvement takes place regardless of the methodology used. If, instead of the European Commission methodology, we assume that as from 2016 potential GDP growth converges linearly with the rate estimated in 2007, immediately before the crisis (3.6%), the average potential growth for the period 2017-2021 will be somewhat higher, at 1.5% compared with the 1.2% in the calculation.

provides more methodological information and also includes a scenario with a more conventional methodology. Both are included in the Stability Programme.

2.2. Quantifying the effects of the structural reforms

The following table includes a summary of the short and long-term macroeconomic impact on economic growth and employment of the main measures adopted. More detailed estimates of impact on growth and other variables, as well as the assumptions used in their construction, are included in Annex II table 2 of this NRP.

Table 2. Effects of the structural reforms

	Impact on GDP		Impact on employment	
	short term (1 year)	long term (10 years)	short term (1 year)	long term (10 years)
CSR 1: Fiscal consolidation	-2.58	0.76	-1.9	9.12
CSR 1: Fund for Financing Payments to Suppliers and Regional Liquidity Fund	1	1.30(a)	0.8	1.2(a)
CSR 2: Measures in Royal Decree-Law 5/2013 (Pension System)	0.24	0.48(a)	0.37	0.731(a)
CSR 3: VAT	-0.35	-0.6	-0.27	-0.34
CSR 3: Housing measures	0.56	0.48(b)	0.88	0.31(b)
CSR 4: Financial reform				
Quantity channel (credit)	1.8	2	-	-
Price channel (spread)	0.8	1.5	-	-
CSR 5: Demand contraction shock with and without the Labour Reform (c)	0.17	4.55	4.16	9.82
CSR 6: ICO mediation lines	0.12	0.22	0.04	0.03
CSR 6: Youth Entrepreneurship and Employment Strategy 2013-2016 (d)				
Tax saving for the self-employed with new activity	0.05	0.12	0.12	-
Support for entrepreneurs and job creation	0.02	0.13	0.16	0.33
CSR 8: Law on Market Unity Guarantee	1.28	1.54	1.17	-0.03
CSR 8: Liberalisation of Business Hours	0.28	0.34	0.26	0.01
De-indexation Law (forward impact)(e)	0.13	0.41(a)	0.44	-

(a) Impact in the second year after applying the measure.
(b) Impact in the fourth year after applying the measure.
(c) Percentage points. A positive sign implies a less intense fall with the labour reform than without it.
(d) Evaluation based solely on measures with a tax impact.
(e) A positive sign implies a greater impact in the event of a shock of 2.5 points in global demand.

The macroeconomic simulation exercises suggest the diverse measures adopted or being adopted will have a positive and significant impact on Spanish growth in the long term. However, the perception of impact has perhaps been insufficient in 2012 due to the negative cyclical context at a domestic level and in the Eurozone. Also contributing to this lack of visibility has been the short-term effect of fiscal consolidation, which has been recessive, although less so than would appear from simple estimates based on multipliers.

Below is a summary of the main results obtained in the quantitative analysis.[4]

[4] See Annex IIb

Specific recommendation 1.

Fiscal consolidation (CSR 1.1). In 2012 and 2013 around 6 points of GDP of permanent **fiscal consolidation** measures have been implemented, on both the income and expenditure sides. As a result, after these two years, the structural deficit of the public administration services will have fallen to around 4 pp, which is around two-thirds along the path set out at the end of 2011 to achieve our Medium-Term Objective and the structural equilibrium required by Organic Law 2/2012 for Budgetary Stability and Financial Sustainability.

The result of these measures in the short term is contractive, with the biggest impact in the second year of application. The same is true with the number of employed. In the long term, however, these measures will represent an increase in GDP of 0.8 pp above the equilibrium level at the start, as well as an increase in the number of employed people (9.12 pp), investment and private consumption. In fact, the impact on these variables is positive as from the fourth year. In other words, in an environment of instability in the financial markets, fiscal consolidation is not only a short-term imperative, but produces beneficial effects in the medium and long term.

The simulation of the medium and long-term effects is based on a simulation of positive shocks derived from the structural reforms themselves as they allow greater price and wage flexibility, as well as the non-Keynesian effects of fiscal policy.

More effective and efficient provision of public services (CSR 1.2). Measures such as the Fund for Financing Payments to Suppliers of Local Councils and Regional Governments, the Regional Liquidity Fund, and reforms in education, health and justice, all have a positive macroeconomic effect derived from more efficient provision of public services, less use by the public sector of resources that could go to the economy as a whole (crowding out) and, in a more direct and immediate way, in the case of measures guaranteeing payments to suppliers and regional liquidity, an increase in access to credit.

The simulation uses this access to credit as an axis to design a positive shock that partly eliminates a situation of strong illiquidity. The result would be an increase in GDP of 1.3% and of employment of 1.2%, eight quarters after the adoption of the measure. A positive if less marked effect (1% and 0.8%) can also be seen in the year of its adoption.

In other words, even a simulation referring only to the Fund for Financing Payments to Suppliers and the Regional Liquidity Fund generates notable effects on growth in even a short-term horizon. If to this we add the effects of improvements in the provision of other public services, the effect would be greater.

Specific recommendation 2.

Regulation of the sustainability factor. The results of the working group created to design the sustainability factor introduced by Law 27/2011 will guarantee the long-term financial stability of the pension system, and this will have a positive effect on growth. Given the time horizon of this measure, the simulation calculates its long-term effects (2060) at an increase in GDP of 2.4% against the scenario without reform.

Reform of early voluntary and involuntary retirement and partial retirement. Royal Decree Law 5/2013 has introduced various new points into the regulations on early retirement and partial retirement with the aim of creating incentives for prolonging working life and delaying access to benefits, as well as penalising companies that lay off older workers (sustainability of the pension system). The result of the simulation is an increase in GDP of 0.005% in 2013 and 0.009% in 2014 and an increase in the employment rate of 0.007% and 0.014%, respectively.

Reform of the compatibility of employment and the retirement pension. Royal Decree-Law 5/2013 has extended the possibility of continuing to work while receiving a retirement pension, in order to create incentives for workers who have reached statutory retirement age to remain in the labour market. By maintaining these workers in the labour market the employment rate will increase by 0.36% in 2013 and 0.71% in 2014, with an effect on GDP of 0.24% and 0.47%, respectively.

Specific recommendation 3.

Modification of the VAT structure and rates (CSR 3.1.1). Royal Decree-Law 20/2012, dated 13 July, on measures to assure budgetary stability and promote competitiveness, introduced changes to the system of taxation to make it more growth-friendly by shifting the tax burden to consumption.

The increase in VAT and the corresponding rise in domestic prices have a contractive effect in the short term that is particularly strong in the first eight quarters since the implementation of the reform, with a negative effect on GDP of 0.35% in 2013 and 0.57% in 2014. The effect on employment would be a negative 0.27% and 0.61%, respectively.

In any event, although the effect of this measure has been quantified separately, in the future it will be accompanied by others reducing the tax burden on work that will have the effect of promoting growth and more than offset the negative effect of the increase of indirect taxation.

Reduce the bias of the tax system towards home ownership (CSR 3.3) Royal Decree-Law 20/2012 and Law 16/2012 introduce incentives for property rentals rather than home ownership by eliminating the tax allowance on home purchases and introducing other measures to make the rental market more flexible and dynamic. These measures as a whole are estimated to have the effect of increasing GDP by 0.56% in 2013 and 1.13% in 2014, and increasing employment by 0.88% and 1.57% respectively. The increase in GDP will initially come from investment and then consumption, thus leading to job creation.

Specific recommendation 4.

Reform of the financial sector. Within the framework of the bank recapitalisation loan and the conditions associated with it, numerous measures have been adopted to complete the restructuring of the banks experiencing problems, tackle the resolution of impaired assets and increase the capital levels in the system. These measures will represent an increase in lending to the private sector and a reduction of lending costs.

A simulation of the effects of these actions requires comparing them with a base credit crunch scenario without such measures: a severe credit rationing and high default levels. Simulating the effect on the cost of borrowing involves estimating the relation between the level of the system's solvency and the risk premium, which gives a reduction calculated at 148.2 bps. The effect on the volume of credit is calculated according to the ratios of capital and non-performing loans over assets in the system.

These two channels will represent a positive cumulative impact on GDP of 0.8% (prices) and 1.76% (quantity) in the first year alone. The longer-term effect will depend on the time profile of credit recovery, and could mean an increase of GDP of up to 1.5% (prices) and 2% (quantity).

Specific recommendation 5.

Implementation of the labour market reform (CSR 5.1). The measures adopted will reduce labour market frictions, increase internal flexibility in companies, reduce labour market dualism and help more efficient price formation. In macroeconomic terms, it would mean lower rates of job losses, lower costs in covering job vacancies, a better distribution of bargaining rents and more efficient job search.

The effects of these measures in an environment of recession have been quantified by simulating a contraction in demand in two scenarios: with and without a labour reform. The result is clear: the reform eases the fall in aggregate demand, and above all the loss of jobs from the start (the negative shock with the labour reform produces a result even in the short term of more than 4 percentage points above the scenario without the labour reform). These results improve over time. In the last year simulated, there is a positive difference of 4.55 pp of GDP growth with the reform and 9.8 pp in employment.

Specific recommendation 6[5]

Measures supporting entrepreneurship. ICO intermediation line (CSR 6.1.1). The impact of these measures on the real economy will be positive in terms of GDP (0.12% in 2013) and jobs (0.04% in 2013), thanks to their effects on private investment, and to a lesser extent on private consumption. Also in the long term (2023), GDP, private consumption and investment are higher than their starting levels, while employment stabilises at around the level of initial stationary equilibrium.

Measures supporting entrepreneurship. Favourable tax system for entrepreneurs (CSR 6.2). The effects of two of the of measures included in Royal Decree-Law 4/2013 and in the Youth Entrepreneurship and Employment Strategy 2013-2016 have been analysed: they are the establishment of a more favourable tax system for the self-employed who start a firm; and the effects of creating incentives for the incorporation of young people into companies in the social economy and the stimuli for recruiting the young unemployed.

With respect to **tax incentives for entrepreneurship**, it is estimated that the impact of this measure on GDP and employment will be positive from the year it is implemented (0.05% on GDP and 0.12% on employment). The effects on growth continue to be noted ten years after the measure is adopted (0.12%), due basically to its effect on private investment. Employment stabilises at its stationary level in the long term.

With respect to **incentives for recruiting young people**, the impact of the measure will be positive on jobs and consumption in the first year (0.2% and 0.1%, respectively), while investment will initially fall by 0.13% due to the substitution effect. In the following years, investment will recover, boosted by increased employment. In the long term (2023) an increase in GDP of 0.13% and employment of 0.33% is expected, with the GDP increase being the result of increased private consumption (close to 0.2%).

Specific recommendation 8.

[5] Recommendation 7 has not been quantified

Law on Market Unity Guarantee (CSR 8.3). This Law generates positive macroeconomic effects derived from a permanent reduction of administrative burdens for the development of economic activity, which will lead to an increase in productive employment. The increase in productive employment could be taken as similar to a positive and permanent shock on total factor productivity (TFP), which is in line with the spirit of the literature on endogenous growth.

This reform will contribute additional growth in GDP of 1.28% in the first year of its implementation and up to 1.54% ten years later. The greater rate of GDP growth will be a response to increased consumption and investment. Employment is also increased, particularly during the initial periods of implementation: an increase of 1.17% in the first year and 1.97% in the second.

Liberalisation of business hours (CSR 8.3). The effect of this measure is estimated at an increase in GDP of 0.28% in the first year and 0.34% ten years later. Employment will grow by 0.26% in the first year and return to its base scenario value after ten years.

III. SPECIFIC RECOMMENDATIONS

Recommendation 1[6]

In 2012, the General Government deficit fell by nearly two points of GDP from 8.96% to **6.98% of GDP**, broken down as follows by sub-sector:

Table 3. Net lending/borrowing position

% of GDP

SUB-SECTOR	2011*	2012
Central Government	-5.13	-4.11
Regional Government	-3.31	-1.76
Local Entities	-0.45	-0.15
Social Security administrations	-0.07	-0.97
General Government	**-8.96**	**-6.98**
Financial sector reform	0.48	3,65
General Government with aid to financial institutions	**-9.44**	**-10.63**

Source: Ministry of the Treasury and Public Administration Services
(*) Before settlement of the financing system for 2009

The effort in the cyclical adjusted balance is **2 pp of GDP** in 2012. The structural budgetary adjustment for 2013 included in the Stability Programme 2013-2016 (SP) is in the range of **1.9 pp to 2.1 pp**, depending on the methodology used for its calculation (SP).

Around 60% of the measures adopted **to reduce the public deficit** in 2012 are **adjustments in expenditure** while **40%** correspond to public **revenues**. In accordance with this, the total measures introduced in 2012 accounted for 4.3 pp of GDP, with 2.56 pp corresponding to expenditure and 1.76 pp to revenues.

On the expenditure side, there have been adjustments in all the budgetary items, except interest payments and pensions.

- There has been a major **reduction in expenditure by ministerial departments** in 2012, of 16.9%, and 8.9% in 2013 (CSR[7] 1.1.1):

- **Personnel expenditure and other current expenditure** have been reduced with measures such as the following: a reduction of nearly 20% in management positions; a plan to reduce absenteeism among public-sector workers; suspension of one extra salary payment; a freeze on wages; a limit to new public-sector vacancies; and extension of working time (CSR 1.1.2, CSR 1.1.3, CSR 1.1.4, CSR 1.1.5 and CSR 1.1.6).

6 Deliver an annual average structural fiscal effort of above 1,5 % of GDP over the period 2010-13 as required by the Council recommendation under the EDP by implementing the measures adopted in the 2012 budget and adopting the announced multiannual budget plan for 2013-14 by the end of July 2012. Adopt and implement measures at a regional level in line with the approved rebalancing plans and strictly apply the new provisions of the Budgetary Stability Act regarding transparency and control of budgetary performance and continue improving the timeliness and accuracy of budgetary reporting at all tiers of government. Establish an independent fiscal institution to provide analysis, advice and monitor fiscal policy. Implement reforms in the public sector designed to improve the efficiency and quality of public expenditure at all levels of the public administration services.

7 See Annexe I. Implementation of specific recommendations.

- Public enterprises and public foundations **have been restructured and streamlined at all tiers of government** (CSR 1.1.7 and CSR 1.1.8).

- **Funding of political parties** has been reduced by 20% in 2012 and 2013, and the subsidies have been de-indexed from the CPI (CSR 1.1.9).

A broad range of legal measures have been taken **with respect to public revenues** that affect the main tax items. They have had an impact on revenues of an additional 11.24 billion euros in 2012[8]:

- **Corporate income tax has been extensively reformed** with the aim of **increasing the taxable base and raising the effective tax rate** with measures such as increasing payments by instalment and limiting deductions (CSR 1.1.10 and CSR 1.1.11).

- **A complementary charge** has been established in **personal income tax,** raising the net tax liability progressively by up to 7%; the withholding of tax on earnings from professional activities has been increased; measures have also been adopted to broaden the taxable base for income tax, such as by creating a special charge for lottery winnings (CSR 1.1.12 and CSR 1.1.13).

- **Municipal levies on real estate** have been increased (CSR 1.1.14).

Of particular importance among the measures affecting revenues has been the **fight against tax fraud**, which has increased revenues by 11.52 billion euros, 10.08% up on the figure in 2011 (CSR 1.1.15).

The strategy of major fiscal consolidation begun in 2012 will be extended into the coming years in line with the **Two-year Budget Plan for 2013-2014** (CSR 1.1.16). This plan establishes the guidelines for revenue and expenditure policies designed to comply with the fiscal consolidation path, including tax, employment and Social Security measures, as well as measures designed to reorganise and streamline the public administration.

On the regional front, in 2012 all the regions had **economic and financial rebalancing plans for the period 2012-2014**, with measures to increase revenues and reduce expenditures, in order to comply with the path of budgetary stability (CSR 1.2.19).

On the revenue side, the Autonomous Regions have introduced measures to increase revenues. This includes the creation of new taxes (tax on stays in tourist accommodation and environmental taxes), regulation of the regional segment of existing taxation (tax on retails sales of some hydrocarbons), and an increase in their own taxes and a raise in levies. In total, revenue measures in the economic and financial rebalancing plans for 2012-2014, as well as the additional measures announced later, have increased **revenues by 3.86 billion euros**.

A variety of adjustment measures have been undertaken **on the expenditure side**. **Personnel expenditures** have been moderated by limiting the public employees' replacement rate to 10%, eliminating contributions to pension plans, making the timetable more flexible with the corresponding reduction in remuneration and restrictions on the recruitment of temporary staff.

[8] These measures are supplemented with the legal modifications approved to comply with CSR 3 (VAT and taxation of energy).

In the case of **operating expenditures**, there have been savings derived from the implementation of centralised purchasing systems, energy saving plans, and measures designed to improve efficiency and economy in the supplies' management and acquisitions.

The Regional Rebalancing Plans also include **reductions in investments, reduction of both real investment** and **capital transfers** (through a reduction and prioritising of investment in infrastructure and operational activities for subsidised lines), and adjustment and retargeting of aid.

In addition, the Autonomous Regions have been favoured by measures adopted by central government in health and education, whose impact amounts to **6 billion euros** (including the elimination of the extra salary payment in December in these sectors). Discounting the effect of the extra payment, the impact is 4.2 billion euros (0.4% of GDP).

The total value of **measures taken** by the Autonomous Regions, including both those contained in the economic and financial rebalancing plans for 2012-2014 and the additional ones announced after this, amount to 12.47 billion euros. As a result of these fiscal consolidation measures the deficit has fallen from 3.31% of GDP in 2011 to 1.76% in 2012 (CSR 1.2.19).

Table 4. Net lending or borrowing by Autonomous Regions

% GDP

Autonomous Region	2012(A)	2011(P)
Andalusia	-2.04	-3.46
Aragon	-1.44	-2.64
Asturias	-1.06	-3.62
Balearic Islands	-1.80	-4.19
Canary Islands	-1.29	-1.50
Cantabria	-1.13	-3.46
Castile-La Mancha	-1.56	-7.87
Castile-Leon	-1.42	-2.59
Catalonia	-1.96	-4.02
Extremadura	-0.70	-4.73
Galicia	-1.29	-1.63
Madrid	-1.07	-1.96
Murcia	-3.12	-4.53
Navarre	-1.35	-1.99
La Rioja	-1.06	-1.45
Valencia	-3.52	-5.00
Basque Country	-1.39	-2.56
Total autonomous regions	**-1.76**	**-3.31**

Source: IGAE and INE. (A) Advance (P) Provisional
SEC 95. Base 2008

Most of the Autonomous Regions have complied with the budgetary stability objective set in 2012 (1.5% of GDP). The autonomous regions that have not achieved this objective have to agree an **update of their economic and financial plan** with the Ministry of the Treasury with new adjustment measures that guarantee compliance with the stability objective for 2013. In any event, the autonomous regions have already approved their budgets for 2013 with measures guaranteeing compliance with the stability objective for that year.

The **local authorities** (councils, deputations, district councils and island councils) have overachieved the deficit target set for 2012 (0.3% of GDP), as they have **reduced their deficit to 0.15% of GDP**. In this result, a key role was played by the 2,700 adjustment plans presented by the local authorities that signed up to the Supplier Payment Plan. The measures adopted by the local authorities have represented an increase in revenues of 1.11 billion euros and a reduction in expenditure of 1.47 billion euros on the 2011 figure, making a total saving of 2.57 billion euros.

Within the framework of strict conditionality and the process of fiscal consolidation, **extraordinary liquidity mechanisms** have been taken **at a regional and local level** (CSR 1.2.21 and CSR 2.2.22). A supplier payment plan was implemented in 2012 to pay invoices pending and to reduce late payments. In addition, an extraordinary liquidity mechanism was approved for the autonomous regions to allow them to reduce financing costs. The participation in these mechanisms is associated with compliance with tax commitments, which will help achieve the deficit targets set.

Together with the measures for reducing the public deficit, **initiatives are being taken to improve the framework of economic governance, promoting budgetary discipline** (Organic Law 2/2012, dated 27 April, on Budgetary Stability and Financial Sustainability, CSR 1.2.17) and **responsibility in the management of public resources** at all tiers of government (Bill on Transparency, Access to Public Information and Good Governance, CSR 1.2.18).

Significant progress has been made on **the question of economic and financial transparency**, defining the procedures, content and frequency with which all tiers of government have to submit information. In particular, for the first time **the data for budgetary execution** by the autonomous regions and Social Security system are being **published monthly** in terms of national accounts, as are those corresponding to local authorities on a quarterly basis (CSR 1.2.20). This completes the monthly publication of data by the central government.

With the aim of improving overall supervision of fiscal policy and continuing to make progress in boosting economic transparency, the draft Constitutional Law on the creation of an **Independent Fiscal Responsibility Authority** has been approved, with functions of analysis, advice and control over the budget policies at all tiers of government (CSR 1.3.23). This creates an independent institution with functional autonomy that **guarantees compliance with the principles of budgetary stability and financial sustainability at all tiers of government**.

The strategy of fiscal consolidation is completed with the **structural reforms** being developed **at all tiers of government** aimed at **improving the efficiency and quality of public expenditure**:

- Approval of the Draft Bill **on the Streamlining and Sustainability of Local Government**, with the aim of **reducing the number of local authorities and clarifying their powers**, organising their structures to avoid duplication, improving financial and budgetary control, strengthening the powers of local auditors and improving regulations encouraging private economic initiative. (CSR 1.4.24). The **estimated savings** from this reform amount to **8 billion euros in 2014-2015**.

- Within the scope of the **National Health System**, various measures were adopted in April 2012 with the aim of **improving its efficiency, streamlining health spending and guaranteeing the sustainability of health funding**. This objective included the organisation of the portfolio of services and human resources in the system, improvement of the efficiency of health services offered through centralised purchasing systems, rationalisation of pharmaceutical supply and demand, and a definition of the concept of insured party. With these measures, **health spending** in 2012 **has been reduced by 8%** on the figure for the previous year (CSR 1.4.25, CSR 1.4.26, CSR 1.4.27, CSR 1.4.28, CSR 1.4.29 and CSR 1.4.30).

- An **in-depth reform was carried out of the Long-Term Care Service** in July 2012, to **rationalise and modernise the services offered, and to guarantee its sustainability**. The measures include: the process of evaluating situations of long-term care and services provided was modified and simplified; the retroactive nature of the payment of financial benefits was revised; public-private collaboration was boosted; the entry into the system of beneficiaries with a lower level of care required was delayed; and the system of registering non-professional carers in the Social Security system was reorganised (CSR 1.4.31, 1.4.32 and CSR 1.4.33). With the application of these measures, expenditure has been reduced by 599 million euros in 2012, with an additional reduction of 1.11 billion in 2013 and 571 million in 2014.

- In education, there has been an **improvement in the framework of budgetary discipline** by incorporating a **spending ceiling for universities** and approving **measures to improve the efficiency of education spending**. With this aim, measures are already in place to increase the performance of human resources in the educational system (increased teaching hours, streamlining of university education, optimisation of the use of available resources (increasing the number of students per class) and a reorganisation of the education offered. (CSR 1.4.34, CSR 1.4.35, CSR 1.4.36 and CSR 1.4.37).

Recommendation 2[9]

Law 27/2011, dated 1 August, on the updating, adaptation and modernisation of the Social Security system, incorporated relevant measures related to the viability of the pension system that **entered into force on January 1st 2013**. In general terms, the reform represents **savings** for the system equivalent to **3.5 points of GDP by 2050**, as a result of the steady increase in the **statutory retirement age from 65 to 67** during the transition period 2013-2027 and **increased contribution requirements** for obtaining a pension, thus improving the ratio between contributions and benefits.

In addition, a **second stage of reforms** has been undertaken in the pension system aimed at extending working life, **bringing the real retirement age closer to the statutory age and ensuring that the statutory age always rises in line with life expectancy:**

- A new regulation on **early and partial retirement** (CSR 2.1.1 and CSR 2.1.2) is in force since March 2013. It aims to dissuade workers from taking early retirement and, at the same time, to prevent companies from using these forms of retirement as a mechanism for cutting the jobs of older workers, which transfers costs to the public social protection system. The minimum age and years of contribution required to access early retirement have been increased, and greater reductions are now applied to pensions in these cases. At the same time, the number of years of contribution required to be eligible for partial retirement has been increased and the maximum reduction of the working day of the pensioner has been limited, preventing

[9] Ensure that the retirement age is rising in line with life expectancy when regulating the sustainability factor foreseen in the recent pension reform and underpin the Global Employment Strategy for Older Workers with concrete measures to develop lifelong learning further, improving working conditions and foster the reincorporation of this group in the job market.

partial retirement from becoming a covert form of early retirement. This is accompanied by specific anti-fraud measures aimed at preventing companies and workers from agreeing to “fraudulent dismissals” and benefitting from the improved conditions for early retirement for workers affected by redundancy plans.

- Actions are already under way for the **regulatory developments of the sustainability factor** (CSR 2.1.3), with the aim of revising the basic parameters of the system according to changes in life expectancy and other demographic and economic factors. A committee of experts has been appointed to prepare a report on the sustainability factor. It will be submitted to Parliament by May 30th so that the Toledo Pact Commission can prepare its recommendations between June and July, leading to a law regulating the sustainability factor, which will be passed later in 2013.

  Under the current law the sustainability factor will begin to be applied in 2027. However, where required by the report of the committee of experts and the calculation of the structural deficit, this date may be brought forward pursuant to the Organic Law on Budgetary Stability and Financial Sustainability, which foresees its immediate application when a long-term deficit in the pension system is forecasted.

The above measures are complemented by others that aim to **prevent companies from resorting to job cuts that massively affect older workers** and support their **permanence or re-entry into the labour market** with reasonable opportunities:

- Under the labour market reform of February 2012 and subsequent regulatory developments, a system is now in operation under which **contributions to the Treasury must be paid by those companies that include workers aged 50 or above in their redundancy plans** (CSR 2.2.4).

  The aim is to dissuade companies from implementing redundancy plans which particularly affect this group of workers, thus encouraging their early retirement from working life and transferring the costs to the Social Security system. For this reason, the employer contributions to the system aim to compensate for the expenses that these workers generate in social benefits. Recently (in February 2013), this law was modified to oblige companies to make these contributions if, although at the time of the redundancies they were making a loss, they obtain a profit within a period of 4 years.

  In addition, at least 50% of the amount collected each year through these contributions will be allocated to financing **specific actions and measures aimed at finding jobs for workers aged over 50.** This measure is complemented by others designed to increase the quality of vocational training for workers and the unemployed and promote lifelong learning (CSR 5.2.8, CSR 6.2.16).

- In July 2012 and March 2013 **changes were introduced to the special unemployment subsidy for older workers** (CSR 2.2.5). The previous regulation, which provided protection starting at 52 years of age with some fairly flexible requirements, created incentives for companies to lay off older workers when making job cuts, taking advantage of the fact that these workers could exit the labour market while successively receiving unemployment benefits and then their retirement pension. Following the reforms introduced, the age of eligibility for the subsidy has been increased to 55 and other eligibility requirements have been modified. In addition, workers who do not have the right to the subsidy, or have used it up, are a **priority group for active employment policies** (CSR 5.2.6).

- Since the entry into force of the labour market reform, **clauses involving compulsory retirement are not permitted in collective agreements.** These clauses prevented workers who wanted to remain active from being able to do so after a certain age (CSR 2.2.4).

- Along the same lines, a regulation was introduced in March 2013 governing **compatibility between work and the retirement pension** (CSR 2.2.6), with the aim of increasing the number of workers who decide to remain active and continue to contribute to the pension system after reaching statutory retirement age.

Recommendation 3[10]

In 2012, indirect taxation has been strengthened through a modification of the different tax schemes that help shift tax pressure from labour to consumption and the environment and to guarantee the path of fiscal consolidation.

Changes in Value Added Tax have been introduced that include the increase in its tax base and rates. Since September 2012, the tax base of VAT has been extended, reclassifying goods and services that are subject to the super-reduced or reduced rate to being subject to the general rate. The general rate was increased from 18% to 21% and the reduced rate from 8% to 10% (CSR 3.1.1).

The change in VAT has led to additional revenue of 2.44 billion euros in 2012, leading to an increase in revenue from this tax of 2.4% on the figure for 2011. In 2013, the extra revenue is estimated at 7.69 billion euros. The rise in rates has led to an increase in the average effective rate in 2012 of 5.7%.

The increase in VAT and the corresponding rise in domestic prices have a contractive effect in the short term that is particularly strong in the first eight months since the implementation of the reform, with a negative effect on GDP of 0.35% in 2013 and 0.57% in 2014. The effect on employment would be a negative 0.27% and 0.61%, respectively[11].

In line with the aim of achieving the move of tax from labour to consumption, **there has been a change of the tax rate on the different forms of tobacco**, which includes a single rate for cigars and cigarillos and an increase on the minimum rate on tobacco, as well as a change in the rate on cigarettes, with the definition of rolling tobacco being brought closer into line with them (CSR 3.1.2). These measures have increased revenue by 236 million euros.

Law 15/2012, dated 27 December, on **tax measures for energy sustainability** entered into force on 1 January 2013. It reinforces the objective of the Spanish tax system to promote a more efficient use of energy resources (CSR 3.2.3, CSR 3.2.4 and CSR 3.2.5). The entry into force of this law meant:

- **The creation of three new taxes:** the tax on the value of production of electrical energy; the tax on the production of spent nuclear fuel and radioactive waste

[10] Introduce a taxation system consistent with the fiscal consolidation efforts and more supportive of growth, including a shift away from labour towards consumption and environmental taxation. In particular, address the low VAT revenue ratio by broadening the tax base for VAT. Ensure less tax-induced bias towards indebtedness and home-ownership (as opposed to renting).

[11] See Annexe IB

resulting from the generation of nuclear power; and the tax on the storage of spent nuclear fuel and radioactive waste at centralised facilities.

- The **modification of the tax rates on natural gas and coal**, eliminating the exemptions for energy products used in the production of electrical energy and cogeneration of electricity and useful heat.

- **Creation of a fee** for the use of continental water sources for the production of electrical energy, with the aim of protecting the public water domain.

To guarantee the sustainability of the system, the revenue from the implementation of the new law is planned to cover certain items of the cost of the electricity system, among them the bonuses for the production of renewable energy. The estimated revenue from the implementation of the law is 2.98 billion euros extra in 2013, to which there is a further 95 million euros in 2014. Of this, 1.54 billion euros comes from the creation of the three new taxes, 1.24 billion euros from the modification of the tax rates for natural gas and coal and 298 million euros for the hydroelectric generation fee.

Along the same lines, in July 2012 the **tax rate on bio-fuels** was increased to adapt it to the rate on the products to which they are added. This means revenue amounting to 650 million euros in 2013, and a further 65 million euros in 2014 (CSR 3.2.6).

The tax measures aimed at increasing the tax burden on activities that are damaging to the environment are complemented with the actions that have been introduced by the Autonomous Regions within the scope of their powers to levy their own taxes. Among them is the inclusion of tax measures to eliminate waste in landfills, to cover the costs of treatment facilities and on the retail sale of certain hydrocarbons.

To **eliminate the bias creating incentives for home purchases**, in July 2012 the personal income tax allowance for the acquisition of a primary residence before 20 January 2006 was eliminated, and in January 2013 the tax deduction for investment by new purchasers in a primary residence was withdrawn. These measures have eliminated a source of distortion in the housing market and will result in greater revenue, as they increase the tax base, with an impact of 430 million euros in 2013 for the tax allowance and 90 million euros in 2014 for the tax deduction for primary residence (CSR 3.3.7).

In January 2013, the specific criteria allowing the application of the special tax system for home rentals were made more flexible and some aspects of the regulations applicable to the listed limited liability companies for property investment (SOCIMI) were modified. In particular, a fiscally neutral scheme was adopted by eliminating the taxation of these companies and transferring it to the shareholders; the possibility was also established that these institutions should be traded on a multilateral trading system, such as the Alternative Stock Market, providing greater transparency and liquidity to the system (CSR 3.3.8).

This measure is also completed with **actions aimed at bringing the rental market in Spain**, which accounts for 17% of households, closer to the Community average of 38%. They make the rental market more flexible and dynamic by increasing guarantees for tenants and landlords and giving greater security to the system, aiming to guarantee access to housing and increase the tenancies in new empty or unused homes (CSR 3.3.9).

These measures designed to eliminate the bias of incentives for home purchases are as a whole estimated to have the effect of increasing GDP by 0.56% in 2013 and 1.13% in

2014, and increasing employment by 0.88% and 1.57% respectively. The increase in GDP is initially through investment and then consumption, thus leading to job creation[12].

Recommendation 4[13]

On 20 July 2012, Spain signed a **"Memorandum of Understanding on financial sector policy conditions"** (hereinafter, "MoU"), arising from the request for financial assistance (a credit line of 100 billion euros) to address the restructuring and recapitalisation of the banking sector. The signing of the MoU has not only defined a **clear stance on the funding and use of backstop facilities**, but also assumes a number of specific commitments on the form of dealing with the on-going restructuring of the banking sector and the problems associated with legacy assets. In addition, Spain undertook to carry out legal reforms with the aim of preventing similar situations from occurring in the future. Compliance with all these commitments is being monitored by the European authorities[14] (CSR 4.1.1).

In order to complete the restructuring of the financial system, the strategy outlined in the MoU has been followed.[15] An **independent evaluation exercise** was carried out on the Spanish financial system. It was coordinated between the Spanish authorities, the European Commission, the European Central Bank, the European Banking Authority and the International Monetary Fund.[16]

The approval of Royal Decree-Law 24/2012, dated 31 August, on **the restructuring and resolution of credit institutions[17]**, drafted with the collaboration of European authorities, established the framework for carrying out the restructuring and resolution of institutions and preventing situations of weakness in the future (CSR 4.2.3).

- A new stronger framework was introduced for managing the crisis by regulating the processes of early intervention, restructuring and resolution of credit institutions;
- A legal framework and scope of action was established for the Fund for Orderly Bank Restructuring (FROB);
- The functions and responsibilities of the Fund for Orderly Bank Restructuring and the Deposit Guarantee Fund were clarified at all stages of the management of the crisis, and their governance mechanisms were strengthened to prevent possible conflicts of interest, thus increasing protection for retail investors;
- Subordinated Liability Exercises (hereinafter, SLEs) were defined for banks receiving public aid;
- Measures are included to avoid bad practice in the marketing of complex instruments (CSR 4.4.9) and the supervisory powers of the CNMV are strengthened; and
- New capital requirements have been laid down, together with new limits for executive remuneration, new competences for the Bank of Spain and the transfer of sanctioning powers and licences from the Ministry of Economic Affairs to the Bank of Spain.

[12] See Annexe IB
[13] Implement the **reform of the financial sector**, in particular complement the on-going restructuring of the banking sector by addressing the situation of remaining weak institutions, put forward a comprehensive strategy to deal effectively with the legacy assets on the banks' balance sheets, and define a clear stance on the funding and use of backstop facilities.
[14] See the Financial Assistance Programme for the Recapitalisation of Financial Institutions in Spain. Second Review of the Programme – Spring 2013.
[15] The first steps in dealing with the restructuring of bank balance sheets were taken with the approval of Royal Decree-Law 2/2012, dated 3 February, on the restructuring of the financial sector, and Royal Decree-Law 18/2012, dated 11 May, on the restructuring and sale of property assets (CSR 4.2.2).
[16] The cost was put at €55.9 billion and €53.7 billion if the planned mergers were carried out.
[17] Now Law 9/2012, dated 14 November.

The Royal Decree-Law also establishes the legal framework for the creation of an asset management company to facilitate an orderly transfer of troubled real state assets. In December, the **Society for the Management of Assets for Bank Restructuring** (SAREB) was set up. This established the legal system for asset management companies (CSR 4.3.4).

Starting in October 2012, the **bank restructuring and resolution plans** began to be approved for those banks where capital needs had been identified as a result of the evaluation exercise. The credit institutions in Groups 1 and 2, in other words those that needed public financial assistance, completed their recapitalisation processes[18] between the end of 2012 and the start of 2013, after the SLEs had been carried out. At the same time, the SAREB completed its process of incorporation with the reception of the assets from these institutions.

Apart from this, the Bank of Spain has carried out an **internal review of its supervisory and decision-making processes** leading to changes in its procedures in order to guarantee the adoption of corrective measures to resolve the problems detected at an early stage, as well as boosting **macro-prudential supervision** and including it in the micro-supervision of the internal bank processes. At the same time, the reporting requirements of credit institutions have been improved and harmonised in key areas of their portfolios such as restructured and refinanced loans and their concentration in specific sectors. The amount and quality of information provided by the Risk Information Centre has also been improved, thus allowing the Bank of Spain to strengthen its supervision (CSR 4.4.5).

The continuous supervision and control of the Bank of Spain is also extended to the members of the governing bodies and the holders of key positions in credit institutions and other financial institutions, to ensure that they control and comply with the **requirements of good repute, experience and good governance** set out by the **EBA** (CSR 4.4.6). In addition, the Bank of Spain's supervision will be helped by the adaptation of the law on **solvency requirements and supervision of financial conglomerates** to European law, planned for the first half of 2013 (CSR 4.4.7).

To complete the banking panorama derived from the reform of the financial system, in 2013 a reform of the legislative framework of **savings banks** will be approved to clarify **their role in the control of credit institutions as shareholders** (CSR 4.4.8).

Recommendation 5[19]

The **labour market reform** entered into force in February 2012. It was subsequently validated by Parliament and became Law 3/2012 on 6 July. The proceeding through Parliament did not affect the major objectives of the reform; it introduced some minor changes, mainly aimed at strengthening some of the measures. Among them, in order to

[18] The European Stability Mechanism made two payments of €39.47 billion and €1.87 billion respectively. Pending approval of the last merger operation by the European Commission (a possible merger between Ceiss and Unicaja and an injection of aid of 604 million euros).

[19] Implement the labour market reforms and take additional measures to increase the effectiveness of active labour market policies by improving their targeting, by increasing the use of training, advisory and job matching services, by strengthening their links with passive policies, and by strengthening coordination between the national and regional public employment services, including sharing information about job vacancies.

promote **more dynamic collective bargaining that adapts to economic and company circumstances**, the life of collective agreements after completion of the initially agreed term was limited further. Thus, the so called "**ultra-activity" of agreements** that had been set at 2 years in February 2012, was finally limited to **1 year** (CSR 5.1.1).

In addition, from July 2012 to date, all the **regulations needed to develop and fully implement the labour reform have been approved:**

- The functions of the National Consultation Commission on Collective Agreements have been regulated (CSR 5.1.2) as the arbitration body in cases of **non-application of collective agreements ("opt-out" clauses)**. This makes it easier for companies undergoing difficulties not to apply what is included in the agreement, thus being able to make adjustments that do not result in job destruction.

- The procedures for collective redundancies and for the suspension of contracts and the reduction of working time for economic reasons have been regulated (CSR 5.1.3) for a better **balance between layoffs and other internal flexibility measures** in company restructuring processes.

- The training and apprenticeship contract aimed at people aged under 30 has been developed, in order to encourage the employment of **young people** through the possibility to combine vocational training and paid work, while at the same time laying the foundations for a system of **dual vocational training**, which will be further developed throughout 2013 (CSR 5.1.4 and CSR 5.2.9).

The application of the **labour reform** and its impact on the labour market has been the object of continuous supervision by the Ministry of Employment and Social Security and will shortly result in an **evaluation report** (CSR 5.1.5), some of whose preliminary conclusions are as follows:

- The trend in employment in 2012 suggests that the labour reform has cushioned the effect of economic contraction on this variable.

- This trend in employment is coherent with the indicators showing a growing use of internal flexibility mechanisms as an alternative to layoffs for companies. The trend in wages since the implementation of the labour reform has been much more in line with the cyclical situation of the Spanish economy.

- The information on collective bargaining also shows a greater adaptation of the agreements to the needs of the current situation. Negotiated wages are in line with the economic situation; opt-out decisions have increased significantly and more agreements at company level have been signed.

- With respect to the interpretation of the reform by the courts, the rulings by the higher courts so far are in line with the spirit of the reform.

This evaluation report will be backed up by further analysis by an independent organisation with acknowledged reputation before July 2013. This report will help define future measures in this area.

Together with the measures aimed at providing an effective implementation of the labour market reform, other **additional measures** have been adopted with the general aim of increasing the **effectiveness of active employment policies:**

- The **Annual Employment Policy Plan 2012** (CSR 5.2.6) sets the priority objectives for active policies and establishes the cooperation between the national and regional public employment services. In addition, it establishes indicators for evaluating the effectiveness of the measures adopted, which will be used to determine the distribution of funds between the autonomous regions for the development of active policies (AGS 4.1.2).

- **Rationalisation of economic incentives aimed at promoting hiring** (CSR 5.2.7), by eliminating most of them and concentrating subsisting ones on the groups that find it most difficult to find jobs, with the aim of making these incentives more efficient.

- The development of a **new training system for both workers and the unemployed** (CSR 5.2.8), based on greater competition between the training service providers and a clear definition by the public authorities of the priority actions to be financed with public funds.

- A **major boost for vocational training actions and measures** as an instrument for promoting **youth employment** (CSR 5.2.9). As well as the implementation and future extension of the model of **dual vocational training**, a number of significant measures are included in the Strategy for Youth Entrepreneurship and Employment 2013-2016 that aim to make it easier for young people to acquire **work experience** through training measures.

- **Stronger links between active and passive employment policies** (CSR 5.2.10) that reinforce control over recipients of unemployment benefits and subsidies with respect to their obligations relating to an active job search and to improving their employability.

- The **link between passive employment policies and the promotion of youth entrepreneurship** (CSR 5.2.11). The Strategy for Youth Entrepreneurship and Employment 2013-2016 includes a number of measures that allow young unemployed people who receive unemployment benefits to start-up and develop a self-employed activity.

- The **improvement of employment intermediation services** (CSR 5.2.12) to make it easier to match job vacancies with job seekers across the whole of Spain. A common database (**Single Employment Portal**) is being prepared to provide access to all the information available to the different national and regional public employment services. In addition, action has been taken to implement a series of measures in 2013 for **public-private collaboration** in the area of job placement services.

Major actions were taken in 2012 and are being taken in 2013 to increase the efficiency of these policies by the **autonomous regions**, who are the authorities with whom competences are shared over active labour market policies. Based on information provided by the autonomous regions, the following actions can be highlighted: prioritisation of young people as a target group for actions and modernisation of the public employment services through a reorganisation of offices, the improvement of personalised pathways to employment and the implementation of new online instruments to provide information, guidance and job placement services. At the same time, the reinforcement of actions designed to increase the participation of unemployed benefit recipients in guidance and professional is worth highlighting, thus strengthening the link between active and passive employment policies.

Recommendation 6[20]

In order to **make it easier for SMEs to access finance**, spending priorities have been revised and funds reallocated to companies of this type, which are more vulnerable to the crisis. The measures adopted have been structured into three axes:

- Access for SMEs to **bank finance** has been boosted by the provision of 22 billion euros via credit lines from the Official Credit Institute (ICO) (CSR 6.1.1), a commitment from domestic banks to increase loans by 10 billion euros (CSR 6.1.1) and an enhanced system of public guarantees (CSR 6.1.3).

- Finance to SMEs has been promoted through **risk capital and business angels**. Specifically, new co-investment funds have been created with public contributions, there has been an improvement in the regulatory framework and tax incentives will be introduced for investors of this kind (CSR 6.1.4 and CSR 6.1.5).

- **Access for companies** to both equity and fixed-income financial **markets** has been eased (CSR 6.1.6 and CSR 6.1.7).

Similarly, **finance for research and development** plays a key role in promoting the competitiveness of the economy and favouring a high-quality model for economic recovery. This has been done by revising spending priorities and minimising budget cuts in R&D and innovation expenditure, which have been significantly below the ministries' average cuts (Europe 2020 Strategy 2.1); also, the forthcoming project law to support entrepreneurship will include fiscal incentives for quality growth through business innovation, allowing for tax credits for R&D and innovation that were not applied in one year to be recovered, provided that employment is created or maintained (Europe 2020 Strategy 2.2).

The action plan for young people has taken shape under the **Strategy for Youth Entrepreneurship and Employment 2013-2016** (AGS 4.1.2). Some of its measures are in force since February 2013. The Strategy responds to the objectives of the Youth Guarantee proposed by the European Commission and aims to promote the employment of young people, whether through labour market opportunities or self-employment. A wide variety of measures have been adopted for this purpose, including training programmes allowing work experience to be acquired, aids for those returning to compulsory education, financial incentives for hiring and entrepreneurship, advice and guidance services amongst others (CSR 6.2.8, CSR 6.2.9 and CSR 6.2.10).

With respect to measures aimed at improving **educational quality** and **reducing the rate of early school-leaving**, a **reform of compulsory education** will be undertaken in 2013, including new instruments to detect learning problems earlier and apply programmes for improvement, so that students can decide on the training course that is best suited to their profile and improve their academic results (CSR 6.2.11).

[20] Review spending priorities and reallocate funds to support access to finance for small and medium-sized enterprises (SMEs), research, innovation and young people. Implement the Youth Action Plan, in particular as regards the quality and labour market relevance of vocational training and education, and reinforce efforts to reduce early school-leaving and increase participation in vocational education and training through prevention, intervention and compensation measures.

Two **specific action plans** were implemented in 2012 with respect to **early school-leaving** (CSR 6.2.12 and CSR 6.2.12). One is aimed in a general way at preventing early school-leaving and encouraging people to return to the educational system; the other is aimed at dealing with the educational needs associated with the socio-cultural environment that have an effect on early school-leaving.

In addition, the **educational reform will also have an effect on the scope of vocational training**, with the aim of making this an attractive and effective alternative preparing students for entry into the labour market. Worth highlighting in this respect is the establishment of a new basic vocational training that can be accessed without the need for completing compulsory education, thus guaranteeing a professional diploma to those who abandon compulsory education. Changes will be introduced to higher vocational education diplomas to adapt these studies to the different occupational areas, access to vocational training and lifelong learning will also be improved (CSR 6.2.14, CSR 6.2.15 and CSR 6.2.16). This reform of vocational education will be combined with measures already adopted, or to be adopted in the future, to promote **training and apprenticeship contracts** and to promote a **system of dual vocational training** that improves the employability of young people in response to the reality of productive sectors and companies (CSR 5.1.5 and CSR 5.2.9).

Along the same lines of boosting vocational training and adapting it to the needs of the different productive sectors and occupational areas, a **revision** process has been initiated of the **vocational education diplomas** as well as the **professional certificates** used to certify vocational training acquired by means other than the vocational education diploma courses, for example through training and apprenticeship contracts (CSR 6.2.17 and CSR 6.2.18).

In the area of university studies, work has already begun on future reform designed to **boost the competitiveness, excellence and internationalisation of Spanish universities** (CSR 6.2.19). A proposal to reform the legislation on a variety of issues will be presented in 2013, such as the rationalisation of the map of university degrees, a review of the system for accessing various categories of university teaching, and the incorporation of more foreign teachers and students into Spanish universities.

In addition, with the aim of ensuring that students obtain the best possible academic results, and to reward those who achieve them, measures have been adopted to **increase the efficiency of the policy of scholarships and financial aids for studies** (CSR 6.2.20). Without making any substantial change to public spending on scholarships and financial aids, nor to the number of beneficiaries, the scholarships and financial aids for the 2012/13 academic year have followed new criteria that take more account of the student's academic performance.

As an essential aspect for improving educational quality and ensuring that young people end their studies better prepared for the current labour market, more effort has been put into measures aimed at **the learning of foreign languages** (CSR 6.2.21). The Programme for improving foreign language learning is already being executed and finances a number of measures in this area. In addition, the future educational reform will boost the learning of foreign languages at different educational levels and will lay the foundations for a model of bilingual education.

In the different **Autonomous Regions**, as the competent administrations in the areas of employment and education, important measures were taken in 2012 and are being taken in 2013 related to this recommendation. Most autonomous regions have implemented specific employment plans for young people, containing incentives for employment and for promoting entrepreneurship and self-employment. There has also been an increase in the number of actions aimed at boosting employment through vocational training, thus developing dual vocational training experience, creating incentives for training and apprenticeship contracts and work experience, and developing training programmes that lead to the attainment of a professional certificate or that involve a hiring compromise. In addition, most autonomous regions are carrying out actions aimed at reducing early school-leaving through participation in national programmes and, in some cases, executing their own initiatives. Finally, it is also worth noting the number of autonomous regions that are carrying out measures aimed at training older workers and promoting lifelong learning.

Recommendation 7[21]

As well as the various measures adopted to boost vocational education and training and to improve employability, above all for young people as a group particularly affected by unemployment (CSR 5.2 and CSR 6.2), a number of measures lie within the specific scope of this recommendation aimed at **improving the situation of people in or at risk of social exclusion, by improving their chances of employment:**

- Within the National Strategy for the **Social Inclusion of the Roma community** (CSR 7.1.1), already being implemented, is a strategic area aimed at **promoting employment** among this group.

- With respect to **drug dependents,** the Action Plan on Drugs 2013-2016, which has already been approved, includes measures aimed at ensuring that the rehabilitation process includes **training actions and others to prepare for entry to the labour market** (CSR 7.1.2).

In addition, with respect to **services provision and other guarantees to promote the inclusion of groups in a situation of poverty and/or social exclusion,** among them **children and adolescents** with little or no family support, there are measures to:

- **Improve the living conditions of the Roma community**, also with specific attention to **education, health and housing**, as priority areas in the National Strategy on this matter that is in execution phase (CSR 7.1.1).

- **Promote the defence of childhood and adolescence**, in particular for those minors **in a situation of risk and neglect**, giving priority to their **integration into a family unit and attending their health and educational needs.** These kinds of actions will be boosted through the 2nd National Strategic Plan for Infancy and Adolescence 2013-2016, which has already been approved CSR 7.2.3).

- **Reinforce the protection for the long-term unemployed with special family responsibilities.** The Professional Requalification Programme (PREPARA) for people who have used up their unemployment protection and are still unemployed has been extended indefinitely until the unemployment rate falls below 20%. This special programme contains **active employment policies and financial aid**, which

[21] Improve the employability of vulnerable groups, combined with effective child and family support services in order to improve the situation of people at risk of poverty and/or social exclusion, and consequently to achieve the well-being of children.

has been **increased for unemployed people with three or more dependents** (CSR 7.2.4).

- **Support for debtors with a mortgage on their primary residence who do not have sufficient means.** Various measures have been approved designed to prevent people with insufficient resources from losing their primary residence as a result of not being able to pay their mortgage. The measures are designed to **restructure mortgage debt, make the foreclosure process of a mortgage** more flexible and **suspend evictions of people at particular risk of exclusion for 2 years** (CSR 7.2.5 and CSR 7.2.6).

- **Boost the action of volunteer work aimed at improving the situation of people at risk of social exclusion and/or poverty**, by collaboration between different levels of government, NGOs and companies (CSR 7.2.7).

The **Autonomous Regions** have promoted measures that, together with those implemented by the central government, try to improve the employability of vulnerable groups as well as offering effective child and family support services, in order to improve the situation of people at risk of poverty and/or social exclusion, and consequently to achieve the well-being of children. Subsidies or financial assistance for hiring people with problems of drug dependence or addiction to gambling, female victims of gender violence, families with dependent children, people with disabilities, etc. are common. In addition, funds are devoted to improve living conditions and to contribute to the fight against poverty, in particular in the most deprived areas. There are also programmes that help the most disadvantaged groups access housing.

Recommendation 8[22]

With respect to measures to **open up professional services**, a **new, clear, updated and simplified legal framework** will be approved in the first half of the year, guaranteeing that any restrictions on access to or execution of professional activities correspond to the principles of necessity and proportionality (CRS 8.1.1 and AGS 3.2.21, AGS 3.2.22 and AGS 3.2.23). The new legal framework will:

- Permit **the establishment of reserves of activity** only if they are regulated by Law and **respond to the principles of necessity and proportionality.** Reserves of activity based on holding a university degree or higher vocational training will be established only by State law, as will the obligations to register in professional associations.

- Establish a **positive list of reserves of activity and obligations to register in a professional association that remain in force**; all those restrictions not covered by the list shall be understood as abolished.

[22] Take additional measures to open up professional services, including highly regulated professions, reduce delays in obtaining business licences and eliminate barriers to doing business resulting from overlapping and multiple regulations by different tiers of government. Complete the electricity and gas interconnections with neighbouring countries and address the electricity tariff deficit in a comprehensive way, in particular by improving the cost efficiency of the electricity supply chain.

- Implement a model of **coexistence between obligatory and voluntary professional associations,** clarifying their operating rules in order to modernize them and adapt them to the new framework.

- In addition, the modification of the specific law governing some professions is being studied, with the aim of eliminating certain restrictions on access or exercise of these professions.

The principles of this new regulatory framework are already being fully incorporated into the sector-specific laws which have been approved, or are in process of being approved: for example, in the domains of the energy certification of buildings, private security, mediation in civil or mercantile issues or to carrying out road safety courses (CSR 8.1.2 and AGS 3.2.24).

Various measures have been adopted in 2012 to replace prior authorisation regimes with systems of *ex post* control and thus avoid unnecessary or disproportionate delays**, thus reducing or eliminating the time taken to obtain activity licences:**

- The municipal activity licences and licences for minor works have been eliminated for commercial establishments and services with an area of less than 300 m^2 (CSR 8.2.3). A model order is being prepared in collaboration with the Spanish Federation of Municipalities and Provinces (FEMP) to provide guidelines for local authorities on the use of responsible declarations or communications for starting an activity (CSR 8.2.4).

- All the autonomous regions are adopting active measures for administrative simplification, extending *ex post* rather than prior control, integrating procedures and reducing time frames for obtaining permits.

- Commercial opening times and days have been extended (CSR 8.2.5), which will allow additional growth of 0.28% of GDP in the first year and 0.34% in the long term. It has been made easier to open petrol stations by simplifying the authorisation system and easing restrictions on the opening of petrol stations in shopping centres (CSR 8.2.6 and AGS 3.5.34).

The elimination of local business licences for commercial and services activities has enabled a significant boost to commercial and service activity. A total of 3,045 additional registrations have been made on the previous period, from June to December 2012. Furthermore, the following measures will be approved in **2013 in this area of business licences:**

- The **Draft Bill for the Streamlining and Sustainability of Local Government** includes the elimination of local licences for activities that do not generate environmental damage, or affect public health or safety or the historical and artistic heritage (CSR 1.4.24 and AGS 3.2.7).

- In the **Draft Bill Supporting Entrepreneurs and their Internationalisation**, Law 12/2012, dated 26 December, will be modified in order to increase the maximum size of establishments whose operators are exempt from applying for authorisation from 300 m^2 to 500 m^2. At the same time, the catalogue of activities that are exempt will be extended. This will benefit around 325,350 businesses operating in these sectors today (CSR 8.2.3).

In addition, with respect to the measures aimed at **eliminating obstacles to the exercise of activity as a result of multiple and overlapping regulations**, work is under way on major reforms of the legal framework to prevent the Spanish public administration structure from being an obstacle to the unity of the national market.

- In July 2013, the submission to Parliament of the **Bill on Guaranteeing Market Unity** will be approved. The Bill lays down the principles of effectiveness throughout the country of administrative actions for all economic activities, establishes the bases of operation and cooperation between the different public administrations in order to maintain and guarantee an efficient regulatory framework in the future (AGS 3.2.2) and introduces a system for a rapid and simple resolution of problems experienced by operators (AGS 3.2.6). Currently a **process of evaluation of the sector-specific legislation** is under way (more than 5,000 laws and regulations have been identified and classified) to adapt it to this law within six months from its entry into force (AGS 3.2.2, AGS 3.2.3 and AGS 3.2.4).

- The **approved laws and regulations, or those which are in process of approval, also include all the principles guaranteeing a single market**, for instance, in the domains of the evaluation of environmental impact (CSR 8.3.8), and in relation to the regulatory framework of telecommunications operators (CSR 8.3.9) and professional services (AGS 3.2.22).

Additionally, under the new legislation which will be adopted in 2013, it will be possible for operators to carry out all the State, regional and local procedures needed for access to, exercise of and termination of activity through the **Entrepreneur Service Points** in an integrated procedure (AGS 3.2.13).

To make it easier for people to be aware of the law and other relevant information from the different public administrations, the Bill on Transparency contemplates the creation of a **website that centralises all the information** of all administrations (CSR 8.3.7) relevant for citizens.

Finally, other measures favourable to market unity include: a guarantee that local authorities will not regulate the same issues as other public authorities (AGS 5.1.1); a new system of rules for visas and residence permits for investors, entrepreneurs and qualified people will be implemented that is valid across the whole of the country (AGS 3.2.17); greater coordination will be guaranteed in infrastructure policy (AGS 3.6.44); and the utilisation of regional indicators of competitiveness by competent authorities, with the aim of promoting greater transparency and awareness of the importance of good regulation for economic activity (AGS 3.2.25).

With respect to actions aimed at completing the electricity and gas interconnections with neighbouring countries, complete interconnection obviously also depends on the measures taken by other Member States. Spain is making progress on various projects with Portugal and France, which will double the current capacity of electricity interconnections with the two countries and substantially increase the capacity of gas interconnections with France.

- **Work is under way in Portugal on two projects to achieve an interconnection capacity of 3,000 megawatts.** The interconnection facilities with the south are expected to start up in April 2014 and with the north in 2016 (CSR 8.4.10).

- On the question of **electricity interconnections with France**, viability studies will be completed before the end of 2013 on the routing with the aim of doubling the current capacity to **2,800 megawatts by 2014 and 4,000 megawatts by 2020** (CSR 8.4.11).

Gas interconnections with France will be increased to reach 7 bcm/year by 2015 in the south-north direction and 5 bcm/year in the north-south direction. This interconnection capacity could be increased by at least a further 7 bcm/year (flow towards France) if the MidCat project was built in the eastern Pyrenees. This is currently being subject of analysis (CSR 8.4.12).

In 2012, measures have been approved **aimed at addressing the tariff deficit in the electricity sector:**

- The **economic incentives for new renewable energy facilities have been suspended**, amounting to a saving of 292 million euros in 2012 (CSR 8.5.13).

- **Other costs of regulated activities** have been rationalised though Royal Decree-Law 13/2012, dated 30 March, which reduced the costs by 1.77 billion euros, with an impact on the 2012 deficit (CSR 8.5.14); and Royal Decree-Law 20/2012, dated 13 June, which reduced the 2012 costs and increased 2013 revenue with an impact of 150 million euros (CSR 8.5.16).

- As a result of court rulings, **electricity tariffs have been increased** since April 2012 with an impact on the deficit for 2012 of 1.38 billion euros (CSR 8.5.15).

- **Fiscal measures have been adopted the revenues from which will be allocated to covering certain items related to the costs** of the electricity system, estimated in 2013 at 2.98 billion euros of revenue; to this should be added revenue from the auction of emission rights for 450 million euros (CSR 3.2.3, CSR 3.2.4, CSR 3.2.5, CSR 3.2.6).

- **The options for remunerating facilities under the special scheme** have been limited to the so called “regulated tariff formula”; and the **remuneration of regulated activities will be updated, taking as a reference the CPI without food or energy**, with an impact on the 2013 deficit of 600 to 800 million euros (CSR 8.5.16).

The measures taken have meant the practical elimination of the primary tariff deficit. For 2013, these measures will be complemented by the reform of the system and the measures for repaying the accumulated debt (CSR 8.5.17 and AGS 3.5.33).

IV. PROGRESS TOWARDS THE ATTAINMENT OF THE NATIONAL TARGETS SET UNDER THE EUROPE 2020 STRATEGY

Target 1: 74% of the 20-64 year-olds to be employed.

The employment rate of people aged between 20 and 64 fell in **2012** from 61.6% to **59.3%.**[23] This fall is mainly due to the cyclical situation of the Spanish economy in a context of European recession; but it is also a result of the process of fiscal consolidation, which has reduced the number of public sector employees by 9.4%.

Despite this fall, and excluding the effect of public-sector employees, job destruction since the entry into force of the labour reform has been less intense than in 2011, when there was positive GDP growth. These figures show the first effects of the **labour market reform** approved in February 2012 and its regulatory developments (CSR 5.1.1, CSR 5.1.2, CSR 5.1.3, CSR 5.1.4 and CSR 5.1.5). In any case, the measures for achieving the target of the 2020 Strategy are complemented with **active** and **passive labour market policies:**

- **The Annual Employment Policy Plan 2012,** which has constituted the framework for the **coordination of the different national and regional public employment services** (CSR 5.2.6). The Plan sets out the following priority objectives:

    1. Reduce the rate of **youth unemployment**.
    2. Enhance the **employability** of other groups particularly affected by unemployment.
    3. Support **entrepreneurs** through measures that help create jobs and support their permanence in the labour market.
    4. Increase **public-private cooperation** to reinforce job search possibilities among the unemployed.
    5. Develop measures for **specific groups**, in particular people with disabilities.
    6. Fight against **fraud**.

    The Autonomous Regions have had to adapt to the 6 **priority objectives** set by the Plan when deciding on the actions to be financed with central government funds.

    In addition, a new feature of the 2012 Plan is the use of indicators designed to **evaluate the level of compliance with the established objectives and the effectiveness of the actions taken**. These results will condition the new allocation of funds to the Autonomous Regions for the execution of active employment policies. Overall, the funds amount to 1,345 million Euros this year, of which 15% will be distributed among the autonomous regions according to the established[24] objectives. The priority objectives of the **Annual Employment Policy Plan 2013**, which will be approved before the end of the **first semester**, have already been proposed to the Autonomous Regions and measures to be executed using these funds must adapt accordingly.

- A new system of **training employed and unemployed workers** (CSR 5.2.8); stronger links between **active and passive employment policies** (CSR 5.2.10 and

[23] Eurostat data using the average of the four quarters of the year.
[23] This percentage of resources allocated according to compliance with certain targets will increase in 2014 to 40%.

CSR 5.2.11); more effective **intermediation in the labour market** (CSR 5.2.12); and the range of initiatives adopted to promote **active ageing, prevent discrimination against older people** in company downsizing processes and assist their **re-entry into the labour market** (CSR 2.1.1, CSR 2.1.2, CSR 2.2.4 and CSR 2.2.5).

- The measures related to the European Commission's **"Youth Opportunities Initiative"** have been implemented through a new **training and apprenticeship contract** and a system of **dual vocational training**, which will be supported by a 2013-2015 Implementation Strategy (CSR 5.1.4 and CSR 5.2.9). The development of dual vocational training is part of the **Strategy for Youth Entrepreneurship and Employment 2013-2016**, which has already been launched and which includes a wide variety of other measures aimed at fostering the employment of young people through **training and education**, through the **promotion of self-employment** amongst the young, as well as through several **hiring incentives for young people with little or no work experience** (AGS 4.1.6).

Target 2: 3% of GDP invested in R&D

Research, development and technological innovation are the driving force behind a model of **sustainable, competitive and high-quality growth**. The sector is also key in **job creation** and in the improvement in **productivity and social cohesion**. Thus investment in R&D+i must be a **priority for public expenditure policies**. (Europe 2020 Strategy 2.1).

This priority has been reflected in the national budget for 2013: expenditure on civil research, development and innovation has not received any cuts with respect to the previous year's budget, which contrasts with the average cut of 8.9% in the spending of the ministerial departments[25] .

Despite this **significant budgetary effort**, it is essential to carry out a **responsible analysis of the current situation** in Spain with respect to R&D+i investment. Spending on these activities currently represents 1.39% of GDP, an increase on its relative weight of 1.35% in 2008. However, in the country's macroeconomic context and the need to comply with the **deficit targets, the initial target of 3% of GDP** for R&D expenditure **has had to be revised**, and **for 2020** the figure is **2%** for expenditure on R&D investment as a proportion of GDP. A notable **increase** in the level of involvement and **participation by the private sector** in R&D+i investment is planned for the achievement of this target: from 0.6% of GDP it is to increase to 1.2% in 2020.

Within the actions aimed at promoting R&D+i is the **reallocation of funds** designed to facilitate access to finance research and innovation. In addition, measures have been adopted to comply with the improvements set out by the European Commission in its National Reform Programme 2012, specifically:

- **A more efficient allocation of stable resources to R&D activities**. The new Spanish Science and Technology and Innovation Strategy 2013-2020 and the State Scientific, Technical and Innovation Research Plan 2013-2016 have been approved (Europe 2020 Strategy 2.3 Europe 2020 2.4 Strategy and Europe 2020 Strategy 2.5).

- Specific actions are being taken to **increase business investment in R&D+i**, and to finance SMEs, both in the framework of the State Plan mentioned above and

[24] Contributions to Social Security, SEPE and obligations from previous years are excluded.

through the Centre for Industrial Technological Development (CDTI)[26]. At the same time, tax incentives will be introduced for private investment in R&D+i in the future law supporting entrepreneurs and their internationalisation (Europe 2020 Strategy 2.2 and Europe 2020 Strategy 2.6).

- **Actions by central government are being coordinated better with the autonomous regions**. Within the Spanish Strategy, the mechanisms for structuring this objective have been defined. They include the development in 2013 of the Integrated System on Science, Technology and Innovation Information, harmonisation of criteria and evaluation practices between the different tiers of government and the implementation of instruments for joint programming and co-finance (Europe 2020 Strategy 2.3).

Target 3: Climate change and energy sustainability.

The efficient use of resources, reduction in greenhouse gases (GHG) and control of pollution help growth directly, as well as increasing economic competitiveness. This is the reason for Spain's firm commitment to the fight against climate change and the achievement of an increasingly sustainable energy system.

The aim of **reducing GHG emissions** results in the need to reduce emissions of diffuse sectors (those not included in the EU's Emissions Trading System, ETS) by 10% by 2020 on the 2005 level, which is the responsibility of the government; and in addition, reductions in emissions by companies that fall within the scope of application of emission trading rights harmonised at a European level.

The emissions subject to the ETS have been reduced by around 29% since 2005, when the system began. They are part of a common European objective in accordance with the **implementation of the 3rd phase of the emissions trading system** (Europe 2020 Strategy 3.5).

The actions within the area of diffuse sectors, which are the government's major challenge for 2020, are planned through the framework of the Road Map for the 2020 horizon (Europe 2020 Strategy 3.2), although some initiatives have already been launched: the **Climate Project Programme** (Europe 2020 Strategy 3.4), which is contributing to the acquisition of verified CO_2 equivalent emission reductions from projects in Spain; and the **PIMA Aire** (Europe 2020 Strategy 3.8) initiative, which will help reduce polluting emissions through a renewal of the commercial vehicle fleet.

Spain is also working on new cross-cutting measures that will have a clear positive impact on reducing emissions in the diffuse sectors: creation of a **new environmental tax system** (Europe 2020 Strategy 3.1); the development of a **legislative initiative to underpin the calculation of the carbon footprint** (Europe 2020 Strategy 3.3.) and the **National Framework Waste Plan** (Europe 2020 Strategy 3.7).

Renewable energies have a key role to play in the transition towards a low-carbon economy. The share of these kinds of energies in Spain in terms of final consumption is around 16.05%, with a clearly upward trend (in 2005 renewable energies accounted for 8.41% of final energy).

Third, the improved **energy efficiency** is reflected in falling energy intensity, which has improved significantly since 2005, with annual rates of reduction of close to 3% (an

[25] In 2012, the CDTI allocated more than 1.4 billion euros to 1,086 business R&D+i projects, mobilising around €919m of private investment. This has led to the creation of 8,750 jobs.

accumulated 18.5%). A number of measures are contributing towards improved energy efficiency:

- The creation of **new taxes** (tax on the value of electrical energy production; tax on the production of spent nuclear fuel and radioactive waste from the generation of nuclear energy; and a tax on the storage of spent nuclear fuel and radioactive waste at centralised facilities); as well as the **modification of the tax rates for natural gas and coal** (Europe 2020 Strategy 3.9), which guarantee better management of natural resources, and thus have a positive impact on energy efficiency.
- Improved **energy efficiency in buildings** based on energy efficiency certification (Europe 2020 Strategy 3.10 and Europe 2020 Strategy 3.11).
- Direct aid for the **acquisition of highly energy-efficient vehicles**, supported by new technologies (electrical vehicle, LPG and NG) (Europe 2020 Strategy 3.12 and Europe 2020 Strategy 3.13).

Target 4: Education

A school drop-out rate of under 15%, and 44% of people aged 30 to 34 should have completed tertiary education.

The drop-out rate in Spain doubles that in the EU, at 26.5% in Spain in 2011 versus 13.5% in the European Union in 2011. Furthermore, the situation remained stable over the previous decade. However, over recent years the rate has been falling, from 31.9% in 2008 to 26.5% in 2011. For 2012, the latest data from the Active Population Survey (EPA) for the last quarter of 2012 (offered by the National Institute of Statistics, INE) show a percentage of 24.9%.

However, data on early school-leaving contrast with the percentage of people aged between 30 and 34 who have completed tertiary education, which amounts to 40.6%, above the European target of 40%, and which is still rising towards the national target of 44% by 2020.

For **compliance with the Europe 2020 targets** the following measures are being and will be adopted:

- **Reform of educational legislation** (CSR 6.2.11 and CSR 6.2.14). This future reform will begin to be applied in the academic year 2014/15. Its main objective is to reduce the rate of early school-leaving to 15% by 2020. This means that 85% of students should obtain, under the new proposed educational structure, the of *Bachiller* diploma, an Intermediate Vocational Education Cycle or the Diploma of Basic Vocational Education.

  For this reason the education reform includes, amongst others, measures aimed at early detection of learning problems and the implementation of improvement programmes, helping students to choose the training pathway that is best suited to their profile, increasing academic time devoted to core competences for academic progress and providing greater autonomy for educational centres to develop results-oriented educational projects. A new Basic Vocational Education diploma will also be created, which may be accessed without necessarily having completed compulsory secondary education, but the student will continue to be provided with the teaching necessary to either retake these studies or access Intermediate Vocational Education.

- In 2012 two **specific action plans** were implemented to tackle **early school-leaving** (CSR 6.2.12 and CSR 6.2.13). The former is targeted at preventing early school-leaving and promoting a return to the educational system. The latter plan is aimed at meeting educational needs associated with the social and cultural environment that has an impact on early school-leaving.

- **A further set of measures is also being adopted to contribute towards the objectives mentioned. These include**: a programme such that young unemployed people who abandoned compulsory education may take it up again (CSR 6.2.8); a new form of part-time work for people to combine work and training (CSR 6.2.10); a new training contract to obtain a vocational training diploma or a professional certificate (CSR 5.1.4); enhanced access to vocational training through online possibilities (CSR 6.2.15); a review of the contents of the different diplomas and vocational training certificates to adapt them to new professional realities and needs of the productive sectors (CSR 6.2.17 and 6.2.18); the implementation of a plant to boost lifelong learning (CSR 6.2.16); a policy to improve the efficiency of scholarships (CSR 6.2.20); and a reform of university legislation in order to boost the excellence, competitiveness and the internationalisation of the university system (CSR 6.2.19).

Target 5: Combat poverty and social exclusion

The current economic situation has had a clear impact on situations of social vulnerability; i.e. on those people who live in situations of poverty and social exclusion.

According to provisional figures from the National Institute of Statistics (INE), the AROPE rate[27] corresponding to 2012 has fallen slightly (by 0.2%), from 27% in 2011 to 26.8% in 2012. It is worth noting that this fall, although very slight, took place in the context of declining GDP and increased unemployment.

A variety of measures have been taken to tackle poverty and social exclusion, with action on two different fronts.

On the one hand, active inclusion has been promoted **by measures geared towards employment**. The aim is to promote full participation in society and the economy and to extend the possibilities of jobs for these groups.

Thus the **National Strategy for Social Inclusion of the Roma Community** (CSR 7.1.1) is targeted at promoting employment for this group. In addition, the **Action Plan on Drugs 2013-2016** (CSR 7.1.2) contributes towards the rehabilitation of drug dependents through programmes of integrated training and preparation for the labour market and employment.

On the other hand, as well as promoting employment, actions are being undertaken designed to guarantee a context that favours access to basic services, particularly social services, education, health and housing.

The aim is to **promote effective support services for children and families,** with actions such as the **2nd National Strategic Plan for Infancy and Adolescence 2013-2016** (CSR 7.2.3), which places particular emphasis on the fight against child poverty.

[26] People are considered to be in a situation of poverty or social exclusion if they suffer from one of three problems: lack of income; severe material privation; or living in a home with low rate of employment.

In addition, protection for the unemployed with family responsibilities has gone up within the framework of the **professional requalification programme for people who have used up their employment benefits** (CSR 7.2.4), by increasing the amount of aid for beneficiaries with three or more dependents and, at the same time, reinforcing the elements to promote employment of beneficiaries.

Another of the consequences of the current economic situation is the increase in the number of jobless households or which are undergoing a prolonged period of lack of economic activity, which face **serious difficulties in complying with their loans or mortgages' obligations**. This situation can increase their debts or even lead to a loss of their primary residence.

Mechanisms have therefore been adopted to **restructure mortgage debts** for those who have very serious difficulties in making payments, as well as making the process of foreclosure more flexible (CSR 7.2.5). In addition, the **evictions** of families in a situation of particular risk of exclusion may be **suspended** immediately and for a period of two years (CSR 7.2.6).

Table 5: Progress towards the Europe 2020 Targets

Targets		2011 or latest available figure for Spain	EU-wide 2020 headline targets
Employment	Jobs for 74% of people aged between 20 and 64	59.3%	75%
R&D	R&D investment of 2% of GDP	1.39%	3%
Climate change and energy sustainability	Greenhouse gas emissions (down 10% on 2005)	21%	-20% (on 1990)
	20% of renewable energies	16.05%	20%
	Increase of 20% in energy efficiency (final consumption of primary energy in 135 Mtoe)	122Mtoe	20% of energy efficiency equivalent to final primary energy consumption of 1,474 Mtoe
Education	School drop-out rate under 15%	24.9%	10%
	At least 44% of people aged between 30 and 34 must have completed tertiary education	40.6%	40%
Combat poverty and social exclusion (1)	Reduce the number of people in or at risk of poverty and social exclusion by at least1.4 – 1.5 million	26.8%	20 m less people at risk of poverty and social exclusion

(1) The AROPE rate of risk of poverty or social exclusion has been used as an indicator.

V SUPPORTING GROWTH REFORMS.

AGS. 1. PURSUING DIFFERENTIATED, GROWTH-FRIENDLY FISCAL CONSOLIDATION

Fiscal consolidation is an essential condition for achieving sustainable economic growth and promoting job creation. The correction of fiscal imbalances is an axis of Spain's National Reform Programme in 2013, as it was the previous year and will continue to be in the future. Through it, Spain demonstrates its firm commitment to budgetary stability.

At the level of fiscal consolidation, the policies applied are beginning to produce results. **In 2012, the public deficit was reduced to an unprecedented extent, from 8.96% of GDP in 2011 to 6.98%.** Thus, in a single year there has been a fiscal correction equivalent to that recorded in 2010 and 2011 together. This clearly shows that for the first time since the start of the crisis, the deficit of all the autonomous regions is under control.

Now that the negative trend of the public accounts of recent years has been reversed, it is crucial to continue with the strategy of fiscal consolidation that has already begun, with the aim of steering public debt along a sustainable path, recovering the Spanish economy's credibility, helping access credit and complying with the commitments to deficit reduction set out in the Stability Programme 2013-2016.

The medium-term strategy of consolidation being implemented in Spain has the following features:

- ✓ **Asymmetrical:** The adjustment involves a bias towards measures for reducing public expenditure. In 2012, the measures for reducing expenditure accounted for 60% of fiscal consolidation.

- ✓ **Balanced between all tiers of government:** The results obtained in 2012 clearly show that the efforts made to reduce the public deficit have been shared by all tiers of government.

- ✓ **Fair:** The fiscal efforts demanded have been borne by those agents with the biggest economic capacity, thus reinforcing the progressive nature of the tax system.

- ✓ **Structural:** The strategy for consolidation is fundamentally based on structural measures, such as streamlining the system of public-sector businesses and foundations, reforms in education and in the health system, etc.

- ✓ **Multi-year:** The reduction in the public deficit will be introduced steadily over a medium-term time horizon.

As in 2012, fiscal policy for the period 2013-2016 is based on two pillars:

- ✓ First, the reforms undertaken to boost the **economic governance framework in Spain** will be continued, in line with the reforms adopted in the European Union, to improve budgetary discipline and control over public finances.

- ✓ **Income and expenditure adjustment measures** will also be applied at all tiers of government to extend the consolidation of the public accounts and ensure achievement of the budgetary stability objectives.

Axis 1. Improvement in economic governance: Independent Fiscal Responsibility Authority and combating late payments.

The Spanish budgetary framework is being subjected to an in-depth reform that reflects Spain's commitment to budgetary stability as a basis for boosting growth and job creation. It transposes European legislation on **economic and fiscal governance** into our legal system.

The reform was begun in September 2011, with the amendment of Article 135 of the Spanish Constitution to include a fiscal rule limiting the structural public deficit and public debt at our highest legal level. In 2012, the fundamental milestone in **tightening budgetary discipline** was the approval of Organic Law 2/2012, dated 27 April, on Budgetary Stability and Financial Sustainability, which will be further strengthened by approval in 2013 of the **Law on Transparency, Access to Public Information and Good Governance** (CSR 1.2.18).

The biggest advance in this area in 2013 will be with the creation of **the Independent Fiscal Responsibility Authority (AIRF).** This institution enhances the supervision of the budgetary policies implemented by all the public administration, guaranteeing they all comply with the principles of budgetary stability and financial stability, through a continuous evaluation of the budget and public debt cycle and an analysis of the macroeconomic forecasts (CSR 1.3.23 and AGS 1.1.1).

The creation of this Authority also ensures **compliance** with the provisions of the **Treaty on Stability, Coordination and Governance in the Economic and Monetary Union**, the Directive on requirements for budgetary frameworks of the Member States and the Regulation on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the Eurozone.

Pursuant to the above, the draft **Organic Law on the creation of the Independent Fiscal Responsibility Authority** has been approved. The law introduces supervisory and transparency mechanisms into fiscal policy and complies with the European Directive establishing the need for independent fiscal institutions.

The **scope of action** of the body extends to the whole public sector, including central government, the autonomous regions, local government, the Social Security system and other bodies. It has **functional independence and autonomy** with respect to the public administration services and will be provided with the **resources needed** to develop its functions properly. For this independence to be fully **guaranteed**, it has been incorporated as an entity with its own legal personality and full public and private legal capacity, as part of the Ministry of the Treasury and Public Administration Services but with full functional independence. Neither the chairman of the AIRF or its staff may request or accept instructions from any public or private entity. The **chairman** is a prestigious professional with extensive experience in budgetary, economic and financial analysis in the public sector, with his or her independence and objectivity being particularly valued. The chairman's appointment must be accepted by the Lower and Upper Houses of Parliament.

The Independent Fiscal Responsibility Authority will exercise three **functions:** analysis, advice, and control of budgetary policy. This will be done by preparing reports, issuing opinions at its own initiative on relevant questions such as the long-term sustainability of the public accounts, and preparing studies commissioned by the government, the Fiscal and Financial Policy Council or the National Local

Government Commission. The reports and opinions issued by the AIRF, for which it will have access to all the economic and financial information related to the different tiers of government, will be public and detailed.

A set of measures is being adopted within the framework of economic governance to **combat late payments in commercial operations** (CSR 1.2.21 and CSR 1.2.22). The following initiatives have been adopted in order to continue further with the actions taken in 2012 to reduce the commercial debt of the public administration services and increase the liquidity of the different public administrations and their suppliers:

- The **Regional Liquidity Fund (FLA)** has been extended to the end of 2013, with a provision of 23 billion euros to pay for the maturities of regional debt and to finance the deficit target authorised for the year. This extraordinary financing mechanism makes payments directly to the suppliers of the regional administrations, prioritising essential public services such as education, health and social services.

  As in 2012, the use of the FLA in 2013 is subject to financial conditions and approval or updating (if already approved) of an adjustment plan that includes the income and expenditure measures required to comply with the stability objectives, as well as structural reforms aimed at increasing competitiveness and economic flexibility. These measures include: measures to reduce late payments, removal of obstacles or barriers in the internal market, elimination of administrative charges, reduction in the number of regional public bodies.

  For 2013 the Government has strengthened controls applied to the autonomous regions that have deviated from the 2012 deficit target or that need more detailed monitoring of their cash accounting, in accordance with available data on their commercial debt and average payment terms. It has therefore extended control to monthly monitoring of the use of funds received by the regions from the financing system and subject to settlement; it also monitors by expense item or programme the amounts paid and pending payment for the management of basic public services, using either their own or third-party resources. A monthly review is also carried out of compliance with the provisions of Law 15/2010, dated 5 July, amending Law 3/2004, dated 29 December, establishing measures to combat late payments in commercial operations. This involves monitoring the commercial debt, broken down according to the nature of the expense originating it and the year it was incurred, changes in legal payment terms to suppliers and the measures adopted and planned by the region to guarantee compliance with the specified terms.

- The **Supplier Payment Plan** has been extended by more than 2.6 billion euros, to pay the invoices of suppliers of local authorities and autonomous regions that have been accounted for before 1 January 2012.

- The Directive establishing measures to combat late payments in commercial transactions has been fully transposed through Royal Decree-Law 4/2013 supporting entrepreneurs and stimulating growth and job creation, which has amended the **Law on Public Sector Procurement** (AGS 1.1.3). Among the changes are a new payment period of thirty days for all private transactions, which may be extended to sixty days as a maximum; and greater penalties for late payment, increasing the interest accrued and obliging the payment of a fixed amount (forty euros).

In line with these measures, in 2013 a new **Plan to eradicate late payments** (AGS 1.1.2) will be launched through the introduction of a **package of simultaneous measures** designed to prevent late payments by the public sector in the future, and establishing permanent monitoring and control tools over commercial debt in the public sector. These represent real structural reforms in the way that the public administration services operate:

- Amendment of the Organic Law of Budgetary Stability with the aim of: integrating control of commercial debt into the principle of financial sustainability; introducing the concept of average payment period (PMP) to suppliers as an expression of the volume of commercial debt; obliging public authorities to publish their PMP figures and have a treasury or cash budget plan; and establishing that a breach of the PMP will involve preventive, corrective and coercive measures.

- Creation of a new law to control invoices, with the aim of: **creating accounting records of invoices** corresponding to transactions made with public authorities, thus avoiding delays in the accounting record of transactions made; encouraging the use of **electronic invoices** in transactions made with entities in the public sector, which will be obligatory as from January 2015, thus making it easier to process the documentation justifying the transactions made; establishing a general entry point with all public authorities for electronic invoices as well as an accounting record integrated into the general entry point.

- Launch of the **third phase of the Supplier Payment Plan,** with the aim of clearing the stock of invoices pending payment by both the autonomous regions and local authorities. As in previous phases, the public authorities will be given long-term credit facilities, though subject to the requirement of fiscal and financial conditionality under the adjustment plan.

Axis 2. Fiscal consolidation measures.

The major lines of fiscal strategy were defined in the **Two-Year Budget Plan 2013-2014** (CSR 1.1.16), approved by the Spanish Council of Ministers on 3 August 2012. They included adjustment measures approved through laws such as Royal Decree-Law 20/2012, on measures guaranteeing budgetary stability and promoting competitiveness, the General State Budget Law, and Law 16/2012 on tax measures aimed at consolidating the public accounts and boosting economic activity. Both the autonomous regions and local authorities approved their budgets according to the guidelines set out in the Two-Year Plan.

The fiscal consolidation measures adopted are in line with the priorities set out in the Annual Growth Survey 2013, in terms of both public expenditure and revenues:

✓ **With respect to expenditure**, despite the strict framework of budgetary austerity, the national budget for 2013 favours productive investment by boosting R&D+i policies and education, which are items that promote sustainable economic growth, while making an effort to maintain social expenditure items.

  - The amount allocated for **R&D+i expenditure** in the national budget for 2013 is similar to the amount in the 2012 budget. This is particularly significant given the general adjustment made in all the expenditure items (Europe 2020 Strategy 2.1).

- **In education policy,** the adjustments have been focused on improving the efficiency of material and human resources (CSR 1.4.34, CSR 1.4.35, CSR 1.4.36 and CSR 1.4.37), while initiating structural reforms that aim to enhance educational quality and academic excellence (CSR 6.2).

- Against a background of major expenditure cuts, an effort has been made to finance **budget items of a social nature**, which account for **63.6% of the consolidated budget for 2013**. At the same time, reforms are under way to **modernise the social protection system**, including actions related to the viability of the pension system, which entered into force on 1 January 2013 and represent savings for the system equivalent to 3.5 points of GDP by 2050. In addition, measures have been adopted to bring the real retirement age closer to the statutory age, and ensure that the statutory age increases in line with life expectancy. The **new regulation governing early and partial retirement has been in force since March 2013, and work has begun to regulate the sustainability factor** (CSR 2.1.1, CSR 2.1.2 and CSR 2.1.3).

✓ **On the revenue side**, selective increases have been carried out on the main taxes to guarantee and extend the principles of fiscal equity. The measures adopted in 2012, which in many cases will have their full effects in 2013 and subsequent years, are in line with the criteria established in the Annual Growth Survey.

The tax increases adopted mainly focus on corporate income tax and indirect taxation, and only 25% of the additional revenues for 2012 were obtained by increasing withholdings on income from work. In addition, the **latest tax measures adopted** for personal income tax **do not affect taxation on work**; rather, they focus on other elements of the tax such as the new charge on lottery winnings and increased tax on short-term capital gains (CSR 1.1.13).

The tax reforms adopted are basically focused on the extension of **the taxable base**. An example is the modifications made to corporate income tax which have streamlined tax credits (CSR 1.1.10 and CSR 1.1.11). Among the many measures adopted to increase revenues from this tax, a **limit has been set to the allowance for financial expenses**, thus reducing the bias in favour of indebtedness in corporate income tax, which was one of the recommendations in the Annual Growth Survey.

VAT has also been reformed with the aim of **extending its taxable base** so that certain goods and services that were subject to a reduced rate and were not of a basic nature are now taxed at the general rate (CSR 3.1.1). At the same time, **VAT rates have been increased**, which were well below those of the EU average. The general rate has been raised from 18% to 21% and the reduced rate from 8% to 10%. With this reform the effective VAT rate has risen from 12.66% in 2011 to 16.5% in the last quarter of the year, as this tax reform entered into force on 1 September 2012.

To comply with the guideline on **property taxation,** so that taxation that is less biased towards indebtedness and home ownership and rental is more attractive, the personal income tax system has been modified to eliminate the deduction for purchasing a primary residence for first-time buyers starting on 1 January 2013 and to remove the tax allowance for acquisition of a primary residence bought before 20 January 2006 (CSR 3.3.8).

Apart from removing the credits and allowances, modifications have been introduced to the tax treatment to promote property rentals. Specifically, two important new points have been introduced (CSR 3.3.9): first, the specific criteria allowing the application of the special tax system for home rentals have been made more flexible (the system applicable to those offering homes for rent that due to their size or rent are for middle or low-income sectors). In addition, certain aspects of the regulation applicable to companies investing in the property market have been modified.

In line with the fiscal consolidation strategy begun in 2012, the **fiscal policy** applied for the **three-year period 2013-2016** will feature **maintenance of fiscal consolidation measures** (see the Stability Programme), **combining them with selective measures stimulating economic growth**. New measures will be included in this matter in the future Law Supporting Entrepreneurs and their Internationalisation, in addition to those already approved in Royal Decree-Law 4/2013, dated 22 February, on measures supporting entrepreneurs and stimulating growth and job creation (AGS 3.2.13).

Axis 3. Improving the efficiency and quality of public expenditure.

The reforms begun in 2012 within the **scope of the National Health System** will be continued. They have led to a reduction in healthcare expenditure of 8%. New initiatives will also be adopted, with an estimated total impact of 3.13 billion euros in 2013. They include the following:

- A new **portfolio of services** has been developed in line with European standards, separating the **basic portfolio of care services** from a common extra portfolio of **services subject to a contribution from users**.

  In 2013, the regulation of the portfolio of care services will be continued, following the criteria of quality and safety approved by the Inter-territorial Health Council for triage groups, and for optimising 13 specialist medical services. In addition, a new catalogue of surgical implants will be prepared. This measure represents savings of 700 million euros (1% of total health spending).

  New services will be added to the portfolio of services subject to user contributions in 2013: outpatient provision of diet therapies and orthopaedic prostheses, and in the use of non-urgent health transport. These measures will cut expenditure by 175 million euros in 2013.

- **Pharmaceutical reform**, in which, for the first time, people contribute according to their income, generated savings of 1.59 billion euros from July 2012 to March 2013. This has resulted in a monthly reduction in healthcare costs of nearly 20% (with expenditure back at 2004 levels) and a reduction in the number of prescriptions by 15%. Overall, these measures are estimated to reduce pharmaceutical expenditure by around 1.4 billion euros in 2013, including the contribution from users in medicines prescribed by hospitals.

  Among the **new measures to be implemented in 2013** are the following: the new Benchmark Price Order, a system used in other European Union countries to restrict pharmaceutical spending, which will reduce expenditure by 409 million euros in 2013; and the launch in May of new packaging for medicines that are better adapted to the duration of the treatment (AGS 1.3.4).

- Among the efficiency measures to be implemented in 2013 are: the launch of a new **centralised purchasing platform and the deployment of e-Salud (*e-Health*),** which extends the system of a **digital clinical history** across the whole of the country and ensures its full interoperability, limiting the need to repeat diagnostic tests and procedures; more extensive use of electronic prescriptions so that they may be accessed from any pharmacy in Spain; as well as other measures affecting efficiency. The total estimated savings through these measures amount to 300 million euros for 2013 (AGS 1.3.4).

- With the aim of **improving efficiency in clinical practice** by the participation of professionals in the management of resources, a new legal framework will be defined for the **clinical management model** in all the centres of the National Health System. Finally, a **social and health model** will be prepared with the establishment of a package of actions optimising health and social resources. In its initial phase it will affect the implementation of pharmaceutical and therapeutic monitoring of 50% of the residents of social homes by benchmark hospital pharmacy services, which will have an impact on savings in 2013 of 150 million euros (AGS 1.3.4).

The **reform of the Long-term Care System** aims to rationalise the system of long-term care and guarantee its sustainability. To this end, numerous measures were approved in 2012, with a significant budget impact in 2013 of 1.11 billion euros (CSR 1.4.32 and CSR 1.4.33). The following reforms are planned in this respect in 2013:

- Preparation of a draft Royal Decree on financial resources and contributions by beneficiaries towards benefits under the System for Autonomy and Long-term Care, which includes a 5% additional increase in contributions from beneficiaries towards the cost of services, with a gradual implementation of this over a period of 3 years. The savings through this measure will amount to 339 million euros in 2013.

- Two Royal Decrees are planned in 2013 to adapt benefits to the real needs of dependents and prioritise professional services above financial benefits, as well as to regulate the benefits provided under the system, with a saving of 489 million euros.

In addition, a **new regulation** will be approved later in 2013 on **mutual societies for occupational accidents and industrial illnesses**. These private entities work with the Social Security system, in particular with respect to the benefits derived from a temporary incapacity to work. Part of the economic surplus derived from this management by the mutual societies contributes to the financial stability of the system, and is integrated into the Social Security Reserve Fund. The new regulation will aim to modernise the operation and management of these societies, guaranteeing transparency and control to ensure greater levels of efficiency and increased surpluses, thus contributing to a greater extent to combating labour absenteeism and ensuring the sustainability of the Social Security system (AGS 1.3.5).

Axis 4. The fight against tax and employment fraud.

The fight against tax and employment fraud is a key pillar of the fiscal consolidation strategy, and is one of the recommendations in the Annual Growth Plan of 2013.

- An in-depth reform has been approved **in the area of taxation** through Law 7/2012, dated 29 October, amending the tax and budgetary regulations and adapting the financial regulations for bolstering actions to prevent and combat fraud.

  Among the main measures included in the law are: **limits have been imposed on the use of cash** in amounts above 2,500 euros in business and/or professional transactions; there is now an **obligation to report accounts, securities and property located abroad**; **undeclared income does not lapse**; **the tax procedures have been modified to** allow earlier interim measures to be taken; and the Tax Authorities may adopt interim measures in criminal proceedings for tax fraud.

In addition, the **Criminal Code has been reformed** to strengthen the mechanisms to prevent and combat tax fraud. Among the measures included are a new definition of an offence against the Public Treasury and the creation of a new type of aggravated offence.

Together with these laws, in the fight against fraud the Tax Authorities prepared an ambitious **Annual Tax Control Plan** in 2012 that **has increased revenues** by 11.52 billion euros, **10.08%** more than in 2011 (CSR 1.1.15).

A new Tax Control Plan has been approved for 2013 that includes **the creation of a National Office on International Tax Affairs** and an ambitious analysis of e-commerce. Finally, the Plan's guidelines include the Tax Authorities stepping up the fight against the underground economy with 17,000 inspections and 2,600 collection actions; and inspections will begin on online gaming (AGS 1.4.6).

- **With respect to the Social Security system**, in April 2012 the **Plan to combat Irregular Employment and Fraud** against the Social Security system 2012-2013 was approved (AGS 1.4.7), to stop practices that represent an attack against the rights of workers, a drain of resources in a system of unemployment protection and Social Security, and unfair competition between businesses. As a result of the Plan, a **broad range of actions of different kinds** have been carried out:

  - **Organisational and operational changes in the Labour and Social Security Inspectorate** to adapt it better to combat fraud.

  - **Extension of human resources available** to combat fraud. Since the approval of the Plan, **121 new officials** have entered the Labour and Social Security Inspectorate.

  - **More intensive inspection campaigns** in those sectors where a **greater underground economy** has been detected (for example, in hotel and catering and construction).

  - **Greater coordination between the Labour Inspectorate and other bodies** (the General Treasury of the Social Security System, the Tax Authorities, the State law enforcement agencies, etc.).

  - **Various legal reforms** included in **Law 13/2012**, dated 26 December, to combat irregular employment and fraud against the Social Security system, including those aimed at **providing the Labour Inspectorate and the Labour Administration of the Social Security system with more effective technical means for combating fraud**.

  - Finally, **changes have also been introduced into the Criminal Code** with the aim of making it possible to impose **adequate penalties for more serious fraudulent conduct with respect to workers and the Social Security system.**

In 2012, the **results** of the fight against labour and Social Security fraud could be described as outstanding. The actions as a whole have had an impact of 2.6 billion euros. Some of the more important results may be summed up as follows:

- A total of **91,470 irregular jobs** have been **detected, 12% more** than the previous year. Voluntary registrations in the Social Security system have **increased revenue by 95.96 million euros.**

- A total of **1,559 infringements were detected related to fictitious companies (170%** more than the previous year), which have led to the **cancellation of 730 registrations** in the Social Security system by **fictitious companies and 44,262 fictitious registrations of workers** whose aim was to obtain Social Security benefits or authorisations to work without being eligible.

- A total of **99,789 people** were detected who had **not complied with the requirements** for receiving **unemployment benefit** (**6% more** than the previous year). The cancellation of benefits in these cases has saved **1.53 billion euros.**

- A total of **6,478 infringements by businesses were detected related to unemployment benefits** (**29%** more than the previous year), in which a job was given to people receiving benefits or who were given access to benefits without fulfilling the eligibility requirements.

In **2013** the **organisational and collaborative measures** between institutions will be **strengthened** in order to combat fraud. The plan will continue to be run until the end of 2013, without prejudice to the legal reforms remaining in force.

AGS. 2. RESTORING LENDING TO THE ECONOMY.

In 2012, Spain tackled the restructuring of its financial system, following the overall strategy designed together with the European authorities. This strategy not only aimed to restore the health of the Spanish banking system, but also to look after its future sustainability (CSR 4.1.1). A healthy and solvent financial system is the first step towards reactivating the Spanish economy and guaranteeing that the measures to be applied to make lending reach the real economy, and in particular SMEs, have the biggest effect possible.

For 2013, one of the main objectives is to ensure strict compliance with the restructuring and resolution plans implemented by the banks; that is why they are being monitored both by the Spanish and European authorities (CSR 4.2.3). The Spanish State also has a 45% stake in the asset management company (SAREB) and will ensure in 2013 that there are no deviations from its business plan. It will be subject to continuous control by the Bank of Spain, the body responsible for its supervision. All these controls will ensure a swift reaction to any deviation and guarantee orderly divestment within a maximum period of 15 years, compatible with the aim of maximising the profitability of the assets received. Finally, the necessary steps will continue to be taken to improve the legal framework and the supervisory function of the Bank of Spain (CSR 4.4.5 and CSR 4.4.6).

The improved financial environment will undoubtedly help re-establish normal lending conditions to the economy. As well as improving the financial situation of companies, the Official Credit Institute (ICO) has extended its finance lines to 22 billion euros (CSR 6.1.1). The ICO has focused its planned activity in 2013 on optimising its value contribution in the new economic environment, so that there can be a move from an activity-intensive growth model to one based on specialisation and assistance for activities that support economic recovery and growth.

To this end, its **main objectives** are: support for the internationalisation and export process in Spanish companies; financing companies and entrepreneurs in Spain by designing targeted products that allow Spanish companies to bid for international tenders from which they are currently excluded because they do not have the eligible technical guarantees; and financing exports in the short, medium and long term. At the same time, in 2013 the ICO will aim to extend the commercial channel to international banking in the destination country where Spanish companies invest; boost the international dimension of risk capital funds managed through AXIS; and extend activities in the “fund of funds” format that allow greater use of the specialised capacity of private operators in the risk capital area.

In addition, in 2013 the ICO will have **new products** available that are currently in the implementation phase:

- **Rotating ICO-CAF credit facility:** The Directory of the Andean Development Corporation (CAF) approved in March the creation of a new credit facility through ICO. The amount of this facility is 300 million dollars for 2013, of which 200 million are for loans and 100 million will be for guarantees.

- **FOND-ICO Global fund of funds:** This is the first public risk capital fund of funds ever created in Spain, with up to 1.2 billion euros. Its aim is to promote the creation of privately managed risk capital funds to invest in Spanish companies during all phases of their development. The registration of this fund at the CNMV will be carried out in May so that the first investments can be made in the last quarter of 2013.

- **ICO line for promissory notes and company bonds:** 1 billion euros in 2013, up to a total of 3 billion euros over three years, within the "ICO Companies and Entrepreneurs 2013" credit line to finance the acquisition by financial institutions of bonds or promissory notes issued by Spanish companies and to develop the Alternative Fixed-Income Market (MARF).

At the same time, **the final touches are being put to another package of initiatives** to provide improved access to finance and re-establish normal lending conditions in the economy. Specifically:

- Creation of an **Alternative Fixed-Income Market** (MARF). The first bond and promissory note issues by private companies are expected to be made between the second and third quarter of 2013.

- Approval of the **“Elevator Act”** making the movement of companies between the stock market (regulated market) and the Alternative Stock Market (multilateral trading facility) easier.

- Future approval of the **modification of the legal framework for risk capital**. Taking advantage of the transposition of Community Directive 2011/61/EC, on alternative investment fund managers, Law 25/2005, dated 24 November, regulating risk capital institutions and their managers will be amended. These are in-depth changes that aim to resolve certain deficiencies and realign tax incentives towards more valuable risk capital activities in the early phases of the development of new companies.

AGS. 3. PROMOTING GROWTH AND COMPETITIVENESS FOR TODAY AND TOMORROW.

Axis 1. Increase the flexibility of the economy: Law on the De-indexing of the Spanish Economy

The **accumulated loss of price competitiveness** against Eurozone countries is one of the factors that has contributed most to the **accumulation of imbalances**. During the period of economic expansion between 1996 and 2008, the harmonised consumer price index in Spain increased by 42%, 14 percentage points more than in the Eurozone, giving rise to a substantial loss in competitiveness, which has still not been sufficiently corrected.

Flexibility is therefore necessary, not only in establishing absolute levels of prices and incomes, but also in updating them according to the trend in inflation, i.e. indexation.

Indexation allows updates to be made to the monetary values of certain payments or items according to the changing value of an index of prices. **Indexation based on the headline CPI** is **a widely used convention**, but it is not necessarily justified, nor is it always beneficial for the Spanish economy as a whole. This has been accepted by the social partners in the **Second Employment and Collective Bargaining Agreement 2012, 2013 and 2014.** In it they **expressly reject direct indexing of wages to the CPI**, so that moderation of income from wages can boost growth and job creation. In this context, **public administration services must also be responsible for** coordinating income as proposed by the social partners.

Given the need to speed up the recovery of lost competitiveness, and the current restrictions on the use of demand policies and wage moderation agreements by the social partners, it is **imperative to accompany the structural reforms** under way **by applying this moderation in the public sector** and doing so in such a way that it may serve as a model for the private sector.

The regular and frequently automatic updating clauses for different economic variables represent one of the key factors in price movements. The headline Consumer Price Index (CPI) published by the National Institute of Statistics (INE), is the most common reference when it comes to making these regular updates, including income and expenditure, prices, tariffs, taxes and wages in the public and private sector. Thus it may have major financial implications and a wide-ranging effect for government, workers and companies, as well as for households, given its use to adjust prices in long-term contracts. The **cumulative effects of inflationary bias**, although small, may be **substantial in the long term** and have considerable financial consequences. That is why it is **questionable whether any variable must of necessity be updated**, and what is more, whether this updating should result in a higher indexation than the upper limit of the ECB target inflation rate (2%).

The main aim of this law is to **prevent certain “second-round" effects on price formation**. Price variations in energy and unprocessed foods, as well as changes to tax rates, are transferred to the economic system as a whole through methods that use the headline CPI, while in general the fundamentals of the prices affected do not vary in this way. Therefore, the new benchmark aims to **neutralise the effect of variables that do not depend on economic fundamentals** on successive rounds of price and wage formation that can affect the competitiveness of the Spanish economy. The measure limits the influence on the Spanish economy of major price variations that are external and ensures that **inflation is closer to the fundamentals of the economy itself**.

The second objective is to **align the efforts of the public sector with those already proposed by the social partners** in the Second Agreement for Employment and Collective Bargaining 2012, 2013 and 2014. In addition, the aim is for a **fair distribution of the burden of adjustment**, as a clear benchmark has been provided so that all prices and income in the economic system can be updated according to a more ambitious rule than the headline CPI. This provides guidelines to ensure that the adjustment of price and income moderation is uniform and the practices of updating are coordinated to **create a common culture** that results in inflation being lower and linked to economic fundamentals.

Last but not least, the measure aims to **discipline the policy of public-sector revenue and expenditure.** It makes indexation the exception rather than the rule and creates incentives so that, unless there are sunk costs justifying the conclusion of long-term contracts that are bigger than the highest transaction costs of contracting with the public authorities in the short term, the contracts with the public authorities tend to be reduced and the competition for them is more frequent.

For this, **indexation in the public sector** should be seen not as a rule but as an **exception**, and in any event when it occurs it must be carried out according to an indicator that **properly takes into account the idle capacity in the Spanish economy**. In addition, the change in the indexation mechanisms for variables will have an effect on discipline in the public sector, which is the core objective of the Government's economic policy.

This is the background to the **draft regulation for de-indexing to the CPI** (AGS 3.1.1). It introduces a new rule complying with the aim of eliminating the second-round effects of inflation and isolating the Spanish economy from price shocks as much as possible.

This rule will be **applicable to public sector revenue and expenditure**, whether at a State, regional or local level, and of whatever nature, as well as the regulated prices and tariffs according to the specific sector regulations. For **contracts between private parties,** the regulation is **subject to agreement between the parties**, although when in any public or private contract a mechanism for updating contracts is included but there are no details of the specific benchmark to be used for updating, the new benchmark shall be applicable.

The new regulation **will therefore help reduce inflation** through those prices and considerations that enter into the public area, and the extension of similar practices will be favoured by emulation, or by default, where applicable. This **will speed up** the necessary **gains in price competitiveness** that will increase external demand and in the final analysis, **increase rates of economic growth and job creation**.

The draft bill will be presented to the Spanish Council of Ministers at the end of May this year, so it can be passed in January 2014, when most prices are updated.

Axis 2. Guarantee a favourable environment for entrepreneurs, providing aid for the start and development of business projects and supporting their internationalisation

A favourable environment for the creation of businesses, growth and jobs includes: help for company creation, ensuring that they may grow to their full potential both domestically and in the European Economic Area and promote their internationalisation.

The reform programme guaranteeing a favourable environment for entrepreneurship, business activity, its growth and internationalisation, is based on the essential premise of applying the principles of necessity, proportionality and non-discrimination to the regulation of economic activities. These principles represent the core of all the reforms aimed at promoting growth, competitiveness and the efficient use of resources by the public administration services. They are organised into cross-cutting initiatives that will be applied to all sectors.

The following measures will be approved in 2013 with their corresponding action plans with the aim of achieving a more favourable business environment, promoting and assisting company creation, and to ensure that viable projects can be developed to their full potential and become international:

- Law on Guaranteeing Market Unity and its implementation plan
- Necessary and proportional intervention mechanisms for local bodies (Law on the Streamlining and Sustainability of Local Government)
- Law Supporting Entrepreneurs and their Internationalisation
- Law on Professional Services

2.1 Law on Market Unity Guarantee and the Regulatory Streamlining Plan

The Law on Market Unity Guarantee, whose approval is expected through a fast-track process, basically aims to facilitate free establishment and movement of operators across the whole of the country. The law establishes a rigorous framework for good regulation, based on the principles of necessity and proportionality, which is to be observed by all administrations when regulating economic activities when implementing this regulation. It consists of **three basic sections:**

- Principles guaranteeing freedom of establishment and movement, which have to be respected by all provisions and acts of the public administration services.

  - The **principle of country-wide effectiveness** of actions of all competent authorities (AGS 3.2.3)
  - **The principle of non-discrimination.**
  - **The principle of necessity and proportionality** of actions of all the competent authorities, with the aim of using the least restrictive means of intervention in order not to create disincentives for economic activity.
  - **Principle of simplification of burdens** to guarantee that public intervention does not generate excess regulation or duplication and that the involvement of various competent authorities in the procedure is neutral for the operator (AGS 3.2.4).
  - **Principle of cooperation and mutual confidence** to ensure an efficient regulatory framework and for the mutual recognition of respective actions.
  - **Principle of transparency**, in line with other reforms, for the early detection of obstacles to market unity.

- **Institutional cooperation to eliminate obstacles, ensure that new obstacles are not introduced and to provide appropriate supervision** (AGS 3.2.5).

  - Regulates the cooperation and information exchange mechanisms between authorities for the supervision of operators.
  - Establishes mechanisms for prior coordination (exchange of information on legal projects for analysis from the perspective of market unity).
  - Establishes a mandate for the permanent analysis and simplification of the regulatory framework for economic activities through sector-based conferences with the participation of all tiers of government.

- **A new model of regulation based on the principles guaranteeing free establishment and movement** (AGS 3.2.2).

  - The public administrations (State, regional and local) may only impose an authorisation for the access to an economic activity or for its exercise under the following conditions:

a) If it is justified for reasons of public order, public safety, public health or protection of the environment in the light of the potential damage of the activity in the specific place where such activity is carried on, and if it is proportional.

b) If due to the scarcity of natural resources, the use of the public domain, or the existence of clear technical impediments; or if in the case of public services subject to regulated tariffs the number of economic operators in the market is limited and thus competition must be guaranteed *ex ante* through a competitive procedure.

c) If the regime comes from European Union legislation or international treaties and conventions.

- Each competent authority shall ensure that any measure, limit or requirement adopted or maintained shall not have the effect of creating or maintaining an obstacle or barrier to market unity.

- A number of actions are listed as actions not compatible with the principles of the law as they limit free establishment and movement. Among them are:

  - Requirements that produce a discrimination, based directly or indirectly on the operator's place of residence or establishment, in the access to an economic activity or in its exercise, in obtaining economic advantages or in the award of public contracts.

  - Additional requirements to those imposed in the operator's place of origin, such as an additional authorisation, approval, accreditation, classification, certification, qualification or recognition.

  - Professional qualification requirements that are additional to those required in the operator's place of origin, or in the place where the operator has accessed to the professional activity or profession.

  - Technical specifications for the legal circulation of a product or for its use or for the provision of a service, other than those established in its place of origin.

  - The case-by-case application of an economic test making the granting of authorization subject to proof of the exercise of an economic need.

  - The direct or indirect intervention by competitors in the award of authorisations.

  - Requirements including the obligation to have carried out some kind of investment in the territory of the competent authority.

  - Any other requirement that does not have a direct relationship with the economic activity or with its exercise.

- **Flexible mechanisms to rapidly solve the problems of operators with authorities** through two basic channels, which entail the intervention of the new National Markets and Competition Commission, in order to ensure a focus on economic efficiency.

- The possibility of making a claim before the competent authority and starting consultation proceedings with other authorities for a period of 15 days, during which the aim will be to resolve the problem amicably.

- If the obstacle is not eliminated with the above mentioned consultation process, the possibility to initiate summary legal proceedings, with very short time limits, through which the operator may obtain the immediate suspension of the act or order.

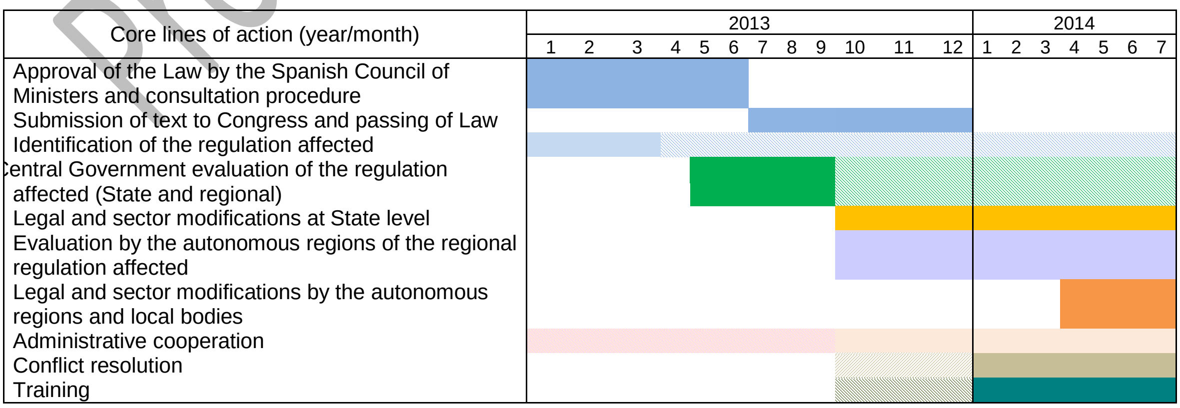
The implementation of the Law requires the revision of the whole regulatory framework of economic activities. This revision is being carried out according to a Work Plan for the implementation of the Law. The Plan entails the following phases:

- **Identification phase.** Over 5,000 regulations have been identified affecting different sectors. All this information has been systematised and introduced into a database. The identification exercise, which was officially completed in April 2013, will remain constantly updated to guarantee full and wide-ranging identification. The number of laws identified may therefore increase.

- **Screening of legislation phase:** For the evaluation of the regulatory framework, a questionnaire has been prepared in accordance with the principles of market unity and good economic regulation contained in the Draft Bill. The aim of this questionnaire is to check that all the forms of intervention and requirements that are imposed to operators imply the lowest possible cost, according to the principles of necessity and proportionality. The questionnaire has been included in the database of identified regulations so that the different ministerial departments may make an online legal evaluation. The ministerial departments have begun to evaluate their legislation and the process will be voluntarily opened up to the autonomous regions that want to begin the evaluation process before the law is passed.

- **Modification phase:** If there is a need to modify any provision, the first draft of the law includes the obligation to amend it within six months from its entry into force.

Working timetable of the Law on Guaranteeing Market Unity and the Regulatory Streamlining Plan



The results of the simulation of the **economic impact of this initiative** show an additional GDP growth of 1.54% in the long term over the level that would be the case without adopting this measure, and a reduction in administrative charges of 35%.

2.2. Application of the principles of necessity and proportionality to the intervention of the municipalities

Among the objectives of the Draft Bill for the streamlining and sustainability of local government are the clarification of local competences, as well as guaranteeing that the means of intervention used by municipalities do not distort economic activity to any unnecessary or disproportionate extent (AGS 3.2.7).

- The cases in which an activity may be subject to a licence or preventive control municipalities are limited to those activities affecting the protection of the environment or the historical and artistic heritage, security or public health, or that involve the private use and occupation of goods in the public domain, provided that the decision of subjecting it to such licence or control is proportionate.

- In addition, **there is a guarantee that the facilities or physical infrastructures used for the exercise of economic activities shall only be subject to an authorisation system** when so laid down by a law that defines the essential requirements, and when such activities may generate damage to the **environment, public health or safety or the historical and artistic heritage**. The evaluation of this **risk shall be determined according to the characteristics of the facilities**:

  - The electrical or energy power of the facilities.
  - The capacity or size of the facilities.
  - Acoustic pollution.
  - The composition of the waste water discharged from the facilities and its capacity for treatment.
  - The existence of inflammable or polluting materials.
  - Facilities that affect assets declared to be part of the historical and artistic heritage.

- If there are licences or authorisations that have been issued by both a local authority and another government body, the **local authority must expressly justify the need for the authorisation or licence**, proving the specific general interest that it aims to protect, and justifying that it is not covered by another existing authorisation.

The Model Order prepared jointly with the Spanish Federation of Municipalities and Provinces will favour the application of this legislation among local entities. In addition, the Local Commission for Better Regulation, composed by the 28 largest local councils and the Ministry of Economic Affairs and Competition is aiming, on a cooperative basis, to apply common principles and promote good regulatory practices (CSR 8.2.4).

2.3. Law Supporting Entrepreneurs and their Internationalisation

The Draft **Bill Supporting Entrepreneurs and their Internationalisation** will be passed in May. The aim of the Bill is to create a favourable environment for entrepreneurship and promote the internationalisation of business projects. The Bill is aimed at favouring the creation of companies and also to promote their growth, development, innovation and internationalisation through a variety of measures:

A) Measures aimed at boosting entrepreneurship:

- Primary and secondary education will include training in **entrepreneurship**, and support will be provided for teachers to offer training in this subject (AGS 3.2.8).

- Individuals may avoid liability from their business debts affecting certain assets considered essential through becoming **Limited Liability Entrepreneurs** (AGS 3.2.11).

- The initial cost of setting up a company will be reduced through the creation of a **Gradually Constituted Limited Company** (*Sociedad Limitada de Formación Sucesiva*) (SLFS), which does not have a minimum capital requirement (AGS 3.2.9).

- **Entrepreneur Service Points** will be created as electronic or personal one-stop-shops, by integrating the current single points of contact that exist at State level. These points will allow entrepreneurs to carry out each and every one of the procedures necessary to start, operate and terminate a business activity. The integration process will be carried out before the passing of the Law through the creation of a working group. The launch of the ***Emprende en 3*** project will help this objective. It aims to integrate into the same portal the responsible declarations required by the state, regional and local authorities for the access or exercise of an economic activity (AGS 3.2.12).

- Entrepreneurs will be able to opt to **set up limited companies in 24 hours** at a cost of 40 euros, using specimen articles of association that will be approved by regulation and an e-signature (AGS 3.2.10).

- To prevent business failure from creating disincentives for starting up new businesses, a flexible and quick **extra-judicial payment mechanism** will be open to natural persons and small companies. It will enable them to solve their problems of over-indebtedness by means of a payment plan that can include alternative solutions such as debt reduction or delayed payments, while guaranteeing adequate protection for creditors (AGS 3.2.14).

B) Tax measures supporting entrepreneurs: (AGS 3.2.13):

- **VAT payment by cash accounting:** A special voluntary system starting on 1 January 2014 will be created for VAT payments, which will allow persons to delay their VAT payments until they collect the corresponding invoice payment. This replaces the traditional criterion of charge accounting with cash accounting.

  The Community Directive on VAT allows the “VAT double accounting” method for SMEs (not included under the “module” system) with a turnover of less than 2 million euros, so that the VAT payable for sales must be paid at the time of receiving the payment of the invoice and the right to deduct the VAT paid for purchases arises at the time the supplier is paid. Customers and suppliers of the SME using the cash accounting scheme will also have to use the cash accounting scheme for the transactions they carry out with it. This system provides finance for SMEs and it creates incentives for customers to pay invoices early to be able to deduct the VAT charged in the transaction (AGS). The new scheme is estimated to benefit potentially 1.3 million self-employed and a further 1 million SMEs.

- **Tax reduction for profit reinvestment:** With the aim of creating incentives for business capitalisation and investment in new tangible assets linked to economic activities, a new tax reduction of 10% will be available if profits obtained in the tax period are reinvested in economic activity.

- **Possibility to pay in the tax reduction for R&D:** Under certain conditions, the fiscal credits for research and development may be paid in, with a maximum total limit of 3 million euros per year, without the need to generate a positive result which allows for its compensation (Europe 2020 Strategy 2.2).

- **Tax incentives for informal investors in entrepreneurs:** A new tax incentive has been established with the aim of helping new or recently-created companies to build up capital from contributors who invest informally in them, whether as business angels, or whether as informal investors only interested in contributing seed capital (CSR 6.1.5). This incentives work in two ways:

  First, there is a right to reduction in the personal income tax in the moment of investment. Second, in a subsequent divestment (within three to nine years), any capital gains made are tax exempt, provided they are reinvested in another new or recently-created company.

These measures to boost activity are in addition to those already approved and in force that establish a more favourable tax treatment for the start of entrepreneurship activity. Tax incentives have been included in Personal Income Tax and Corporate Income Tax to support entrepreneurship projects. Specifically, the tax on newly-created companies and people who have just entered self-employment has been reduced. Newly-created companies will pay tax at a reduced rate of 15% (up to a taxable base of 300,000) and 20% for the rest of the base, for the first two years in which they obtain positive earnings. The self-employed who begin economic activities may apply a reduction of 20% on net returns they obtain for the first two years in which they obtain positive earnings. In addition, tax incentives have been established to promote self-employment for people under the self-employed Social Security scheme. Unemployed people who decide to become self-employed may benefit from a full exemption from Personal Income Tax on unemployment benefit when the benefit is paid in a lump sum (up to now only up to 15,500 euros were exempt).

C) Measures to boost funding of entrepreneurs:

- **Elimination of burdens for the issue of securities on the Alternative Fixed-Income Market (MARF)**: The charges for debt issues in multilateral trading systems are today greater than those on official secondary markets. The charges payable for securities issues in both markets will be brought into line (CSR 6.1).

Companies which issue bonds on the alternative fixed-income market will not have to notarise the issue document, nor will they have to register it in the Company Register in order to register the securities as accounting items.

To guarantee appropriate protection of investors, a private document will be required that will serve for registration in accounting entries. In addition, the issue and possible modifications in conditions of the issue must be published through the mechanisms planned for the purpose in the multilateral trading system.

- **New instruments have been created to finance internationalisation projects.** First, the regulatory framework for internationalisation-backed bonds ("cédulas de internacionalización"), created by Royal Decree-Law 20/2012, will be fine-tuned. Second, a new instrument called "internationalisation bonds", with a more flexible system of issue ("bonos de internacionalización"), will be created (AGS 3.2.15).

D) Measures to promote business growth.

- The **list of activities exempt from municipal licence will be extended**, and the surface area below which the establishments are exempt of the obligation to obtain a license in order to carry out on one or various activities on the list will be increased from 300 to 500 square metres (CSR 8.2.3).

  Specifically, **the list of activities that are exempt will be extended considerably**; for example, including the following: textile manufacture; the paper industry; graphic arts; manufacture of jewellery; repair of articles such as footwear, watches, clocks or photographic instruments; restoration of art works; rental of vehicles, bicycles or other movable items; teaching; driving schools; recreational and cultural services; libraries; personal services; funeral services.

- Obstacles for **access by entrepreneurs to public contracts** will be removed, with the thresholds required for classification in works and services contracts being raised, and **statistical and accounting charges** will be eliminated (AGS 3.2.16).

- A "one in, one out" system limiting regulatory costs on companies will be introduced. According to this system, each administrative charge derived from the new regulation introduced to companies, another/others of at least the same economic impact (cost) must be eliminated (AGS 3.2.16).

E) Measures to boost the internationalisation of the Spanish economy.

- A new, flexible system of visas and residence permits, valid across the whole of Spain, is planned to attract talent and investment. It will be applied to foreigners who invest in business projects that create jobs, carry out investment of a significant social or economic impact, or make a significant contribution to scientific or technological innovation (AGS 3.2.17).

- A Spanish strategy for internationalisation will be defined. The Strategy will contemplate specific actions in order to make Spain more attractive as a destination for investment, in accordance with the main international business climate indicators. At the same time, all the instruments supporting the internationalisation of the Spanish economy and entrepreneurs will be reorganised and improved (AGS 3.2.18).

In addition, in order to promote the internationalisation of entrepreneurs, the legislation regulating coverage by the State of the risks associated with internationalisation will be adapted to the new framework resulting from the sale by the State of its **stake** in the capital of the Spanish Export Credit Insurance Company (CESCE), with the approval in 2013 of a **Law on State cover for the risks of internationalisation** (AGS 3.2.19).

In line with the institutional reforms supporting entrepreneurs and their internationalisation, in 2013 a **new Law on Chambers of Commerce, Industry and Navigation** will also be approved. It will be adapted to the new organisation of the chambers of commerce resulting from the removal of the mandatory fee. This new lay will provide the chambers of commerce with a new modern and flexible legal framework that meets current necessities and strengthen their role in supporting the creation and internationalisation of companies (AGS 3.2.20).

The measures at a State level are complemented with **actions by the autonomous regions** and municipalities to support entrepreneurship. All the autonomous regions and autonomous cities have approved plans on entrepreneurship, growth, competitiveness, administrative simplification and e–government.

2.4 Law on Professional Associations and Services

Within the framework of the Draft **Bill on Professional Associations and Services,** which is expected to be passed in the first half of 2013, obstacles to the access and exercise of a large number of professional activities will be eliminated. The Bill lays down a general regulatory framework for access to and exercise of professional activities.

First, it sets out the **common or cross-cutting conditions** that have to be respected by all regulations affecting access to or exercise of the different professions. The general principles will be freedom of access and exercise of professional services. The limitations to this general principle must respond to the principles of necessity, proportionality and non-discrimination (AGS 3.2.21 and AGS 3.2.24).

Restrictions based on professional qualifications for access to an activity may only be required by law (State or regional), provided that it is necessary for reasons of the general interest (reserves of activity) and, in those cases where such a qualification required is a university degree or a higher vocational training degree, the requirement must be included in State law. A positive list of reserves of activity will be established for reserves of activity based on degrees and higher vocational training degrees, which means that the rest of reserves of activity of this kind which are not in the list will be tacitly abolished.

The obligation to register with a professional association may only be imposed on professions requiring a degree and by national law, in cases where it is more efficient for the associations to supervise the activity than for the public authorities (a positive list of obligations for membership of associations will be established, while the rest will be tacitly abolished). Membership of other professional associations will become voluntary.

Obviously, in coherence with the Law Market Unity Guarantee, access to a professional activity will enable the operator to exercise the activity in the whole of Spain, and no additional requirements may be demanded by other Spanish authorities. The government will have to prepare and maintain online access to a list of all the professions regulated in the country, the requirements for accessing them, the cost of joining the corresponding association, where appropriate, etc[28].

The Bill includes a new framework for professional associations[29], clarifying the regimes of obligatory and voluntary associations and adapting their rules of operation to current reality (AGS 3.2.23).

2.5 Reform of Corporate Governance

The Spanish framework for promoting Good Corporate Governance has been consolidated in a succession of Codes of Recommendations aimed at listed companies, and based on the principle of "comply or explain". In addition, our system includes a broad range of binding regulations on matters of Corporate Governance basically aimed at promoting transparency of information (Annual Corporate Governance Report) and the correct operation of the governing bodies of the companies. Following the economic crisis, it is vital to strengthen international good governance standards as a strategic and priority objective in Spain, in accordance with the guidelines set by the recommendations on the matter by the European Union and OECD, and by the best practices of neighbouring countries (AGS 3.2.26).

This aims to: ensure the correct operation of the governing and administrative bodies of our companies, to make them as competitive as possible; generate confidence and transparency for shareholders and domestic and international investors; improve the culture of internal control and corporate responsibility in our companies; and ensure the appropriate segregation of functions, duties and responsibilities in companies, from the perspective of maximum professionalism and rigour.

To do so, a **Committee of Experts** will be organised immediately to carry out an analytical study on the best international corporate governance standards and the areas in which Spain can improve its current framework so that the necessary reforms can be implemented within a year. Additional obligatory measures may be introduced at this point at a legal level, where necessary, with the aim of avoiding conflicts of interest that could be generated in the different areas of business management. This measure will be launched immediately, with the setting up, by agreement of the Spanish Council of Ministers, of the Committee of Experts that will have to submit its report to the Government within a maximum of four months. From that time, the corresponding reforms will be implemented and should be operational within a year.

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[27] This will incorporate into the Spanish legal system the transparency clause currently under discussion in the reform process of the Directive on Recognition of Qualifications.

[28] The close relationship between professional services makes it a good idea to have a joint regulation of both questions. This is considered more appropriate than introducing numerous modifications to the current law on associations and preparing a codified text.

Specifically, the scope of these reforms will include: strengthening the role of shareholders' meetings in controlling the remuneration policies of the management bodies and senior management in companies, so that shareholders may actively participate in the adjustment of remuneration for professional activity and ensure the best performance of their companies; perfecting and extending the recommendations of the current Unified Code of Good Governance of listed companies, with particular emphasis on supervision and the quality of information provided by companies on their level of compliance, and the possibility of preparing a Code of Good Practices for Spanish unlisted companies will be studied, as these account for over 75% of GDP and employment in Spain; and new improvements to governance will be introduced in credit institutions in line with the laws developed by the European Union with the aim of aligning their management with the risks they generate.

In any event, it should not be forgotten that the function of directors is to increase the value of the company and the adequate remuneration of shareholders, either through dividends or through the increase in the value of their investment. The remuneration of directors must depend on the achievement of these objectives. The relationship between fixed and variable remuneration will be the object of particular study, as will the relationship between this remuneration and the real value of the company. The mechanisms requiring liability from directors will be strengthened to cover cases of deliberate or negligent behaviour that damages the company, its creditors, shareholders or workers.

The different mechanisms allowing directors to influence shareholders' meetings will be analysed in detail (powers of attorney, majority holdings, etc.) with the aim of introducing rules that prevent conflicts of interest and support the legitimate expectations of minority shareholders.

Particular stress will be laid on ensuring that the information supplied by the directors at any time to the shareholders and markets is accurate and comprehensible, and the role of auditors to help towards this end will be determined. In addition to the above, mechanisms will be studied through which workers can also receive relevant information related to the management of the company, so that they can be taken into account in the decision-making process that has a particular effect on them. The relation between remuneration of directors and workers will be analysed.

Axis 3. Human capital

The following measures have already been adopted or will be adopted in order to **improve the results of the educational and training system:**

- **Education reform** (CSR 6.2.11 and CSR 6.2.14). The main aim of this future reform, which will begin to be applied in the 2014/15 academic year, will be to reduce the school drop-out rate to 15% by 2020. To do so, different measures will be adopted: measures to **detect learning problems early** and implement improvement programmes, to help students to **choose the training pathway that is best suited to their profile**; **increase teaching hours in key skills** for academic development; and provide greater autonomy for educational centres to develop result-orientated education projects.

  A **new Basic Vocational Education diploma** will also be created. It will be accessed without the need to complete compulsory secondary education, but the students will continue to be provided with the classes needed to retake these studies or access Middle Level Vocational Education.

- In 2012, two **specific action plans** were implemented to tackle **the school drop-out rate** (CSR 6.2.12 and CSR 6.2.13): one is targeted at preventing leaving school early and promoting a return to the education system; the other is for meeting educational needs associated with the social and cultural environment that has an impact on the drop-out rate.

- Other measures that may help improve the results in education and training are as follows: a programme of grants allowing young unemployed people who left compulsory education early to return to it (CSR 6.2.8); a new form of **part-time work** aimed at people who want to **combine work with training** (CSR 6.2.10); a new **training and apprenticeship contract** that gives people the chance to receive an occupational training diploma, and the establishment of a **dual vocational training** system (CSR 5.1.4 and CSR 5.2.9); **a new system of training for workers and the unemployed** with the aim of promoting competences and detecting the priorities of productive sectors (CSR 5.2.8); the provision of access to vocational training studies through **online education** (CSR 6.2.15); a **revision of the contents of the different occupational training diplomas** to adapt them to the new occupational realities and needs of the productive sectors (CSR 6.2.17 and CSR 6.2.18); the implementation of a plan to boost **lifelong learning**; the efficiency increase of the policy of scholarships and financial aids for studies (CSR 6.2.20); and a future reform of university legislation to boost the **excellence, competitiveness and internationalisation of the university system** (CSR 6.2.19).

Axis 4: Boost to innovation and new technologies

4.1 Digital agenda for Spain

The Digital Agenda for Spain (ADE)[30], approved on 15 February 2013, is a framework for the strategy of developing the digital economy and society in Spain for the period 2013-2015, establishing a road map for ICT and e-government (AGS 3.4.27).

Among the objectives of the strategy to be achieved by 2015 are the following: extend the population with coverage of more than 100 Mbp to 50% (currently this covers 47% of the population); extend to 40% the percentage of companies that send or receive electronic invoices in a standard format (currently it is 23.5%); increase the number of administrative procedures resolved online, the number of electronic forms sent to public agencies and, in short, increase the number of individuals who communicate with public agencies online (currently the figure is 39.1%); and increase the number of people who use the Internet on a regular basis (from 61.8% to 75%).

To achieve these objectives, the ADE is organised into six areas of action with their different action lines, grouped into nine plans.

1. **Promote the deployment of networks and services to guarantee digital connectivity:** This will require the following: elimination of barriers and administrative burdens for deployment of networks, and the promotion of market unity; a boost to the deployment of ultra-fast networks; more efficient use of the

[29] https://agendadigital.gob.es/images/doc/Agenda_Digital_para_Espana.pdf

radio spectrum; and improvement of the user experience of broadband services. The main instruments for achieving this objective are:

- The **New General Telecommunications Act**, which will encourage the **deployment of new operator networks**, with the resulting increase in the supply of quality services for consumers, greater coverage, the appearance of more innovative services and improved quality. In addition, **it will guarantee more legal security,** as it will include the current regulations, in particular that referring to the European framework for electronic communications (AGS 3.2.28).

- The **National Ultra-fast Network Strategy** (AGS 3.4.29), including a broadband coverage map and **collaborative measures** between the different agents.

- Development of the **measures in the Framework Plan for actions to Free up the Digital Dividend** (AGS 3.4.30) for use. Among them are the approval of a new National Technical Plan for DTT.

2. **Develop the digital economy for the growth, competitiveness and internationalisation of Spanish companies.** To do so, it will promote the transforming use of ICT in Spanish companies; boost e-commerce; promote the production and distribution of digital content through the Internet; boost opportunities for the electronics industry; promote the internationalisation of technological companies; promote the industries of the future; and strengthen the ICT industry by the development of technological products in public services.

3. **Improve e-government and adopt digital solutions for the efficient provision of public services**, based on progress towards government that is integrated in society, with quality public services focused on citizens and companies; increased use of electronic public services by individuals and companies; rationalisation and optimisation of the use of ICT in the public administration services; the establishment of a new model of e-government based on cooperation and collaboration; and the use of technology to eliminate the digital gap.

   One of the main instruments for achieving this objective is the **Central Government Administration Action Plan for e-Government** (AGS 3.4.31 and AGS 5.3.6), aimed at bringing the public administration services closer to citizens and companies, increasing the levels of use of e-government, rationalising and using ICT in public authorities, increasing collaboration and overcoming the existing digital gap.

4. **Strengthen confidence in the digital area** through a boost to the market of trust services; strengthening the capacities for digital trust; and promoting excellence in organisations on the question of digital trust.

5. **Boost the R&D+i system in ICT.** To achieve this objective, targeted actions will be taken to increase the efficiency of public R&D+i investment in ICT; promote private R&D+i investment in ICT; promote R&D+i in ICT in small and medium-sized enterprises; and extend Spanish participation in R&D+i in ICT at an international level.

6. **Promote inclusion and digital literacy and training of new ICT professionals.**

4.2 Research, development and innovation.

The new Spanish Science & Technology and Innovation Strategy 2013-2020 and the State Scientific, Technical and Innovation Research Plan 2013-2016, passed in February 2013, establish a framework that is in line with the objectives set within the Europe 2020 strategy focused on the resolution of the major social challenges.

The Spanish Strategy is organised around a number of axis: the development in 2013 of the Integrated Science & Technology and Innovation System; rationalisation of public actions and harmonisation of criteria and evaluation practices; co-responsibility of all public authorities in achieving the objectives and commitment with the core priority elements established; the implementation of joint programming and co-financing instruments; as well as the commitment to prepare common guidelines for the development of own or shared repositories; and achievement of open access to publications and the results of research financed by public funds.

The Strategy is the framework for the Research and Innovation for Intelligent Specialisation Strategies (RIS3) of the Autonomous Regions. The RIS3 focus resources on a limited range of research and innovation priorities in which the regions can achieve competitive advantages. Currently all the Spanish regions are preparing their own RIS3, with different levels of progress. The process is expected to be complete by the end of 2013.

The State Scientific, Technical and Innovation Research Plan develops actions for 2013 and 2016 and is made up of four State programmes aimed at promoting talent and its employability in R&D+i; the promotion of scientific and technical research of excellence; and a boost to business leadership in R&D+i (with specific financing instruments and the promotion of public-private collaboration).

Specific measures and actions of a cross-cutting nature have been included to create incentives for the participation and leadership of Spanish institutions and companies in the EU R&D+i initiatives and programmes, which form an integrated part of the different programmes in the new Plan. The aim is to significantly increase Spanish participation in the EU Framework R&D Programme from the current level of 2.32 billion euros (8.3% of the total funding from the 27 Member States) to 9% (5.37 billion euros) of the total new Horizon 2020 European R&D+i framework programme. At the same time, the target has been set of increasing the returns from public research bodies by 20%, and that 10% of all projects should be headed by Spanish entities.

A State Research Agency will be set up to act with an integrated approach from an R&D+i point of view. Its main mission will be to deal with the inefficiencies observed as a result of the different agents in the public authorities that manage funds and aid for R&D. This involves implementing a process of flexible and effective management and optimising resources to avoid redundancies and discrepancies.

Axis 5. Guarantee competitive and efficient market operation

5.1 A new supervisory framework for competition and the markets

With the aim of guaranteeing effective *ex ante* and *ex post* competition in all the markets, the **Bill Creating a National Competition Commission (CNMC)** (AGS 3.5.32), whose approval in the Parliament is planned for June 2013, will include in a single body the competition authority (National Competition Commission) and the current supervisory bodies of the network regulated sectors (electronic and audiovisual communications, the electricity and gas sector, the postal sector, the railway sector and airport tariffs). The objectives of the reform are:

- Strengthen legal security: by applying uniform criteria in regulated sectors with the same characteristics, and at the same time guaranteeing coherence between sectorial policies and the supervision of competition policy. Faults in the effectiveness of supervision of competition because of the diffuse functions in competition attributed today to sector-specific supervisors will be corrected.

- Increase efficiency in assignment of public funds, avoiding duplication and achieving savings and synergies.

- Improve supervisory quality by grouping together technical, sectorial and competition knowledge, by clarifying the functions of the new authority and by increasing its independence and neutrality (with more participation from Parliament in the appointment of board members and reducing the possibility of the regulator from being subject to vested interests).

The Bill is currently being debated in the Upper House and its final adoption is expected in June.

Under the project, the new body should be operational within a maximum of four months. In these four months, a number of different procedures have to be carried out (approval of the Organic Charter and of the Regulation of internal operation and integration into the new institution of the personal and material resources of bodies that have been wound up.

Next steps and timetable for implementation of the CNMC

Timetable	2013											
	1	2	3	4	5	6	7	8	9	10	11	12
Approval of the law creating the CNMC												
Start-up of the new CNMC: - Approval of the Organic Charter - Proposals and appearances of Council members - Appointment by Royal Decree of Council members - The Council names its directors - The Council approves its Operational Regulations												
Integration of human and material resources												
Entry into operation of the new CNMC												

5.2 Energy reform

In 2012 and 2013, measures have been adopted to resolve the problem of the tariff deficit and create a balanced division between consumers, companies and government (CSR 8.5 and AGS 3.5.33).

The measures taken have meant the practical elimination of the primary tariff deficit. As a result, a reform could be undertaken in 2013 to achieve the financial and economic sustainability of the Spanish electricity system with the due provision for economic, technological and demand changes in the sector, as well as the increase in competition and a guarantee of supply; with the corresponding balance between costs and income and the correct division of sacrifices between companies, public authorities and consumers.

For this, two initiatives have been adopted that are now being debated as Bills in Parliament:

- The Bill establishing funding from the general budget for certain costs in the electricity system caused by economic incentives for the promotion of electrical energy production based on renewable energy sources; and an extraordinary credit for 2.2 billion euros in the budget of the Ministry of Industry, Energy and Tourism.

  Through this exceptional measure, in order to ease the tariff deficit, the aim is to grant for 2013 an extraordinary loan of 2.2 billion euros for financing certain costs in the electricity system caused by economic incentives for promoting electrical energy production based on renewable energy sources.

- A Bill to guarantee supply and increase competition in the electrical power systems on the islands and off the mainland.

  This project aims to improve the security of supply, introduce competition and reduce the costs of the island and off-mainland electrical power systems.

  Among the measures, the installation of a new more efficient generation system will be promoted and the entry of new operators, and the calculation of the cost of fuel and generation will be modified. At the same time, the ministry and system operator will improve the control mechanisms of availability, security of supply and quality of production facilities.

Before 30 June this year, a package of legal measures will also be introduced consisting of:

1. A Draft Bill for the Reform of Law 54/1997, dated 27 November, on the Electricity Sector, to introduce financial stability into the system and create mechanisms for stability and regular review that are adapted to the circumstances.

2. Regulatory provisions needed for the development and adaptation of the above law.

5.3 Boost competition in the distribution of fuel sector

Royal Decree Law 4/2013, dated 22 February, on measures to support entrepreneurs and to stimulate growth and job creation, passed a series of measures both in the wholesale and retail market, with the aim of stabilising vehicle fuel prices. These measures are meant to have a direct effect on the retail prices and provide for a more efficient operation of this market, reducing barriers to new entries and having a positive effect on the welfare of citizens (AGS 3.5.34). Among these measures are the following:

a. **Wholesale market.** The system of supervision of logistical storage facilities has been improved to oblige access for third parties in transparent, objective and non-discriminatory conditions. This allows the public authorities to monitor the activity carried out by these companies and its impact on market competition.

b. **Retail market:**

- The duration of **exclusivity contracts** has been limited and recommendations of the public sale prices have been banned. These measures aim for two effects: First, eliminate the obstacles to competition in the sector caused by the contractual restrictions due to exclusivity contracts. Second, prevent price collusion between petrol stations, with the resultant restriction to intra-brand competition.

- **Elimination of administrative barriers and simplification of legal framework.** More petrol stations will be opened in shopping centres, commercial establishments, technical vehicle inspection establishments and industrial zones. A single and integrated procedure is also established in all the Autonomous Regions for the opening of new petrol stations.

- **The growth of the number of petrol stations** of the main operators in each province has been limited according to their market share in the province by number of facilities.

5.4 Liberalisation of passenger rail transport.

- In the **railway sector**, starting on **31 July 2013 passenger transport will be liberalised**, in accordance with Royal Decree Law 22/2012, approved by the Government on 20 July 2012 (AGS 3.5.35). This opening up should:

  - Provide a boost to the sector by promoting competition. Greater and more efficient mobility, with more competitive prices that will **benefit users**.
  - Create the circumstances that favour a more efficient functioning of **Renfe**, so that it can compete efficiently in a **liberalised market,** and become a "powerful" competitor in providing railway services at an international level.
  - **Maximise the use** of a high quality **infrastructure** network (above all high-speed) financed with public funds and in some cases not fully used.
  - **Reduce the cost for the government** of services with public service obligations.

  The process to guarantee the transition from a monopoly to a liberalised market will take place in an **ordered and gradual way**, according to the nature of the services:

  - **Passenger transport with a prior tourist aim**; in other words, offered jointly with other complementary services (such as accommodation, tourist visits), will be provided under a system of **free competition** from 31st July. These are tourist package trips sold through a tourist operator.

  - For **services subject to public service obligations (PSO)**, in other words, short and middle-distance services, or any other service that may be declared as PSO in the future: the Government will decide on the conditions for a **public auction** or direct concession, in accordance with Community law. Renfe-Operadora will continue to provide these services until they begin to be run by a new operator, where appropriate (AGS 3.5.36).

  - The provision of **commercial services** (long-distance, high-speed) will be provided through **permits**. The Government will determine the **number of permits** to be granted for each line or set of lines. This issue will be carried out by the corresponding competitive or auction procedure. Renfe-Operadora will have a permit to operate services in the whole of Spain without the need to pass through the auction process.

This system of joint operation with a limited number of operators will be **temporary** and fully free competition will begin at the end of the period established by the permits.

- **Together with the liberalisation of passenger rail transport,** a number of **complementary actions are required.** First, adapt Renfe-Operadora to act in a liberalised environment; second, guarantee the efficient management of railway infrastructures by ADIF (which has assumed the ownership of FEVE); and third, guarantee that the fees for the use of railway infrastructure are objective and not discriminatory and do not create obstacles to market access (AGS 3.5.37, AGS 3.5.38 and AGS 3.5.39).

5.5. Improvement of the regulation of land transport.

In the second quarter of 2013 the **reform of the Law Regulating Land Transport** will be approved (currently in its passage through Parliament). It includes measures to reduce the number of licences required, generalise the online handling of files, make contractual resolution easier and eliminate operational barriers.

The reform also includes measures aimed at: guaranteeing a **more effective supervision** of the road transport sector; **improving the professionalism** of companies; and achieving greater **transparency in the transport market**, above all through the updating of regulations on the publication of registered information.

In addition, the contractual nature of the relations between public authorities and the manager of the public passenger services is strengthened, the penalty system is rationalised and better monitoring is implemented of the activity of concessionaires providing regular passenger road transport services (AGS 3.5.40).

5.6 New model of airport infrastructure management

Given Spain's geographical position, an effective and efficient airport model is essential for the economy's competitiveness. To guarantee such as model, there have to be improvements made in the efficiency and viability of the airport infrastructure model. In 2013, measures will continue to be adopted along the same reform lines adopted so far.

First, the tariff system for Spanish airports has been adapted to bring the tariffs into line with the real cost of the services provided. In addition, in 2013 the legal system will be completed on the question of assigning time slots in order to eliminate the obstacles to the interior market and promote greater competition in the market (AGS 3.5.41).

In compliance with Community legislation, the assignment of time slots will be carried out by an independent entity of airport managers, airlines and air transit service suppliers, improving transparency and efficiency in management, as well as the supervision of the slot coordinator to guarantee that slots are assigned in accordance with the principles of independence, impartiality, non-discrimination and transparency (AGS 3.5.42).

In addition, the efficiency of AENA has been improved by the launch of a new commercial strategy aimed at increasing the area for commercial use and putting up new tenders for bids. The Airport Efficiency Plan has also been presented to bring the offer of services into line with the real demand at each airport at any time. Actions are being prioritised to satisfy real demand, optimising existing facilities. The savings under this plan are estimated at 231 million euros for 2012 and 2013 (AGS 3.4.43).

These measures ensure that the airport sector is focusing all its efforts on maximising its value, being profitable and guaranteeing its viability, so that it can contribute to the development of air transport in Spain and inter-territorial connectivity. Once the grounds for a sustainable business model have been laid, the next step has to be taken, consisting on the entry of private capital into the sector.

Axis 6. Improve the efficiency and competitiveness of logistical systems

6.1 New strategic planning framework: the infrastructure, transport and housing plan (PITVI)

With the aim of boosting competitiveness and long-term economic, social and environmental sustainability**,** a new policy has been adopted for transport infrastructures, which meets the need for a **new strategic planning framework** for transport infrastructures adapted to **current economic circumstances** (AGS 3.6.44).

The **PITVI (2012-2024)** has gone beyond the traditional focus on planning and taken a new path in which planning is focused on responding to the **real mobility needs** of Spanish society. To do so, the PITVI includes medium- and long-term objectives and actions, complementing initiatives that in the **short and medium** term are to help **reactivate the economy,** such as **market liberalisation**, with strategies aimed at improving **competitiveness and long-term economic, social and environmental sustainability.**

The infrastructures included in the PITVI will help citizen mobility by reducing travel times, offering high standards of safety, quality, comfort, reliability and social, economic and environmental sustainability.

Among the objectives of the PITVI are:

- To boost the Spanish high-speed network as one of the main elements that connects the different parts of the country together.
- To achieve a high level of cost and quality competitiveness in the core transport lines, exercising a collection-distribution function for all the freight flows in the national transport system by the appropriate management of the provision of these services, and boosting modal transfer towards rail from the road.

Within the PITVI framework, the Mediterranean Corridor plays a key role, as it runs from Algeciras/Seville to the French border, through four autonomous regions (Andalusia, Murcia, Valencia and Catalonia) that account for 45% of the country's GDP and 48% of its population. In addition, this axis concentrates 50% of the inland freight traffic and connects with five of the biggest metropolitan conurbations in Spain.

6.2 Boost to intermodality

To make the Spanish system of production and companies more competitive they have to be provided with an optimum transport infrastructure network organised into an efficient network of logistical hubs to manage flows and information.

That is why **a "Logistical Unit" has been created to create better coherence and coordination in all the activities** carried on in the area of logistics in Spain and to improve or create the mechanisms required for this purpose **through dialogue, collaboration and agreement with the public administration services, operators and users.** The logistical unit will be developed through various commissions, which will prepare a **strategy for optimising logistical activities.**

The new model will be based on the study of the real mobility needs, in particular in:

- Establishing a programme of logistical action that covers the regulatory and organisational aspects of service management. Equally, it will define the integrated organisation of the intermodal transport network through agreement between all the actors involved.

- Progress on an integrated vision of the transport system as a whole, more focused on satisfying the needs of society and our system of production than on the provision of new infrastructure *per se*.

- No more isolated actions that lead to shortcomings or duplications between different parts of the country, and a combination of efforts, sharing and agreeing solutions.

- Fitting logistical strategies for partial or local optimisation into comprehensive plans at a national or even international level.

- Changing track in defining infrastructure and transport policies, which will now be taken on the basis of agreement between all the tiers of government, with the participation of stakeholders with interests in logistical activity.

Axis 7. Growth that respects the environment and combats the effects of climate change

The **improvement in environmental regulation** will be carried out with different measures aimed at simplifying the law, promoting market unity and guaranteeing legal security:

- The **Bill modifying the Law on the Integrated Prevention and Control of Pollution** (AGS 3.7.45), as well as helping to reduce emissions from industrial activities into the atmosphere, water and soil (dependent on the starting up of around 6,100 industrial facilities obtaining Integrated Environmental Authorisation), will promote administrative simplification, with the introduction of mechanisms that make it easier to award permits to companies.

- Simplification of the procedures and burdens of the waste regulations, implementation of the register for production and management of waste and the implementation of the electronic waste platform will be carried out based on the **adaptation of the waste regulations to Law 22/2011, dated 28 July, on waste and contaminated soil** (AGS 3.7.46).

- In addition, a process of legal simplification and adaptation to Community law will be carried out based on **modification of the regulations on environmental responsibility** (AGS 3.7.47), as well as the **legal texts relating to the natural and biodiversity heritage** (AGS 3.7.48).

Furthermore, **the environment and natural diversity will be protected** by:

- The **Bill on the protection and sustainable use of coastal areas and modification of Law 22/1988, dated 28 July, on Coastal Areas** (AGS 3.7.49), currently in its passage through Parliament. This will provide for an increase in protection of coastal areas and legal security of the owners of rights in the public domain compatible with engaging in an economic activity that respects coastal preservation.

- The adoption of measures aimed at respecting biodiversity, promoting nature tourism, as part of the **Sector-based Plan for Tourism and Biodiversity**, and the simplification of the law and planning of the marine environment, based on the **Bill on the conservation and sustainable use of nature and biodiversity**, as well as the completion of the **Marine Strategies** (AGS 3.7.50).

Finally, as well as promoting sustainable growth from an environmental point of view, a number of **actions will be carried out to combat the effects of climate change:**

- A set of **strategies** (AGS 3.7.51) will be created to **combat the impact of climate change on coastal areas**. They will define and establish scientific, technical and economic mechanisms to define policies and strategies for action in coastal areas.

- With the aim of mitigating the negative effects of drought, measures for control and monitoring, risk evaluation, organisation of decision-making and mitigation will be taken under the **Special Drought Plans** (AGS 3.7.52).

- Finally, air quality will be improved through the **National Air Quality Improvement Plan or "***Plan Aire*".

Axis 8: Boost sector competitiveness

8.1 Land and housing

A mew model of **land and housing** policy has been promoted that is in line with the current economic situation and with the situation and needs of the property sector in Spain.

A Rehabilitation, Regeneration and Urban Renewal Law will be approved (AGS 3.8.53) in the second quarter of 2013 in the area of **rehabilitation of buildings and urban regeneration and renewal**. Its objectives are:

- Establish an **adequate legal framework that promotes building rehabilitation and urban regeneration and renewal**.

- **Take advantage of the opportunities offered in the domain of residential rehabilitation to reactivate the construction sector**, thus increasing economic competitiveness and growth.

- **Facilitate the viability of rehabilitation actions**, rationalising urban planning charges through a more flexible use of existing regulation.

- **Provide direct and complete information to homeowners on the state of the buildings** so that they can better comply with current legislation, without establishing additional legal obligations.

- **Create the conditions for projects** that improve accessibility, energy efficiency and the state of conservation of buildings.

- **Help create new formulas of private funding** that make rehabilitation financially viable, minimising the contributions of families benefiting from this public policy and those of contributors as a whole through public aid.

In addition, the Bill on Measures to Promote and Make the Home Rental Market more Flexible (CSR 3.3.10), whose approval by the Parliament is planned for April, has the following objectives:

- **Make the rental market more flexible and dynamic**, by introducing a series of modifications to the Urban Rentals Act and the Civil Procedure Act, with the aim of increasing the supply of homes for rent and streamlining their cost.

- Correct the shortcomings in the current legislation, aiming for a **balance between the needs for homes for rent and the guarantees that must be offered to landlords and tenants.**

- Provide **more security** to the rental market and attract as many new empty or unused homes as possible.

To achieve these objectives, the Bill includes the following **measures**:

- It **strengthens the freedom of agreements** between parties; it makes the legal periods or duration and extension of contracts more flexible.

- The landlord may recover the property to use it as a primary residence for himself or his family members, provided that the contract has been in force for at least one year.

- The landlord may terminate the contract after at least 6 months of its life.

- **Legal security** has been improved by establishing that for a rental to have effects for third parties, it must be entered in the Property Register.

- **A register has been created of final rulings on defaults** on rentals

To boost these measures, the **State Plan for Urban Regeneration and Rentals 2013-2016** has been approved. It includes the energy certification of buildings, and aims to: boost the economy and create jobs; promote home rentals rather than purchases, and rehabilitation rather than new housing construction; obtain maximum returns with the minimum resources available, providing a decent home to the most disadvantaged groups; increase the number of beneficiaries of aid: 1,363,989 compared with 687,302 under the previous Plan 2009-2012; create incentives to the private sector so that, with innovative solutions, it can work together to reactivate the construction sector; and increase the responsibility of the autonomous regions for financing and managing the Plan.

The implementation of the Plan aims to help some of the problems with housing in Spain, such as the small size of the rental market (17% compared with 83% for ownership), and the deficient situation of the Spanish property stock, which has not been correctly preserved (CSR 3.3.10).

8.2. Tourism

The **National Integrated Tourism Plan (PNIT) was approved on 22 June 2012.** It is the instrument that defines the key lines for improving competitiveness in the tourism sector as a driver of the Spanish economy. For this purpose, the PNIT aims at generating quality tourism, diversifying demand over time and geographical areas and creating an appropriate framework in the sector that guarantees its accessibility and added value (AGS 3.8.55).

So far, 28 measures in the PNIT have been implemented. With respect to its level of execution, significant progress has been made in the following areas:

- Spanish tourist interests in the European Union are now better represented;

- Progress has been made in capturing emerging markets and repositioning in traditional markets;

- With the aim of eliminating barriers to access to the Spanish tourism market, the policy of processing visas has been made more flexible and new types of visa in terms of period of validity and multiple entry permits have been included.

- In relation to measures aimed at increasing competition and the diversification of destinations, progress has been made in incorporating new technologies for managing destinations (smart destinations), in renewing tourism infrastructures and in unifying, across the different regions, classification and categories of hotel, rural and camping establishments.

- Finally, to align public-private objectives, a single point of contact has been established for innovative companies and entrepreneurs, together with specific support for the internationalisation of tourism companies.

8.3 The agri-food sector

To increase the competitiveness of the Spanish agri-food sector, a package of measures has been adopted aimed at guaranteeing the correct operation of the value chain, improving the distribution structure and promoting a professional model of associations that can generate value with an appropriate size and that is capable of competing in international markets.

The **Law on measures to improve the operation of the food chain** (AGS 3.8.56) will be approved in the second quarter of 2013. The aim of the law will be to:

- Improve the operation and organisation of the food chain.
- Increase competitiveness in the Spanish agri-food sector.
- Reduce the imbalances in commercial relations between the different operators in the value chain, within the framework of fair competition that benefits not only the sector but also consumers.

These objectives will be achieved through a **mixed model of regulation and self-regulation** of commercial relations between agents, applicable to all the operators in the chain (from production to distribution).

The regulation lays down the **obligation to conclude contracts in writing** for amounts in excess of 2,500 euros, when one of the parties is a primary producer or a **group of such producers or SMEs**, **and the other is not**, or when there is economic dependence on the other party (cash operations are excluded). At the same time, electronic auctions are regulated and documents have to be kept for two years. **Abusive commercial practices** are also expressly recognised.

To guarantee compliance with the new obligations, administrative control that specifies the infringements and corresponding sanctions has been set. Depending on the scope of action of the parties it will be managed by the corresponding autonomous region or the State. In addition, the breach of payment terms for food is deemed a serious infringement, pursuant to Law 15/2010 on the fight against late payments.

Incentives will be provided for **self-regulation** through the creation of a **Code of Good Business Conduct**. Membership is voluntary for operators in the chain, who will be obliged to submit the resolution of their conflicts to the system designated by the Code. They may also subscribe to other codes promoted by their own operators.

In addition, in the second quarter of 2013, the **Law promoting the integration of cooperatives and other associations of an agri-food nature** will be passed (AGS 3.8.57). Its aim is to increase competitiveness, the size, modernisation and internationalisation of the cooperative sector, which is characterised by a high level of dispersion that prevents it from achieving desirable gains in efficiency. The Law presents the following instruments to achieve this objective:

- Creation of the figure of the **"Priority Associative Entity" of supra-regional scope** and with sufficient capacity and size to improve the business strategy and contribute to the efficiency and profitability of these entities.

- The creation of a State Plan for Cooperative Integration, with the aim of **coordinating the ministry's policies of promoting associations with that of the Autonomous Regions,** in collaboration with the sector, as a way of combining efforts and eliminating measures that may lead to the dispersion of supply.

- Modifications to the legislation on cooperatives aimed at modernising their regulation and boosting their active role in the rural environment.

8.4. Cultural and creative industries

With the aim of assisting entrepreneurship in the area of cultural and creative industries in Spain with a high innovative and export potential, a strategy will be prepared in 2013 (AGS 3.8.58) with the following main aims:

- Boost the legal offer of digital content.
- Support the business formation of professionals, in particular referring to the normal business tools for finance, marketing and business plans.
- Adapt general technical learning to the needs of companies that operate in the area of digital content supply.

- Boost the renewal and modernisation of equipment.
- Attract creative talent.
- Eliminate entry barriers, revising the applicable regulations to leisure and cultural premises in the light of principles of need and proportionality.
- Reduce the local dimension of industry.

In addition, in 2013 the **protection of intellectual property rights** in a digital environment will be extended (AGS 3.8.59) through a reform of the Codified Text of the Law on Intellectual Property. This partial reform addresses the following questions:

- Measures to ensure **greater transparency and efficiency in the management of entities that manage** intellectual property rights and to promote competition in this market, making it easier for new operators to enter.
- Efficiency of the **mechanisms for the protection of intellectual property rights against the infringements they may suffer in the online digital environment**.
- Limits to private copying with respect to intellectual property rights and limits to illustrations in educational situations.
- Transposition to the Spanish legal system of Directive 2011/77/EU of the European Parliament and of the Council, of 27 September 2011, amending Directive 2006/116/EC on the term of protection of copyright and certain related rights.

AGS. 4. COMBAT UNEMPLOYMENT AND THE SOCIAL CONSEQUENCES OF THE CRISIS

Obviously, all the measures included in the National Reform Programme contribute towards tackling unemployment and easing the social consequences of the crisis. However, for these measures to have their full effect, throughout 2013 particular emphasis will be put on the effective implementation of the labour market reform, an improved implementation of active employment policies and on the policies for active social inclusion.

Axis 1. The labour market and active labour market policies

1.1. Monitoring the labour market reform.

The labour market reform establishes a new framework for labour relations, aimed at modifying the pattern and dynamics of adjustment in the Spanish labour market. This is a key aspect in order to **prepare for a job-generating economic recovery.** Its priority objectives are to promote measures of internal flexibility through instruments that allow companies to adapt to economic circumstances without large-scale job destruction and to improve the employability of workers (CSR 5.1).

It is essential to supervise the level of implementation of the reform and to evaluate its impact, in order to know whether it meets its objectives. The development of new monitoring indicators (such as the statistics on company opt-outs or the improvements in the data on collective agreements), improved labour market statistics and monitoring of jurisprudence by courts of rulings related to the labour market reform, all help identify more closely the problems arising in applying the law and allow for their correction at an early stage.

For this reason, **in 2013 the monitoring of the reform will continue through the groups and committees created and an initial Evaluation Report of its effects** in the first year of application **will be presented**. This will be published once data from the Active Population Survey (EPA) for the first quarter of 2013 is analysed (CSR 5.1.5). The Evaluation Report analysing the impact of the reform on the main labour market indicators, job creation, unemployment and the rate of temporary work, will be backed up by further analysis by an independent organisation with acknowledged reputation before July 2013. This report will help define future measures in this area.

1.2. Active labour market policies: a new strategy aimed at improving employability, in particular of young people.

Active labour market policies in Spain have followed in **2012** (and will carry on doing so in **2013**) a new strategy based on the following **5 main lines of action**, agreed with the autonomous regions at the Sectoral Conference on Employment on April11th, 2013:

1. **Institutional aspects: coordination, evaluation and efficiency** (CSR 5.2.6).

   The **Annual Employment Policy Plan 2012** is a major milestone in the new strategy aimed at improving the effectiveness of active labour market policies. It aims to establish appropriate coordination between the different competent authorities in the field and gradually implement a culture of **evaluation** of active labour market policies.

   Active labour market policies in Spain are developed within an institutional framework characterised by a **shared distribution of powers**, which calls for an adequate coordination and fit between the central government and the autonomous regions. For this purpose, the **Spanish Employment Strategy 2012-2014** and the **Annual Employment Policy Plan** represent the **common framework of reference** that contributes towards the goal of achieving greater cooperation between the different public employment services.

   Throughout 2012 the autonomous regions have had to adapt to the **6 priority objectives** of the Annual Employment Policy Plan when determining which actions may receive the funds distributed by the National Public Employment Service. These objectives are: reduce the level of **youth unemployment**; improve the **employability** of the other groups particularly affected by unemployment; support **entrepreneurs** through measures that help create jobs and support their permanence in the labour market; increase **public-private collaboration** to reinforce job search possibilities among the unemployed; develop measures for promoting the employment of **specific groups**, with particular attention to people with disabilities; and fight against **fraud**.

   In addition, the 2012 Plan included for the first time indicators to identify the level of compliance with the established objectives and to **evaluate** the effectiveness of the actions taken. In October 2012, following the agreement reached at the Sectoral Conference between the Ministry of Employment and Social Security and the autonomous regions, a **working group** was set up to evaluate the active policy measures that were being undertaken. This group has made progress in the exchange of information through common platforms, in the design of results-oriented monitoring indicators and in the sharing of good practices. A total of 82 coordination meetings were held in 2012.

   As a continuation of the strategy initiated in 2012, the **2013 Employment Policy Plan** will be approved in the second quarter of 2013. Its main content has already been discussed at the Central Government-Autonomous Regions Sectoral Conference held on April 11th 2013. The 2013 Plan will reinforce incentives for obtaining efficiency gains through **results-orientation.** This means public resources will be distributed according to the evaluation of results of the effectiveness of the active policy measures developed by each Autonomous Region. The objectives and priority measures of the 2013 Plan, which will be approved before the end of the first semester, will be established based on the results of the evaluation that is currently being carried out. These results will condition the new allocation of funds to the autonomous regions for developing active labour market policies, which this year amount to 1,345 million Euros. Of this total, 15% will be distributed between the autonomous regions according to the established objectives.

The Autonomous Regions are collaborating in the elaboration of the **monitoring indicators** that will condition this distribution of funds. The strategic aims used to design these indicators are as follows: improved employability of young people and support for entrepreneurship; improved employability of other groups particularly affected by unemployment (particularly the long-term unemployed those aged over 55); improved quality of vocational training for employment and stronger links between active and passive employment policies. The monitoring indicators are expected to be approved in the Sectoral Conference in June 2013. The results measured by these indicators will condition the distribution of funds in 2014[31].

The results of 2012 and 2013 will be used to determine, to a great extent, the objectives of a new **Multiannual Activation for Employment Strategy 2014-2016**, which will be approved in the last quarter of 2013. This new strategy will require legal changes and a modification of the structure of expenditures on active labour market policies.

2. Promoting employment through training.

With the aim of improving employability and employment, in particular among the young, in 2012 and 2013 the emphasis has been placed on measures geared towards training. The aim is to provide training that provides access to the labour market, for which it is crucial that the training received adapts to the needs of the productive sectors. In addition, it is important to promote training actions that include the possibility of obtaining work experience. The following measures have been and will be adopted to this end:

- The reform of the labour market approved in February 2012 set up a new **training and apprenticeship contract** that allows workers to obtain a professional diploma. The regulatory development of this contract and its implementation have further been accompanied by the implementation of a system of **dual vocational training**, already in operation and which will be supported by a new **development strategy for 2013-2015** (CSR 5.1.4 and CSR 5.1.9), with the following strategic lines:

[30] This percentage of resources allocated according to compliance with certain targets will increase in 2014 to 40%.

- Establish a model of coordination and collaboration between the different authorities involved in implementing dual vocational training.
- Create a comprehensive vocational training map that is constantly updated to adapt to the needs of the productive sector.
- Prepare a strategic communication and publicity plan aimed at individuals and companies, particularly SMEs and young people, to improve the social acceptance of vocational training and to spread the dual training system.

The strategy will be accompanied by a **monitoring process of the quality and impact** of dual vocational training, which will result in an intermediate evaluation (planned for the second semester of 2014) and a final evaluation (second semester of 2015). The aim is to identify both the success of initial contracts and to monitor whether young people continue in the same company or are recruited by another one, as well as its impact on employment stability and certifiable professional qualifications.

- **Review of the training model for employed and unemployed workers**, financed with **public funds** (CSR 5.2.8), under the principles of promoting **competition** between training service providers and the identification of the **priorities of productive sectors**, so that a more effective use is made of these public funds. The new model has already been introduced in 2012 and will continue in 2013 with the following features:

    - New public tenders to finance training actions are open to any certified training centre (and not only to the social partners as before).
    - Business internationalisation, technological innovation and entrepreneurship have been established as priority training areas.
    - A minimum number of unemployed participants are foreseen for the training actions, with young people under the age of 30 being a priority group.
    - The first calls for tenders for subsidies have shown an improvement in results. The second call for tenders is planned for July 2013.

- In addition, measures have been adopted to **improve the professional qualifications and employability of young people** as part of the **Strategy for Youth Entrepreneurship and Employment 2013-2016** (CSR 5.2.9 and CSR 6.2.8):

    - **Training programmes leading to the attainment of professional certificates or with a hiring compromise**. The Public Employment Services will carry out training programmes that allow for professional certificates to be obtained or that include a commitment by a company to hire the trainee at the end of the course. At least 30% of those participating in these training programmes may benefit from this commitment.

    - **Stimuli for unemployed people to obtain the Compulsory Secondary Education (ESO) diploma.** The aim is to provide assistance, in partnership with the autonomous regions, such that young unemployed people, with low qualification levels and who left school early may to return to education and improve their opportunities in the labour market.

- The **professional certificates legislation will be reformed** over 2013 (CSR 6.2.18). To adapt these certifications to the new model of dual vocational training, as well as the new needs of the productive sector and the tools available for providing them, the basic regulation has already been reformed and the National Catalogue of Professional Certificates will be published with an update following a revision of 585 occupational certificates in 2012. This extensive catalogue will allow training courses to be designed in response to the needs of all the productive sectors and provide a boost for the training and apprenticeship contract.

3. Links between active and passive employment policies (activation). (CSR 5.2.10).

The aim is to strengthen the mechanisms designed so that people receiving unemployment benefits adequately and effectively meet their activity and training compromise. Thus:

- In 2012, the regulation of **unemployment benefits and subsidies** was amended to introduce greater control over compliance by beneficiaries with their obligations. They now have to prove that they are **actively searching for a job and taking actions to improve their employability**.

- In 2013, a **new management system of unemployment benefits** will be developed to improve detection of non-compliance with employment activation and training requirements by those receiving these benefits. The aim is to introduce computer methodologies and tools that have proved effective in other areas (taxation, security, finance,…) into this area for the first time; and also, to identify possible sources of additional information and cross-checks of databases to complete and optimise current procedures. Public-private cooperation has been chosen as they best way to identify possible improvements. The pilot project has already been awarded, and work is already underway.

4. Improved labour market intermediation (CSR 5.2.12).

With the aim of better matching employment supply and demand and boosting activation of the unemployed, stress is being placed on the following measures designed to improve the quality of information and take advantage of the experience of private agencies:

- In 2012 work was started on a **Single Employment Portal**. This measure will be complete in 2013 and consists of the creation of a **common database** for the whole country, combining all the training and job vacancies managed by national and regional public employment services, and including vacancies in Europe and around the world; whether submitted directly by companies, the public sector, or submitted by other agents (e.g. intermediation agencies). This Single Employment Portal will be complemented with data of the unemployed workers, making it a basic tool for matching vacancies and job seekers in the labour market.

- Public-private **cooperation in the area of labour market intermediation** is already underway. A Framework Agreement has been designed to which the autonomous regions will adhere to select suppliers of intermediation services. The aim is to guarantee standard conditions across the national territory and thus ease coordination of this public-private cooperation. In addition, the cooperation will be designed geared towards results: in other words, private agencies will be paid according to the characteristics of the unemployed people and the duration of the employment achieved.

The design of an appropriate system has required an in-depth analysis of experiences in other countries and best practices, with the aim of limiting the possibility of the errors that have proved costly in other countries. The process has also required a legal change (already approved) on procurement in the public sector.

The Autonomous Regions have expressed their willingness to adhere to this public-private partnership model (Sectoral Conference of April 11th, 2013) and the Framework Agreement is expected to be approved by the second half of 2013. Following approval, a collaboration agreement between the National Public Employment Service and the Public Employment Services will be signed, and the latter will then award their respective contracts to private agencies. The model is expected to be operational at the end of October 2013.

5. Promoting youth employment and entrepreneurship

The **Strategy for Youth Entrepreneurship and Employment 2013-2016** has already been approved and launched (CSR 5.2.11, CSR 6.2.9 and CSR 6.2.10). The strategy is in line with the aim to boost measures to reduce youth unemployment by promoting employment and self-employment. It is the result of a process of dialogue with the social partners. At the same time, it responds to the recommendations made by the European Commission and is in line with the objectives of the proposal related to the **Youth Guarantee**. The Strategy contains **100 measures**, of which the following **short-term measures** are particularly worth highlighting:

- Special temporary measures adopted to **stimulate hiring of young people** (until the unemployment rate falls below 15%).

  - **An incentive for part-time employment linked to training.** This creates an incentive to hire people under the age of 30 on part-time contracts if they have no prior work experience, if they come from sectors where there is no employment or if they have been unemployed for more than 6 months, provided they combine employment with training. Companies providing part-time employment for young people will benefit from a cut of 75% in their Social Security contributions if they have more than 250 workers and of 100% otherwise.

  - **Young people’s first-job contract.** This is a new form of temporary contract the causation for which is the lack of experience of workers to whom it is targeted, with strong incentives for conversion into a permanent contract (500 euros per year for 3 years or 700 euros if the worker is female).

  - **Incentives for first-job internship contracts.** The aim is to adapt the current internship contract so that qualified young people can increase their chance of getting a first job. To this end, when the internship contract is for young people aged below 30, the 5-year maximum limit since the end of their studies does not apply and a reduction of 50% in the company's

Social Security contributions is applied.

- Another series of measures aim to **promote entrepreneurship and self-employment** for young people aged below 30.

    - **Fixed Social Security contributions.** For people starting self-employment, a minimum Social Security contribution has been set at 50 euros per month for the first 6 months.

    - **Possibility of combining unemployment benefit with the start of self-employment.** This allows for the compatibility between receiving the unemployment benefit and self-employment for a maximum period of 6 months.

    - **Extension of the option of receiving unemployment benefit as a lump sum as an incentive for entrepreneurship.** People receiving unemployment benefit may capitalise up to 100% of their benefits as a lump sum in order to buy the share capital of a company of up to 50 workers, provided that they have a working or professional link with the company.

    - **Improved protection for the self-employed to provide a second chance.** Workers who leave the self-employed regime before the fifth year of self-employment may resume collection of their unemployment benefit.

    - **Generations contract**, which creates incentives for the young self-employed to hire experienced unemployed workers.

Axis 2. Social inclusion

As pointed out above, one of the effects of the current crisis has been the increase in the number of people who live in households with a very low employment intensity. This leads to the need to develop and implement measures designed to **combat social exclusion and poverty**.

In addition to the actions already underway, the new active social inclusion policies will be aimed at i) promoting employment; as well as ii) providing basic services that are necessary for all citizens:

- Upcoming measures include the **National Action plan for Social Inclusion 2013-2016,** the approval of which is planned within the next few months. It will include measures aimed at supporting social inclusion, with particular emphasis on child poverty, based on employment promotion for the most vulnerable groups, combined with the guarantee of a benefits system that supports people who are in most need (AGS 4.2.7).

- Secondly, support will be given to families in difficulties or at risk of poverty through a diversity of measures: providing greater reconciliation between work and family life; fiscal benefits to families with children and special aids to families where child poverty is detected. This will be part of the future **Integrated Family Support Plan**, which is in elaboration process (AGS 4.2.8).

- The third element to highlight is the support for people with disabilities, in order to guarantee and strengthen non-discrimination on disability grounds in employment and society. These new measures will be included in the next **Spanish Disability Strategy Action Plan 2012-2020** (AGS 4.2.9).

AGS. 5. MODERNISING THE PUBLIC ADMINISTRATION

Axis 1. Rationalisation and duplicities elimination

1.1 Law on Rationalisation and Sustainability in Local Authorities

Among the measures that will be implemented to promote growth and increase the current and future competitiveness of the Spanish economy is the **Draft Bill for the Rationalisation and Sustainability in Local Authorities**, which will be submitted to Parliament in July. It will represent a saving estimated at 8 billion euros in 2014 and 2015 (AGS 5.1.1).

The Spanish State is organised territorially into municipalities, provinces and Autonomous Regions. All of them have a level of autonomy for governing their own interests. This has led to the **system of competences of the Spanish municipalities** now being an **excessively complex model, with two serious consequences.** First, the responsibilities of local governments are unclear, as they are confused with the competences of other public administration services, **generating uncertainty** among citizens who do not know what tier of government is responsible for the public services. Second, this **dysfunction** extends to the area of **local taxation**.

At a time like the present when compliance with **European commitments** to **fiscal consolidation are a maximum priority**, it is essential that the local authorities also contribute to this objective by streamlining their structure, which at times is oversized, and guaranteeing their financial sustainability.

After the reform in 2011 of Article 135 of the Spanish Constitution, the **principle of budgetary stability** is therefore a **guiding principle** for action by all public administration services.

The implementation of the Constitutional change was approved through Organic Law on Budgetary Stability and Financial Sustainability. Its current implementation within the scope of local government **requires adapting various aspects** of its organisation and operation, as well as enhancing its economic and financial control.

After more than thirty years since the entry into force of Law 7/1985, dated 2 April, regulating the bases of the system of local administration, the Draft Bill for the Streamlining and Sustainability of Local Government is on its passage through Parliament. The Bill amends Law 7/1985 and the Revised Text of the Law Regulating Local Taxation.

It is a **streamlining measure designed to save public expenditure** and will help Spain to grow again based on stability at all tiers of government, while guaranteeing citizens the optimal use of resources they finance through taxation.

The Law has **four basic objectives:** clarify the municipal competences to prevent duplication; streamline the organisational structure; guarantee more rigorous financial and budgetary control; and favour regulation that encourages private economic initiative. To do so, the law **reorganises local government structure** to provide a better financial balance, efficiency in the exercise of its activities and greater professionalism from all administrative staff, both at a political and administrative level.

The **first objective** aims to avoid duplications that currently exist in the area of municipal competences and guarantee funding. For this, the **matters on which** local entities may assume competences have been defined and the obligatory services that municipalities must provide for their populations have been set. With respect to the **transfers of competences** that the State or Autonomous Regions make to the local authorities, this transfer must respect the principles of the law on budgetary stability and must be accompanied by an **economic report**. At the same time, to guarantee the measures, the law provides that a breach of the above financial obligations by the transferring government shall be a cause for revoking or recalling the transfer.

Finally, the exercise of municipal activities within the scope of what are called **inappropriate competences** (those not specifically provided for by law, nor delegated by other public administration services) is limited to situations in which they do not **put at financial risk** the execution of their own competences.

The change of competences is produced at the entry into force of this Law, so that municipalities must begin to adjust their structures to the new competences with the corresponding resizing plans, which must include, where appropriate, the elimination of services outside their scope of competence. This framework establishes a temporary system by which the Autonomous Regions can run the services in matters of education, health and social services that were being exercised by the local councils. The education and health competences shall correspond exclusively to the autonomous regions. A transitory period of five years has been established for health and education services in the gradual change of ownership of competences. In the case of social services, the transition period shall be of one year.

The **second objective**, rationalisation of the organisational structure of local government, the obligatory services of municipalities shall be provided by deputations where quality standards are not met, or when this generates economies of scale. This will be mandatory in municipalities with a population of under 20,000 (the scope that has been calculated for the optimum provision of services) and voluntary for the rest. The Royal Decree **will establish standard costs** for services to be provided obligatorily and financial resources that will be assigned by the State to the municipalities will be set according to these standards.

This methodology will be applied through an **evaluation of the municipal services** to adapt them to the principle of financial sustainability and avoid duplication. Activities that are provided within the scope of improper competences may be eliminated. The same evaluation will be carried out on the minimum services provided by associations of municipalities. **If they are inadequate**, the services will be suppressed and taken on by the deputation. The municipality will then lose its membership of the association.

The entities of territorial scope below a municipality shall be subject to the evaluation of the services they provide to check compliance with the principle of financial sustainability within a year. At the same time, all those entities of a territorial scope under that of a municipality that at the time of entry into force of the law do not present their accounts may be automatically dissolved.

Finally, **criteria are established for cutting down on instrumental institutional agencies in the local public sector**. The effects of this resizing will begin on 31 December 2013, as the law lays down that the evaluation of the deficit situation of the local entities must take into account the first submission of accounts made by them after the entry into force of the Law.

With respect to the **third objective**, that of **guaranteeing more rigorous financial and budgetary control**, the role of municipal auditor has been strengthened and various aspects of the system of civil servants with nationwide powers have been harmonised. Equally, it has been established that the auditor **shall submit** annual information on his actions to the **Court of Auditors and to the Central Government Administration Audit**. The Government may unify the rules for internal control and complete the regulation of the role of consortium with the aim of preventing them from not being included in the system of financial control.

Finally, to **foster private economic initiative** and avoid disproportionate government intervention (the fourth object of the law), the **use of such authorisations** for starting an economic activity is limited to cases in which their necessity and proportionality are clearly justified. The municipal monopolies that had existed in the past and that are in economic sectors that are currently booming **have been eliminated.**

With respect to **remuneration**, the number of **advisors** will be reduced according to the population of the municipalities and the **national budget will determine the maximum limits** of the remuneration of elected positions, public-sector employees and directors in the local public sector. With respect to the **wages of public-sector employees**, benchmarks will be established so that there are no major differences between civil servants at the different tiers of government.

What is clear in the measures included in the Draft Bill on the Streamlining and Sustainability of Local Government is that it represents a **step forward at a municipal level**, as it guarantees the provision of services within its competence in accordance with economic sustainability and budgetary stability. All this will represent **savings and improved efficiency** in the provision of public services and the exercise of local competences, making it one of the main reforms in the area of local government. At the same time as the process of clarifying the powers of local government, a similar process will be carried out with the regional authorities by reviewing the activities financed by agreement.

1.2 Commission for the Reform of Public Authorities (CORA).

The Spanish geopolitical structure, the greater self-governance of the Autonomous Regions and the evolution of the transfer process of powers over recent decades, has led to a significant proliferation of institutions, companies and other public bodies, whose functions overlap (AGS 5.1.2).

A Commission for the Reform of Public Authorities (CORA) has been created in order to **review the public administration services and examine their efficiency in detail and reduce their cost, without lowering the quality of services offered**. The timetable planned for the conclusion of its work is as follows:

- Gathering of information to December 2012; this deadline has been met.
- Analysis and handling of information to March 2013, also met.
- Preparation of a report before 30 June 2013, to include a proposal and economic analysis for the current model of the public administration services, a description of the reforms already adopted by the Government and details of the specific proposals by the Commission for reform. All the measures will include a timetable for implementation, so some will enter into force on a priority basis due to their major impact on individuals or companies.

Social participation in the process is guaranteed thanks to the creation of a citizens' participation mailbox, which has received more than 2,000 suggestions; as well as the creation of an Advisory Council made up of groups representing society, to which the Commission must report every month, and receive its contributions.,

1. **Duplications sub-committee:** studies the duplications between the central government administration and the Autonomous Regions, as well as between the different central government bodies. The aim is to **propose** measures that guarantee the principle of "one administration, one competence".

2. **Sub-commission on administrative simplification: reviews** the bureaucratic obstacles that make processing of administrative procedures difficult, with the aim of simplifying the process for the benefit of individuals and companies. A total of 2,239 suggestions have been received from individuals.

3. **Sub-committee for management of common services and resources:** identifies management activities that are the same or similar and that can therefore be carried out jointly or in a coordinated fashion, thus taking better advantage of public resources.

   Measures will be proposed focused on the following areas: human resources, building management, IT and e-government, cash management, notifications, management agreements and orders, services and supplies, contracting and the vehicle fleet.

4. **Sub-committee for institutional administration:** analyses the different types of entities that make up the institutional administration, revising the regulatory framework and the models that are identified as optimum within it. This sub-committee has worked on two different projects:

   - General analysis for all the entities that are dependent on the central government administration to identify the best legal models that can simplify and standardise regulations of the different activities as far as possible.
   - Specific study of each central government administration entity. With the aim of determining whether the entity has the most appropriate legal structure for its activity, or even whether the activity is of sufficient public interest to be worth protecting.

Axis 2. Transparency of the public administration services

In 2013, the Law on Transparency, Access and Public Information and Good Governance was approved with the aim of providing all the public actors in Spain with a common standard in this matter that can subsequently be extended by each of them (AGS 5.2.3).

The law has the following **objectives:** to allow citizens to know about public affairs and participate with active control in them, to ensure more efficient management; and establish a legal framework of responsibility applicable to all those performing high-level public functions that guarantees control over their actions and sanctions conduct that is contrary to the established legal order. To achieve these objectives, the law will:

- Increase and reinforce transparency in public activity through obligations on active publicity for all tiers of government and public bodies.
- Recognise and guarantee access to information, regulating it as a broadly-based subjective and objective right.
- Establish obligations of good governance that must be met by public officials, as well as a strict system of penalties to ensure compliance.
- On the question of appeals, a claims procedure prior to administrative proceedings has been added to the administrative procedure, to be filed before the State Agency for Transparency, Evaluation of Public Policies and Service Quality.

Axis 3. Boosting e-government and reducing burdens

On a complementary basis to the measures aiming at reducing burdens under the Law Supporting Entrepreneurs and their Internationalisation, in 2013 the **Seventh Agreement of the Spanish Council of Ministers on reduction of administrative burdens** will be approved. It combines 66 proposals for reducing administrative burdens that will represent an estimated annual savings of 527 million euros. Within this Agreement for the Reduction of Administrative Burdens, numerous measures are included to make progress towards the implementation of e-government. Among them are the following: the possibility of carrying out some procedures at the General Traffic Directorate online (making appointments, communicating rentals or the registered driver); as well as the possibility that the Tax Agency, municipalities and management bodies of the Mechanical Traction Vehicle Tax, Company Registers and Insurers communicate online compliance with tax obligations, burdens or charges and the validity of vehicle insurance (AGS 5.3.4).

Progress will also be made on **integrating the promotional offices of the autonomous regions abroad with that of the State.** It should be noted in this respect that in 2012 there was a high level of compliance by the autonomous regions with the initiative to integrate offices abroad, given that 79% of those that have a network abroad have signed or plan to sign acceptance (AGS 5.3.8).

- Progress will be made in the **promotion of e-government**, with the aim of achieving a new model of government focused on citizens and companies, that eliminates unnecessary administrative burdens, adapts public services to the needs of citizens, stimulates participation and collaboration of more agents; uses ICT to provide key public services; and shares its data with society to help generate value and knowledge (AGS 5.3.7).

New steps were taken towards this objective in 2012. In particular:

- The provision of services shared between ministerial departments has been facilitated through the SARA network.
- Two portals have been created to improve electronic processing of procedures before the autonomous regions and local institutions; a system of interconnection of State, regional and local registers; and a system of e-management of documentation for local institutions, which in 2013 will be extended to the autonomous regions.

With respect to reforms in the future designed to boost e-government, the following measures will be implemented:

- By the end of 2013, a new e-Government Action Plan for the Central Government Administration will be approved as part of the Digital Agenda for Spain, which will specify future actions and priorities.

- A simplified procedure will be developed for mediation by electronic means of monetary claims with the aim of implementing the provisions of Law 5/2012 on mediation in civil and mercantile affairs, which specifies that processes consisting of claims for amounts under 600 euros shall preferably be made electronically. The procedure must last a maximum of one month and will be carried out entirely online (AGS 5.3.6).

- The State Public Employment Service is **simplifying the administration of specimen employment contract**. The aim is for companies to know clearly what form of contract is best adapted to their economic requirements, and eliminate the uncertainty that currently results from the more than 40 different forms of contract (AGS 5.3.5).

- In 2013, the implementation of **IT platforms for reducing administrative barriers in matters relating to immigration** (MERCURIO and ADAE) will be completed. As a result, applications related to immigration and other documents required during the processing of these applications can be presented online through a website without the need to appear in person at the administrative registers.

Axis 4. Improve the efficiency and competitiveness of judicial systems

Work is under way on the following lines of action with the aim of improving the quality, independence and efficiency of the judicial system:

1. Making the professional judiciary better qualified
2. A new organisation of the judicial system and organisation of legal matters
3. Reform of the system of legal fees
4. Promotion of extra-judicial solution of conflicts

4.1. Making the professional judiciary better qualified

With the aim of providing our administration of justice with the mechanisms needed to achieve a better quality justice system, based on the professionalism of those who work in it, as well greater flexibility in the assignment of human resources, the following reforms were implemented through Constitutional Law 8/2012, dated 27 December, on measures for greater budgetary efficiency in the administration of Justice:

- The system of replacements for judges and senior judges and alternate judges has been modified. Specifically, the use of law graduates who are not part of the Professional Judiciary to carry out replacement work is restricted to very exceptional cases, and always providing there is a budget available for it. In other cases, mechanisms for replacement of members of the Professional Judiciary have been established, based initially on their voluntary nature, organisation, control and remuneration.

- The composition of the provincial courts is made more flexible to allow five or more judges in a single division. This will allow new judicial areas to be created in the future at barely no financial cost, with the judges applying their efforts wherever specifically necessary and making the work of unifying criteria between the judges in the professional association easier.

- The position of judge assigned to a particular geographical area under Article 347 *bis* of the Constitutional Law on the Judiciary is strengthened further. This provides greater flexibility as it allows them to cover prolonged vacancies or to assist courts that have a particularly high workload.

- A third level of the Judicial Academy has been created so that judges can carry out work to assist in the courts.

4.2 New organisation of the judicial system and distribution of legal matters

In 2013, a partial amendment will be adopted to the Civil Procedure Act with the aim of extending actions that the court attorney of the enforcing party may carry out at the request and cost of his client in enforcement proceedings (requirements for payments, attachment proceedings and the initiation of other procedural actions). Two legal texts will begin their passage through Parliament at the end of 2013 (AGS 5.4.10):

- A new Constitutional Law on the Judiciary, which among other new points will create the Courts of Instance as a new first-instance judicial body with provincial scope, to gain flexibility and efficiency; the activity of the courts will also be extended to cover the whole year.

- A new Criminal Procedure Act, which among other new points will give the Public Prosecutor responsibility for investigating criminal cases and boost the use of mechanisms to terminate criminal proceedings without going to trial.

In 2013, a new Public Prosecutor's office will also be opened as a new organisational structure designed to support jurisdictional activity. New court offices will be opened and progress will be made in the deployment of integrated IT and management applications.

4.3 Reform of the system of legal fees

In 2012, the system of legal fees was reformed with the aim of streamlining the exercise of jurisdictional power and ensuring the sustainability of the system of free justice. The main aspects of the reform are as follows (AGS 5.4.11):

- An increase in the amount of legal fees in order to streamline the exercise of jurisdictional powers and ensure the sustainability of the system of free justice.

- People who are eligible to free legal aid are exempt.

- The new fees are applied to civil, contentious-administrative and industrial proceedings, although in the case of industrial proceedings this only applies to second instance cases. The criminal justice system is excluded.

- In contentious-administrative appeals against penalties, the fee may not exceed half of the amount involved.

- The amount of fees in mortgage foreclosure proceedings for primary residences will not be added to the costs.

- Claims for non-compliance with orders in consumer arbitration decisions shall be exempt from the fees. Divorce proceedings by mutual consent are also exempt.

- The range of individuals with a right to free legal aid has been extended to cases such as victims of gender violence, terrorism, or those who for reason of an accident can prove permanent injuries that prevent them from carrying out their normal job.

In the fourth quarter of 2013, the Draft Bill for Free Legal Aid will be approved. This will further extend the number of people who have the right to free legal aid, such as cases of victims of gender violence, human trafficking, terrorism, and those who have been victims of an accident and can prove permanent after-effects that prevent them from carrying out their normal job and require the assistance of others.

4.4. Boosting extra-judicial conflict resolution

Extra-judicial conflict resolution (through arbitration, mediation or reconciliation) has a very important potential for easing the workload of the courts (AGS 5.4.12).

As an institution capable of providing practical and effective solutions to conflicts affecting disposable subjective rights, mediation has received a boost in Spain over recent years.

Bearing in mind the role that this institution may play, Law 5/2012, dated 6 July, on mediation in civil and mercantile affairs was passed in 2012.

This law had the following objectives:

- Transpose Directive 2008/52, of the European Parliament and of the Council, dated 21 May 2008, to the Spanish legal system.

- **Promote a profound cultural change that provides citizens and companies with alternative mechanisms for conflict resolution**, while at the same time providing greater legal security.

To achieve the second objective, the law:

- Does not limit itself to transposing the Community legislation, but goes beyond this to **regulate not only the mediation agreements in cross-border civil and mercantile affairs, but also domestic ones.**

- Stresses the **strictly voluntary nature** of mediation. The relevance of the willingness of the parties is that mediation is voluntary in nature, and is always an alternative that the parties choose freely and by mutual agreement.

- **In accordance with the lines of the reform of professional services, no prior diploma is required to act as mediator**, but the mediator must have specific training whose content and scope is specified by regulation.

- For reasons of legal security, it establishes that the **agreements** reached **are not legally enforceable**, **until they are notarised in a public document or** are approved legally by a court.

VI. PRIORITIES ON THE MATTER OF EUROPEAN FUNDS

1. The NRP 2013 and the National Strategic Reference Framework (NSRF)

The NSRF establishes the priority lines for Spain in allocating structural funds for the period 2007-2013. It should be noted that the NSRF was prepared in 2007 in accordance with the economic policy priorities then in force under the Lisbon Strategy and in a very different economic situation. The European 2020 Strategy was approved in 2010 and a new system of coordinating economic policies (the European semester) was established to deal with the challenges in the wake of the economic crisis that had begun in the second half of 2008.

In addition, in the case of Spain, above all starting in 2012, the NRP has reflected a change in the course of economic policy. That is why it is not easy to establish a precise correspondence between the NSRF and the actions in 2013.

Worth highlighting in this context is the "Barroso Initiative", which aims to reallocate funds during the current period to actions with a greater impact on youth employment and on financing for SMEs. Spain has reallocated funds in 2012 and 2013, within existing possibilities, towards actions of this kind. Initially the amount of funds that can be reallocated was estimated at 10.7 billion euros, of which a total of 1.27 billion could finally be reallocated (see Table).

	ESF €m	ERDF €m	Total €m	Comments
Reallocation of funds from the Multi-Year Programme for Adaptability and Employment to the State Public Employment Service	135			
Reprogramming of operational programmes with a low level of execution		2.5 (Navarre), 1 (Madrid)	3.5	
Fight against discrimination	50		50	
Fight against school drop-out rate and for vocational training	6.4 (Murcia), 16.8 (Balearic Is.)		23.2	
Technical Assistance to the operational Programme. Adaptability and Employment to combat youth unemployment	4		4	
Extension of the Leonardo and Erasmus experience programmes	14.8		14.8	Being studied
Programmes for Reindustrialisation and Strategic Industrial Sectors		446.2	446.2	Already allocated
New ICO financial instrument using the Technology Fund		228.9 (ICO)	372.1	Financial instrument under discussion to give favourable rates to innovative companies
CDTI Innovation Technology Fund financial instrument		105.3 (CDTI)		Instrument for financing innovation projects
Financial instruments of the autonomous regions' financial agencies (Canary Islands, Valencia and Extremadura)		11.9 (Canary Islands) 16 (C. Valencia) 10 (Extremadura)		Possibility offered to the autonomous regions: three are going to implement it
Educational infrastructures		141.8 (Andalusia) 35 (Canary Islands) 28.9 (Extremadura) 2.9 (Galicia)	208.6	
Other elements related to the labour reform: pilot vocational training projects; Employer SS deductions on training contracts for people under 30				Pending scrutiny

2. Priorities for Spain within the Common Strategic Framework 2014-2020 in the context of the Europe 2020 Strategy

For the period 2014-2020 "thematic concentration" will be the basic principle of programming. This means prioritising investments co-financed with funds on the smallest number of priorities, according to the level of development of the regions and the European Structural and Investment Funds (ESIF).

All the regions in Spain in the period 2014-2020 (except for Extremadura) will be among the most developed or in transition, which are the ones with the greatest concentration under the programming. This will make the investment profile of the Spanish regions change substantially in this period compared with previous years.

In the case of the ERDF, the strategic lines of action for Spain in each of the thematic objectives established will be as follows:

1. Boost research, technological development and innovation focusing on actions in four main lines:

    a. Infrastructure investment
    b. Support for investment in public projects
    c. Support for investment in private projects
    d. A financial instrument dedicated to innovation

2. Improve the use and quality of information and communication technologies and access to them, dedicating the ESIF mainly to:

    a. e-government projects and public electronic services
    b. Extension of broadband, particularly in rural areas

3. Improve the competitiveness of small- and medium-sized enterprises (mainly the competence of the autonomous regions), which will be dedicated to:

    a. Promoting the spirit of entrepreneurship and boosting the creation of new companies.
    b. The internationalisation of SMEs
    c. Support for the creation and extension of advanced capacity for the development of products and services; and
    d. Support for processes of growth and innovation.

4. Move to a low-carbon economy in all sectors, which as has been mentioned, not only forms part of the thematic concentration, but requires the application of at least 20% of the ERDF through participation by all tiers of government: central, regional and local. This will be dedicated mainly to the following lines:

    a. Actions to generate renewable energies and where appropriate accumulation of energy (reversible power stations)
    b. Interconnection lines between energy production systems that promote the general use of renewable energy (these two actions will focus particularly on facilities and interconnections off the mainland).
    c. Energy efficiency in public and private buildings
    d. Actions to streamline and improve the system of energy transport and consumer management, where appropriate

Finally, outside the thematic concentration, more than 5.5 billion euros will be allocated to undertaking various lines of finance for investment linked to competitiveness:

a. In transport infrastructures: the Mediterranean Corridor and actions to eliminate bottlenecks and increase intermodality.
b. In the objective of natural resources where actions will mainly be carried out on the water cycle and waste management.
c. Attention will also be paid to projects that propose actions related to combating climate change and preventing associated risks.

With respect to the **way of using the funds**, for the period 2014-2020, **Spain considers it is critical to make maximum possible use of innovative financial instruments** as a more efficient and complementary alternative to traditional subsidies.

Within existing possibilities, Spain particularly favours the creation of a line of finance through a financial instrument with various specialised lines of action, which can be used to:

- Finance R&D+i in SMEs
- Finance SMEs
- Finance operations in urban environment projects
- Finance projects that aim to improve energy efficiency

In the case of the European Social Fund (ESF), the investment priorities for the period 2014-2020 are, in order:

1. Access to employment by unemployed job-seekers and people who are not active, including local employment initiatives and support for labour mobility.
2. Combating school drop-out rate and promoting equality in access to good quality infant, primary and secondary education.
3. Improved access to lifelong learning of occupational skills and updating the educational and training systems to the labour market.
4. The fight against discrimination for reasons of sex, race or ethnic origin, religion or belief, disability, age or sexual orientation.
5. Adaptation of workers, companies and employers to change.

The ESF programme will concentrate on the following strategic lines within the national Operational Programmes for the period 2014-2020:

Thematic objective 8: Promoting employment and labour mobility.

- Access to employment by unemployed job-seekers and people who are not active (taking into account the gender dimension), including local employment initiatives and support for labour mobility.
- Sustainable integration in the labour market of young people who are unemployed or without education or training.
- Self-employment, the spirit of entrepreneurship and company creation.

Thematic objective 9: Promoting social inclusion and combating poverty

- Active inclusion.
- The fight against discrimination for reasons of sex, race or ethnic origin, religion or belief, disability, age or sexual orientation.
- Promoting the social economy and social companies.

Thematic objective 10: Investment in education, improvement of occupational skills and lifelong learning

- Combating school drop-out rate and promoting equality in access to good quality infant, primary and secondary education.
- Improved access to lifelong learning of occupational skills and adapting the educational and training systems to the labour market.

Thematic objective 11: Improved institutional capacity and efficiency of the public authorities

As well as these thematic objectives, a specific axis within all the programmes will be included dedicated to **initiatives for young people**, as Spain is giving key importance to the application of the Youth Guarantee through its own Youth Entrepreneurship and Employment Strategy.

VII. Process of preparing the NRP. Participation of the Autonomous Regions and social partners in preparing the NRP

In line with the commitments acquired by Spain under the European Semester, the National Reform Programme constitutes the framework of reference for coordinating the economic and employment policies of the Member States of the EU and is fully integrated into the Government's economic strategy.

With the aim of reflecting the concerns and/or needs of all citizens, the regional authorities and social partners play a fundamental role in preparing the document.

The process of designing this instrument has included the contributions from different ministerial departments. They were coordinated by the Economic Bureau of the Prime Minister and have provided contributions that will lead to the achievements of the objectives set within their respective areas of competence.

Given the significant level of competence of the **Autonomous Regions** in many of the policies of the Europe 2020 Strategy, the regional authorities have also participated in this preparation process. Specifically, the Autonomous Regions have presented regional policies consistent with the objectives of the NRP, and where appropriate set regional objectives in line with existing European and national objectives.

At the same time, there has been collaboration by the main **trade unions** (*Comisiones Obreras, CCOO* and the *Unión General de Trabajadores, UGT*) and **business organisations** (the Spanish Confederation of Business Organisations, CEOE and the Spanish Confederation of Small and Medium-Sized Enterprises, CEPYME) at a national level.

There has also been input from the **Third Social Action Sector** regarding the means that have to be taken to achieve the objective of reducing poverty and social exclusion, and improving the living conditions of the most vulnerable people in our society.

During the preparation process, the document has been subject to a report from the Government Delegate Committee for Economic Affairs, and was subsequently submitted to the Spanish Council of Ministers, which approved it at a meeting on 26 April.

Following approval, at the monitoring phase, an open dialogue will be held with all the social partners and representatives of the Autonomous Regions, with the aim of carrying out a detailed assessment of the results.