EXECUTIVE SUMMARY

After two years of intense reforms that have permitted the Spanish economy to regain the confidence of international markets and gain efficiency, flexibility and ability to compete, results are starting to show.

The Spanish economy already grew in the last two quarters of 2013 and first quarter 2014 data confirm growth acceleration. Data on social security affiliation have been showing net year-on-year job creation for a number of months. The Spanish economy is rapidly regaining external competitiveness, as shown by the strength of our exports, the current account balance, and the evolution of the main price indicators. The financial sector, after completing the restructuration and recapitalization process, is in good shape to channel credit to the economy. Confidence is back and the recent evolution of the risk premium, the change in financing conditions and the evolution of economic confidence indicators attest to this. And, lastly, the correction of the government deficit is taking place in line with the committed path.

In this context, the NRP 2014 is the continuation of an intense Government reform agenda already reflected in the 2012 and 2013 NRPs, which has been complied thoroughly so far. As a differential element, on top of deepening the reforms featured in the two previous programs, the 2014 PNR builds on a more favorable economic juncture. And, therefore, it becomes an essential policy tool in order that the cyclical change that seems to be initiating gains traction and allows for solid, sustainable and job-creating growth.

In short, the Government economic agenda for the next twelve months focuses on two mutually reinforcing action paths: deepening the reforms, and favoring economic recovery and job creation. And the measures included in the NRP 2014 follow this approach. They are structured, as usual, around the five priority areas identified in the Annual Growth Survey 2014 (AGS): pursuing differentiated, growth-friendly fiscal consolidation; restoring lending to the economy; promoting growth and competitiveness for today and tomorrow; tackling unemployment and the social consequences of the crisis; and modernizing public administration. Moreover, these measures set the basis for the achievement of the Europe 2020 Strategy objectives.

The 2014 NPR takes stock, firstly, of the high degree of compliance of the commitments made by Spain in the framework of the European Semester, in particular regarding the country specific recommendations formulated by the Council to Spain in 2013[3]. This section covers the intense reform activity of the last twelve months as outlined in the NRP 2013, which has been practically fully executed.

Then, the 2014 NRP sets forth the main measures that the government will implement in the course of 2014 in the five abovementioned priority fields. Among the measures included in the NRP, it is worth noting the following:

1. Differentiated, growth-friendly fiscal consolidation

The consolidation of public accounts and the achievement of budgetary stability have been central to economic policy in Spain since 2012, as they are necessary conditions for sustainable economic growth and job creation.

The achievements in this area over the last two years have helped regain confidence of the economic agents in the Spanish economy and have allowed for an improvement in

[3] http://ec.europa.eu/europe2020/pdf/csr2013/spain/csr2013_council_spain_es.pdf

financing conditions. Both elements are clearly translating to the evolution of the risk premium, which has been under 160 basis points in April (from the peak of 639 reached in the summer of 2012), and to the evolution the 10 year bond interest rate, now around 3,1% (half as much as the 7% figure observed in the summer of 2012). Likewise, confidence indicators stand at levels consistent with economic recovery and have hit record highs seen before the crisis. And this has resulted in some recovery in capital goods investment.

Pursuing growth friendly fiscal consolidation in 2014 is necessary to consolidate the recovery as well as to comply with the deficit reduction commitments established in the 2014-2017 Stability Program.

There is no doubt that the main change in this area for 2014 will come from the income side. The Government will undertake a comprehensive tax reform that, while enhancing our revenue collection capacity, allows for the promotion of growth and employment.

This reform will be presented in the second quarter of 2014 and will have the following general objectives:

- **Modernizing the tax system** in accordance with international best practices.
- **Solving the current problems of the tax system: the tax bias against employment and the low revenue collection.** The objective is to ensure sufficient tax income and to increase revenue collection by paying special attention to thin fiscal bases and to tax fraud, and without discouraging job creation.
- Contribute to **fiscal consolidation** and **job creation**
- Favor **economic development**, ensure **market unity** and **fiscal neutrality** and **enhance the competitiveness** of the Spanish economy.

In addition, work will be continued to **enhance the transparency of the economic and financial information and eliminate late payments** within the administration.

2. Restoring lending to the economy

Restoring lending is essential for the consolidation of economic recovery. The significant improvement in financial conditions and the completion of the restructuring process of the banking sector have paved the way for restoring normal lending to the economy: the financial sector is now in a position to fulfil its main role.

The Government wants to foster this process and to provide alternative funding sources for economic agents. To this end measures will be taken in 2014 to promote both banking and non-banking financing sources. The Official Credit Institute (*Instituto de Crédito Oficial, ICO*) will continue to play a counter-cyclical role. In addition, the **Law for the Promotion of Business Financing (*Ley de Fomento de la Financiación Empresarial*)** will be approved. This law transforms the financing sources of the Spanish economy, making banking financing more accessible and flexible for SMEs and strengthening the foundations for non-bank corporate financing.

In addition, to ensure the survival of companies with an excessive debt burden but are still viable from an operational point of view, the legal regime of creditors' agreements will be made more flexible, especially as regards the majorities required and their effects. The legal regime of insolvency administration will also be reviewed. This measure, along with others such as changes in refinancing and restructuring

agreements, accelerates the recovery of Spanish industries and promotes the realignment of companies to their real financial capacity.

3. Promoting growth and competitiveness for today and tomorrow

To generate growth, ensuring a competitive functioning of the Spanish economy remains necessary. This is especially important in a monetary union where devaluation is not an option. Therefore, the Government will continue to adopt measures that guarantee the flexible functioning of markets and allow for moderate price adjustments. Likewise, measures to spur medium term growth by improving workers' training and research will be implemented.

On the grounds of their ambition, the following reforms should be highlighted:

- **Desindexation Law (*Ley de desindexación de la Economía Española*),** that aims to avoid the continuous competitiveness loss due to cumulative price differentials with the rest of the EMU, and which resulted in lack of growth and employment destruction.

  The law intends to eliminate indexation practices in the public sector, setting a benchmarck for the private sector. To this end, the law also creates the Competitiveness Guarantee Index, *Índice de Garantía de la Competitividad* (IGC) to be used for price updating. The law is being discussed in Parliament. In addition to the law, the necessary implementation regulation will also be approved and all indexation clauses in the Spanish legislation will be reviewed at all levels of the Administration.

- **Plan for Regulatory Simplification under the Law on Guarantee of Market Unity, *Plan de Racionalización Normativa de adaptación a la Ley de Garantía de la Unidad de Mercado (LGUM*).** The LGUM required a very ambitious and continuous adaptation process of national, local and regional regulation. This regulatory adaptation process is complementary to the protection of economic agents rights against violations of the LGUM, as foreseen in the Law.

  Important steps have been taken in this process regarding evaluation and identification of regulation to be adapted. **2.700 norms have been identified so far as needing adjustment in order to facilitate the establishment and free circulation of economic operators** in fields as diverse as rail-way transportation, gambling, monitoring bodies, environmental and urban planning procedures, industrial facilities, waste management, consumer protection, educational centers, recruiting agencies or health and veterinary centers, among others.

  Since this exercise not only affects State-level regulation, it is being carried out through Sectorial Conferences and others coordination bodies with the Autonomous Regions and municipal administrations.

  This regulatory adaptation process will take place over the course of 2014 and 2015.

- **New model for training for employment**, based on the principles of transparency and public resources management control, competition and evaluation of the quality of training.

  It will be implemented over the course of 2014 and it will require the approval of a number of regulatory instruments.

4. Fighting unemployment and the social consequences of the crisis

In 2014 the Spanish economy began to create net employment despite the moderate growth rates experienced since 2013.

Thus, according to Social security enrollment figures as of March 2014, employment in Spain has grown by 115,013 people year-on-year, i.e. +0.71%. This is the best annual rate registered since April 2008 (+1.07%).

Regarding unemployment, according to Eurostat Spain is the EU Member State where unemployment has dropped the most over the last twelve months. In seasonally adjusted terms, the decrease amounted to 315,000 people between February 2013 and February 2014. As a result, as much as half of the total unemployment decline in the EU over this period has happened in Spain.

In February 2014 the unemployment rate reached 25.6%, one percentage point lower than a year earlier. Lastly, on youth unemployment (under 25), according to Eurostat the February 2014 youth unemployment rate stood at 53.6%, 2.2 points lower than a year ago.

In order to foster the nascent employment recovery, in 2014 the Government is taking measures to increase hiring and the activation of the unemployed. Among other measures, part-time contracts and flexible management of working time are being promoted, as are permanent contracts through the reduction of social security contributions. Other relevant measures include:

- **The Spanish Strategy for Employment Activation 2014-2016,** a landmark for a transition towards an evaluation and result-oriented system, will be presented over the first half of 2014. Under the new strategy, the financing of the activation measures implemented by the Regional governments will be contingent on the level of achievement of common targets.

  One of the strategic common objectives included in the Strategy (prepared with the involvement of the Regional governments) is the improvement of the employability of the young and the implementation of the Youth Guarantee.

  The implementation of the Strategy will require the approval of several legal instruments such as the development of an Employment Law – so as to better define the tools to reach common goals of the different Public Employment Services – and other legal modifications to promote the activation of the recipients of unemployment benefits.

- **National Plan for the Implementation of the Youth Guarantee**. The UE provides 1,887 million Euros to finance the implementation of the Youth Guarantee in 2014 and 2015. Beyond these two years, its effects are guaranteed by the 2013-2016 Entrepreneurship and Youth Employment Strategy which introduces complementary measures.

  Another relevant aspect is the change in the profiles of poverty and social exclusion observed over the last years, which is closely related to the difficult economic situation experienced recently.

  That is why the most effective instrument to fight poverty and social exclusion is job creation and labor integration. That line of action will continue to be a priority for the

Government in 2014, through measures for the development and constant adaptation of human capital, measures in the labor market and activation policies.

Measures targeting collectives with special difficulties to enter the job market, such as for instance workers with disabilities, workers over 55, the young or the long term unemployed, will also be developed.

Other actions directed to reinforcing social integration will be developed within the National Action Plan for Social Inclusion 2013-2016, the National Comprehensive Strategy for the Homeless (to be adopted in 2014) and the legal reform of childhood protection regulation. Also, in 2014 the Third Sector Social Action Law and Volunteering Act reform will be presented.

5. Modernizing the Public Administration

A competitive economy requires modern, transparent and dynamic public administrations. To achieve this, the Commission for the Reform of the Public Administration (Comisión para la Reforma de la Administración o CORA) was created in 2012, and since then it has delivered the most important review of the Spanish public sector of the last decades. The OECD has recently acknowledged the relevance, leadership and thoroughness of this exercise.

Out of the 221 actions identified by the CORA report, 63 have already been completed and the rest are currently being implemented. In 2014 this regulatory effort will continue, many new actions will be specified and savings will begin to emerge as execution proceeds. By 2014 an estimated 50% of all the measures will be completed. The following should be highlighted:

- The future **Law on Public Administration and Common Administrative Procedure** directed to making the regulation of the Spanish Public Sector organization clear and coherent.
- The reform of the **General law of public grants** in order to reinforce the transparency in the concession of grants; limit public financing of certain modalities of private spending; eliminate duplicities, among others.

Additionally, new measures to improve the efficiency in the Government's management of liquidity, to streamline and eliminate duplicities, to increase efficiency in public employment structure and management, to impulse electronic administration, and to reduce administrative burden, will be taken.

Moreover, in 2014 the local administration adaptation process to the new model defined by the 2013 **law on Rationalization and Sustainability of the Local Administration** will be completed.

Furthermore, **progress is being made on measures for democratic regeneration, institutional strengthening and fight against corruption**, as a central element to regain the confidence of citizens in the institutions.

These measures address corruption and lack of transparency from two perspectives: firstly, with **preventive measures** that prevent such behaviors and, secondly, with **initiatives that limit impunity, better identify crime**, and punish more severely.

In 2012 and 2013, some major legal reforms were completed such as: the reform of the law on financing of political parties; modifications of the criminal code on transparency and fight against tax and social security fraud; and the Law on Transparency, Access

to Public Information and Good Governance. In 2014 these actions will be completed with two new draft laws, already submitted to the Parliament, that will be passed in 2014:

- **The draft Organic law for the control of the economic and financial activity of political parties**, to increase the control, auditing, transparency and obligations of political parties.

- **Draft law regulating senior management positions of public officials within the General Administration**, which will fill a legal void and will create also more obligations, control, auditing and transparency for such officials.

The 2014 NPR also reflects the coherence of the Government reform priorities and economic policy and job creation objectives with the programing of Structural Funds granted to Spain for the next period 2014-2020.

In the next period, Spain will receive a total of €28,504 Million from the European Regional Development Fund (ERDF) and the European Social Fund (ESF): specifically, Spain will receive 19,415 from ERFD and 7.581 from ESF. On top of this, additional funds have been assigned to specific actions: €943 Million for the Young Employment Initiative and €565 from the Fund for European Aid to the Most Deprived (FEAD). Moreover, €8.290 million will be granted from the European Agricultural Fund for Rural Development (EAFRD), in addition to the amount coming from European Maritime and Fisheries Fund (EMFF), currently under negotiations..

While programing funds, priority will be given to measures that increase productivity and employment, foster private investment, and develop high growth sectors. Thus, Spain will devote an important amount of Structural funds to promote employment, including specific measures against youth unemployment; support research, technological development and innovation; encourage energy efficiency; and increase competitiveness and credit access for SMEs.