REPORT ON THE EFFECTIVE ACTION TAKEN BY SPAIN

1-10-2013

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1. INTRODUCTION

The economic and financial crisis that has assaulted the global economy over recent years has been highly detrimental to Spain's public finances, impacting more on this country than others in our region.

Firstly, economic activity contracted, with an increase in unemployment, activating automatic fiscal-policy stabilisers, resulting in the impairment of public accounts. Secondly, the fiscal stimulus measures implemented to offset the effects of the crisis in earlier years required mobilisation of huge volumes of funds.

The combination of these two effects led to an unprecedented increase in the deficit and public debt and this, in turn, led to the need for an ambitious fiscal consolidation process. It should be remembered that this consolidation process is taking place hand-in-hand with a range of structural reforms to boost the competitiveness of the Spanish economy and to move our productive model onto a more sustainable pattern.

The purpose of the fiscal consolidation process is to return public finances to a path of sustainability and to achieve budgetary stability. This is crucial for sustainable growth and fostering job creation. Achieving this consolidation and sustainability is essential for generating confidence in the Spanish economy, facilitating adequate financing for the public sector, enabling Spain to fulfil its commitments under the European Economic and Monetary Union.

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 this 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 (0.2 in 2013, 0.3 in 2014, 0.1 in 2015 and 0.1 in 2016), Table 1.

Table 1. Deficit targets 2013-2016 (% GDP)

	2012 (P)	2013	2014	2015	2016
Central Government	-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%
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%**

Note: (P) Provisional Eurostat notification for 2012 (30 September 2013)

The approval of this new fiscal consolidation schedule by the Council of the European Union was associated with a number of recommendations for correcting the excessive deficit by 2016; 1 October 2013 was set as the date for the Spanish Government to adopt effective action in this regard and report on its strategy for achieving these targets. This report meets this requirement.

2. COMPLIANCE WITH COUNCIL RECOMMENDATIONS FOR CORRECTING THE EXCESSIVE DEFICIT RELATING TO THE FISCAL CONSOLIDATION PROCESS

In this section we analyse the Council's recommendations for reducing the excessive deficit, which are closely related to the fiscal consolidation process:

1) *Spain must correct its current excessive deficit by 2016.*
2) *Spain must achieve overall deficit targets of 6.5% of GDP in 2013, 5.8% of GDP in 2014, 4.2% of GDP in 2015 and 2.8% of GDP in* 2016. *Achieving those targets, on the basis of the Commission services' 2013 spring forecast extended to 2016, requires an annual improvement in the structural budget balance of 1.1 % of GDP in 2013, 0.8 % of GDP in 2014, 0.8 % of GDP in 2015, and 1.2 % of GDP in 2016.*
3) *Spain should implement the measures adopted in the 2013 budget plans at all levels of government and be ready to take corrective action in the event of deviations from budgetary plans. The authorities should enhance the medium-term budgetary strategy with the structural measures for the years 2014-16 that are necessary to correct the excessive deficit by 2016.*

These are analysed jointly precisely because of the extent to which they are interconnected. Therefore, we will first set out Spain's medium-term fiscal strategy and fiscal and expenditure policies, and then examine budgetary execution and the orientation of fiscal policy.

2.1. Medium-term fiscal strategy

Spain's medium-term fiscal strategy for correcting the excessive deficit is set out in the Stability Programme Update for 2013-2016, which extended the fiscal consolidation path over a further two years, bringing the excessive deficit situation to an end in 2016.

The 2013-2016 Stability Programme Update contains measures to increase revenue and reduce expenditure so as to achieve deficit reduction commitments. These measures are grouped into three categories in the Stability Programme: Tax policies, expenditure policies and Social Security and employment policies. We shall now analyse these measures and their update, including a separate section for the measures adopted by the Autonomous Regions and Local Authorities.

a) Tax policies

In line with the recommendations made for Spain regarding 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 has been 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 **Law 16/2012, of 27 December, introducing a number of tax measures aimed at the consolidation of public finances and the promotion of 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 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 energy sustainability. This included:

- The creation of three new taxes.
- An increase in excise duties

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

To ensure compliance with the committed fiscal consolidation path, **a number of measures are in process of being adopted 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. They 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.

b) <u>Expenditure policies</u>

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.

c) <u>Employment and Social Security policies</u>

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 employment 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 employment 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.

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.

d) Autonomous Regions

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 four 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.

- **Corrective measures for revenue and expenditure 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. In effect, according to 2012 National accounts figures, the deficits in these Regions surpassed the budget 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.

- **Corrective measures for revenue and expenditure 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 Budget 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.**

- **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.

- **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.

- **Corrective measures for revenue and expenditure 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 Budget 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.

e) <u>Local authorities</u>

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 net economic impact of this is set out in table 2:

Table 2. Economic impact of the Draft Bill on Local Government Reform (euros)

	2014	2015	2016	2017	2018	2019	TOTAL PERIOD 2013-2019	Percentage of total
UNDUE EXPENDITURE	680,160,237	2,601,563,199	453,440,158	-	-	-	3,735,163,594	46.55%
TRANSFER OF COMPETENCIES 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%
MINOR 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 EXCLUSIVE STAFF	70,400,000	-	-	-	-	-	70,400,000	0.88%
TOTAL SAVING	**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**	**100.00%**
Percentage of total	14.27%	63.90%	13.85%	4.91%	1.93%	1.13%	100.00%	

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 3 summarises the **budgetary impact of the measures** analysed above. This impact is described in greater detail in annex.

Table 3a. Impact of the main legislative changes (in incremental terms compared to previous year) % 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

2.2. Other fiscal and public expenditure policies

The Council of the European Union also made a number of recommendations to Spain in the framework of the analysis of the 2013-2016 Stability Programme Update and the National Reform Plan, some of which aim to reduce the excessive deficit. With regard to fiscal issues, a systematic review of the tax system and a tightening up of the fight against fraud are recommended. On the expenditure side, it aims to increase the efficiency and quality of public spending, by analysing major spending items and increasing the cost-efficiency of the health care sector.

In response to this, the Council of Ministers Agreement of 5 July 2013 set up a committee of experts on tax reform. The mandate of this Committee is to analyse the tax system and make recommendations for its reform, reporting before the end of February 2014.

Measures to combat the underground economy and undeclared work will be included in the General Guidelines for the Annual Tax and Customs Control Plan, by early 2014.

We are also considering how to address the spending patterns of the Spanish government at all levels, so as to make proposals for rationalising public expenditure and increasing its efficiency.

Numerous measures have already been adopted to increase the efficiency of spending, particularly health care spending. These include organising the catalogue of common basic and supplementary care services for the National Health Service; the approval of a new benchmark price structure to contain pharmaceutical costs; and the creation of a centralised purchasing platform. In terms of pension expenditure, following the conclusion of the report by the committee of experts, a Bill Regulating the Pension Sustainability Factor and Revaluation Index is currently in Parliament. In terms of public administration expenditure, the report from the Committee for the Reform of the Public Administration is currently being implemented.

These recommendations include reducing arrears; to this end, a Plan was implemented in June 2013 to eradicate late payment by public administrations. This Plan also includes the Bill on Electronic Invoicing, the Bill on commercial debt control, the last supplier payment plan to eliminate the existing stock of arrears and extraordinary measures incumbent on local authorities. All of them to require administrations to adopt consolidation measures to improve their solvency and monitor their cash and average payment periods. All of these actions for 2013 are described in this report.

2.3. Analysis of budgetary performance

The medium-term fiscal strategy described in the previous section is shown on the budgetary performance of Spain's General Government at all levels. We shall now briefly summarise the budgetary performance, demonstrating that all public administrations are committed to reducing the public deficit.

The latest national accounting report available for the overall **General Government refers to** the **second quarter of 2013, with monthly information to July for all sub-sectors, except local authorities**.

During the second quarter, the deficit of the general government came to 31,759 million, 3.1% of GDP; this is 12.6% down on the same period the previous year. Excluding the impact of the financial aid to credit institutions the deficit came to €28,985 million, 2.8% of GDP, this is 6.2% down on the same period the previous year.

Table 4. Deficit/Surplus
Second quarter 2013 (accumulated)

	Million euros	% GDP
Central Government	-34,057	-3.3
Autonomous Regions	-8,166	-0.8
Local Authorities	1,931	0.2
Social Security	8,533	0.8
General Government including financial aid	-31,759	-3.1
Financial aid	*2,774*	*0.3*
General Government excluding financial aid	**-28,985**	**-2.8**

Analysing the results for each sub-sector reveals:

- In the case of Central Government, there has been a substantial reduction in the deficit in non-financial operations, which is 9.4% down on the same period of one year ago, at € 31,283 million, excluding financial aid to credit institutions. In particular, there was a 7.6% increase in the Central Government's non-financial revenue, compared to the significantly lower increase in non-financial expenditure (1.7%).

- The Autonomous Regions reported a deficit equivalent to 0.8% of GDP, an increase of 0.1% on the same period last year. Nevertheless, it should be noted that the advances requested by the regions so far in 2013 have been €2,683 million down on the same period in 2012. If we eliminate the impact of advances received from Central Government (€2,614 million in 2013 and €5,477 million in 2012), there would have been a deficit of €10,780 million, a fall of 20.9% compared to the second quarter of 2012.
- Local Authorities recorded a surplus of €1,931 million (0.2% of GDP), lower than in the second quarter of 2012 (€2,303 million). This is explained by a decrease in expenditure of 0.4% and a greater decrease in revenues of 1.7%.
- The Social Security Administrations registered a surplus of €8,553 million, equivalent to 0.8% of GDP, a reduction of 10% over the previous year. Revenues fell by 0.9%, mainly due to a 3.7% reduction in contributions, whilst expenditure increased by 0.3%.

As a result of progress with the publication of information to increase transparency, there is monthly information on national accounts terms of **Central Government, the Autonomous Regions and Social Security. The latest consolidated data for these three sub-sectors refer to July.** However, this is not comparable with the same period in 2012, as 2013 is the first year in which consolidated monthly information on the national accounts of **Central Government, the Autonomous Regions and Social Security** has been available.

Table 4a. Deficit/Surplus to July 2013

	Million euros	% GDP
Central Government	-39,304	-3.83
Autonomous Regions	-7,615	-0.74
Social Security	534	0.05

The following two tables show the **budgetary performance and national accounts of general government, by quarter**. These tables are reproduced in the annex, broken down by sub-sectors.

Table 1A: In-year quarterly budgetary execution for the General Government (broken down by sub-sector in Annex)*					
€ million (accumulated)	2013				
	Q1	Q2	July**	Q3	Q4
Net lending (+) / Net borrowing (-) by sub-sector (6-7)					
1. General Government	**13,215**	**12,324**			
2. Central Government	-602	-3,770	-10,416		
3. Autonomous Regions	5,256	3,705	4,776		
4. Local Governments	2,237	1,105	(..)		
5. Social Security	6,324	11,284	4,758		
For each sub-sector (indicate which)	GENERAL GOVERNMENT				
6. Total revenue	**184,998**	**354,218**	**406,164**		
7. Total expenditure	**171,783**	**340,762**	**407,046**		

*Note: following the model in the EC Delegated Act, this includes financial assets and liability transactions; **Monthly data for July does not include Local Authorities.

Table 1B: In-year quarterly national accounts execution and prospects for General Government (broken down by sub-sector in Annex)						
€ million (accumulated)	ESA code	2013				
		Q1	**Q2**	**July***	Q3	**Q4**
Net lending (+) / Net borrowing (-) by sub-sector (6-7)						
1. General Government	S.13	**-6,585**	**-31,759**			**-70,075**
2. Central Government	S.1311	-10,102	-34,057	-39,304		
3. Autonomous Regions	S.1312	-1,442	-8,166	-7,615		
4. Local Authorities	S.1313	2,539	1,931			
5. Social Security	S.1314	2,420	8,533	534		
6. Total revenue		**93,633**	**181,921**	**195,328**		**389,205**
Of which						
Taxes on production and imports	D.2	*32,199*	*59,352*	*54,062*		*114,837*
Current taxes on income and wealth, etc.	D.5	*22,412*	*43,771*	*50,140*		*108,822*
Capital Taxes	D.91	*1,059*	*2,047*	*1,609*		*3,960*
Social Security contributions	D.61	*32,633*	*65,296*	*76,078*		*129,696*
Property income	D.4	*2,804*	*4,398*	*4,744*		*10,262*
Others		*2,526*	*7,057*	*8,695*		*21,629*
7. Total expenditure		**100, 218**	**213,680**	**241,713**		**459,281**
Of which						
Compensation of employees	D.1	*25,951*	*57,552*	*54,543*		*116,500*
Intermediate consumption	P.2	*9,684*	*23,297*	*19,525*		*56,561*
Social transfers	D.62, D.632	*44,251*	*90,326*	*112,464*		*198,840*
Interest expenditure	D.41	*8,499*	*17,424*	*19,669*		*34,747*
Subsidies	D.3	*1,354*	*3,028*	*2,818*		*11,514*
Gross fixed capital formation	D.51	*4,483*	*8,620*	*6,908*		*14,011*
Capital transfers	D.9	*705*	*4,699*	*5,388*		*11,695*
Others		*5,291*	*8,734*	*20,398*		*15,413*
8. Gross debt		**922,856**	**942,758**			**966,372**

*Monthly figures for July do not include Local authorities

2.4. Structural balance and the orientation of fiscal policy

In order to analyse the orientation of fiscal policy, this report provides estimates of potential output and the output gap following the production function methodology used by the European Commission (EC) and agreed in the Output Gap Working Group (OGWG). As in the last 2013-2016 Stability Programme update, a statistical change has been introduced by using the short-term population projections published by the National Statistics Institute (INE) in November 2012, as these are more recent than those of EUROSTAT. Furthermore, the official method for calculating potential growth has been compared against a methodological variant to achieve estimates that are both more accurate and more consistent with the cyclical situation of the Spanish economy. This involves using a forward-looking specification of the Phillips curve in calculating NAWRU, compared to the current static expectations model (backward-looking) of the European Commission, which gives highly pro-cyclical estimates. The EPC Output Gap Working Group is currently debating the merits of adopting the first approach, which the EC considers to offer some significant methodological advantages. The pro-cyclical bias of the current European Commission methodology and the end point problems of the Phillips curve are contributing to overestimating the NAWRU, with the corresponding impact on potential GDP, the output gap and the cyclical and structural components of the budget balance. The labour market reforms and other measures introduced by the Government should contribute to reducing the structural unemployment rate and to promoting recovery and sustained economic growth over the medium and long-term.

Tables 1C and 1C Bis show the forecast growth rates for real GDP over 2013-2016, and potential GDP estimated over this period, and the contributions to growth of their major components. Table 1C is based on the alternative method of calculating NAWRU, whilst 1C Bis uses the official method based on static expectations in setting wages.

Table 1C: Annual budgetary targets in accordance with ESA standards for the General Government and its sub-sectors						
	ESA Code	**2012**	**2013**	**2014**	**2015**	**2016**
Net lending (+) / Net borrowing (-) by sub-sector (% GDP)						
1. General Government (with financial aid)	S.13	**-10.6**	**-6.8***	**-5.8**	**-4.2**	**-2.8**
2. Central Government	S.1311	-8.0	-4.1	-3.7	-2.9	-2.1
3. Autonomous Regions	S.1312	-1.8	-1.3	-1.0	-0.7	-0.2
4. Local Authorities	S.1313	0.2	0.0	0.0	0.0	0.0
5. Social Security	S.1314	-1.0	-1.4	-1.1	-0.6	-0.5
General government (S.13) (% GDP)						
6. Total Revenue	TR	37.1	37.9	38.2	38.4	38.4
7. Total Expenditure (with financial aid)	TE	47.8	44.8	44.0	42.6	41.2
8. Interest expenditure	D.41	3.0	3.4	3.6	3.9	4.1
9. Primary balance [a]		-7.6	-3.4	-2.2	-0.4	1.2
10. One-off and other temporary measures[b]		-2.9	-0.3	0.0	0.0	0.0
of which, financial aid		-3.8	-0.3			
11. Real GDP growth		**-1.6**	**-1.3**	**0.7**	**1.2**	**1.7**
12. Potential GDP growth (**)		**0.0**	**-0.4**	**-0.4**	**-0.3**	**-0.1**
Contributions to potential GDP growth:						
Labour		-0.8	-0.9	-0.8	-0.7	-0.6
Capital		0.3	0.2	0.1	0.2	0.3
Total factor productivity		0.5	0.4	0.3	0.2	0.2
13. Output gap		-7.9	-8.7	-7.7	-6.3	-4.7
14. Cyclical balance		-3.8	-4.2	-3.7	-3.0	-2.3
15. Cyclically-adjusted balance (1-14)		-6.9	-2.7	-2.1	-1.2	-0.6
16. Cyclically-adjusted primary balance (9-14)		-3.8	0.7	1.5	2.7	3.5
17. Structural balance (15 – 10)		**-4.0**	**-2.4**	**-2.1**	**-1.2**	**-0.6**

[a] The primary balance is calculated as (B.9, item 8) plus (D.41, item 9)

[b] A positive sign means a deficit reduction measure

(*) 2013 deficit includes one-off measures to the financial sector. Without this one – off, 2013 deficit will set at 6.5% of GDP.

(**)NAWRU calculated with forward-looking Phillips curve

Table 1C Bis: Annual budgetary targets in accordance with ESA standards for the General Government and its sub-sectors						
	ESA Code	**2012**	**2013**	**2014**	**2015**	**2016**
Net lending (+) / Net borrowing (-) by sub-sector (% GDP)						
1. General government (with financial aid)	S.13	**-10.6**	**-6.8***	**-5.8**	**-4.2**	**-2.8**
2. Central Government	S.1311	-8.0	-4.1	-3.7	-2.9	-2.1
3. Autonomous Regions	S.1312	-1.8	-1.3	-1.0	-0.7	-0.2
4. Local Authorities	S.1313	0.2	0.0	0.0	0.0	0.0
5. Social Security	S.1314	-1.0	-1.4	-1.1	-0.6	-0.5
General government (S.13) (% GDP)						
6. Total Revenue	TR	37.1	37.9	38.2	38.4	38.4
7. Total Expenditure (with financial aid)	TE	47.8	44.8	44.0	42.6	41.2
8. Interest expenditure	D.41	3.0	3.4	3.6	3.9	4.1
9. Primary balance [a]		-7.6	-3.4	-2.2	-0.4	1.2
10. One-off and other temporary measures[b]		-2.9	-0.3	0.0	0.0	0.0
of which, financial aid		-3.8	-0.3			
11. Real GDP growth		**-1.6**	**-1.3**	**0.7**	**1.2**	**1.7**
12. Potential GDP growth(**)		**-0.5**	**-0.9**	**-0.8**	**-0.7**	**-0.5**
Contributions to potential GDP growth:						
Labour		-1.3	-1.4	-1.2	-1.1	-1.0
Capital		0.3	0.2	0.1	0.2	0.3
Total factor productivity		0.5	0.4	0.3	0.2	0.2
13. Output gap		-6.2	-6.6	-5.2	-3.3	-1.3
14. Cyclical balance		-3.0	-3.2	-2.5	-1.6	-0.6
15. Cyclically-adjusted balance (1-14)		-7.7	-3.7	-3.3	-2.6	-2.2
16. Cyclically-adjusted primary balance (9-14)		-4.6	-0.3	0.3	1.3	1.9
17. Structural balance (15 – 10)		**-4.8**	**-3.4**	**-3.3**	**-2.6**	**-2.2**

[a] The primary balance is calculated as (B.9, item 8) plus (D.41, item 9)
[b] A positive sign means a deficit reduction measure
(*) 2013 deficit includes one-off measures to the financial sector. Without this one – off, 2013 deficit will set at 6.5% of GDP.
(**)NAWRU calculated with backward-looking Phillips curve

As can be seen from Table 1C, potential GDP falls in all the forecast period, by 0.4% as an annual average in the first two years, and by 0.3% and 0.1% in 2015 and 2016, respectively. This is explained by the negative contribution of labour to growth and the less positive contributions of Total Factor Productivity (TFP) and capital. The performance of labour reflects an increase in the structural unemployment rate and a fall in the working age population, resulting from a decrease in net migration flows. However, it should be noted that the effects of the end of the crisis on structural unemployment operate with a temporal lag because of the EC's basic methodology, and therefore this leads to an extension of the increase in the NAWRU throughout the whole forecast period. Therefore, the output gap will remain negative over the coming years, bottoming out in 2013 and then being reduced from 2014, to reach -4.7% in 2016.

Under the current EC method (Table 1C Bis), potential GDP is falling faster than under the alternative method, -0.9% in 2013, with the rate of deterioration slowing until reaching -0.5% at the end of the forecast period. This increased contraction is explained by the larger negative contribution to growth from labour, due to structural unemployment. As a result, the negative output gap is lower than under the alternative calculation method.

Based on these calculations of the output gap, the forecast path of the public sector deficit is broken down into its cyclical and cyclically-adjusted components. Under the alternative NAWRU calculation method, with a more gradual potential growth path, we get lower cyclically-adjusted deficits than with the Commission's official method. In 2013, the cyclically-adjusted balance for the public sector is -2.7% of GDP under the alternative method and -3.7% under the EC method; this difference increases as the forecast period progresses.

An initial estimate of the structural effort based on the difference between the structural balances, reveals that the differences between the two methods are not substantial. For example, in 2013 the structural effort would be 1.6 pp and 1.4 pp, respectively. Using the new method, the structural effort from 2014 to 2016 would be 0.2, 0.9 and 0.6 pp (to the first decimal place), respectively: Under the official method, these would be 0, 0.7 and 0.4 pp.

Analysing the structural effort made, the production function method (in whatever variant) applied in estimating the structural effort, in general underestimates the true budget consolidation efforts made. As the EC is aware of these limitations, in its latest 2013 Public Finances Report it proposed a complementary discretionary effort indicator. Whilst the production function provides a “top-down” approach for measuring the efforts made, the discretionary indicator adopts a "bottom-up" approach, taking into account all discretionary measures on the revenue side and eliminating certain chapters that do not reflect discretionary action from changes to expenditure.

The table below summarises the results for this indicator (Table 5) according to the methodology that is used in the 2013 Public Finances in EMU Report. DG ECFIN, European Economy 4/2013.

Table 5. Discretionary fiscal effort indicator				
	2012	**2013**	**2014**	**2015**
Nominal GDP	1029.0	1026.2	1047.4	1076.9
Discretionary revenue	18.0	22.6	8.3	3.4
Total expenditure	491.4	459.4	457.4	455.6
Interest expenditure	31.2	34.7	38.1	41.7
Unemployment expenditure (forward-looking)	31.7	30.7	29.2	27.7
Unemployment expenditure (backward-looking)	31.7	30.7	29.2	27.7
Expenditure without interest or unemployment (E) forward-looking	428.5	394.0	390.1	386.2
Change in E (forward-looking)		-34.6	-3.8	-3.9
Expenditure without interest or unemployment (E) backward-looking	428.5	394.0	390.1	386.2
Change in E (backward-looking)		-34.6	-3.8	-3.9
Forward-looking benchmark rate	1.8	1.5	1.5	1.7
Backward-looking benchmark rate	1.5	1.1	1.1	1.3
Discretionary fiscal effort indicator (forward-looking)		**6.2**	**1.7**	**1.3**
Discretionary fiscal effort indicator (backward-looking)		**6.0**	**1.6**	**1.2**
Discretionary fiscal effort indicator (forward-looking)(1)		**2.6**	**1.5**	**1.3**
Discretionary fiscal effort indicator (backward-looking)(1)		**2.4**	**1.3**	**1.2**

(1) Excluding one-off financial assistance

As can be seen from the table, the discretionary effort indicator is around 2.6 points of GDP in 2013 and 1.5 points in 2014 (eliminating financial one-offs from expenditure), compared to much smaller variations in the structural balance. In our opinion, this indicator gives a much more reliable estimate of the true fiscal effort made in the public accounts than simply considering the structural balance alone.

3. COMPLIANCE WITH OTHER COUNCIL RECOMMENDATIONS FOR CORRECTING THE EXCESSIVE DEFICIT

We shall now go on to analyse the other Recommendations for Spain by the Council of the European Union for ending the excessive deficit.

a) Strengthen the effectiveness of the institutional framework by raising further the transparency in implementation of the Budgetary Stability Law as well as by establishing an independent fiscal council to provide analysis, advice and monitor compliance of fiscal policy with national and EU fiscal rules.

a.1) The provisions of the **Organic Law on Budget Stability and Financial Sustainability** are being applied as set out therein:

- Firstly, as stipulated in the Organic Law, the Autonomous Regions have approved economic-financial plans to correct their budget deficits over the medium term. Application of the measures in these plans is subject to monitoring and assessment by the Ministry of Finance and Public Administration. **Quarterly monitoring reports** are being published, and as a result Autonomous Regions are adopting new consolidation measures as explained in section 2.1. In parallel to this, the adjustment plans of Autonomous Regions subject to liquidity mechanisms are monitored on a monthly basis.
- Secondly, for the first time, public debt targets have been approved for the Autonomous Regions in 2013. These are complementary to the public deficit targets, reinforcing the commitment to sustainability in the public finances.
- The Ministry of Finance and Public Administration is carrying out **thorough monitoring to ensure compliance with the stability objective at Autonomous Region and local levels,** based on improving statistical information on budget performance. This is already bearing fruit in 2013, now having monthly National Accounts information not just for Central Government, but also for the Autonomous Regions and Social Security, and quarterly information on local governments. This statistical base makes it more viable the early detection of any deviations and to apply mechanisms to achieve the budgetary objectives set out in the Organic Law on Budget Stability and Financial Sustainability.

  Also in the context of this Organic Law, the **control on commercial debt will be introduced** to ensure suppliers of the public authorities are paid within legally established periods. This also helps with compliance with one of the other recommendations on establishing measures to reduce outstanding payments. A Plan has been implemented to counter late payment by public authorities. This includes the Bill on **electronic invoicing and accounting registry; the supplier payment plan to clear the stock of arrears in the Autonomous Regions and local authorities; other liquidity measures to certain local governments together with consolidation requirements to improve their solvency; and a change to the Organic Law on Budget Stability to include commercial debt,** with preventive measures for monitoring cash; corrective measures for fiscal consolidation; and coercive measures, including the withholding of funds with the aim of avoiding late payment by public authorities.

a.2) The **Bill of the Organic Law on the Creation of the Independent Fiscal Responsibility Authority (AIRF for the Spanish acronym)** was approved by the Council of Ministers on 28 June 2013 and sent to parliament. The period for amendments in Congress expired on 12 September, and its parliamentary stages should be completed in mid-November. Meanwhile, the Organic statute of this institution is currently being prepared and will be approved once the Law has been approved, and before **31 December 2013.**

As set out in these legislative documents, this new independent institution endowed with functional autonomy will exert overall supervision of the public administrations, ensuring effective compliance with the principles of budget stability and financial sustainability. Its creation meets a number of international and European commitments, including the EU Directive of 2011 and the European Union Regulation on common provisions for monitoring and assessing draft budget plans. Its constitutional basis allows it to exercise overall supervision of the whole public sector, including Central Government, the Autonomous Regions, local authorities, the Social Security and other bodies.

The AIRF will perform **three functions set out in the European Country-Specific Recommendations for Spain** (analysis, advice and monitoring regarding budgetary policy), thereby ensuring effective compliance by the public administrations with the principles of budget stability and financial sustainability.

The mandatory reports to be prepared by the AIRF will cover the following issues:

- The macroeconomic forecasts included in draft budgets by all public administrations and in the Stability Programme.
- The draft Stability Programme.
- Analysis of budget performance, public debt and the expenditure rule, and expected target compliance.

- The establishment of individual stability targets for the Autonomous Regions.
- The economic-financial plans and rebalancing plans of Central Government and the Autonomous Regions.
- The draft budgets and main parameters of budgets of the public administrations.
- The convenience to activate preventive, corrective and coercive measures as set out in the Organic Law on Budget Stability and Financial Sustainability, and the occurrence of the exceptional circumstances provided for in that Law.

The mandatory reports prepared by the AIRF will not be binding, but the Government must give reasons if it chooses not to adopt the measures it recommends. In particular, the macroeconomic forecasts used in draft budgets and the stability programme must have AIRF report, indicating whether it endorses the figures used.

It may also formulate its own opinions relating to issues set out in the Law, and may carry out studies at the behest of the Government, the Fiscal and Financial Policy Council, the National Local Administration Commission and the Social Security Financial Commission.

The independence of this new body is fully guaranteed by a number of provisions in the Organic Law under which it is created. The AIRF has full functional autonomy and independence. In addition, its Chairman will be appointed by the Council of Ministers, but the appointment must be approved by absolute majority of the competent Congress Committee. Neither the Chairman of the AIRF nor any of its staff may apply for or accept instructions from any public or private body. Lastly, the main source of financing for the AIRF will be a supervision levy paid by the public administrations it monitors, further reinforcing its economic independence.

b) Undertake concrete steps to rein in the increasing structural deficit in the social security system

With regard to Social Security, Royal Decree-Law 5/2013, of 15 March, introduces measures to foster continuation of the working life of older workers and promote active ageing. This Royal Decree-Law regulates the compatibility of receiving a retirement pension with self-employed or salaried employment, to promote the extension of active life and strengthen 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 prepare a report on the sustainability factor of the Social Security System.

As above-mentioned in this report, the **Bill Regulating the Pension Sustainability Factor and Revaluation Index** has begun its parliamentary stages. This Law proposes a review of calculation and revaluation mechanisms to counter the effects of 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. It also sets a 0.25% floor for increases (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 pension expenditure more closely to GDP, increasing the sustainability of the system in the face of fluctuations and ensuring its economic viability and intergenerational equity while maintaining the adequacy of pensions.

c) Give greater emphasis to the growth friendliness of the consolidation. In addition, to ensure the success of the fiscal consolidation strategy, it will be important to back the fiscal consolidation by comprehensive structural reforms, in line with the Council recommendations addressed to Spain in the context of the European Semester and the Macroeconomic Imbalances Procedure.

Spain has always been aware of the importance of combining fiscal consolidation with structural measures to increase the competitiveness of its economy and its growth potential. The National Reform Programme contains a number of structural reforms to be implemented over the short and medium term, eight of which we consider to be of fundamental importance. We shall now summarise progress with these structural reforms, which complement those already analysed in previous sections relating to the creation of the **Independent Fiscal Responsibility Authority, the Bill Regulating the Pension Sustainability Factor and Revaluation Index, the Bill on Local Government Rationalisation and Sustainability and the reform of the public administrations, as designed by the Committee for the Reform of the Public Administration (CORA).**

- The **Bill on de-indexing the Spanish economy** was submitted to the Council of Ministers in September after being debated by the Government Delegated Committee on Economic Affairs.

  This will introduce a new benchmark index to replace the Consumer Price Index (CPI) for updating revenue and spending, prices, tariffs, fees and income in the public administrations. This will cut out what are known as "second-round effects" in the price-formation process, thus limiting the influence of exogenous price shocks on the Spanish economy. This will further enhance the process of improving our inflation differential with our main European trading partners, boosting competitiveness and promoting growth and employment.

This Law will apply to the state, autonomous region and local public sectors, but explicitly excludes collective bargaining, pensions and financial instruments. It will only be a benchmark indicator for private contracts, but may nevertheless lead to positive behaviour that boosts the effects on economic activity the Law aims to achieve.

- The Senate has begun considering the **Law on Transparency, Access to Public Information and Good Governance**, after the Council of Ministers approved the Bill on 27 July 2013 and its subsequent passage through Congress**.** This Bill contains a new legal framework with three objectives: To increase and strengthen transparency in public-sector activity (through the obligation on all government bodies and public-sector entities to provide active publicity of their activities); to recognise and guarantee access to information (as it is regulated as a right with a wide-ranging objective and subjective scope); and to establish the good governance obligations to be complied with by those in positions of responsibility, and the sanctions for failing to comply with these. Therefore, it is expected that this Law will have economic effects through the generation of confidence and increasing the responsibility of public-sector managers, who may be penalised by prison sentences or being ruled ineligible for office, as a reform to electoral regulations has been introduced that provides for this.

  The public administrations must make information considered to be of interest (institutional, organisational, planning and of legal, economic or statistical relevance, etc.) available to the public relating to contracts, subsidies, agreements and remuneration for senior officers without the need to for this to be requested. A "Transparency Portal" will be created to meet these obligations, giving the public easy access to information. With regard to good governance, a disciplinary regime has been established for all public officers, irrespective of the sub-sector of government in which they serve.

  One significant aspect in relation to containing and controlling public spending is that the General State Budget Law each year should include guidelines stipulating the remuneration of the members of Local Authority government bodies based on the type of local authority and on a range of objective criteria (population, socio-economic context, etc.).

- The **Bill for Guaranteeing Market Unity** was approved by the Council of Ministers on 5 July and is currently working its way through parliament (the period for amendments ended on 19 September). It is expected to be passed by Parliament by the end of 2013.

- Furthermore, a **Legislation Rationalisation Plan** has been launched to adapt existing legislation to the new Law, under which Ministries must assess their legislation to adapt it to the new Law Guaranteeing Market Unity**,** preparing the changes needed at legislative level.

  The legislation assessment and preparation of modifications to legislation stage ended on 31 July.

- **The Law on Professional Services and Associations**. A 2013 National Reform Programme commitment: approval of a Bill in the first half of 2013. The Bill was sent for information to the General Committee of Secretaries of State and Under-secretaries on 31 July and placed on the Council of Ministers agenda for discussion on 2 August.

- **Law to support entrepreneurs and their internationalisation**. The Bill was approved by the Council of Ministers on 28 June and has now been passed. This Law includes a set of fiscal measures to stimulate the economy, supplementing other measures that have already been approved, as described in section 2.1 of this report. In brief, the new measures are VAT on a cash basis, tax deductions for reinvestment of profits, tax benefits for investment in R&D, extension of the "patent box" (tax reduction on revenue from certain intangible assets), "Business angels" and seed capital.

- **The Law to promote business finance**. A more wide-ranging and structural law is being prepared to boost access to non-bank credit. This involves a number of legal measures and reforms, such as:

  (1) Improving the efficiency of using investment vehicles, through an in-depth review of the **Spanish venture capital system**.

  (2) **Improvements to traditional bank finance channels**.

  (3) **Making the system for Collective Investment Institutions (CII) more flexible**: Enabling the creation of exclusively institutional funds with a small number of professional participants, and encouraging the creation of shares within the funds so that various investment strategies can be pursued, thus exploiting economies of scale.

  (4) **Improving the functioning of the Alternative Stock Market**, facilitating migration of stock-market-listed companies with little activity to this alternative trading system.

  (5) Considering with the Spanish Securities Market Commission (CNMV for the Spanish acronym) and the Bank of Spain possible legal intervention **in innovative financing mechanisms**, such as crowdfunding and digital communication tools for privately placing issuance.

(6) Studying **innovative measures for facilitating payment of suppliers**.

- **Corporate Governance Reform.** In May the Council of Ministers approved the creation of an Expert Committee to report in September on proposals to improve Corporate Governance.

  Within 2 months of receiving this report, the Government will make regulatory changes and prepare a code of best practice for unlisted companies.

ANNEX

A) Quarterly budgetary execution by sub-sector

Table 1A: In-year quarterly budgetary execution for the General Government broken down by sub-sector					
€ million (accumulated)	2013				
	Q1	Q2	July	Q3	Q4
Net lending (+) / Net borrowing (-) by sub-sector (6-7)					
1. General Government					
2. Central Government	-602	-3,770	-10,416		
3. Autonomous Regions					
4. Local Authorities					
5. Social Security					
For each sub-sector (indicate which)	Central Government				
6. Total revenue	69,172	131,815	165,158		
7. Total expenditure	69,774	135,585	175,574		

Table 1A: In-year quarterly budgetary execution for the general government broken down by sub-sector					
€ million (accumulated)	2013				
	Q1	Q2	July	Q3	Q4
Net lending (+) / Net borrowing (-) by sub-sector (6-7)					
1. General Government					
2. Central Government					
3. Autonomous Regions	5,256	3,705	4,776		
4. Local Authorities					
5. Social Security					
For each sub-sector (indicate which)	Autonomous Regions				
6. Total revenue	57,456	121,872	143,194		
7. Total expenditure	52,200	118,167	138,418		

Table 1A: In-year quarterly budgetary execution for the General Government broken down by sub-sector					
€ million (accumulated)	2013				
	Q1	Q2	July	Q3	Q4
Net lending (+) / Net borrowing (-) by sub-sector (6-7)					
1. General Government					
2. Central Government					
3. Autonomous Regions					
4. Local Authorities	2,237	1,105	(..)		
5. Social Security					
For each sub-sector (indicate which)	Local Authorities				
6. Total revenue	16,455	32,655	(..)		
7. Total expenditure	14,218	31,550	(..)		

Table 1A: In-year quarterly budgetary execution for the General Government broken down by sub-sector					
€ million (accumulated)	2013				
	Q1	Q2	July	Q3	Q4
Net lending (+) / Net borrowing (-) by sub-sector (6-7)					
1. General Government					
2. Central Government					
3. Autonomous Regions					
4. Local Authorities					
5. Social Security	6,324	11,284	4,758		
For each sub-sector (indicate which)	Social Security				
6. Total revenue	41,915	84,076	97,812		
7. Total expenditure	35,591	72,792	93,054		

B) Quarterly national accounts execution by sub-sector

Table 1B: In-year quarterly national accounts execution for General Government broken down by sub-sector						
€ million (accumulated)	ESA code	**2013**				
		Q1	**Q2**	**July**	**Q3**	**Q4**
Net lending (+) / Net borrowing (-) by sub-sector (6-7)						
1. General Government	S.13					
2. Central Government	S.1311	**-10,102**	**-34,057**	**-39,304**		
3. Autonomous Regions	S.1312					
4. Local Authorities	S.1313					
5. Social Security	S.1314					
Central Government						
6. Total revenue		**33,062**	**61,068**	**73,612**		
Of which						
Taxes on production and imports	D.2	*14,218*	*23,306*	*25,156*		
Current taxes on income and wealth, etc.	D.5	*11,553*	*23,146*	*30,306*		
Capital taxes	D.91	*262*	*308*	*348*		
Social Security contributions	D.61	*2,597*	*5,903*	*7,104*		
Property income	D.4	*3,046*	*4,923*	*5,463*		
Others		*1,386*	*3,482*	*5,235*		
7. Total expenditure		**43,164**	**95,125**	**112,916**		
Of which						
Compensation of employees	D.1	*5,152*	*11,590*	*13,423*		
Intermediate consumption	P.2	*1,445*	*3,507*	*4,214*		
Social transfers	D.62, D.632 [c]	*3,288*	*7,636*	*8,828*		
Interest expenditure	D.41	*7,420*	*15,198*	*17,871*		
Subsidies	D.3	*112*	*338*	*418*		
Gross fixed capital formation	D.51	*1,522*	*2,938*	*3,449*		
Capital transfers	D.9	*412*	*3,794*	*4,172*		
Others		*23,813*	*50,124*	*60,541*		

Table 1B: In-year quarterly national accounts execution for General Government broken down by sub-sector						
€ million (accumulated)	ESA code	**2013**				
		Q1	**Q2**	**July**	**Q3**	**Q4**
Net lending (+) / Net borrowing (-) by sub-sector (6-7)						
1. General Government	S.13					
2. Central Government	S.1311					
3. Autonomous Regions	S.1312	**-1,442**	**-8,166**	**-7,615**		
4. Local Authorities	S.1313					
5. Social Security	S.1314					
Autonomous Regions						
6. Total revenue		**32,926**	**66,995**	**81,603**		
Of which						
Taxes on production and imports	D.2	*12,501*	*24,994*	*28,906*		
Current taxes on income and wealth, etc.	D.5	*8,793*	*17,321*	*19,834*		
Capital taxes	D.91	*451*	*1,049*	*1,261*		
Social Security contributions	D.61	*131*	*240*	*276*		
Property income	D.4	*109*	*254*	*296*		
Others		*10,941*	*23,137*	*31,030*		
7. Total expenditure		**34,368**	**75,161**	**89,218**		
Of which						
Compensation of employees	D.1	*15,586*	*34,185*	*39,679*		
Intermediate consumption	P.2	*5,292*	*12,218*	*14,649*		
Social transfers	D.62, D.632 [c]	*6,305*	*13,432*	*15,788*		
Interest expenditure	D.41	*1,869*	*3,885*	*4,465*		
Subsidies	D.3	*524*	*1,193*	*1,488*		
Gross fixed capital formation	D.51	*1,501*	*2,854*	*3,330*		
Capital transfers	D.9	*419*	*1,315*	*1,660*		
Others		*2,872*	*6,079*	*8,159*		

Table 1B: In-year quarterly national accounts execution for General Government broken down by sub-sector						
€ million (accumulated)	ESA code	**2013**				
		Q1	**Q2**	**July**	**Q3**	**Q4**
Net lending (+) / Net borrowing (-) by sub-sector (6-7)						
1. General Government	S.13					
2. Central Government	S.1311					
3. Autonomous Regions	S.1312					
4. Local Authorities	S.1313	**2,539**	**1,931**			
5. Social Security	S.1314					
6. Total revenue		**14,841**	**29,628**			
Of which						
Taxes on production and imports	D.2	*5,480*	*11,052*			
Current taxes on income and wealth, etc.	D.5	*2,066*	*3,304*			
Capital taxes	D.91	*346*	*690*			
Social Security contributions	D.61	*66*	*150*			
Property income	D.4	*143*	*322*			
Others		*6,740*	*14,110*			
7. Total expenditure		**12,302**	**27,697**			
Of which						
Compensation of employees	D.1	*4,656*	*10,524*			
Intermediate consumption	P.2	*2,722*	*7,021*			
Social transfers	D.62, D.632 [c]	*307*	*616*			
Interest expenditure	D.41	*417*	*853*			
Subsidies	D.3	*342*	*747*			
Gross fixed capital formation	D.51	*1,403*	*2,718*			
Capital transfers	D.9	*118*	*311*			
Others		*2,337*	*4,907*			

Table 1B: In-year quarterly national accounts execution and prospects for General Government broken down by sub-sector						
€ million (accumulated)	ESA code	**Year t***				
		Q1	**Q2**	**July**	**Q3**	**Q4**
Net lending (+) / Net borrowing (-) by sub-sector (6-7)						
1. General Government	S.13					
2. Central Government	S.1311					
3. Autonomous Regions	S.1312					
4. Local Authorities	S.1313					
5. Social Security	S.1314	**2,420**	**8,533**	**534**		
Social Security						
6. Total revenue		**38,212**	**80,662**	**92,531**		
Of which						
Taxes on production and imports	D.2	*0*	*0*	*0*		
Current taxes on income and wealth, etc.	D.5	*0*	*0*	*0*		
Capital taxes	D.91	*0*	*0*	*0*		
Social Security contributions	D.61	*29,839*	*59,003*	*68,698*		
Property income	D.4	*713*	*1,411*	*1,652*		
Others		*7,660*	*20,248*	*22,181*		
7. Total expenditure		**35,792**	**72,129**	**91,997**		
Of which						
Compensation of employees	D.1	*557*	*1,253*	*1,441*		
Intermediate consumption	P.2	*225*	*551*	*662*		
Social transfers	D.62, D.632 [c]	*34,351*	*68,642*	*87,848*		
Interest expenditure	D.41	*0*	*0*	*0*		
Subsidies	D.3	*376*	*750*	*912*		
Gross fixed capital formation	D.51	*57*	*110*	*129*		
Capital transfers	D.9	*0*	*0*	*0*		
Others		*226*	*823*	*1,005*		

C) Methodology for transition between cash and national accounts information

The 2011/85/UE Council directive, of 8 November 2011, on the requirements for budgetary frameworks of the Member States, establishes in its article 3.2 that Member States shall publish: (a) cash-based fiscal data (or the equivalent figure from public accounting if cash-based data are not available), and (b) a detailed reconciliation table showing the methodology of transition between cash-based data (or the equivalent figures from public accounting if cash-based data are not available) and data based on the ESA standard.

Member States have to publish fiscal data for all subsectors according to the definition of General Government Sector of the Council Regulation (EC) Nº 2223/96 of 25 June. In particular, it should be published:

Overall balance (1-2)

1. **Total revenue/inflows**
2. **Total expenditure/outflows**

The criteria for reconciliation of the “overall balance” and the “net lending (+) or net borrowing (-) (B.9)” of ESA are set out in the following paragraphs distinguishing among subsectors:

1. Central Government Subsector (S.1311)

The Central Government Subsector comprises:

- The “State”, which includes (1) The General Administration of the State (AGE), which is regulated by Law 6/1997, of 14 of April. It is organized by Ministerial Departments. The ministerial structure is specifically regulated by the Royal Decree 1823/2011. This structure includes 13 Ministerial Departments each of which corresponds to a section of the Budget of the State (PGE); (2) Constitutional Bodies with different sections in the Budget of the State (Casa de S.M. el Rey; Cortes Generales; Tribunal de Cuentas; Tribunal Constitucional; Consejo de Estado and the Consejo General del Poder Judicial and (3) Funds (not legal entities) depending of the State.
- “Central Bodies” which include entities depending of the State which are legally differentiated and considered General Government for national accounts purposes. They have different legal forms: agencies, autonomous bodies, consorcios, other public bodies, corporations and foundations.

For the State and Bodies with a limited Budget, it is included in “total revenue / inflows” the established entitlements registered in the following chapters of the Income Budget:

Income Budget:

Non financial transactions

Chapter 1: Direct taxes and social contributions

Chapter 2: Indirect taxes

Chapter 3: Fees, public prices and other income

Chapter 4: Current transfers

Chapter 5: Equity income

Chapter 6: Disposal of real investments

Chapter 7: Capital transfers

Final transactions:

Chapter 8: Financial Assets

Chapter 9: Financial Liabilities

“Total expenditure / outflows” are referred to “obligations recognised” included in the Expenditure Budget:

Expenditure Budget:

Non financial transactions:

Chapter 1: Personnel expenditure

Chapter 2: Current expenditure in goods and services

Chapter 3: Financial expenditure

Chapter 4: Current transfers

Chapter 6: Real Investments

Chapter 7: Capital transfers

Financial transactions:

Chapter 8: Financial Assets

Chapter 9: Financial Liabilities

Definition of "Obligations recognised".

According to the rule 23 of the order of the Ministry of Economy and Finance, of 1 February 1996, which has to be followed in the execution of the expenditure Budget of the State, the “recognition of the obligation” is the administrative act under which the authority formally accepts, with charged to the budget of the State, a debt in favour of a third party who has fulfilled its commitment, according to the “done service” principle, or, in the case of non-reciprocal obligations, as a result of the birth of the right of such third party because of a law or an administrative act.

Definition of "Established entitlements".

The recognition of the right is the act that declares a credit in favour of a public administration.

For corporations and foundations included in the Central Government Subsector and subject to the General Plan of Private Accounting, income and expenses in the Profit and Loss Account and also the flows arising from variations of Balance with incidence in national accounts have been considered.

As a result, the “overall balance” includes:

- Balance of financial and non-financial transactions of the State budget.
- Balance of financial and non-financial transactions of Central Bodies subject to a limited Budget
- Balance of income and expenditure in the Profit and Loss Account and also the flows arising from variations of Balance with incidence in national accounts for the rest of entities included in the Central Government Subsector which apply the General Plan of Private Accounting.

In order to get the “net lending (+) / net borrowing (-) (B.9)” of ESA, the “overall balance” has to be modified by the following adjustments:

A. Financial transactions included in the “overall balance”.

Transactions related to financial assets and liabilities (chapters 8 and 9) have to be excluded except:

A.1. Capital injections into public corporations considered as capital transfers according to ESA and ESA Manual on Public Deficit and Public Debt.

A.2. Reclassified loans. For calculating the “net lending (+) /net borrowing (-) (B.9)”, loans which have to be treated as capital transfers according to the ESA Manual, are not excluded from the “overall balance”.

B. Transactions related to Funds (not legal entities) depending of the State.

Transactions (both income and expenses) carried out by Funds (not legal entities) are not included in the "Overall Balance”. However, for national accounts, these Funds are considered in the General Government Sector.

So, those transactions which are not treated as financial in national accounts, have to be considered to get the “net lending (+) / net borrowing (-) (B.9)”. This is the case of interest of income, interest of expenditure or capital transfers, among others.

C. Others non financial operation not considered in the Budget of the year. The account 413 «Creditors from transactions awaiting insertion into the budget» details the obligations derived from expenditure actually made, or from goods and services received, which have not yet been inserted in the Budget, but that they will must be afterwards.

D. Difference between accrual interest and those registered in the budget.

Interest payments are incorporated into the budget at the time of their maturity, which is when the administrative procedures are completed for declaring the revenue or duty.

The difference between the interest charged to the budget (based on a cash basis) and accrued interest (recognized in public accounting) leads to adjustments In the "overall balance" to calculate the "net lending (+) or net borrowing (-) (B.9)".

These criteria also apply in the case of interest income

E. Adjustments of income taxes for temporary differences.

E.1. "Temporal adjustment in taxes".

In general, the time of accrual of taxes and the time of budgetary registration and cash deposit are coincident, due to the system of withholding and payment on account.

However, in the case of big companies, withholding tax on labor and capital accrued in December (last quarter in the case of SMEs) are collected and imputed to the budget in January of the following year. As well, VAT incomes of big companies related to transactions that had taken place in December of each year (last quarter in the case of SMEs) are collected and imputed to the budget in January-February of the following year. To impute these revenues to the economic year an adjustment is done, consisting in:

- Removing from the revenues the effective collection of January-February corresponding to the taxes accrued the previous year

- Adding to the revenues the effective collection of January-February corresponding to the taxes accrued the reference year

Therefore, this adjustment can be positive or negative for each year.

Besides, this adjustment implies the generation, at the end of every year, of a financial asset in the item "Other accounts receivable/payable" (AF.7) for the amount of taxes that are accrued in the reference year but collected in January-February of the following year. This financial asset is cancelled the year after the accrual at the latest.

E.2. Tax reimbursements.

Income of the budget are reduced by the tax reimbursements when they are paid. In national accounts, tax reimbursements have to be registered when they are requested.

This item reflects the correction of tax reimbursements due to the difference between the submission of claims and the payments of tax refunds.

F. Seasonal adjustment of the investment.

Public investment is registered in the Budget when the obligation is recognized and is included in the “overall balance”.

The majority of investment expenditure is recorded in the last quarter of the year, so monthly and quarterly Budget data present a seasonality that is not real. This can be observed in the publications of gross capital formation of the Quarterly Accounts of the National Statistics Institute.

In national accounts, the seasonality of public investment expenditure in the Budget is revised in order to register the expenditure which has been really made in each period. In this way we ensure the same treatment for the investment among all the sectors of the economy.

This adjustment is done monthly and quarterly. It is not necessary to do so with the annual data.

G. Adjustments due to the differences at the moment of recording in the sources of data.

This item reflects the impact of the prioritization of data sources. The “overall balance” reported includes transfers received from other general government units, for the amounts and at the time this units perceive their revenue accrue. However, government units paying those transfers might have a different perception of the amounts and of the time of recording. Differences observed are considered, in Spain, coming mainly from differences in time of recording and not from other issues (e.g. misclassification of transaction or of counterpart sector). In national accounts, the unit registers the received transfer at the same time and for the same amount as the unit that satisfies it.

H. Cancellation of taxes and others.

This item corresponds to adjustments made for taxes and social contributions that are unlikely to be collected, in accordance with Regulation (EC) No 2516/2000 of the European Parliament and of the Council of 7 November 2000 modifying the common principles of the European system of national and regional accounts in the Community ESA as concerns taxes and social contributions and amending Council Regulation (EC) No 2223/96.

I. Export insurance guaranteed by the State.

This item captures the impact of the political risk of the export insurance covered by CESCE (Compañía Española de Seguro de Crédito a la

Exportación), on behalf of the State. Thus, the transactions made by CESCE on behalf of the State are, in National accounts, considered to be transactions directly undertaken by the Spanish State.

J. Re-routed transactions made by public corporations.

Transactions made by public companies on behalf of the General Governments units have to be recorded as transactions of the own General Governments units in each accounting year. In the case of the "Central Administration" the item re-routed items relating to SEPI captures capital injections made by SEPI (Sociedad Estatal de Participaciones Industriales) to its companies for covering losses (financial support) or for outsourcing labour engagements recorded in national accounts as non-financial expenditure, affecting the government deficit in the case they are financed by privatisations' proceeds.

K. Military equipment expenditure. This item includes the time-adjustment made for the difference between the budget recording and the deliveries of military equipment.

L. Expenditure for producing coins. This item reflects the payments that the Spanish State makes to the Fábrica Nacional de Moneda y Timbre (The Spanish Mint) to cover the cost of production of the coinage.

M. Granting of the radioelectric public domain

In the exercise in which the sale to the telecommunication Corporations is taken place, the total amount of the sale is registered in national accounts, regardless that the payment should be deferred. However it is registered in the Budget when is paid.

N. Guarantees fees (Royal Decree 7/2008).

Fees received by the guarantees provided to debt from credit institutions are recorded as income in the Budget when they are formalized. However, in national accounts this income must be recorded throughout the life of the guarantee.

O. Project contracts with a single gross payment.

Law 13/1996, regarding Fiscal, Administrative and Social Order Measures considers project contracts with a single gross payment, in which the total price of the contract will be paid by the government when the work is finished (by a single payment or in installments, obliging the contractor to finance the construction and make all the necessary payments in advance, until the work is completed and delivered). In ESA, this type of contract is not treated differently, thus the general rule outlined in paragraph 3.59 is applicable. According to this paragraph, unfinished constructions that are being carried out under a previously signed sales contract are treated as gross capital formation in each financial year while the project is in progress, relating to that part of the work completed in each of the years.

P. Private Public Partnerships (PPPs).

This adjustment includes as a negative amount (higher expenditure) the investment carried out by private units under contracts with the State that, following the criteria of the ESA Manual on Public Deficit and Public Debt, it have to be recorded as public investment, due to a insufficient transmission of the risks to the private partner. Moreover, it includes as positive amounts (lesser expenditure) the amounts included in the working balance as non-financial expenditure related to the redemption of the imputed loan (counterpart of the investment carried out).

2. State Government Subsector (S.1312)

According to the ESA, this subsector is formed by the following institutional units:

a. The General Administration of the 17 Autonomous Communities, legislative bodies and others, including funds (not legal entities), referred in the Statutes of Autonomy and integrated in their Budgets.

b. Public universities controlled by the Autonomous Communities.

c. Other institutional units included in the State Government Subsector: agencies, autonomous bodies, consorcios, corporations, foundations and other public entities.

For the General Administration of each Autonomous Community, public universities and other bodies with limited Budget, the item “total revenue/inflows” includes the “established entitlements” registered in the Income Budget.

Income Budget:

- Non financial transactions
  - Chapter 1: Direct taxes and social contributions
  - Chapter 2: Indirect taxes
  - Chapter 3: Fees, public prices and other income
  - Chapter 4: Current transfers
  - Chapter 5: Equity income
  - Chapter 6: Disposal of real investments
  - Chapter 7: Capital transfers
- Final transactions:
  - Chapter 8: Financial Assets
  - Chapter 9: Financial Liabilities

“Total expenditure / outflows” are referred to “obligations recognised” included in the Expenditure Budget:

Expenditure Budget:

Non financial transactions:

Chapter 1: Personnel expenditure

Chapter 2: Current expenditure in goods and services

Chapter 3: Financial expenditure

Chapter 4: Current transfers

Chapter 6: Real Investments

Chapter 7: Capital transfers

Financial transactions:

Chapter 8: Financial Assets

Chapter 9: Financial Liabilities

Definition of "Obligations recognised".

It is the administrative act under which the authority formally accepts, with charged to the budget of the Autonomous Community, a debt in favour of a third party who has fulfilled its commitment, according to the “done service” principle, or, in the case of non-reciprocal obligations, as a result of the birth of the right of such third party because of a law o an administrative act.

Definition of "Established entitlements".

The recognition of the right is the act that declares a credit in favour of a public administration.

For corporations and foundations included in the State Government Subsector and subject to the General Plan of Private Accounting, income and expenses in the Profit and Loss Account and also the flows arising from variations of Balance with incidence in national accounts have been considered.

As a result, the “overall balance” includes:

- Balance of financial and non-financial transactions of the Autonomous Communities.
- Balance of financial and non-financial transactions of Universities, and other Autonomous Bodies subject to a limited Budget
- Balance of income and expenditure in the Profit and Loss Account and also the flows arising from variations of Balance with incidence in national accounts for the rest of entities controlled by the Autonomous Communities and subject to the General Plan of Private Accounting.

In order to get the “net lending (+) / net borrowing (-) (B.9)” of ESA, the “overall balance” has to be modified by the following adjustments:

A.Financial transactions included in the “overall balance”

Transactions related to financial assets and liabilities (chapters 8 and 9) have to be excluded except:

A.1. Capital injections into public corporations considered as capital transfers according to ESA and ESA Manual on Public Deficit and Public Debt.

A.2. Reclassified loans. For calculating the “net lending (+) /net borrowing (-) (B.9)”, loans which have to be treated as capital transfers according to the ESA Manual, are not excluded from the “overall balance”.

B. Transactions related to Funds (not legal entities) depending of the Autonomous Communities.

Transactions (both income and expenses) carried out by Funds (not legal entities) are not included in the "Overall Balance”. However, for national accounts, these Funds are considered in the General Government Sector.

So, those transactions which are not treated as financial in national accounts, have to be considered to get the “net lending (+) / net borrowing (-) (B.9)”. This is the case of interest of income, interest of expenditure or capital transfers, among others.

C. Others non financial operation not considered in the Budget of the year.

The account 409/413 «Creditors from transactions awaiting insertion into the budget» details the obligations derived from expenditure actually made, or from goods and services received, which have not yet been inserted in the budget, but that they will must be afterwards.

D. Difference between accrual interest and those registered in the budget.

Interest payments are incorporated into the budget at the time of their maturity, which is when the administrative procedures are completed for declaring the revenue or duty.

The difference between the interest charged to the budget (based on a cash basis) and accrued interest (recognised in public accounting) leads to adjustments In the “overall balance” to calculate the “net lending (+) or net borrowing (-) (B.9)”.

These criteria also apply in the case of interest income

E. Seasonal adjustment of the investment.

Public investment is registered in the Budget when the obligation is recognised and is included in the “overall balance”.

The majority of investment expenditure is recorded in the last quarter of the year, so monthly and quarterly Budget data present a seasonality that is not real. This can be observed in the publications of gross capital formation of the Quarterly Accounts of the National Statistics Institute.

In national accounts, the seasonality of public investment expenditure in the Budget is revised in order to register the expenditure which has been really made in each period. In this way we ensure the same treatment for the investment among all the sectors of the economy.

This adjustment is done monthly and quarterly. It is not necessary to do so with the annual data.

F. Adjustments due to the differences at the moment of recording in the sources of data.

This item reflects the impact of the prioritisation of data sources. The “overall balance” reported includes transfers received from other general government units, for the amounts and at the time this units perceive their revenue accrue. However, government units paying those transfers might have a different perception of the amounts and of the time of recording. Differences observed are considered, in Spain, to mainly originate from differences in time of recording and not from other issues (e.g. misclassification of transaction or of counterpart sector). In national accounts, the unit registers the received transfer at the same time and for the same amount as the unit that satisfies it.

G. Cancellation of taxes and others.

This item corresponds to adjustments made for taxes and social contributions that are unlikely to be collected, in accordance with Regulation (EC) No 2516/2000 of the European Parliament and of the Council of 7 November 2000 modifying the common principles of the European system of national and regional accounts in the Community ESA as concerns taxes and social contributions and amending Council Regulation (EC) No 2223/96.

H. Re-routed transactions made by public corporations.

Transactions made by public companies on behalf of the Autonomous Communities have to be recorded as transactions of the own Autonomous Communities in each accounting year.

I. Purchases with deferred payment.

Acquisitions of goods with deferred price are recorded at its price in cash when the delivery is produced irrespective of the time in which the payment is agreed. The difference between this price and the amount recorded in the budget implies a higher non-financial expenditure in the year when the contract is signed. In the following years, the amounts included in the budget will be reduced by the redemptions of the imputed loan (counterpart of the initial investment). The interests will be recorded as expenditure in the accrued year.

This treatment is similar to that described previously on the financial leasing transactions.

J. Project contracts with a single gross payment.

Law 13/1996, regarding Fiscal, Administrative and Social Order Measures considers project contracts with a single gross payment, in which the total price of the contract will be paid by the government when the work is finished (by a single payment or in installments, obliging the contractor to finance the construction and make all the necessary payments in advance, until the work is completed and delivered). In ESA, this type of contract is not treated differently, thus the general rule outlined in paragraph 3.59 is applicable. According to this paragraph, unfinished constructions that are being carried out under a previously signed sales contract are treated as gross capital formation in each financial year while the project is in progress, relating to that part of the work completed in each of the years.

K. Private Public Partnerships (PPPs).

This adjustment includes as a negative amount (higher expenditure) the investment carried out by private units under contracts with the State that, following the criteria of the ESA Manual on Public Deficit and Public Debt, it have to be recorded as public investment, due to a insufficient transmission of the risks to the private partner. Moreover, it includes as positive amounts (lesser expenditure) the amounts included in the working balance as non-financial expenditure related to the redemption of the imputed loan (counterpart of the investment carried out).

L. Transfers from the European Union (Structural Funds)

It records the adjustments due to differences between the data from the receipts in the budget of the Autonomous Communities and the amount resulting from the application of the co-finance percentage of the EU to the certified expenditure, in the accounting year (according to the EUROSTAT Decision 22/2005, of 15th of February).

M. Financial Leasing

This kind of contract implies the recording as gross fixed capital formation the cash price of the leased good to the Autonomous Community at the time of the sign. The difference between this price and the redemption recorded in the budget implies a higher non-financial expenditure in the year when the contract is signed. In the following years, the amounts included in the budget will be reduced by the redemptions of the imputed loan (counterpart of the initial investment). The interests will be recorded as an expenditure in the accrued year.

3. Local Government Subsector (S.1313)

According to the ESA, this subsector is formed by the following institutional units:

a. Local Entities regulated by Law 7/1985, of 2 April: municipalities, provinces, Islands, Metropolitan Areas, associations of municipalities, comarcas and other entities comprising several municipalities and lower than the municipal territorial entities. Ceuta and Melilla are also integrated in this Subsector.

b. Other entities controlled by the local authorities in accordance with ESA. Those entities can have different legal forms: autonomous bodies, consorcios, corporations, foundations and other public entities.

For Local entities and other bodies controlled by them with limited Budget, the item “total revenue/inflows” includes the “established entitlements” registered in the Income Budget.

Income Budget:

Non financial transactions

Chapter 1: Direct taxes and social contributions

Chapter 2: Indirect taxes

Chapter 3: Fees, public prices and other income

Chapter 4: Current transfers

Chapter 5: Equity income

Chapter 6: Disposal of real investments

Chapter 7: Capital transfers

Final transactions:

Chapter 8: Financial Assets

Chapter 9: Financial Liabilities

“Total expenditure / outflows” are referred to “obligations recognised” included in the Expenditure Budget:

Expenditure Budget:

Non financial transactions:

Chapter 1: Personnel expenditure

Chapter 2: Current expenditure in goods and services

Chapter 3: Financial expenditure

Chapter 4: Current transfers

Chapter 6: Real Investments

Chapter 7: Capital transfers

Financial transactions:

Chapter 8: Financial Assets

Chapter 9: Financial Liabilities

Definition of "Obligations recognised".

It is the administrative act under which the authority formally accepts, with charged to the budget of the Local Entity, a debt in favour of a third party who has fulfilled its commitment, according to the “done service” principle, or, in the case of non-reciprocal obligations, as a result of the birth of the right of such third party because of a law o an administrative act.

Definition of "Established entitlements".

The recognition of the right is the act that declares a credit in favour of a public administration.

For corporations and foundations included in the Local Government Subsector and subject to the General Plan of Private Accounting, income and expenses in the Profit and Loss Account and also the flows arising from variations of Balance with incidence in national accounts, have been considered

As a result, the “overall balance” includes:

- Balance of financial and non-financial transactions of the Local Entities.
- Balance of financial and non-financial transactions of Local Bodies subject to a limited Budget.
- Balance of income and expenditure in the Profit and Loss Account and also the flows arising from variations of Balance with incidence in national accounts for the rest of entities controlled by the Local Government and subject to the General Plan of Private Accounting.

In order to get the “net lending (+) / net borrowing (-) (B.9)” of ESA, the “overall balance” has to be modified by the following adjustments:

A.Financial transactions included in the “overall balance”.

Transactions related to financial assets and liabilities (chapters 8 and 9) have to be excluded except:

A.1. Capital injections into public corporations considered as capital transfers according to ESA and ESA Manual on Public Deficit and Public Debt.

A.2. Reclassified loans. For calculating the “net lending (+) /net borrowing (-) (B.9)”, loans which have to be treated as capital transfers according to the ESA Manual, are not excluded from the “overall balance”.

B. Non financial transactions not included in the “overall balance”.

The account 413 «Creditors from transactions awaiting insertion into the budget» details the obligations derived from expenditure actually made, or from goods and services received, which have not yet been inserted in the budget, but that they will must be afterwards.

C. Difference between accrual interest and those registered in the budget.

Interest payments are incorporated into the budget at the time of their maturity, which is when the administrative procedures are completed for declaring the revenue or duty.

The difference between the interest charged to the budget (based on a cash basis) and accrued interest (recognised in public accounting) leads to adjustments in the "overall balance" to calculate the "net lending (+) or net borrowing (-) (B.9)".

These criteria also apply in the case of interest income

D. Seasonal adjustment of the investment.

Public investment is registered in the Budget when the obligation is recognised and is included in the "overall balance".

The majority of investment expenditure is recorded in the last quarter of the year, so monthly and quarterly Budget data present a seasonality that is not real. This can be observed in the publications of gross capital formation of the Quarterly Accounts of the National Statistics Institute.

In national accounts, the seasonality of public investment expenditure in the Budget is revised in order to register the expenditure which has been really made in each period. In this way we ensure the same treatment for the investment among all the sectors of the economy.

This adjustment is done monthly and quarterly. It is not necessary to do so with the annual data.

E. Adjustments due to the differences at the moment of recording in the sources of data.

This item reflects the impact of the prioritisation of data sources. The "overall balance" reported includes transfers received from other general government units, for the amounts and at the time this units perceive their revenue accrue. However, government units paying those transfers might have a different perception of the amounts and of the time of recording. Differences observed are considered, in Spain, to mainly originate from differences in time of recording and not from other issues (e.g. misclassification of transaction or of counterpart sector). In national accounts, the unit registers the received transfer at the same time and for the same amount as the unit that satisfies it.

F. Cancellation of taxes and others.

This item corresponds to adjustments made for taxes and social contributions that are unlikely to be collected, in accordance with Regulation (EC) No 2516/2000 of the European Parliament and of the Council of 7 November 2000 modifying the common principles of the European system of national and regional accounts in the Community ESA as concerns taxes and social contributions and amending Council Regulation (EC) No 2223/96.

G. Re-routed transactions made by public corporations.

Transactions made by public companies on behalf of the Local Government Subsector have to be recorded as transactions of the own Local Government Subsector in each accounting year.

H. Private Public Partnerships (PPPs).

This adjustment includes as a negative amount (higher expenditure) the investment carried out by private units under contracts with the State that, following the criteria of the ESA Manual on Public Deficit and Public Debt, it have to be recorded as public investment, due to a insufficient transmission of the risks to the private partner. Moreover, it includes as positive amounts (lesser expenditure) the amounts included in the working balance as non-financial expenditure related to the redemption of the imputed loan (counterpart of the investment carried out).

4. Social Secutiry Funds (S.1314)

According to the ESA, this subsector is formed by the following institutional units:

a. Social Security System:
    i. Management Entities and Common Departments within the Social Security Funds, which include the following entities: Instituto Nacional de la Seguridad Social, management body for economic benefits; Instituto Nacional de Gestión Sanitaria, which has responsibility for the health benefits of the Cities of Ceuta and Melilla, and for the necessary activities for the normal functioning of the Health Service; Instituto de Mayores y Servicios Sociales, which manages social services; Instituto Social de la Marina, administrator of the benefits for maritime workers; and Tesorería General de la Seguridad Social, which manages the revenue of the System.
    ii. Mutual Societies for Accidents at Work and Professional Illnesses. Entities that manage the insurance cover for accidents at work and professional illnesses, as well as the prevention of these contingencies.
b. Servicio Público de Empleo Estatal (SPEE). Management body for unemployment benefits and policies for stimulating employment.

c. Fondo de Garantía Salarial (FOGASA), Management body for the benefits for guaranteed wages (wages and compensations in specific cases and amounts).

For all these entities, the item “total revenue/inflows” includes the “established entitlements” registered in the Income Budget.

Income Budget:

Non financial transactions

Chapter 1: Direct taxes and social contributions

Chapter 2: Indirect taxes

Chapter 3: Fees, public prices and other income

Chapter 4: Current transfers

Chapter 5: Equity income

Chapter 6: Disposal of real investments

Chapter 7: Capital transfers

Final transactions:

Chapter 8: Financial Assets

Chapter 9: Financial Liabilities

“Total expenditure / outflows” are referred to “obligations recognised” included in the Expenditure Budget:

Expenditure Budget:

Non financial transactions:

Chapter 1: Personnel expenditure

Chapter 2: Current expenditure in goods and services

Chapter 3: Financial expenditure

Chapter 4: Current transfers

Chapter 6: Real Investments

Chapter 7: Capital transfers

Financial transactions:

Chapter 8: Financial Assets

Chapter 9: Financial Liabilities

Definition of "Obligations recognised".

It is the administrative act under which the authority formally accepts, with charged to the budget of the Social Security units, a debt in favour of a third party who has fulfilled its commitment, according to the “done service” principle, or, in the case of non-reciprocal obligations, as a result of the birth of the right of such third party because of a law o an administrative act.

Definition of "Established entitlements".

The recognition of the right is the act that declares a credit in favour of a public administration..

As a result, the “overall balance” of the Social Security Funds Subsector includes the balance of financial and non-financial transactions of the Social Security System, SPEE and FOGASA.

In order to get the “net lending (+) / net borrowing (-) (B.9)” of ESA, the “overall balance” has to be modified by the following adjustments:

A.Financial transactions included in the “overall balance”

Transactions related to financial assets and liabilities (chapters 8 and 9) have to be excluded except:

A.1. Capital injections into public corporations considered as capital transfers according to ESA and ESA Manual on Public Deficit and Public Debt.

A.2. Reclassified loans. For calculating the “net lending (+) /net borrowing (-) (B.9)”, loans which have to be treated as capital transfers according to the ESA Manual, are not excluded from the “overall balance”.

B. Non financial transactions not included in the “overall balance”.

The account 413 «Creditors from transactions awaiting insertion into the budget» details the obligations derived from expenditure actually made, or from goods and services received, which have not yet been inserted in the budget, but that they will must be afterwards.

C. Difference between accrual interest and those registered in the budget.

Interest payments are incorporated into the budget at the time of their maturity, which is when the administrative procedures are completed for declaring the revenue or duty.

The difference between the interest charged to the budget (based on a cash basis) and accrued interest (recognised in public accounting) leads to adjustments In the “overall balance” to calculate the “net lending (+) or net borrowing (-) (B.9)”.

These criteria also apply in the case of interest income

D. Seasonal adjustment of the investment

Public investment is registered in the Budget when the obligation is recognised and is included in the “overall balance”.

The majority of investment expenditure is recorded in the last quarter of the year, so monthly and quarterly Budget data present a seasonality that is not real. This can be observed in the publications of gross capital formation of the Quarterly Accounts of the National Statistics Institute.

In national accounts, the seasonality of public investment expenditure in the Budget is revised in order to register the expenditure which has been really made in each period. In this way we ensure the same treatment for the investment among all the sectors of the economy.

This adjustment is done monthly and quarterly. It is not necessary to do so with the annual data.

E. Adjustments due to the differences at the moment of recording in the sources of data.

This item reflects the impact of the prioritisation of data sources. The "overall balance" reported includes transfers received from other general government units, for the amounts and at the time this units perceive their revenue accrue. However, government units paying those transfers might have a different perception of the amounts and of the time of recording. Differences observed are considered, in Spain, to mainly originate from differences in time of recording and not from other issues (e.g. misclassification of transaction or of counterpart sector). In national accounts, the unit registers the received transfer at the same time and for the same amount as the unit that satisfies it.

F. Cancellation of taxes and others.

This item corresponds to adjustments made for taxes and social contributions that are unlikely to be collected, in accordance with Regulation (EC) No 2516/2000 of the European Parliament and of the Council of 7 November 2000 modifying the common principles of the European system of national and regional accounts in the Community ESA as concerns taxes and social contributions and amending Council Regulation (EC) No 2223/96.

G. Difference between the accrual and the record of some social contributions and social benefits

In national accounts, social contributions and social benefits have to be recorded when they are accrued. However, they are recorded in the Budget with a lag of one month. Therefore, to calculate the "net lending (+) or net borrowing (-) (B.9)", it is necessary to make and adjustment, eliminating contributions and social benefits for the month immediately before to which the information is referred, and adding contributions and social benefits corresponding to the following month to the period reported.

D) Table 2. Expenditure and revenue targets for the General Government (ESA standards)

Table 2 - Public sector expenditure and revenue targets (S.13) in accordance with ESA (SEC)						
% GDP	ESA Code	**2012**	**2013**	**2014**	**2015**	**2016**
1. Total revenue target (=table 1c. 6)	TR	*37.1*	*37.9*	*38.2*	*38.4*	*38.4*
Of which						
1.1. Taxes on production and imports	D.2	10.4	11.2	11.3	11.4	11.5
1.2. Current taxes on income and wealth, etc.	D.5	10.2	10.6	10.9	11.1	11.2
1.3. Capital taxes	D.91	0.4	0.4	0.4	0.4	0.4
1.4. Social Security contributions	D.61	13.0	12.6	12.5	12.3	12.1
1.5. Property income	D.4	1.0	1.0	1.0	1.1	1.1
1.6. Other [a]		2.0	2.1	2.1	2.0	2.1
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995) [b]		32.5	33.3	33.5	33.7	33.6
2. Total expenditure target (=table 1c. 7)	TE	*47.8*	*44.8*	*44.0*	*42.6*	*41.2*
Of which						
2.1. Compensation of employees	D.1	*11.2*	*11.4*	*11.0*	*10.5*	*9.9*
2.2. Intermediate consumption	P.2	*5.7*	*5.5*	*5.2*	*5.0*	*4.7*
2.3. Social transfers	D.62, D.6311, D.63121, D.63131 [f]	*19.0*	*19.4*	*19.3*	*19.0*	*18.6*
Of which Unemployment benefits [d]		*3.1*	*3.0*	*2.8*	*2.7*	*2.5*
2.4. Interest expenditure	D.41	*3.0*	*3.4*	*3.6*	*3.9*	*4.1*
2.5. Subsidies	D.3	*1.0*	*1.1*	*1.1*	*0.9*	*0.8*
2.6. Gross fixed capital formation [a]	D.51	*1.7*	*1.4*	*1.4*	*1.2*	*1.1*
2.7. Capital transfers (with financial aid)	D.9	*4.5*	*1.2*	*1.0*	*1.0*	*1.0*
2.8. Other [e]		*1.6*	*1.4*	*1.3*	*1.2*	*1.0*

E) Table 3a. Measures adopted and their incremental impact over coming years

Table 3a. Impact of the main legislative changes (in incremental terms compared to previous year) General Government % 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 authority 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 Authority revenue measures	-	0.03	0.10	0.02
Social Security contributions	-	0.16	0.07	0.03
Combating social security fraud	0.19	-	-	-
Total	4.3	3.7	1.6	1.3
GDP million	1,029,002	1,026,156	1,047,385	1,076,850

Table 3A: Budgetary impact of the revenue measures adopted and envisaged: Taxes (Central govt. before transfer to regions)								
Measures	**Description**	**Target (expenditure/revenue)**	**Accounting principle**	**Status**	**Additional annual budgetary impact (€ million)**			
		ESA Code			**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, on General State Budget for 2011	157			
Complementary personal income tax charge and measures of July and December 2012	Involving application of a temporary, progressive levy on the personal income tax due, at a percentage ranging from 0.75% for very low income, to 7% for income over €300,000. 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 cancelation of the additional 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 tax compensation for purchasing primary home	Ending of tax deduction on investment in the main residence for any purchases made after 1 January 2013.	Revenues	Cash	Law 16/2012, of 27 December			90	90
Capital gains < 1 year change to 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 tax base.	Revenues	Cash	Law 16/2012, of 27 December			40	
20% reduction on net profits in first 2 years(flat rate regime)	20% reduction on net profits from economic activity by taxpayers who launch an economic activity, applicable in the first tax year in which a profit is made and the following year	Revenues	Cash	Royal Decree-Law 4/2013			-9	-9

10% deduction on reinvested ordinary profits	This incentive consists of a 10% deduction in the tax payable on profits in the tax year invested in new tangible fixed assets and real-estate assets for economic activity.	Revenues	Cash	Entrepreneurs Act (passed 27-9- 2013)			-77	
"Business angels": 20% deduction and exemption from capital gains	The investor enjoys two tax benefits: a) When the investment is made: A 20% deduction in state personal income tax payable, subject to a maximum of €20,000; b) on exiting the investment, full exemption for any capital gains, providing these are reinvested in another new or recently-founded entity.	Revenues	Cash	Entrepreneurs Act (passed 27-9- 2013			-6	
Corporate Income tax					**4,607**	**152**	**2,920**	**-602**
Measures prior to 2012	Increase of limits for small companies. Measures relating to payments and deductions for large corporations	Revenues	Cash	Royal Decree-Law 13/2010, of 3 December. Royal Decree-Law 9/2011	-1668			
Increase of 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. Payment in instalments. Limits on deductions of financial costs. Ending of freedom on depreciation. Limits on deduction of goodwill. Limits on application of negative tax bases	Revenues	Cash	Royal Decree-Law 12/2012, of 30 March and Royal Decree-Law 20/2012, of 13 July.	5925	-2222	214	
Special tax on dividends originating abroad	Creation of a special tax on dividends and returns from abroad from the transmission of equity instruments of entities not 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. This excludes SMEs and micro-SMEs. This levy allows the updating of balance sheets by taxpayers of corporation tax, taxpayers of personal income tax involved in economic activities and taxpayers of non-resident income tax operating in Spain through a permanent establishment This updating is voluntary, and is subject to a tax charge of 5% of the amount of the revaluation	Revenues	Cash	Law 16/2012, of 27 December		2671		
Reduced rates for new companies during first two years	A tax rate of 15% has been established for the first €300,000 of the taxable base and 20% for higher amounts, in the first year of positive base, 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 in small sized companies	A 10% reduction in the Corporation Tax payable on profits in a tax year reinvested in new tangible fixed assets or real estate investments linked to its activity for companies with turnover of less than €10 million	Revenues	Cash	Entrepreneurs Act (passed 27-9- 2013)			-547	
Return of 80% of balance pending deduction of RD&I	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.	Revenues	Cash	Entrepreneurs Act (passed 27-9- 2013				-427
Changes to tax regime for intangible assets	A reduction in the tax base of 60%,	Revenues	Cash	Entrepreneurs Act (passed 27-9- 2013			-168	
Cancelation of deduction of losses in participated companies	Change to the tax treatment of investments in resident and non-resident entities with a holding of at least 5% for over 1 year, and for permanent establishments abroad.	Revenues	Cash	Bill on tax measures (approval in Q4 2013)			3650	

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. A tax on emissions of halogenated hydrocarbons.	Revenues	Cash	Law 15/2012, of 27 December on fiscal measures for energy sustainability and Bill on tax measures (approval in Q4 2013)		**1,889**	**54**	
OTHER DIRECT TAXES	Special tax regularisation. Non-resident income tax and others	Revenues	Cash		**1,300**	**-970**	**50**	
VAT			Cash		**1,505**	**8,429**	**117**	**983**
Rate increase July 2010	Increase of general rate from 16% to 18% and reduced rate from 7% to 8% in July 2010	Revenues	Cash	Law 26/2009, of 23 December, on General State Budget for 2010	-178			
Reduction of VAT from 8% to 4% on housing purchases and increase in Excise duties	The reduction of the VAT rate on housing from the reduced rate to 4% was a temporary measure introduced in 2011 and extended until 31 December 2012	Revenues	Cash	Royal Decree-Law 9/2011, of 19 August	-758	736	350	
Rates increase 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 from September 2012	Revenues	Cash	Royal Decree-Law 20/2012, of 13 July	2441	7,693	750	
Creation of cash-basis VAT system	From 1 January 2014, creation of a special, voluntary system for VAT payments on a cash basis for taxpayers with turnover of less than €2 million during the previous year	Revenues	Cash	Entrepreneurs Act passed in September			-983	983
EXCISE DUTIES			Cash		**301**	**2,422**	**434**	
Tobacco products	A number of changes, including an increase in duty rates and rebalancing the fiscal structure, increasing the proportional component and reducing the specific component	Revenues	Cash	The latest changes were introduced in Royal Decree-Law 7/2013, of 28 June	236	550	249	

Hydrocarbons	Increase in rate on professional diesel. Biofuels. 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	A 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 to €0.65 per gigajoule.	Revenues	Cash			264	21	
TAXES AND OTHER REVENUES		Revenues	Cash			**604**		

TOTAL					**11,237**	**15,956**	**3,658**	**462**

Real estate tax (IBI)	Increase in rate	Revenues	Cash		**900**		**100**	**100**
Plan to combat tax fraud		Revenues	Accrual			**1,050**	**1,000**	

TOTAL					**12,137**	**17,006**	**4,758**	**562**

Table 3.a. Autonomous Regions. Expected budgetary impact of the measures adopted and envisaged							
		Target (expenditure /revenue)		Additional annual budgetary impact (€ million)			
Measures	Description	ESA Code	Accounting principle	2012	2013	2014	2015
PERSONNEL SPENDING	General remuneration measures	Expenditure	Budget	-	2,203.8	-	-
	Remuneration of senior managers	Expenditure	Budget	-	0.1	0.0	0.0
	Proportional decrease in hours and remuneration	Expenditure	Budget	-	122.0	35.3	40.2
	Reduction/ending of bonuses and productivity benefits	Expenditure	Budget	-	-1.0	-	-
	Staff planning measures	Expenditure	Budget	-	915.9	235.1	267.4
	Other staffing measures	Expenditure	Budget	1,504.7	-57.2	-	-
	Cancelation of extra salary payment for December	Expenditure	Budget			-	-
PHARMACEUTICAL SPENDING	Pharmaceutical spending resulting from centralised purchasing of medicines	Expenditure	Budget	91.2	89.4	25.9	29.4
	Other pharmacy measures	Expenditure	Budget	644.3	660.4	191.3	217.6
CURRENT SPENDING	Savings related to services and supplies	Expenditure	Budget	-	573.1	166.0	188.9
	Remuneration measures (agreements/*conciertos*)	Expenditure	Budget	-	90.4	26.2	29.8
	Other chapter II measures	Expenditure	Budget	560.5	759.6	220.1	250.3
CURRENT TRANSFERS	Current transfers	Expenditure	Budget	3,133.8	1,609.6	-	-
	Other chapter IV measures	Expenditure	Budget	0.0	0.0	466.3	530.4
CAPITAL TRANSFERS	Subsidies/aid	Expenditure	Budget	-	923.5	267.5	304.3
	Other chapter VII measures	Expenditure	Budget	1,715.1	357.7	103.6	117.9
OTHER MEASURES							
	Other measures	Expenditure	Budget	1,971.5	891.5	189.6	215.7

TOTAL EXPENDITURE MEASURES			Budget	**9,621**	**9,139**	**1,927**	**2,192**
DIRECT TAXES	Personal Income Tax	Revenue	Budget	-	48.2	113.1	115.8
	Inheritance and Donation Tax	Revenue	Budget	-	198.5	27.5	28.1
	Wealth Tax	Revenue	Budget	-	304.1	50	70
	Corporation tax	Revenue	Budget	-	0.0	0.0	0.0
	Environmental taxes	Revenue	Budget	50.3	94.6	53.9	55.2
	Other direct taxes	Revenue	Budget	616.2	-	-	-
INDIRECT TAXES	Property Transfer and Legal Document Tax	Revenue	Budget	76.5	386.7	343.6	510.37
	Special tax on certain means of transport	Revenue	Budget	162.0	-1.8	0.0	0.0
	New taxes	Revenue	Budget	92.3	0.0	0.0	0.0
	Tax on retail sales of certain hydrocarbons	Revenue	Budget	-	370.4	211.1	216.1
	Canary Islands General Indirect Tax (IGIC) and Import Tax (AIEM)	Revenue	Budget	-	178.3	0.0	0.0
	Other indirect taxes	Revenue	Budget	334.5	-	-	-
Fees/taxes	Fees/Taxes	Revenue	Budget	188.4	72.1	41.1	42.1
OTHER TAX REVENUE							
	Other tax revenue	Revenue	Budget	1,109.1	570.6	325.1	332.9
NON-TAX MEASURES	Non-tax measures	Revenue	Budget	43.9	1,536.0	976.7	1,000.0
CURRENT/CAPITAL TRANSFERS	Transfers (current and capital)	Revenue	Budget	1,181.9	-	-	-
TOTAL REVENUE MEASURES			Budget	**3,855**	**3,758**	**2,142**	**2,370**

Table 3.a. Local Authorities. Expected budgetary impact of the measures adopted and planned							
Local Authority measures	Description	Target (cost/revenue)	Accounting principle	Additional annual budgetary impact (€ million)			
		ESA Code		2012	2013	2014	2015
Personnel spending	Reduction in personnel spending (1)	Expenditure	Budget		908.4	320	4.48
Current spending	Reduction in expenditure of goods and services received	Expenditure	Budget		0.00	570.4	0.00
Public company sector	Winding up of companies (2)	Expenditure	Budget		4.33	381.0	1,016.8
Investment and capital transfers	Reduction of investments and capital transfers	Expenditure	Budget		790.0	480.0	0.00
Ending of services	Other spending measures. Disappearance of smaller local authorities and ending of services not falling under local competences (3)	Expenditure	Budget		140.8	680.0	2,602
Health, education and social services	Transfer of competences in health, education and social services (4)	Expenditure	Budget		0.00	0.00	473.0
Integrated management and mergers	Integrated management of public services and merger of municipalities (5)	Expenditure	Budget		0.00	0.00	1,037
TOTAL EXPENDITURE					1,843.5	2,431.4	5,133.3
Taxes	Tax increases, ending of exemptions and voluntary credits	Revenue	Budget		182.5	200.0	98.3
Taxes	Reinforced effectiveness of enforced and voluntary collection	Revenue	Budget		15.41	60.36	20.82
Taxes	New tax liabilities	Revenue	Budget		8.04	300.0	0.00
Taxes	Fees and public prices	Revenue	Budget		55.31	538.6	23.27
Other revenue	Other revenue measures	Revenue	Budget		0.00	0.00	33.68
Total revenues					261.3	1,099	176.1
TOTAL LOCAL AUTHORITIES (excluding Property Tax)					2,104.8	3,530.4	5,309.4

(1) Includes measures in the Bill on the Rationalisation and Sustainability of Local Government limiting temporary staff and the exclusivity requirement (valued 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 (valued at €381M in 2014 and € 1016.6M in 2015)
(3) Includes the effect of dissolving local authority bodies at lower than municipal level, with an effect in 2014 of €13.9 M, and the elimination of "undue" competences, with an effect of €680 M in 2014, €2,602 M in 2015 €453 M in 2016. These measures are contained in the aforementioned 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

Bill on the Rationalisation and Sustainability of Local Government (Official Gazette of Congress 6-9-2013)

F) Table 3b. In- year quarterly reporting on the budgetary impact of the measures

Table 3b. Central Government Revenue (before transfer to regions)					
	Quarterly budgetary impact (€million) Non -cumulative				
	Q1	Q2	Q3	Q4	Estimated budgetary impact in 2013 (€ million)
PERSONAL INCOME TAX	**530**				**3430**
Complementary charge	872	30			2022
Withholdings on economic activity (from 15 to 21%; and 21 to 19%)	272	230			422
Ending of tax compensation for purchasing primary home					430
Exemption of lottery winnings less than €2,500, otherwise taxed at 20%	62	60			825
Cancelation of extra salary payment to public administration employees	-676				-269
CORPORATE INCOME TAX	**53**	**1800**			**152**
Increase of withholding rate on capital gains	44				-217
Minimum instalment payment on accounting profit (on tax due)		955			-1335
Payment in instalments (rates+prior year losses+25% dividends+asset deduction) (on tax due)		845			-1564
Limits on deductions of financial costs (on tax due)					110
Ending of freedom of depreciation (on tax due)					145
Limits on deduction of goodwill (on tax due)					20
Special tax on dividends originating abroad	9				-80
Limits on deductions of depreciation costs (in payments)					2371
Levy on asset revaluation					300
Limits on deductibility of losses from investee companies (in payments)					402
NON-RESIDENT INCOME TAX and other direct revenues	**26**				**226**
NEW ENVIRONMENTAL TAXATION		**388**			**1889**
Tax on the value of electricity production		385			1259
Tax on production and storage of spent nuclear fuel		3			284
Tax on fuel storage					346
SPECIAL TAX REGULARISATION		**-18**			**-1196**
VAT	**1940**	**2784**			**8429**
VAT increase from 4% to 8% on housing purchases	15	122			612
Increase in rates in September 2012 + increase in Excise duties	1925	2662			7817
EXCISE DUTIES	**240**	**313**			**2422**

Tobacco products	78	5			550
Hydrocarbons	162	267			1562
Increase in rate on professional diesel	28	5			34
Biofuels	57	122			650
Natural gas (consumption and use in electricity generation)	69	134			821
Diesel and fuel-oil used in electricity generation	2	2			35
LPG	6	4			20
Alcohol and derivative beverages					46
Coal		41			264
FEES AND OTHER REVENUES	**30**	**42**			**604**
TOTAL	**2,793**	**5,629**			**15,956**

G) Table 4. General Government debt developments and prospects

Table 4. General government debt developments and prospects (S.13)							
	ESA Code	2011	2012	2013	2014	2015	2016
		% GDP					
1. Gross debt[a] (=Table 1b.8 for general government)		70.39	85.90	94.21	98.86	101.13	101.09
2. Change in gross debt ratio			15.51	8.31	4.65	2.27	-0.04
Contribution to change in gross debt							
3. Primary balance (= Table 1c. 9)		-7.05	-7.60	-3.45	-2.18	-0.36	1.24
4. Interest expenditure (= Table 1c.8)	D.41	2.51	3.03	3.39	3.64	3.88	4.07
5. Stock-flow adjustment			3.7	1.2	0.7	0.8	0.4
7. Net financial debt (7=1-6)		70.39	85.90	94.21	98.86	101.13	101.09
[a] As defined in EC Regulation 479/2009							

H) Public Administration guarantees

Table 5. Public Administration guarantees					
	2008	**2009**	**2010**	**2011**	**2012**
Total Public Administrations					
One-off guarantees					
Total stock, excluding debt assumed by Government	**11,773**	**59,938**	**72,144**	**78,041**	**128,705**
of which: public companies	300	500	500	500	500
financial companies	7,052	54,914	66,742	72,121	84,504
guarantees given in the context of the financial crisis	0	49,008	59,506	64,620	79,530
Standardised guarantees					
Total stock	**0**	**0**	**0**	**0**	**0**
Central Government					
One-off guarantees					
Total stock, excluding debt assumed by Government	**7,672**	**55,535**	**67,240**	**72,564**	**123,650**
of which: public companies	0	0	0	0	0
financial companies	7,052	54,914	66,742	72,121	84,504
guarantees given in the context of the financial crisis	0	49,008	59,506	64,620	79,530
Standardised guarantees					
Total stock	**0**	**0**	**0**	**0**	**0**
Autonomous Regions					
One-off guarantees					
Total stock, excluding debt assumed by Government	**3,089**	**3,380**	**3,754**	**4,273**	**3,994**
of which: public companies					
financial companies					
guarantees given in the context of the financial crisis					
Standardised guarantees					
Total stock	**0**	**0**	**0**	**0**	**0**
Local authorities					
One-off guarantees					
Total stock, excluding debt assumed by Government	**1,012**	**1,023**	**1,150**	**1,204**	**1,061**
of which: public companies	300	500	500	500	500
financial companies					
guarantees given in the context of the financial crisis					
Standardised guarantees					
Total stock	**0**	**0**	**0**	**0**	**0**

Notes:

1. There are only "one-off guarantees"
2. According to the conclusions of the "Task Force on the implications of Council Directive 2011/85 on the collection and dissemination of fiscal data", the "Total Stock of guarantees, excluding debt assumed by government", does not include debt guaranteed by bodies included in the public administration sector (S.13) (the Fund for Orderly Bank Restructuring, the Amortisation Fund for the Electricity Deficit, etc.) or debt guaranteed by the EFSF.

3. Only includes the principal guaranteed until 2011. In 2012, it also includes the financial burden guaranteed