



EUROPEAN COMMISSION
DIRECTORATE GENERAL
ECONOMIC AND FINANCIAL AFFAIRS

Brussels, 23 May 2017

**Assessment of the 2017 stability programme for
Spain**

(Note prepared by DG ECFIN staff)

CONTENTS

| | |
|---|----|
| 1. INTRODUCTION..... | 3 |
| 2. MACROECONOMIC DEVELOPMENTS | 3 |
| 3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS..... | 5 |
| 3.1. DEFICIT DEVELOPMENTS IN 2016 AND 2017 | 5 |
| 3.2. MEDIUM-TERM STRATEGY AND TARGETS | 6 |
| 3.3. MEASURES UNDERPINNING THE PROGRAMME..... | 8 |
| 3.4. DEBT DEVELOPMENTS..... | 10 |
| 3.5. RISK ASSESSMENT | 12 |
| 4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT | 12 |
| 5. LONG-TERM SUSTAINABILITY | 14 |
| 6. FISCAL FRAMEWORK | 17 |
| 7. SUMMARY | 18 |
| 8. ANNEXES | 20 |

1. INTRODUCTION

On 29 April 2017, Spain submitted its 2017 stability programme, covering the period 2017-2020. The government approved the programme on 28 April.¹

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. On 8 August 2016, the Council gave notice to Spain to correct the excessive deficit by 2018. The year following the durable correction of the excessive deficit, Spain would become subject to the preventive arm of the SGP and should ensure sufficient progress towards its medium-term objective (MTO). As the debt ratio in 2018 is projected at 98.5% of GDP, exceeding the Treaty 60%-of-GDP reference value, Spain would also become subject to the transitional arrangements as regards compliance with the debt criterion during the three years following the correction of the excessive deficit (transitional debt rule), during which it should ensure sufficient progress towards compliance.

This document complements the Country Report published on 22 February 2017 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 2017 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 the Commission forecast. Section 4 assesses compliance with the rules of the SGP, 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. Section 7 provides a summary.

2. MACROECONOMIC DEVELOPMENTS

The stability programme forecasts robust growth to continue until 2020, albeit at a decelerating pace. After having reached 3.2% in 2016, annual real GDP growth in Spain is projected to decrease to 2.7% in 2017 and 2.5% in 2018, before levelling off at 2.4% in 2019-2020. The main contributor to GDP growth is projected to be domestic demand, and in particular private consumption, which is expected to be supported by strong job creation. Investment is expected to decline slightly in 2017 and 2018, before rebounding in 2019 and 2020, despite declining final demand. Net exports are expected to give a positive contribution to growth, though slightly declining until 2019. Compared to the updated 2017 draft budgetary plan submitted in December 2016, the growth forecast in the stability programme is slightly higher for 2017 and 2018, by 0.2% and 0.1% respectively, and unchanged thereafter. The main component explaining the upward revision are net exports, which are expected to provide a larger contribution to growth than anticipated in the updated 2017 draft budgetary plan.

Compared to the Commission 2017 spring forecast, the stability programme projects slightly lower real GDP growth in 2017 and slightly higher in 2018. Divergences in the composition of growth are small in 2017 and slightly larger in 2018. In particular, the stability programme

¹ The stability programme was submitted in Spanish language only.

projects higher growth of private consumption than the Commission forecast, especially in 2018, as well as a slightly larger contribution of the external sector to growth, arising from lower import growth. At the same time, the Commission forecast projects a gradual increase of gross fixed capital formation throughout 2017 and 2018, whereas the stability programme forecasts investment to decelerate until 2018, and rebound thereafter. Finally, for 2019 and 2020, growth at 2.4% appears feasible but favourable, in light of the large positive output gap.

The main divergences in the macroeconomic scenarios of the stability programme and the Commission forecast refer to prices and employment growth. A higher GDP deflator in the stability programme in 2017 and 2018 results in nominal GDP growth being 0.3 pps higher than in the Commission forecast in both years. The stability programme also projects more dynamic growth of both employment and wages (compensation of employees).

Both macroeconomic scenarios imply a closing and subsequent reversal of the negative output gap over the programme period. However, in the Commission forecast, the output gap is projected to turn positive already in 2017, and increase faster than in the stability programme in 2018.

Overall, the macroeconomic projections underpinning the stability programme appear plausible until 2018 when compared with the Commission 2017 spring forecast and somewhat favourable from 2019 onwards. They were endorsed on 28 of April 2017 by Spain's independent fiscal institution (AIReF).² AIReF deems the programme's macroeconomic scenario as "probable", and the composition of growth as realistic. AIReF considers that short run risks to the projected real GDP growth are tilted to the upside, whereas medium term risks are to the downside, albeit moderately so.

²http://www.airef.es/system/assets/archives/000/002/062/original/2017_04_28_Resumen_Ejecutivo_Informe_sobre_las_Previsiones_Macro_de_la_APE_17-20.pdf?1493382301

Table 1: Comparison of macroeconomic developments and forecasts

| | 2016 | | 2017 | | 2018 | | 2019 | 2020 |
|---|------|------|------|------|------|------|------|------|
| | COM | SP | COM | SP | COM | SP | SP | SP |
| Real GDP (% change) | 3.2 | 3.2 | 2.8 | 2.7 | 2.4 | 2.5 | 2.4 | 2.4 |
| Private consumption (% change) | 3.2 | 3.2 | 2.5 | 2.6 | 2.0 | 2.4 | 2.3 | 2.2 |
| Gross fixed capital formation (% change) | 3.1 | 3.1 | 3.4 | 2.8 | 3.9 | 2.6 | 3.3 | 3.5 |
| Exports of goods and services (% change) | 4.4 | 4.4 | 5.7 | 5.5 | 4.8 | 4.9 | 4.7 | 4.5 |
| Imports of goods and services (% change) | 3.3 | 3.3 | 4.8 | 4.3 | 4.4 | 4.1 | 4.2 | 4.1 |
| <i>Contributions to real GDP growth:</i> | | | | | | | | |
| - Final domestic demand | 2.6 | 2.6 | 2.3 | 2.2 | 2.1 | 2.1 | 2.1 | 2.1 |
| - Change in inventories | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| - Net exports | 0.5 | 0.5 | 0.4 | 0.5 | 0.3 | 0.4 | 0.3 | 0.3 |
| Output gap ¹ | -1.8 | -1.8 | 0.2 | -0.2 | 1.6 | 0.8 | 1.8 | 2.6 |
| Employment (% change) | 2.7 | 2.7 | 2.2 | 2.8 | 1.9 | 2.6 | 2.5 | 2.5 |
| Unemployment rate (%) | 19.6 | 19.6 | 17.6 | 17.5 | 15.9 | 15.6 | 13.7 | 11.9 |
| Labour productivity (% change) | 0.4 | 0.5 | 0.5 | -0.1 | 0.3 | -0.1 | -0.1 | -0.1 |
| HICP inflation (%) | -0.3 | -0.2 | 2.0 | 1.5 | 1.4 | 1.6 | 1.7 | 1.8 |
| GDP deflator (% change) | 0.3 | 0.3 | 1.1 | 1.5 | 1.4 | 1.6 | 1.7 | 1.7 |
| Comp. of employees (per head, % change) | 0.0 | 0.0 | 1.0 | 1.3 | 1.3 | 1.5 | 1.6 | 1.7 |
| Net lending/borrowing vis-à-vis the rest of the world (% of GDP) | 2.0 | 2.0 | 1.9 | 2.0 | 1.9 | 1.9 | 1.8 | 1.7 |
| Note: | | | | | | | | |
| ¹ In % of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology. | | | | | | | | |
| Source: | | | | | | | | |
| Commission 2017 spring forecast (COM); stability programme (SP). | | | | | | | | |

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

3.1. DEFICIT DEVELOPMENTS IN 2016 AND 2017

The general government deficit reached 4.5% of GDP in 2016. This is slightly less than the EDP headline deficit target of 4.6% of GDP for that year, which was also the target set in the updated 2017 draft budgetary plan of December 2016.

The headline deficit ratio for 2016 was in line with the forecast included in the updated 2017 draft budgetary plan. However, the outcome for several sub items deviated from that forecast. On the revenue side, current taxes on income and wealth turned out stronger than expected (by 0.3% of GDP), whereas taxes on production and imports and other revenue items turned out lower (by 0.2 pps each). On the expenditure side, items under the control of the government (investment, compensation of employees, intermediate consumption and subsidies) came in lower than expected (by 0.3% of GDP in total), whereas expenditure on social transfers, interest and other items turned out to be higher (by 0.2 pps).

For 2017, the stability programme presents a headline general government deficit target of 3.1% of GDP, the same as the target contained in the updated 2017 draft budgetary plan.

However, the stability programme reports slightly higher revenue and expenditure ratios, despite starting from lower levels in 2016. The stability programme includes deficit-increasing one-off expenditure items in 2017 and 2018 that were not included in the updated 2017 draft budgetary plan. The programme does not include details on the nature of these one-off measures. Adjusting for those, the underlying expenditure forecast has been revised down somewhat (see also section 3.3. and 3.5).

3.2. MEDIUM-TERM STRATEGY AND TARGETS

The medium-term budgetary strategy as described in the stability programme aims at correcting the excessive deficit by 2018. It also aims at further reducing the general government deficit after 2018 so as to put the debt ratio on a declining path and thereby strengthen fiscal sustainability. The programme aims to achieve general government deficits of 3.1% of GDP in 2017 and 2.2% of GDP in 2018, as required by the Council, and reduce the deficit further to 0.5% of GDP in 2020. This would correspond to a reduction of the structural deficit by 0.9%, 0.2%, 0.2% and 0.3% of GDP in the four years covered by the programme, based on the structural balance as recalculated by the Commission on the basis of the information in the programme according to the commonly agreed methodology (henceforth "recalculated structural balance"). The programme does not mention a medium-term objective (MTO), although Spain's Stability Law foresees an MTO of a balanced budget in structural terms by 2020. In any case, the programme does not project the MTO to be reached within the programme horizon.

According to the programme, the central government is planned to contribute most to the deficit reduction (by a cumulative 1.1% of GDP over the four years covered by the programme), followed by the social security (by 0.9 pps) and regional government (by 0.6 pps). The programme describes the central government target for 2017 as demanding, whereas it foresees the local government level to continue producing surpluses over the coming years by virtue of the application of the spending rule. For a further discussion about sub-national budgetary targets, see section 6.

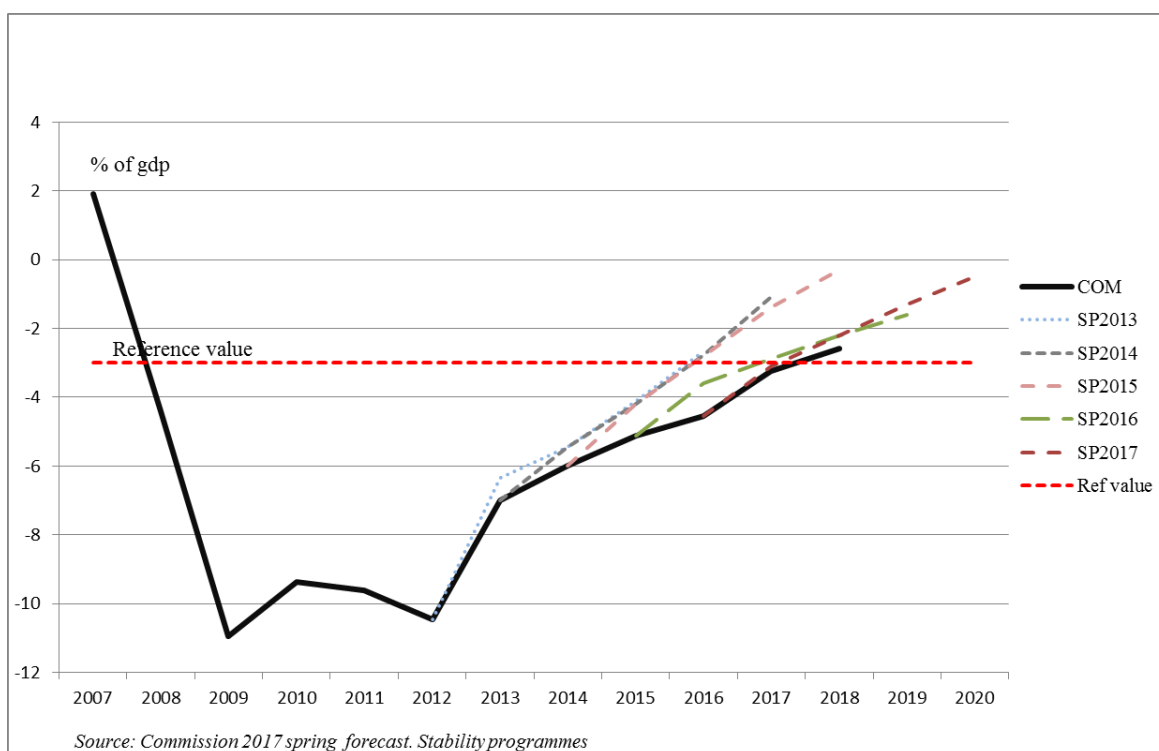
After 2017, the fiscal strategy is based on a slightly increasing revenue ratio, driven by strong economic growth, while the expenditure ratio would steadily decline to 39.2% of GDP in 2020. The expected increase in the revenue ratio by 0.8 pps over the programme period is all due to the expected rise in the ratio for current taxes on income and wealth (+1.4 pps), with other categories expected to see their ratio decline. In 2017, this development is partly explained by recent revenue measures (see section 3.3), but in the final years of the programme, it seems to rely on strong revenue elasticities. To achieve the planned reduction in the expenditure ratio, the programme assumes robust nominal GDP growth and a strict enforcement of the expenditure rule at all government levels. The programme foresees the expenditure ratio to fall for most spending categories over the programme period.

Table 2: Composition of the budgetary adjustment

| (% of GDP) | 2016 | 2017 | | 2018 | | 2019 | 2020 | Change: 2016-2020 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------------|
| | COM | COM | SP | COM | SP | SP | SP | SP |
| Revenue | 37.9 | 38.3 | 38.3 | 38.3 | 38.4 | 38.6 | 38.7 | 0.9 |
| <i>of which:</i> | | | | | | | | |
| - Taxes on production and imports | 11.6 | 11.7 | 11.8 | 11.7 | 11.6 | 11.6 | 11.6 | -0.1 |
| - Current taxes on income, wealth, etc. | 10.0 | 10.2 | 10.3 | 10.4 | 10.7 | 11.0 | 11.4 | 1.4 |
| - Social contributions | 12.2 | 12.2 | 12.3 | 12.0 | 12.2 | 12.2 | 12.2 | -0.1 |
| - Other (residual) | 4.0 | 4.1 | 4.0 | 4.1 | 3.9 | 3.7 | 3.6 | -0.4 |
| Expenditure | 42.4 | 41.5 | 41.5 | 40.9 | 40.6 | 39.9 | 39.2 | -3.2 |
| <i>of which:</i> | | | | | | | | |
| - Primary expenditure | 39.6 | 38.9 | 38.7 | 38.4 | 37.9 | 37.2 | 36.6 | -3.0 |
| <i>of which:</i> | | | | | | | | |
| Compensation of employees | 10.9 | 10.6 | 10.7 | 10.5 | 10.4 | 10.2 | 10.0 | -0.9 |
| Intermediate consumption | 5.0 | 4.9 | 4.9 | 4.8 | 4.7 | 4.5 | 4.4 | -0.6 |
| Social payments | 18.2 | 17.9 | 17.9 | 17.6 | 17.6 | 17.4 | 17.2 | -1.1 |
| Subsidies | 1.0 | 1.1 | 1.0 | 1.1 | 1.0 | 1.0 | 0.9 | -0.1 |
| Gross fixed capital formation | 1.9 | 2.2 | 2.0 | 2.2 | 2.1 | 2.1 | 2.1 | 0.2 |
| Other (residual) | 2.5 | 2.2 | 2.3 | 2.2 | 2.1 | 2.1 | 2.0 | -0.5 |
| - Interest expenditure | 2.8 | 2.6 | 2.8 | 2.5 | 2.7 | 2.7 | 2.6 | -0.2 |
| General government balance (GGB) | -4.5 | -3.2 | -3.1 | -2.6 | -2.2 | -1.3 | -0.5 | 4.0 |
| Primary balance | -1.7 | -0.6 | -0.4 | -0.1 | 0.5 | 1.3 | 2.1 | 3.9 |
| One-off and other temporary | 0.0 | 0.1 | -0.3 | 0.0 | -0.1 | 0.0 | 0.0 | 0.0 |
| GGB excl. one-offs | -4.5 | -3.3 | -2.8 | -2.6 | -2.1 | -1.3 | -0.5 | 4.0 |
| Output gap ¹ | -1.8 | 0.2 | -0.2 | 1.6 | 0.8 | 1.8 | 2.6 | 4.4 |
| Cyclically-adjusted balance ¹ | -3.6 | -3.3 | -3.0 | -3.4 | -2.7 | -2.3 | -1.9 | 1.7 |
| Structural balance² | -3.5 | -3.4 | -2.7 | -3.4 | -2.5 | -2.3 | -1.9 | 1.6 |
| Structural primary balance ² | -0.7 | -0.8 | 0.1 | -1.0 | 0.2 | 0.4 | 0.7 | 1.4 |
| Notes: | | | | | | | | |
| ¹ Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by 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 2017 spring forecasts (COM); Commission calculations. | | | | | | | | |

As evident in Figure 1, previous editions of the stability programme have presented more ambitious headline deficit targets.

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



3.3. MEASURES UNDERPINNING THE PROGRAMME

The 2017 stability programme largely builds on the measures reported in the updated 2017 draft budgetary plan, as no new measures have been adopted since then. For 2017, the total expected incremental budgetary impact of the measures reported in the programme amounts to EUR 10.2 billion (i.e. 0.9% of GDP), mostly on the revenue side. For 2018, it amounts to EUR 3.2 billion (i.e. 0.3% of GDP), mostly on the expenditure side.

The Commission 2017 spring forecast takes into account a lower incremental budgetary impact of measures in both years - amounting to about EUR 4.6 bn (i.e. 0.4% of GDP) in 2017 and EUR 400 million (i.e. 0.03% of GDP) in 2018.

Differences between the expected budgetary impact of measures in the stability programme and the Commission forecast are explained by the following factors:

- On the revenue side, the Commission forecast for 2017 is underpinned by a more conservative estimate of the budgetary impact of measures against tax fraud and does not take on board additional revenues from the recently-adopted measures to limit deferrals to taxes owed.³
- On the expenditure side, a considerable source of divergence lies in the different quantification of measures on compensation of employees, in particular regarding the estimated impact of the 1% increase in public sector wages and the delayed payment of

³ The Commission 2017 spring forecast includes the yield of all other consolidation measures set out in Royal Decree Law 3/2016, as reported in the stability programme.

the December 2012 extra pay. The Commission 2017 spring forecast projects less total savings from these two measures. Moreover, the Commission forecast includes no savings from the application at regional level of the pharmaceutical and healthcare spending rule adopted in June 2015. This is because at the cut-off date of the forecast, the published regional adjustment plans for 2016 under the Regional Liquidity Fund did not report any region having agreed explicitly to apply that rule.

- Moreover, starting from 2016, the Commission includes the savings from the 2013 pension reform (reported at EUR 1.2 bn in 2017, i.e. 0.1% of GDP) in the baseline calculations of social transfers other than in kind, rather than treating them as a discretionary measure.
- Furthermore, the Commission forecast does not take on board the impact of measures included in the programme that have not yet been adopted or that are not yet specified in sufficient detail. These include the planned increases in environmental taxes and the savings expected from a new public administration reform programme.

There are also visible disparities in the classification of one-off measures. On the one hand, the retroactive entry into force (in January 2016) of the corporate income tax (CIT) measures adopted in December 2016⁴ creates a temporary peak in CIT revenue in 2017 (estimated at EUR 1.2 billion, i.e. 0.1% of GDP), which the Commission considers one-off whereas the programme does not. On the other hand, several measures considered as one-off in the stability programme do not qualify as such in the Commission assessment. These include the return of the unpaid 2012 Christmas bonus in 2015 and 2016, with effects extending also in 2017 and 2018, as well as the exemptions from employers' contributions to social security, in force as from 2015.

Finally, the projections in the stability programme incorporate – as one-off expenditure - the materialisation of risks related to compensation to financially-distressed toll motorways and assistance to the financial sector, amounting to close to 0.4% and 0.2% of GDP in 2017 and 2018, respectively. These amounts are not included in the Commission forecast, as they are treated as contingent liabilities. This implies that net of this expenditure, the stability programme relies on considerably higher expenditure restraint than projected in the Commission forecast in 2017 and 2018.

Main budgetary measures

| Revenue | Expenditure |
|--|--|
| 2016 | |
| <ul style="list-style-type: none"> • Reduction in Personal Income Tax (including on non-residents) (–0.4% of GDP) • Reduction in Corporate Income Tax (–0.2% of GDP) • Change in Corporate Income Tax advance | <ul style="list-style-type: none"> • Partial repayment of 2012 Christmas bonus, 1% increase in public sector wages and replacement rate (0.1% of GDP) • Public administration reform (CORA) (–0.1% of GDP) • Spending cuts (<i>acuerdos de no disponibilidad</i>) |

⁴ I.e. the reversion of deductions from the impairment of holdings and the revised limits for the deduction of negative tax bases and the elimination of double taxation.

| | |
|---|--|
| payments (0.2% of GDP) <ul style="list-style-type: none"> • Value-added Tax measures (0.1% of GDP) • Fight against tax fraud (0.1% of GDP) | at central government level (−0.3% of GDP) <ul style="list-style-type: none"> • Spending cuts (<i>acuerdos de no disponibilidad</i>) and other saving measures at regional government level (−0.1% of GDP) • Pension reform (−0.1% of GDP) • Public administration reform (CORA) (−0.1% of GDP) |
| 2017 | |
| <ul style="list-style-type: none"> • Change in Corporate Income Tax advance payments (-0.2% of GDP) • Increases in Corporate Income Tax (0.4% of GDP) • Fight against tax fraud (0.2% of GDP) | <ul style="list-style-type: none"> • Partial repayment of 2012 Christmas bonus, 1% increase in public sector wages and replacement rate (-0.1% of GDP) • Pension reform (−0.1% of GDP) |
| 2018 | |
| | <ul style="list-style-type: none"> • Partial repayment of 2012 Christmas bonus, 1% increase in public sector wages and replacement rate (-0.1% of GDP) • New public administration reform measures (−0.1% of GDP) |
| <p><u>Note:</u> 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.</p> | |

3.4. DEBT DEVELOPMENTS

According to the programme, the gross general government debt-to-GDP ratio of general government is expected to decrease by about 7 pps over the programme period to reach 92.5% in 2020. The pace of debt reduction is expected to accelerate throughout this period, as the general government balance (including both primary balance and interest expenditure) is gradually improving, while the debt-reducing impact of nominal GDP growth remains more or less constant. These factors have a larger impact than the stock-flow adjustments, which are planned to have a debt-increasing impact of about 0.5 pps per year over the programme horizon. The programme does not specify where these adjustments are stemming from.

Although the growth of the debt ratio was significantly underestimated in the 2011 and 2012 stability programmes, projections in the more recent programmes have been more accurate, as the expected economic recovery has materialised. The debt ratio in 2016 was only about 0.3% of GDP higher than projected in the 2016 stability programme (Figure 2).

Table 3: Debt developments

| (% of GDP) | Average 2011-2015 | 2016 | 2017 | | 2018 | | 2019 | 2020 |
|-------------------------------------|----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | | | COM | SP | COM | SP | SP | SP |
| Gross debt ratio¹ | 90.2 | 99.4 | 99.2 | 98.8 | 98.5 | 97.6 | 95.4 | 92.5 |
| Change in the ratio | 7.9 | -0.5 | -0.2 | -0.5 | -0.6 | -1.2 | -2.1 | -2.9 |
| <i>Contributions²:</i> | | | | | | | | |
| 1. Primary balance | 4.5 | 1.7 | 0.6 | 0.4 | 0.1 | -0.5 | -1.3 | -2.1 |
| 2. “Snow-ball” effect | 2.9 | -0.6 | -1.1 | -1.2 | -1.1 | -1.2 | -1.2 | -1.2 |
| <i>Of which:</i> | | | | | | | | |
| Interest expenditure | 3.1 | 2.8 | 2.6 | 2.8 | 2.5 | 2.7 | 2.7 | 2.6 |
| Growth effect | 0.0 | -3.1 | -2.6 | -2.6 | -2.3 | -2.3 | -2.3 | -2.2 |
| Inflation effect | -0.1 | -0.3 | -1.0 | -1.4 | -1.3 | -1.6 | -1.6 | -1.6 |
| 3. Stock-flow adjustment | 0.5 | -1.6 | 0.3 | 0.4 | 0.4 | 0.5 | 0.5 | 0.5 |

Notes:

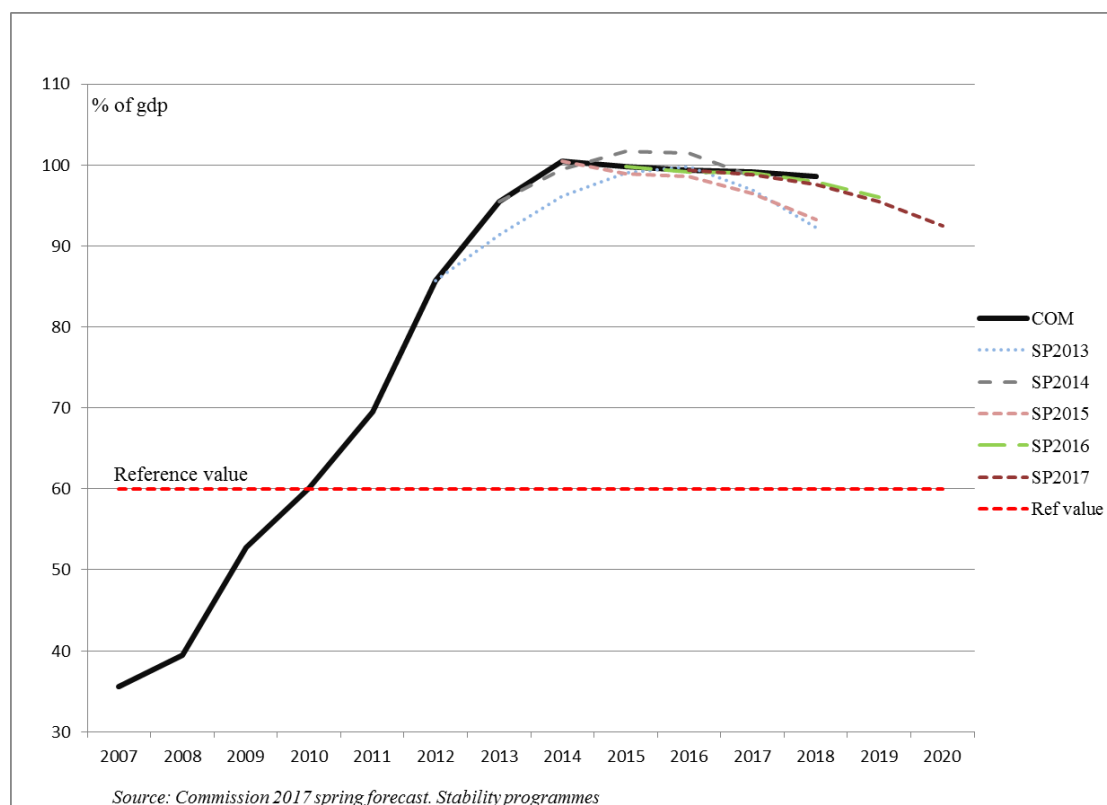
¹ End of period.

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 2017 spring forecast (COM); stability programme (SP), Commission calculations.

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



3.5. RISK ASSESSMENT

Although the macroeconomic projections underpinning the programme appear plausible, they are nevertheless subject to risks. The programme assumes higher employment growth than the Commission 2017 spring forecast. This may partly explain why the programme expects social contributions to be 0.2% of GDP higher and taxes on current income and wealth to be 0.3 pps higher by 2018. The fact that the programme contains a higher forecast for nominal GDP growth than the Commission forecast – driven mainly by a higher GDP deflator –, also explains a large part of the difference in the overall expenditure ratio. Adjusting for the denominator effect, the ratio for total expenditure would be very similar in the two forecasts in 2018, albeit with some differences in the composition of expenditure (see below).

In addition, the Commission forecast assumes a rebound in capital transfers in 2017, following the dip observed in 2016. Given that the programme forecasts the ratio of other revenue items (which includes capital transfers) to remain basically unchanged, it probably assumes no such rebound. However, as capital transfers are linked to EU-financed investment, changes in their levels are likely to be matched by corresponding changes to government investment (see below), implying a net budgetary neutral impact.

The expenditure projections in the programme assume the respect at all government levels of the expenditure rule. The projections in the programme for intermediate consumption, investment and other items are lower compared to the Commission 2017 spring forecast, even adjusted for the denominator effect. On the other hand, the interest expenditure projection in the programme seems to be rather conservative, decreasing by only 0.1% of GDP over the 2016-2018 period despite a falling debt ratio and a likely continued fall in the implicit average interest rate.

Compared to the Commission 2017 winter forecast, against which the updated 2017 draft budgetary plan was assessed, risks to the headline deficit target for 2017 have diminished somewhat, on account of a slightly better-than-expected deficit outcome in 2016 and further improvements in the macroeconomic outlook. At the same time, the materialisation of contingent liabilities in relation to the financially-distressed toll motorways and the financial sector, which the programme now includes in its budgetary projections (see Section 3.3), adds to the risks to the expenditure projections of the programme, as they imply a significant degree of expenditure restraint not foreseen in the Commission spring forecast.

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

Box 1. Council Decision giving notice to Spain

- 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.

Spain fulfilled the 4.6% EDP headline deficit target in 2016 (deficit was 4.5% of GDP). Whereas the Council notice of 8 August 2016 required Spain to limit the deterioration in the structural balance to 0.4% of GDP in 2016, the Commission 2017 spring forecast points to a structural balance deterioration of 1% of GDP. This calls for a careful analysis. The adjusted change in the structural balance amounts to -0.5% of GDP in 2016, 0.1% of GDP short of the required level. However, based on the bottom-up method, the fiscal effort of 0.2% of GDP exceeds the target, as no further effort was requested in 2016.

For 2017, the headline deficit is forecast to reach 3.2% of GDP, marginally above the target of 3.1% of GDP. The unadjusted change in the structural balance is projected to be 0.1% of GDP, 0.4% of GDP less than the requested improvement of 0.5% of GDP, thus adding to the shortfall of 2016. This calls for a careful analysis. The adjusted change in the structural balance amounts to 0.6% of GDP, mainly due to adjustments for revenue shortfalls of 0.4% of GDP. This is 0.1% of GDP more than requested. However, cumulatively over 2016-2017, the adjusted change in the structural balance of 0.0% of GDP falls slightly short of the requested cumulative improvement of 0.1% of GDP. Based on the bottom-up method, the fiscal effort in 2017 of 0.4% of GDP falls slightly short of the requested effort of 0.5% of GDP, but thanks to the over-performance in 2016, Spain is estimated to achieve a fiscal effort of 0.6% of GDP in cumulative over 2016-2017, 0.1% of GDP above the requested effort.

Regarding 2018, the deadline for correcting the excessive deficit, the headline deficit is forecast to reach 2.6%, on a no-policy-change basis, which is 0.4% of GDP above the target of 2.2% of GDP, but below the Treaty reference value of 3% of GDP. The unadjusted change in the structural balance is projected to be 0.0% of GDP, against a requested 0.5% of GDP, thus adding to the shortfall of 2016-2017. This calls for a careful analysis. The adjusted change in the structural balance also amounts to 0.0% of GDP, thus falling short of the requested level by 0.5% of GDP. In cumulative terms over 2016-2018, the shortfall thus amounts to 0.6% of GDP. Based on the bottom-up method, Spain provides a slightly positive fiscal effort in 2018 (still 0.0% of GDP, though), leading to a cumulative fiscal effort of 0.7% of GDP, 0.3% of GDP short of the requested cumulative fiscal effort of 1.0% of GDP over the 2016-2018.

Table 4: Compliance with the requirements of the corrective arm

| (% of GDP) | 2016 | 2017 | | 2018 | |
|---|------|------|------|------|------|
| | COM | SP | COM | SP | COM |
| Headline balance | | | | | |
| Headline budget balance | -4.5 | -3.1 | -3.2 | -2.2 | -2.6 |
| EDP requirement on the budget balance | -4.6 | -3.1 | | -2.2 | |
| Fiscal effort - change in the structural balance | | | | | |
| Change in the structural balance ¹ | -1.0 | 0.9 | 0.1 | 0.2 | 0.0 |
| Cumulative change ² | -1.0 | -0.1 | -0.9 | 0.0 | -0.9 |
| Required change from the EDP recommendation | -0.4 | 0.5 | | 0.5 | |
| Cumulative required change from the EDP recommendation | -0.4 | 0.1 | | 0.6 | |
| Fiscal effort - adjusted change in the structural balance | | | | | |
| Adjusted change in the structural balance ³ | -0.5 | - | 0.6 | - | 0.0 |
| of which: | | | | | |
| <i>correction due to change in potential GDP estimation (α)</i> | 0.0 | - | 0.0 | - | 0.0 |
| <i>correction due to revenue windfalls/shortfalls (β)</i> | -0.5 | - | -0.4 | - | 0.0 |
| Cumulative adjusted change ² | -0.5 | - | 0.0 | - | 0.0 |
| Required change from the EDP recommendation | -0.4 | 0.5 | | 0.5 | |
| Cumulative required change from the EDP recommendation | -0.4 | 0.1 | | 0.6 | |
| Fiscal effort - calculated on the basis of measures (bottom-up approach) | | | | | |
| Fiscal effort (bottom-up) ⁴ | 0.2 | - | 0.4 | - | 0.0 |
| Cumulative fiscal effort (bottom-up) ² | 0.2 | - | 0.6 | - | 0.7 |
| Requirement from the EDP recommendation | 0.0 | 0.5 | | 0.5 | |
| Cumulative requirement from the EDP recommendation | 0.0 | 0.5 | | 1.0 | |
| Notes | | | | | |
| ¹ Structural balance = cyclically-adjusted government balance excluding one-off measures. Structural balance based on programme is recalculated by Commission on the basis of the programme scenario using the commonly agreed methodology. Change compared to <i>t-1</i> . | | | | | |
| 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. | | | | | |
| <i>Source:</i> | | | | | |
| stability programme (SP); Commission 2017 spring forecasts (COM); Commission calculations. | | | | | |

5. LONG-TERM SUSTAINABILITY

Spain does not appear to face fiscal sustainability risks in the short run.

Based on the Commission forecast and a no-policy-change scenario beyond the forecast, the general government debt ratio, at 99.4% of GDP in 2016, is expected to rise steadily until it peaks at 103.0% in 2027, thus remaining above the 60% of GDP Treaty threshold. This highlights high risks for debt sustainability in the medium term. The full implementation of the stability programme would instead put the debt on a decreasing path by 2027, although remaining above the 60%-of-GDP Treaty reference value in that year.

The medium-term fiscal sustainability risk indicator S1 is at 4.0% of GDP, primarily due to the high level of government debt and the initial budgetary position, thus also indicating high sustainability risks in the medium term. The full implementation of the stability programme would almost halve the sustainability risk indicator S1, leading to a lower medium-term risk. Overall, risks to fiscal sustainability over the medium-term are, therefore, high. Fully implementing the fiscal plans in the stability programme would decrease those risks.

The long-term fiscal sustainability risk indicator S2 (which shows the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path) is at 1.4% of GDP. In the long-term, Spain therefore appears to face low fiscal sustainability risks, thanks to contained projected ageing-related costs (contributing with -0.5% of GDP), which partly offset the risks stemming from the initial budgetary position (contributing with 1.9% of GDP). Full implementation of the programme would put the S2 indicator at -0.1% of GDP, leading to even lower long-term risk.

The 2011 and 2013 pension reforms are expected to contribute to containing pressure on expenditure in the long term.⁵ Currently, discussions on possible adjustments to these reforms are taking place within a dedicated sub-committee of the Spanish parliament (i.e., the Toledo Pact sub-committee). Spain has also taken some measures to improve the sustainability of its health care system, for instance through a reduction of public expenditure on outpatient pharmaceuticals from 2010 to 2012. A new budget rule on healthcare and pharmaceutical spending for application at regional level was approved in mid-June 2015, limiting its growth to the reference rate of medium-term economic growth of the Spanish economy. The application of this rule by the regions is however on a voluntary basis, except for the regions receiving financial assistance from the Regional Liquidity Fund. However, as noted in section 3.3, the Commission forecast does not include any savings from the application at regional level of this rule, as the published regional adjustment plans for 2016 under the Regional Liquidity Fund do not report any region having agreed explicitly to apply that rule.

⁵ The reforms revised eligibility criteria and the indexation of pensions and introduced, as from 2019, the so-called sustainability factor, which is an automatic adjustment of future retirees' new pensions to take account of changes in life expectancy.

Table 5: Spain. Sustainability indicators

| <i>Time horizon</i> | No-policy change scenario | | Stability programme scenario | |
|--------------------------------------|----------------------------------|-----------|-------------------------------------|-------------|
| Short Term | LOW risk | | | |
| S0 indicator ^[1] | 0.4 | | | |
| Fiscal subindex | 0.6 | HIGH risk | | |
| Financial & competitiveness subindex | 0.3 | LOW risk | | |
| Medium Term | HIGH risk | | | |
| DSA ^[2] | HIGH risk | | | |
| S1 indicator ^[3] | 4.0 | HIGH risk | 2.2 | MEDIUM risk |
| <i>of which</i> | | | | |
| Initial Budgetary Position | 2.1 | | 0.2 | |
| Debt Requirement | 2.9 | | 2.9 | |
| Cost of Ageing | -0.9 | | -0.9 | |
| <i>of which</i> | | | | |
| Pensions | -0.4 | | -0.4 | |
| Health-care | 0.3 | | 0.3 | |
| Long-term care | 0.1 | | 0.1 | |
| Other | -1.0 | | -0.9 | |
| Long Term | LOW risk | | LOW risk | |
| S2 indicator ^[4] | 1.4 | | -0.1 | |
| <i>of which</i> | | | | |
| Initial Budgetary Position | 1.9 | | 0.2 | |
| Cost of Ageing | -0.5 | | -0.3 | |
| <i>of which</i> | | | | |
| Pensions | -0.6 | | -0.6 | |
| Health-care | 0.8 | | 0.7 | |
| Long-term care | 1.1 | | 1.1 | |
| Other | -1.7 | | -1.5 | |

Source: Commission services; 2017 stability programme.

Note: the 'no-policy-change' scenario depicts the sustainability gap under the assumption that the structural primary balance position evolves according to the Commissions' spring 2017 forecast covering until 2018 included. 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.

[1] The S0 indicator of short term fiscal challenges informs the early detection of fiscal stress associated to fiscal risks within a one-year horizon. To estimate these risks S0 uses a set of fiscal, financial and competitiveness indicators selected and weighted according to their signalling power. S0 is therefore a composite indicator whose methodology is fundamentally different from the S1 and S2 indicators, which quantify fiscal adjustment efforts. The critical threshold for the overall S0 indicator is 0.46. For the fiscal and the financial-competitiveness sub-indices, thresholds are respectively at 0.36 and 0.49*.

[2] Debt Sustainability Analysis (DSA) is performed around the no-policy-change scenario in a manner that tests the response of this scenario to different shocks presented as sensitivity tests and stochastic projections*.

[3] The S1 indicator is a medium-term sustainability gap; it measures the upfront fiscal adjustment effort required to bring the debt-to-GDP ratio to 60 % by 2031. This adjustment effort corresponds to a cumulated improvement in the structural primary balance over the 5 years following the forecast horizon (i.e. from 2019 for no-policy-change scenario and from last available year for the SP scenario); it must be then sustained, including financing for any additional expenditure until the target date, arising from an ageing population. The critical thresholds for S1 are 0 and 2.5, between which S1 indicates medium risk. If S1 is below 0 or above 2.5, it indicates low or high risk, respectively*.

[4] The S2 indicator is a long-term sustainability gap; it shows the upfront and permanent fiscal adjustment required to stabilise the debt-to-GDP ratio over the infinite horizon, including the costs of ageing. The critical thresholds for S2 are 2 and 6, between which S2 indicates medium risk. If S2 is below 2 or above 6, it indicates low or high risk, respectively*.

* For more information see Fiscal Sustainability Report 2015 and Debt Sustainability Monitor 2016.

6. FISCAL FRAMEWORK

Measures to strengthen Spain's fiscal and public procurement policy framework

The Council notice of 8 August 2016 required Spain to strengthen its fiscal framework, in particular by increasing the automaticity of mechanisms to prevent and correct deviations from the deficit, debt and expenditure targets and strengthening the contribution of the Stability Law's spending rule to public finance sustainability.

The Commission's opinion on the updated 2017 draft budgetary plan concluded that Spain had made limited progress in responding to those specific Council requirements.

The 2017 stability programme is silent about the review of the Stability Law's spending rule. It does not report either on measures to enhance the automaticity of the Stability Law's mechanisms to prevent and correct deviations from the fiscal targets. While risks of such deviations appear lower in 2017 than in earlier years, especially at the regional level, the proper functioning of such tools would help to ensure compliance with the fiscal targets in the years to come.

The stability programme however reports on ongoing actions to improve other features of Spain's fiscal framework. These include the tightening of the use of extra-budgetary accounts at regional government level, to avoid spending in excess of budget appropriations, and the amendment of the methodology for the calculation of the average payment period to suppliers by the public sector, with a view to eliminating inconsistencies with Directive 2011/7/EU on combating late payment in commercial transactions. Moreover, the stability programme confirms the commitment by the central and regional governments to the implementation of the measures adopted in 2015 to guarantee the sustainability of healthcare expenditure. Finally, it reports that the government has commissioned AIReF to carry out a spending review covering all levels of general government and focusing on grants and subsidies in 2017.

The Commission's opinion on the updated 2017 draft budgetary plan also concluded that Spain had made limited progress in responding to the Council requirements to strengthen Spain's public procurement policy framework.

The 2017 stability programme reports on amendments made to the draft laws transposing the latest procurement directives (Directives 2014/23/EU, 2014/24/EU and 2014/25/EU) to set out the obligation for the central government, in coordination with sub national governments, to adopt a nation-wide procurement strategy with a view to enhancing efficiency, combating corruption and promoting environmental, innovation and social goals, including by increasing professionalization of contracting authorities and fostering centralised purchasing. The strategy will also aim at coordinating the controls made on contracting authorities. Another measure reported in the stability programme is the adoption of Royal Decree 424/2017 on the legal system of internal control in local governments, which is intended to increase efficiency and a more homogenous approach to internal controls at local level.

Nevertheless, some concerns flagged in the assessment of the updated 2017 draft budgetary plan remain, namely, the fact that the draft legislation does not empower the coordinator of the nation-wide procurement strategy – i.e. the *Junta Consultiva del Estado* – to impose sanctions and lodge legal actions directly.

Compliance with domestic numerical fiscal targets and rules

On 12 May, the Ministry of Finance published a report assessing compliance with the domestic fiscal targets by the central, regional and local governments in 2016.⁶ The report notes firstly that in 2016 the central government and regional governments missed their deficit target, whereas local governments over performed it. Secondly, unlike the central government, local entities and regional governments complied with the Stability Law's spending rule, which caps the variation in the eligible expenditure at the reference rate of medium-term growth of Spain's GDP. Finally, according to the same report, the general government debt-to-GDP ratio met the domestic target of 99.4% of GDP adopted by the Council of Ministers on 2 December 2016. The central and local governments outperformed their debt targets, compensating the slippage at regional level.

On 25 April 2017 and on 10 May, AIREF published reports on the 2017 budget and on the 2017-2020 stability programme, respectively.⁷ The reports deem the fulfilment of the deficit targets as 'improbable' in 2017 and 'feasible' over 2018-2019, with the likelihood of compliance going down again in 2020. AIREF also expects that the Stability Law's spending rule will be complied with by all levels of government in 2017, while noting that the 2017 budget law for the central and the majority of regional governments' budget laws fail to contain enough information to allow full verification of compliance with this rule. Furthermore, the central and local governments are expected to attain their public debt objectives in 2017, unlike regions.

As regards the rule set out in the Stability Law on the pace of reduction of the general government debt-to-GDP ratio (requiring a reduction by at least 2 pps once Spain's real GDP or net employment grows by at least 2%), it is not expected to be complied with (see Section 3.4).

To sum up, based on the assessment provided by AIREF, information provided in the stability programme and the Commission assessment, Spain's past and expected fiscal performance in Spain appears to comply only partially with the requirements of the applicable domestic numerical fiscal targets and rules.

Use of the stability programme as national medium-term fiscal plan

The 2017 stability programme is considered as Spain's national medium-term fiscal plan (see page 9 of the 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.

7. SUMMARY

In 2016, Spain achieved a headline deficit of 4.5% of GDP, slightly below the EDP deficit target of 4.6% of GDP. The fiscal effort was delivered on the basis of the bottom-up method and slightly missed on the basis of the top-down method.

Spain plans to correct its excessive deficit by the 2018 deadline set by the Council, but the programme does not project to reach the MTO set in Spain's Stability Law within the programme horizon.

⁶ <http://www.minhfp.gob.es/es-ES/CDI/Paginas/EstabilidadPresupuestaria/InformesCompletoLLEP.aspx>

⁷ The reports can be accessed at www.airef.es

Based on the Commission 2017 spring forecast, the headline deficit is expected to decrease to 3.2% of GDP in 2017 and further to 2.6% of GDP in 2018. Short-term risks to the achievement of the fiscal targets relate to uncertainty regarding the impact of the recent tax measures. Moreover, taking into account the assumed materialisation of contingent liabilities (which are not included in the Commission forecast), the programme relies on considerably higher expenditure restraint than projected in the Commission forecast in 2017 and 2018.

The projected improvement in the unadjusted structural balance falls short of the fiscal effort required by the Council in 2016, 2017 and 2018. Based on the adjusted change in the structural balance, the required fiscal effort is projected to be delivered in 2017, but to fall slightly short of the requirement in cumulative terms over 2016-2017. Based on the bottom-up method, the requested effort is respected in 2016 and also in cumulative terms over 2016-2017.

In addition, in August 2016, the Council required Spain to take measures to improve its fiscal and public procurement policy frameworks. The stability programme does not report plans to improve its fiscal policy frameworks. On procurement, it reports on amendments made to the draft laws transposing the latest procurement directives, but some concerns flagged in the assessment of the updated 2017 draft budgetary plan remain.

8. ANNEXES

Table I. Macroeconomic indicators

| | 1999-2003 | 2004-2008 | 2009-2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|-------------|-------------|
| Core indicators | | | | | | | | |
| GDP growth rate | 4.0 | 3.2 | -1.8 | 1.4 | 3.2 | 3.2 | 2.8 | 2.4 |
| Output gap ¹ | 2.7 | 2.4 | -5.9 | -7.3 | -4.5 | -1.8 | 0.2 | 1.6 |
| HICP (annual % change) | 3.0 | 3.4 | 1.8 | -0.2 | -0.6 | -0.3 | 2.0 | 1.4 |
| Domestic demand (annual % change) ² | 4.5 | 3.7 | -3.6 | 1.9 | 3.4 | 2.9 | 2.4 | 2.2 |
| Unemployment rate (% of labour force) ³ | 11.8 | 9.6 | 22.0 | 24.5 | 22.1 | 19.6 | 17.6 | 15.9 |
| Gross fixed capital formation (% of GDP) | 26.3 | 29.9 | 21.5 | 19.1 | 19.7 | 19.9 | 20.2 | 20.6 |
| Gross national saving (% of GDP) | 22.9 | 22.0 | 19.7 | 20.4 | 21.4 | 22.3 | 22.3 | 22.6 |
| General Government (% of GDP) | | | | | | | | |
| Net lending (+) or net borrowing (-) | -0.7 | 0.2 | -9.5 | -6.0 | -5.1 | -4.5 | -3.2 | -2.6 |
| Gross debt | 54.4 | 40.3 | 72.7 | 100.4 | 99.8 | 99.4 | 99.2 | 98.5 |
| Net financial assets | -41.2 | -24.8 | -50.1 | -81.9 | -81.7 | -84.0 | n.a | n.a |
| Total revenue | 38.1 | 39.3 | 36.7 | 38.9 | 38.6 | 37.9 | 38.3 | 38.3 |
| Total expenditure | 38.9 | 39.1 | 46.2 | 44.9 | 43.8 | 42.4 | 41.5 | 40.9 |
| <i>of which: Interest</i> | 2.9 | 1.7 | 2.5 | 3.5 | 3.1 | 2.8 | 2.6 | 2.5 |
| Corporations (% of GDP) | | | | | | | | |
| Net lending (+) or net borrowing (-) | -2.9 | -4.7 | 5.3 | 4.2 | 4.6 | 4.7 | 3.8 | 3.1 |
| Net financial assets; non-financial corporations | -100.4 | -132.5 | -134.0 | -126.6 | -126.3 | -117.0 | n.a | n.a |
| Net financial assets; financial corporations | 2.1 | 3.3 | 10.6 | -0.6 | -1.4 | -2.6 | n.a | n.a |
| Gross capital formation | 15.3 | 16.8 | 13.3 | 14.5 | 14.8 | 15.5 | 15.3 | 15.6 |
| Gross operating surplus | 20.3 | 21.2 | 23.9 | 24.1 | 24.1 | 24.5 | 24.3 | 24.4 |
| Households and NPISH (% of GDP) | | | | | | | | |
| Net lending (+) or net borrowing (-) | 0.7 | -3.1 | 2.6 | 3.2 | 2.5 | 1.9 | 1.4 | 1.4 |
| Net financial assets | 101.0 | 87.4 | 83.6 | 113.9 | 119.0 | 118.5 | n.a | n.a |
| Gross wages and salaries | 38.0 | 38.0 | 39.1 | 37.7 | 37.7 | 37.6 | 37.5 | 37.4 |
| Net property income | 4.4 | 3.6 | 3.6 | 4.9 | 4.2 | 4.0 | 4.2 | 4.6 |
| Current transfers received | 19.4 | 18.7 | 22.9 | 23.3 | 22.4 | 22.0 | 21.7 | 21.4 |
| Gross saving | 7.0 | 5.3 | 6.8 | 5.8 | 5.2 | 4.9 | 4.5 | 4.6 |
| Rest of the world (% of GDP) | | | | | | | | |
| Net lending (+) or net borrowing (-) | -2.9 | -7.6 | -1.6 | 1.5 | 2.0 | 2.0 | 1.9 | 1.9 |
| Net financial assets | 39.3 | 67.1 | 90.8 | 96.0 | 91.2 | 86.1 | n.a | n.a |
| Net exports of goods and services | -2.3 | -5.2 | 0.4 | 2.4 | 2.4 | 2.9 | 2.7 | 2.8 |
| Net primary income from the rest of the world | -0.8 | -1.8 | -1.2 | -0.3 | -0.1 | 0.1 | 0.1 | 0.0 |
| Net capital transactions | 0.9 | 0.6 | 0.5 | 0.5 | 0.7 | 0.2 | 0.3 | 0.3 |
| Tradable sector | 47.6 | 43.6 | 43.1 | 43.3 | 43.5 | 43.5 | n.a | n.a |
| Non tradable sector | 43.3 | 46.6 | 48.8 | 47.7 | 47.2 | 47.3 | n.a | n.a |
| <i>of which: Building and construction sector</i> | 9.4 | 10.2 | 7.2 | 5.2 | 5.1 | 5.1 | n.a | n.a |
| Real effective exchange rate (index, 2000=100) | 86.5 | 98.6 | 97.6 | 92.4 | 89.2 | 88.6 | 87.7 | 87.1 |
| Terms of trade goods and services (index, 2000=100) | 96.0 | 98.7 | 97.7 | 94.7 | 95.3 | 95.8 | 94.1 | 93.7 |
| Market performance of exports (index, 2000=100) | 109.4 | 103.0 | 103.4 | 107.2 | 106.1 | 107.1 | 108.9 | 109.4 |
| 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 2017 spring forecast | | | | | | | | |