



GOBIERNO  
DE ESPAÑA

# **BALANCE OF REFORMS**

## ***TWO AND A HALF YEARS IN GOVERNMENT***

**Council of Ministers**

**1 August 2014**

## REFORMIST AGENDA

Since the start of this term, the Government of Spain has been implementing a packed reformist agenda aimed at correcting the imbalances and harnessing the potential to be found in Spain. To that end, actions have been taken on three basic cornerstone issues:

- **Fiscal consolidation** to ensure the sustainability and solvency of the Spanish economy
- **Reform of the financial system** and increased financing for the productive economy
- **Structural reforms** for competitiveness, growth and job creation

In this time, the Government of Spain's determination to support these reforms and the shared commitment from society as a whole to implement them have led to a turning point for the economy, a move towards recovery. Hence, we have achieved:

- **Stabilisation of the fiscal situation**, overcoming an unprecedented debt crisis that would have led to intervention in the Spanish economy
- Completion of a **far-reaching bank restructuring process** and implementation of the Financial Assistance Programme, with the loan now starting to be repaid to the credit entities
- Rectification of imbalances and recovery from recession, with **increased competitiveness and sustained growth** that continues to gain strength and translate into jobs

The next step is to maintain progress on the reforms needed to consolidate the economic recovery by providing **substance to the growth** in the economy, guaranteeing **job creation** and transferring the effects of the recovery to **the citizens at large**.

## FISCAL CONSOLIDATION

### 1. Improving governance and fiscal discipline

- **Constitutional Law on Budgetary Stability and Financial Sustainability**
- **Law on the Creation of an Independent Fiscal Responsibility Authority**
- **Organisation of the public accounts of the regional authorities**, with **liquidity measures worth 131.64 billion euros** (Payment to Suppliers, Regional Liquidity Fund, financial advances)
- Creation of the **Economic-Financial Information Centre** of the Public Administration Services

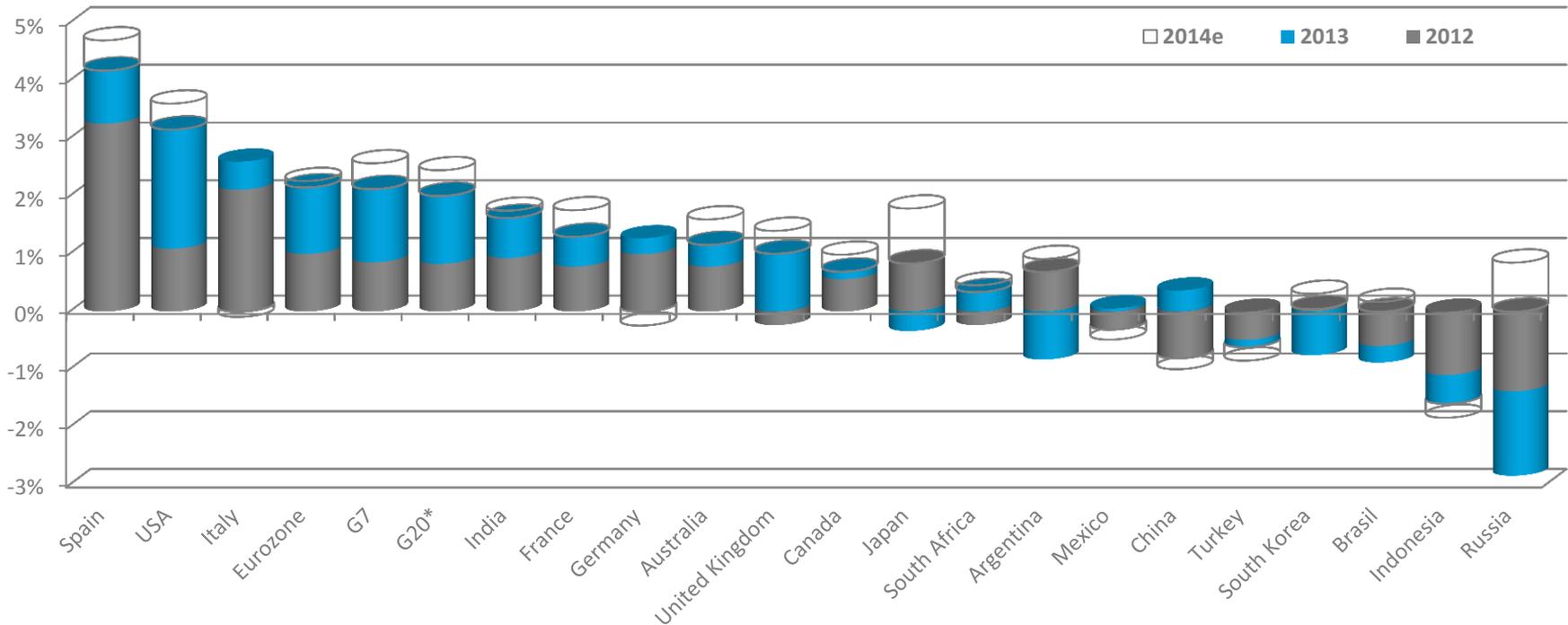
### 2. Public deficit correction

- **Reduction of expenditure by the ministries: 16.9% in 2012, 8.9% in 2013 and 4.7% in 2014**
- **Tax reforms to restore revenue:** Personal Income Tax, indirect taxes and Corporate Income Tax
- **The fight against fraud:** Laws to combat tax and employment fraud, and reform of the Criminal Code

### 3. Welfare Sustainability

- **Streamlining reforms** to guarantee viability and quality of service
- **Reform of the pension system**, to avoid freezing or even lowering pensions
- Measures to reform the **mutual insurance companies that collaborate with the Social Security system** and management of Temporary Incapacity Benefit

### Structural adjustment of the public deficit



Source: International Monetary Fund. Fiscal Monitor (April 2014). Trend in the cyclically-adjusted primary structural balance.  
 \* Average of the most advanced G-20 countries.

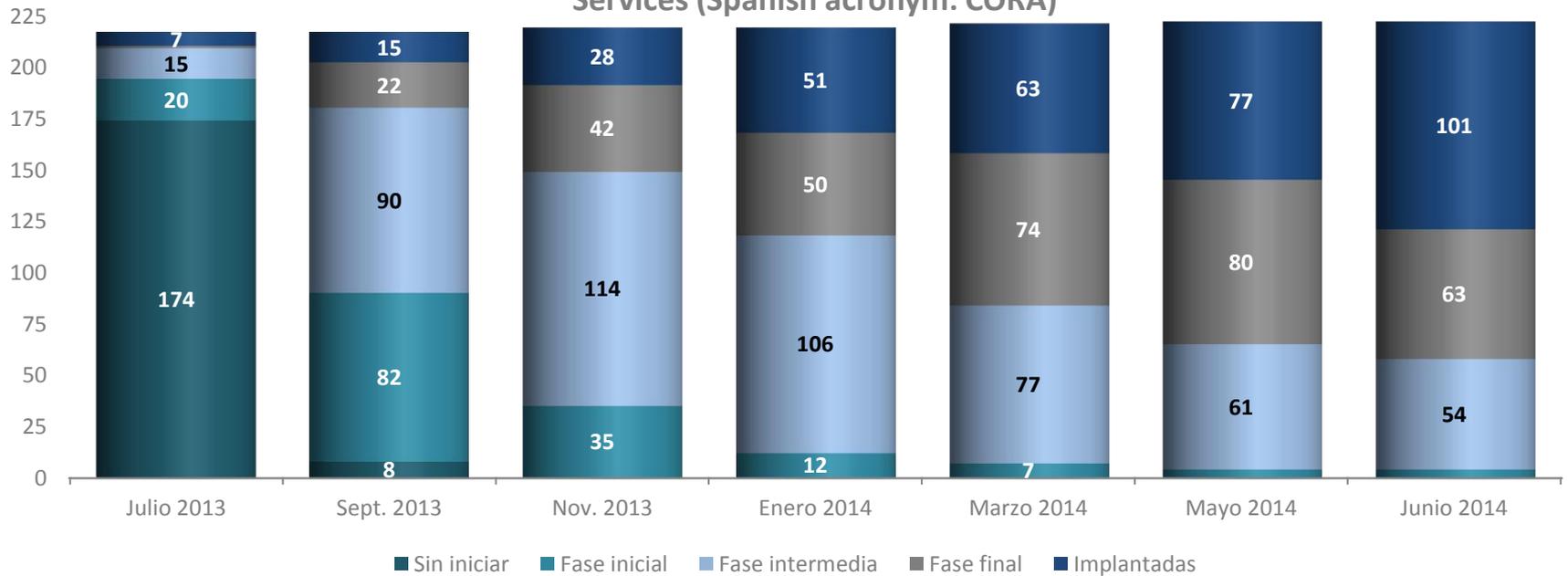
Spain has carried out **the largest fiscal consolidation effort of all the G-20 nations**. A shared effort, in which all tiers of government have addressed their commitments. **In two years - to 2013 - the public deficit has been reduced by 2.45 points of GDP and 27.18 billion euros**. In the first six months of 2014, the Spanish State has reduced its deficit by more than **19%**.

## FISCAL CONSOLIDATION

### 4 Public Administration Reform

- **Plan to Eradicate Late Payments in the Public Sector:** Law to Promote e-Billing and Constitutional Law on the Control of Commercial Debt; Definition of the calculation and publication of the Average Period for Payment to Suppliers and conditions for the withholding of financing due to repeated failures to comply with the deadline.
- **Structural streamlining and administrative organisation:** Law on Streamlining and Sustainability of Local Authorities; Draft Law on streamlining the public sector and administrative reform; Restructuring of the Corporate and Foundation Public Sector within the National Government (action on 162 entities that is leading to the net elimination of 104 of them), the Regional Governments (675) and the local authorities (1,225).
- **Elimination of duplication:** Integration into the State network of overseas regional offices; Attribution of powers to the Central Court for Contractual Appeals; Contracting platform for the public sector.
- **Management of common services and resources:** Real Estate Asset Management Plan; Reform of the Car Pool; Centralisation of procurement and services within ministries and the start of centralisation between different ministries; Centralisation of current accounts within the National Government.
- **Administrative simplification:** Single Edict Notice Board for the public administration services; Single Auction Portal; “Start up in 3” Project.

### Degree of implementation of the Report by the Committee for the Reform of the Public Administration Services (Spanish acronym: CORA)



Of the 222 measures contained in the CORA Report, **over 45% are already complete** and the rest are under way.

The **OECD** has assessed the reform and described it as one of the most complete of all Member States.

## REFORM OF THE FINANCIAL SYSTEM

### 5. Cleaning up, restructuring and resolution of credit institutions

- **Bank restructuring and recapitalisation** with financial support from the ESM. **Finalisation of the European financial assistance programme** in 18 months.
- Separation of assets to the **Asset Management Company deriving from the Bank Restructuring** (Spanish acronym: SAREB): **Transfer of 197,474 assets valued at 50.78 billion euros.**
- New **Law on Savings Banks and Bank Foundations** and **Rules for the supervision and solvency of credit entities.**

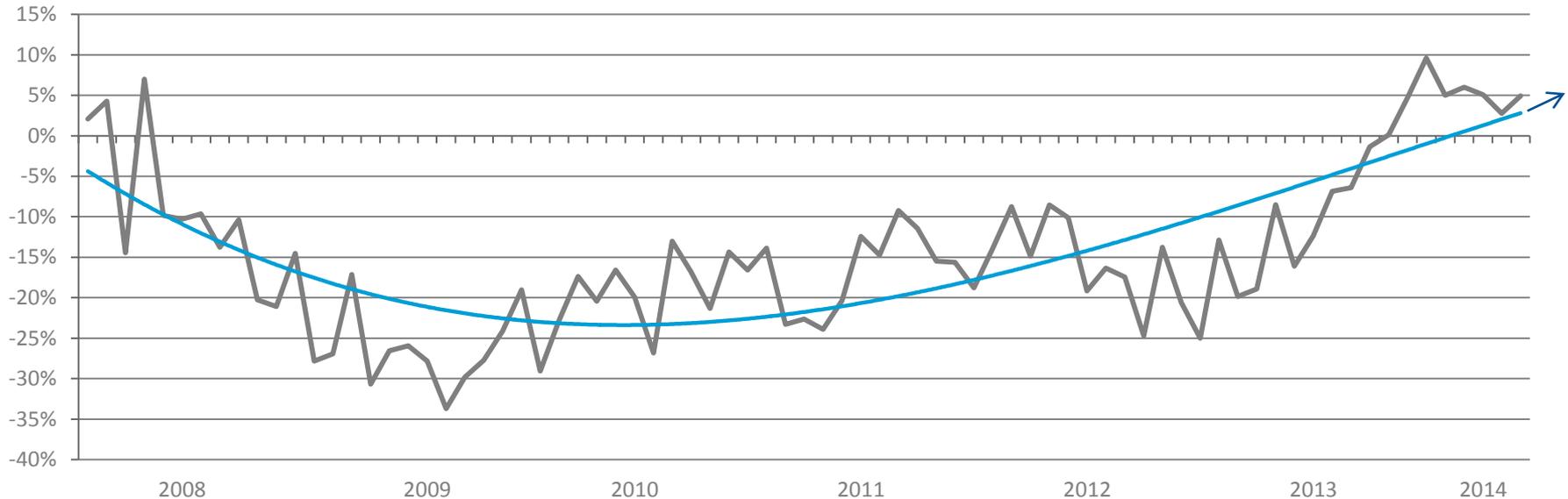
### 6. Protection of debtors and consumers of financial products

- Urgent legislative and structural measures to improve protection for **mortgage holders**: **19,500 families have been protected by these measures.**
- Arbitration for retail investors and limits on the **commercialisation of preferred shares**: **More than 315,000 people have been protected by these measures.**

### 7. Promotion of alternative financing

- **Promotion** of activity by **business angels** and creation of the **ICO Global-Fund** with 1.2 billion euros of capital to foster the financing of Spanish start-ups.
- **ICO credit lines**: **10.82 billion euros were issued in the first six months of 2014**, more than twice (118%) the figure issued in the previous year. In 2013, activity by the ICO [Official Credit Institute] had already grown 20.6% on 2012.

## New loans of up to 1 million euros to non-financial companies



Source: Bank of Spain. Year-on-year growth in new loans of less than 1 million euros from credit entities to non-financial companies.

**A complete restructuring of the financial sector has taken place** as a prior and necessary step for overcoming distrust in the system and promoting finance for the private sector. **A process that was begun throughout Europe from 2008 and that Spain was required to tackle in only two years.**

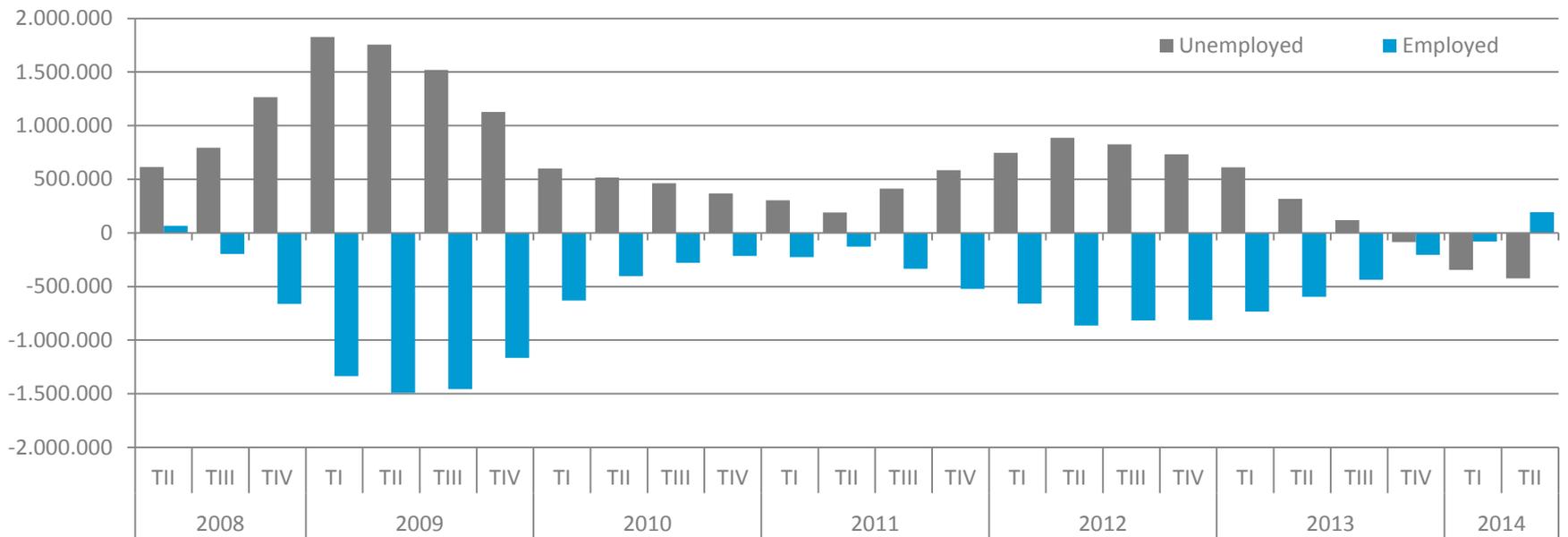
This effort enabled conditions to be guaranteed for restoring credit to the private sector. **New loans of under 1 million euros have started to pick up again for the first time since 2007.**

## STRUCTURAL REFORMS TO BOOST COMPETITIVENESS

### 8. Labour reform and reform of employment policies

- **Comprehensive reform of the labour market:**
  - ✓ Boost to **internal flexibility** and modernisation of **collective bargaining**
  - ✓ Reduction of **labour market dualism**: Banning the use of successive temporary contracts
  - ✓ Encouragement for **hiring**: New permanent contract for support to entrepreneurs (**over 200,000 signed**), part-time contract and other reconciliation measures
- **Optimisation of active and passive employment policies:**
  - ✓ **Annual Employment Policy Plan** (Spanish acronym: **PAPE**): Greater coordination of active policies and stronger link to passive policies
  - ✓ **Promotion of training**: Reform of the contract for training and apprenticeship and implementation of dual training
  - ✓ **PREPARA Plan**: Indefinite extension while the unemployment rate is over 20% and increased aid for the unemployed with a family burden
- **Promotion of entrepreneurship and employment:**
  - ✓ **Youth Entrepreneurship and Employment Strategy 2013-2016**: Over 100 measures that have benefited more than 150,000 young people, 400 per day
  - ✓ **100-euro flat rate for permanent employment contracts**, which has already benefited 103,947 people.

### Trend in unemployment and work



Source: National Statistics Institute. Year-on-year trend in unemployment and work.

**The runaway train of unemployment has been slowed.** In the last year, the number of unemployed has fallen by 424,500 - the largest annual reduction since 1999. The number of unemployed is now at its lowest since Q4 2011. **In 2014, Spain accounted for 73% of the total fall in unemployment for the Eurozone as a whole.**

For the first time in six years, **job creation has been restored.** In spite of only moderate growth, 402,400 people found work in the second quarter - the largest increase since the second quarter of 2005.

## STRUCTURAL REFORMS TO BOOST COMPETITIVENESS

### 9. Improvement in the regulatory framework, supervision and the business environment

- **Law on Guaranteeing Market Unity and Plan for Streamlining Regulation**
- Integration of eight regulatory bodies into the **CNMC** (Spanish Markets and Competition Commission)
- **Bill on De-indexing the Spanish Economy:** Decoupling of public administration service prices and fees from the CPI
- **Bill on Improving Corporate Governance**, mainly in listed companies

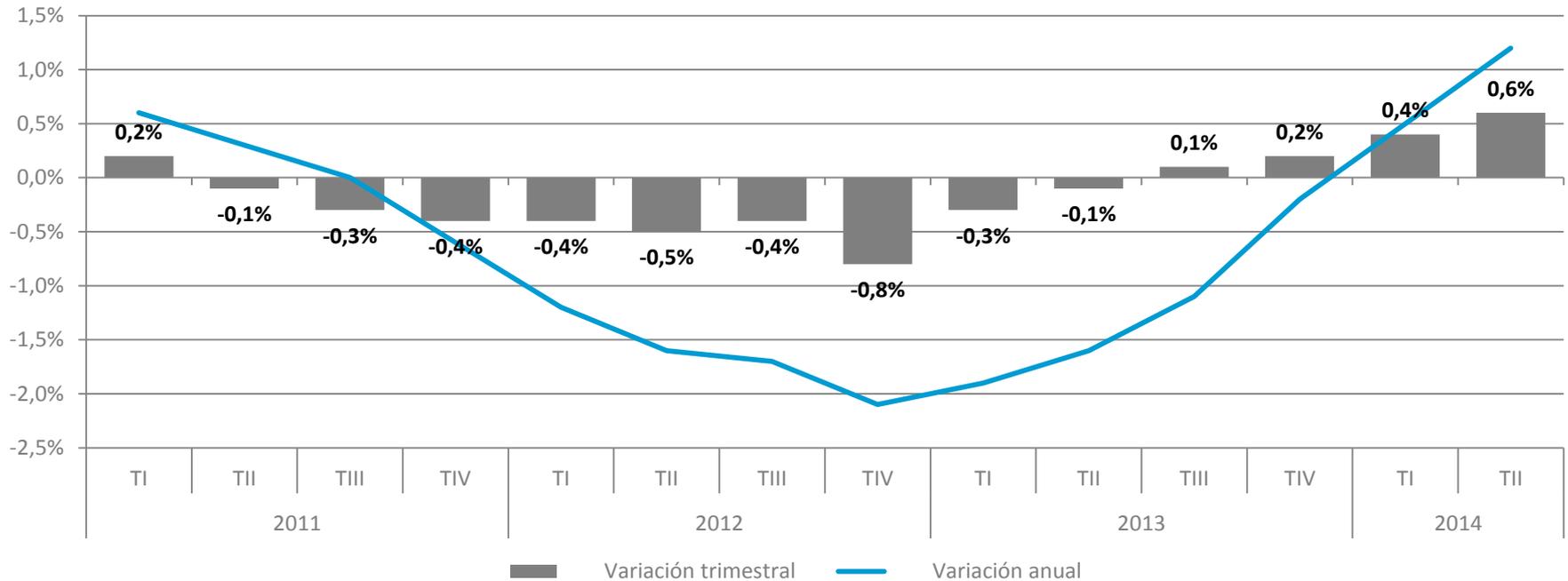
### 10. Reforms to boost competitiveness in cross-cutting sectors

- **Infrastructure and transport:** Land Transport Regulation Acts
- **Telecommunications:** New Telecommunications Act; the Digital Agenda for Spain
- **Energy:** Reform of the Electricity Sector and a solution for its tariff deficit
- **The environment:** Legal certainty under the new Coastal Act; Simplification in environmental procedures; Unprecedented progress on hydrological planning

### 11. Reforms to boost competitiveness in sectors of the economy

- **Services:** Increased flexibility for Retail Trade; National Comprehensive Tourism Plan 2012-2016
- **Automotive industry:** Acquisition of efficient vehicles: PIVE Plan and PIMA Plan
- **Housing and Land:** Boost for the Rental Market; Promotion of urban refurbishments and renovations; State Housing Plan 2013-2016
- **Agri-food sector:** Laws on improving the food chain, integrating agricultural cooperatives and creating the Farming Council; Agreements for the Reform of the Common Agricultural and Fisheries Policy

### Trend in Gross Domestic Product



Source: National Statistics Institute. Accumulated volume. Reference 2008. Calendar-adjusted data. Latest data released.

**Spain has reversed the recessive trend in the Spanish economy.** GDP rose by **0.6%** in the second quarter of the year, now achieving **four consecutive quarters of growth**.

**Spain will grow faster than the Eurozone.** In only six months, the IMF has doubled its forecasts for Spain and predicts faster growth than in the Eurozone as a whole.

## STRUCTURAL REFORMS TO BOOST COMPETITIVENESS

### 12. Stimulus to entrepreneurship

- **First package of support for entrepreneurs and stimulus to growth:** Flat rate of 50 euros for National Insurance contributions; Fiscal Support in Personal Income Tax; Incentives to hire
- **Law Supporting Entrepreneurs and their Internationalisation:** Speeding up the incorporation of companies and of giving second opportunity; New fiscal stimuli in VAT and Corporate Income Tax; Promotion of business growth (Reduction of administrative burdens, Speeding up access to public contracting)

### 13. Education reform

- **Constitutional Law on Improving the Quality of Education:** To improve education results, combat academic failure and school drop-out rates
- **Improvement of Vocational Training:** Updating of qualifications, modernisation of tools and gradual implementation of dual training.

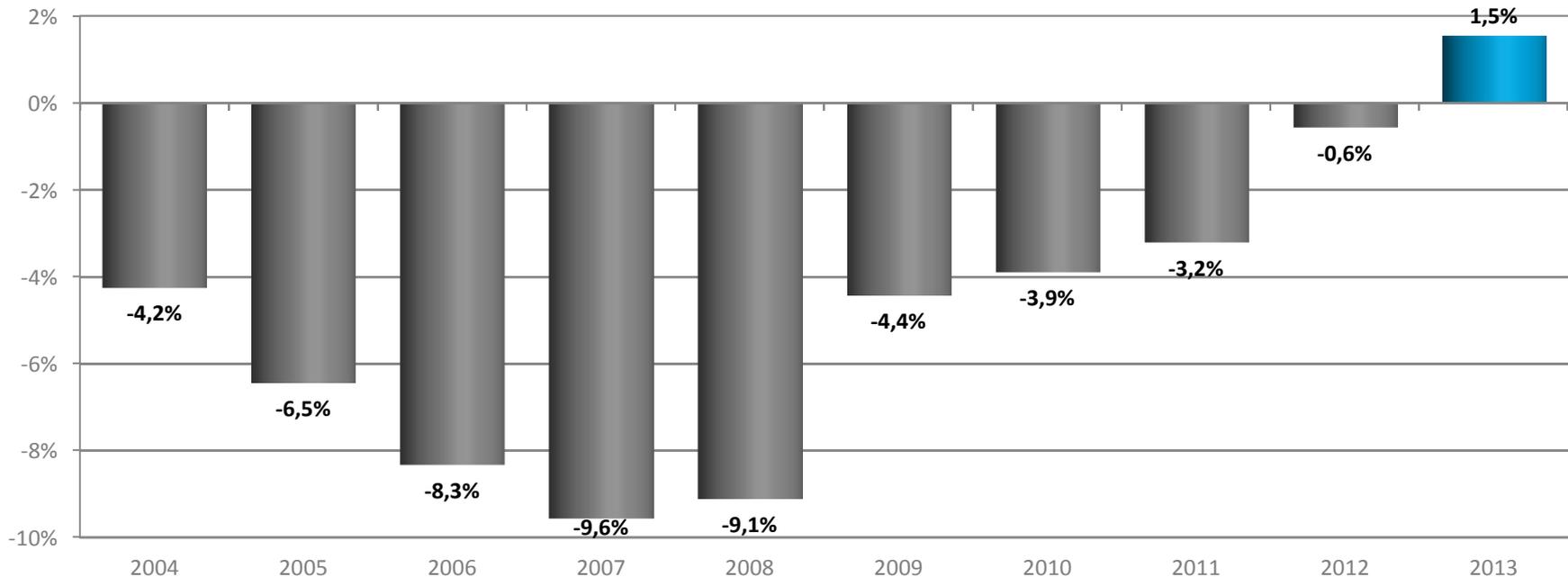
### 14. Boost to science and R&D+i

- **Spanish Science, Technology and Innovation Strategy and State Research Plan**
- **Promotion of innovation in business:** Fiscal incentives for investment in R&D+i

### 15. Fostering internationalisation

- **Strengthening of the institutional framework:** Internationalisation Risk Coverage Act; Chambers of Commerce Act
- **Strengthening of instruments** (ICEX) and **ICO Credit Lines** for comprehensive support to internationalisation

## Trends in Financing Capacity/Requirements



Source: Bank of Spain. Current-account and capital balance (% GDP).

For the first time since 1997, Spain has a **lending capacity vis-à-vis the rest of the world**. Spain has gone from **borrowing over 33.5 billion euros in 2011 to lending a value of almost 16 billion euros**.

The **trend in Spanish exports has reached an all-time high**: A record goods export figure was posted in 2013 (234 billion euros) and records continue to be broken in 2014 (+1%).

## REFORMS TO BOOST CONFIDENCE: Democratic regeneration

### 16. Reform of the Political Party Funding Act

- 20% **reduction** of subsidies to political parties in 2012 and 2013, and **de-indexing** from the CPI
- Ban on political parties accepting **donations** from private foundations, associations or financial entities that receive public funds
- Ban on the **cancellation of debts** of over 100,000 euros/year to political parties
- Duty for parties to **notify the Court of Auditors of any donation** over 50,000 euros and real estate assets

### 17. Reform of the Criminal Code

- Recovery of **criminal liability** for political parties
- **New criminal offence** to penalise the conduct of concealing, faking and falsifying public accounts

### 18. Transparency, Access to Public Information and Good Governance Act

- **Active disclosure** duties and regulation of the **right to access information** from the public administration services and public bodies. Inclusion of active disclosure duties for political parties, trade union and employer organisations, and private entities mostly funded with public money
- The first legal provisions on the **principles of good governance** Definition of a specific regime on **infringements and penalties** in order to ensure compliance
- Strengthened control over economic activities by **“Persons of Particular Political Notability”**

## NEW REFORMS: Tax Reform

### 1. Immediate measures on social justice and regional cohesion:

- **Lower taxes for the self-employed on the lowest incomes:** A reduction on the rate of withholdings tax from 21% to 15%
- **Fiscal exemption for mortgage debts paid by property deed in lieu of payment and mortgage repossessions:** Exemption from the possible capital gains
- **Income tax compensation for holders of preferred shares:** Compensation on the savings base
- **Harmonisation of fiscal treatment for bank deposits:** To guarantee harmonised taxation throughout Spain

### 2. Reform of the Tax System:

- **Reform of Personal Income Tax:** A reduction for all taxpayers, especially those on low and middle incomes, and the creation of new subsidies for families and persons with disabilities
- **Reform of Corporate Income Tax:** A reduction of the general tax rate, special support for small- and medium-sized enterprises, and widening of the taxable base in order to bring effective and nominal rates more into line
- **New package of measures to combat fraud:** Publication of lists of late payers, bringing forward of measures to combat international tax fraud, improvements to the inspection procedure

## NEW REFORMS: Driving finance

### 3. New legislative framework to foster financing

- **Measures for the restructuring of company debts:** Improvements to the legal framework governing refinancing agreements in order to enable viable companies to reorganise themselves financially
- **Bill on Regulating Venture Capital Companies and other Collective Investment Entities:** Promotion of risk capital and creation of Venture Capital Companies-SME
- **Draft Bill on Promoting Business Finance:** Accessibility and flexibility of financing for SMEs, regulating new duties for financial entities and new financing mechanisms, such as *crowdfunding*.

### 4. New instruments for the financing of internationalisation projects

- **Regulation of internationalisation certificates and bonds,** to improve financing conditions and share the risks associated with these projects
- **A programme of guarantees from the ICO** in favour of multilateral organisations and international financial institutions to facilitate access by Spanish companies to the services they offer
- **Adaptation and increased flexibility** for the Fund for Overseas Investment Operations by Small- and Medium-sized Enterprises (Spanish acronym: **FONPYME**)

## NEW REFORMS: Market Competitiveness and Sustainability

### 5. Promotion of retail trade and market unity

- **Administrative simplification** for the opening, transfer and expansion of commercial establishments
- Expansion of **major tourist areas**
- Setting of limits on the **exchange fees** applicable to card transactions

### 6. Improvements in infrastructure and transport

- **New regulatory framework for AENA:** Entry of private capital and guaranteed unity and efficiency
- **Modernisation of the Spanish Ports Authority:** To ensure sustainability and foster investment
- Gradual deregulation of **railway passenger transport**

### 7. Efficiency and sustainability in the energy markets

- Progress on deregulation of the **oil and gas sector** (butane), while maintaining consumer protection and guarantee of supply
- Reform of the **natural gas sector** to guarantee its economic and financial sustainability, resolving the budding tariff deficit problem

### 8. Promotion of energy efficiency

- **Creation of the System of Obligations for Energy Suppliers:** They will be required to demonstrate an annual energy saving based on their sales.
- **National Energy Efficiency Fund:** Provision of up to 350 million euros/year (co-financed by Europe) for investments in energy efficiency for buildings, transport, industry, services, etc.

## NEW REFORMS: Fostering employment

### 9. Support for youth employment

- **Implementation of the youth guarantee:** Under-25s (30 for persons with disabilities)
  - ✓ Tax break of 1,800 euros when giving permanent employment contracts to young people and hiring incentives that combine training and work
  - ✓ Creation of the Youth Guarantee Portal: Online registration in the system and intermediation between administration services, companies and job applicants
- **Promotion of work experience:**
  - ✓ 100% reduction to National Insurance payments when providing work experience to university and vocational training students

### 10. Forthcoming package of measures to foster employment and improve employability

- Approval of the **Annual Employment Policy Plan for 2014**
- Approval of the **Employment Activation Strategy**
- Measures to improve **public employment service** operation and coordination
- Reforms in the **Training for Employment** system
- Strengthening of **mechanisms of protection for the long-term unemployed** in a situation of special need

## **NEW REFORMS: Improved social protection**

### **11. Social measures adopted at this meeting of the Council of Ministers**

- Legislative measures in the field of **Justice of an especially social nature:**
  - ✓ Draft Law on the Victims of Crime Statute
  - ✓ Draft Law on Voluntary Jurisdiction

### **12. Forthcoming Package of Social Measures**

- Measures for **services aimed at especially vulnerable groups and social protection:**
  - ✓ Draft Laws on Child Protection
  - ✓ Elderly Statute
  - ✓ Action Plan for the Spanish Disability Strategy
  - ✓ Youth Strategy 2020
  - ✓ Action Plan for Equality between Men and Women in the Information Society
  - ✓ Special Plan for Equality between Men and Women in the Area of Work and against Wage Discrimination
  - ✓ Plan for the Promotion of Women in the Rural Environment
  - ✓ Integrated Family Support Plan

## NEW REFORMS: Progress on the Public Administration Reform

### 13. New legislative framework for the Public Administration Services

- Draft Bill on the **Legal Regime** for the Public Sector
- Draft Bill on **Administrative Procedure**

### 14. New criteria for the Public Administration Services

- **Manual on Streamlining and Elimination of Duplication**
- **Manual on Reducing Administrative Burdens** for the National Government

### 15. New measures to speed up administrative procedures

- Creation of an electronic identification system (“**PIN24horas**”) for the entire National Government
- Implementation of **electronic auctions** for judicial and administrative procedures

## NEW REFORMS: Democratic regeneration

### 16. Draft Constitutional Law on the Control of Economic and Financial Activity by Political Parties

- New **limits on financing**: Ban on donations from legal entities and on the cancellation of debt by financial entities
- New **control and transparency duties** in the operation of parties (statutes, contracting, supervision) and in their accounts (publication within three months, regulation of economic and financial management)
- Increased **control by the Court of Auditors**: Duty for all parties, whether or not they receive subsidies, to present their accounts; Possibility to withhold subsidies; Collaboration with public entities and credit entities

### 17. Draft Law regulating the Exercise of Senior Officials within the National Government

- New **requirements for access to and exercise of senior positions**, including a lack of convictions and criminal records for certain offences
- **Greater control**, including examination of the assets and financial position of the senior official at the start and end of their term in office in order to detect possible unjustified enrichment
- Regulation and control of **incompatibilities and conflicts of interest**, strengthening the Office of Conflicts of Interest

### 18. Criminal and procedural measures to combat corruption

- New criminal offences associated with the **illegal financing** of political parties
- **Tougher criminal sanctions** against corruption-related offences
- **Speeding up of judicial proceedings** in corruption cases, in order to accelerate the process



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