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COMMISSION OPINION

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact (SGP) and the European Semester for economic policy coordination.

2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING SPAIN

3. On the basis of the updated Draft Budgetary Plan for 2017 submitted on 9 December 2016, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

4. The updated Draft Budgetary Plan for 2017 was submitted by the government that took office on 4 November 2016 following the general elections of 26 June 2016. It updates the Draft Budgetary Plan for 2017 that was submitted on 15 October 2016, which, given the caretaker nature of the government in place at the time of its submission, only provided projections on the basis of unchanged policies.

5. As indicated in the Commission recommendation for a Council Recommendation on the economic policy of the euro area as well as in the Commission Communication 'Towards a positive fiscal stance for the euro area' of 16 November 2016, it is important that the aggregate fiscal stance of the euro area supports the ongoing recovery, while ensuring the long-term sustainability of national public finances.

6. Spain is currently subject to the corrective arm of the SGP. The Council opened the Excessive Deficit Procedure for Spain on 27 April 2009. On 8 August 2016, the Council decided to give notice to Spain under Article 126(9) of the Treaty to correct its excessive deficit by 2018. To that end, Spain is required to reduce the general government deficit to 4.6% of GDP in 2016, to 3.1% of GDP in 2017 and to 2.2% of GDP in 2018. Based on the updated Commission 2016 spring forecast, those reductions in the general government deficit are consistent with a deterioration of the structural balance by 0.4% of GDP in 2016 and improvements by 0.5% of GDP in both 2017 and 2018.

7. Overall, the macroeconomic projections underpinning the Draft Budgetary Plan are plausible in 2016 and somewhat favourable in 2017. Real GDP growth is projected to reach 3.2% in 2016 and, after incorporating the impact of the new fiscal policy measures included in the updated Draft Budgetary Plan, 2.5% in 2017. That projection is slightly different from the forecast underpinning the no-policy-change Draft Budgetary Plan for 2017 submitted in October, which showed real GDP growth of 2.9% in 2016 and 2.3% in 2017. Economic growth is expected to be driven by

domestic demand in both years, with a modest contribution from net external trade. The updated Commission 2016 autumn forecast projects growth to reach 3.3% in 2016 and 2.3% in 2017, with a slightly lower contribution from domestic demand and a higher contribution from net external trade compared to projections in the updated Draft Budgetary Plan. For 2016, this is a slightly upward adjustment from the projection of 3.2% in the Commission 2016 autumn forecast, consistent with available soft and hard indicators pointing to dynamic economic activity in the fourth quarter of 2016. For 2017, the updated Commission forecast maintains the economic growth forecast at 2.3%, as the stronger growth momentum driven by those positive developments in the fourth quarter of 2016 is offset by the expected impact of the new deficit-reducing policy measures included in the updated Draft Budgetary Plan.

8. Spain complies with the requirement of Regulation (EU) No 473/2013 that the Draft Budgetary Plan has to be based on independently endorsed or independently produced macroeconomic forecast. The macroeconomic forecasts underlying the updated Draft Budgetary Plan for 2017 have been endorsed by the *Autoridad Independiente de Responsabilidad Fiscal* (AIReF), Spain's independent fiscal institution. AIReF nevertheless flags risks stemming from the external side as well as from uncertainty regarding the impact on revenue growth of the cycle and of the new fiscal policy measures included in the updated Draft Budgetary Plan.

9. The updated Draft Budgetary Plan confirms the projection of a general government deficit declining from 5.1% of GDP in 2015 to 4.6% of GDP in 2016, as in the no-policy-change Draft Budgetary Plan for 2017. For 2017, the general government deficit is now projected to decline to 3.1% of GDP, down from 3.6% in the no-policy-change Draft Budgetary Plan. Based on the projections in the updated Draft Budgetary Plan, the recalculated structural balance is expected to deteriorate by 0.9% of GDP in 2016 and to improve by 0.3% of GDP in 2017. The gross debt-to-GDP ratio is expected to decrease slightly in both 2016 and 2017, but remains high at slightly below 100%. The decrease of the debt ratio in 2016 is the result of the debt-increasing impact of the primary deficit and interest expenditure being more than offset by the debt-reducing impacts of relatively high nominal GDP growth and a planned negative stock-flow adjustment. In 2017, continued strong nominal GDP growth is expected to more than offset the planned debt-increasing impacts of the primary deficit, interest expenditure and positive stock-flow adjustment.

10. In light of the available tax collection data, in particular data from the October 2016 Corporate Income Tax instalment payment, the updated Draft Budgetary Plan confirms the net deficit-decreasing impact of 0.7% of GDP from fiscal policy measures in 2016, which had already been included in the no-policy-change Draft Budgetary Plan. For 2017, the reported net overall deficit-reducing impact from the planned fiscal policy measures amounts to 1.0% of GDP. That figure is 0.7% higher than in the no-policy-change Draft Budgetary Plan, largely stemming from new measures taken on the revenue side, in particular the increases in Corporate Income Tax adopted in December 2016. The updated Commission 2016 autumn forecast includes a net overall deficit-reducing impact from fiscal policy measures amounting to 0.2% of GDP in 2016 and 0.6% of GDP in 2017 (including a deficit-decreasing net effect from one-offs of 0.2% in 2017). In detail, differences compared with the government plans mostly come from a lower valuation by the Commission forecast of expenditure measures in both years, in particular of the savings from the expenditure cuts at both regional and central government levels adopted in 2016 and,

to a lesser extent, from the application at regional government level of the new pharmaceutical and healthcare spending rule in 2017.

11. According to the updated Commission 2016 autumn forecast, the headline deficit would decrease to 4.6% of GDP in 2016, in line with the updated Draft Budgetary Plan. For 2017 and 2018, the headline deficit is projected to decrease to 3.3% of GDP and 2.8% of GDP, respectively, which is above the headline deficit target in the updated Draft Budgetary Plan in both years. The discrepancy compared with the targets in the updated Draft Budgetary Plan mostly reflects a less optimistic macroeconomic scenario and the projected lower yield from fiscal policy measures in the Commission forecast. In terms of structural balance, the updated Commission 2016 autumn forecast projects a deterioration by 1% of GDP in 2016 and an improvement by 0.2% of GDP in 2017, broadly in line with the change in the (recalculated) structural balance planned in the updated Draft Budgetary Plan. According to the updated Commission forecast, the debt-to-GDP ratio is projected to stand at 99.6% of GDP in 2016 and 99.5% of GDP in 2017. For 2016, the projected level is slightly higher than the projection in the updated Draft Budgetary Plan, with the difference widening slightly further in 2017 in view of the higher primary deficit and lower nominal growth in the Commission forecast.

12. According to the updated Commission 2016 autumn forecast, the headline deficit in 2016 will be in line with the target set by the Council, but there is a risk that the fiscal effort may fall somewhat short of the requirements in 2016, as was already highlighted in the Commission opinion on Spain's no-policy-change Draft Budgetary Plan of November 2016[1]. Based on the updated Commission forecast, the headline deficit in 2017 is projected to be 0.2 pp above the required headline deficit target of 3.1% of GDP. The adjusted change in the structural balance, which is impacted by sizeable revenue shortfalls in 2016, is projected at 0.7% of GDP in 2017, compared with a required structural improvement of 0.5% of GDP. Based on the bottom-up method, a fiscal effort of 0.7% of GDP is also projected to be delivered by Spain in 2017, compared with the effort of 0.5% of GDP deemed necessary to comply with the Council decision of 8 August 2016. In cumulative terms over 2016-2017, Spain is expected to deliver the required fiscal effort based on both the adjusted change in the structural balance and the bottom-up method.

13. On 8 August 2016, the Council also called on Spain to strengthen its fiscal and public procurement policy frameworks. The updated Draft Budgetary Plan reports that the government will assess, with the assistance of regional and local governments, the Stability Law's spending rule, with a view to removing inconsistencies with the SGP expenditure benchmark. It does not, however, provide details, including a timeline. Moreover, the updated Draft Budgetary Plan does not report on measures to increase the automaticity of the Stability Law's mechanisms to prevent and correct deviations from the deficit, debt and expenditure targets. Regarding public procurement, the updated Draft Budgetary Plan mostly recalls the measures already reported in the previous no-policy-change Draft Budgetary Plan. The Commission's conclusions published in November 2016 in its opinion on Spain's no-policy-change Draft Budgetary Plan thus remain valid. In particular, while the reported measures can go some way towards improving some public procurement practices in Spain, they do not address the need for a consistent framework that ensures sufficient transparency and coordination of public procurement policies

[1] http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/dbp/2016/es_2016-11-16_co_en.pdf

across all contracting authorities and entities. Moreover, the reported measures do not spell out clear objectives for public procurement, specific instruments for action and a timeline for their adoption and implementation.

14. Overall, the Commission considers that the updated Draft Budgetary Plan of Spain, which is currently under the corrective arm, is broadly compliant with the provisions of the SGP. According to the updated Commission 2016 autumn forecast, the required fiscal effort is expected to be met in both 2017 and in cumulative terms over 2016 and 2017. While the fiscal policy measures taken so far by the government have significantly increased the probability of meeting the 2016 headline deficit target and delivering the required structural effort in 2017, albeit with a narrow margin, the 2017 headline deficit target is not projected to be met. The Commission therefore invites the authorities to stand ready to take further measures should fiscal developments indicate a heightened risk of not fulfilling the Council's requirements.

The Commission is also of the opinion that Spain has made limited progress in responding to the specific Council requirements to strengthen its fiscal framework and its public procurement policy framework. The Commission therefore invites the authorities to accelerate progress. A comprehensive assessment of progress made in the implementation of the country-specific recommendations will be made in the 2017 Country Reports and in the context of the country-specific recommendations to be adopted by the Council in 2017.

Done at Brussels, 17.1.2017

For the Commission
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