2014 DRAFT BUDGETARY PLAN

KINGDON OF SPAIN

15-10-2013

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1. INTRODUCTION

On 30 May 2013, the legislative package on budgetary surveillance known as the "two-pack" came into force. The process of reforming economic and budgetary governance at the EU level which began with the approval of the "six-pack" in 2011 is completed by these two regulations: Regulation 473/2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area and Regulation 472/2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability.

This legislative package introduces a common budgetary time-line and common budgetary rules for euro area Member States, enhancing the soundness and transparency of national budgetary processes. For Member States in Excessive Deficit Procedure, the Two-Pack introduces a system of monitoring that will co-exist with and complement the requirements set out under the Stability and Growth Pact. It also strengthens monitoring and surveillance for Member States threatened with or experiencing serious difficulties regarding their financial stability and those requesting or receiving financial assistance.

Regulation 473/2013 establishes the obligation for EU Member States to publish their draft budgets for the following year by 15 October, accompanied by the main parameters of the draft budgets of all the other sub-sectors of the general government.

This obligation takes the form of drafting and submitting this document to the European Commission, the Draft Budgetary Plan of the Spanish Government, which describes in detail the fiscal strategy of each sub-sector.

2. THE 2013-2014 MACROECONOMIC SCENARIO

The macroeconomic scenario described below forms the basis for the 2014 General State Budget. Despite the fact that in June this year the Government made the last revision to its official forecasts to provide a medium-term framework for setting budget stability and debt targets, the review of the Quarterly National Accounts by the INE (from Q1 2009 to Q1 2013) motivated this scenario review.

In all cases, the data corresponding to the second quarter of 2013 show -0.1% on quarter growth of GDP, confirming the continuation and consolidation of the improving economic situation, after recovering from the cyclical trough of the fourth quarter of 2012. This trend leads us to expect the recessive phase to end in the second half of 2013 and throughout 2014.

This improvement forms part of a scenario of recovery in the external environment which will be gradual and will be reflected in a growth of Spanish export markets of 2% in 2013 and 4.1% in 2014.

In this favourable context, increased competitiveness and the adjustment of external imbalances will enable a gradual and continual improvement in the current account position, consolidating a model of healthy growth on a robust foundation for our economy, compared to more fragile models based on devaluation measures with transitory effects.

The information relating to the hypotheses underlying the preparation of the macroeconomic framework has been enhanced with the inclusion of additional unpublished data, as required by the tables of the Draft Budget. These include hypotheses on the growth of world GDP, excluding the European Union (3.9% and 4.5% respectively for 2013 and 2014), and on the predicted evolution of the nominal effective exchange rate (slower appreciation of the euro in 2014, after the change in direction of this indicator in 2013). In any case, to summarise, these suppositions mostly point to a slight appreciation in the exchange rate against the dollar in 2013 and 2014, a moderate reduction in oil prices in 2013 and 2014, higher short-term interest rates in 2014 and an additional reduction in long-term rates, in line with the contraction of risk premiums and a general rise in confidence.

Table 0.i Basic assumptions

	2012	2013	2014
Short-term interest rate (annual average)	0.6	0.2	0.4
Long-term interest rate (annual avergae)	5.9	4.6	4.3
USD/€ exchange rate (annual average)	1.29	1.32	1.34
Nominal effective exchange rate	-5.3	3.7	0.8
World excluding EU, GDP growth	3.9	3.9	4.5
EU GDP growth	-0.2	-0.1	1.2
Growth of relevant foreign markets	-0.4	2.0	4.1
World import volumes, excluding EU	3.9	4.2	5.8
Oil prices (Brent, USD/barrel)	111.8	109.7	105.7

As indicated, the new forecasts for 2013 and 2014 point to the end of the recessive phase in the second half of 2013 and more intense growth throughout 2014, in line with the majority of competent bodies, which have upgraded their predictions for Spain. Thus, although the growth rate of GDP in 2013 (-1.3%) forecast in the Stability Programme (PE) and the Report on the Spanish Economy (ISEE) is maintained, it is revised two points upwards to 0.7% GDP in 2014.

As regards growth composition, the positive and significant contributions of the external sector are expected to continue both in 2013 and in 2014 (1.9 and 1.2 pp. respectively), and will slow down as imports recover, in line with internal demand. In any case, the favourable evolution of exports will continue, accelerating in 2013 to 5.7% and with a very similar rate in 2014 (5.5%). This strong performance is a consequence of wage restraint and increased competitiveness and market share. Thus, the continuing trend to contraction in Unit Labour Costs (ULC) in each year will enable the Spanish economy to continue recovering its competitiveness.

Table 1.a Macroeconomic Prospects

	ESA Code	2012	2012	2013	2014
		Level	Rate of change	Rate of change	Rate of change
1. Real GDP	B1*g	94.4	-1.6	-1.3	0.7
2. Potential GDP			0.0	-0.4	-0.4
contributions:					
Labour			-0.8	-0.9	-0.8
Capital			0.3	0.2	0.1
Total factor productivity			0.5	0.4	0.3
3. Nominal GDP (thousands of millions of euros)	B1*g	1,029	-1.7	-0.3	2.1
Components of real GDP					
4. Private final consumption expenditure	P.3	92.6	-2.8	-2.6	0.2
5. Government final consumption expenditure	P.3	99.8	-4.8	-2.3	-2.9
6. Gross fixed capital formation	P.51	68.2	-7.0	-6.3	0.2
7. Change in inventories (% of GDP)	P.52 + P.53	112.1	0.0	0.0	0.0
8. Exports of goods and services	P.6	110.5	2.1	5.7	5.5
9. Imports of goods and services	P.7	85.3	-5.7	-0.3	2.4
Contributions to real GDP growth					
10. Final domestic demand			-4.1	-3.2	-0.4
11. Change in inventories	P.52 + P.53		0.0	0.0	0.0
12. External balance of goods and services	B.11		2.5	1.9	1.2

Table 1.a bis Macroeconomic Prospects

	ESA Code	2012	2012	2013	2014
		Level	Rate of change	Rate of change	Rate of change
1. Real GDP	B1*g	94.4	-1.6	-1.3	0.7
2. Potential GDP			-0,5	-0,9	-0,8
contributions:					
Labour			-1.3	-1.4	-1.2
Capital			0.3	0.2	0.1
Total factor productivity			0.5	0.4	0.3
3. Nominal GDO (thousands of millions of euros)	B1*g	1,029	-1.7	-0.3	2.1
Components of real GDP					
4. Private final consumption expenditure	P.3	92.6	-2.8	-2.6	0.2
5. Government final consumption expenditure	P.3	99.8	-4.8	-2.3	-2.9
6. Gross fixed capital formation	P.51	68.2	-7.0	-6.3	0.2
7. Change in inventories (% of GDP)	P.52 + P.53	112.1	0.0	0.0	0.0
8. Exports of goods and services	P.6	110.5	2.1	5.7	5.5
9. Imports of goods and services	P.7	85.3	-5.7	-0.3	2.4
Contributions to real GDP growth					
10. Final domestic demand			-4.1	-3.2	-0.4
11. Change in inventories	P.52 + P.53		0.0	0.0	0.0
12. External balance of goods and services	B.11		2.5	1.9	1.2

In this favourable context, the capacity for funding compared to the rest of the world will follow a pattern of growth, reaching 3.4% of GDP in 2014 (Table 1.d). As a consequence of this growth, the correction of external imbalances will be consolidated, auguring a solid and robust basis for growth.

The improved behaviour of domestic demand, however, will be determinant to the evolution of the overall economy in both years. Thus, less contraction is expected in 2013 than in 2012, with a trend towards stabilisation, which will intensify in 2014. This behaviour will be backed by an improvement in qualitative aspects of confidence which will impact the composition of internal demand; this is the case of increased consumer confidence due to the more favourable behaviour of the labour market. Thus, a slight growth of private consumption is already expected for 2014 (0.2%) thanks to the stabilisation of wage income due to fewer job losses, and moderate inflation levels which will continue the trend already observed.

Public consumption will continue to be restricted in 2013 and 2014, due to the effects of persistent measures to control expenditure in response to commitments to reduce the public deficit by the agreed time and amount, along with the need for a solid growth strategy.

Regarding gross fixed capital formation, slight growth is expected in 2014 (0.2%) due to the sustained recovery of investment in equipment and other products, and the more moderate reduction in investment in construction. In this respect, it is important to underline the good behaviour of equipment investment, which has shown positive QoQ rates in the first two quarters of the year.

The behaviour of the different price indicators is shown in Table 1.b. Moderation, a key factor in the recovery of internal demand and the expansion of exports, is expected to continue in the forecast period. Thus, to draw up the Draft Budget, the GDP deflator was revised downwards in 2013 (from that published in the PE and the ISEE) and to a lesser extent in 2014, largely due to previous revisions by the INE and the moderation of the private consumption deflator in 2013, in accordance with the lack of inflationary pressure already seen in the year so far.

Table 1.b Price developments

	ESA Code	2012	2012	2013	2014
		Level	Rate of change	Rate of change	Rate of change
1. GDP deflator		100.2	0.0	1.0	1.3
2. Private consumption deflator		105.9	2.5	1.3	1.5
4. Public consumption deflator		98.2	-1.8	1.3	1.3
5. Gross fixed capital formation deflator		92.8	-2.0	-3.7	-0.3
6. Export price deflator (goods and services)		105.5	2.0	0.8	1.9
7. Import price deflator (goods and services)		109.5	4.3	-1.0	1.5

The expected evolution of the labour market (table 1.c) for 2013 and 2014 reflects a situation close to stabilisation, with an improvement to the forecasts for the labour market in 2013 and 2014 compared to those of the PE and ISEE. Fewer job losses, largely due to the introduction of greater flexibility by the Labour market Reform, along with the evolution of the labour force, make it possible to predict an unemployment rate of 26.6% in 2013 and 25.9% in 2014, five and eight decimal points, respectively, below previous forecast. Net job creation will happen in the second half of 2014, although the negative job loss rates will converge to zero over the coming quarters.

Table 1.c Labour market developments*

	ESA Code	2012	2012	2013	2014
		Level	Rate of change	Rate of change	Rate of change
1. Total employed people (millions)		16.4	-4.8	-3.4	-0.2
3. Unemployment rate (% of active population)			25.0	26.6	25.9
4. Labour productivity per employee (thousands of euros)		62.6	3.3	2.2	1.0
6. Employees compensation (thousands of millions of euros)	D.1	482.6	-5.6	-3.0	0.0
7. Compensation per employee (thousands of euros) (**)		34.3	0.2	0.5	0.3

(*) Data in national account basis, except for unemployment rate
(**) Compensation per employee, full-time equivalent

Table 1.d Sectoral balances

	ESA Code	2012	2013	2014
		% GDP	% GDP	% GDP
1. Net lending (+)/ borrowing (-) vis-à-vis the world	B.9	-0.6	2.3	3.4
Balance on goods and services		0.7	3.3	4.6
Balance of primary incomes and transfers		-2.0	-1.6	-1.8
Net Capital transactions		0.6	0.6	0.6
2. Net lending (+) /Net borrowing (-) of the private sector	B.9	10.0	9.1	9.2
3. Net lending (+) /Net borrowing (-) of general government*	B.9	-10.6	-6.8	-5.8

* These data include financial assistance. Excluding financial aid: -6.8 in 2012 and -6.5 in 2013

Tables 1.a and 1.a (bis), as well as the forecasts for the main components of GDP, present the estimated potential growth of the Spanish economy and the contributions of its main components. These tables are complemented by the different estimates and forecasts of the output gap and the main balances obtained in Tables 2.a and 2.a (bis).

The estimates presented in Tables 1.a and 2.a were obtained by calculating the NAWRU based on a forward-looking specification of the Phillips curve, softening the high procyclicality of the European Commission's backward-looking model of statistical expectations (Tables 1.a (bis) and 2.a (bis)). In both cases, the potential GDP is reduced in 2013 and 2014, largely due to the high detraction of labour factor caused by the high structural unemployment rate and the reduction of working-age population caused by migration flows. Consequently, the output gap will continue to be negative, although it will narrow in 2014.

The use of the alternative method involves a certain but not excessive difference in cyclically adjusted balances, which are lower than those obtained by the Commission's method. Nevertheless, as commented in the Effective Action Report, the complementary indicator of discretionary effort could be higher, at around 1.5 pp. This complementary indicator was proposed by the European Commission in its report on Public Finance in 2013, given that the estimation of structural effort, whatever the production function method applied, tends to undervalue the true effort made in budget consolidation.

It must be stressed that the reduction of structural effort compared to the strategy set out in the 2013-2016 Stability Programme should not be understood as a slackening of the forecast rate of consolidation of fiscal policy. Thus, the Government's commitment to devote the extraordinary fiscal dividends resulting from positive surprises, whether from growth or associated with other factors, to reducing the deficit is essential and continues to be honoured, even beyond the nominal targets established in the current Excessive Deficit Recommendations.

Table 2a General Government budgetary targets broken down by subsector

	ESA Code	2013	2014
Net lending (+) / Net borrowing (-) by sub-sector (% GDP)			
1. General Government	S.13	**-6.8***	**-5.8**
2. Central Government	S.1311	-4.1	-3.7
3. Autonomous Regions	S.1312	-1.3	-1.0
4. Local Authorities	S.1313	0.0	0.0
5. Social Security	S.1314	-1.4	-1.1
General Government (S.13) (%GDP)			
6. Interest expenditure	D.41	3.4	3.6
7. Primary balance		-3.4	-2.2
8. One-off and other temporary measures[a]		-0.3	0.0
of which financial assistance		-0.3	
9. Real GDP		1.3	0.7
10. Potential GDP (**)		-0.4	-0.4
Contributions :			
Labour		-0.9	-0.8
Capital		0.2	0.1
Total factor productivity		0.4	0.3
11. Output gap		-8.7	-7.7
12. Cyclical balance		-4.2	-3.7
13. Cyclically adjusted balance		-2.7	-2.1
14. Cyclically adjusted primary balance		0.7	1.5
15. Structural balance		-2.4	-2.1

(*)This data includes the one-off impact of the financial sector restructuring operations. Excluding this impact, 2013 deficit is 6.5%

[a] A positive signe correspond to a defict reduction measure

(**) NAWRU based on a *forward-looking* Phillips curve

Table 2a bis General Government budgetary targets broken down by subsector

	ESA Code	2013	2014
Net lending (+) / Net borrowing (-) by sub-sector (% GDP)			
1. General Government	S.13	**-6.8***	**-5.8**
2. Central Government	S.1311	-4.1	-3.7
3. Autonomous Regions	S.1312	-1.3	-1.0
4. Local Authorities	S.1313	0.0	0.0
5. Social Security	S.1314	-1.4	-1.1
General Government (S.13) (%GDP)			
6. Interest expenditure	D.41	3.4	3.6
7. Primary balance		-3.4	-2.2
8. One-off and other temporary measures[a]		-0.3	0.0
of which financial assistance		-0.3	
9. Real GDP		-1.3	0.7
10. Potential GDP (**)		-0.9	-0.8
Contributions :			
Labour		-1.4	-1.2
Capital		0.2	0.1
Total factor productivity		0.4	0.3
11. Output gap		-6.6	-5.2
12. Cyclical balance		-3.2	-2.5
13. Cyclically adjusted balance		-3.7	-3.3
14. Cyclically adjusted primary balance		-0.3	0.3
15. Structural balance		-3.4	-3.3

(*)This data includes the one-off impact of the financial sector restructuring operations. Excluding this impact, 2013 deficit is 6.5 %

[a] A positive signe correspond to a defict reduction measure

(**) NAWRU based on a *backward-looking* Phillips curve

Table 2b Discretionary fiscal effort indicator, according to the method used in the report "Public Finances in EMU 2013". DG ECFIN European Economy 4/2013

	2012	2013	2014
Nominal GDP	1,029	1,026.2	1,047.4
Discretionary revenue	18	22.6	8.3
Total expenditure	491.4	459.4	457.4
Interest expenditure	31.2	34.7	38.1
unemployment expenditure (forward-looking)	31.7	30.7	29.2
Unemployment expenditure (backward-looking)	31.7	30.7	29.2
Expenditure excluding interest and unemployment (E) forward-looking	428.5	394	390,1
Change in E (forward-looking)		-34.6	-3.8
Expenditure excluding interest and unemployment (E) backward-looking	428,5	394	390,1
Change in E (backward-looking)		-34.6	-3.8
Forward-looking benchmark rate	1.8	1.5	1.5
Backward-looking benchmark rate	1.5	1.1	1.1
Discretionary fiscal effort indicator (forward-looking)		**6.2**	**1.7**
Discretionary fiscal effort indicator (backward-looking)		**6**	**1.6**
Discretionary fiscal effort indicator (forward-looking) (1)		**2.6**	**1.5**
Discretionary fiscal effort indicator (backward-looking) (1)		**2.4**	**1.3**

(1) Excluding one-off financial assistance

Table 2c General Government debt developments

	ESA Code	2013	2014
1. Gross debt[a]		94.2	98.9
2. Change in gross debt		8.3	4.7
Contributions to changes in gross debt			
3. Primary balance (= Table 2a.7)		-3.5	-2.2
4. Interest expenditure (= Table 2a.6)	D.41	3.4	3.6
5. Stock-flow adjustment		1.2	0.7
p.m.: Implicit interest rate on debt		3.9	3.9
7. Net financial debt		94.2	98.9

[a] As defined in Regulation 479/2009

3. THE 2014 DRAFT BUDGET AND THE STABILITY PROGRAMME

The starting point for the process of drafting the Budgets of the different public administrations of Spain is the updated Stability Programme for 2013-2016, which sets forth the medium-term fiscal strategy.

One of the most recent milestones in the consolidation process was the significant reduction in the deficit achieved in 2012, a year in which economic activity contracted by 1.6 per cent in real terms. Against this background, in 2012 the overall public sector deficit fell by 2.3 percentage points, from 9.1 per cent in 2011 to 6.8 per cent of GDP, not including assistance to the financial sector, with the effective structural effort being assessed by the European Council at 2.9 percentage points of GDP, with total measures equivalent to 4.3 points of GDP (60% on the expenditure side). Taken together, these measures represented the second largest primary structural adjustment among advanced economies in 2012.

These results boosted the credibility of Spain's public finances, demonstrating that even in the most adverse cyclical conditions it is possible to reduce the excessive deficit, complying with commitments made to the European Union.

However, it was necessary to continue with fiscal consolidation to make further progress in the path of reducing the public deficit. Notwithstanding, the fiscal strategy design for the coming years should also take into consideration the adverse economic conditions and uncertainty over the recovery of the European economy that affected growth in Spain.

In that context, the Stability Programme extended the fiscal consolidation period for a further two years, ending the excessive deficit in 2016. However, this extension of the consolidation period should not be regarded as relaxation of the consolidation efforts needed, as the structural efforts planned are no weaker than those contained in the previous Stability Programme, and for 2013 are even stricter.

This new deficit reduction schedule was confirmed as appropriate by the Council of the European Union at its meeting on 21 June 2013. In accordance with the Recommendations of the Council of the European Union in relation to the Excessive Deficit Procedure, the Council of Ministers approved the new targets and slightly increased the deficit targets set in the Stability Programme (0.2pp in 2013, 0.3pp in 2014, 0.1pp in 2015 and 0.1pp in 2016).

Table 3a Comparison of consolidation paths (% GDP)

	2013	2014	2015	2016
Stability Programme	-6.3	-5.5	-4.1	-2.7
Council Decision	-6.5	-5.8	-4.2	-2.8
Difference	0.2	0.3	0.1	0.1

Based on the adjustment path approved by the Council, after the agreement of the Council of Ministers, a path has been defined for each sub-sector of Spanish government, already partly presented in Tables 2a and 2a bis, and shown in total for the whole period in the next Table, together with the nominal and effective adjustments.

Table 3b Deficit targets by sub-sectors

	2012 (P)*	2013	2014	2015	2016
Central Administration	-4.2	-3.8	-3.7	-2.9	-2.1
Social Security	-1.0	-1.4	-1.1	-0.6	-0.5
Autonomous Regions	-1.8	-1.3	-1.0	-0.7	-0.2
Local Authorities	0.2	0.0	0.0	0.0	0.0
Total General Government	-6.8	**-6.5**	**-5.8**	**-4.2**	**-2.8**
Nominal adjustment		**0.3**	**0.7**	**1.6**	**1.4**
Effective adjustment (impact of measures)	**4.3**	**3.7**	**1.6**	**1.3**	**1.2**

*(P) Provisional notification 2012 (30 September 2013)

It should be noted that since the updating of the Stability Programme, not only has the path for reducing the public deficit changed, but the Government has revised the expected macroeconomic scenario. The forecasts for real growth in the Spanish economy for 2014 have been slightly increased, and the expected unemployment rate is lower.

Thus, with slightly higher final deficit targets than those used as the basis for designing the medium-term fiscal strategy, accompanied by a better macroeconomic environment, it has not generally been necessary to add more measures to the draft Budget for 2014 than those already envisioned in the Stability Programme and which are being implemented.

The following sections analyse the main measures of the draft Budgets for each sub-sector of Spanish government.

4. THE CENTRAL GOVERNMENT DRAFT BUDGET

3.1 Tax policies

In line with the recommendations made for Spain in the Stability Programme and the 2012 National Reform Programme, which signalled a shift away from labour towards consumption and environmental taxation, the Government approved Royal Decree-Law 20/2012, of 13 July, on measures to ensure budgetary stability and to boost competitiveness. This modified the following taxes:

- Value Added Tax (VAT). The tax base has been widened by reclassifying the goods and services subject to reduced and highly-reduced rates. Furthermore, the standard rate of VAT was raised from 18% to 21%, and the reduced rate from 8% to 10%.

- Personal Income Tax: The tax compensation for the acquisition of a primary home was withdrawn.

- Corporate Income Tax. Limits have been placed on deduction of prior-year losses (negative tax bases) and of financial costs, and payments in instalments have been increased.

These measures were complemented by others in Law 16/2012, of 27 December, introducing a number of tax measures aimed at the consolidation of public finances and to promote economic activity. This Law included:

- With regard to Personal Income Tax, elimination of the deduction for the acquisition of a primary home for new buyers from 1 January 2013 and a special levy on winnings from State, Autonomous Regions, Organización Nacional de Ciegos Españoles (ONCE), Cruz Roja Española and similar European lotteries.

- With regard to Corporate Income Tax, partial limits were placed on deductions applicable for amortisation and depreciation by large corporations.

The reform of environmental taxation was set out in Law 15/2012, of 27 December, on tax measures for sustainable energy supply. This included:

- The creation of three new taxes
- Increased excise duty taxation.

In terms of taxation on energy products, Law 2/2012, of 29 June, the 2012 General State Budget Law, increased the existing zero rate on biofuels.

To ensure compliance with the committed fiscal consolidation path, a number of measures are ongoing adoption in 2013 to raise additional revenues.

- Regarding the Corporate Income Tax, the temporary measures introduced for 2012 and 2013 are being extended: A number of measures that would otherwise have expired in December 2013 have been extended into 2014. These mainly include the 50% or 25% limitation on the deduction of prior-year losses for companies with turnover in excess of certain thresholds; limits on deductions for goodwill and other intangible assets with indefinite useful lives at 1% and 2%, respectively; a minimum for payment in instalments of 12% for companies with turnovers of over €20 M and an increase in rates for payment in instalments by companies with turnover in excess of certain thresholds; inclusion until 2015 of dividends and income from the transfer of shares with exemption certificates in the base for payment in instalments; and, lastly, a limit of 25% or 50% on deductions to promote certain activities.

  These measures avoid the negative impact that would have occurred if they had expired, maintaining the positive trend in tax revenue collection. These contribute to the widening of tax bases in order to continue improving the effective taxation.

- In terms of Personal Income Tax, the supplementary levy initially established only for 2012 and 2013 is being extended. This measure avoids the negative impact that would have occurred if it had expired in 2014.

- In order to increase local entities revenues, the increase in the real estate tax rate (IBI) established in December 2011 is also being extended. The Wealth Tax is also being extended, increasing the revenues of the Autonomous Regions.

In addition to these measures being extended, there are a number of other measures set out in draft acts or already approved ones that are directly related to the recommendations on the 2013-2016 Stability Programme Update:

- In order to limit tax expenditure in direct taxation, a number of changes are being introduced to Corporate Income Tax. The Consolidated Text of the Corporate Income Tax Law will be modified to end deductions for impairment of instruments representing holdings in the capital or equity of companies, and losses abroad from permanent establishments. These measures are set out in the Bill establishing measures relating to environmental taxation, other tax and financial measures, which will be approved shortly.

- Further work is being done to shift taxation from labour to those areas of consumption with more negative externalities. New environmental taxes will be established (for example, taxes on fluorinated gases) and modifications have recently been made to excise duties.

- The Law to Support Entrepreneurs and their Internationalisation (passed in September 2013) contains a number of selective fiscal economic stimulus measures to complement the other measures approved. In summary, these are:

  - Application of cash-basis for VAT: A special voluntary VAT system has been created, which allows VAT to be paid when the invoice is collected rather than when it is issued.

  - Deduction for reinvesting profits: Small companies may take advantage of this incentive, consisting of a 10% deduction. A number of additional Corporation Tax measures have been introduced to reduce the bias in favour of debt. This Entrepreneurs Law introduces a deduction for companies with turnover of less than 10 million euros allowing them to deduct up to 10% of profits obtained in the tax year that they reinvest in new tangible fixed assets or real estate investments affected to their activity.

- Tax benefits for R&D: Deductions for R&D investment and spending may also optionally be applied, not subject to any limit on the tax payable, and be credited, with a joint discount of 20% of their value, when it is not possible to apply these due to the tax payable being too low.

- "Patent box" (tax reduction on revenue from certain intangible assets): 40% integration in the tax base of income obtained from transferring use or exploitation of these assets.

- "Business angels" and seed capital: A venture capital system where the investor is a private individual, who will enjoy two tax benefits: a) 20% deduction in central government personal income tax payable; b) on exiting the investment, full exemption for any capital gains, providing these are reinvested in another new or recently-founded entity.

- Meanwhile, in compliance with one of the specific Recommendations, a Committee of experts on tax reform was created by Council of Ministers Agreement on 5 July 2013. The Committee shall report on tax reform before end February 2014.

3.2 Expenditure policies

The Stability Programme includes a range of structural measures to be adopted by Central Government:

- Public Administration reform, which has been designed by the Committee for the Reform of the Public Administration (CORA, for the Spanish acronym). This will have an additional estimated impact of €1,987 million to 2016. This net impact only includes those CORA measures not considered elsewhere in this report, therefore excluding local reform and personnel costs that fall within the scope of CORA).

  The report was approved on 21 June and includes 218 measures, some of which are general, and some more specific; these can be divided into four areas: Administrative Duplication, Administrative Simplification, Management of Common Resources and Services and Institutional Administration.

  The first report on the implementation of these measures was submitted to the Council of Ministers on 20 September:

- 138 of these measures jointly affect Central Government and the Autonomous Regions, whilst 80 solely concern Central Government.

- 11 of these measures are general and cut across all areas of the public administration; 119 seek to eliminate duplication with the Autonomous Regions and within Central Government; 41 remove bureaucracy, simplify processes and improve citizens access to the administration; 39 improve service and common resource management; and 8 rationalise Institutional Administration.

These measures are also being promoted in the Autonomous Regions and Local Authorities.

- A number of measures have also been implemented relating to public employment. The impact of these on General Government as a whole is estimated at €3,500 million in 2013 (20% corresponding to Central Government; 20% to Local Authorities and 60% to the Autonomous Regions).

  The annual impact in 2013 of removing one bonus payment in 2012 appears as a negative figure, with an effect of €5,000 million over the General Government, two thirds of which relates to the Autonomous Regions.

  The additional impact expected in 2014 is €1,650 million.

  The measures adopted and currently ongoing execution include: A freeze on public-sector recruitment and non-replacement of employees leaving; an increase in the working hours of public-sector employees to 37.5 hours; reducing credit and leave for trade union; setting a maximum of 3 freely-disposable days; ending of additional freely-disposable days for length of service; and changes to the remuneration system during temporary disability.

- Lastly, Central Government approved the non-financial expenditure limit for the 2014 General State Budget, in line with the deficit target set for this sub-sector for the year (3.7% of GDP). Therefore, the non-financial expenditure available to ministries, excluding contributions to Social Security, to the Central Public Employment Service and to electricity system costs, comes to €34,584 million, 4.7% down on 2013.

  Likewise, regional government has had to set expenditure limits that will condition the preparation of their 2014 budgets, in accordance with the expenditure rule set forth in the Organic Law on Budgetary Stability.

3.3 Employment policies

Firstly, it must be remembered that numerous labour-market measures introduced in 2012, and those included in the 2013-2014 Budget Plan submitted in August 2012, will have their greatest impact in 2013, due mostly to the time needed for their implementation.

The impact of these labour-market measures was around €1,000 million in 2012 and will be around €2,757 million in 2013. These measures include: Ending credits for recruitment; ending the special subsidy for people aged over 45 who have consumed their contributory benefits; rationalisation of benefits for people aged over 52; a requirement for having worked previously in order to qualify for Active Insertion Income; and ending of payment by central government of part of the social security unemployed' contributions during periods of unemployment. They also include changes to unemployment benefit: 70% of the regulatory base (during the first six months), and a reduction from 60% to 50% of this base from the sixth month; and changes to benefits and subsidies related to part-time contracts. It also includes the impact of the PREPARA Plan and the reform of active labour market policies described below, some of its impact likely to fall in 2014, although this has not been quantified.

The reform of active labour market policies aims to make them more efficient and placing the unemployed into work, and to improve the fight against fraud. Significant progress has already been made in this area:

- On 2 August 2013 the Council of Ministers approved the 2013 Annual Employment Policy Plan. This reform of active labour market policies for the first time includes a number of indicators to assess the effectiveness of these policies, and it links the distribution of funds among the Autonomous Regions to results achievement.

- The framework agreement for enhancing public-private partnership in employment intermediation services promotes co-ordination of autonomous region and central employment services.

- Progress is being made on better linking active and passive labour market policies.

- The 2013-2016 Youth Employment and Entrepreneurship Strategy was approved in February. Its highest impact measures are already in place. The remaining measures will be implemented over the lifetime of the Strategy.

- Training measures to improve the quality of vocational training, focusing more on real needs.

3.4 The General State Draft Budget for 2014[1]

On 28 June 2013, the Council of Ministers approved non-financial spending limits for the 2014 General State Budget, in line with the deficit target set for this sub-sector for the year (3.7% of GDP).

The General State Draft Budget for 2014 was approved by the Council of Ministers on 27 September 2013 and submitted to Congress on 30 September. The main figures for the 2014 Budget are summarised below.

Non-financial spending by the central government is set at 164,849 million euros, 0.1% lower than the 2013 budget. However, the non-financial spending available in Ministries is 34,584 million euros, 4.7% less than in 2013.

This reduction in available expenditure for the Ministries is due to the effort being made by the central government through the budget to provide the Public Employment Service with the funding it will need to perform its functions, which will mean 4,257 million euros more will be transferred to it than in 2013, and to an increase in funding for certain costs for the electrical system of 1,232 million euros more than in 2013, as a consequence of fiscal measures to ensure the financial stability of the electrical system.

Non-financial government revenue for 2014 will be 128,159 million euros, a 0.9% increase with respect to the 2013 Budget.

This increase will come, on one hand, from the impact on tax collection of the fiscal measures adopted during the fiscal consolidation process and, on the other, from the moderate increase in taxable income linked to the recovery of economic growth foreseen for next year.

[1] http://www.sepg.pap.minhap.gob.es/sitios/sepg/es-ES/Presupuestos/ProyectoPGE/Paginas/ProyectoPGE2014.aspx

5. SOCIAL SECURITY DRAFT BUDGET

With regard to Social Security, Royal Decree-Law 5/2013, of 15 March, introduced measures to promote extension of older workers' working lives and foster active ageing. This Royal Decree-Law regulated the compatibility of receiving a retirement pension with self-employed or salaried employment, to promote the extension of working lives and enhance the sustainability of the Social Security system, also modifying the legal framework for early and partial retirement. It also provided for the creation of a committee of independent experts to draw up a report on the sustainability of the Social Security system. This report has been completed, opening the way for legislation.

At present, the Bill Regulating the Sustainability Factor and the Pension Revaluation Index has started its parliamentary stages. The Bill proposes a review of calculation and revaluation mechanisms to take into account demographic and economic changes, so as to ensure the economic viability of the public pay- as- you- go pension system.

The design of the sustainability factor links changes in pensions to changes in life expectancy (as set forth in Law 27/2011) and a condition to ensure a balanced budget for the public pension system over the medium term. This sets a floor for increases of 0.25 per cent (in anticipation of periods of economic difficulty affecting the Social Security accounts) and a ceiling of the CPI +0.25. This adjustment to the revaluation mechanism will enable the system to contain deviations between public spending and revenue over the medium term, linking expenditure on pensions more closely to GDP, increasing the sensitivity of the system in the face of fluctuations and ensuring its economic viability and intergenerational equity while maintaining the adequacy of pensions.

The estimated annual reduction in the imbalance in the Social Security accounts resulting from application of the Sustainability Factor and the updating of pensions will be an additional €800 to €900 million per year from 2014, when these come into effect. The expected saving is €5,000 million in 2019 in level. Taken together with other recent measures affecting pensions, the annual saving will be between around €1,200 million in 2014 and €1,500 million in 2016.

With regard to long-term care, savings of around €1,200 million are expected across General Government in 2013 from the implementation of the reforms that began in 2012; two thirds of this relates to Central Government and one third to the Autonomous Regions, already taken into account in calculating the net saving.

It should also be noted that tax monitoring policies have been reinforced and collection management has been improved, which will contribute to an increase in the income expected from social security contributions. Also, the draft Budget for 2014 includes an additional 5% increase in the maximum income levels for contributions, which is expected to have an impact of around 700 million euros in 2014.

6. AUTONOMOUS REGIONS DRAFT BUDGET

The Autonomous Regions are expected to make significant efforts in 2013 in all aspects of their budgets, whilst at the same time the health and education reforms initiated by Royal Decree-Laws 14 and 16/ 2012 will continue having an impact in 2013, as these only affected education for 4 months and health for six months in 2012.

The total impact of these measures on the expenditure side will exceed €7,000 million in 2013, discounting the impact of public-employment measures starting in 2012, which are already mentioned. These efforts on the expenditure side will continue in future years, with an additional annual impact of around €1,600 million in 2014 and almost €1,900 million in 2015.

There is also still scope for the Autonomous Regions to make full use of their own taxes legislation capacity. It is estimated they could collect an additional €2,000 million a year in 2014 and 2015. This is based on continuing the current trend of increasing the taxation capacity of devolved taxes to the Autonomous Regions and their scope for raising their own taxes, particularly with regard to environmental taxes.

6.1 Corrective measures in 2012

On 17 May, monitoring reports were published for the corrective measures for revenue and expenditure contained in the economic-financial plans (PEF, for the Spanish acronym) 2012-2014, referring to the fourth quarter of 2012. These found that there had been a deviation in the planned implementation or in the impact of these measures in the Autonomous Regions of Castilla-La Mancha, Andalusia, the Balearic Islands, Catalonia, Murcia and Comunitat Valenciana, according to 2012 National accounts figures, the deficits in these Regions surpassed the budgetary stability target of 1.5% of regional GDP. The July 2013 Fiscal and Financial Policy Council approved the PEFs of five Autonomous Regions.

As a whole, the Autonomous Regions that submitted PEFs had anticipated measures totalling €20,492 million, of which, according to this report, they had implemented revenue and expenditure measures totalling €3,855 million and €12,503 million respectively. Therefore, on aggregate, in 2012 these Autonomous Regions had applied 80% of the total measures.

6.2 Corrective measures in 2013

According to the reports referred to in the previous section, the Minister required additional measures from these Autonomous Regions. In this regard, the Regions with the largest deviations (Murcia and Comunitat Valenciana) issued non-availability resolutions in the second quarter of 2013 for €106.7 and €230 million, respectively. This was not considered necessary for the other Regions, as the revenue and expenditure measures planned in their budgets were deemed sufficient for the scale of their deviation, given the measures they had implemented in the first four months of 2013. In the case of Catalonia, the implementation of the budget extension decree broadened the scope of the non-availability of credits by limiting the credit reduction to a certain percentage depending on the type of expenditure. Furthermore, Murcia and the Comunitat Valenciana approved regulations to extend the measures contained in their budgets, such as Comunitat Valenciana Decree-Law 4/2013, of 2 August, adopting regulatory measures on tax revenues from Inheritance and Donations, Property Transfer tax and Legal Document Taxes and Gambling Duties, and Autonomous Region of Murcia Law 4/2013, of 12 June, passing a range of measures relating to employment, the impact of which is included in the PEF approved on 31 July.

Furthermore, article 21.1 of Organic Law 2/2012 on Budgetary Stability and Financial Sustainability, of 27 April, states that in the event of a Region failing to meet its budgetary stability or public debt targets or the expenditure rule, the Region will draw up an economic-financial plan (PEF) enabling it to meet the targets or expenditure rule within one year, subject to the scope and content of this article. Currently, five Autonomous Regions as stated above have PEFs, and these will be monitored quarterly.

The other Regions, with the exceptions of Galicia, Navarre and the Basque Country, have submitted similar information to the Ministry of Finance and Public Administration in the context of adjustment plans under extraordinary funding mechanisms (basically, the Supplier Payment Plan and the Autonomous Region Liquidity Fund. This information is updated monthly and sent to the Ministry for monitoring purposes. These adjustment plans must contain assessments of the expenditure and revenue measures planned, adopted and implemented.

According to information supplied to 30 June, the Regions as a whole plan to adopt measures totalling €12,896 million in 2013.

a) Revenue measures 2013

Revenue measures come to €3,758 million, of which €2,280 million are the result of measures implemented in 2012 but still having additional impact in 2013 and €1,478 million are from newly adopted measures in 2013.

Tax measures account for 60% of all revenue measures, including changes to tax rates, credits and deductions for Property Transfer and Legal Document Taxes, Wealth Tax, Retail Sales Taxes for certain hydrocarbons and Inheritance and Donation Tax, together with the creation of new taxes and other measures to combat tax fraud.

Non-tax measures mainly refer to disposal of tangible assets, which is usually booked as lower investment in national accounting terms. Although this was not particularly significant during the first half of the year, it is expected to be more significant in the second half.

b) Expenditure measures 2013

Expenditure measures come to €9,139 million (table 3.a Autonomous Regions), of which €5,467 million are the result of measures implemented in 2012 but still having additional impact in 2013 and €3,671 million are from measures adopted in 2013. The participation of Regions in general public employment policies is then discounted (table 3a), 60% share of Regions. Measures will have a net effect of €7,097 million in 2013.

Most of the expenditure measures fall on current expenditure, mainly personnel spending (35%), current transfers (38%) and goods and services spending (16%).

Of particular importance as far as personnel expenditure is concerned are general measures to reduce compensation, mainly through not applying supplements, reducing the extra salary payments in some Autonomous Regions, a proportional reduction in working hours and remuneration, reduction or cancelation of bonuses and productivity payments and personnel planning and management measures.

Measures applied to goods and services spending largely involve the rationalisation of expenditure, in addition to measures to reduce pharmaceutical costs through centralised purchasing and other hospital pharmacy measures.

Measures regarding current transfers, which account for almost half of all expenditure measures, include the ending or reduction of subsidies and aid, reducing non-hospital pharmaceutical costs, measures applied to the education sector and others relating to public-sector reorganisation in the Autonomous Regions.

The measures affecting chapters VI and VII mainly involve investment cuts and public-sector reorganisation.

6.3 Corrective measures in 2014-2015

Details of the measures planned for subsequent years, particularly 2014, are analysed in the context of article 13 of Order HAP/2105/2012, of 1 October, setting out the obligations to supply information provided for in the Organic Law on Budgetary Stability and Financial Sustainability (LOEPSF) concerning the main parameters of the budgets for the following year, and in the adjustment plans. Revenue measures are therefore assessed considering the revenue policies set out in their plans, both in relation to the funding system resources subject to payment on account and subsequent settlement, and to other revenues in their major items. Expenditure measures are assessed taking into account the measures contained in their plans and performance compared to the previous year.

Measures are planned for 2014 for an estimated €4,068 million, of which €2,142 million are revenue measures. This is consistent with the trend over the previous two years in terms of how the Autonomous Regions exercise their legislative powers for taxation and estimates from the Ministry of Finance and Public Administration with regard to the margin existing for each tax.

In terms of expenditure, measures are planned for an estimated €1,927 million. These largely involve greater control of goods and services spending through a centralised purchasing system or savings on operating costs. The table of measures shows the total regional discounting personnel general government measures.

Based on the criteria set out for 2014, the measures to be adopted in 2015 come to over €4,000 million.

7. LOCAL AUTHORITIES DRAFT BUDGET

Measures implemented locally are monitored in the context of the adjustment plans that have been submitted by 2.500 Local authorities, these having signed up to the Supplier Payment Fund. Furthermore, Royal Decree-Law 8/2013 established extraordinary liquidity measures for municipalities in serious economic difficulties. All of these liquidity measures are subject to meeting strict conditionality, which is reinforced in the second case to return these authorities to solvency.

The Bill on Local Government Rationalisation and Sustainability to reform Local Government is currently going through its parliamentary process. This aims to improve the efficiency of local service provision and ensure sustainability, mainly by reorganising competencies at different levels of government.

This reform aims to achieve savings of €8,024 million in 2014-2019, with the largest savings being in 2015 (€5,127 million) in annual incremental terms.

This Law has the following four goals:

- To clarify and simplify municipal competencies to avoid them duplication with other administrations.
- To rationalise the organisational structure of local government based on principles of efficiency and balanced budget.
- To ensure a more rigorous monitoring of finances and budgets.
- To boost local economic activity through liberalisation measures.

The Law removes competencies undue to local municipalities, defining their competencies precisely. The Law also boosts the role of provincial authorities in co-ordinating minimum compulsory services in towns with fewer than twenty thousand inhabitants; encourages voluntary mergers; increases the requirements for separation or creation of new municipalities; and brings to an end the agreements between Administrations with no funding.

It further establishes that municipalities should publish the effective costs of their services, which it regards as a means of improving transparency and competition among local authorities to improve the efficiency of their service provision. It also limits and structures salaries and temporary staff.

The largest savings come from ending undue competencies (€3,735 million) undertaken by local authorities, followed by integrated management of services and mergers (€1,970.5 million), which will increase economies of scale, and the resizing of public sector companies (€1,397.6 million), establishing measures to improve efficiency and to ensure budgetary stability.

In 2013, the revenue and expenditure measures come from the adjustment plans and measures relating to staff affecting the whole of the public administration.

Table 4 Economic impact of the Draft Bill on Local Government reform

	2014	2015	2016	2017	2018	2019	TOTAL 2013-2019	% of total impact
UNDUE EXPENDITURE	680,160,237	2,601,563,199	453,440,158	-	-	-	3,735,163,594	46.55%
TRANSFERS OF COMPETENCES FOR HEALTH, EDUCATION AND SOCIAL SERVICES	-	473,000,000	91,000,000	91,000,000	91,000,000	91,000,000	837,000,000	10.43%
INTEGRATED MANAGEMENT OF BASIC SERVICES AND MERGERS	-	1,036,800,000	566,800,000	302,900,000	64,000,000	-	1,970,500,000	24.56%
SMALLER LOCAL AUTHORITIES	13,905,951	-	-	-	-	-	13,905,951	0.17%
RESIZING OF THE LOCAL PUBLIC SECTOR	381,023,614	1,016,602,971	-	-	-	-	1,397,626,585	17.42%
TEMPORARY AND EXCLUSSIVE STAFF	70,400,000	-	-	-	-	-	70,400,000	0.88%
TOTAL SAVINGS	**1,145,489,802**	**5,127,966,170**	**1,111,240,158**	**393,900,000**	**155,000,000**	**91,000,000**	**8,024,596,130**	**100%**
% of total impact	14.27%	63.90%	13.85%	4.91%	1.93%	1.13%	100%	

8. TOTAL IMPACT OF THE MEASURES

The impact of the measures explained in the previous sections is summarised below in terms of GDP. The appendix presents several tables giving more details on the measures and their impact on each sub-sector of Spanish Government.

Table 5 Impact of the main regulatory changes (in incremental terms compared to previous years) % GDP

	2012	2013	2014	2015
Expenditure	**2.54**	**1.47**	**0.79**	**0.97**
Public employment, extra payment 2012	0.49	-0.49	-	-
Public employment (personnel measures)	0.02	0.34	0.16	0.10
Labour market policies	0.10	0.27	0.03	-
Long-term care policies	0.02	0.12	-	-
Other Central Budget expenditure (including CORA)	0.85	0.42	0.13	0.09
Autonomous Region measures (excluding public employment)	0.93	0.69	0.16	0.17
Local government measures (excluding public employment)	0.15	0.11	0.20	0.48
Social Security expenditure	-	-	0.11	0.12
Revenue	**1.75**	**2.21**	**0.83**	**0.32**
Total taxes	1.18	1.66	0.45	0.05
Personal Income Tax and Non-resident income tax	0.35	0.34	0.01	0.01
Corporate Income tax	0.45	0.01	0.28	- 0.06
Special Tax Regularisation (DTE) and combating fraud	0.12	0.01	0.10	-
Environmental taxes and water duties	-	0.21	0.01	-
VAT	0.15	0.82	0.01	0.09
Excise duties	0.03	0.24	0.04	-
Other (taxes)	-	0.03	-	-
Real estate tax (IBI)	0.09	-	0.01	0.01
Autonomous Region revenue measures	0.37	0.37	0.20	0.22
Local government revenue measures	-	0.03	0.10	0.02
Social Security contributions	-	0.16	0.07	0.03
Combating social security fraud	0.19	-	-	-
Total	**4.29**	**3.67**	**1.62**	**1.28**
GDP million	1,029,002	1,026,156	1,047,385	1,076,850

As a consequence of applying these measures, the expected evolution of expenditure and income of the General Government is that shown in the following Table:

Table 6. General Government expenditure and revenue targets, in % GDP

	ESA Code	2013	2014
1.Total revenue target	TR	*37.9*	*38.2*
Of which			
1.1. Taxes on production and imports	D.2	11.2	11.3
1.2. Current taxes on income, wealth, etc.	D.5	10.6	10.9
1.3. Capital taxes	D.91	0.4	0.4
1.4. Social contributions	D.61	12.6	12.5
1.5. Property income	D.4	1	1
1.6. Other		2.1	2.1
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		33.3	33.5
2. Total expenditure target	TE	44.8	44
Of which			
2.1. Compensation of employees	D.1	11.4	11
2.2. Intermediate consumption	P.2	5.5	5.2
2.3. social payments	D.62, D.632	19.4	19.3
Of which Unemployment benefits		3	2.8
2.4. Interest expenditure	D.41	3.4	3.6
2.5. Subsidies	D.3	1.1	1.1
2.6.Gross fixed capital formation	D.51	1.4	1.4
2.7. Capital transfers	D.9	1.2	1
2.8. Other		1.4	1.3

If none of the measures analysed above should be adopted or planned, in cumulative terms, the evolution of the main national accounting expenditure and revenue items would be as shown in the following table:

Table 7 General Government expenditure and revenue projections at unchanged policies

	ESA Code	2013	2014
1. Total revenue at unchanged policies	TR	*34.3*	*33.9*
Of which			
1.1. Taxes on production and imports	D.2	*9.2*	*9.1*
1.2. Current taxes on income, wealth, etc.	D.5	*9.4*	*9.4*
1.3. Capital taxes	D.91	*0.3*	*0.3*
1.4. Social contributions	D.61	*12.3*	*12.1*
1.5. Property income	D.4	*0.1*	*0.2*
1.6. Other		*3.0*	*2.9*
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		*29.7*	*29.2*
2. Total expenditure at unchanged policies	TE	*48.5*	*48.5*
Of which			
2.1. Compensation of employees	D.1	*11.7*	*11.5*
2.2. Intermediate consumption	P.2	*6.1*	*6.0*
2.3. social payments	D.62, D.632	*19.9*	*20.0*
Of which Unemployment benefits		*3.1*	*3.0*
2.4. Interest expenditure	D.41	*3.4*	*3.6*
2.5. Subsidies	D.3	*1.7*	*1.7*
2.6.Gross fixed capital formation	D.51	*2.2*	*2.3*
2.7. Capital transfers	D.9	*1.4*	*1.2*
2.8. Other		*2.1*	*2.2*

A complementary estimation, in aggregate terms, of the impact on general government deficit and the level of GDP each year if fiscal consolidation measures are not adopted (non-cumulative annual impact) is presented in the following Table.

Table 8 Assessment of the aggregated impact of the scenario without measures on budgetary balance and GDP

	2012	2013	2014	2015
Budgetary balance (% GDP) (1)	-6.38	-6.5	-5.8	-4.2
Fiscal consolidation measures (% GDP) (2)	4.3	3.7	1.6	1.3
Impact of fiscal consolidation measures on GDP				
Impact of expenditure measures on GDP (multiplier 0.75)	1.91	1.1	0.59	0.72
Impact on GDP of revenue measures (multiplier 0.4)	0.7	0.88	0.33	0.13
Impact on GDP (% sobre el nivel)	-2.61	-1.98	-0.93	-0.85
Output gap main scenario (Forward looking)	**-7.86**	**-8.68**	**-7.67**	**-6.3**
Output gap change when Potential GDP change is 50% of GDP change	-1.3	-0.99	-0.46	-0.43
Output gap change when Potential GDP change is 20% of GDP change	-2.09	-1.58	-0.74	-0.68
Impact on cyclical balance of no adopting measures				
Potential GDP change of 50% of GDP change (3)	-0.63	-0.48	-0.22	-0.2
Potential GDP change of 20% of GDP change (4)	-1	-0.76	-0.36	-0.33
Net impact on cyclical balance of no adopting measures				
Base Cyclical balance	-3.77	-4.17	-3.68	-3.02
Potential GDP change of 50% of GDP change	-3.15	-3.69	-3.46	-2.82
Potential GDP change of 20% of GDP change	-2.77	-3.41	-3.32	-2.7
Budgetary balance at unchanged policies				
Balance at unchanged policies (50%) (1-2-3)	-10.47	-9.7	-7.2	-5.28
Balance at unchanged policies (20%) (1-2-4)	-10.09	-9.41	-7.07	-5.16

In relation to Table 8, firstly the effects on GDP of the fiscal consolidation measures are estimated, with a 0.75 expenditure multiplier and 0.4 revenue multiplier, and both effects are added up. They range from -2.6 to -0.85 pp of GDP depending on the year, which means lower GDP if the measures are applied.

This effect on GDP can be supposed to modify the potential GDP and thus the output gap. The variation in the output gap is shown, assuming a case in which each point of variation in GDP modifies potential GDP by half a point, and another in which it modifies it by only two tenths. The possible effect on the cyclical balance of not adopting the measures is shown. The change in the cyclical balance is obtained by multiplying the change in the output gap by the semi-elasticity (0.48).

These changes to the cyclical balance are added to the cyclical balance obtained if measures are adopted (central 2014 scenario). If measures are not adopted, it can be supposed that GDP will grow more and the output gap will be less negative.

If the measures are not adopted (the deficit increases) and the change in the cyclical component is corrected (the deficit is reduced because the output gap is lower). These figures ignore the cumulative effect on the potential GDP of several years without measures.

In conclusion, the impact of not adopting measures is a reduction of the cyclical deficit between 1 point and 0.3 points in the case of a 20% transfer to potential GDP in the path considered. The total deficit would have been more than 10% of GDP in 2012, reaching 5% in 2015, compared to 6.8% and 4.2%, by adopting the planned measures, year on year and in non-cumulative terms.

On the other hand, in Table 7 on disaggregated impact, the deficit is presented with the cumulative impact, i.e., for the case of no measures being adopted in any year.

Finally, in accordance with the guidelines for elaborating the Draft Budget, we refer briefly to the distributive **impact of the measures presented**.

As regards revenues, and in accordance with the principle of equity, the consolidation measures in income tax have been and will be borne by taxpayers with a greater ability to pay. Upon analysing the Personal income tax data for 2012, the first year in which the complementary levy was applied, we can highlight that this levy was mostly borne by the highest-income taxpayers. Specifically, it is estimated that nearly 75% of the total collection from this levy was contributed by taxpayers with taxable incomes of over 30,000 euros, 12% of total taxpayers.

Regarding Corporate Income Tax, the measures adopted are leading to an increase in the effective tax rate for large companies. This is attested by the fact that in preliminary estimates, the effective Corporate Income tax rates for 2012 for companies with turnovers of more than 20 and 60 million euros have increased by 14% and 18% respectively, compared to the previous year. Thus, the greatest fiscal effort is being made by the largest companies. This increased tax income from large companies has mainly been generated by a broadening of the taxable bases, mainly due to limiting the deductibility of financial costs and the elimination of the freedom of amortisation. In 2013, as well as these measures, the effect of limiting the deductibility of amortisation costs must be taken into account.

APPENDICES

1. Table 9: Outstanding amount of guarantees granted by Public Administrations

	2008	2009	2010	2011	2012
Total General Government					
One-off guarantees					
Total stock of guarantees, excluding debt asumed by government	**11.773**	**59.938**	**72.144**	**78.041**	**128.705**
of which: public corporations	300	500	500	500	500
Memo item: financial corporations	7.052	54.914	66.742	72.121	84.504
Memo item: guarantees given in the context of financial turmoil	0	49.008	59.506	64.620	79.530
Standardised guarantees					
Total stock of government guarantees	**0**	**0**	**0**	**0**	**0**
Central Administration					
One-off guarantees					
Total stock of guarantees, excluding debt asumed by government	**7.672**	**55.535**	**67.240**	**72.564**	**123.650**
of which: public corporations	0	0	0	0	0
Memo item: financial corporations	7.052	54.914	66.742	72.121	84.504
Memo item: guarantees given in the context of financial turmoil	0	49.008	59.506	64.620	79.530
Standardised guarantees					
Total stock of government guarantees	**0**	**0**	**0**	**0**	**0**
Autonomous Communities					
One-off guarantees					
Total stock of guarantees, excluding debt asumed by government	**3.089**	**3.380**	**3.754**	**4.273**	**3.994**
of which: public corporations					
Memo item: financial corporations					
Memo item: guarantees given in the context of financial turmoil					
Standardised guarantees					
Total stock of government guarantees	**0**	**0**	**0**	**0**	**0**
Local Entities					
One-off guarantees					
Total stock of guarantees, excluding debt asumed by government	**1.012**	**1.023**	**1.150**	**1.204**	**1.061**
of which: public corporations	300	500	500	500	500
Memo item: financial corporations					
Memo item: guarantees given in the context of financial turmoil					
Standardised guarantees					
Total stock of government guarantees	**0**	**0**	**0**	**0**	**0**

1. There are only "one-off guarantees"

2. Following the conclusions of the "Task Force on the implications of Council Directive 2011/85 on the collection and dissemination of fiscal data", the section "Total Stock of guarantees, excluding debt assumed by government", does not include guaranteed debt of other units of public administrations nor guaranteed debt of the ESF.

3. Until 2011 only the guaranteed principal is included. In 2012 the guaranteed financial burden is also included.

2. Table 10:Amounts to be excluded from the expenditure benchmark

	2012	2012	2013	2014
	Level*	% GDP	% GDP	% GDP
Expenditure on EU programmes fully matched by EU funds revenue	7,592	0.7	0.7	0.7
Cyclical unemployment benefit expenditure	6,668	0.6	0.7	0.6
Effect of discretionary revenues measures	17,993	1.75	2.21	0.83

* Million euros

** NAWRU based on *Forward-looking* Phillips curve

	2012	2012	2013	2014
	Level*	% GDP	% GDP	% GDP
Expenditure on EU programmes fully matched by EU funds revenue	7,592	0.7	0.7	0.7
Cyclical unemployment benefit expenditure	5,299	0.5	0.5	0.4
Effect of discretionary revenues measures	17,993	1.75	2.21	0.83

* Million euros

** NAWRU based on *Backward looking* Phillips curve

3. Tables 11a and 11b: Public Administration expenditure by function

	2013		2014	
	% GDP	% general government expenditure	% GDP	% general government expenditure
Education[1]	4.4	9.9	4.3	9.8
Health[1]	6.0	13.4	5.8	13.2
Employment[2]	3.5	7.8	3.2	7.4

[1] These expenditure categories correspond respectively to items 9 and 7 of table 10b

[2] This expenditure category contain government spending related to active labour market policies (ALMPs) including public employment services

Functions	COFOG Code	2013	2014
		% GDP	% GDP
1. General public services	1	6.4	6.6
2. Defense	2	1.0	0.9
3. Public order and safety	3	2.0	2.0
4. Economic affairs	4	4.2	3.8
5. Environmental protection	5	0.8	0.8
6. Housing and community amenities	6	0.5	0.5
7. Health	7	6.0	5.8
8. Recreation, culture and religion	8	1.3	1.3
9. Education	9	4.4	4.3
10. Social protection	10	18.1	18.1
11. Total expenditure	TE	44.8	44.0

4. Table 12a: Expected budgetary impact of the revenue measures adopted and envisaged by the Central Administration (before transfers to regions)

In million euros

Measure	Description	Target (expenditure / revenue)	Accounting principle	Status	Additional annual budgetary impact (million €)			
					2012	2013	2014	2015
Personal Income Tax					**3,525**	**3,430**	**83**	**81**
Measures prior to 2011	€2,500 payment for birth or adoption. Increase in marginal personal income tax rate for annual income over €120,000	Revenues	Cash	Law 35/2007 of 15 November. Law 39/2010, of 22 December, of the General State Budget for 2011	157			
Complementary personal income tax levy and measures adopted in july and December 2012	Application of a temporary, progressive levy on the personal income tax, at a percentage ranging from 0.75% for very low income to 7% for income over €300,000. It also includes other measures such as an increase in the withholding rate for economic activities, the ending of deductions for housing, taxation of lottery winnings and removal of the extra payment for public sector employees.	Revenues	Cash	Royal Decree-Law 20/2012, of 13 July. Law 16/2012 of 27 December	3,368	3,430	45	
Withdrawal of the deduction for investment in housing	Ending of tax deduction for investment in main residence and purchases after 1st january 2013	Revenues	Cash	Law 16/2012, of 27 December			90	90
Capital gains < 1 year are removed to the general rate	Only capital gains and losses from the sale of assets held by a taxpayer for more than one year will be included in the saving tax base.	Revenues	Cash	Law 16/2012, of 27 December			40	
20% reduction on net profits in the first two years (flat rate regime)	20% reduction in net profits of the eocnomic activity obtained by taxpayers who launch an eocnomic activity, which applies in the first tax year in which profits are registered and the following year	Revenues	Cash	Royal Decree-Law 4/2013			-9	-9
10% deduction on ordinary profits that are reinvested	El incentivo consiste en una deducción del 10% en la cuota íntegra procedente de los beneficios obtenidos en el período impositivo que se invirtieran en elementos nuevos del inmovilizado material o inversiones inmobiliarias afectos a la actividad económica.	Revenues	Cash	Ley emprendedores (aprobada 27-9- 2013)			-77	
"Business angels": 20% deduction and exemption for capital gains	The investor enjoys two tax benefits: a) when the investment is made, he obtains a 20% deduction in personal income tax, subject to a maximum of €20,000. b) On exiting the investment, full exemption is given for any capital gains, providing these are reinvested in another new or recently-founded entity.	Revenues	Cash	Entrepreneur Law			-6	

Measure	Description	Target (expenditure / revenue)	Accounting principle	Status	Additional annual budgetary impact (million €)			
					2012	2013	2014	2015
Corporate Tax					4,607	152	2,920	-602
Measures prior to 2012	Increase of limits for small companies. Measures regarding payments and deductions for large corporations	Revenues	Cash	Royal Decree-Law 13/2012, of 3 December. Royal Decree-Law 9/2011	-1,668			
Increase in withholding rate on capital gains		Revenues	Cash	Royal Decree-Law 20/2011, of 30 December	261	-217	-44	
Measures relating to payments and other measures	Minimum instalment payment on accounting profit. Limits on deductions of financial costs. Ending of freedom to decide on depreciation method. Limits on deduction of goodwill. Limits on the application of negative tax bases.	Revenues	Cash	Royal Decree-law 12/2012, of 30 March. Royal Decree-Law 20/2012 of 13 July	5,925	-2,222	214	
Special tax on dividend originating abroad	Creation of a special tax on dividends and returns from abroad linked to the transmission of equity instruments of entities non-resident in Spain	Revenues	Cash	Royal decree-Law 12/2012 of 30 March	89	-80	-9	
Limits on deduction of depreciation expenses and asset revaluation levy	Limits on tax deduction of fixed asset depreciation by large companies (SMEs and Micro SMEs are excluded). This levy allows the updating of balance sheets by taxpayers of corporate tax, taxpayers of personal income tax involved in economic activities and taxpayers of non-resident income tax operating in Spain through a permanent stablishment. This updating is voluntary and is subject to a tax xharge of 5% of the amount of the revaluation.	Revenues	Cash	Law 16/2012 of 27 December		2,671		
Reduced tax rates for new companies during the first two years	A tax rate of 15% is established for the first €300,000 of the taxable base and a rate of 20% for the excess over this amount, in the first year in which the taxbase is positive, and the following year.	Revenues	Cash	Royal Decree-Law 4/2013 of 22 February			-176	-175
10% deduction for ordinary profits reinvested in fixed assets	10% deduction in the corporate tax payable on the profits obtained in the fiscal year reinvested in fixed assets or real state investments linked to the economic activity for companies iwth turnover of less than €10 million	Revenues	Cash	Entrepreneur Law			-547	
Return of 80% of pending deduction of R+D+i	Deductions for R+D expenses and investments may optionally be applied, not subject to any limit on tha tax payable, and be credited, with a discount of 20% of their value, when it is not possible to apply them due to a too low tax payable.	Revenues	Cash	Entrepreneur Law				-427
Changes in the fiscal regimefor intangible assets	Reduction in the tax base equal to 60% of the net income resulting from the intangible asset	Revenues	Cash	Entrepreneur Law			-168	
Cancelation of the deduction of losses in investee companies	The proposal is to change the tax treatment of investments in resident and non-resident entities when participation is higher than 5% for over 1 year, and for permanent establishments abroad.	Revenues	Cash	Bill on tax measures (approval in last quarter of 2014)			3,650	

Measure	Description	Target (expenditure / revenue)	Accounting principle	Status	Additional annual budgetary impact (million €)			
					2012	2013	2014	2015
NEW ENVIRONMENTAL TAXATION	Tax on the value of electricity production. Tax on production of spent nuclear fuel. tax on storage of spent nuclear fuel. New tax on fluorinated greenhouse gases.	Revenues	**Cash**	**Law 15/2012, of 27 December, on fiscal measures for energy sustainability** Bill on tax measures (approval in last quarter of 2014)		**1,889**	**54**	
OTHER DIRECT TAXES	Special tax return. Non-resident income tax and others	Revenues	**Cash**		**1,300**	**-970**	**50**	
VAT					**1,505**	**8,429**	**117**	**983**
Rate increase July 2010	Increase of general rate from 16% to 18% and of the reduced rate from 7% to 8% in July 2010	Revenues	Cash	Law 26/2009, of 23 December, on the General State Budget for 2010	-178			
Reduction of the rate from 8%to 4% on housing purchases and increase in excise duties	The reduction of the VAT rate on new housing to 4% was a temporary measure introduced in 2011 and extended until December 2012	Revenues	Cash	Royal Decree-Law 9/2011, of 19 August	-758	736	350	
Rates increase in September 2012	Increase of VAT rates, with the general rate up from 18% to 21%, and the reduced rate from 8% to 10%, with reclassification of some goods and services from the reduced rate to the general rate	Revenues	Cash	Royal Decree-Law 20/2012, of 13 July.	2,441	7,693	750	
Creation of the cash-basis VAT regime	From 1st January 2014, there will be a volutnary system for VAT apyments on a cash basis for taxpayers with turnover of less than €2 million during the calendar year	Revenues	Cash	Entrepreneur Law			-983	983
EXCISE DUTIES					**301**	**2,422**	**434**	
Tobacco products	Several changes. Increase in duty rates and rebalancing the fiscal structure, increasing the proportional component and reducing the specific one	Revenues	Cash	Royal decree-law 7/2013 of 28 June	236	550	249	
Hydrocarbons	Increase in the rate on professional diesel. Natural gas (consumption and use in electricity generation). Diesel and fuel-oil used in electricity generation. Liquefied petroleum gas	Revenues	Cash		65	1,562	141	
Alcohol and derivative beverages	10% increase in taxation on intermediate products and derivative drinks	Revenues	Cash	Royal decree-law 7/2013 of 28 June		46	23	
Coal	An increase in the tax rate, which is fixed at €0.65 per gigajoule	Revenues	Cash			264	21	
FEES AND OTHER REVENUES		Revenues	Cash			**604**		
TOTAL					**11,237**	**15,956**	**3,658**	**4,62**
Property Tax (IBI)	Ratte increase	Revenues	Cash		**900**		**100**	**100**
Plan to fight against fraud		Revenues	Accrual			**1,050**	**1,000**	
TOTAL					**12,137**	**17,006**	**4,758**	**562**

In % GDP

Measure	Description	Target (expenditure / revenue)	Accounting principle	Status	Additional annual budgetary impact (% GDP)			
					2012	2013	2014	2015
Personal Income Tax					0.34	0.33	0.01	0.01
Measures prior to 2011	€2,500 payment for birth or adoption. Increase in marginal personal income tax rate for annual income over €120,000	Revenues	Cash	Law 35/2007 of 15 November. Law 39/2010, of 22 December, of the General State Budget for 2011	0.01			
Complementary personal income tax levy and measures adopted in july and December 2012	Application of a temporary, progressive levy on the personal income tax, at a percentage ranging from 0.75% for very low income to 7% for income over €300,000. It also includes other measures such as an increase in the withholding rate for economic activities, the ending of deductions for housing, taxation of lottery winnings and removal of the extra payment for public sector employees.	Revenues	Cash	Royal Decree-Law 20/2012, of 13 July. Law 16/2012 of 27 December	0.33	0.33	0	
Withdrawal of the deduction for investment in housing	Ending of tax deduction for investment in main residence and purchases after 1st january 2013	Revenues	Cash	Law 16/2012, of 27 December			0.01	0.01
Capital gains < 1 year are removed to the general rate	Only capital gains and losses from the sale of assets held by a taxpayer for more than one year will be included in the saving tax base.	Revenues	Cash	Law 16/2012, of 27 December			0	
20% reduction on net profits in the first two years (flat rate regime)	20% reduction in net profits of the eocnomic activity obtained by taxpayers who launch an eocnomic activity, which applies in the first tax year in which profits are registered and the following year	Revenues	Cash	Royal Decree-Law 4/2013			0	0
10% deduction on ordinary profits that are reinvested	El incentivo consiste en una deducción del 10% en la cuota íntegra procedente de los beneficios obtenidos en el período impositivo que se invirtieran en elementos nuevos del inmovilizado material o inversiones inmobiliarias afectos a la actividad económica.	Revenues	Cash	Ley emprendedores (aprobada 27-9- 2013)			0	
"Business angels": 20% deduction and exemption for capital gains	The investor enjoys two tax benefits: a) when the investment is made, he obtains a 20% deduction in personal income tax, subject to a maximum of €20,000. b) On exiting the investment, full exemption is given for any capital gains, providing these are reinvested in another new or recently-founded entity.	Revenues	Cash	Entrepreneur Law			0	

Measure	Description	Target (expenditure / revenue)	Accounting principle	Status	Additional annual budgetary impact (% GDP)			
					2012	2013	2014	2015
Corporate Tax					**0.46**	**0.01**	**0.28**	**-0.06**
Measures prior to 2012	Increase of limits for small companies. Measures regarding payments and deductions for large corporations	Revenues	Cash	Royal Decree-Law 13/2012, of 3 December. Royal Decree-Law 9/2011	-0.6			
Increase in withholding rate on capital gains		Revenues	Cash	Royal Decree-Law 20/2011, of 30 December	0.03	-0.02	0	
Measures relating to payments and other measures	Minimum instalment payment on accounting profit. Limits on deductions of financial costs. Ending of freedom to decide on depreciation method. Limits on deduction of goodwill. Limits on the application of negative tax bases.	Revenues	Cash	Royal Decree-law 12/2012, of 30 March. Royal Decree-Law 20/2012 of 13 July	0.58	-0.22	0.02	
Special tax on dividend originating abroad	Creation of a special tax on dividends and returns from abroad linked to the transmission of equity instruments of entities non-resident in Spain	Revenues	Cash	Royal decree-Law 12/2012 of 30 March	0.01	-0.01	0	
Limits on deduction of depreciation expenses and asset revaluation levy	Limits on tax deduction of fixed asset depreciation by large companies (SMEs and Micro SMEs are excluded). This levy allows the updating of balance sheets by taxpayers of corporate tax, taxpayers of personal income tax involved in economic activities and taxpayers of non-resident income tax operating in Spain through a permanent stablishment. This updating is voluntary and is subject to a tax xharge of 5% of the amount of the revaluation.	Revenues	Cash	Law 16/2012 of 27 December		0.26		
Reduced tax rates for new companies during the first two years	A tax rate of 15% is established for the first €300,000 of the taxable base and a rate of 20% for the excess over this amount, in the first year in which the taxbase is positive, and the following year.	Revenues	Cash	Royal Decree-Law 4/2013 of 22 February			-0.02	-0.02
10% deduction for ordinary profits reinvested in fixed assets	10% deduction in the corporate tax payable on the profits obtained in the fiscal year reinvested in fixed assets or real state investments linked to the economic activity for companies iwth turnover of less than €10 million	Revenues	Cash	Entrepreneur Law			-0.05	
Return of 80% of pending deduction of R+D+i	Deductions for R+D expenses and investments may optionally be applied, not subject to any limit on tha tax payable, and be credited, with a discount of 20% of their value, when it is not possible to apply them due to a too low tax payable.	Revenues	Cash	Entrepreneur Law				-0.04
Changes in the fiscal regimefor intangible assets	Reduction in the tax base equal to 60% of the net income resulting from the intangible asset	Revenues	Cash	Entrepreneur Law			-0.02	
Cancelation of the deduction of losses in investee companies	The proposal is to change the tax treatment of investments in resident and non-resident entities when participation is higher than 5% for over 1 year, and for permanent establishments abroad.	Revenues	Cash	Bill on tax measures (approval in last quarter of 2014)			0.35	

Measure	Description	Target (expenditure / revenue)	Accounting principle	Status	Additional annual budgetary impact (% GDP)			
					2012	2013	2014	2015
NEW ENVIRONMENTAL TAXATION	Tax on the value of electricity production. Tax on production of spent nuclear fuel. tax on storage of spent nuclear fuel. New tax on fluorinated greenhouse gases.	Revenues	**Cash**	**Law 15/2012, of 27 December, on fiscal measures for energy sustainability** Bill on tax measures (approval in last quarter of 2014)		**0.18**	**0.01**	
OTHER DIRECT TAXES	Special tax return. Non-resident income tax and others	Revenues	**Cash**		**0.13**	**-0.09**	**0**	
VAT					**0.15**	**0.82**	**0.01**	**0.09**
Rate increase July 2010	Increase of general rate from 16% to 18% and of the reduced rate from 7% to 8% in July 2010	Revenues	Cash	Law 26/2009, of 23 December, on the General State Budget for 2010	-0.02			
Reduction of the rate from 8%to 4% on housing purchases and increase in excise duties	The reduction of the VAT rate on new housing to 4% was a temporary measure introduced in 2011 and extended until December 2012	Revenues	Cash	Royal Decree-Law 9/2011, of 19 August	-0.07	0.07	0.03	
Rates increase in September 2012	Increase of VAT rates, with the general rate up from 18% to 21%, and the reduced rate from 8% to 10%, with reclassification of some goods and services from the reduced rate to the general rate	Revenues	Cash	Royal Decree-Law 20/2012, of 13 July.	0.24	0.75	0.07	
Creation of the cash-basis VAT regime	From 1st January 2014, there will be a volutnary system for VAT apyments on a cash basis for taxpayers with turnover of less than €2 million during the calendar year	Revenues	Cash	Entrepreneur Law			-0.09	0.09
EXCISE DUTIES					**0.03**	**0.24**	**0.04**	
Tobacco products	Several changes. Increase in duty rates and rebalancing the fiscal structure, increasing the proportional component and reducing the specific one	Revenues	Cash	Royal decree-law 7/2013 of 28 June	0.02	0.05	0.02	
Hydrocarbons	Increase in the rate on professional diesel. Natural gas (consumption and use in electricity generation). Diesel and fuel-oil used in electricity generation. Liquefied petroleum gas	Revenues	Cash		0	0.15	0.01	
Alcohol and derivative beverages	10% increase in taxation on intermediate products and derivative drinks	Revenues	Cash	Royal decree-law 7/2013 of 28 June		0	0	
Coal	An increase in the tax rate, which is fixed at €0.65 per gigajoule	Revenues	Cash			0.03	0	
FEES AND OTHER REVENUES		Revenues	Cash			**0.06**		
TOTAL					**1.1**	**1.55**	**0.35**	**0.04**
Property Tax (IBI)	Ratte increase	Revenues	Cash		**0.09**		**0.01**	**0.01**
Plan to fight against fraud		Revenues	Accrual			**0.1**	**0.1**	
TOTAL					**1.2**	**1.65**	**0.46**	**0.05**

5. Table 12b: Expected budgetary impact of the measures adopted and envisaged by the Autonomous Regions

Measures	Description	Target (expenditure / revenue)	Accounting principle	Additional annual budgetary impact (millon €)			
				2012	2013	2014	2015
PERSONNEL EXPENSES	General remuneration measures	Expenditure	Budgetary	-	2,203.8	-	-
	Remuneration of senoir managers	Expenditure	Budgetary	-	0.1	0	0
	Proportional decrease in hours and remuneration	Expenditure	Budgetary	-	122	35.3	40.2
	Reduction / ending of bonuses and productivity benefits	Expenditure	Budgetary	-	-1	-	-
	Staff planning measures	Expenditure	Budgetary	-	915.9	235.1	267.4
	Other measures	Expenditure	Budgetary	1,504.7	-57.2	-	-
PHARMACEUTICAL COSTS	Pharmaceutical costs resulting from centralised purchasing of medicines	Expenditure	Budgetary	91.2	89.4	25.9	29.4
	Other pharmacy measures	Expenditure	Budgetary	644.3	660.4	191.3	217.6
CURRENT EXPENDING AND PARTNERSHIP COSTS	Savings related to services and supplies	Expenditure	Budgetary	-	573.1	166	188.9
	Partnership remuneration measures	Expenditure	Budgetary	-	90.4	26.2	29.8
	Other Chapter II measures	Expenditure	Budgetary	560.5	759.6	220.1	250.3
CURRENT TRANSFERS	Current tranfers	Expenditure	Budgetary	3,133.8	1,609.6	-	-
	Otehr chapter IV measures	Expenditure	Budgetary	0	0	466.3	530.4
CAPITAL TRANSFERS	Subsidies	Expenditure	Budgetary	-	923.5	267.5	304.3
	Otehr chapter VII measures	Expenditure	Budgetary	1,715.1	357.7	103.6	117.9
OTHER MEASURES	Other measures	Expenditure	Budgetary	1,971.5	891.5	189.6	215.7
TOTAL EXPENDITURE MEASURES				**9,621**	**9,139**	**1,927**	**2,192**
DIRECT TAXES	Personal income tax	Revenue	Budgetary	-	48.2	113.1	115.8
	Inheritance and donation tax	Revenue	Budgetary	-	198.5	27.5	28.1
	Wealth tax	Revenue	Budgetary	-	304.1	50	70
	Corporate tax	Revenue	Budgetary	-	0	0	0
	Environmental taxes	Revenue	Budgetary	50.3	94.6	53.9	55.2
	Other direct taxes	Revenue	Budgetary	616.2	-	-	-
INDIRECT TAXES	Asset transfer and legal document tax	Revenue	Budgetary	76.5	386.7	343.6	510.37
	Special tax on certain means of transport	Revenue	Budgetary	162	-1.8	0	0
	New taxes	Revenue	Budgetary	92.3	0	0	0
	Tax on retail sales of certain hydrocarbons	Revenue	Budgetary	-	370.4	211.1	216.1
	General Canary Islands Indirect Tax (IGIC) and Import tax (AIEM)	Revenue	Budgetary	-	178.3	0	0
	Other indirect taxes	Revenue	Budgetary	334.5	-	-	-
FEES	Fees	Revenue	Budgetary	188.4	72.1	41.1	42.1
OTHER LEVIES	Other levies	Revenue	Budgetary	1,109.1	570.6	325.1	332.9
NON-TAX MEASURES	Non-tax measures	Revenue	Budgetary	43.9	1,536	976.7	1,000
CURRENT/CAPITAL TRANSFERS	Transfers (current and capital)	Revenue	Budgetary	1,181.9	-	-	-
TOTAL REVENUE MEASURES				**3,855**	**3,758**	**2,142**	**2,370**

Measure	Description	Target (expenditure / revenue)	Accounting principle	Additional annual budgetary impact (% GDP)			
				2012	2013	2014	2015
PERSONNEL EXPENSES	General remuneration measures	Expenditure	Budgetary	-	0.21	-	-
	Remuneration of senoir managers	Expenditure	Budgetary	-	0	0	0
	Proportional decrease in hours and remuneration	Expenditure	Budgetary	-	0.01	0	0
	Reduction / ending of bonuses and productivity benefits	Expenditure	Budgetary	-	0	-	-
	Staff planning measures	Expenditure	Budgetary	-	0.09	0.02	0.02
	Other measures	Expenditure	Budgetary	0.15	-0.01	-	-
PHARMACEUTICAL COSTS	Pharmaceutical costs resulting from centralised purchasing of medicines	Expenditure	Budgetary	0.01	0.01	0	0
	Other pharmacy measures	Expenditure	Budgetary	0.06	0.06	0.02	0.02
CURRENT EXPENDING AND PARTNERSHIP COSTS	Savings related to services and supplies	Expenditure	Budgetary	-	0.06	0.02	0.02
	Partnership remuneration measures	Expenditure	Budgetary	-	0.01	0	0
	Other Chapter II measures	Expenditure	Budgetary	0.05	0.07	0.02	0.02
CURRENT TRANSFERS	Current tranfers	Expenditure	Budgetary	0.3	0.16	-	-
	Otehr chapter IV measures	Expenditure	Budgetary	0	0	0.04	0.05
CAPITAL TRANSFERS	Subsidies	Expenditure	Budgetary	-	0.09	0.03	0.03
	Otehr chapter VII measures	Expenditure	Budgetary	0.17	0.03	0.02	0.01
OTHER MEASURES	Other measures	Expenditure	Budgetary	0.19	0.,09	0.02	0.02
TOTAL EXPENDITURE MEASURES				**0.93**	**0.89**	**0.19**	**0.2**
DIRECT TAXES	Personal income tax	Revenue	Budgetary	-	0	0.01	0.01
	Inheritance and donation tax	Revenue	Budgetary	-	0.02	0	0
	Wealth tax	Revenue	Budgetary	-	0.03	0	0.01
	Corporate tax	Revenue	Budgetary	-	0	0	0
	Environmental taxes	Revenue	Budgetary	0	0	0.01	0.01
	Other direct taxes	Revenue	Budgetary	0.06	-	-	-
INDIRECT TAXES	Asset transfer and legal document tax Special tax on certain means of transport	Revenue	Budgetary	0.01	0.04	0.03	0.05
	New taxes	Revenue	Budgetary	0.02	0	0	0
	Tax on retail sales of certain hydrocarbons	Revenue	Budgetary	0.01	0	0	0
	General Canary Islands Indirect Tax (IGIC) and Import tax (AIEM)	Revenue	Budgetary	-	0.04	0.02	0.02
	Other indirect taxes	Revenue	Budgetary	-	0.02	0	0
FEES	Fees	Revenue	Budgetary	0.03	-	-	-
OTHER LEVIES	Other levies	Revenue	Budgetary	0.02	0.01	0	0
NON-TAX MEASURES	Non-tax measures	Revenue	Budgetary	0.11	0.06	0.03	0.03
CURRENT/CAPITAL TRANSFERS	Transfers (current and capital)	Revenue	Budgetary	0	0.15	0.09	0.1
TRANSFERENCIAS CORRIENTES/CAPITAL	Transferencias (corrientes y capital)	Revenue	Budgetary	0.11	-	-	-
TOTAL REVENUE MEASURES				**0.37**	**0.37**	**0.2**	**0.23**

6. Table 12c: Expected budgetary impact of the measures adopted and envisaged by Local Authorities

Measures	Description	Target (expenditure / revenue)	Accounting principle	Additional annual budgetary impact					
				2013		2014		2015	
				million€	% GDP	million €	% GDP	million €	% GDP
Personnel expenses and current costs	Reduction in personnel expenses (1) and reduction in expenditure of goods and services	Expenditure	Budgetary	908.4	0.09	890.4	0.09	4.48	0
Corporate public sector	Winding up of companies	Expenditure	Budgetary	4.33	0	381	0.04	1,016.8	0.09
Investment and capital transfers	Reduction of investments and capital transfers	Expenditure	Budgetary	790	0.08	480	0.05	0	0
Ending of services	Other spending measures. Disappearance of smaller local authorities and ending of services out of local competences (3)	Expenditure	Budgetary	140.8	0.01	680	0.06	2,602	0.24
Health, Education, Social services	Transfer of comeptences in health, education and social services	Expenditure	Budgetary	0	0	0	0	473	0.04
Integrated management and mergers	Integrated management of public services and mergers of municipalities	Expenditure	Budgetary	0	0	0	0	1,037	0.1
TOTAL EXPENDITURE				1,843.5	0.18	2,431.4	0.23	5,133.3	0.47
Taxes	Tax increases, ending of exemptions and voluntary credits	Revenue	Budgetary	182.5	0.02	200	0.02	98.3	0.01
Taxes	Tightening up on effectiveness of enforced and voluntary collection	Revenue	Budgetary	15.41	0	60.36	0.01	20.82	0
Taxes	New tax liabilities	Revenue	Budgetary	8.04	0	300	0.03	0	0
Taxes	Fees and Public Prices	Revenue	Budgetary	55.31	0.01	538.6	0.05	23.27	0
Other revenue	Other revenue measures	Revenue	Budgetary	0	0	0	0	33.68	0
TOTAL REVENUE				261.3	0.03	1,099	0.11	176.1	0.02
TOTAL LOCAL AUTHORITIES MEASURES (Excluding Property Tax)				2,104.8	0.21	3,530.4	0.34	5,309.4	0.49

(1) Includes the measures contained in the Bill on the Rationalisation and Sustainability of Local Government limiting temporary satff and the exclusivity requirement (estimated at €70.4M in 2014). Also includes reductions in personnel expenses and remuneration of governance bodies based on recent changes.

(2) Includes the effects of resizing the local public sector set out in the Bill on the Rationalisation and Sustainability of Local Government (estimated at €381M in 2014 and €1,016.6M in 2015)

(3) Includes the effect of dissolving local authority bodies at lower than municipal level, with an effect in 2014 of €13.9M, and the elimination of undue competences, with an effect of €680M in 2014, €2,602M in 2015 and €453M in 2016. These measures are contained in the above mentioned BIll.

(4) Measure contained in the Bill on the Rationalisation and Sustainability of Local Government

(5) Measure contained in the Bill on the Rationalisation and Sustainability of Local Government

7. Table 13: Link between the Draft Budget and the specific recommendations of the Council

The following table summarises the measures included in the General Government draft budget which enable compliance with the specific recommendations by the EU Council for Spain.

Sepecific recommendation*	List of measures	Description of direct relevance
1. Ensure correction of the excessive deficit by 2016	All the measures analysed in this report aim at reducing public deficit to fulfill the consolidation path approved by the Council of the EU	The measures analysed aime at reducing expenses andd increasing revenues, thus allowing deficit reduction
1. Improve the efficiency and quality of public expenditure at all levels of government	The reform of the Public Administration, which has been designed by the Committee for the Reform of the Public Administration (CORA, for the Spanish acronym)	The measures envisaged are aimed at increasng the efficiency of all public administrations, focusing on four areas: Administrative Duplication, Administrative Simplification, Management of Common Resources and Services and Institutional Administration.
1. Finalise the regulation of the sustainability factor	The Bill Regulating the Sustainability Factor and the Pension Revaluation Index, which has started its parliamentary stages	The Bill proposes a review of calculation and revaluation mechanisms of pensions. The design of the sustainability factor links changes in pensions to changes in life expectancy and to a condition that ensures a balanced budget for the public pension system over the medium term.
2. Take additional steps in environmental taxation	Tax on the value of electricity production	The new taxes already created or envisaged respond to the need of reinforcing environmental taxation
	Tax on the production of spent nuclear fuel	
	Tax on the storage of spent nuclear fuel	
	New tax on the fluorinated greenhouse gases	
2. Intensify the fight against the shadow economy and undeclared work	The efficiency of the Tax Agency human and material resources used in the fight against fraud is improved	A better concentration of resources allows for better results in the fight against fraud
4. Adopt the 2013 national Employment Plan and enact a reform of active labour market policies; reinforce and modernise public employment services and re-skilling training programmes; speed up the implementation of public-private cooperation; etc...	The 2013 Annual Employment Policy Plan has been approved	The actions of the Employment Ministry, foreseen in its budget, are developed within the framework provided by the measures described, allowing for the fulfillment of the correspondent recommendation
	Framework agreement for enhancing public-private partnership in employment intermediation services	
	Greater link between active and pasive labour market policies	
	Measures in the training area to improve the quality of vocational training, focusing more on real needs	
9. Adopt the reform of the local administration	Bill on the Rationalisation and Sustainability of Local Government	The objective is to improve the efficiency of the provision of services by Local Authorities and their sustainability, by the reorganisation of competences among the different levels of the public administration
9. Define a plan to enhance the efficiency of the overall public administration	The reform of the Public Administration, which has been designed by the Committee for the Reform of the Public Administration (CORA, for the Spanish acronym)	The measures envisaged are aimed at increasng the efficiency of all public administrations, focusing on four areas: Administrative Duplication, Administrative Simplification, Management of Common Resources and Services and Institutional Administration.

* The fulfillment of all the country specific recommendations issued by the European Council following the analyisis of the Stability Programme 2013-2016 and the Reform Nation Programme 2013 is fully explained in the Economic Partnership Agreement. Moreover, the fulfillment of the recommendations issued in the framework of the Excessive Deficit Procedure are analysed in the Report on Effective Action.

8. Table 14: Link between the Draft Budget and the Union´s strategy for growth and jobs

National 2020 headline targets	List of measures	Description of direct relevance to address the target
Employment	2012 Annual Employment Policy Plan (incorporates the degree of fulfillment of the objectives set and the effectiveness of the actions taken) and 2013 Annual Employment Policy Plan New training system for workers and unemployed; reinforcement of the link between activa and pasive labour market policies; promotion of active ageing; non-discrimination of ageing people and promotion of their rejoin to labour market 2013-2016 Youth Employment and Enterprise Strategy: dual professional training system; training and learning, promotion of self-employment; incentives for recruiting young people with no professional experience	The objective of the measures is to increase the employemnt rate to 74% of people between 20 and 64 years
R+D	Law 17/2012 on the General State Budget for 2013 includes a revision of the spending priorities and measures to reallocate funds in order to facilitatte access to financing for research and innovation. Law 1472013, of 27 September, on support to entrepreneurs and their internationalisation; 2013-2020 Spanish Strategy for Science and Tecnology and of innovation and 2013-2016 Scientific and technical research and innovation Plan. Reinforcement of the CDTI budgetary allocation in the General State Budget for 2013	Within the framework of the budgetary consolidation policy, expenditure is reoriented towards the innovation sector, key for the economic recovery. The measures described will help to achive the objective of reaching a level of R+D+i investment of 2% of GDP. Nowadays, this kind of expenditure represents 1.39% of GDP. The macroeconomic context and the need to achieve the objective of deficit reduction have led to the review of the objective of reaching a R+D+i investment of 3% of GDP, so that in 2020 the objective is to reach 2% of GDP. To fulfill this goal a higher participation of the private sector is foreseen regarding investment in R+D+i. Indeed, it represents nowadays 0.6% of GDP and will have to reach 1.2% of GDP in 2020.
GHG emission reduction	The Law establishing certain measures on environmental taxation and other fiscal and financial measures will be approved in October; roadmap for the horizon 2020; Programme of Climate Projects; National Plan on Climate Change Adaptation; National Plan on Waste; Direct aids to the acquisition of more efficient commercial vehicles, passenger cars and electric cars; Law 15/212 on fiscal measures for energy sustainability	Objective: emissions of greenhouse gases (-10% over 2005 level)
Renewable energy	Royal Decree on the direct allocation of subsidies to buy electric vehicles in 2013	Objective: 20% of renewable energies
Energy efficiency	Law 8/ 2013, of 26 June, on urban rehabilitation, regeneration and renovation; 2013-2016 National Plan for urban regeneration and renting; Royal Decrees that establish the basic procedure to achieve the energetic certification for buildings and that modify certain technical provisions of the Regulation of thermal installations of buildings; Direct aids to the acquisition of more efficient commercial vehicles, passenger cars and electric cars	Objective: 20% increase of energy efficiency
Early school leaving	Organic Law on the improvement of the quality of education, which is being debated in teh Senate. In 2012 two especific action plan were put in place with the objective of reducing early school leaving.	Objective: early school leaving rate below 15%
Tertiary education	Aid programme for Young unemployed to resume compulsory education; new kind of part-time work for people who both work and study; new recruitment modality for training that allows obtaining a professional degree; review of the contents of the vocational training degrees to adapt them to the new needs of the different economic sectors; Plan to promote training along the professional life; efficiency policy regarding grants; reform of the regulations concerning universities to promote excellence, competitiveness and internationalization of the system.	At least 44% of people between 30 and 34 years should finalise terciary education
Poverty	National strategy for social inclusion of gypsy population; 2013-2016 Drug Plan; II 2013-2016 National Strategic Plan on childhood and adolescence; Professional re-skilling for people that deplete their unemployment subsidy; Royal Decree-law 27/2012, of 15 November, on urgent measures to reinforce protection to mortgage debtors	Reduce in at least 1.4 - 1.5 millions the number of people in risk of poverty or social exclusion

9. Table 15: Divergence from the 2013-2016 Stability Programme

	2013	2014	2015	2016
Target general government net lending / net borrowing	**% GDP**	**% GDP**	**% GDP**	**% GDP**
Stability Programme	-6.3	-5.5	-4.1	-2.7
Draft Budgetary Plan	-6.5*	-5.8	-4.2	-2.8
Difference	0.2	0.3	0.1	0.1

*Excluding the one-off impact of financial assistance

10. Methodology, economic models and assumptions underpinning the information contained in the Draft Budget

The predictions on the evolution of the different macroeconomic variables in the scenario presented were made based on two types of models. On one hand, real-time models based on synthetic indicators or factorial structures for the very short term, usually for the current quarter or, at most, the next. Models of this type include synthetic indicators of activity, supply and demand produced by the Ministry of the Economy and Competitiveness, in addition to the factorial models FASE and ADEL developed within it.

On the other hand, often used as a contrasting method for the nearest quarters, equation models for short and long term prediction have been used which incorporate cointegration relationships in vector error correction models. Therefore a long-term equilibrium relationship is considered between economic variables and the existence of short-term imbalances, which are gradually corrected by partial adjustments in the correction term.

The set of explanatory variables within these last equations incorporates indicators of the different macroeconomic scenario hypotheses already presented, indicators of the evolution of credit, and a large set of auxiliary variables such as confidence indicators, the labour market, etc. The extrapolation of the behaviour of these variables in the medium-term requires the use of additional single-equation models for predicting each component. The models are updated each quarter according to the national quarterly accounting data and the data from the auxiliary variables.

For estimating the effects of the different measures affecting public expenditure and income and structural reforms, the main tool used was the REMS model[2]. The REMS model is a general equilibrium model for the Spanish economy, with a system of equations based on microeconomics, which includes various nominal and real rigidities and permits an analysis of their evolution over time with or without a structural change. It describes a small, open economy where households, companies, economic authorities and external demand interact. In the market of factors of production, physical capital and energy are traded in a perfectly competitive context. However, the labour market functions imperfectly due to the existence of rigidities associated with the process of finding employment.

In order to contrast the results of the simulation exercise, the QUEST model was also used, the benchmark model used by the European Commission to simulate economic policies and other shocks. It is an estimated model for the euro area as a

[2] Boscá, J. E. et al (2011) "A Rational Expectations Model for Simulation and Policy Evaluation of the Spanish economy", in Boscá, J.E. et al (Eds.) *The Spanish Economy: a General Equilibrium Perspective*, Palgrave Macmillan.

whole, which uses Bayesian techniques. It presents rigidities in the markets of goods, services and labour, as well as financial restrictions, and its latest version incorporates a distinction between saver households and households prone to indebtedness through investment in the home, which is especially useful for the Spanish case. This enables us to replicate the financial accelerator mechanism and to examine the effects of fiscal policy according to indebtedness and the level of credit rationing. This model has been estimated for the USA and for Spain.

In terms of the impact of regulatory measures on tax revenue, this can be calculated in three different ways, according to the case:

(1) **Aggregate estimation**, used in taxes with proportional rates in which the characteristics of the taxpayer are not relevant (e.g., VAT or Special Taxes);

(2) **Microsimulation**, used for progressive taxes (income tax) or those where the application of the law depends on the characteristics of the taxpayer (Corporate Tax); and

(3) With **external sources**, in situations where no fiscal information is available, usually because of new taxation types.

(1) THE AGGREGATE ESTIMATION METHOD

The aggregate estimation method is based on the same schema used for predicting tax income which, in simplified terms, responds to the following expression:

IT = BI * RD/BI * IT/RD,

where BI is the taxable base, RD is the tax collected from it, RD/BI is the effective average rate and IT/RD is a ratio which indicates the lag between the time the tax comes due and the time it is collected.

Based on this expression, the income for each type of tax is estimated in three steps:

(1) Projection of the taxable base, taking as a reference the economic scenario foreseen.

(2) Estimation of the rate, a phase which may rely on projecting the base to the disaggregation level where a single tax rate is applied, or on microsimulation techniques.

(3) Timing of accrued tax resulting from the previous two steps, taking into account the income and rebate schedules of each tax.

For the purposes of estimating the impact of regulations, the effect on income, for example, of a change in tax rates, it would be calculated as the difference between two expressions[3]:

$IT_0 = BI_0 * (RD/BI)_0 = BI_0 * t_0$ y $IT_1 = BI_1 * (RD/BI)_1 = BI_1 * t_1$.

The first expression would be income without changes to the regulations and the second, income after changing the tax rates. In both cases BI would be projected according to the macroeconomic scenario. The calculation would be made at the lowest possible disaggregation level, so that a single rate would be applied, thus avoiding any possible composition effects.

Thus, the impact would be: $IMP = BI_1 * t_1 - BI_0 * t_0$,

which can be expressed as:

$IMP = BI_1 (t_1 - t_0) + (BI_1 - BI_0) * t_0$.

The first part of this last expression represents the direct impact of the measure and the second, the indirect impact (the change in the bases caused by the change in the rates).

(2) THE MICROSIMULATION METHOD

The microsimulation method basically consists of applying the two regulations of the tax at the level of each taxpayer: the current regulation and the new regulation with the changes. The impact is the difference between incomes generated using one or the other regulation.

This method can be adapted to the individual characteristics of the taxpayers, as well as taking into account all the unique features of the tax (limits on the application of deductions, negative balances to be discounted from previous periods). For this reason, this method has advantages over others in cases where tax rates are progressive, or where they are proportional but the tax is complex because its application depends on the characteristics of the taxpayer and the previous tax

[3] For the sake of simplicity, the factor measuring the difference between the accrual period and collection is omitted. This element acquires importance when the changes affect the administration of the tax (for example, changing rebates from annual to monthly).

returns (as in Corporation Tax or some measures relating to VAT). It also, by definition, enables an individualised estimation of the impact.

The use of the method requires covering different phases:

(1) Creating the databases with the individual data of all the taxpayers, updated to the latest available period and debugged.

Projecting the population and the economic variables, taking the macroeconomic scenario as a reference. The economic variables which can be taxed are projected but, in all cases, before the application of the regulation; for example, in income tax, income is projected and, in Corporate Tax, the variables which enable the accounting result to be determined, but in no case the taxable base, as this is a function of the regulation.

(2) Application of the regulation, both the initial law and the one including the changes to be assessed.

Estimates made with this method do not proffer hypotheses as to the behaviour of taxpayers in the face of regulatory changes or, in other words, do not include the indirect effect of changes in regulations.