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Assessment of the 2012 national reform programme and stability programme for SPAIN

Accompanying the document

Recommendation for a

COUNCIL RECOMMENDATION

on Spain's 2012 national reform programme and delivering a Council opinion on Spain's updated stability programme, 2012-2015

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EXECUTIVE SUMMARY

In 2012, Spain's economic activity is expected to contract by 1.8%, and by 0.3% in 2013. Unemployment is foreseen to increase further to 25.1% in 2013, also for the young.

Spain has recently adopted ambitious reforms, including in key areas such as the financial sector, the labour market and collective bargaining. It also introduced legislation to strengthen the fiscal framework and reformed pensions. Reflecting the outstanding challenges, Spain has announced comprehensive and far-reaching plans for further measures to strengthen fiscal discipline and enhance competitiveness to boost the country's growth.

Spain continues to face important policy challenges following the bursting of the housing and credit bubble. Further fiscal consolidation and fiscal discipline at regional level are necessary to restore market confidence and to halt the rapid increase in government debt. The tax structure lacks efficiency and there is room for making the tax system more growth friendly. The banking sector remains fragile due to high private and corporate debt levels. Low levels of competition in sheltered sectors such as professional services and retail, sluggish adjustment of prices and wages and low productivity growth hamper the economic recovery and the re-orientation of the Spanish economy towards a new growth model. Unemployment has reached a record high, and employability and labour market segmentation constitute significant bottlenecks. Problems in the education system include low levels of achievement at secondary level, too many students leaving school early and a vocational training system insufficiently tailored to market needs.

1. INTRODUCTION

In June 2011, the Commission proposed seven country specific recommendations[1] (CSRs) for economic and structural reform policies for Spain. In July 2011, the Council of the European Union adopted these recommendations[2], which focused on public finances, pension reform, restructuring of the financial sector, tax policies, labour market and the functioning of the product and services markets.

In November 2011, the Commission published its Annual Growth Survey for 2012[3] (AGS 2012) presenting the basis for building the necessary common understanding about the priorities for action at national and EU level in 2012. It focused on five priorities – growth-friendly fiscal consolidation, restoring normal lending to the economy, promoting growth and competitiveness, tackling unemployment and social consequences of the crisis, and modernising public administration – and encouraged Member States to implement them in the 2012 European Semester.

Against this background, Spain presented its national reform programme and stability programme in April 2012. These programmes provide details on progress made since July 2011 and plans going forward.

Overall assessment

This staff working document assesses the state of implementation of the 2011 country-specific recommendations as well as the Annual Growth Survey 2012 in Spain, identifies current policy challenges and, in this light, examines the policy plans.

Overall, the policy plans submitted by Spain are relevant, but in some areas they lack sufficient ambition to address the challenges identified. The national reform programme confirms that Spain will continue with its current strategies and announces new plans in the areas of active labour market policies, measures promoting growth and competitiveness, bank regulation and cooperation between different layers of public administration. For some of these areas, the national reform programme does not contain any specific plans for addressing the challenges.

Concerning public finances, a stronger institutional framework has been legislated, in line with the Council recommendation. However, the deficit outturn in 2011 was considerably worse than planned in the previous programme. The general government deficit[4] fell to 8.5% of GDP in 2011 compared with a 6% of GDP target. The related country-specific recommendation has therefore been only partially implemented.

In the area of pensions, Spain has implemented the recommendation; however, the worsening of the economic prospects in Spain is limiting the impact of the reforms on the projected age-related public expenditure.

As far as the financial sector is concerned, in February 2011 Spain adopted much more stringent minimum capital requirements for all banks that were reached by end-September 2011, in line with the commitment under the Euro Plus Pact and the country-specific recommendation. However, the weakening of macroeconomic prospects may require further strengthening of the capital buffers of banks, especially of weaker

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1 SEC(2011) 817 final of 7 June 2011

2 OJ C 212, 19.7.2011, p. 1-4.

3 COM(2011) 815 final of 23 November 2011

4 According to latest information, official general government deficit in 2011 might be still subject to revision.

institutions. Firms' access to finance continues to be one of the main concerns of the Spanish enterprises.

The recent reform of the tax system introduced by government is heading in the opposite direction to the country-specific recommendation to Spain in this area. Overall, the Spanish tax system still relies disproportionately on direct taxes, while taxes on consumption and environmental taxes are relatively low compared to the EU average.

Spain has designed a sound labour market reform, in the direction advocated by the country-specific recommendations in this area and in line with Euro Plus Pact commitments; nevertheless, the reform was not ambitious enough to tackle the use of ex-post automatic wage inflation indexation clauses in collective agreement, to reduce labour market segmentation and to improve employment opportunities for young people.

In the area of competition in the product and services markets, there has been some progress on implementing the Sustainable Economy Law, but only in certain areas. The absence of competition in professional services undermines the competitiveness of users downstream. Strong commitment is needed from the new government to carry on planned privatization efforts, which have currently been put on hold. No major progress has been observed with respect to the administrative burden associated to the lack of coordination between administrations.

2. ECONOMIC DEVELOPMENTS AND CHALLENGES

2.1. Recent economic developments and outlook

Recent economic developments

The large internal and external imbalances built up during the long period of the housing and credit boom started being corrected in 2007. The international financial crisis accelerated this correction, as reflected by the downsizing in the construction sector, the reversal in credit flows to households and firms, the significant reduction of the traditionally high current account deficit and the slowdown in external debt growth. Nevertheless, significant imbalances remain. High private sector indebtedness and record-high unemployment continue to depress the outlook for Spain. The Spanish economy has lost momentum due to a weaker external environment, the intensification of the sovereign debt crisis, negative spillovers in the financial sector, reductions in public expenditure and a larger-than-expected deterioration in the labour market. Real GDP growth stagnated in the third quarter of 2011 and declined by 0.3% quarter-on-quarter in the last quarter of the year. For 2011, real GDP growth still reached 0.7%. Unemployment has been fuelled by the radical downsizing of the construction sector and by the economic downturn. The situation was aggravated by a rigid labour market and very sluggish adjustment of wages. The unemployment rate reached 24.4% in the first quarter (over 5 million people).

Outlook

The Commission’s 2012 spring forecast expects real GDP to shrink by 1.8% in 2012 and by around 0.3% in 2013. Spain went into recession in the fourth quarter of 2011, driven by a larger-than-expected deterioration in the labour market, lower public expenditure and deteriorating credit conditions, while the euro-area sovereign debt crisis intensified and external demand weakened. Internal demand will act as a drag on growth in 2012, only partially compensated by external demand. The contraction is expected to be strongest in the second half of 2012, reflecting the short-term impact of consolidation needs. The correction of the economic imbalances will adversely affect domestic demand over the forecast horizon, although a gradual improvement is expected in 2013. Resilient exports and weaker imports, implied by the subdued domestic demand, should continue to support net exports and, thus, economic growth. However, unemployment is likely to increase further in the short-term.

2.2. Challenges

Spain faces major adjustment challenges following the bursting of the housing and credit bubble. Major reforms have begun in the areas of fiscal consolidation and fiscal framework, the financial sector, pensions and labour and, to a certain degree, product markets. However, Spain still faces significant challenges in rebuilding market confidence, securing the sustainability of public finances, reducing domestic and external vulnerabilities and underpinning medium-term growth and employment. In consequence, there is need to fully implement the ongoing reforms and substantially speed up reforms in the product and service markets.

Public finances have deteriorated significantly following the crisis. Further consolidation is essential to halt the rapid increase in government debt and to restore market confidence. To achieve this, compliance with budgetary targets at all levels of government is indispensable. The bursting of the asset price bubble and the end of the domestic-demand-led boom has structurally dented Spain's revenue base. Consequently, structural adjustments of both expenditure and revenue are required. Growth-friendly fiscal consolidation would include improving the efficiency of the tax system by shifting the tax burden from labour towards consumption and environmental taxes, broadening tax bases and rationalising subsidies. The worsening of the economic outlook limits the positive impact of recent reforms on the projected age-related public expenditure. Dealing with the costs of ageing therefore remains a further challenge.

Recent reforms have helped to speed up restructuring of the banking sector, which should continue. However, ensuring the stability of the financial sector is still a challenge. Real estate loans make up a large proportion of total loans, and this remains a risk factor. Households and corporations are still exposed to very high debt levels and need to repair their balance sheets. Further adjustments in house prices are needed to absorb the high stock of unsold homes. Difficult market conditions, weak economic prospects and stricter provisioning rules for banks pave the way for credit restrictions and leave firms facing increasing difficulties with access to finance.

Net external debt remains close to 90 % of GDP. The current account will have to shift to a structural surplus to contain external financing needs amid persistent market pressures. This will require additional improvements in price and non-price competitiveness. Moreover, flexible product and factor markets are essential to facilitate the re-orientation of the Spanish economy to the tradable sector. Recent reforms are heading in the right direction, but the adjustment is being hampered by lack of competition in sheltered sectors such as professional services and retail, by sluggish adjustment of prices and wages and by low productivity growth. What Spain needs is stronger competition, especially in services, a more growth-friendly business environment and more efficient education, training and R&D and innovation systems. These would make it easier to reallocate resources, diversify Spain's economic activity and its productive potential, increase employment, improve productivity and boost growth.

Unemployment in Spain has surged to record-high levels in the aftermath of the crisis. Both cyclical and structural factors play a role. Unemployment particularly affects younger and low-skilled workers and those who had temporary contracts. Adjustment in the labour market has been occurring via lay-offs rather than through wage flexibility or by changing working conditions within firms. Young people face significant challenges in making the transition from education and training to the labour market. These challenges include lack of work experience, low levels of qualification and a mismatch between skills and labour market requirements. Spain has made a considerable effort to improve the functioning of the labour markets through a series of labour market reforms in 2010, 2011 and, the most ambitious one in February 2012. They embrace changes to employment protection legislation, the collective bargaining system, internal flexibility, job incentives and labour market intermediation services. However, there is still a question mark over the effectiveness of active labour market policies and the efficiency of the intermediation services, in particular with regard to coordinating national and regional public employment services, including information exchanges on job vacancies throughout the country. The social consequences of the crisis in Spain are reflected in the recent increases in number of people at risk of poverty and/or social exclusion, which makes harder to achieve the target of reducing the number of people at risk of poverty and/or social exclusion by between 1.4 and 1.5 million.

Problems in the education system include low levels of achievement at secondary level, too many students leaving school early and a vocational training system insufficiently tailored to market needs. These contribute to low productivity growth and reduce the employability of the workforce.

Box 1: Summary of the results of the in-depth review (IDR) under the macroeconomic imbalances procedure

The in-depth review takes a broad view of the Spanish economy in order to identify actual or potential imbalances and the possible macroeconomic risks which they may entail. The main finding of this review is that the various imbalances characterising the Spanish economy are highly interconnected. The origin of the current imbalances lies in the abundant availability of cheap external financing, which allowed a significant increase in investment — notably in real estate — and consumption. This triggered a sharp rise in external deficits and private debt. A significant part of these financial resources was channelled into the non-tradable sector, especially construction. Generous financing, combined with demographic pressures and incentives favouring housing investment, created significant housing demand, pushing up house prices, and ultimately leading to a housing bubble. The adjustment of these imbalances started in 2007 and is on-going. While the adjustment of flows (e.g. current account deficit, investment in construction, credit growth), has been relatively swift and is quite advanced in some areas, the adjustment of stocks, in particular the high level of private and external debt, has been much more gradual and will take a considerable time. At the same time as these imbalances started to correct, significant new imbalances arose, notably in the labour market and in public finances. The banking sector remains burdened with sizeable exposures to the real estate and construction sector, although additional measures were adopted recently to speed up the recognition of losses and to clean up balance sheets. Banks' ability to lend is constrained by their need to deleverage and re-capitalise, and by difficult access to finance. This, in turn, makes it hard for the real economy to access credit and carry out structural adjustment. As this adjustment proceeds, negative feedback loops may arise between private and public sector deleveraging, compressed domestic demand, high levels of unemployment, further adjustment in the housing sector, and financial sector stability. In addition, prolonged adjustment of these imbalances, due to their large size and scope, may create risks of negative spill-overs to other euro-area economies. The main findings of the review are as follows:

- **Large accumulated private sector debt is a source of concern, especially with regard to the real estate and construction sectors.** The size and scope of the necessary deleveraging implies subdued domestic demand in the medium-term with significant downside risks related to the high vulnerability of the private sector to interest rate increases.

- **The large external debt poses significant risks and needs to be brought back to a sustainable path.** Large external financing needs increase the vulnerability of the Spanish economy in terms of access to finance and the interest burden. While the current account deficit has been reduced significantly, a shift to persistent current account surpluses will be required to restore the sustainability of the external position.

- **Spain is gradually regaining competitiveness.** It has made important progress in compensating for past losses of its price and cost competitiveness. However, a significant part of this adjustment has been due to cyclical factors, in particular the sharp reduction in employment which implied a strong improvement in measured productivity. If Spain is to achieve a more structural, long-lasting re-balancing of the economy it must tackle the structural problems that are hampering growth and limiting competitiveness.

- **House prices continue to fall in Spain.** The bursting of the housing bubble exposed a significant oversupply of new housing, leading to an accumulation of a large stock of unsold houses. This continues to exert downward pressure on house prices with potential adverse effects on private consumption and financial stability.

- **Public debt has become an emerging, rapidly-increasing, imbalance in Spain.** While the share of public debt in GDP is still below the euro-area average, it is increasing rapidly on the back of weak growth, rising interest payments and high budget deficits.

The unwinding of these imbalances and the required structural adjustment of the economy depend on the flexibility of Spanish factor and product markets. The Spanish Government's policy response has been comprehensive and far-reaching. However, important challenges remain. To support the further correction of imbalances, the Government needs policies to make the Spanish economy more competitive and to enlarge its export base, to strengthen competition in product and service markets, to further restructure the banking sector, to complete the adjustment of the housing sector and to widen the scope of labour market reforms.

3. ASSESSMENT OF THE POLICY AGENDA

3.1. Fiscal policy and taxation

Budgetary developments and debt dynamics

The stability programme plans to bring the budget deficit below the 3 % reference value by 2013, in line with the Council recommendations of April 2009, and to reduce it further to 1.1 % of GDP in 2015. Under the stability programme, the medium-term objective (MTO), which remains a balanced budget in structural terms, would be almost reached by 2015 with a structural budget deficit of 0.2 % of GDP. The MTO adequately reflects the requirements of the Stability and Growth Pact.

The deficit outturn in 2011 was considerably worse than planned in the previous programme. The deficit[5] fell to 8.5 % of GDP compared with the target of 6 %. About two thirds of the deviation is explained by overruns in the budgets of autonomous communities, while central government and social security slippages were more limited. The budget deviation was driven mainly by weaker-than-expected revenues in line with the materialisation of a less favourable economic environment than foreseen in the 2011 stability programme and additional revenue shortfalls due to a less tax-rich growth composition. In particular, taxes on production and imports (VAT, taxes on real estate transactions) recorded major shortfalls, affecting the central and regional government levels. Social contributions were also weaker, in line with a stronger-than-expected deterioration in the labour market. Consequently, Spain has not met part of the first 2011 recommendation, which called *inter alia* for achieving deficit targets at all levels of government, including by strictly applying the existing deficit and debt control mechanisms for regional governments, and adopting further measures if budgetary and economic developments do not turn out as expected.

For 2012, the stability programme aims to achieve a general government deficit of 5.3 % of GDP, compared with a target of 4.4 % in the previous update. This revision reflects the worse starting position in 2012 and a weaker economic outlook. In its 2012 spring forecast, the Commission predicts a deficit of 6.4 % of GDP for 2012. The main difference concerns the expenditure side (0.8 pps of GDP) given that some of the consolidation measures to be taken at regional government level have not been yet fully specified. The difference in revenues (0.3 pps of GDP) is explained by lower expected social contributions in line with a deteriorating labour market outlook. While the central government's target of a deficit of 3.5 % of GDP should be broadly within reach, regional governments are expected to miss their targets, mainly because they need to further specify their consolidation measures. Moreover, given the lower expected social contributions, the social security system is likely to record a deficit again this year, instead of the balanced budget planned in the stability programme.

The stability programme maintains a budget deficit target of 3 % of GDP for 2013. The target for 2014 has been set at 2.2 % of GDP (it was 2.1 % in the previous update) and for 2015 it is set at 1.1 % of GDP.

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[5] According to latest information, official general government deficit in 2011 might be still subject to revision.

The fiscal consolidation plan is frontloaded, with most of the total fiscal adjustment to be delivered in 2012 and 2013, in terms of headline, primary and structural balances. According to the stability programme, the cumulative reduction of the headline deficit between 2011 and 2015 amounts to 7.4 pps of GDP and is mainly expenditure-based (6 pps of GDP). Expenditure cuts up to 2015 are expected to be particularly severe for compensation of employees (2.3 pps of GDP), intermediate consumption (1.7 pps of GDP), and gross fixed capital formation (1.3 pps of GDP). The central Government plans to reduce its deficit by 4 pps of GDP between 2011 and 2015, but regional Governments will also have to deliver a reduction of close to 3 pps of GDP in their budget deficit.

According to the stability programme, total revenue-raising measures of 2.3 % of GDP are planned in 2012. Of these, 1.8 % have already been adopted, while 0.5 % remains to be decided at regional level. These include mainly increases in direct taxation, such as changes to income and corporate taxation and a fiscal amnesty. A number of these measures are temporary in nature, e.g. an increase in income tax (limited to 2012 and 2013), a change in the 'tax instalment' system for corporate taxes in 2012, a public wage freeze in 2012 and the fiscal amnesty in 2012. Total expenditure is expected to decline by 1.2 % of GDP in 2012, underpinned by cuts in ministerial spending levels. The stability programme envisages major cuts in capital spending and in current spending, for example by ceasing to recruit civil servants. At regional level, the largest cuts are set to come from the recently-announced savings in the areas of health and education in 2012 and 2013.

Box 2. Main budgetary measures

Revenue	Expenditure
2011	
• 2010 increase in VAT rates (residual impact of 0.3 % of GDP) • Increase in excise taxes in the 2011 budget (0.1 % of GDP) • Withdrawal of a personal income tax credit of 400 euro, residual impact (0.1 % of GDP).	• May 2010 cuts in expenditure, including a reduction in public investment and a freeze in public sector wages (-1 % of GDP). • Withdrawal of the National Fund for Employment and Local Sustainability (0.5 % of GDP). • Phasing out subsidies, including housing subsidies. (-0.1 % of GDP).
2012	
• Increase in Personal Income Tax (0.4 % of GDP) • Corporate Tax (0.5 % of GDP) • Fiscal regularisation (0.2 % of GDP) • Fight against tax fraud (0.2 % of GDP) • Tax on Property (0.1 % of GDP) • Additional revenues of Autonomous Communities (0.3 % of GDP)	• Cuts in education (0.1 % of GDP) • Cuts in health care (0.3 % of GDP) • Cuts in capital transfers (0.5 % of GDP)
2013	
• Revenues from indirect taxation (0.8 % of GDP) • Personal Income Tax (0.1 % of GDP)	• Cuts in education (0.2 % of GDP) • Cuts in health Care (0.3 % of GDP) • Removal of overlaps and rearrangement of competences between levels of Government (0.3 % of GDP)

Note: The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities. A positive sign implies that revenue / expenditure increases/decreases as a consequence of this measure.

Among the **macro-structural measures** affecting potential growth, the main measures to highlight are the successive labour market reforms. A series of labour market reforms in 2010 and 2011 and again in February 2012 aimed to reduce labour market segmentation and to make the collective bargaining system more flexible (see Section 3.3).

In 2013 the stability programme includes a large projected increase in revenues from taxes on production and imports, within a framework of a tax restructuring that might be partially compensated by lower taxes on labour. The Government has not yet specified the measures it will take to underpin the increase in indirect taxes. On the expenditure side, cuts in education and health are planned at regional level, as well as a rearrangement of competences between levels of Government. For 2014 and 2015, few concrete measures are included in the programme, so the envisaged consolidation is not yet sufficiently supported by measures to underpin the proposed deficit target.

According to the stability programme, the annual average improvement of the structural balance[6] is 2.6% of GDP for 2011-13, well above the fiscal effort of over 1.5% of GDP recommended in the excessive deficit procedure. Additional improvements of 1.3pps and 0.7pps of GDP are envisaged in 2014 and 2015. The stability programme expects a sizeable improvement in the primary balance — from a deficit of 6.1% of GDP in 2011 to a surplus of 2.0% of GDP in 2015. This comes alongside an increase of 0.7pps of GDP in interest expenditure over the programme horizon. In its 2012 spring forecast, the Commission expects a primary deficit of 3.3% of GDP in 2012 and 3.1% in 2013 (compared to a 2.2% deficit in 2012 and 0.2% surplus in 2013 in the programme).

Targets of -2.9% in 2014 and -2.1% in 2015 have been set for real public expenditure growth. (This is the modified expenditure aggregate used for the expenditure benchmark, which is the growth rate net of non-discretionary changes in unemployment benefit and of discretionary revenue measures). These targets are more ambitious than the lower reference rate of -0.2 for both years that the expenditure benchmark would require. The lower reference rate applies as long as Spain is still adjusting towards its medium-term objective of a balanced structural budget. Spain thus meets the expenditure benchmark.

There are significant downside risks to the scenario presented in the stability programme. First, there are risks linked to the macroeconomic scenario. These risks appear minor in 2012 and would be linked mainly to a less tax-rich composition of growth, with weaker domestic demand and in particular private consumption. For 2013 and beyond, the macroeconomic assumptions of the programme appear favourable, with real GDP expected to turn positive again already in 2013. Very high unemployment, the need for further deleveraging in the private sector and tight financing conditions would also point to a more subdued recovery of private consumption and investment than expected in the programme. The Commission's 2012 spring forecast projected that GDP growth would reach -1.8% in 2012 and -0.3% in 2013, as against -1.7% and 0.2%, respectively, according to the programme. Second, revenues could be even more sensitive to the ongoing structural adjustment, due to composition effects and the protracted slump in the real estate sector, and this could also result in greater revenue shortfalls. Third, an additional risk stems from the budgetary performance of the regional Governments, given their recent poor track record. Sizeable slippages occurred in 2011 and the regional deficit target for 2011 was breached by many regions. Fourth, it is hard to assess the budgetary impact of measures, as the revenue impact of the fiscal amnesty is subject to considerable uncertainty. Fifth, there is a lack of information about the anticipated consolidation measures from 2013 onwards, which are not yet fully specified. Sixth, a downside risk also stems from the one-off and temporary nature of consolidation measures adopted so far, which will expire post-2013. Finally, potential financial rescue operations may be a source of risk for deficit, or debt, depending on the form they take. In terms of upside risks, strict enforcement of the Budget Stability Law and the adoption of strong fiscal measures at regional level would mitigate the risks of a slippage at regional level.

[6] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission on the basis of the information provided in the programme, using the commonly agreed methodology.

Public debt is expected to increase from 68.5% of GDP in 2011 to 79.8% of GDP in 2012, and further by 2.5 pps of GDP in 2013, according to the stability programme, exceeding the Treaty reference value in all years. This increase in debt is mainly driven by higher interest payments (which increase by 3.1 and 3.2 pps of GDP in 2012 and 2013) and to a lesser extent by the primary deficit (with an increase of 2.2 pps of GDP in 2012). Stock-flow adjustments are sizeable in 2012, contributing 5.4 pps of GDP to the debt increase. They consist in the plan to settle invoices of providers of public bodies and other outstanding operations accounted as debt according to excessive deficit procedure rules. According to the programme, debt would then decrease by 0.8 and 0.7 pps of GDP in 2014 and 2015, respectively. The trend in the debt ratio may be less favourable than projected in the programme, given the risks attached to the macroeconomic scenario and the budgetary targets, and given that the financial sector will need additional re-financing as part of the banking sector reform announced in May 2012. The Commission’s 2012 spring forecast predicts that public debt will surge to 80.9% of GDP in 2012 and to 87.0% in 2012, based on a no-policy-change scenario. In 2014 and 2015 Spain will be in a transitional period and plans would ensure sufficient progress towards compliance with the debt criterion.

Long-term sustainability

The long-term change in Spain's age-related expenditure is below the EU average. The initial budgetary position compounds the long-term costs. Under a no-policy-change assumption, debt would increase to 100% of GDP by 2020. Considerable additional fiscal consolidation beyond the forecast horizon would be needed to make progress towards the reference value for government debt beyond the short term. Full implementation of the programme would be enough to put debt on a downward path by 2020, though it would still be above the 60% of GDP reference value.

Spain has already taken steps to improve the long-term sustainability of its public finances, in line with the 2011 country-specific recommendation. The pension reform adopted in July 2011 increased the statutory retirement age by two years and the contribution period taken into account for the calculation of benefits by ten years. The changes will be phased in between 2013 and 2022 (2027 in some cases). A sustainability factor is planned for the period after 2027, linking retirement age to increases in life expectancy, although the details of its implementation have yet to be decided. The reform was a significant step towards containing the costs of ageing.

Nevertheless, the projected increase in age-related public expenditure will still be higher than the EU average by 2060, as a result of the continuously increasing challenge. A Global Employment Strategy for Older Workers for 2012-2014 (known as the ‘55 y más’ Strategy) was adopted in October 2011. It aims to increase the number of older people in work and to improve their working conditions. This strategy still needs to be underpinned with concrete measures.

Long-term public spending trends, mainly related to pensions and healthcare, should be contained further. To improve the sustainability of public finances, the Government needs to ensure sufficient primary surpluses over the medium-term, to accelerate the planned gradual increase in the statutory retirement age and to carry out an earlier update of the sustainability factor under the reformed pension system.

Fiscal framework

Given the decentralised nature of Spain’s public finances, a strong institutional framework is essential. The medium-term budgetary framework has a good track record overall, but the crisis put Spain’s fiscal institutions under strain and exposed a need to tighten the control over regional and local authorities' budgets and to take better account of cyclical developments when setting budgetary targets.

On 27 January 2012, the Government took a significant step forward to improve the fiscal framework with the adoption of a draft 'Organic Law on Budgetary Stability and the Sustainability of Public Finances'. This develops the constitutional balanced budget rule adopted in 2011 and sets out new mechanisms for budgetary coordination and control vis-à-vis regional governments. The law, which came into force in May 2012, introduces a set of fiscal rules which are binding for all levels of Government, including public-sector companies (structural balanced budget rule, debt rule and expenditure rule). It also gives a mandate for a medium-term budgetary strategy, introduces an early warning mechanism for budget deviations, provides for corrective mechanisms and sanctions, and strengthens reporting requirements for all levels of Government. The law is a positive step, as it compels not only the national parliament, but also regional parliaments, to comply with budgetary stability. The definition of the rule in terms of a structural deficit should allow better reflecting cyclical developments in future budget Laws.

However, the law provides for a very long transition period, until 2020. Moreover, the preventive, corrective and coercive arms of the new fiscal framework imply relatively long deadlines and may not be sufficient to ensure a timely correction of emerging budget deviations. The draft law does not provide for setting up an independent fiscal institution.[7]

Tax system

The tax-to-GDP ratio in Spain is among the lowest in the EU,[8] and the structure of the Spanish tax system does not appear to be particularly growth-friendly, with revenue from indirect taxes being the second lowest in the EU. Spain thus has some room to improve the efficiency of the tax system by shifting revenue towards the least distorting taxes such as those on consumption (in particular VAT) and environmental taxes, which would be consistent with fiscal consolidation efforts. Reducing tax advantages, such as the favourable fiscal treatment of residential housing (i.e. deductibility of mortgage interest payments), would broaden tax bases and thus also help improve the efficiency of the tax system.

Spain has a high rate of home ownership, which has been encouraged by tax deductions for buying houses. These deductions were reduced in 1998, but the tax policy bias in favour of buying rather than renting homes has been maintained. Tax policy was therefore driving up household debt and feeding the housing bubble in Spain.

VAT revenue amounted to only about 5.5 % of GDP in 2010, which is the lowest in the EU. The standard VAT rate of 18 % is at the lower end of the spectrum compared with other Member States. Because of the wide application of a super-reduced rate (4 %), a reduced rate (8 %) and the scope of VAT exemptions, actual VAT revenue amounted to only around 42 % of the theoretically possible level.[9] The low ratio also underlines the

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[7] Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States.

[8] Just below 32 % of GDP in 2010, compared to the EU average of above 38 %.

[9] Theoretical revenues assume that all final consumption is taxed at the standard rate.

lack of effectiveness of enforcement measures to reduce the level of VAT evasion. Revenue from excise duties on tobacco and alcohol is also relatively low.

Revenue from environmental taxes was the lowest in the EU in 2010 (as a percentage of GDP). A wide range of tax exemptions and reductions are in place, as well as environmentally harmful subsidies. There is also room for higher excise duties on transport fuels (unleaded petrol and diesel). Spain is drawing up a strategic multiannual plan for the coal industry in 2013-2018, but it has not yet been published. This strategic plan is expected to include details of how Spain intends to gradually reduce and ultimately phase out coal production aid and to close down the coal mines by 2018. Economic instruments for waste management, which make prevention and recycling more attractive and help cover the costs of collection, sorting and recycling, offer alternative growth-enhancing tax measures and can help ensure the sustainability of local public finances. The same applies to water tariffs, which are amongst the lowest in the EU. In particular, certain regional water pricing policies give farmers little incentive to reduce water use for irrigation.

Spain has taken no measures to implement the country-specific recommendation on revising the efficiency of its tax system. On the contrary, the recent temporary increases in direct taxation, introduced on 30 December 2011,[10] go in the opposite direction to the Council recommendation, as they further increase the direct tax burden and thus the growth-unfriendliness of the Spanish tax system.

3.2. Financial sector

Banking

In February 2011, Spain adopted more stringent minimum core capital requirements for all banks (8 or 10 % of risk weighted assets). These were achieved by the end of September 2011, in line with the commitment under the Euro Plus Pact. Most of the savings banks raised capital from private investors. Plans for restructuring those banks that have received public funds had to be submitted by late March 2012. Four banks requested assistance from the state banking restructuring fund (FROB).

Following the October 2011 European Council conclusions in the context of the temporary bank recapitalisation exercise coordinated by the European Banking Authority, five systemically important Spanish banks (Santander, BBVA, Bankia, CaixaBank and Banco Popular) were requested to raise roughly EUR 26 billion to comply with a higher minimum core Tier 1 capital ratio of 9 % of risk-weighted assets after accounting for sovereign debt holdings.

Spanish banks still have large exposures to the real estate and construction sectors (amounting to about 10 % of total consolidated assets in December 2011). Over a half of this exposure is already problematic and may eventually rise further as developers prove unable to sell their assets and make repayments. Mortgages to households imply, however, a much lower risk for banks. At present, the doubtful asset ratio of mortgage loans (around 3 %) is much lower than the loans to construction and real estate firms, whose repayments are conditional on their ability to sell real estate assets. To tackle this problem, new measures were adopted in February and May 2012, which increase specific and generic provisions and require banks to set aside capital buffers. The main objective

[10] Spain in particular introduced a temporary increase in individual income tax rates and savings income tax rates for the years 2012 and 2013.

of this reform is to dispel any uncertainties arising from Spanish banks' exposure to the real estate sector and to promote further consolidation of the banking system. Banks have until the end of 2012 to comply with the new requirements, and until the end of 2013 in the event of mergers.

The current difficult macroeconomic environment coupled with the high funding costs and the on-going increase in impaired assets continues to put pressure on the banks' short- to medium-term profitability. Given the risk of bank funding stress, it is necessary to continue to strengthen the banks' capital base. The reform measures adopted in February and May 2012 targeted the legacy stock of real estate assets, but the vulnerabilities related to other exposures such as loans to SMEs and residential mortgages have not been addressed. Spain needs to ensure that the policy response is consistent with a broader strategic context (i.e. on-going discussions about new proposals for recapitalising of the financial sector across the euro area).

Firms' access to finance

A main factor currently constraining firms operations and growth in Spain, particularly small and medium-sized enterprises (SMEs), is the lack of access to bank financing, which has been stricter since last year and continue to be one of the main concerns of Spanish business. According to the Spanish Statistics Institute (INE), 60 % of SMEs will need financing for their working capital until 2013. In this respect, the national reform programme falls short of proposing specific actions to help banks finance firms.

In addition, the long delays in payments, in particular from the public sector, further aggravate the problem. The effects of the recent law on late payments11 have not yet fully materialised. According to the latest data from the Cross-sector Platform against Late Payments, which represents around one million businesses in Spain, the public sector takes 162 days to pay bills, making it the second worst performer in the EU after Greece. The average payment time for the private sector is 98 days. The main measure proposed in national reform programme in this area is a mechanism for regional and local entities to address late payments (measure 52 of the NRP); however, this measure implies penalising suppliers, who have to accept the non-inclusion of interests and other costs in the final payment, and it goes against the principles of the Late Payments Directive. In addition, the national reform programme does not provide details on whether accepting a voluntary reduction of the due payment would be considered as a criterion for priority payment. Financial instruments other than credit (e.g. risk capital, business angels or mezzanine finance) could help fill the credit gap in Spain, but they have yet to be developed.

Structural funds are a good opportunity to help in this area. So far three financial instruments supported by Structural Funds have been put in place to provide guarantees and loans to small and medium businesses (JEREMIE12 holding funds) to help them carry out research and innovation at regional and national level. JESSICA13 is another financial instrument at national level for promoting sustainable urban projects and is

[11] Law 15/2010 published on 6 July 2010 in the Spanish Official Journal (BOE No 163).

[12] Joint European Resources for Micro to Medium Enterprises: initiative of the European Commission together with the European Investment Fund to promote the use of financial engineering instruments to improve access to finance for SMEs via Structural Funds operations.

[13] Joint European Support for Sustainable Investment in City Areas: initiative of the European Commission in cooperation with the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB) to support sustainable urban development and regeneration through financial engineering mechanisms.

supported by the Structural Funds. More extended use of these funds and their introduction in other regions would certainly help SMEs in search of finance. The European Regional Development Fund (ERDF) offers various possible options in this area. For example, the reallocation of EUR 400 million to a reindustrialisation aid scheme on investment loans primarily for SMEs; support for measures related to seed capital and micro credit in the framework of the upcoming Law on Entrepreneurship; and the reallocation of EUR 155 million for the creation of a working capital fund for innovative SMEs, to be run by existing national institutions/instruments, to which regions can be asked to further contribute on a voluntary basis. Another line of action by the Spanish authorities has been to reform and extend the Official Credit Institute (ICO) credit lines. Their design still needs to be improved in order to make this mechanism more efficient. Other measures which can help in this area are the rapid implementation of the VAT Directive and the compensation of debts/credits between administrations and enterprises.

3.3. Labour market, education and social policies

Employment continued to fall last year, while wages kept reacting only partially to the situation on the labour market. The cumulated loss in employment in the period 2008-2011, which has reached 11.3 %, was accompanied by a cumulated increase of 11.2 % in nominal wages (6.9 % in real terms), thus leading to an increase in nominal unit labour costs. The existing rigid system of wage bargaining prevented a better alignment between wages and productivity, notably by including a generalised use of ex-post wage indexation. The unemployment rate, already the highest in the euro area, reached a new record high of 24.4 % in the first quarter of 2012. Young people and the less qualified and less experienced workers, many of them on temporary contracts, continue to bear the brunt of the economic crisis. Youth unemployment increased from 49 % in the fourth quarter to 52% in the first quarter of 2012. Young people are much more likely to find themselves unemployed, on involuntary temporary and part-time work contracts or in precarious employment conditions and on low pay. In recent years, the number of long-term unemployed people has increased substantially — from 1.7 % in 2007 to 7.3 % in 2010.

The average exit age from the labour market was 62.3 in 2009, so 2.7 years lower than the statutory retirement age at 65, even if above the EU average (61.4). Employment rate of older workers (55-64) has risen from 39.2 % in 2001 to 43.6 % in 2010, but it was still below the EU average of 46 %.

The measures detailed in the national reform programme are intended to address the main challenges facing the labour market situation in Spain, in line with the comprehensive reforms entailed by the Government. The segmentation of the labour market and the high unemployment rate, especially for youth, are subject to a comprehensive diagnosis. On 10 February 2012, the Spanish Government adopted a further reform[14] of the labour market, which included reducing the severance payment for unjustified dismissals to 33 days per year of service, gave priority to company-level collective agreements, allowed firms to opt out of agreements on higher level, granted firms greater internal flexibility and provided financial incentives for hiring workers, especially young.

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[14] Royal Decree 3/2012 ‘on urgent measures for reforming the labour market’.

These elements of the reform have the potential to change the dynamics of the Spanish labour market, enabling firms to adapt quickly to changes in market conditions. In this regard, it is more ambitious than previous reforms. By reducing severance pay, simplifying the procedures for collective and individual dismissals and clarifying objective dismissals, the reform may help restore the conditions for hiring workers on permanent contracts. In the short term, however, it may lead to an increase in unemployment.

The effect of the reform on labour market segmentation and job creation depends on a series of elements. Past evidence shows that strong emphasis on financial incentives does not have the intended effect of ensuring sustainable job creation. Moreover, although the reform re-establishes limits on renewing temporary contracts, in order to reduce segmentation, the new contracts for SMEs contain relatively long trial periods and may become a substitute for temporary contracts. The trial period for the new permanent contract is one year — much longer than the two or three months limit (six months for qualified workers) set by the Workers' Statute. There is a risk that firms will use the one-year period to transform this contract into a de facto low-quality temporary contract with zero termination costs. Apprenticeship contracts share a similar risk, since a person can be hired under consecutive apprenticeship contracts that can be terminated at zero cost. This may indeed contribute to increasing segmentation. The cost of dismissing someone on a permanent contract also remains high compared to the figure for a temporary contract.

In the area of collective bargaining, the reform could lead to a faster adjustment of wages, in line with the 2011 Council recommendation. This is because it gives the priority to company-level decisions on working hours, tasks and wages. It also makes it easier for firms to opt out of sectoral agreements and it puts an end to the practice of indefinitely extending collective agreements. However, such agreements can still be extended beyond their term for two years. Enhanced internal and external flexibility helps the labour market adjust to shocks in a more balanced way. Until now, adjustment has concentrated mainly on headcounts, with the brunt being borne by people on temporary contracts.

Regarding wage-setting mechanisms, the system of ex-post inflation wage indexation usually applied in collective agreements has been put on hold by a recent social partners' agreement for the period 2012-2014. In addition, the limit of two years for the validity of expired agreements is too long, and small firms might not find it easy to implement the opt-out clauses, as they rarely have collective agreements at firm level. Indeed, in the event of disagreement on the derogation from sector agreements, the reform has added a third layer of dispute resolution (the National Advisory Committee on Collective Bargaining) which may lead to the appointment of an arbitrator. It remains to be seen whether this additional layer would actually make it easier to implement such derogations.

According to the national reform programme, the efficiency of the active labour market policies, as a key element for preventing unemployment, needs to be improved. An annual employment policy plan is intended to monitor the effectiveness of measures and refocus them, if necessary. Priority is given to measures counterbalancing the high youth unemployment rates. Importance is accorded to the promotion of self-employment and entrepreneurship, the improvement of vocational training and a whole set of new instruments for vocational guidance and labour market intermediation, such as the creation of individual training accounts which will help providing information for the placement of job seekers.

The national reform programme states that the revision of the active labour market policies will be implemented on a gradual basis. EU funding (and the European Social Fund in particular) can be a useful tool to support the necessary change in order to improve employment opportunities and human capital. The reform of February 2012 allows private employment services to act as intermediaries, to complement the capacity of the Public Employment Service and expand hiring capacity. However, there is little coordination between the national and regional public employment services, particularly when it comes to sharing labour market information and publishing job vacancies throughout the entire country. In addition, active labour market policy instruments do not seem to be effective enough at getting unemployed people into work and upgrading their skills, and they rely excessively on employment subsidies. Strengthening training and re-training measures, which might be partly financed by the European Social Fund (ESF) can improve human capital, and thus employment opportunities, and can also help to renew the country’s productive potential and redirect economic activity toward sectors with greater job-creating capacity.

For all that, the labour market reform goes in the direction advocated by Council recommendations for the labour market addressed to Spain last year, and tackles one of the Euro Plus Pact commitments made by Spain. Moreover, the reform is particularly useful for tackling unemployment in the medium and long term and for addressing the social consequences of the crisis, which are priorities of the 2012 Annual Growth Survey.

Following the European Council of 30 January 2012, the Spanish authorities and the Commission examined measures for reducing youth unemployment, including through reallocation of the European Structural Funds. As a result, within the European Social Fund, EUR 135 m is to be redirected to the public employment service to help young people find work and the possibility of redirecting an additional amount is being considered. Additional over EUR 80 m will be redirected for the young under specific operational programmes.

To tackle the challenge of high overall unemployment and youth unemployment in particular, it is crucial for Spain to improve the quality of its **education** and training system and to match training (particularly in medium-level skills) to the needs of the labour market. The plan for improving the foreign language learning announced in the national reform programme represents a step in the right direction, as it should help young people become more competitive and mobile. The Sustainable Economy Law of 2011 laid down measures to be taken in this area, but there is no information on what has been done to implement these measures.

In spite of expenditure cuts in 2012, the budget to combat early school-leaving has been maintained. Spain managed to reduce the early school-leaving rate from 31.2 % in 2009 to 28.4 % in 2010. The economic crisis was very likely one of the factors contributing to the lower ESL rate and there is a long way to go to achieve the target of 15 % by 2020, as recognised by the Government in the national reform programme. Moreover, the overall early school-leaving rate conceals significant disparities between the autonomous communities. By contrast, the national target of 44 % higher education attainment for 2020 is ambitious enough compared to the policy challenge and is achievable.

Considerable progress has been made in **vocational training**, and the measures provided for in this area by the Sustainable Economy Law in March 2011 are apparently being successfully implemented. However, the Reinforcement, Counselling and Support Plan (PROA) is not ambitious enough to address the challenge, and there are not enough basic vocational training programmes. In the national reform programme the Government announces a reform in this area, although objectives and measures are not clearly differentiated. The labour market reform of 10 February 2012 provides positive elements, such as steps towards a dual system of professional training and a reform of apprenticeship contracts and training contracts to reduce youth unemployment. In this regard, the Government announces a pilot project for a dual system of professional training. This a promising initiative that favours an active participation of firms in providing professional training in order to better adapt competencies and skills to labour market demands. The national reform programme acknowledges the key role that the ESF plays in the area of vocational training and employability of youth. A comprehensive plan for lifelong learning is missing in the national reform programme.

The NRP announces a relevant set of reforms in the area of university education, which aim at improving the efficiency of the offered qualifications and services. Proposals include a rationalisation in the offer of new education programmes and an alignment of the university fees to real costs, although details about practical implementation remain unclear.

Addressing youth unemployment, which is high in Spain, was identified as one of the main priorities. Following a Commission initiative, the Spanish authorities and Commission staff examined measures for reducing youth unemployment, including through reallocation of the European structural funds. Structural funds provide instruments to strengthen national efforts to combat youth unemployment, training for young people and early school leaving. For example, the European Regional Development Fund provides support for low-skilled unemployed young people in the most under-developed regions. It does so through programmes for innovative SMEs in the agri-food sector at end of the production chain. The European Social Fund also offers possibilities in this area. For example, a number of regional operational programmes can be refocused towards early school leavers, vocational training and apprenticeships.

All in all, Spain still lacks a comprehensive education and training strategy, including a comprehensive plan on lifelong learning, reflecting the change in the country's productive model. Continuous training and the maintenance of competences and skills are not sufficiently updated and adapted to market needs, especially the needs of those sectors with better prospects of economic development.

The poverty and exclusion target set for Spain is based on the EU headline target. It combines three indicators: (i) the at-risk-of-poverty indicator (reflecting relative income poverty), which worsened from 19.5 % in 2009 to 20.7 % in 2010; (ii) the severe material deprivation indicator, which increased by 0.5 pps to 4 % in 2010; and (iii) the percentage of people living in households with very low work intensity, which also worsened from 7 % in 2009 to 9.8 % in 2010. This means there has been no progress towards achieving the target of reducing the number of people at risk of poverty and/or social exclusion by 1.4 to 1.5 million. On the contrary, the number of people at risk of poverty or exclusion increased by 1.1 million (to 26.2 % of the overall population) in 2010 alone. Furthermore, the at-risk-of-poverty rate for children and the in-work poverty rate continued to rise significantly in 2010. The rate for children rose by 2.5 pps to 26.2 %. There is a high risk of **poverty among children** in medium work-intensity households and a high proportion of children at risk in two-parent households. This is partly because, in many cases, only one of the parents has a paid job. Spain is also among the EU countries where social protection does the least to reduce child poverty. This is partly due to reduced redistributive effects across income groups, and to the fact that Spain's spending on child and family benefits (as a percentage of its total expenditure on social protection), is below the EU average.

In-work poverty has increased steadily since 2006, rising from 10% to 12.7% in 2010—the third highest level in the EU. Moreover, the in-work poverty rate for young people reached 14% in 2010, even further below the EU average, and the in-work poverty rate for temporary workers was four times higher than for permanent workers. The good news is that the at-risk-of-poverty rate for the elderly has decreased considerably, falling in 2010 by 3.5 pps to 21.7%.

3.4. Structural measures promoting growth and competitiveness

Spain is currently going through deep structural adjustments following the build-up of large external and internal imbalances during the housing and credit boom. Current account deficits remain high, although they have started to decrease recently in the context of the severe economic slowdown and on the back of an improving export performance. Since 2008, losses in price and cost competitiveness have only partially been reversed. While the adjustment of imbalances is ongoing, it will take time to absorb the large stocks of internal and external debt and to reallocate the resources freed from the construction sector. Adjusting imbalances in Spain means tackling structural problems that are hampering growth and preventing the country from becoming more competitive.

Spain urgently needs to continue implementing major structural reforms in the product and services markets in order to create new jobs. That objective will become more achievable if Spain sets easier conditions for firms to enter and leave the market, if it ensures that the institutional set-up guarantees effective competition enforcement in all sectors of the economy as well as effective and independent regulatory activity in regulated sectors and if it enhances competition and reduces regulation in a number of services sectors with high spillover effects, such as professional services. Private-sector participation in R&D and innovation activities remains too low and the system of knowledge transfer is weak. Spanish firms still face very difficult access to credit, a lack of alternative financing instruments and a heavy bureaucratic burden, in particular at regional and local levels. There is still considerable room for using or reprogramming available Structural Funds, in particular to support youth employment and human capital development, and to make small and medium-sized enterprises more competitive. This could boost the country's growth and competitiveness and help it achieve the Europe 2020 targets.

With respect to measures promoting growth and competitiveness, the Spanish national reform program proposes solutions going in the right direction, even if some of them are not yet enough developed.

Internal market, market opening and competition

In April 2011, Spain set up an Advisory Commission on Competitiveness, as part of its Euro Plus Pact commitments. The main functions of this body include preparing an annual indicator-based report on productivity and competitiveness, carrying out studies on competitiveness and answering ad hoc questions from the Government on competitiveness issues. It aims to guide the Government in designing economic policy and in negotiations with the social partners. It is an independent body, although it is financed from the budget of the Ministry of Economy and Finance. Until now the Commission has not been fully operational.

The **fragmentation of the domestic market** in Spain is a major obstacle preventing businesses from taking advantage of economies of scale and scope. The national reform programme acknowledges the problem but the measures proposed are very general. In particular, the 'Law on the unity of the domestic market' (point 79) goes in the right direction but now the challenge is to properly develop its content, to proceed swiftly with its approval and to ensure its full and speedy implementation.

Business services present the largest development potential of the Spanish economy both in terms of growth and jobs.[15] Business services are the key factor in the proper performance and development of other sectors and, given that they are inputs for other sectors of the economy, the absence of competition in services also undermines the competitiveness of users downstream. However, business services, and in particular professional services (which account for 75% of business services) show lower productivity than in the rest of the EU. Transposing the Services Directive into national law has led to a significant removal of barriers in certain services, namely retail, tourism, some business services and some regulated professions. However, some professional services are still protected from competition by 'activity reservations' (or exclusive rights) to provide services. Opening up these services to competition would certainly drive down prices, improve the quality of the services, add transparency and ultimately provide more job opportunities.[16]

The Spanish National Competition Authority had already advocated abolishing profession-specific restrictive regulations and has recently published a report on the functioning of the guilds following the transposition of the Services Directive.[17] The liberalisation of professional services proposed by the national reform programme would be a significant step forward, but the programme does not provide much detail. Meanwhile, the reform should cover highly regulated professions such as notaries, property registry agents or court officers, removing the barriers to entry and operation imposed by professional associations. The national validity of authorisations and declarations required for professionals (point 81 of the national reform programme) would facilitate the provision of services, but would need to be enforced at all levels of administration.

Despite major efforts at simplification, both nationally and at regional level, regional governments have maintained authorisation schemes for opening large-scale **retail** outlets, and these schemes limit competition. According to the Spanish Competition Authority,[18] maintaining these restrictions is continuing to make it difficult for new operators to enter the market. They are thus prevented from exerting competitive pressure on incumbent retailers and from developing alternative distribution models. These restrictions also tend to strengthen the bargaining power of incumbent retailers. The intention to remove municipal licences expressed in the national reform programme (point 82) is welcome.

The Spanish Government has announced its intention, in the second quarter of this year, to merge **the national competition authority** with seven national sector **supervisory and regulatory authorities** (energy, telecommunications, postal services, audio-visual industries, railway and air transport and gambling) thus creating a single body — the National Commission for Markets and Competition (CNMC). This new body should be

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16 According to official estimates, professional services account for 8.5% GDP and their reform could increase potential GDP by 0.7%.

17 Comisión Nacional de Competencia — Informe sobre los colegios profesionales tras la transposición de la Directiva de Servicios, April 2012.

18 Comisión Nacional de Competencia — Report on the relations between manufacturers and retailers in the food sector, October 2011.

more efficient and could boost competitiveness in all sectors of the economy, as it would allow any sectoral legislation to be screened on competition grounds before being adopted. However, the current draft Law that creates the CNMC does not guarantee that it will carry out its regulatory activity in an effective and independent way.

Energy, transport, infrastructure and environment

Spain ranks 6th in the EU-27 in terms of total greenhouse gas (GHG) emissions. Spain has committed itself to reduce GHG emissions by 10% in 2020, compared to 2005, in sectors not covered by the emissions trading system (ETS). In 2010 the emissions were 4% lower than in 2005, and this is in line with the target. According to the latest Spanish projections, emissions are expected to decrease by 9.7% by 2020 (compared to 2005), leading to a shortfall of the target by less than one percentage point.

Spain has put forward an appropriate mix of policy measures on **energy** efficiency and support for renewable energy sources in order to achieve its energy and climate targets by 2020. However, the electricity tariff system in Spain remains inefficient and competition insufficient.

Spain has traditionally capped end-user prices of electricity to several consumer groups under a regulated tariff system. The tariffs do not always cover the costs, so a so-called tariff deficit is generated within the system at the expense of utilities. With the costs of generation and the regulated costs (e.g. transportation and distribution) rising faster than the tariff, the deficit has significantly increased in recent years and reached an accumulated amount of EUR 24 billion (more than 2% of GDP).[19] Two thirds of this amount (around EUR 17 billion) is guaranteed by the Government, which has allowed utilities to securitise it. In 2009, the Government revised the whole tariff system with the aim of ensuring that electricity prices cover total costs.[20] However, low-consumption households (representing 83% of consumers) were still allowed to pay electricity prices that did not fully reflect the overall costs of the system[21] under the so-called ‘last resort tariff’.[22] As a result, the tariff deficit continued to build up.

In January 2012, the Government temporarily suspended[23] renewable energy premiums paid to newly-built plants (wind, solar, biomass and hydro technologies) in an attempt to reduce electricity costs and thus the electricity tariff deficit. Suspending support for renewables discourages investment in the sector and will make it hard to achieve Spain's target under the Europe 2020 energy and climate goals. Moreover, with less renewable energy in the mix, Spain’s dependence on imported energy would further increase from the current 79% (which is already much higher than the EU average of 54%). Streamlining complex authorisation and planning procedures and removing other barriers to the growth of renewable energy can help reduce the cost of renewables, which remains an issue for Spain.

19 There is also a tariff deficit in the gas sector, but it is much smaller (EUR 0.4 bn.).

20 Total electricity costs include hidden costs designed to sustain certain regulated activities (e.g.inefficient and environmentally harmful energy subsidies to coal mines and the return on the distribution/transport activities according to the net value of the assets used).

21 Elements contributing to the overall cost include the production, transportation and distribution of electricity and various energy-related policies.

22 Households whose consumption capacity is limited to 10 kW.

23 Recently, the energy regulator suggested maintaining this moratorium at least until 2017.

In March 2012, the Government adopted further measures to reduce costs in the electricity sector by EUR 1700 million, e.g. distribution, transmission, capacity payments, financing the regulator CNE, an interruptible tariff and a slight reduction of subsidies for coal. It also increased tariffs (around 7% for the *tariff of last resort*), thus generating an additional income of around EUR 1400 million. The Government also adopted legislation to completely take on board the EU's internal energy market legislation, in particular strengthening the powers of the Spanish national regulatory authority. This is expected to enhance competition. While cutting electricity costs should help reduce the tariff deficit, the increase in tariffs for consumers may hinder domestic consumption and reduce firms' external competitiveness.

Weak competition in the energy sector has contributed, at least partly, to building the tariff deficit by favouring overcompensation to certain utilities, such as nuclear and large hydro power generators which have already been paid for, or by sustaining inefficient and environmentally harmful energy subsidies to coal mines. These measures have not been translated into lower prices, and they thus hinder economic growth. Indeed, Spain has one of the lowest levels of interconnectedness in the EU. Completing electricity and gas interconnectors with France and Portugal, currently under construction, would help to intensify competition in the energy sector. Increasing the electricity network's capacity for cross-border exchanges, notably with France, will allow Spain to increase its trade with neighbouring countries and balance the supply of renewable electricity such as wind power. Indeed, the low cross-border transmission capacity has contributed to a waste of resources in renewable utilities, which have to plan heavy investments in expensive backup power (i.e. for wind power), such as gas-fired capacity, and in transmission networks. Giving priority to developing the Africa-Spain-France gas corridor and establishing a functioning Iberian gas hub (*Mibgas*) would foster competition between gas companies, increase market liquidity and help diversify and secure gas supplies. Connecting Catalonia to the Rhone Valley in France would also boost cross-border capacity.

Spain faces considerable challenges in the area of **water and waste management and air pollution**. Although parts of Spain are experiencing water shortages, there are insufficient incentives for using water efficiently and this results in unsustainable use. In particular, there is still no clear commitment on part of the Spanish Government to reform the market for water concessions in order to concretely address the mentioned inefficiencies. More than 50% of municipal waste in Spain is landfilled, and opportunities for prevention and recycling have not been fully harnessed. Full implementation of the existing legislation could create more than 54000 jobs and increase the annual turnover of the waste sector by around EUR 5.7 billion, while reducing total direct and indirect greenhouse gas emissions by 3.5% to 6.1% in 2020. Environmental policy is disregarded in the national reform programme and Spain continues to lag behind other EU countries in implementing environmental legislation.[24]

The **transport** infrastructure deficit of the past has, to a large extent, already been addressed in Spain. The resulting extensive network of motorways, high-speed railway lines, airports and ports requires high on-going maintenance and renewal costs, high debt service or public-private partnership (PPP) service payments. At the same time, the network suffers from a lack of interoperable interconnections with other Member States

[24] Spain continues to have one of the highest numbers of infringement cases in EU.

and poor integration between transport modes — ports and railways, airport hubs and high speed railway lines, multimodal platforms and railway corridors. There is insufficient competition in transport services, notably in railways and ports, leading to inefficient exploitation of transport assets.

It is therefore critically important that, for any new infrastructure project, a fully transparent cost-benefit analysis is carried out. An issue for Spain is to limit infrastructure investment to those projects for which there is genuine demand and which are affordable, taking into account the high opportunity cost of public funds. Transport users should bear a more proportionate share of the overall costs through wider application of the 'user pays' principle. It is crucial to adopt measures to increase competition in railway and port services, to develop and manage transport infrastructure in a more business-oriented way, to open up the isolated network and better integrate transport modes.

Air transport has expanded considerably in recent years, with the rise of low-cost carriers and the implementation of new airport strategies. However, it is important to ensure that unprofitable regional airports do not place an unnecessary burden on public finances and do not distort competition within the internal market. The sustainable growth of airports and airlines requires full compliance with state aid rules and the avoidance of detrimental airport duplication. A recent study showed that out of the 48 regional commercial airports built in Spain over the last 20 years, only 11 make a profit.[25] There are some 20 airports handling fewer than 100 000 passengers a year, well below the profitability threshold of around 500 000, and only a few among them help preventing isolation of remote regions (i.e. in the Canary Islands).

Research and innovation

Spain's public investments in research and development (R&D) grew consistently between 2000 and 2009. Business spending on R&D also grew until 2008. In the wake of the crisis and fiscal consolidation, both public and private investment in R&D declined. Business R&D investment remains very low in Spain and the economic structure has not shifted substantially towards a more sustainable model based on more knowledge-based products and services. The trend of falling public and private investment in R&D will need to be reversed to avoid long-term damage to Spain's capacity for innovation.

The considerable increase in public and private R&D expenditure over the decade 2000-2009 did not significantly boost innovation in Spain. The country has made little progress in accumulating intellectual assets (patent applications, community trademarks and designs), in improving public-private and private-private partnerships or in introducing and marketing new and innovative products, processes and services.

Spain has initiated comprehensive policies and reforms to improve its research and innovation system. These include the new Science Law adopted in 2011, the Spanish Innovation Strategy (e2i) and the 2015 University Strategy for Excellence. These reforms need to be implemented fully in 2012, including making fully operational the National Research Agency for competitively funding R&D in Spain, as mentioned in the national reform programme. Special attention should be paid to ensuring a consistent institutional

[25] 'La reforma del modelo de gestión de aeropuertos en España: ¿Gestión conjunta o individual?', October 2010: http://www.ief.es/documentos/recursos/publicaciones/revistas/hac_pub/196_5.pdf.

framework to reduce uncertainty and increase efficiency in the allocation of stable resources to R&D activities. To this end, the scope of the new agency's financing powers and responsibilities needs to be clarified to avoid overlapping and to foster cooperation with partially competing bodies like the CDTI (*Centro para el Desarrollo Tecnológico Industrial*) and the CNEAI (*Comisión Nacional de Evaluación de la Actividad Investigadora*). Building on the success of other Member States in boosting the efficiency of their public R&I system, Spain could also improve its institutional funding. It could introduce a performance-based financing system for universities and public research institutions, linking some of the funding to each institution's progress in scientific excellence, its level of internationalisation and the extent of its public-private cooperation. In terms of innovation, Spain needs to continue moving towards a more knowledge-intensive economy, building on existing sectors and potential new growth areas. The national reform programme has a strategic focus on core sectors (point 90) but at the same time remains vague on implementation.

Innovation is particularly important at regional level. Complementary monitoring and support at national level would ensure consistency and economies of scale. In this respect, the national reform programme could be more explicit how the state plan for science and technology would mesh with regional strategies, to avoid duplication and to ensure synergies.

3.5. Modernising public administration

A number of indicators suggest that more efficient public administration would help improve Spain's business environment and boost its growth potential. In recent years, businesses have seen a decline in the effectiveness and quality of public services in Spain, when compared to other European countries.[26] Some serious cases of corruption in local and regional public administrations and the excessive administrative burden on businesses may have contributed to this deterioration. The new Law on budgetary stability and financial sustainability will contribute to progress in this area, as will the future new Law on transparency, access to public information and good governance.

Administrative burden and licensing

So far the progress in reforming the business environment has been slower and less ambitious than reforms in other areas. Despite continuing efforts to reduce the administrative burden for enterprises, bureaucracy remains heavy, especially when it comes to the time needed to start up a company (second highest in the EU) and to granting **operating licences**. According to a recent Commission study, Spain is the Member State where it takes the longest for a firm to obtain its business licence — on average 116 days, compared to the EU average of 66 days. This causes potential start-ups to lose their innovative edge. The national reform programme (point 82) is not clear whether shorter delays in granting licenses will be applied to sectors other than retail and wholesale. In this regard, the Law on Entrepreneurs (*Ley de emprendedores*) announced in the national reform programme may help improve the situation.

On a more general note, increasing lack of coordination, and overlapping or divergent rules laid down by the **lower levels of the public administration** in recent years, are partly undermining government efforts to cut red tape, are hampering business innovation and productivity and impede more efficient reallocation of resources. They

[26] World Bank Governance Indicators 2011.

are also fragmenting the Spanish single market by obliging firms to meet different criteria in order to operate in different autonomous communities. The different layers of public administration need to work together more closely to overcome this problem and similar problems in other areas (such as the coordination of public employment services). In the national reform programme, the Government has committed itself to tackling this issue and has announced a law to guarantee the unity of the market (‘Ley de garantía de la unidad de Mercado’). This is a positive step with important efficiency gains. The complexity of the task should not be underestimated though. Some measures fall directly under the responsibility of the autonomous communities, and the national reform programme fails to indicate how the central Government is going to encourage the regional authorities to adopt these measures. For example, some public bodies need to be abolished, and national law needs to be fully implemented at regional and local levels.

eCommerce and eGovernment

Spain scores below the EU average for the percentage of citizens using eCommerce. The proportion of Spanish people shopping on-line, especially across borders, is still relatively small compared to the EU average. Spain scores better when it comes to small and medium-sized enterprises, both for on-line purchasing and on-line selling. While Spain has almost 100 % online availability of public services, for citizens and businesses, the direct use of eGovernment services by people in Spain is close to the EU average, but use by businesses is among the lowest in the EU. According to a recent Commission study,[27] Spain has a decentralised eProcurement policy with a national platform (*contrataciondelestado.es)* that is mandatory for the federal administrations. Regional authorities have their own platforms, and regional and local authorities can use a mix of national, regional and their own platforms. Spain is generally performing well in this area and has set itself a target of 100 % e-procurement availability and aims to procure 50 % of contracts above EU thresholds electronically. E-procurement is, however, in the initial phase of development, especially regarding the electronic submission of offers. For example, a recent report indicates that less than 1 % of municipalities use e-procurement.[28] Moreover, the national reform programme measures on eGovernment in general and eProcurement in particular remain vague and are not underpinned with details on implementation and expected benefits.

Spain has made significant progress in the past few years in developing eGovernment, both in terms of investment and legislative measures. The country also supported the development of the Digital Single Market. The national reform programme has announced a Spanish Digital Agenda that reproduces the Digital Agenda for Europe. However, the presentation of the agenda is vague and it objectives are neither clearly defined nor given a target date.

Judicial system

The Spanish judicial system has been adversely affected by the economic crisis. It has seen a considerable increase in the number of incoming civil and commercial cases and labour cases (e.g. related to enforcement of mortgages, bankruptcy proceedings, dismissal proceedings, etc.), especially at first-instance level. Labour courts, in particular, have seen their workload increase considerably as a result of the crisis. The

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[27] Digitising Public Services in Europe: Putting ambition into action 2010.

[28] ‘La licitación electrónica en el sector público español. Presente y futuro’, IESE and Vortal, 2012, p. 9. http://www.iese.edu/research/pdfs/ESTUDIO-160.pdf.

recent labour market reform introduced specific measures to extend the competence of labour courts and to facilitate changes in working conditions and dismissal. Labour procedures have also been improved by recasting the law on labour jurisdiction (Law 36/2011 of 10 October 2011). On 5 March 2012 mediation in civil and commercial matters was also improved though the adoption of Royal Decree Law 5/2012, which aims at transposing in national law the EU rules in this area (Directive 2008/52/EC). The national reform programme announces additional measures aiming at improving the efficiency in the judicial system, which are expected to reduce legal uncertainty in the economic activity. These measures include a revision of existing working methods, the promotion of extra-judicial solutions for conflicts and a modification of the legal regulations involved in business transactions.

State aid

The relatively high spending on State aid in Spain in a context of a decentralised administrative structure requires a large effort of coordination, which is ensured by the Ministry for Foreign Affairs. However, opinions on draft State aid measures issued by the Ministry are not binding and are not independent. Entrusting a competent independent body with the responsibility to coordinate State aid and to issue binding opinions, and establishing a central State aid registry can improve the institutional framework.

4. OVERVIEW TABLE (CSRS, EPP, TARGETS, ETC.)

2011 commitments	Summary assessment
Country-specific recommendations (CSRs)	
CSR 1: Implement the budgetary strategy in 2011 and 2012 and correct the excessive deficit in the year 2013 in line with the Council Recommendation under the EDP, ensuring the achievement of deficit targets at all levels of government, including by strictly applying the existing deficit and debt control mechanisms for regional governments; adopt further measures in case budgetary and economic developments do not turn out as expected; take any opportunity including from better economic conditions to accelerate the deficit reduction; set out concrete measures to fully underpin the targets for 2013 and 2014 which should bring the high public debt ratio on a downward path and ensure adequate progress towards the medium-term objective. Keep public expenditure growth below the rate of medium-term GDP growth, by introducing a binding expenditure rule at all levels of government, as envisaged. Further improve the provision of information in relation to regional and local government budgets and their execution.	
CSR 2: Adopt the proposed pension reform to extend the statutory retirement age and increase the number of working years for the calculation of pensions as planned; regularly review pension parameters in line with changes to life expectancy, as planned, and develop further measures to improve lifelong learning for older workers.	Spain has implemented the recommendation. Overall, the reforms adopted so far are ambitious compared to earlier measures and represent a significant step in the right direction, in line with the Council recommendation, and help reducing the risks for the long-term sustainability of public finances. However, the worsening of Spain's economic outlook is limiting the impact of the reforms on the projected increase in age-related public expenditure, which is still expected to remain higher than the EU average by 2060. Moreover, the 2012-2014 Global Employment Strategy for Older Workers has not yet been underpinned by concrete measures. Indeed, Spain appears now to be at medium risk with regard to the sustainability of public finances in the long - term.

CSR 3: Monitor closely the ongoing restructuring of the financial sector, in particular as regards savings banks, with a view to finalising it by 30 September 2011 as envisaged.	Spain has implemented the CSR. Spain has made a considerable progress in restructuring its financial sector; the policy response in this area has been ambitious compared to earlier measures and is in line with the Council recommendation. However, the worsening of the macroeconomic outlook might require an increase in provisions, which would have an impact on the profitability of the banking system. In addition, given the risk of bank funding stress, further strengthening of the capital base of banks may be required. It is therefore of paramount importance that the banking sector be sufficiently capitalised and that the on-going restructuring continues.
CSR 4: Explore the scope for improving the efficiency of the tax system, for example through a move away from labour towards consumption and environmental taxes while ensuring fiscal consolidation plans.	Measures adopted by Spain in this area are not in line with the recommendation. The recent reform of the tax system introduced by the Government mainly affects direct taxes and is set to be temporary. However, direct tax increases are heading in the opposite direction to the Council recommendation to Spain in this area. Indeed, direct tax increases lead to a higher tax burden on labour and capital, which is considered to be particularly detrimental for growth. Other tax increases which are considered to be less detrimental for growth, i.e. further increases in indirect taxation, have been explicitly excluded by the Government.
CSR 5: Following consultation with social partners and in accordance with national practice, complete the adoption and proceed with the implementation of a comprehensive reform of the collective bargaining process and the wage indexation system to ensure that wage growth better reflects productivity developments as well as local- and firm-level conditions and to grant firms enough flexibility to internally adapt working conditions to changes in the economic environment.	Spain has implemented the recommendation only partially. The reform of collective bargaining adopted by the Government in February 2012 is a step in the direction advocated by the Council recommendations in this area and is in line with Euro Plus Pact commitments made by Spain. However, it is not yet clear whether this reform is ambitious enough to address the challenge. The Government needs strictly to monitor implementation of the reform, in particular whether the social partners are able to seize the opportunities given by the law to negotiate locally trade-offs between wages and working conditions. These include revising the ex post automatic wage inflation indexation clause in collective agreements — which a recent social partners' agreement has simply put on hold for the period 2012-2014. In addition, the ultra-activity limit of two years is too long, and opt-out clauses might not be easy for SMEs to implement. Indeed, in the event of disagreement on the derogation from sectoral agreements, the reform has added a third layer of dispute resolution (the National Advisory Committee on Collective Bargaining) which may lead to the appointment of an arbitrator. Concerns remain as to whether some elements of the reform are compatible with the Spanish Constitution.
CSR 6: Assess, by the end of 2011, the impacts of the labour market reforms of September 2010 and of the reform of active labour market policies of	Spain has implemented the recommendation only partially. The reform is a step in the direction advocated by the recommendation. However, it is not yet clear whether the reform is ambitious enough to address the challenge. The Government needs strictly

February 2011, accompanied, if necessary, by proposals for further reforms to reduce labour market segmentation, and to improve employment opportunities for young people; ensure a close monitoring of the effectiveness of the measures set out in the National Reform Programme to reduce early school leaving, including through prevention policies, and facilitate the transition to vocational education and training.	to monitor implementation of the reform, and in particular its effects on labour market segmentation. The reform re-established the limitation (introduced by the 2010 reform) on chains of temporary contracts and will probably reduce use of these contracts. The negative effect on employment might be offset by creating jobs using the new permanent contract for SMEs, particularly given the considerable hiring incentives. However, these positive effects need to be assessed against the risk that firms will use the one-year trial period for the new permanent contract as a way of turning this contract into a de facto temporary contract with zero termination costs. Moreover, allowing an employer to hire a worker under consecutive apprenticeship contracts with no associated severance payments runs counter to the intentions of the reform unless these contracts actually become permanent. Finally, the cost of dismissing an employee who is on a permanent contract remains high compared to the figure for a temporary contract. The reform also relies too much on financial incentives for job creation that proved inefficient in the past. With respect to education and training, although Spain has taken measures to combat early school-leaving in line with the recommendation, the rate remains high (28.4% in 2010) and conceals significant disparities between the autonomous communities.
CSR 7: Further open up professional services and enact the planned legislation in order to redesign the regulatory framework and eliminate current restrictions to competition, efficiency and innovation; implement the Law on Sustainable Economy, notably measures aimed at improving the business environment and enhancing competition in the product and service markets, at all levels of government; and improve coordination between regional and national administrations to reduce the administrative burden for enterprises.	Spain has not implemented the recommendation yet. Spain committed itself under the Euro Plus Pact to present a new law on Professional Services before the summer of 2011. However, no progress has been made. The proposal to further facilitate the provision of professional services put forward by the current Government in the Spanish NRP is thus welcome. There has been some progress on implementing the Sustainable Economy Law, but only in certain areas: telecommunications (a major auction of spectrum); reforms to cut red tape; simplifying operating licences and permits; bankruptcy law and SMEs (taxation, access to finance, and business angels). Strong commitment is needed from the new Government to carry on planned privatisation efforts, which had been put on hold (lottery and airports). No major progress has been observed with respect to the administrative burden associated to the lack of coordination between Administrations, although the NRP flags some initiatives to tackle the issue such as the so-called new Law to Guarantee the Unity of the Market and the Law on Entrepreneurs.

Euro Plus Pact (national commitments and progress)	
Public finance: Reform the Fiscal Stability Law to promote the establishment of an expenditure rule, taking into account nominal GDP growth in the medium term.	The public finance commitments are being fully implemented. On 27 January 2012, the Spanish Government adopted a draft Organic Law on Budgetary Stability and the Sustainability of Public Finances. This develops the constitutional balanced budget rule adopted in 2011 and sets out an expenditure rule, taking into account nominal GDP growth in the medium term.
Labour market: Reform the collective bargaining system by April 2011. Adopt implementing acts in compliance with the Royal Decree Law of February 18 on active labour policies, with a view to designing a Strategy for Employment. Adopt Decree laws to develop the provisions of the Sustainable Economy Law in the field of vocational training. Implement a programme to promote the reduction of informal employment.	The commitment to reform collective bargaining has been implemented via the labour market reform adopted in February 2012. The commitment to design a Strategy for Employment was implemented on 28 October 2011 when the Government adopted the National Employment Strategy for 2012-2014. This aims to foster employment of the active population, to reduce temporary contracts, improve productivity and adapt professional skills to market needs. However, there has been no progress on implementing this strategy. The commitment to develop the provisions of the Sustainable Economy Law on vocational training has been implemented. The commitment to reduce informal employment has been implemented with the adoption of Royal Decree 5/2011 of 29 April, which sets out measures for regulating and controlling undeclared work as well as measures to encourage the eradication of undeclared work, including higher penalties and greater control by the Labour Inspection System.
Structural policy: Reform professional services. Set up an Advisory Commission on Competitiveness. Speed up bankruptcy procedures by reforming the bankruptcy law.	The commitment to reform professional services has not been implemented. The commitment to set up the Advisory Commission on Competitiveness has been implemented: Spain set up the Commission in April 2011.
Europe 2020 (national targets and progress)	
Employment rate target: 74%	The employment rate was 63.7% in 2009 and 62.5% in 2010. No significant progress has been made towards achieving the target.
R&D target: 3% (2% from private investment)	Gross domestic expenditure on R&D (as percentage of GDP) was 1.39% both in 2009 and in 2010. No progress has been made towards achieving the target. Private R&D expenditure (as percentage of GDP) was 0.71% in 2010.
Greenhouse gas (GHG) emissions target: -10% (compared to 2005 emissions), ETS emissions are not covered by this national target.	Change in non-ETS GHG emissions between 2005 and 2010: -4% (this number corresponds to the current scope of the ETS)
Renewable energy target (as a share of renewable energy in gross final energy	The figure was 13.3% in 2009. Progress has been made towards achieving the target.

consumption): 20 %	
Energy efficiency– reduction in primary energy consumption by 2020: 25.2 Mtoe	n.a. The energy efficiency objectives are set according to national circumstances and national formulations. The Commission is not yet able to present the overview, as the methodology for expressing the 2020 energy consumption impact of these objectives in the same format was agreed only recently.
Early school leaving target (in %): 15 %	The proportion of early leavers from education and training (as a percentage of the population aged 18-24 with at most lower secondary education and not in further education or training) was 31.2 % in 2009 and 28.4 % in 2010. Progress has been made towards achieving the target; however, the rate remains high and relatively far from the target of 15 %. It also conceals significant disparities between the autonomous communities.
Tertiary education target (in %): 44 %	Tertiary educational attainment was 39.4 % in 2009 and 40.6 % in 2010. Progress has been made towards achieving the target.
Target on the reduction of population at risk of poverty or social exclusion in number of persons: between 1.4 and 1.5 million.	The number of people at risk of poverty or social exclusion was 10 652 000 in 2009 and 11 675 000 in 2010. No progress has been made towards achieving the target.

5. ANNEX

Table I. Macroeconomic indicators

	1995-1999	2000-2004	2005-2008	2009	2010	2011	2012	2013
Core indicators								
GDP growth rate	3,7	3,6	3,0	-3,7	-0,1	0,7	-1,8	-0,3
Output gap [1]	-1,0	1,6	1,1	-4,4	-4,6	-3,8	-4,4	-3,6
HICP (annual % change)	2,8	3,2	3,5	-0,2	2,0	3,1	1,9	1,1
Domestic demand (annual % change) [2]	4,2	4,2	3,4	-6,2	-1,0	-1,7	-4,4	-2,1
Unemployment rate (% of labour force) [3]	17,2	11,2	9,3	18,0	20,1	21,7	24,4	25,1
Gross fixed capital formation (% of GDP)	22,5	26,7	29,8	24,0	22,9	21,7	20,4	20,1
Gross national saving (% of GDP)	22,0	22,6	21,1	19,3	18,8	18,2	18,8	19,4
General government (% of GDP)								
Net lending (+) or net borrowing (-)	**-4,2**	**-0,4**	**0,3**	**-11,2**	**-9,3**	**-8,5**	**-6,4**	**-6,3**
Gross debt	**64,7**	**52,5**	**39,8**	**53,9**	**61,2**	**68,5**	**80,9**	**87,0**
Net financial assets	**-52,6**	**-39,3**	**-23,0**	**-34,4**	**-40,3**	**n.a**	**n.a**	**n.a**
Total revenue	37,9	38,4	39,6	35,1	36,3	35,1	36,0	35,7
Total expenditure	42,1	38,8	39,4	46,3	45,6	43,6	42,4	42,0
of which: Interest	4,5	2,7	1,7	1,8	1,9	2,4	3,2	3,3
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**0,2**	**-3,2**	**-7,2**	**-0,4**	**1,5**	**2,8**	**3,2**	**3,8**
Net financial assets, non-financial corporations	**-89,1**	**-104,1**	**-141,7**	**-144,0**	**-136,2**	**n.a**	**n.a**	**n.a**
Net financial assets, financial corporations	**0,4**	**3,1**	**4,2**	**11,0**	**13,3**	**n.a**	**n.a**	**n.a**
Gross capital formation	13,6	15,4	16,9	13,4	13,3	13,6	13,4	13,2
Gross operating surplus	20,6	19,4	19,0	20,8	21,0	22,4	23,0	23,6
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**4,0**	**0,2**	**-1,5**	**6,9**	**3,8**	**2,3**	**1,8**	**2,1**
Net financial assets	**114,3**	**100,4**	**90,6**	**77,9**	**77,5**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	38,5	38,0	37,1	38,5	37,5	36,3	35,4	34,7
Net property income	3,8	4,0	3,6	3,7	3,4	3,2	3,2	3,4
Current transfers received	20,8	19,8	19,1	22,3	22,8	22,7	23,2	23,4
Gross saving	8,9	7,4	7,3	12,8	9,3	7,6	7,0	7,2
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**0,2**	**-3,4**	**-8,4**	**-4,7**	**-4,0**	**-3,4**	**-1,4**	**-0,4**
Net financial assets	**27,7**	**40,7**	**70,5**	**90,5**	**86,8**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	-0,1	-2,8	-6,0	-1,9	-2,1	-0,6	1,6	2,9
Net primary income from the rest of the world	-0,9	-1,3	-2,0	-2,2	-1,5	-2,4	-2,8	-3,0
Net capital transactions	1,1	1,0	0,6	0,4	0,5	0,5	0,6	0,6
Tradable sector	50,2	46,8	42,9	42,5	42,8	44,1	n.a	n.a
Non-tradable sector	41,3	43,6	47,1	50,4	48,6	47,8	n.a	n.a
of which: Building and construction sector	8,4	10,4	12,4	12,1	10,9	10,5	n.a	n.a
Real effective exchange rate (index, 2000=100)	104,7	105,0	118,3	122,2	116,4	113,3	108,0	105,5
Terms of trade in goods and services (index, 2000=100)	102,1	103,8	106,3	109,9	105,4	102,2	100,5	98,8
Market performance of exports (index, 2000=100)	99,1	102,5	97,7	97,9	101,1	106,9	109,8	110,6

Notes:

[1] The output gap constitutes the gap between actual and potential gross domestic product at 2000 market prices.

[2] The indicator for domestic demand includes stocks.

[3] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source :

Commission spring 2012 forecast

Table II. Comparison of macroeconomic developments and forecasts

	2011		2012		2013		2014	2015
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	0,7	0,7	-1,8	-1,7	-0,3	0,2	1,4	1,8
Private consumption (% change)	-0,1	-0,1	-2,2	-1,4	-1,3	-1,1	0,6	1,1
Gross fixed capital formation (% change)	-5,1	-5,1	-7,9	-9,0	-3,2	-0,5	2,4	3,0
Exports of goods and services (% change)	9,0	9,0	3,2	3,5	4,7	6,9	7,5	8,0
Imports of goods and services (% change)	-0,1	-0,1	-5,6	-5,1	-0,9	1,3	5,4	6,2
Contributions to real GDP growth:								
- Final domestic demand	-1,8	-1,7	-4,4	-4,4	-2,1	-1,6	0,4	0,8
- Change in inventories	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
- Net exports	2,5	2,5	2,7	2,7	1,8	1,8	1,0	1,0
Output gap[1]	-3,8	-3,8	-4,4	-4,3	-3,6	-3,8	-3,0	-2,1
Employment (% change)	-2,0	-2,0	-3,7	-3,6	-1,5	-0,3	0,8	1,1
Unemployment rate (%)	21,7	21,6	24,4	24,3	25,1	24,2	23,4	22,3
Labour productivity (% change)	2,8	2,8	2,0	1,9	1,2	0,5	0,6	0,7
HICP inflation (%)	3,1	3,1	1,9	1,0	1,1	1,2	1,5	1,7
GDP deflator (% change)	1,4	1,4	0,9	1,0	0,7	1,6	1,6	1,7
Comp. of employees (per head, % change)	0,8	0,8	0,1	0,2	0,1	-0,4	0,2	0,3
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	-3,4	-3,4	-1,4	-0,9	-0,4	0,8	1,4	1,8

Note:

[1] In percent of potential GDP, with potential GDP growth according to the programme as recalculated by the Commission.

Source:

Commission spring 2012 forecasts (COM); Stability programme (SP).

Table III. Composition of the budgetary adjustment

(% of GDP)	2011	2012		2013		2014	2015	Change: 2011-2015
	COM	COM	SP	COM	SP	SP	SP	SP
Revenue	**35,1**	**36,0**	**36,3**	**35,7**	**36,9**	**36,6**	**36,6**	**1,5**
of which:								
- Taxes on production and imports	9,8	9,8	9,8	9,7	10,6	10,5	10,4	0,6
- Current taxes on income, wealth, etc.	9,5	10,2	10,3	10,1	10,3	10,1	10,5	1,0
- Social contributions	13,0	12,7	13,2	12,6	12,7	12,4	12,2	-0,8
- Other (residual)	2,9	3,2	3,0	3,3	3,3	3,6	3,5	0,6
Expenditure	**43,6**	**42,4**	**41,6**	**42,0**	**39,9**	**38,8**	**37,7**	**-5,9**
of which:								
- Primary expenditure	41,2	39,2	38,4	38,8	36,6	35,6	34,6	-6,6
of which:								
Compensation of employees	11,5	11,1	10,9	10,9	10,3	9,7	9,2	-2,3
Intermediate consumption	5,4	4,8	4,5	4,6	3,9	3,8	3,7	-1,7
Social payments	18,0	18,6	18,6	18,6	18,6	18,3	17,9	-0,1
Subsidies	1,1	0,9	0,9	0,9	0,7	0,7	0,7	-0,4
Gross fixed capital formation	2,8	1,9	1,7	1,8	1,5	1,4	1,5	-1,3
Other (residual)	2,5	2,0	1,9	2,0	1,6	1,6	1,6	-0,9
- Interest expenditure	2,4	3,2	3,2	3,3	3,3	3,2	3,1	0,7
General government balance (GGB)	**-8,5**	**-6,4**	**-5,3**	**-6,3**	**-3,0**	**-2,2**	**-1,1**	**7,4**
Primary balance	**-6,1**	**-3,3**	**-2,2**	**-3,1**	**0,2**	**1,0**	**2,0**	**8,1**
One-off and other temporary measures	0,4	0,2	1,0	0,0	0,8	0,0	0,0	-0,4
GGB excl. one-offs	**-8,9**	**-6,7**	**-6,3**	**-6,3**	**-3,8**	**-2,2**	**-1,1**	**7,8**
Output gap[2]	-3,8	-4,4	-4,3	-3,6	-3,8	-3,0	-2,1	1,7
Cyclically adjusted balance[2]	-6,9	-4,5	-3,4	-4,8	-1,4	-0,9	-0,2	6,7
Structural balance[3]	**-7,3**	**-4,8**	**-4,4**	**-4,8**	**-2,2**	**-0,9**	**-0,2**	**7,1**
Change in structural balance		*2,5*	*2,9*	*0,0*	*2,3*	*1,3*	*0,7*	
Structural primary balance[3]	-4,9	-1,6	-1,2	-1,5	1,1	2,3	2,9	7,8
Change in structural primary balance		*3,3*	*3,7*	*0,1*	*2,4*	*1,2*	*0,6*	
Expenditure benchmark								
Public expenditure growth[4] (real)		-9,17	-12,05	-2,60	-7,40	-2,86	-2,13	-
Reference rate[5,6]		1,08	1,08	1,08	1,08	*1,08*	*1,08*	-
Lower reference rate[5,7]		-0,18	-0,18	-0,18	-0,18	*-0,18*	*-0,18*	-
Deviation in % of GDP from applicable reference rate		-3,87	-4,95	-0,98	-2,78	*-0,96*	*-0,67*	-
Two-year average deviation in % of GDP from applicable reference rate		n.a.	n.a.	-2,43	-3,86	*-1,87*	*-0,81*	-

Notes:

[1]On a no-policy-change basis.

[2]Output gap (in % of potential GDP) and cyclically adjusted balance according to the programme as recalculated by Commission on the basis of the information in the programme.

[3]Structural (primary) balance = cyclically adjusted (primary) balance excluding one-off and other temporary measures.

[4]Modified expenditure aggregate used for the expenditure benchmark, growth rates net of non-discretionary changes in unemployment benefit and of discretionary measures.

[5]The reference rates applicable to 2014 onwards will be available from mid-2012. For illustrative purposes, the current reference rates have also been applied to the years 2014 onwards.

[6]The (standard) reference rate applies starting in the year following the one in which the country reaches its MTO.

[7]The lower reference rate applies as long as the country is adjusting towards its MTO, including the year in which it reaches the MTO.

Source:

Stability programme (SP); Commission services' spring 2012 forecasts (COM); Commission services' calculations.

Table IV. Debt dynamics

(% of GDP)	Average 2006-10	2011	2012		2013		2014	2015
			COM	SP	COM	SP	SP	SP
Gross debt ratio[1]	**46,2**	**68,5**	**80,9**	**79,8**	**87,0**	**82,3**	**81,5**	**80,8**
Change in the ratio	3,6	7,3	12,5	11,3	6,1	2,5	-0,8	-0,7
Contributions[2] *:*								
1. Primary balance	**2,4**	**6,1**	**3,3**	**2,2**	**3,1**	**-0,2**	**-1,0**	**-2,0**
2. 'Snowball' effect	**0,6**	**1,2**	**3,8**	**3,6**	**3,0**	**1,7**	**0,8**	**0,4**
Of which:								
Interest expenditure	1,7	2,4	3,2	3,1	3,3	3,2	3,2	3,1
Growth effect	-0,3	-0,4	1,2	1,2	0,3	-0,2	-1,1	-1,4
Inflation effect	-0,8	-0,8	-0,6	-0,7	-0,5	-1,3	-1,3	-1,3
3. Stock-flow adjustment	**0,6**	**0,0**	**5,4**	**5,5**	**0,0**	**1,0**	**-0,6**	**1,0**
Of which:								
Cash/accruals diff.								
Accum. financial assets								
Privatisation								
Val. & residual effects								

(% of GDP)		2011	2012		2013		2014	2015
			COM/SP[3]	SP[4]	COM/SP[3]	SP[4]	SP[4]	SP[4]
Gap to the debt benchmark[3,4]	-	-						
Structural adjustment[5]	-	-	-	-	-	-	1,3	0,7
To be compared to:								
Required adjustment[6]	-	-	-	-	-	-	0,0	0,0

Notes:

[1]End of period.

[2]The snowball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, the accumulation of financial assets and valuation and other residual effects.

[3]Assessment of the consolidation path set in the stability programme assuming growth follows the COM forecasts.

[4]Assessment of the consolidation path set in the stability programme assuming growth follows the SP projections.

[5] Not relevant during the excessive deficit procedures that were ongoing in November 2011 and in the three years following the correction of the excessive deficit.

[6]Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, the projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

[7]Applicable only during the transition period of three years from the correction of the excessive deficit for excessive deficit procedures that were ongoing in November 2011.

[8]Defines the remaining annual structural adjustment over the transition period which ensures that - if followed – Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that the COM (SP) budgetary projections are achieved.

Source :

Stability programme (SP); Commission spring 2012 forecasts (COM); Commission services' calculations.

Table V. Sustainability indicators

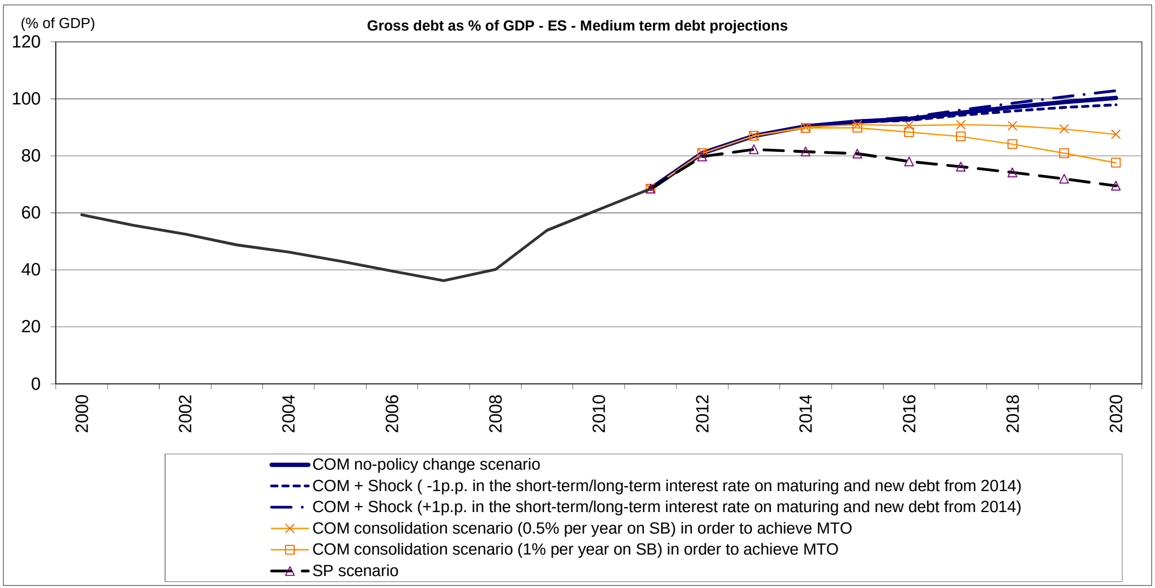
	ES		EU27	
	No policy change scenario	Stability programme scenario	No policy change scenario	SCPs
S2	4.3	0.6	2.9	0.7
of which:				
Initial budgetary position (IBP)	2.3	-1.2	0.7	-1.6
Long-term change in the primary balance (LTC	2.0	1.8	2.3	2.4
of which:				
pensions	2.3	2.2	1.1	1.2
health care and long-term care	1.6	1.5	1.5	1.5
other	-1.8	-2.0	-0.3	-0.3
S1 (required adjustment)*	3.7	-1.6	2.2	-0.1
Debt, % of GDP (2011)	68.5		82.8	
Age-related expenditure, % of GDP (2011)	24.2		25.8	

Source: Commission, 2012 stability and convergence programmes.

Note: The 'no policy change' scenario depicts the sustainability gap on the assumption that the budgetary position evolves according to the spring 2012 forecast until 2013. The 'stability programme' scenario depicts the sustainability gap on the assumption that the budgetary plans in the programme are fully implemented.

* The required adjustment of the primary balance until 2020 to reach a public debt of 60% of GDP by 2030.

Graph — Medium-term debt projections



Source: Commission, 2012 stability and convergence programmes.

Table VI. Taxation indicators

	2001	2005	2007	2008	2009	2010
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	33.7	35.9	37.1	33.0	30.7	31.9
Decomposition by economic function (% of GDP)[1]						
Consumption	9.6	10.0	9.3	8.2	7.3	8.7
of which:						
- VAT	6.0	6.5	6.0	5.1	4.1	5.5
- excise duties on tobacco and alcohol	0.8	0.8	0.8	0.8	0.9	0.9
- energy	1.7	1.5	1.4	1.3	1.3	1.3
- other (residual)	1.2	1.2	1.1	1.0	1.0	1.0
Labour employed	15.5	15.4	16.1	16.0	15.7	15.9
Labour non-employed	0.5	0.6	0.6	0.6	0.7	0.8
Capital and business income	5.9	6.8	8.0	5.9	5.3	4.9
Stocks of capital/wealth	2.8	3.6	3.6	2.8	2.5	2.5
p.m. Environmental taxes[2]	2.1	1.9	1.8	1.6	1.6	1.6
VAT efficiency[3]						
Acctual VAT revenues as % of theoretical revenues at standard rate	53.1	58.8	53.6	44.5	35.3	41.7

Note:

1 Tax revenues are broken down by economic function, i.e. according to whether taxes are raised on consumption, labour or capital. See European Commission (2012), Taxation trends in the European Union, for a more detailed explanation.

2 This category comprises taxes on energy, transport and pollution and resources included in taxes on consumption and capital.

3 The VAT efficency is measured via the VAT revenue ratio. The VAT revenue ratio is defined as the ratio between the actual VAT revenue collected and the revenue that would theoretically be raised if VAT was applied at the standard rate to all final consumption. A low ratio can indicate a reduction of the tax base due to large exemptions or the application of reduced rates to a wide range of goods and services ('policy gap') or a failure to collect all tax due to e.g. fraud ('collection gap'). See European Commission (2011), Tax reforms in EU Member States, European Economy 5/2011, for a more detailed explanation.

Source: Commission services

Table VII. Financial market indicators

	2007	2008	2009	2010	2011
Total assets of the banking sector (% of GDP)	285.4	313.4	328.9	330.1	337.5
Share of assets of the five largest banks (% of total assets)	41.0	42.4	43.3	44.3	…
Foreign ownership of banking system (% of total assets)	11.4	10.6	10.2	…	…
Financial soundness indicators:					
- non-performing loans (% of total loans) [1)]	0.9	2.8	4.1	4.7	5.3
- capital adequacy ratio (%) [1),2)]	11.4	11.3	12.2	11.9	11.8
- return on equity (%) [1), 3)]	19.6	12.6	9.2	7.7	7.5
Bank loans to the private sector (y-o-y % change)	16.8	6.7	-1.0	1.3	-2.5
Lending for house purchase (y-o-y % change)	13.8	5.1	0.1	0.9	-2.0
Loan to deposit ratio	121.6	114.5	110.8	108.8	108.7
CB liquidity as % of liabilities	2.7	3.3	3.1	2.4	5.9
Banks' exposure to countries beneficiary of official financial assistance (% of GDP)[4)]	6.7	7.0	6.6	7.1	6.1
Private debt (% of GDP)	170.3	175.7	179.7	180.4	171.5
Gross external debt (% of GDP) [5)]					
- Public	19.1	22.7	27.9	27.2	26.1
- Private	61.6	61.8	58.9	58.3	54.6
Long term interest rates spread versus Bund (basis points)*	9.1	38.2	75.7	150.8	283.3
Credit default swap spreads for sovereign securities (5-year)*	…	59.2	92.9	203.4	318.1

Notes:

1) Latest available June 2011.

2) The capital adequacy ratio is defined as total capital devided by risk weigthed assets.

3) Net income to equity ratio. After extraordinary items and taxes.

4) Covered countries are IE, EL, PT, RO, LV and HU.

5) Latest data 2011Q3.

* Measured in basis points.

Source :

Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission services (long-term interest rates), World Bank (gross external debt) and ECB (all other indicators).

Table VIII. Labour market and social indicators

Labour market indicators	2006	2007	2008	2009	2010	2011
Employment rate (% of population aged 20-64)	68,7	69,5	68,3	63,7	62,5	61,6
Employment growth (% change from previous year)	4,1	3,1	-0,5	-6,8	-2,3	-1,9
Employment rate of women (% of female population aged 20-64)	56,4	58,0	58,3	56,3	55,8	55,5
Employment rate of men (% of male population aged 20-64)	80,7	80,7	78,1	71,0	69,1	67,6
Employment rate of older workers (% of population aged 55-64)	44,1	44,6	45,6	44,1	43,6	44,5
Part-time employment (% of total employment)	12,0	11,9	12,1	12,9	13,4	13,9
Part-time employment of women (% of women employment)	23,3	22,9	22,8	23,2	23,4	23,6
Part-time employment of men (% of men employment)	4,4	4,1	4,2	4,9	5,4	6,1
Fixed term employment (% of employees with a fixed term contract)	34,0	31,7	29,3	25,4	24,9	25,3
Unemployment rate[1] (% of labour force)	8,5	8,3	11,3	18,0	20,1	21,7
Long-term unemployment[2] (% of labour force)	1,8	1,7	2,0	4,3	7,3	9,0
Youth unemployment rate (% of youth labour force aged 15-24)	17,9	18,2	24,6	37,8	41,6	46,4
Youth NEET[3] rate (% of population aged 15-24)	12,0	12,2	14,4	18,3	18,0	:
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	30,5	31,0	31,9	31,2	28,4	:
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	39,2	38,9	38,8	38,2	39,2	:
Labour productivity per person employed (annual % change)	0,6	0,5	1,1	2,9	2,6	2,8
Hours worked per person employed (annual % change)	-0,8	-0,9	0,3	0,4	0,3	1,0
Labour productivity per hour worked (annual % change; constant prices)	0,9	1,3	0,8	2,7	2,3	1,7
Compensation per employee (annual % change; constant prices)	-0,3	1,4	3,6	4,2	-0,4	-0,5
Nominal unit labour cost growth (annual % change)	3,1	4,1	4,8	1,3	-2,6	-1,9
Real unit labour cost growth (annual % change)	-1,0	0,8	2,4	1,2	-3,0	-3,2

Notes:

[1] According to ILO definition, age group 15-74)
[2] Share of persons in the labour force who have been unemployed for at least 12 months.
[3] NEET are persons that are neither in employment nor in any education or training.

Sources:
Commission (EU Labour Force Survey and European National Accounts)

Expenditure on social protection benefits (% of GDP)	2005	2006	2007	2008	2009
Sickness/Health care	6,30	6,34	6,39	6,83	7,30
Invalidity	1,53	1,52	1,53	1,58	1,72
Old age and survivors	6,50	6,47	6,55	6,92	7,66
Family/Children	1,18	1,20	1,26	1,36	1,51
Unemployment	2,17	2,10	2,06	2,51	3,67
Housing and Social exclusion n.e.c.	0,17	0,17	0,18	0,19	0,20
Total	20,6	20,5	20,7	22,1	25,0
of which: Means tested benefits	2,69	2,73	2,74	2,94	3,47
Social inclusion indicators	**2006**	**2007**	**2008**	**2009**	**2010**
Risk-of-poverty or exclusion[1] (% of total population)	23,9	23,1	22,9	23,4	25,5
Risk-of-poverty or exclusion of children (% of people aged 0-17)	26,3	26,1	26,3	26,2	29,8
Risk-of-poverty or exclusion of elderly (% of people aged 65+)	32,1	29,7	28,2	26,1	22,6
At-risk-of-poverty rate[2] (% of total population)	19,9	19,7	19,6	19,5	20,7
Value of relative poverty threshold (single household per year) - in PPS	7560	7871	8369	8384	7995
Severe material deprivation[3] (% of total population)	3,4	3,0	2,5	3,5	4,0
Share of people living in low work intensity households[4] (% of people aged 0-59 not student)	6,3	6,3	6,2	7,0	9,8
In-work at-risk-of poverty rate (% of persons employed)	9,9	10,7	10,7	11,4	12,7

Notes:

[1] People at risk of poverty or social exclusion (AROPE): individuals who are at risk of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in households with zero or very low work intensity (LWI).

[2] At-risk-of poverty rate: share of people with an equivalised disposable income below 60% of the national equivalised median income.

[3] Share of people who experience at least 4 out of 9 deprivations: people cannot afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish, or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour TV, or ix) have a telephone.

[4] People living in households with very low work intensity: share of people aged 0-59 living in households where the adults work less than 20% of their total work-time potential during the previous 12 months.

Sources:
For expenditure on social protection benefits ESSPROS; for social inclusion EU-SILC.

Table IX. Product market performance and policy indicators

Performance indicators	2002-2006	2007	2008	2009	2010	2011
Labour productivity[1] total economy (annual growth in %)	-0.1	0.5	1.3	3.1	2.2	1.3
Labour productivity[1] in manufacturing (annual growth in %)	0.3	1.5	-1.3	1.2	n.a.	n.a.
Labour productivity[1] in electricity, gas, water (annual growth in %)	-0.4	-1.2	8.4	-9.0	n.a.	n.a.
Labour productivity[1] in the construction sector (annual growth in %)	-0.3	-2.9	9.6	21.0	6.6	n.a.
Patent intensity in manufacturing[2] (patents of the EPO divided by gross value added of the sector)	0.9	1.0	0.8	n.a.	n.a.	n.a.
Policy indicators	**2002-2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Enforcing contracts[3] (days)	n.a.	515	515	515	515	515
Time to start a business[3] (days)	n.a.	47	47	47	47	28
R&D expenditure (% of GDP)	1.1	1.3	1.4	1.4	1.4	n.a.
Tertiary educational attainment (% of 30-34 years old population)	36.0	39.5	39.8	39.4	40.6	n.a.
Total public expenditure on education (% of GDP)	4.3	4.4	4.6	n.a.	n.a.	n.a.
	2005	**2006**	**2008**	**2009**	**2010**	**2011**
Product market regulation[4], Overall (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	1.0	n.a.	n.a.	n.a.
Product market regulation[4], Retail (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	2.7	n.a.	n.a.	n.a.
Product market regulation[4], Network Industries[5] (Index; 0=not regulated; 6=most regulated)	1.6	1.6	1.6*	n.a.	n.a.	n.a.

Notes:

[1]Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.

[2]Patent data refer to applications designated to the European Patent Office (EPO). They are counted according to the year in which they were filed at the EPO. They are broken down according to the inventor's place of residence, using fractional counting if multiple inventors or IPC classes are provided to avoid double counting.

[3] The methodologies, including the assumptions, of this indicator is presented in detail at the website http://www.doingbusiness.org/methodology.

[4] The methodologies of the Product market regulation indicators are presented in detail at the website http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html. The latest available product market regulation indicators refer to 2003 and 2008, except for Network Industries.

[5] Aggregate ETCR.

*figure for 2007.

Source :

Commission services, World Bank Doing Business (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).

Table X. Green growth indicators

Spain		2001-2005	2006	2007	2008	2009	2010
Green Growth performance							
Macroeconomic							
Energy intensity	kgoe / €	0.20	0.19	0.18	0.18	0.17	0.17
Carbon intensity	kg / €	0.59	0.55	0.55	0.50	0.48	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	1.16	1.19	1.18	1.01	0.84	n.a.
Waste intensity	kg / €	n.a.	0.21	0.20	0.19	n.a.	n.a.
Energy balance of trade	% GDP	-2.2%	-3.3%	-3.1%	-3.7%	-2.3%	-3.0%
Energy weight in HICP	%	9	9	10	10	10	10
Difference between change energy price and inflation	%	-1.28	6.2	-0.9	6.3	-1.6	4.3
Environmental taxes over labour taxes	ratio	12.5%	11.4%	10.7%	9.5%	9.7%	n.a.
Environmental taxes over total taxes	ratio	5.9%	5.1%	4.9%	4.9%	5.4%	n.a.
Sectoral							
Industry energy intensity	kgoe / €	0.21	0.16	0.17	0.16	0.16	n.a.
Share of energy-intensive industries in the economy	% GDP	9.8	9.5	9.3	9.1	8.5	n.a.
Electricity prices for medium-sized industrial users	€ / kWh	0.06	0.07	0.08	0.09	0.11	0.11
Public R&D for energy	% GDP	n.a.	0.02%	0.02%	0.03%	0.03%	n.a.
Public R&D for the environment	% GDP	n.a.	0.03%	0.04%	0.04%	0.05%	n.a.
Recycling rate of municipal waste	ratio	34.5%	38.9%	39.0%	48.3%	48.0%	n.a.
Share of GHG emissions covered by ETS	%	n.a.	42.2%	42.7%	40.4%	37.3%	n.a.
Transport energy intensity	kgoe / €	0.71	0.68	0.66	0.60	0.57	n.a.
Transport carbon intensity	kg / €	1.82	1.72	1.67	1.51	1.43	n.a.
Change in the ratio of passenger transport and GDP	%	-1.1%	-3.8%	-0.8%	-1.2%	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	77.8%	81.2%	79.7%	81.2%	79.4%	n.a.
Diversification of oil import sources	HHI	n.a.	0.10	0.10	0.09	0.09	n.a.
Diversification of energy mix	HHI	0.32	0.31	0.31	0.32	0.32	n.a.
Share of renewable energy in energy mix	%	6.1%	6.3%	6.8%	7.5%	9.3%	n.a.

Country-specific notes:

The year 2011 is not included in the table due to lack of data.

General explanation of the table items:

Source: Eurostat unless indicated otherwise; ECFIN explanations given below

All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2000 prices)

Energy intensity: gross inland energy consumption (in kgoe) divided by GDP (in EUR)

Carbon intensity: Greenhouse gas emissions (in kg CO2 equivalents) divided by GDP (in EUR)

Resource intensity: Domestic Material Consumption (in kg) divided by GDP (in EUR)

Waste intensity: waste (in kg) divided by GDP (in EUR)

Energy balance of trade: the balance of energy exports and imports, expressed as % of GDP

Energy weight in HICP: the share of the "energy" items in the consumption basket used in the construction of the HICP

Difference between energy price change and inflation: energy component of HICP, and total HICP inflation (annual %-change)

Environmental taxes over labour or total taxes: from DG TAXUD's database "Taxation trends in the European Union"

Industry energy intensity: final energy consumption of industry (in kgoe) divided by gross value added of industry (in EUR)

Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP

Recycling rate of municipal waste: ratio of municipal waste recycled over total municipal waste

Public R&D for energy or for the environment: government spending on R&D (GBAORD) for these categories as % of GDP

Share of GHG emissions covered by ETS: based on greenhouse gas emissions as reported by Member States to EEA (excl LULUCF)

Transport energy intensity: final energy consumption of transport (in kgoe) divided by gross value added of industry (in EUR)

Transport carbon intensity: greenhouse gas emissions in transport divided by gross value added of the transport sector

Passenger transport growth : measured in %-change in passenger kilometres

Energy import dependency: net energy imports divided by gross inland energy consumption incl. of international bunkers

Diversification of oil import sources: Herfindahl index (HHI), calculated as the sum of the squared market shares of countries of origin

Diversification of the energy mix: Herfindahl Index over natural gas, total petrol products, nuclear heat, renewable energies and solid fuels

Share of renewable energy in energy mix: percentage-share in gross inland energy consumption, expressed in tonne oil equivalents