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Assessment of the 2015 Stability Programme for

SPAIN

(Note prepared by DG ECFIN staff)

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1. INTRODUCTION

This document assesses Spain's April 2015 Stability Programme (hereafter called Stability Programme), which was submitted to the Commission on 30 April and covers the period 2014-2018. It was approved by the government on the same day.

Spain is currently subject to the corrective arm of the Stability and Growth Pact. The Council opened the Excessive Deficit Procedure for Spain on 27 April 2009. Spain is recommended to correct the excessive deficit situation by 2016. The year following the correction of the excessive deficit, Spain will be subject to the preventive arm of the Pact and should ensure sufficient progress towards its MTO. As the debt-to-GDP ratio in 2016 is projected at 101.4%, exceeding the 60% of GDP reference value, during the three years following the correction of the excessive deficit Spain is also subject to the transitional arrangements as regards compliance with the debt criterion, during which it should ensure sufficient progress towards compliance.

This document complements the Country Report published on 26 February 2015 and updates it with the information included in the Stability programme. Section 2 presents the macroeconomic outlook underlying the Stability Programme and provides an assessment based on the Commission 2015 spring forecast. The following section presents the recent and planned budgetary developments, according to the Stability Programme. In particular, it includes an overview on the medium term budgetary plans, an assessment of the measures underpinning the Stability Programme and a risk analysis of the budgetary plans based on Commission forecast. Section 4 assesses compliance with the rules of the Stability and Growth Pact, including on the basis of the Commission forecast. Section 5 provides an overview on long term sustainability risks and Section 6 on recent developments and plans regarding the fiscal framework and the quality of public finances. Section 7 summarises the main conclusions.

2. MACROECONOMIC OUTLOOK

The Stability Programme foresees the ongoing economic recovery to continue over the programme period. After reaching 1.4% in 2014, annual real GDP growth is projected to more than double to 2.9% in both 2015 and 2016, before reaching 3.0% in 2017-2018.[1] Regarding 2015, this represents a significant upward revision of the real GDP growth compared to the 2015 Draft Budgetary Plan (DBP) submitted in October 2014, which foresaw growth to reach 2.0% in 2015. The main component explaining this revision is domestic demand, helped by lower oil prices, easier financing conditions and faster employment growth. According to the Stability Programme, growth in 2015 is expected to be completely driven by domestic demand, with net trade providing a negative contribution to growth of 0.2 pp. rather than the positive contribution of the same size foreseen in the DBP. Stronger imports growth as a result of more buoyant domestic demand explains this shift.

The macroeconomic scenario in the programme implies a rapid closing and subsequent reversal of the negative output gap over the programme period. The output gap as recalculated by the Commission based on the information in the programme, following the commonly

[1] In accordance with the Code of Conduct, Spain has used the common external assumptions on the main extra-EU variables provided by the Commission.

agreed methodology, is set to narrow from -6.4% in 2014 to -0.3% in 2017, before turning positive in 2018, when it is expected to reach 1.1% of GDP.[2] For 2015-2016, this is broadly in line with the output gap calculated on the basis of the Commission forecast.

For 2015, the real GDP growth forecast in the programme is only slightly stronger than in the Commission 2015 spring forecast, whereas for 2016, the programme foresees a 0.3 pp. higher real GDP growth rate than the Commission. The composition of growth is very similar in the two projections for 2015, whereas for 2016 the programme is based on stronger domestic demand, in particular private consumption and gross fixed capital formation, partly offset by weaker public consumption compared to the Commission forecast. Moreover, a weaker pick-up in imports compared to the Commission forecast yields a slightly positive contribution to growth by net exports. Stronger domestic demand helps explaining why employment growth is somewhat higher in the programme than in the Commission forecast, in particular in 2016. Also, the programme foresees a higher nominal GDP growth in 2015 than in the Commission forecast due to a higher GDP deflator stemming from a less negative private consumption deflator.

While projected real growth in 2015 seems plausible, in nominal terms the macroeconomic scenario of the programme is somewhat optimistic. In 2016, and more notably in 2017 and 2018, the macroeconomic scenario is also based on employment projections that appear favourable, especially given the projected increase in unit labour costs. Accordingly, the projected reduction of the unemployment rate appears difficult to achieve. On the other hand, compared to the Commission forecast, the Programme projects a significantly higher growth of compensation per employee as of 2015, which also helps explain the different projections for tax revenues and social contributions. Moreover, a central scenario of growth remaining at 3% in the latter years of the programme period appears favourable given the rapid closure of the output gap.

[2] The output gaps as presented in the programme differ somewhat from the recalculated output gaps. The former are falling at a marginally more pronounced pace, narrowing from -8.2% in 2014 to -0.2% in 2018.

Table 1: Comparison of macroeconomic developments and forecasts

	2014		2015		2016		2017	2018
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	1.4	1.4	2.8	2.9	2.6	2.9	3.0	3.0
Private consumption (% change)	2.4	2.4	3.5	3.3	2.8	2.9	2.7	2.5
Gross fixed capital formation (% change)	3.4	3.4	5.5	6.3	5.1	5.8	5.9	5.9
Exports of goods and services (% change)	4.2	4.2	5.5	5.4	6.2	6.0	5.8	5.7
Imports of goods and services (% change)	7.6	7.6	7.2	6.7	7.1	6.4	6.3	6.2
Contributions to real GDP growth:								
- Final domestic demand	2.1	2.1	3.2	3.2	2.7	2.9	3.0	2.9
- Change in inventories	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
- Net exports	-0.8	-0.8	-0.4	-0.2	-0.1	0.1	0.0	0.1
Output gap[1]	-6.4	-6.4	-3.8	-4.0	-1.8	-2.0	-0.3	1.1
Employment (% change)	1.3	1.3	2.9	3.1	2.6	3.0	2.9	2.9
Unemployment rate (%)	24.5	24.4	22.4	22.1	20.5	19.8	17.7	15.6
Labour productivity (% change)	0.2	0.1	0.1	-0.2	0.1	-0.1	0.1	0.1
HICP inflation (%)[2]	-0.2	-0.1	-0.6	-0.4	1.1	0.9	1.1	1.4
GDP deflator (% change)	-0.5	-0.5	0.2	0.6	0.8	0.9	1.2	1.6
Comp. of employees (per head, % change)	-0.2	-0.2	0.3	0.2	0.4	1.0	1.3	1.6
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	1.0	1.0	1.6	1.7	1.4	1.8	1.6	1.4

Note:

[1]In percent of potential GDP, with potential GDP growth recalculated by the Commission on the basis of the programme scenario, using the commonly agreed methodology.

[2] The programme did not include a HICP forecast. Private consumption deflator is used instead.

Source :

Commission 2015 spring forecast (COM); Stability Programme (SP).

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

3.1. Deficit developments in 2014

The general government balance reached 5.8% of GDP in 2014. This is 0.3% of GDP above the target set in the 2014 Stability Programme and confirmed in the 2015 DBP of last autumn. Compared to the 2015 DBP, lower-than-expected revenues explain most of the deviation, in particular current taxes on income and wealth. Moreover, the budgetary outcome was affected in a negative way by a few one-off factors, which however to a large extent were known already at the time of the 2015 DBP. These include bank recapitalisations of 0.1% of GDP, the compensation claims related to the fuel tax judged illegal by the European Court of Justice (the so called "*céntimo sanitario*", 0.2% of GDP) and a one-off payment to clear the back-log of wage guarantee claims (0.1% of GDP)..

3.2. Target for 2015 and medium-term strategy

The target for 2015

The budgetary target for 2015 as presented in the programme is to bring the headline general government deficit down to the EDP headline deficit target of 4.2% of GDP. This is unchanged from both the 2014 Stability Programme and the 2015 DBP as far as the balance is concerned. In the programme, however, both revenue and expenditure ratios have been revised down by about ½ pp. compared to the DBP. On the revenue side, this is partly explained by a worse-than-expected outcome in 2014, whereas on the expenditure side, this is mostly explained by an upward revision of nominal GDP growth in 2015, i.e. a denominator effect. Specifically,

- On the revenue side, the ratios of almost all categories are expected to be lower than previously envisaged, with the exception of social contributions, reflecting the expected strong increase in employment.
- On the expenditure side, almost the entire downward revision of the expenditure ratio results from lower expenditure on interest and social benefits, reflecting the further easing of financial conditions and the fall in unemployment.

The programme claims one-off measures of about 0.3 % of GDP in 2015, all deficit-increasing. In the Commission assessment, only one third of the amount qualify as a one-off (EUR 1 bn. in repayment of 2012 Christmas bonus following a court order). The programme foresees a narrowing of the structural deficit, as recalculated by the Commission on the basis of the information in the programme, following the commonly agreed methodology, from 2.0% of GDP in 2014 to 1.7% in 2015.

The Commission 2015 spring forecast foresees the 2015 headline deficit to decline to a somewhat lesser extent than in the programme, reaching 4.5% of GDP. While the Commission foresees a combination of lower revenues and higher expenditure measured in levels compared to the programme, the lower nominal GDP forecast of the Commission translates into a virtually similar evolution of the revenue ratio and all of the difference in the deficit ratio is explained by a higher expenditure ratio. The Commission forecast foresees a widening of the structural deficit from 2.0% of GDP to 2.4%. The difference compared to the programme is mostly due to a different headline deficit and the fact that fewer measures are considered to be of a one-off nature.

The programme foresees that most of the planned consolidation in 2015 will stem from the regional government level, where the deficit is expected to narrow by a full percentage point to an ambitious 0.7% of GDP. Reductions are also expected at central government level, where the deficit is foreseen to narrow from 3.6% of GDP to 2.9%, and in the social security sector, with a planned reduction of 0.5 pp. to 0.6% of GDP. The programme foresees the local government level to move from a surplus of 0.5% of GDP in 2014 to a balanced budget in 2015.

The medium-term strategy

The strategy presented in the programme is to achieve an essentially growth-driven reduction of the general government deficit, thereby meeting the headline targets included in the EDP recommendation so as to correct the situation of an excessive deficit by the deadline of 2016. Once outside the corrective arm of the Stability and Growth Pact, the government is set out "to bring down the debt ratio by achieving an annual average reduction of at least a twentieth

of the distance to 60%"[3] of GDP, implying that it intends to comply with the debt rule. The programme does not plan to reach the MTO (a structural balance, which reflects the objectives of the Pact) within the programme period. The programme claims the MTO would be reached in 2019, one year ahead of what is required by the organic Law on Budgetary Stability and Financial Sustainability (although two years later than foreseen in the 2014 Stability Programme), based on the figures in the programme taken at face value. In turn, the structural balance recalculated by the Commission on the basis of the information in the programme, following the commonly agreed methodology, is foreseen to narrow from -1.6% of GDP in 2016 to -0.9% in 2018.

The programme foresees the consolidation process to be gradual, with the headline deficit diminishing at a relatively even pace over the programme horizon. For 2015-2016, the targets are the same as in the 2014 Stability Programme and correspond to the ones recommended by the Council in the latest EDP recommendation. This is somewhat lower than the Commission 2015 spring forecast of a deficit of 3.5% of GDP in 2016. Overall, deficit reduction appears to be mostly growth-driven. For 2017, the programme foresees a deficit of 1.4% of GDP, compared to 1.1% of GDP in the 2014 Stability Programme. With a very similar macroeconomic projection, this slight relaxation of the consolidation process is entirely based on a less intense expenditure control, with the expenditure ratio narrowing by 1.1 pps. rather than the 1.6 pps. envisaged in the 2014 Stability Programme.

Most of the consolidation foreseen as from 2016 is expected at the central government level (2.7 pps.), with smaller contributions from the regional level (0.7 pps.) and the social security system (0.5 pp.). The achievement of the budgetary targets set in the programme requires further measures to be specified, in particular for the later years. The programme claims one-off measures of about 0.1 % of GDP in 2016, all deficit-increasing. In the Commission assessment, none of those measures qualify as one-off.

Overall, the envisaged fiscal path seems to rely heavily on high economic growth (in particular in the later years of the programme). The structural balance (recalculated on the basis of the information of the programme) is set to improve by 1.1 pps. over the programme period from 2.0% of GDP in 2014 to 0.9% of GDP in 2018, i.e. slightly above ¼ pp. per annum on average.

[3] "…reducir la ratio de deuda, respetando una reducción media anual de al menos una veinteava parte de la brecha hasta la ratio de 60%...". Note however that Spain would be subject to the 3-year transitional arrangement for compliance with the debt rule, following the correction of the EDP, during which it should respect the minimum linear structural adjustment (MLSA).

Table 2: Composition of the budgetary adjustment

(% of GDP)	2014	2015		2016		2017	2018	Change: 2014-2018
	COM	COM	SP	COM	SP	SP	SP	SP
Revenue	**37.8**	**37.9**	**37.8**	**37.8**	**37.8**	**38.0**	**38.1**	**0.4**
of which:								
- Taxes on production and imports	11.2	11.4	11.3	11.7	11.4	11.5	11.5	0.4
- Current taxes on income, wealth, etc.	10.0	9.8	9.9	9.6	9.7	10.0	10.2	0.2
- Social contributions	12.3	12.3	12.3	12.3	12.3	12.3	12.2	0.0
- Other (residual)	4.3	4.3	4.4	4.3	4.4	4.3	4.1	-0.2
Expenditure	**43.6**	**42.4**	**42.0**	**41.4**	**40.6**	**39.5**	**38.4**	**-5.1**
of which:								
- Primary expenditure	40.3	39.3	38.9	38.4	37.7	36.8	36.0	-4.3
of which:								
Compensation of employees	10.8	10.5	10.5	10.2	10.1	9.8	9.5	-1.3
Intermediate consumption	5.2	5.1	5.0	5.0	4.8	4.7	4.5	-0.7
Social payments	18.8	18.3	18.1	17.9	17.7	17.2	16.9	-1.9
Subsidies	1.0	1.0	1.0	1.0	1.0	0.9	0.9	-0.1
Gross fixed capital formation	2.0	2.0	1.9	1.9	1.9	1.9	1.9	-0.1
Other (residual)	2.5	2.5	2.4	2.5	2.3	2.3	2.2	-0.3
- Interest expenditure	3.3	3.1	3.1	3.0	2.8	2.6	2.5	-0.8
General government balance (GGB)	**-5.8**	**-4.5**	**-4.2**	**-3.5**	**-2.8**	**-1.4**	**-0.3**	**5.5**
Primary balance	**-2.5**	**-1.4**	**-1.1**	**-0.6**	**0.1**	**1.2**	**2.2**	**4.7**
One-off and other temporary	-0.4	-0.1	-0.3	0.0	-0.1	0.0	0.0	0.4
GGB excl. one-offs	**-5.4**	**-4.4**	**-3.9**	**-3.5**	**-2.7**	**-1.4**	**-0.3**	**5.1**
Output gap[1]	-6.4	-3.8	-4.0	-1.8	-2.0	-0.3	1.1	7.5
Cyclically-adjusted balance[1]	-2.3	-2.5	-2.0	-2.6	-1.7	-1.2	-0.9	1.4
Structural balance (SB)[2]	**-2.0**	**-2.4**	**-1.7**	**-2.6**	**-1.6**	**-1.2**	**-0.9**	**1.1**
Structural primary balance[2]	1.3	0.7	1.3	0.4	1.2	1.4	1.6	0.3

Notes:

[1]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by the Commission on the basis of the programme scenario, using the commonly agreed methodology.

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

Source:

Stability Programme (SP); Commission 2015 spring forecast (COM); Commission calculations.

Measures underpinning the programme

The programme presents measures with an expected net positive impact on the budget balance of about 0.7% of GDP in both 2015 and 2016, respectively, mostly on the expenditure side. This is more than what was included in the Commission 2015 spring forecast, which is based on a net impact of 0.4% and 0.2% of GDP, respectively. The Commission has a more conservative estimate of the budgetary impact of measures affecting social security contributions, public administration (in 2016) and measures against tax fraud. There are also differences in the assessment of measures at regional level. In particular, the 2015 spring forecast includes a lower expected proceeds of non-tax measures for 2015 (i.e., sales of real estate assets and /or administrative concessions) and does not consider savings from the planned pharmaceutical spending rule for 2015, as it was not fully specified and adopted at

the cut-off date of the forecast. In addition, it deems that measures on intermediate consumption –other than the above-mentioned pharmaceutical spending rule- and measures on capital and current transfers are unspecified for 2016 and have therefore, not been taken on board.

Main budgetary measures

<table>
<tr><th>Revenue</th><th>Expenditure</th></tr>
<tr><td colspan="2">2014</td></tr>
<tr><td>• Corporate taxes (-0.1% of GDP)
• Fight against fraud (0.1% of GDP)
• Regional measures (0.1% of GDP)
• Social security measures (0.1% of GDP)</td><td>• Public employment (-0.1% of GDP)
• Rationalisation of public sector (-0.1% of GDP)
• Labour market measures (-0.1% of GDP)
• Regional measures (-0.1% of GDP)</td></tr>
<tr><td colspan="2">2015</td></tr>
<tr><td>• Personal income tax (-0.2% of GDP)
• Fight against fraud (0.1% of GDP)
• Regional measures (0.1% of GDP)</td><td>• Partial repayment of Christmas bonus (0.1% of GDP)
• Public employment (-0.1% of GDP)
• Rationalisation of public sector (-0.1% of GDP)
• Regional measures (-0.1% of GDP)
• Local government reform (-0.1% of GDP)
• Pension reform (-0.1% of GDP)</td></tr>
<tr><td colspan="2">2016</td></tr>
<tr><td>• Corporate taxes (-0.2% of GDP)
• Personal income tax (-0.2% of GDP)
• Fight against fraud (0.1% of GDP)
• Social security measures (0.1% of GDP)</td><td>• Public employment (-0.1% of GDP)
• Regional measures (-0.1% of GDP)
• Local government reform (-0.1% of GDP)
• Pension reform (-0.1% of GDP)</td></tr>
<tr><td colspan="2">2017</td></tr>
<tr><td>• Fight against fraud (0.1% of GDP)</td><td>• Public employment (-0.1% of GDP)
• Pension reform (-0.1% of GDP)</td></tr>
<tr><td colspan="2">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 as a consequence of this measure.</td></tr>
</table>

3.3. Debt developments

After rising steeply during the recession, the general government debt-to-GDP ratio rose a further 5 pps. in 2014 to reach 97.7%. The programme foresees the debt-to-GDP ratio to peak at 98.9% in 2015 and then to fall at an increasing pace to reach 93.2% in 2018. The turn-around is mainly driven by an improving primary balance, and the debt-decreasing effect of higher real GDP growth and inflation. A lower interest burden is also contributing by adding less than before to the debt ratio. According to the programme, stock-flow adjustments

increase the debt ratio in all years covered by the programme, but their levels are fairly limited and only show a slight upward trend. Based on the debt projections of the programme, reducing the debt-to-GDP ratio to 60% by 2020, as required by the Budget Stability Law, does not appear realistic.

Although the evolution of the debt ratio was significantly underestimated in the 2011 and 2012 Stability Programmes, in the more recent programmes, projections have been more accurate, as the expected economic recovery has materialised. The debt ratio in 2014 was about 2 pps. lower than projected in the 2014 Stability Programme (Figure 1).

The programme foresees a lower debt profile in 2015-2016 compared with the Commission 2015 spring forecast, which forecast the debt-to-GDP ratio rising to 101.4 % by 2016. The difference of almost 3 pps. is mainly due to the Commission foreseeing a higher general government deficit and lower nominal GDP growth in both years. An additional source of difference stems from stock-flow adjustments.[4]

Table 3: Debt developments

(% of GDP)	Average 2009-2013	2014	2015		2016		2017	2018
			COM	SP	COM	SP	SP	SP
Gross debt ratio[1]	**71.7**	**97.7**	**100.4**	**98.9**	**101.4**	**98.5**	**96.5**	**93.2**
Change in the ratio	10.5	5.6	2.8	1.2	1.0	-0.4	-2.0	-3.3
Contributions[2] :								
1. Primary balance	**6.9**	**2.5**	**1.4**	**1.1**	**0.6**	**-0.1**	**-1.2**	**-2.2**
2. "Snow-ball" effect	**3.1**	**2.4**	**0.3**	**-0.3**	**-0.3**	**-0.8**	**-1.3**	**-1.7**
Of which:								
Interest expenditure	2.4	3.3	3.1	3.1	3.0	2.8	2.6	2.5
Growth effect	0.9	-1.3	-2.7	-2.8	-2.5	-2.8	-2.8	-2.7
Inflation effect	-0.2	0.5	-0.2	-0.6	-0.8	-0.8	-1.1	-1.4
3. Stock-flow adjustment	**0.5**	**0.6**	**1.1**	**0.4**	**0.7**	**0.5**	**0.6**	**0.6**
Of which:								
Cash/accruals diff.								
Acc. financial assets								
Privatisation								
Val. effect & residual								

Notes:

[1] End of period.

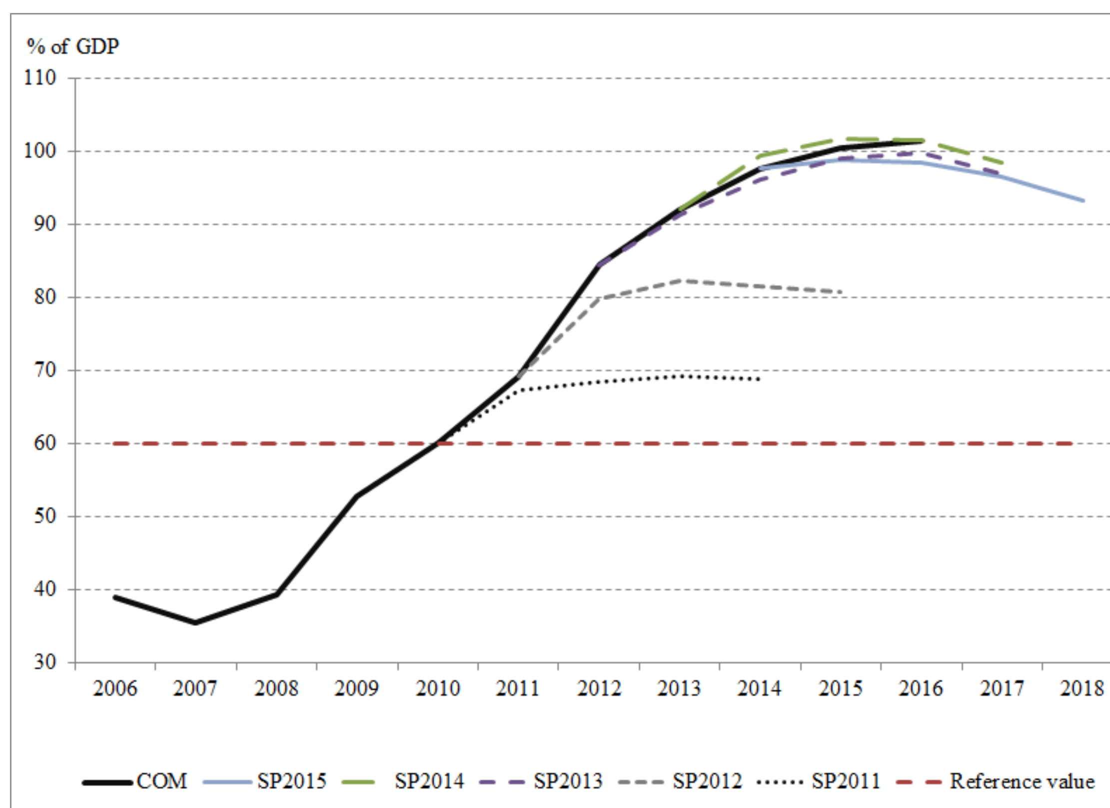
[2] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets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

Source :

Commission 2015 spring forecast (COM); Stability Programme (SP); Comission calculations.

[4] The Commission's estimates for 2015 and 2016 reflect the information contained in the 2015 DBP (the Stability Programme was submitted after the cut-off date of the Commission 2015 spring forecast).

Figure 1: Government debt projections in successive programmes (% of GDP)



Source: Commission 2015 spring forecast; Stability Programmes.

3.4. Risk assessment

As was already pointed out in the assessment of the 2015 DBP, the Commission sees risks to the achivement of the budgetary targets. Whereas the programme sees the headline deficit narrowing to 4.2% and 2.8% of GDP in 2015 and 2016, respectively, the Commission 2015 spring forecast forecasts the headline deficit to reach 4.5% and 3.5% of GDP in these two years.

Some risks stem from the macroeconomic scenario of the programme, and in particular the rather favourable evolution of nominal GDP in 2015 and 2016. In 2015, this is mainly due to differences in the GDP deflator, which the programme foresees will increase by 0.6% against a more modest increase of 0.2% in the Commission forecast. In 2016, the difference is more related to the evolution of real GDP, where there is a 0.3 pp. difference. This is also reflected in a somewhat stronger evolution of employment in the programme as well as a faster increase in compensation of employees, especially in 2016. If these indicators prove less dynamic than foreseen in the programme, it would negatively affect revenues from personal income taxes and social contributions and could lead to higher expenditure on social benefits.

Other risks stem from a different assessment of the likely fiscal savings from discretionary measures. As noted in section 3.2, the Commission has a more conservative estimate of the budgetary impact of measures affecting social security contributions, and regarding measures fighting fraud. Also as noted, the Commission 2015 spring forecast does not factor in the full amount of measures that are planned at regional government level. In particular, it is more conservative in the evaluation of the expected proceeds of non-tax measures for 2015 and considers that savings from the (still to be adopted) pharmaceutical spending rule will only materialise in 2016. In addition, it does not incorporate the impact of some measures affecting

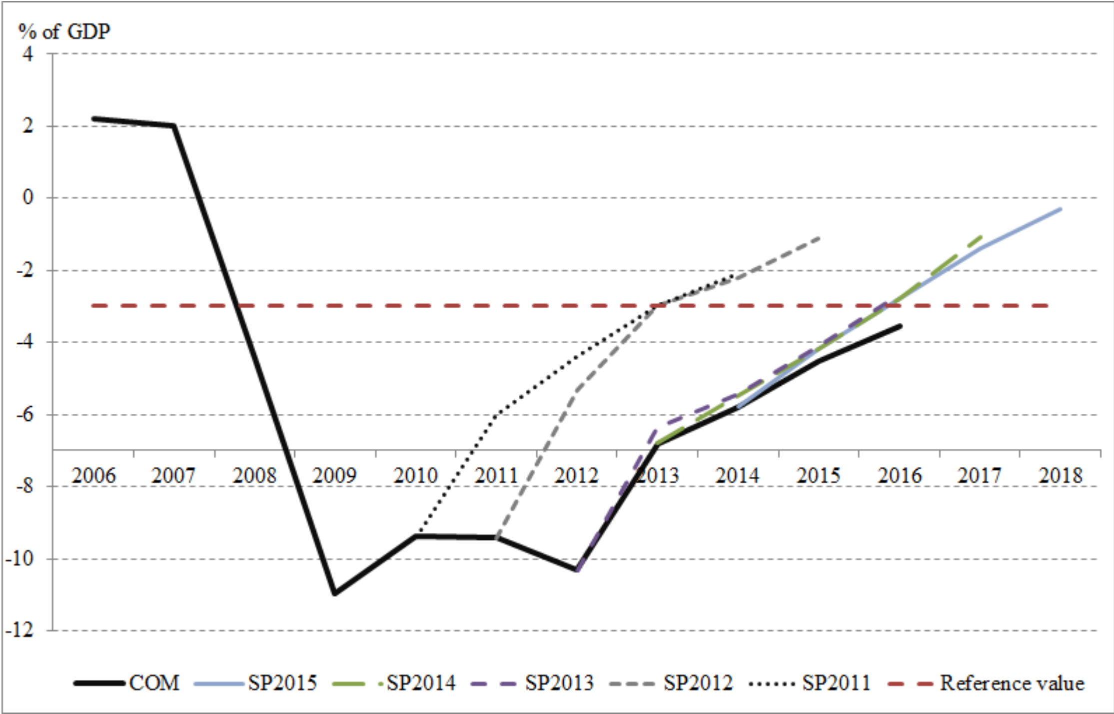
intermediate consumption – other than the abovementioned pharmaceutical spending rule- and measures on current transfers – as they are unspecified for 2016.

The consolidation envisaged in the Stability Programme is to a high degree relying on a declining share of interest expenditure (which is expected to decline from 3.3% of GDP in 2014 to 2.5% of GDP in 2018). This partly stems from the assumption of continued benign financial conditions.

The structural targets as set out in the EDP recommendation are at high risk of not being met, as the recalculated structural effort planned in the programme is far from the required level, both from a bottom-up and a top-down perspective. (See further Section 4)

Operators of toll motorways with low traffic flows and which have been declared insolvent represent a non-negligible contingent liability for the State in the medium term. Given the time lags involved in the administrative and legal procedures for liquidation, however, any liability for public finances due to liquidation are likely to be activated at the earliest in 2016.

Figure 2: Government balance projections in successive programmes (% of GDP)



Source: Commission 2015 spring forecast; Stability Programmes.

As was the case for the debt, the 2011 and 2012 Stability Programmes did not foresee the deterioration in the headline deficit that took place in 2012. In the following two programmes, the accuracy has been better, although the headline target was missed also in 2013 (when including support to the financial sector) and the fulfilment of the 2014 headline target was facilitated by a much more benign macroeconomic environment than foreseen in the 2014 Stability Programme (Figure 2).

Spain's independent fiscal institution – AIReF – considers that the Stability Programme's targeted deficit reduction of 5.4 pps. of GDP over 2014-2018 is ambitious but within reach. It also points out that the revenue forecast over the same period is conservative. On the expenditure side, AIReF highlights risks to the implementation of the planned restrictive path

for public consumption throughout 2015-2018; it also notes that the programme banks on a very low level of public investment (as a share of GDP), judging by historical standards.[5]

Risks to the debt ratio projection stem both from risks to the budgetary target and the nominal GDP projections discussed above.

4. Compliance with the provisions of the Stability and Growth Pact

Box 1. Council recommendations addressed to Spain

- On 21 June 2013, the Council recommended Spain under Art. 126(7) of the Treaty to correct its excessive deficit by 2016. To this end, Spain should reach a headline deficit target of 6.5% of GDP in 2013, 5.8% of GDP in 2014, 4.2% of GDP in 2015, and 2.8% of GDP in 2016, which is consistent with an improvement of the structural balance of 1.1%, 0.8%, 0.8%, and 1.2% of GDP in the years 2013-2016 respectively, based on the Commission's 2013 spring forecast extended to 2016. Spain was also recommended to (a) implement the measures adopted in the 2013 budget plans at all levels of government and stand ready to take corrective action in case of deviations from budgetary plans; (b) reinforce the medium-term budgetary strategy with well-specified structural measures for the years 2014-16 that are necessary to achieve the correction of the excessive deficit by 2016; (c) strengthen the effectiveness of the institutional framework by raising further the transparency in implementation of the budgetary stability law as well as by establishing an independent fiscal council to provide analysis, advice and monitor compliance of fiscal policy with national and EU fiscal rules; (d) undertake concrete steps to rein in the increasing structural deficit in the social security system, and (e) give a greater emphasis to the growth friendliness of the consolidation, including by conducting systematic reviews of expenditure and the tax system. In addition, to ensure the success of the fiscal consolidation strategy, the Council highlighted the importance of backing the fiscal consolidation by comprehensive structural reforms, in line with the Council recommendations addressed to Spain in the context of the European Semester and the Macroeconomic Imbalances Procedure.
- On 8 July 2014, the Council also addressed recommendations to Spain in the context of the European Semester. In particular, in the area of public finances the Council recommended Spain to reinforce the budgetary strategy as of 2014, in particular by fully specifying the underlying measures for the year 2015 and beyond, to ensure the correction of the excessive deficit in a sustainable manner by 2016 through achieving the structural adjustment effort specified in the Council Recommendation under the Excessive Deficit Procedure. After achieving the correction of the excessive deficit, pursue a structural adjustment towards the medium-term objective of at least 0.5 % each year, and more in good economic conditions or if needed to ensure that the debt rule is met in order to put the high general government debt ratio on a sustained downward path. The Council also recommended Spain to (a) ensure that the new independent fiscal authority becomes fully operational as soon as possible and ensure a full implementation of the preventive, corrective and enforcement measures in the Budgetary Stability Organic Law at all levels of government, including on the elimination of public sector commercial arrears; (b) carry out by February 2015 a systematic review of expenditure at all levels of government to underpin the efficiency and quality of public spending going forward; (c) continue to increase the cost-effectiveness of the healthcare sector, in particular by further rationalising pharmaceutical spending, including in hospitals and strengthening coordination across types of care, while maintaining accessibility for vulnerable groups; (d)

[5] AIReF's report on Spain's 2015-2018 stability programme can be found at http://www.airef.es/es/contenidos/informes/139-informes-sobre-el-proyecto-de-actualizacion-del-programa-de-estabilidad-del-reino-de-espana-2015-2018

adopt by the end of 2014 a comprehensive tax reform to make the tax system simpler and more conducive to growth and job creation, preservation of the environment and stability of revenues.

As stated in section 3.1, Spain fulfilled the 5.8% EDP headline deficit target in 2014. However, while the EDP recommendation required Spain to achieve an improvement in the structural balance of 0.8% of GDP in 2014, the Commission estimates based on the 2015 spring forecast yield a mere 0.1%, 0.7 pp. less than required.

- Correcting for the change in the estimated potential growth between the projections underlying the revised EDP recommendation and the Commission 2015 spring forecast, as well as revenue windfalls/shortfalls, the estimated change in the structural balance in the spring forecast would stand at -0.2% of GDP, thus bringing the gap with respect to the targeted structural effort to 0.9 pp.
- On a cumulative basis over 2013-2014, the estimated shortfall amounts to 0.4 pp.. when measured against the uncorrected balance, and to 1.2 pps. when corrected.
- As for the bottom-up assessment, which estimates the size of the fiscal effort for 2015 on the basis of the additional discretionary revenue measures and the expenditure developments under the control of the government between the EDP scenario and the Commission 2015 spring forecast, Spain is expected to record an effort of 1.3% of GDP in 2014, which is 0.7 pp. lower than recommended. The same effort and gap *vis-à-vis* the target is recorded in cumulative terms over 2013-2014 under this metric.

For 2015, the Stability Programme projects the headline deficit to decrease to 4.2% of GDP. This is exactly the headline target recommended under the EDP for this year. However, the Commission 2015 spring forecast projects a higher deficit of 4.5% of GDP.

- In terms of the structural balance, the Stability Programme foresees an improvement in the (recalculated) structural deficit of 0.3% of GDP in 2015. However, the Commission forecast points rather to a deterioration of 0.4% of GDP, leading to a total gap of 1.2 pps. *vis-à-vis* the required effort of 0.8% of GDP. This is at least partly due to a different appreciation of the one-off nature of certain measures.
- Accounting for revisions in the potential output growth estimate and unexpected revenue windfalls/shortfalls since the time of the EDP recommendation, the estimated corrected change in the structural balance amounts to -0.7% in 2015, i.e. 1.5 pps. below the effort required in the EDP recommendation.
- In cumulative terms over 2013-2015, the Commission forecast expects Spain to achieve an improvement of 1% of GDP in the uncorrected structural balance. This is 1.7 pps. below the cumulative target of 2.7% of GDP implied by the EDP recommendation. In terms of cumulative the corrected balance, the 2015 spring forecast shows a deviation of 2.7 pps. with respect to the target.
- The June 2013 EDP recommendation estimated that in 2015 additional measures amounting to 1% of GDP would be consistent with the required fiscal effort. However, according to a bottom-up assessment, Spain is expected to record a negative effort of 0.2% of GDP in 2015, which is therefore 1.2 pps. lower than requested.
- In cumulative terms over 2013-2015, the fiscal effort based on this method stands at 1.1% of GDP, against a target of 3%.

For 2016, the headline deficit target included in the Stability Programme is also in line with the EDP target of 2.8%. However, the Commission forecasts the deficit at 3.5%, 0.7 pp. higher than the EDP target. The fiscal effort metrics show the following results:

- While the June 2013 EDP recommendation requests Spain to achieve an improvement in the structural balance of 1.2% of GDP in 2016, the Stability Programme foresees a change of 0.1% of GDP, and the Commission 2015 spring forecast projects a deterioration of 0.2% of GDP.
- Correcting for the change in the estimated potential growth between the projections underlying the revised EDP recommendation and the Commission 2015 spring forecast, as well as revenue windfalls/shortfalls, the estimated change in the structural balance in the spring forecast would deteriorate further to -0.3% of GDP, thus bringing the gap with respect to the targeted structural effort to 1.5 pp.
- Finally, the bottom-up estimate of the fiscal effort in 2016 is roughly zero. This falls short of the target of about 1.5 % of GDP of measures deemed necessary in 2016 to reach the structural targets spelled out in the EDP recommendation.

In short, although Spain plans to meet the headline EDP targets over 2015-2016, there are uncertainties surrounding the achievement these targets. Moreover, the planned fiscal efforts fall systematically short of the Council's recommendations.

Table 4: Compliance with the requirements of the corrective arm

(% of GDP)	2014	2015		2016	
	COM	SP	COM	SP	COM
Headline balance					
Headline budget balance	-5.8	-4.2	-4.5	-2.8	-3.5
EDP requirement on the budget balance	-5.8	-4.2		-2.8	
Fiscal effort - change in the structural balance					
Change in the structural balance[1]	0.1	0.3	-0.4	0.1	-0.2
Cumulative change[2]	1.5	1.7	1.0	1.9	0.8
Required change from the EDP recommendation	0.8	0.8		1.2	
Cumulative required change from the EDP recommendation	1.9	2.7		3.9	
Fiscal effort - adjusted change in the structural balance					
Adjusted change in the structural balance[3]	-0.2	-	-0.7	-	-0.3
of which: *correction due to change in potential GDP estimation (α)*	-0.5	-	-0.1	-	0.0
correction due to revenue windfalls/shortfalls (β)	-0.1	-	0.2	-	0.2
Cumulative adjusted change [2]	0.7	-	0.0	-	-0.3
Required change from the EDP recommendation	0.8	0.8		1.2	
Cumulative required change from the EDP recommendation	1.9	2.7		3.9	
Fiscal effort - calculated on the basis of measures (bottom-up approach)					
Fiscal effort (bottom-up)[4]	1.3	-	-0.2	-	0.0
Cumulative fiscal effort (bottom-up)[2]	1.3	-	1.1	-	1.1
Requirement from the EDP recommendation	2.0	1.0		1.5	
Cumulative requirement from the EDP recommendation	2.0	3.0		4.5	

Notes

[1]Structural balance = cyclically-adjusted government balance excluding one-off measures. Structural balance based on Stability Programme are recalculated by the Commission on the basis of the programme scenario, using the commonly agreed methodology. Change compared to t-1.

[2] Cumulated since the latest EDP recommendation.

3 Change in the structural balance corrected for unanticipated revenue windfalls/shortfalls and changes in potential growth compared to the scenario underpinning the EDP recommendations.

[4]The estimated budgetary impact of the additional fiscal effort delivered on the basis of the discretionary revenue measures and the expenditure developments under the control of the government between the baseline scenario underpinning the EDP recommendation and the current forecast.

Source :

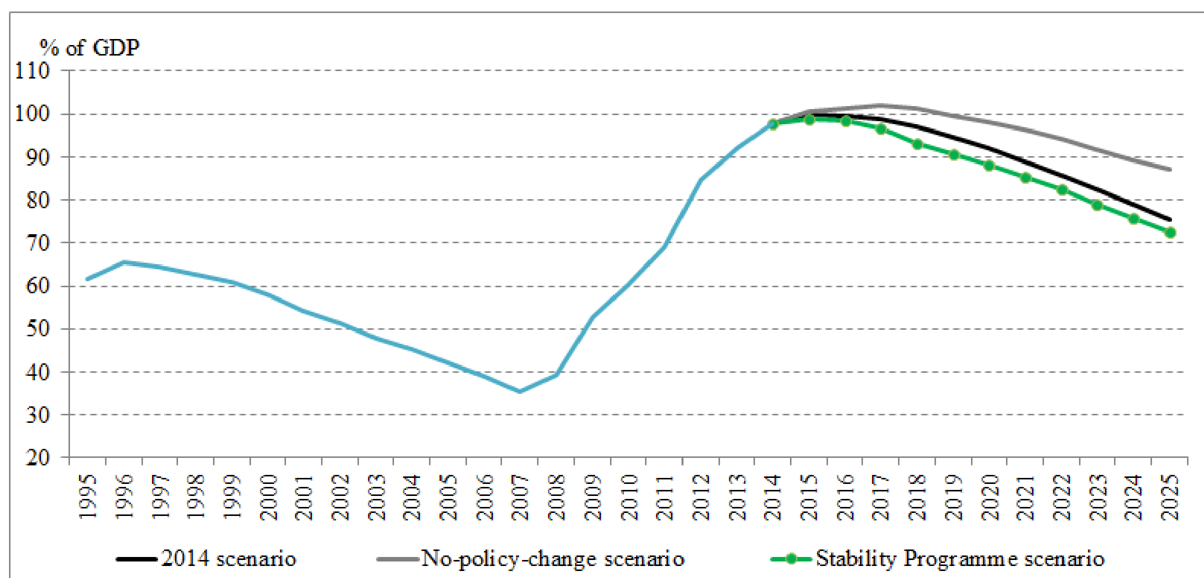
Stability Programme (SP); Commission 2015 spring forecast (COM); Commission calculations.

5. LONG-TERM SUSTAINABILITY

The analysis in this section includes the new long-term budgetary projections of age-related expenditure (pension, health care, long-term care, education and unemployment benefits) from the 2015 Ageing Report published on 12 May.[6] It therefore updates the assessment made in the Country Reports published on 26 February.[7]

Government debt stood at 97.7% of GDP in 2014. It is expected to remain (at 87.1% of GDP in 2025) above the 60% of GDP Treaty threshold. However, the full implementation of the programme would put debt on a clearly decreasing path by 2025, although remaining above the 60% of GDP reference value in that year (Figure 3).[8]

Figure 3: Gross debt projections (% of GDP)



Source: Commission 2015 spring forecast; Stability Programme; Commission calculations.

Spain appears to face medium fiscal sustainability risks. At 1.5% of GDP, the medium-term sustainability gap indicates medium risks. These are completely related to the high level of government debt, which is expected to stand at 101.4% of GDP in 2016, whereas the structural primary balance in 2016 and the projected ageing costs are reducing the gap by 0.4 and 1.1 pp. until 2030, respectively. In the long-term, Spain appears to face low fiscal sustainability risks, primarily thanks to low risks related to the projected ageing costs, which reduce the gap by 0.8 pp. over the very long run. The long-term sustainability gap, which shows the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path, is at -0.3% of GDP.

Risks would be higher in the event of the structural primary balance reverting to lower values observed in the past, such as the average for the period 2005-2014. It is therefore appropriate for Spain to continue to implement measures that reduce government debt.

[6] http://ec.europa.eu/economy_finance/publications/european_economy/2015/ee3_en.htm

[7] http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm.

[8] For a more elaborate debt sustainability analysis, see Box. 2.2.1 of the Country Report on Spain: http://ec.europa.eu/europe2020/pdf/csr2015/cr2015_spain_en.pdf

Spain has increased the cost-effectiveness of the healthcare sector, but challenges remain. The most recent reforms build on a comprehensive framework that has been developed since 2012 to increase the efficiency of healthcare expenditure. However, the pace of budgetary adjustment has moderated in 2014. Pharmaceutical spending started to grow again, and might rise even further due to the introduction of some innovative medicines.

The 2013 pension reform will help to contain long-term pressure on expenditure. The reform revised the indexation of pensions and introduced, as from 2019, the so-called sustainability factor, which will be an automatic adjustment of future retirees' new pensions to take account of changes in life expectancy. In December 2014, based on the new law, the government adopted a nominal indexation of pensions of 0.25 % for 2015.

Table 5: Sustainability indicators

	Spain			European Union		
	2014 scenario	**No-policy-change scenario**	**Stability Programme scenario**	**2014 scenario**	**No-policy-change scenario**	**Stability/ Convergence Programme scenario**
S2*	-1.5	-0.3	-1.6	1.4	1.7	0.4
of which:						
Initial budgetary position (IBP)	-0.5	0.5	-1.1	0.4	0.5	-0.7
Long-term cost of ageing (CoA)	-1.0	-0.8	-0.5	1.0	1.1	1.1
of which:						
pensions	-0.8	-0.8	-0.6	0.0	0.1	0.1
healthcare	0.9	0.9	0.8	0.8	0.7	0.6
long-term care	1.2	1.1	1.1	0.7	0.7	0.6
others	-2.4	-2.0	-1.7	-0.4	-0.3	-0.2
S1**	0.0	1.5	-0.3	1.4	1.8	0.5
of which:						
Initial budgetary position (IBP)	-1.2	-0.4	-2.2	-0.4	-0.3	-1.6
Debt requirement (DR)	2.4	3.0	2.8	1.7	1.9	1.8
Long-term cost of ageing (CoA)	-1.2	-1.1	-0.9	0.1	0.3	0.4
S0 (risk for fiscal stress)***	0.20	:		:		
Fiscal subindex	0.28	:		:		
Financial-competitiveness subindex	0.16	:		:		
Debt as % of GDP (2014)	97.7			88.6		
Age-related expenditure as % of GDP (2014)	25.6			25.6		

Source: Commission, 2015 Stability Programme

Note: the '2014' scenario depicts the sustainability gap under the assumption that the structural primary balance position remains at the 2014 position according to the Commission 2015 spring forecast; the 'no-policy-change' scenario depicts the sustainability gap under the assumption that the structural primary balance position evolves according to the Commission 2015 spring forecast until 2016. The 'stability programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented over the period covered by the programme. Age-related expenditure as given in the 2015 Ageing Report.

* The long-term sustainability gap (S2) indicator shows the immediate and permanent adjustment required to satisfy an inter-temporal budgetary constraint, including the costs of ageing. The S2 indicator has two components: i) the initial budgetary position (IBP) which gives the gap to the debt stabilising primary balance; and ii) the additional adjustment required due to the costs of ageing. The main assumption used in the derivation of S2 is that in an infinite horizon, the growth in the debt ratio is bounded by the interest rate differential (i.e. the difference between the nominal interest and the real growth rates); thereby not necessarily implying that the debt ratio will fall below the EU Treaty 60% debt threshold. The following thresholds for the S2 indicator were used: (i) if the value of S2 is lower than 2, the country is assigned low risk; (ii) if it is between 2 and 6, it is assigned medium risk; and, (iii) if it is greater than 6, it is assigned high risk.

** The medium-term sustainability gap (S1) indicator shows the upfront adjustment effort required, in terms of a steady adjustment in the structural primary balance to be introduced over the five years after the foercast horizon, and then sustained, to bring debt ratios to 60% of GDP in 2030, including financing for any additional expenditure until the target date, arising from an ageing population. The following thresholds were used to assess the scale of the sustainability challenge: (i) if the S1 value is less than zero, the country is assigned low risk; (ii) if a structural adjustment in the primary balance of up to 0.5 p.p. of GDP per year for five years after the last year covered by the spring 2015 forecast (year 2016) is required (indicating an cumulated adjustment of 2.5 pp.), it is assigned medium risk; and, (iii) if it is greater than 2.5 (meaning a structural adjustment of more than 0.5 p.p. of GDP per year is necessary), it is assigned high risk.

*** The S0 indicator reflects up to date evidence on the role played by fiscal and financial-competitiveness variables in creating potential fiscal risks. It should be stressed that the methodology for the S0 indicator is fundamentally different from the S1 and S2 indicators. S0 is not a quantification of the required fiscal adjustment effort like the S1 and S2 indicators, but a composite indicator which estimates the extent to which there might be a risk for fiscal stress in the short-term. The critical threshold for the overall S0 indicator is 0.43. For the fiscal and the financial-competitiveness sub-indexes, thresholds are respectively at 0.35 and 0.45.

6. FISCAL FRAMEWORK AND QUALITY OF PUBLIC FINANCES

6.1. Fiscal framework[9]

State of play of Spain's fiscal framework

Spain's budgetary framework has been strengthened over the past few years with the entry into force of the 2012 stability organic law and the creation of an independent fiscal institution -AIReF.[10] Both developments follow the entry into force of Directive 2011/85 on national budgetary frameworks, Regulation 473/2013 on enhanced budgetary monitoring and the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union.

- The stability law provides for a sound legal base to enforce observance of fiscal rules across all general government subsectors, in particular, at sub-central government level, this being a strength. Its main challenge is its implementation. As argued in the 2015 Country Report,[11] there is scope for stepping up the application of the law's preventive and enforcement mechanisms on public administrations at risk of non-compliance or having not complied with the stability targets, respectively. Moreover, there is room for improving the implementation of the stability law's principles of multi-annuality and transparency at regional level. This is in spite of recent increases in the amount and frequency of budget execution data.

- Spain's independent fiscal institution, which is now fully operational, is entitled to assess and deliver opinions on a large number of public finance developments. AIReF has contributed to enforcing fiscal discipline; in particular, on 5 December 2014, it recommended the ministry of finance to activate the stability law's preventive measures on seven regions at risk of non-compliance with the 2014 deficit target. However, the effectiveness of AIReF's recommendations is weakened by the lack of an explicit legal obligation on the addressee to either comply with them or justify in public why it may decide not to.

The Country Report concluded that Spain had made *some* progress to comply with the 2014 Country-Specific Recommendations on its national fiscal framework. Since the cut-off date of the report, there has been one new legislative development on the fiscal structural side, currently before parliament, consisting of a spending rule for regional pharmaceutical and healthcare spending.

Other issues

The macroeconomic forecasts underpinning the 2015-2018 Stability Programme were endorsed on 29 April 2015 by Spain's independent fiscal institution. However, AIReF has flagged risks to the government's forecasts. These consist of uncertainties surrounding firstly, the actual realisation of the rather expansive external assumptions on which the forecast is based upon and secondly, the implementation of the programme's overly restrictive expenditure-reducing policies. According to AIReF, should these risks materialise, GDP growth would be less buoyant (relative to the government's scenario) in the first case, whereas fiscal consolidation would be less intense in the second.

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[9] This section complements the Country Report published on 26 February 2015 and updates it with the information included in the Stability Programme.

[10] Autoridad Independiente de Responsabilidad Fiscal –*Independent Authority for Fiscal Responsibility*.

[11] http://ec.europa.eu/europe2020/pdf/csr2015/cr2015_spain_en.pdf

The 2015 Stability Programme is considered as Spain's national medium term fiscal plan, although it does not explicitly include such indication (unlike in the 2014 Stability Programme). Neither the Stability Programme nor the National Reform Programme indicate the expected economic returns on non-defence public investment projects that have a significant budgetary impact, as required by Article 4.1 of Regulation 473/2013.

6.2. Quality of public finances

Spain does not stand out in the euro area for having a high ratio of government spending to GDP. The share of total general government expenditure excluding spending on unemployment, a proxy to the size of the public sector, is actually below the euro area average. This also holds when the comparison is narrowed down to functions that are traditionally performed by the government, such as general public services, defence, public order and safety, economic affairs, housing and community amenities, as well as environment and social protection (barring unemployment).[12] However, Spain's general government wage bill is above the euro area average, mostly due to a higher wage bill on the healthcare and, to a lesser extent, on the public order and safety functions.

Table 6: Size of general government

	General government expenditure			General government wage bill	
	Total	Excluding unemployment spending	Excluding unemployment spending, health, recreation and culture and education	Total	Excluding health, recreation and culture and education
BE	51.5	49.1	34.3	12.2	6.5
DE	44.5	42.0	30.2	7.5	4.4
ES	44.2	41.3	28.9	11.3	4.9
FR	54.2	52.4	37.3	12.8	6.2
IT	48.5	47.7	35.6	10.5	4.7
NL	46.5	44.8	30.1	9.1	5.2
AT	49.7	48.5	34.3	9.2	4.6
UK	46.5	46.1	31.4	10.6	4.4
EA19	48.1	46.1	33.0	10.4	5.2

Notes:
Average data 2008-2012. Figures in % of GDP.
Source:
AMECO data

The above does not weaken the case for pursuing policies to improve the cost efficiency and effectiveness of government expenditure, especially against the backdrop of an also relatively low public revenue to GDP ratio. Moreover, Spain has devolved wide normative and spending powers devolved to autonomous regional governments, with decentralisation leading in some cases to inefficiencies such as duplications in administrative structures. In this context, it is critical to ensure that spending is used efficiently and effectively.

The Stability Programme includes consolidation measures dealing with the efficiency of public spending. The public administration reform is a case in point. It aims to i) reduce

[12] Excluded are expenditure on healthcare and on education, which in some countries, can be provided by the private sector, thereby distorting the comparisons.

overlapping administrative structures within the central government and between central and regional governments; ii) reduce administrative burdens; iii) streamline overheads; and iv) rationalise the central government's 'institutional' administration. Total saving from these measures for 2015 are estimated at EUR 1.1 billion. Other measures include the new spending rule on healthcare and pharmaceutical spending (see above).

On the revenue side, the Stability Programme refers to the 2014 tax reform, which will be phased in over 2015-2016. The reform is centred on corporate income taxation, where a broadening of the tax base is more than compensated for by a lowering of tax rates, and on personal income taxation, where rates are reduced across the board. As argued in the 2015 Country Report, many of the elements of the reform are steps in the right direction. However, it could have been more ambitious, better targeted and more supportive of Spain's efforts to rebalance growth and meet its fiscal consolidation requirements, as it is not fully funded. In particular, reductions in direct taxation have not been accompanied by significant increases in indirect taxation, with Spain's VAT revenue ratio remaining among the lowest in the EU.

7. CONCLUSIONS

In 2014, Spain achieved a headline deficit of 5.8% of GDP, in line with the target under the excessive deficit procedure. However, the required fiscal effort has not been delivered neither on the basis of the top-down nor the bottom-up method.

Spain envisages a growth-driven strategy for headline deficit reduction so as to correct its excessive deficit by the 2016 deadline set by the Council. The programme does not envisage reaching the MTO within the programme period.

The projected improvement in the structural balance falls short of the effort required by the Council in 2015 and 2016, on the basis of both the uncorrected and the corrected change in the structural balance. Based on bottom-up method, the effort is also below the requirement in 2015 and 2016. Moreover, the programme is based on favourable growth assumptions, in particular for the outer years, and assumes that planned but yet-to-be specified measures will yield the expected savings, thereby posing risks to meeting the headline targets.

Based on the Commission 2015 spring forecast, the headline deficit is expected to be slightly higher than the targets set in the programme, at 4.5% of GDP in 2015 and 3.5% of GDP in 2016.

ANNEX

Table I. Macroeconomic indicators

	1997-2001	2002-2006	2007-2011	2012	2013	2014	2015	2016
Core indicators								
GDP growth rate	4.4	3.4	0.1	-2.1	-1.2	1.4	2.8	2.6
Output gap [1]	1.3	2.6	-1.8	-7.4	-7.9	-6.4	-3.8	-1.8
HICP (annual % change)	2.4	3.3	2.4	2.4	1.5	-0.2	-0.6	1.1
Domestic demand (annual % change) [2]	4.9	4.5	-1.1	-4.2	-2.7	2.3	3.3	2.8
Unemployment rate (% of labour force) [3]	14.2	10.3	15.7	24.8	26.1	24.5	22.4	20.5
Gross fixed capital formation (% of GDP)	24.6	28.7	25.8	19.7	18.5	18.9	19.4	20.0
Gross national saving (% of GDP)	22.4	23.0	20.1	19.8	20.4	20.1	21.2	21.5
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-2.0**	**0.5**	**-6.4**	**-10.3**	**-6.8**	**-5.8**	**-4.5**	**-3.5**
Gross debt	**60.0**	**45.1**	**51.4**	**84.4**	**92.1**	**97.7**	**100.4**	**101.4**
Net financial assets	**-47.3**	**-31.8**	**-31.6**	**-58.1**	**n.a**	**n.a**	**n.a**	**n.a**
Total revenue	38.1	38.9	36.9	37.0	37.5	37.8	37.9	37.8
Total expenditure	40.0	38.4	43.4	47.3	44.3	43.6	42.4	41.4
of which: Interest	3.6	2.1	1.8	2.9	3.3	3.3	3.1	3.0
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**-1.9**	**-4.6**	**0.3**	**8.1**	**5.3**	**3.7**	**2.6**	**1.4**
Net financial assets; non-financial corporations	**-97.5**	**-115.0**	**-137.9**	**-129.3**	**n.a**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**0.9**	**2.0**	**10.2**	**14.8**	**n.a**	**n.a**	**n.a**	**n.a**
Gross capital formation	14.6	16.0	14.7	13.7	13.6	14.2	14.7	15.2
Gross operating surplus	20.0	19.6	22.6	23.1	23.1	23.0	22.6	22.3
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**2.2**	**-1.1**	**0.5**	**2.3**	**3.6**	**3.2**	**3.5**	**3.5**
Net financial assets	**113.9**	**94.9**	**76.9**	**84.7**	**n.a**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	38.2	37.6	39.4	37.6	36.9	37.0	37.2	37.1
Net property income	4.0	3.9	3.3	3.4	3.6	4.3	4.4	4.5
Current transfers received	19.7	18.7	20.9	23.5	23.8	22.9	22.5	22.2
Gross saving	7.7	7.0	7.0	6.1	6.8	6.4	6.7	6.8
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**-1.7**	**-5.2**	**-5.7**	**0.1**	**2.1**	**1.0**	**1.6**	**1.4**
Net financial assets	**30.9**	**50.6**	**83.3**	**89.2**	**n.a**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	-1.5	-3.8	-2.8	1.6	3.4	2.4	2.4	2.1
Net primary income from the rest of the world	-0.8	-1.2	-2.0	-0.8	-0.7	-0.6	-0.1	-0.1
Net capital transactions	0.9	0.8	0.4	0.5	0.7	0.4	0.4	0.4
Tradable sector	48.8	45.2	42.8	44.0	44.1	43.8	n.a	n.a
Non tradable sector	42.3	45.0	48.9	47.8	47.2	47.4	n.a	n.a
of which: Building and construction sector	8.8	10.1	9.0	5.8	5.2	5.1	n.a	n.a
Real effective exchange rate (index, 2000=100)	85.2	92.6	101.7	92.1	92.4	91.6	87.5	86.7
Terms of trade goods and services (index, 2000=100)	94.8	98.5	99.2	94.8	96.2	95.8	97.3	96.9
Market performance of exports (index, 2000=100)	108.6	106.2	101.6	106.1	108.4	109.0	110.6	111.4

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.

[2] The indicator on 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 :

AMECO data, Commission 2015 spring forecast.