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**COMMISSION STAFF WORKING DOCUMENT**

**Analysis of the updated Draft Budgetary Plan of Spain**

*Accompanying the document*

**COMMISSION OPINION**

**on the updated Draft Budgetary Plan of Spain**

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## 1. INTRODUCTION

Spain submitted its updated Draft Budgetary Plan (DBP) for 2017 on 9 December 2016. The update was prompted by the fact that the DBP submitted on 15 October in compliance with Regulation (EU) No 473/2013 reflected budgetary projections for 2017 on the basis of unchanged policies given the caretaker nature of the government in place at the time of submission. Spain is currently subject to the corrective arm of the Stability and Growth Pact (SGP). The Council opened the Excessive Deficit Procedure (EDP) for Spain on 27 April 2009<sup>1</sup>.

On 12 July 2016, the Council decided that Spain had not taken effective action in compliance with the Council's recommendations. On 8 August 2016, the Council decided to give notice to Spain to put an end to the excessive deficit situation by 2018 by reducing the general government deficit to 4.6% of GDP in 2016, to 3.1% of GDP in 2017 and 2.2% of GDP in 2018. Based on the updated Commission 2016 spring forecast underpinning the Council Decision, those reductions were considered consistent with a deterioration of the structural balance by 0.4% of GDP in 2016 and improvements by 0.5% of GDP in both 2017 and 2018. The Council also decided that Spain should use all windfall gains to accelerate the deficit and debt reduction, and should adopt and fully implement consolidation measures for the amount of 0.5% of GDP in both 2017 and 2018, in addition to the savings included in the updated Commission 2016 spring forecast.

Section 2 of this document presents the macroeconomic outlook underlying the updated DBP and provides an assessment based on an updated Commission 2016 autumn forecast. Section 3 presents the recent and planned fiscal developments, according to the updated DBP, including an analysis of risks to their achievement based on that forecast. In particular, it also includes an assessment of the measures underpinning the updated DBP. Section 4 assesses the recent and planned fiscal developments in 2016-2017 (also taking into account the risks to their achievement) against the obligations stemming from the SGP. Section 5 provides an analysis of progress made in response to the specific Council requirements to strengthen Spain's fiscal framework and its public procurement policy framework in accordance with Article 1(5) and (6) of the above-mentioned Council Decision to give notice. Section 6 provides a summary.

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<sup>1</sup> An overview of Spain's EDP history can be found at:  
[http://ec.europa.eu/economy\\_finance/economic\\_governance/sgp/deficit/countries/spain\\_en.htm](http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/countries/spain_en.htm)

## 2. MACROECONOMIC DEVELOPMENTS UNDERLYING THE DRAFT BUDGETARY PLAN

The macroeconomic forecast underpinning the updated DBP projects real GDP growth to reach 3.2% in 2016, mostly based on domestic demand. That growth rate is substantially higher than the one underpinning both the 2016 Stability Programme (2.7%), and the no-policy-change DBP submitted in October (2.9%). The updated DBP projects both investment and imports to grow more slowly than in the 2016 Stability Programme, whereas exports are now expected to show a slightly more dynamic increase. As a result, the updated DBP expects net exports to give a small positive contribution to growth, compared to a significantly negative one in the 2016 Stability Programme.

The updated Commission 2016 autumn forecast projects GDP growth of 3.3% in 2016. The 0.1 pp upward revision to growth compared to the Commission 2016 autumn forecast is due to the available soft and hard indicators pointing to dynamic economic activity in the fourth quarter of 2016. The composition of growth in 2016 has also been revised on account of the new quarterly national account data released after the cut-off date of the Commission 2016 autumn forecast, which point to a larger-than-previously-anticipated contribution of the external sector to economic growth. In light of the new quarterly data, the updated Commission forecast also projects lower consumption, lower investment and, especially, lower import growth than the macroeconomic forecast underpinning the updated DBP. As a consequence, the contribution of net external trade to economic growth in the updated Commission forecast for 2016 is higher than in the updated DBP (see Table 1).

After incorporating the impact of the new fiscal policy measures, the updated DBP forecasts real GDP to grow by 2.5% in 2017. This is higher than the 2.4% and 2.3% projected in the 2016 Stability Programme and the no-policy-change DBP submitted in October, respectively. The updated Commission forecast maintains the growth projection for 2017 at 2.3%, the same as in the Commission 2016 autumn forecast, as the stronger growth momentum in the last quarter of 2016 is offset by the expected impact of the new deficit-reducing policy measures included in the updated Draft Budgetary Plan. The main difference between the updated DBP and the updated Commission 2016 autumn forecast relates to private consumption, which is expected to grow faster in the former on the assumption of higher employment growth.

Overall, the macroeconomic projections underpinning the Draft Budgetary Plan appear plausible in 2016 and somewhat favourable in 2017.

### **Box 1: The macroeconomic forecast underpinning the budget in Spain**

The macroeconomic forecasts underpinning the updated DBP for 2017 have been endorsed by Spain's independent fiscal institution – *Autoridad Independiente de Responsabilidad Fiscal* (AIReF)– in a report published on 2 December 2016. While deeming the projected macroeconomic scenario as overall "prudent" with a "plausible" growth composition, AIReF considered the risks stemming from the external side to be more severe than portrayed in the government's macroeconomic scenario and flagged the uncertainty regarding the impact on revenue growth of the cycle and of the new fiscal policy measures included in the updated Draft Budgetary Plan. In a report issued on 5 December 2016, AIReF considers that Spain will likely achieve the headline deficit target of 4.6% of GDP in 2016.

**Table 1. Comparison of macroeconomic developments and forecasts**

	2015	2016			2017		
	COM	SP	DBP	COM	SP	DBP	COM
Real GDP (% change)	3.2	2.7	3.2	3.3	2.4	2.5	2.3
Private consumption (% change)	2.9	3.2	3.4	3.1	2.6	2.7	2.3
Gross fixed capital formation (% change)	6.0	5.6	4.6	3.8	4.6	3.4	3.6
Exports of goods and services (% change)	4.9	5.3	5.8	4.2	5.7	5.9	3.6
Imports of goods and services (% change)	5.6	7.0	6.0	3.2	6.7	5.9	3.4
<i>Contributions to real GDP growth:</i>							
- Final domestic demand	3.2	3.1	3.1	2.8	2.6	2.4	2.2
- Change in inventories	0.1	0.0	0.0	0.1	0.0	0.0	0.0
- Net exports	-0.1	-0.4	0.1	0.4	-0.2	0.1	0.2
Output gap <sup>1</sup>	-4.1	-1.7	-1.5	-1.6	-0.3	0.3	0.0
Employment (% change)	2.5	2.7	2.9	2.9	2.4	2.4	2.1
Unemployment rate (%)	22.1	19.9	19.6	19.8	17.9	17.6	17.9
Labour productivity (% change)	0.2	0.0	0.2	0.3	0.0	0.1	0.2
HICP inflation (%)	-0.6			-0.3			1.7
GDP deflator (% change)	0.5	0.9	0.7	0.4	1.2	1.5	1.5
Comp. of employees (per head, % change)	0.4	0.8	0.8	1.0	1.3	1.3	1.2
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	2.0	2.4	2.5	2.7	2.2	2.3	2.7
<b>Note:</b>							
<sup>1</sup> In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.							
<b>Source:</b>							
<i>Stability Programme 2016 (SP); Updated Draft Budgetary Plan for 2017 (DBP); Updated Commission 2016 autumn forecast (COM); Commission calculations</i>							

### 3. RECENT AND PLANNED FISCAL DEVELOPMENTS

#### 3.1. Deficit developments

Driven by the cyclical improvement in economic conditions and the continued fall in interest expenditure, the updated DBP expects the general government headline deficit to shrink from 5.1% of GDP in 2015 to 4.6% of GDP in 2016, in line with the headline deficit target required by the Council. The headline deficit projection is 1 pp higher compared to the projections in the 2016 Stability Programme, despite both the upward revision in underlying real GDP growth in the updated DBP and the additional consolidation measures taken in the course of 2016 (see Section 3.3). That revision mainly stems from the revenue side, where shortfalls appear to have occurred<sup>2</sup>. Compared to the no-policy-change DBP submitted in October,

<sup>2</sup> A direct comparison between revenue and expenditure ratios-to-GDP between the Stability Programme and the DBP or the (updated) Commission 2016 autumn forecast is complicated by revisions in historical data for government revenue and expenditure as well as nominal GDP, published in September 2016. The effect of

government revenue and expenditure have both been revised slightly upwards, leaving the expected deficit unchanged at 4.6% of GDP.

As in the Commission 2016 autumn forecast, the updated forecast projects the headline deficit to decline to 4.6% of GDP in 2016, with only slightly higher revenue and expenditure ratios compared with the updated DBP.

For 2017, the updated DBP plans a general government deficit of 3.1% of GDP, 1.5 pp of GDP lower than in 2016. The reduction is underpinned by a decrease in the expenditure ratio from 42.5% to 41.3% of GDP, against the backdrop of the extension of the 2016 Budget into 2017<sup>3</sup>. In particular, unemployment benefit and interest expenditure is expected to fall, while pension expenditure to grow more slowly than nominal GDP. Growth in compensation of employees is expected to be held back by the fact that 2016 was the last year when compensation for the forgone Christmas bonuses was paid out. The ratio of intermediate consumption to GDP in the updated DBP is expected to fall by 0.2 pp of GDP. The revenue ratio is forecast to increase by 0.2% of GDP, whereas it was expected to fall by 0.1 pp in the October DBP. That improvement reflects the positive impact of new measures in the area of income taxation and taxation on production and imports, which leads to a higher ratio for these revenue categories of 0.5% of GDP. That improvement more than offsets the falling ratio of social contributions (-0.2 pp).

The updated Commission 2016 autumn forecast projects a general government deficit of 3.3% of GDP in 2017, 0.2 pp higher than the updated DBP, but 0.5 pp lower than the Commission 2016 autumn forecast. On the revenue side, the updated Commission forecast does not incorporate the fiscal policy measures included in the updated DBP for which the underlying legislation has not yet been adopted (notably concerning taxes on sweet drinks and environmental taxes, totalling a bit less than 0.1% of GDP) and does not factor in the full amount of savings from measures against tax fraud. The expected revenue ratio in the updated Commission forecast is however higher than that projected in the updated DBP by 0.1% of GDP, as a result of the denominator effect stemming from lower nominal GDP as well as slightly higher social security contributions in the updated Commission forecast. On the expenditure side, the updated Commission forecast takes on board the extension of the 2016 central government budget to 2017. It nevertheless forecasts the expenditure ratio to be somewhat higher in 2017 compared with the updated DBP, both due to the denominator effect and an assumed less stringent expenditure restraint for the general government.

After peaking at 3.5% of GDP in 2014, total interest payments by the general government have continued to decrease as a share of GDP, as euro area sovereign bond yields remain at historically low levels, with 10 year rates in Spain currently standing at 1.46%<sup>4</sup>. Based on the information included in the updated DBP, interest expenditure in Spain is expected to fall from 3.1% of GDP in 2015 to 2.8% of GDP in 2016, and is projected to decrease further to 2.7% of GDP in 2017. The interest expenditure forecast in the updated DBP is broadly in line with the updated Commission 2016 autumn forecast.

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those revisions on the general government headline deficit for 2015 was relatively small, with the headline deficit remaining at 5.1% of GDP. However, both the revenue and expenditure ratios-to-GDP increased by 0.4 pp as a result of those revisions. The deficit ratios of 2013 and 2014 were also revised and now stand at 7.0% and 6.0%, respectively, 0.1 pp higher in both years.

<sup>3</sup> As there is no budget law adopted for 2017, the 2016 budget law is automatically extended to 2017 until the budget law of that year is adopted in parliament.

<sup>4</sup> 10-year bond yields as of 11 January 2017. Source: Bloomberg.

On the basis of the updated DBP, the recalculated structural deficit is expected to widen by 0.9% of GDP and reach 3.6% of GDP in 2016, about 0.9% of GDP higher than in the 2016 Stability Programme<sup>5</sup>. In 2017, the updated DBP forecasts the recalculated structural deficit in Spain to improve by 0.3% of GDP and reach 3.3% of GDP, about 0.8% of GDP higher than in the 2016 Stability Programme. The updated Commission 2016 autumn forecast estimates the structural deficit to widen by about 1.0% of GDP and improve by 0.2% of GDP in 2017.

Some divergences in the appraisal of one-offs contribute to the different estimates of the change in the structural balance. Whereas differences in 2016 are rather small, for 2017, there is a divergence of more than 0.2% of GDP stemming from the fact that the updated DBP does not report any one-offs for 2017, whereas the updated Commission 2016 autumn forecast factors in a number of deficit-reducing one-offs in Corporate Income Tax (CIT). See Section 3.3 for further details.

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<sup>5</sup> Cyclically-adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology.

**Table 2. Composition of the budgetary adjustment**

(% of GDP)	2015	2016			2017			Change: 2015-2017
	COM	SP	DBP	COM	SP	DBP	COM	DBP
<b>Revenue</b>	<b>38.6</b>	<b>38.2</b>	<b>38.0</b>	<b>38.1</b>	<b>38.3</b>	<b>38.2</b>	<b>38.3</b>	<b>-0.5</b>
<i>of which:</i>								
- Taxes on production and imports	11.9	12.0	11.8	11.8	11.9	12.0	11.9	0.1
- Current taxes on income, wealth, etc.	10.1	9.8	9.7	9.7	10.1	10.0	10.0	-0.2
- Capital taxes	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.0
- Social contributions	12.3	12.2	12.2	12.2	12.1	12.0	12.1	-0.3
- Other (residual)	3.7	3.6	3.7	3.7	3.6	3.6	3.6	-0.2
<b>Expenditure</b>	<b>43.8</b>	<b>41.8</b>	<b>42.5</b>	<b>42.7</b>	<b>41.2</b>	<b>41.3</b>	<b>41.6</b>	<b>-2.5</b>
<i>of which:</i>								
- Primary expenditure	40.7	39.0	39.7	39.9	38.5	38.6	38.9	-2.1
<i>of which:</i>								
Compensation of employees	11.1	10.9	11.0	11.0	10.8	10.6	10.7	-0.5
Intermediate consumption	5.3	4.9	5.1	5.1	4.8	4.9	4.9	-0.4
Social payments	18.5	18.0	18.1	18.2	17.7	17.8	17.8	-0.7
Subsidies	1.2	1.1	1.1	1.1	1.1	1.1	1.1	-0.1
Gross fixed capital formation	2.5	2.0	2.1	2.1	2.1	2.1	2.1	-0.4
Other (residual)	2.1	2.1	2.3	2.3	2.0	2.1	2.2	0.1
- Interest expenditure	3.1	2.9	2.8	2.8	2.7	2.7	2.7	-0.4
<b>General government balance (GGB)</b>	<b>-5.1</b>	<b>-3.6</b>	<b>-4.6</b>	<b>-4.6</b>	<b>-2.9</b>	<b>-3.1</b>	<b>-3.3</b>	<b>2.0</b>
<b>Primary balance</b>	<b>-2.0</b>	<b>-0.8</b>	<b>-1.8</b>	<b>-1.8</b>	<b>-0.2</b>	<b>-0.5</b>	<b>-0.6</b>	<b>1.5</b>
One-off and other temporary measures	-0.2	0.0	-0.1	0.0	-0.2	0.0	0.2	0.2
<b>GGB excl. one-offs</b>	<b>-4.9</b>	<b>-3.6</b>	<b>-4.5</b>	<b>-4.5</b>	<b>-2.7</b>	<b>-3.1</b>	<b>-3.5</b>	<b>1.8</b>
Output gap <sup>1</sup>	-4.1	-1.7	-1.5	-1.6	-0.3	0.3	0.0	4.3
Cyclically-adjusted balance <sup>1</sup>	-2.9	-2.7	-3.7	-3.7	-2.7	-3.3	-3.3	-0.4
<b>Structural balance (SB)<sup>2</sup></b>	<b>-2.7</b>	<b>-2.7</b>	<b>-3.6</b>	<b>-3.7</b>	<b>-2.5</b>	<b>-3.3</b>	<b>-3.5</b>	<b>-0.5</b>
Structural primary balance <sup>2</sup>	0.4	0.2	-0.9	-0.9	0.2	-0.6	-0.8	-0.9
<b>Notes:</b>								
<sup>1</sup> Output gap (in % of potential GDP) and cyclically-adjusted balance according to the DBP/programme as recalculated by Commission on the basis of the DBP/programme scenario using the commonly agreed methodology.								
<sup>2</sup> Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.								
<b>Source:</b>								
Stability Programme 2016 (SP); Updated Draft Budgetary Plan for 2017 (DBP); Updated Commission 2016 autumn forecast (COM); Commission calculations								

### **3.2. Debt developments**

The updated DBP projects the debt-to-GDP ratio to decrease slightly from the 2015 level to 99.4% of GDP in end-2016, and then to decrease slightly further to 99.0% of GDP in 2017. For 2016, this is somewhat higher than the debt ratio presented in the 2016 Stability Programme, but lower than the debt ratio presented in the no-policy-change DBP submitted in October, thanks to more optimistic assumptions as regards nominal GDP growth. The decrease in the debt ratio in 2016, compared to 2015, is the result of the debt-increasing impact of the primary deficit and interest expenditure being more than offset by the debt-reducing impacts of relatively high nominal GDP growth and the planned stock-flow adjustment of 1.2% of GDP in 2016. In 2017, continued strong nominal GDP growth is expected to more than offset the planned debt-increasing impacts stemming from the primary deficit, interest expenditure and positive stock-flow adjustment. The updated DBP does not provide a breakdown of the various components of the latter. Compared to the no-policy-change DBP, the debt ratio falls slightly faster thanks to a lower primary deficit and higher nominal GDP growth more than offsetting the revised impact of the stock-flow adjustment, which in the updated DBP is estimated to have a debt-increasing effect of 0.4% of GDP.

For 2016, the updated Commission 2016 autumn forecast projects a slightly higher debt ratio than the updated DBP, with such a difference widening slightly further in 2017 in view of the Commission forecast's higher primary deficit and lower nominal growth.



**Table 3. Debt developments**

(% of GDP)	2015	2016			2017		
		SP	DBP	COM	SP	DBP	COM
<b>Gross debt ratio<sup>1</sup></b>	<b>99.8</b>	<b>99.1</b>	<b>99.4</b>	<b>99.6</b>	<b>99.0</b>	<b>99.0</b>	<b>99.5</b>
Change in the ratio	-0.6	-0.6	-0.4	-0.2	-0.1	-0.4	-0.1
<i>Contributions<sup>2</sup> :</i>							
<b>1. Primary balance</b>	<b>2.0</b>	<b>0.8</b>	<b>1.8</b>	<b>1.8</b>	<b>0.2</b>	<b>0.5</b>	<b>0.6</b>
<b>2. “Snow-ball” effect</b>	<b>-0.5</b>	<b>-0.7</b>	<b>-0.9</b>	<b>-0.8</b>	<b>-0.8</b>	<b>-1.2</b>	<b>-1.0</b>
<i>Of which:</i>							
Interest expenditure	3.1	2.9	2.8	2.8	2.7	2.649	2.7
Growth effect	-3.1	-2.6	-3.0	-3.1	-2.3	-2.417	-2.2
Inflation effect	-0.5	-0.9	-0.6	-0.4	-1.2	-1.407	-1.4
<b>3. Stock-flow adjustment</b>	<b>-2.1</b>	<b>-0.7</b>	<b>-1.2</b>	<b>-1.2</b>	<b>0.5</b>	<b>0.4</b>	<b>0.4</b>
<i>Of which:</i>							
Cash/accruals difference							
Net accumulation of financial <i>of which privatisation proceeds</i>							
Valuation effect & residual							

**Notes:**

<sup>1</sup> End of period.

<sup>2</sup> 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

**Source:**

*Stability Programme 2016 (SP); Updated Draft Budgetary Plan for 2017 (DBP); Updated Commission 2016 autumn forecast (COM); Commission calculations*

### 3.3. Measures underpinning the updated draft budgetary plan

The updated DBP factors in additional measures adopted by the Spanish government on 2 December 2016 on CIT, selected excise duties, workers and employers' social security contributions, cadastral values, the payment of tax arrears and on VAT tax fraud (see box 2)<sup>6</sup>, with a total expected incremental budgetary impact of EUR 6.6 billion (i.e. 0.6% of GDP) in 2017.

In addition, the updated DBP presents additional consolidation measures to be taken in 2017. They include increased environmental taxes (with an estimated budgetary impact of EUR 500 million in 2017) and excise duties on sweet drinks (EUR 200 million, i.e. 0.02% of GDP), further measures to fight tax fraud (EUR 150 million, i.e. 0.01% of GDP), the extension in 2017 of the spending cuts at central government level already enacted in 2016 (EUR 3 billion, i.e. 0.3% of GDP) and a new public administration reform programme, which would yield

<sup>6</sup> See Royal Decree Law 3/2016, on tax measures to consolidate public finances and other urgent social measures and Royal Decree 596/2016 on the modernisation, improvement and strengthening of the of electronic means in the management of VAT.

expected savings of EUR 900 million (i.e. 0.08% of GDP) over 2017-2019. The updated DBP also announces a review of the general government spending, to be carried out by AIReF during 2017. Moreover, the updated DBP revises, as necessary, the expected impact of fiscal policy measures pre-dating the August 2016 Council Decision, such as the 2013 local administration reform.

All in all, the updated DBP presents an incremental consolidation effect resulting from fiscal policy measures of 0.7% of GDP in 2016 (same amount as in the previous no-policy-change DBP) and 1.0% of GDP in 2017 (0.7% of GDP higher than in the no-policy-change DBP). In 2016, the planned net effect largely stems from measures on current expenditure<sup>7</sup>, as revenue-raising measures are almost fully outweighed by the effects of the 2014 reforms in Personal Income Tax (PIT) and CIT, even after factoring in the increase in CIT instalment payments legislated in September 2016. By contrast, in 2017 the consolidation effort is more pronounced on the revenue side, following the adoption of tax increases in December 2016 (see box 2).

Of the above-mentioned fiscal policy measures, the updated Commission 2016 autumn forecast takes into account incremental consolidation measures with a net effect of about 0.2% of GDP in 2016 and 0.6% of GDP in 2017 (including one-offs).

- On the revenue side, the updated Commission autumn forecast includes the yield of the measures approved in December 2016 as reported in the updated DBP, while it does not take on board the increases in environmental and excise duties (e.g. on sweet and carbonated drinks) as they are not considered to have been specified in sufficient detail. Moreover, the Commission forecast is underpinned by a more conservative estimate (relative to the updated DBP) of the budgetary impact of measures against tax fraud.
- On the expenditure side, the updated Commission 2016 autumn forecast factors in a lower estimate of savings compared with the government's plans. For 2016, the Commission forecast includes a close-to-zero valuation of savings from spending cuts (through *acuerdos de no disponibilidad*) at regional government level (vs. 0.1% of GDP impact in the latter) and a combined effect of the spending cuts and the anticipated closure of the central government's 2016 budget (*cierre presupuestario*) which is 0.1% of GDP below the updated DBP. Moreover, the updated Commission forecast includes no savings at regional government level from the application of the new pharmaceutical and healthcare spending rule in 2017. This is because there was no evidence of any region having agreed explicitly to apply that rule at the cut-off date of the forecast, based on information from the available 2016 regional adjustment plans under the Regional Liquidity Fund.

There are also differences in the classification of one-off measures. In particular, the updated Commission 2016 autumn forecast considers the measure to anticipate the payment of taxes owed (EUR 1.5 billion in 2017, i.e. 0.1% of GDP) as one-off, as it affects the payment schedule only, while leaving the amount of taxes owed unchanged. Moreover, with respect to the CIT measures that entered into force on 1 January 2016 (i.e., the revised limits for the deduction of negative tax bases, to eliminate double taxation and to revert deductions from the impairment of holdings), the Commission forecast considers the difference between the incremental and structural impacts reported in the updated DBP (EUR 1.2 billion, i.e. 0.1% of

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<sup>7</sup> On the expenditure side, savings stem from efficiency-enhancing policies (as per the public administration reform), the continued implementation of the 2013 pension reform, various measures at regional and local level, and in 2016, from spending cuts at central government level.

GDP) as one-off in 2017. It does so because those measures did not affect the instalment payments of 2016 but will increase tax payments in 2017, thus creating a temporary peak in revenue that will disappear once the transition from one steady state to another is completed.

### **Box 2: Tax measures adopted at the 2 December 2016 Council of Ministers**

On 2 December 2016, Spain's Council of Ministers adopted tax measures affecting CIT, selected excise duties, workers and employers' social security contributions, cadastral values and setting out a new regulation regarding the settlement of taxes owed. In addition, the government announced anti-tax fraud measures in the area of VAT. On the former, the government adopted Royal Decree Law 3/2016, amending various taxes. On the latter, the government adopted a Royal Decree to complete the regulatory framework of a newly-created data supply system between the VAT tax payers and the tax authority.

The CIT measures fall into the following three categories:

- Firstly, starting from 1 January 2016, the reform limits the deductibility of large companies' negative tax bases originated in previous fiscal years, according to the following schedule:
  - up to 50% of the positive tax base (before the application of the deduction) for companies with turnover of at least EUR 20 million in the twelve months preceding the start of the fiscal year;
  - up to 25% of the positive tax base (before the application of the deduction) for companies with turnover of at least EUR 60 million in the twelve months preceding the start of the fiscal year.

Specific provisions apply to cooperatives and real estate investment trusts (SOCIMI), the latter, with effects starting on 1 January 2017. Moreover, Royal Decree Law 3/2016 caps deductions to eliminate double taxation at 50% of the company's taxable liability (*cuota integra*).

- Secondly, the reform amends the regulation for the reversion of the tax breaks originating from the impairment of holdings (*participaciones*), which were in force until 1 January 2013. In particular, starting from 1 January 2016, and over the next five years, Royal Decree Law 3/2016 sets out a minimum amount to be included in the CIT tax base for companies having benefited from that tax break before 1 January 2013 (the actual increase in the tax base could be higher depending on the amounts resulting from the application of existing rules).
- Thirdly, starting from 1 January 2017, the losses originating from the sale of holdings (*participaciones*), whose dividends and capital gains are tax exempt, will no longer be tax deductible. Moreover, the losses deriving from holdings in companies operating in tax havens or in countries with an inappropriate level of taxation will no longer be tax deductible either.

Starting from 3 December 2016, Royal Decree Law 3/2016 increases taxation on intermediate products, on alcohol and on alcohol-based drinks by 5%. The reform also raises taxes on tobacco. In addition, the Royal Decree law outlaws the possibility of making payments in kind to pay down taxes owed whose settlement cannot be postponed by the tax payers according to applicable tax regulations. It also abolishes the possibility of tax payers

postponing the payment of tax withholdings and in selected cases, of taxes owed (*deuda tributaria*). Lastly, the Royal Decree Law 3/2016 increases by 3 pp the upper limit for the contribution base, on which workers and employers calculate their payments to the Social Security. It also updates the cadastral values, with effect as of 1 January 2017.

On 2 December 2016, the Council of Ministers also announced several measures to facilitate the fight against tax fraud in VAT. To that end, the Council of Ministers adopted a Royal Decree to complete the regulation of a newly created on-time data supply system. That system will allow the tax authority to get information on economic transactions almost in real time, thus helping to improve its control over VAT. Additional anti-tax fraud measures will be legislated during 2017.

**Table 4. Main discretionary measures reported in the updated DBP**

**A. Discretionary measures taken by general government – revenue side**

Components	Budgetary impact (% GDP) (as reported by the authorities)		
	2016	2017	2018
Taxes on production and	0.17	0.19	0.03
Current taxes on income,	-0.17	0.23	-0.03
Capital taxes	0.00	0.13	0.00
Social contributions	0.05	0.06	0.00
Property Income			
Other			
<b>Total</b>	<b>0.04</b>	<b>0.60</b>	<b>0.00</b>

Note:  
The budgetary impact in the table is the aggregated impact of measures as reported in the DBP, i.e. by the national authorities. A positive sign implies that revenue increases as a consequence of this measure.  
*Source: Updated Draft Budgetary Plan for 2017*

**B. Discretionary measures taken by general government – expenditure side**

Components	Budgetary impact (% GDP) (as reported by the authorities)		
	2016	2017	2018
Compensation of employees	0.03	-0.09	0.00
Intermediate consumption	-0.53	-0.20	0.00
Social payments	-0.13	-0.08	0.00
Interest Expenditure	0.00	0.00	0.00
Subsidies			
Gross fixed capital formation	-0.03	0.02	0.00
Capital transfers	0.00	0.00	0.00
Other	0.01	0.00	0.00
<b>Total</b>	<b>-0.65</b>	<b>-0.36</b>	<b>0.00</b>

Note:  
The budgetary impact in the table is the aggregated impact of measures as reported in the DBP, i.e. by the national authorities. A positive sign implies that expenditure increases as a consequence of this measure.  
*Source: Updated Draft Budgetary Plan for 2017*

#### 4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT

Spain is currently subject to the corrective arm of the SGP. Box 3 recalls the main recommendations in the area of public finances issued to Spain in the context of the European Semester and the EDP opened by the Council on 27 April 2009. It also recalls the provisions of the Council's decision of 8 August 2016 to give notice to Spain under Article 126(9) of the Treaty, following its earlier decision under Article 126(8) that Spain had not taken effective action in response to the Council's recommendations of 21 June 2013.

##### **Box 3: Council Decision to give notice to Spain**

On 9 March 2016, the Commission issued a recommendation according to which Spain should take measures to ensure a timely and durable correction of the excessive deficit, including by making full use as appropriate of the preventive and corrective tools set out in Spain's Stability law to control for slippages at the sub-central government level from the respective deficit, debt and expenditure rule targets.

On 12 July 2016, the Council addressed recommendations to Spain in the context of the European Semester. In particular, in the area of public finances, the Council recommended to Spain to ensure a durable correction of the excessive deficit, in accordance with the relevant decisions or recommendations under the EDP, by taking the necessary structural measures and by using all windfall gains for the deficit and debt reduction. The Council also recommended to Spain to implement at all government levels the tools set out in the fiscal framework law and to enhance control mechanisms for public procurement and coordination of procurement policies across government levels.

On 11 July 2016, the Council adopted a decision establishing that Spain had not taken effective action in response to the Council recommendation of 21 June 2013.

On 8 August 2016, the Council gave notice to Spain under Article 126(9) of the Treaty to correct its excessive deficit by 2018. According to that notice, Spain is to reduce the general government deficit to 4.6 % of GDP in 2016, to 3.1 % of GDP in 2017 and to 2.2 % of GDP in 2018. That improvement in the general government deficit is consistent with a deterioration of the structural balance by 0.4 % of GDP in 2016 and a 0.5 % of GDP improvement in both 2017 and 2018, based on the updated Commission 2016 spring forecast. Spain is to also use all windfall gains to accelerate deficit and debt reduction. In addition to the savings already included in the updated Commission 2016 spring forecast, Spain is to adopt and fully implement consolidation measures for the amount of 0.5 % of GDP in both 2017 and 2018. Spain shall stand ready to adopt further measures should risks to the budgetary plans materialise. Fiscal consolidation measures are to secure a lasting improvement in the general government structural balance in a growth-friendly manner. Moreover, Spain is to adopt measures to strengthen its fiscal framework, in particular with a view to increasing the automaticity of mechanisms to prevent and correct deviations from the deficit, debt and expenditure targets and to strengthening the contribution of the Stability Law's spending rule to public finance sustainability. Furthermore, Spain is to set up a consistent framework to ensure transparency and coordination of public procurement policy across all contracting authorities and entities with a view to guaranteeing economic efficiency and a high level of competition. That framework is to include appropriate ex-ante and ex-post control mechanisms for public procurement to ensure efficiency and legal compliance.

On 16 November 2016, the Commission adopted a Communication, which concluded that, on the basis of the projected achievement of the required headline deficit target in 2016, the EDP should be kept in abeyance at that stage. It also warned that the budgetary targets established by the Council for 2017 and 2018 were at the time not projected to be met on a no-policy-change basis, indicating that there were risks to the timely correction of the excessive deficit. The Commission expected Spain to submit an updated DBP for 2017 to the Commission and the Eurogroup showing compliance with the requirements set out in the Council Decision of 8 August 2016, in principle at least one month before the 2017 Budget Law was adopted in parliament. The updated DBP would also have to include information on the actions being taken in response to the Council requests to strengthen Spain's fiscal and public procurement policy frameworks, in accordance with Article 1(5) and (6) of the Council Decision to give notice of 8 August 2016. The Commission would re-examine compliance with the requirements set out in the abovementioned Council Decision on the basis of the information in the updated DBP.

For 2016, the updated DBP plans the headline deficit to decrease from 5.1% in 2015 to 4.6% of GDP, in line with the headline deficit target required by the Council. It should be noted that the target is only expected to be achieved thanks to the adoption of Royal Decree Law 2/2016 reinstating a minimum advance payment in CIT, which is expected to more than offset the shortfalls in CIT revenues stemming from the expiry of the minimum advance payments at the end of 2015<sup>8</sup>.

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<sup>8</sup> For further details on RDL2/2016 go to table A-7 at [http://ec.europa.eu/economy\\_finance/economic\\_governance/sgp/pdf/dbp/2016/es\\_2016-11-16\\_swd\\_en.pdf](http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/dbp/2016/es_2016-11-16_swd_en.pdf)

**Table 5. Compliance with the EDP recommendation**

(% of GDP)	2015	2016		2017	
	COM	DBP	COM	DBP	COM
<b>Headline balance</b>					
Headline budget balance	-5.1	-4.6	-4.6	-3.1	-3.3
EDP requirement on the budget balance		-4.6		-3.1	
<b>Fiscal effort - change in the structural balance</b>					
Change in the structural balance <sup>1</sup>	-0.9	-0.9	-1.0	0.3	0.2
Cumulative change <sup>2</sup>		-0.9	-1.0	-0.5	-0.8
Required change from the EDP recommendation		-0.4		0.5	
Cumulative required change from the EDP recommendation		-0.4		0.1	
<b>Fiscal effort - adjusted change in the structural balance</b>					
Adjusted change in the structural balance <sup>3</sup>		-	-0.6	-	0.7
of which:					
<i>correction due to change in potential GDP estimation (α)</i>		-	0.0	-	0.0
<i>correction due to revenue windfalls/shortfalls (β)</i>		-	-0.5	-	-0.5
Cumulative adjusted change <sup>2</sup>		-	-0.6	-	0.1
Required change from the EDP recommendation		-0.4		0.5	
Cumulative required change from the EDP recommendation		-0.4		0.1	
<b>Fiscal effort - calculated on the basis of measures (bottom-up approach)</b>					
Fiscal effort (bottom-up) <sup>4</sup>		-	-0.1	-	0.7
Cumulative fiscal effort (bottom-up) <sup>2</sup>		-	-0.1	-	0.5
Requirement from the EDP recommendation		0.0		0.5	
Cumulative requirement from the EDP recommendation		0.0		0.5	
<i>Notes</i>					
<sup>1</sup> Structural balance = cyclically-adjusted general government balance excluding one-off measures. Structural balance based on DBP is recalculated by the Commission on the basis of the Draft Budgetary Plan scenario using the commonly agreed methodology. Change compared to t-1.					
<sup>2</sup> Cumulated since the first year for correction in the latest EDP recommendation.					
<sup>3</sup> Change in the structural balance corrected for unanticipated revenue windfalls/shortfalls and changes in potential growth compared to the scenario underpinning the EDP recommendation.					
<sup>4</sup> 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.					
<i>Source:</i>					
Updated Draft Budgetary Plan for 2017 (DBP); updated Commission 2016 autumn forecast (COM); Commission calculations.					

While the Council Decision to give notice under Article 126(9) of the Treaty of 8 August 2016 requires Spain to limit the deterioration of the structural balance to at most 0.4% of GDP in 2016, the updated Commission 2016 autumn forecast points to an expected deterioration in the structural balance by 1.0% of GDP, 0.6 pp above what was requested. That development warrants a careful analysis.

When corrected for the downward revision in potential growth and for revenue shortfalls<sup>9</sup> compared to the updated Commission 2016 spring forecast, which underlies the Council Decision of 8 August 2016, the adjusted change in the structural balance is estimated at -0.6% of GDP, 0.2 pp lower than the requirements from the Council Decision.

According to a bottom-up assessment — which estimates the size of the fiscal effort for 2016 on the basis of the additional revenue measures taken and the expenditure developments under the control of the government between the EDP baseline scenario and the updated Commission 2016 autumn forecast —, Spain is expected to record a slightly negative effort of 0.1% of GDP in 2016, thereby marginally missing the 0.0% of GDP target required by the Council Decision<sup>10</sup>.

For 2017, according to the updated Commission 2016 autumn forecast, the headline deficit target is not expected to be achieved, with a projected headline deficit of 3.3% of GDP.

The Council Decision requires Spain to achieve an improvement in the structural balance of 0.5% of GDP in 2017. The updated Commission 2016 autumn forecast projects that the fiscal effort required by the Council will be met in 2017 according to both the top-down and the bottom-up methods. Specifically, the updated Commission forecast projects an improvement of 0.2% of GDP in the structural deficit for 2017. However, after correcting for the change in the estimated potential growth between the projections underlying the Council Decision and the updated Commission 2016 autumn forecast, as well as for revenue shortfalls projected for 2017, the estimated change in the structural balance would be 0.7% of GDP. It is likely that a less tax-rich composition of growth in the updated Commission forecast, compared to the growth projections underpinning the Council notice, explains part of the revenue shortfalls. Moreover, the measurement of the fiscal effort also hinges upon the estimation of the impact of the reductions in the personal and corporate income tax that was implemented over 2015-2016, which remains to some extent uncertain. On a cumulative basis over 2016-2017, based on the unadjusted change in the structural balance, there is an estimated shortfall in the fiscal effort of 0.9% of GDP. However, after adjusting for the above-mentioned elements, the required cumulative effort is achieved, as the adjusted structural balance improves by 0.1% of GDP over those two years.

The fiscal effort in 2017 assessed on the basis of the bottom-up method is estimated at 0.7% of GDP. That level is slightly above the target of about 0.5% of GDP of additional measures deemed necessary in 2017 to reach the structural targets spelled out in the Council Decision of 8 August 2016. On a cumulative basis over 2016-2017, the required fiscal effort is thus projected to be achieved, as the bottom-up method points to a cumulative effort of 0.5% of GDP over the those two years.

For 2018 – i.e. the deadline for the correction of the excessive deficit – the updated Commission forecast projects, on a no-policy change basis, the headline deficit to decline to 2.8% of GDP and the structural balance to remain stable. The projected headline deficit is

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<sup>9</sup> For further details regarding the calculation of revenue windfalls and shortfalls please see the Code of Conduct of the Stability and Growth Pact, pages 51-54 under the following link:  
[http://ec.europa.eu/economy\\_finance/economic\\_governance/sgp/pdf/coc/code\\_of\\_conduct\\_en.pdf](http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/code_of_conduct_en.pdf)

<sup>10</sup> This results from the updated Commission forecast estimated change (as measured in the bottom-up method) in total nominal expenditure for 2016 being higher than the estimated change in the baseline forecast underlying the Council Decision. There has been no discretionary revenue measures additional to those already included in the above-mentioned no-policy-change forecast, other than Royal Decree Law 2/2016. However, as it is of a one-off nature (see section 3.3) it is not taken into account in the bottom-up assessment.



therefore below the deficit reference value in the Treaty but above the headline deficit target of 2.2% of GDP requested by the Council.

## **5. IMPLEMENTATION OF FISCAL-STRUCTURAL REFORMS**

### **5.1. Measures to strengthen Spain's fiscal framework**

*a) Measures reported in the updated Draft Budgetary Plan for 2017 following the Commission's Communication assessing action taken by Spain in response to the Council Decision of 8 August 2016*

The Commission Communication of 16 November 2016 assessing action taken by Spain in response to the Council Decision of 8 August 2016 concluded that the measures put forward by the Spanish government to strengthen its fiscal framework fell short of the requirements in that Council Decision. In particular, the Commission noted that the Spanish authorities had failed to present proposals to amend the Stability Law so as to make the application of its preventive and corrective mechanisms more automatic and to adopt secondary legislation to clarify the implementation of the Stability Law's spending rule.

Against that backdrop, the updated DBP reports ongoing actions to tighten the use of extra-budgetary accounts at regional government level, to avoid recording spending in excess of the budget appropriations. It also announces that the government will commission AIREF, Spain's independent fiscal institution, to carry out a spending review covering all levels of general government in 2017. Meanwhile, the central government along with regional governments will promote efficiency-enhancing measures on healthcare expenditure. Lastly, the updated DBP reports that the government will assess, with the assistance of regional and local governments, the Stability Law's spending rule, with a view to removing inconsistencies with the SGP's expenditure benchmark.

*b) Assessment of the measures taken since the Commission Communication on action taken by Spain in response to the Council Decision of 8 August 2016*

The above-mentioned measures go in the right direction in that they can identify areas where policy goals can be achieved with more efficient spending. They can also help to enforce the limiting nature of budget appropriations. However, the updated DBP does not provide the necessary details, including a timeline for the revision of the Stability Law's spending rule. Neither does it report measures to increase the automaticity of the Stability Law's mechanisms to prevent and correct deviations from the deficit, debt and expenditure targets.

### **5.2. Measures to strengthen public procurement**

*a) Measures reported in the updated Draft Budgetary Plan for 2017 following the Commission's Communication assessing action taken by Spain in response to the Council Decision of 8 August 2016*

The Commission Communication of 16 November 2016 also concluded that the measures presented by the Spanish government to strengthen its public procurement policy framework failed to meet the requirements in the Council Decision of 8 August 2016. In particular, the Commission acknowledged that the planned measures could go some way in improving some public procurement practices in Spain. However, it went on to say that, overall, the planned measures did not address the need for a consistent framework that ensures sufficient transparency and coordination of public procurement across all contracting authorities and

entities and that they did not spell out clear objectives for public procurement, instruments for action and a timeline for their adoption and implementation.

The Spanish authorities have reported the following measures in the updated DBP:

- i. Firstly, on 25 November 2016, Spain's Council of Ministers adopted two draft laws transposing Directives 2014/23/EU, 2014/24/EU and 2014/25/EU for their fast-track adoption in parliament (as the deadline for transposition expired on 18 April 2016)<sup>11</sup>. Among other things, the draft laws aim at (i) including political parties, trade unions and business associations within the scope of the Public Procurement Law; (ii) reducing the administrative burden, speeding up procurement procedures, enhancing the use of electronic means and (iii) facilitating access of SMEs to procurement procedures and revising the regulation of buyer's profile for all public entities.
  - ii. Secondly, the government plans to eliminate the currently unrestricted capacity of contracting authorities to use the negotiated procedure without prior publication for low-value contracts<sup>12</sup>.
  - iii. Thirdly, the updated DBP reports the planned entry in operations of the central government's Office for Evaluation (*Oficina Nacional de Evaluación*), which was created in law in October 2015.
- b) *Assessment of the measures taken since the Commission Communication on action taken by Spain in response to the Council Decision of 8 August 2016*

Overall, the Commission's assessment of the planned measures does not deviate substantially from the assessment made in November 2016. Specifically:

- The draft laws submitted to parliament on 25 November 2016 transpose the latest package of procurement directives. Strictly speaking, the planned changes reported under letter (i) do not derive from the Council Decision of 8 August 2016 but rather from transposition obligations under EU law.
- Moreover, the no-policy-change Draft Budgetary Plan already reported the elimination of the unrestricted capacity of contracting authorities to use the negotiated procedure without prior publication for contract values below the EU thresholds and the creation of the *Oficina Nacional de Evaluación*; i.e., no new elements have been added at this stage. The evaluation of those two measures is therefore unchanged relative to the Commission's assessment of November 2016<sup>13</sup>.

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<sup>11</sup> The draft laws can be found at [http://www.congreso.es/portal/page/portal/Congreso/Congreso/Iniciativas?\\_piref73\\_2148295\\_73\\_1335437\\_1335437\\_next\\_page=/wc/servidorCGI&CMD=VERLST&BASE=IW12&FMT=INITXDSS.fmt&DOCS=1-1&DOCORDER=FIFO&OPDEF=ADJ&QUERY=%28121%2F000002\\*.NDOC.%29](http://www.congreso.es/portal/page/portal/Congreso/Congreso/Iniciativas?_piref73_2148295_73_1335437_1335437_next_page=/wc/servidorCGI&CMD=VERLST&BASE=IW12&FMT=INITXDSS.fmt&DOCS=1-1&DOCORDER=FIFO&OPDEF=ADJ&QUERY=%28121%2F000002*.NDOC.%29)  
[http://www.congreso.es/portal/page/portal/Congreso/Congreso/Iniciativas?\\_piref73\\_2148295\\_73\\_1335437\\_1335437\\_next\\_page=/wc/servidorCGI&CMD=VERLST&BASE=IW12&FMT=INITXDSS.fmt&DOCS=1-1&DOCORDER=FIFO&OPDEF=ADJ&QUERY=%28121%2F000003\\*.NDOC.%29](http://www.congreso.es/portal/page/portal/Congreso/Congreso/Iniciativas?_piref73_2148295_73_1335437_1335437_next_page=/wc/servidorCGI&CMD=VERLST&BASE=IW12&FMT=INITXDSS.fmt&DOCS=1-1&DOCORDER=FIFO&OPDEF=ADJ&QUERY=%28121%2F000003*.NDOC.%29)

<sup>12</sup> On 16 December 2016 the Council of Ministers adopted guidelines to increase transparency and publicity for these contracts (i.e., negotiated procedure without prior publication) at central government level and to encourage regional and local authorities to take similar action.

<sup>13</sup> See the 16 November 2016 Staff Working Document accompanying the Commission Opinion on the draft budgetary plan of Spain at [http://ec.europa.eu/economy\\_finance/economic\\_governance/sgp/pdf/dbp/2016/es\\_2016-11-16\\_swd\\_en.pdf](http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/dbp/2016/es_2016-11-16_swd_en.pdf)

- Admittedly, the December 2016 draft Public Procurement Law sets out in more detail the composition of the Cooperation Committee reporting to the *Junta Consultiva* than the draft law submitted to parliament on 13 October 2016<sup>14</sup>. Moreover, it provides that the *Junta Consultiva* will alert the public prosecutor's office, the administrative or judicial competent bodies of potential breaches of law or criminal offences. However, the draft law does not empower the *Junta Consultiva* to impose sanctions or lodge legal actions, the latter being a weakness already noted in the November 2016 Communication. Moreover, the monitoring powers of the *Junta Consultiva* still relate solely to ex-post checks and the draft law gives little information about their content and implementation aspects. The supervision of sub-central government procurement remains unclear and the draft law also does not guarantee the independence of the *Junta Consultiva*.
- Lastly, no measures have been reported to enhance transparency in public procurement policy and to strengthen ex-ante controls. The Commission had already flagged those concerns in the November 2016 Communication. Equally, no proposals are made to coordinate public procurement policy across all contracting authorities, which could be significantly enhanced by setting up an independent body in charge of ensuring efficiency and legal compliance throughout the country. Furthermore, no measures have been put forward aiming at a more systematic and widespread use of centralised purchasing that could help to increase fiscal savings.

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<sup>14</sup> As in the October draft law, the November 2016 Public Procurement Law provides for reinforcement of powers of the *Junta Consultiva* in order to supervise the ex-post controls on the procurement activities carried out by the central government's contracting authorities. It also creates a Cooperation Committee in the area of Public Procurement reporting to the *Junta Consultiva* to (i) promote homogeneous interpretation criteria of procurement regulations;(ii) draw up a proposal for a nation-wide strategy for procurement supervision; and (iii) prepare a methodology for ex-post procurement controls. The committee would be composed of representatives of the central and sub-central government levels.

## **6. OVERALL CONCLUSION**

Based on the updated Commission 2016 autumn forecast, Spain is expected to achieve a headline deficit of 4.6% of GDP in 2016, in line with the headline deficit target required by the Council Decision to give notice of 8 August 2016, and of 3.3% of GDP in 2017, 0.2% of GDP above the headline deficit target for that year. In 2018, under the usual no-policy-change assumption, the Commission projects a headline deficit of 2.8% of GDP, above the headline deficit target of 2.2% of GDP, but below the Treaty reference value of 3% of GDP.

The careful analysis based on the updated Commission 2016 autumn forecast confirms the risk that the fiscal effort may fall somewhat short of the requirements in 2016, as was already highlighted in the Commission opinion on Spain's no-policy-change Draft Budgetary Plan of November 2016. However, according to the updated Commission 2016 autumn forecast, the required fiscal effort is expected to be met in 2017 based on both the adjusted change in the structural balance and the bottom-up method. Overall, while the measures taken so far by the government have significantly increased the probability of meeting the 2016 headline deficit target and delivering the required structural effort in 2017, albeit with a narrow margin, the 2017 headline deficit target is not expected to be met.

The Council Decision of 8 August 2016 also calls on Spain to take measures to strengthen its fiscal and public procurement policy frameworks. On the former, the updated DBP reports that the government will assess, with the assistance of regional and local governments, the Stability Law's spending rule, with a view to removing inconsistencies with the SGP spending benchmark, without however, providing details and a timeline. Moreover, the updated DBP does not report measures to increase the automaticity of the Stability Law's mechanisms to prevent and correct deviations from the deficit, debt and expenditure targets. Regarding public procurement, the planned measures do not deviate much from the ones assessed in November by the Commission. Overall, while they can go some way towards improving some public procurement practices in Spain, they do not provide a consistent framework that ensures sufficient transparency and coordination of public procurement policy across all contracting authorities and entities. Moreover, the planned measures do not spell out clear objectives for public procurement, specific instruments for action or a timeline for their adoption and implementation.

## Annex. EDP-related tables

**Table A1. Forecast of key macroeconomic and budgetary variables under the baseline scenario**

		2015	2016	2017	2018
Real GDP growth	%	3.2	2.9	2.3	2.1
Nominal GDP growth	%	3.8	3.4	3.6	3.6
Potential GDP growth	%	0.0	0.4	0.7	0.9
Structural balance	% of pot. GDP	-2.7	-3.1	-3.2	-3.2
General government balance	% of GDP	-5.1	-4.6	-3.3	-2.7
Change in structural balance	% of pot. GDP	-0.9	-0.4	-0.1	0.0
p.m. Output Gap	% of pot. GDP	-4.0	-1.7	-0.2	0.9

Source: Commission Staff Working Document accompanying the Decision to give notice to Spain.

**Table A2. Forecast of key macroeconomic and budgetary variables under the EDP scenario**

		2015	2016	2017	2018
Real GDP growth	%	3.2	2.9	1.7	1.5
Nominal GDP growth	%	3.8	3.4	3.1	3.0
Potential GDP growth	%	0.0	0.4	0.7	0.9
Structural balance	% of pot. GDP	-2.7	-3.1	-2.6	-2.1
General government balance	% of GDP	-5.1	-4.6	-3.1	-2.2
Change in structural balance	% of pot. GDP	-0.9	-0.4	0.5	0.5
p.m. Output Gap	% of pot. GDP	-4.0	-1.7	-0.8	-0.1

Source: Commission Staff Working Document accompanying the Decision to give notice to Spain.

**Table A3. Current estimates of the macroeconomic and fiscal developments**

		2015	2016	2017	2018
Real GDP growth	%	3.2	3.3	2.3	2.1
Nominal GDP growth	%	3.7	3.7	3.9	3.6
Potential GDP growth	%	0.1	0.6	0.8	0.9
Structural balance	% of pot. GDP	-2.7	-3.7	-3.5	-3.4
General government balance	% of GDP	-5.1	-4.6	-3.3	-2.8
Change in structural balance	% of pot. GDP	-0.9	-1.0	0.2	0.0
p.m. Output Gap	% of pot. GDP	-4.1	-1.6	0.0	1.2

Source: Updated Commission 2016 Autumn Forecast

**Table A4. Adjustment of apparent structural effort for the revision in potential growth - details of calculations**

ES	Potential GDP growth underlying the 2016 Council decision to give notice (%)	Potential GDP growth at the time of assessment (%)	Forecast error (%)	Structural expenditure (% of potential GDP)	Correction coefficient $\alpha$ (% of nominal potential GDP)
	(1)	(2)	(3)=(1)-(2)	(4)	(5)=(3)*(4)/100
2016	0.4	0.6	-0.1	41.4	0.0
2017	0.7	0.8	0.0	41.6	0.0
2018	0.9	0.9	0.0	41.6	0.0

**Table A5. Adjustment of apparent structural effort for the expected revenue windfalls/shortfalls - details of calculations**

ES	Change in current revenues (yoy) (billions)		Discretionary current revenue measures (billions)		Nominal GDP growth assumptions (%)		Change in output gap		Current revenues in year t-1 (billions)		Revenue gap (billions)*	Nominal GDP	Correction coefficient $\beta$ (% of nominal GDP)
	notice	assessment	notice	assessment	notice	assessment	notice	assessment	notice	assessment			
	(1)	(1')	(2)	(2')	(3)	(3')	(4)	(4')	(5)	(5')	(6)=[(1')-(2')-(3')+( $\epsilon$ -1)*(4'/100)*(5')]-[(1)-(2)-[(3)+( $\epsilon$ -1)*(4)/100]*(5)]	(7)	(8)=100*(6)/(7)
2016	4.1	8.7	-8.0	0.3	3.4	3.7	0.0	0.0	407.1	408.8	-5.1	1115.6	-0.5
2017	23.8	16.7	5.5	3.2	3.6	3.9	0.0	0.0	411.1	417.6	-6.0	1158.8	-0.5
2018	16.0	16.2	0.2	0.0	3.6	3.6	0.0	0.0	434.9	434.3	0.3	1200.5	0.0

\*revenue elasticity ( $\epsilon$ ): 1.0

**Table A6. Forecast of key variables for the computation of the fiscal effort under the baseline scenario**

		2016	2017	2018		
<b>Enters top-down</b>	$\alpha$					
		Structural expenditure (% of potential GDP)	41.08	41.37	41.39	
		Potential GDP growth (%)	0.45	0.72	0.9	
	$\beta$		Current revenue (national currency)	411.13	434.88	450.87
			Discretionary measures with impact on current revenue (national currency)	-8.04	5.53	0.19
		Nominal GDP growth (%)	3.40	3.63	3.56	
	p.m Output gap (% of Pot. Output)	-1.73	-0.23	0.92		
<b>Enters bottom-up</b>		Discretionary measures with impact on total revenue net of one-offs and other temporary measures (national currency)	-2.75	0.21	0.19	
		Total expenditure net of one-offs and other temporary measures (national currency)	469.48	480.62	490.70	
		Interest expenditure (national currency)	31.47	30.52	29.61	
		Total unemployment	4550.88	4112.43	3765.16	

Source: Commission calculations based on updated Commission 2016 spring forecast.