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SPAIN — REVIEW OF PROGRESS ON POLICY MEASURES RELEVANT FOR THE CORRECTION OF MACROECONOMIC IMBALANCES

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Executive summary

The 2018 Specific Monitoring Report for Spain reviews policy initiatives relevant for the correction of macroeconomic imbalances taken since November 2017. In 2018 Spain was found to have imbalances related to high external and internal debt, both public and private, in a context of high unemployment. The 2018 Country-Specific Recommendations to Spain are considered relevant for addressing those imbalances. The cut-off date of the report is 4 December 2018.

Macroeconomic imbalances have further reduced in 2018, on the back of robust GDP growth and employment creation, but their level remains high. The Spanish economy is forecast to have continued growing at a robust pace in 2018, at 2.6%, despite a mild deceleration compared to last year. The unemployment rate has continued to decline to a forecast annual average of 15.6% in 2018, but joblessness remains high. The current account balance is still posting a surplus, but Spain's net external liabilities remain high at 82.4% of GDP in second quarter of 2018. Public debt has reduced slightly further, mainly as a result of strong nominal GDP growth, but is still forecast to be 96.9% of GDP in 2018 according to the Commission 2018 autumn forecast. The debt of households and private non-financial companies has been reduced to 135.1% of GDP in consolidated terms in the second quarter of 2018, which still implies deleveraging needs.

There has been policy progress in the areas of fiscal governance and active labour market policies. New legislation aimed at putting in place a more consistent public procurement framework ensuring transparency, effective controls and coordination across government levels is being implemented. There have been no other steps to strengthen the contribution of the legal framework to fiscal discipline. However, the expenditure reviews initiated in June 2017 have the potential to identify concrete steps for improving allocation and effectiveness of public subsidies. At the same time, recent initiatives to reform the pension system will increase the long term cost of ageing if not accompanied by other measures aimed at preserving the financial sustainability of the pension system. Coordination between public employment and social services will be supported by enhanced information exchange and training at national and regional level, but implementation will be key. The strengthening of public employment services is continuing. The new Activation Strategy targeting in particular young people and the long-term unemployed is on track. Efforts to make the labour market more inclusive also include the announced increase in the minimum wage by about 22% in 2019, which should help ensure decent pay and reduce in-work poverty, but could also have adverse effects on employment opportunities for young and low skilled workers.

There were only limited policy advances to address labour market segmentation, enhance employability of tertiary education graduates, reduce early school leaving, foster research and innovation, and improve the business environment. Measures to reduce labour market segmentation have focused on fighting abuse of temporary contracts and reducing the use of temporary contracts in the public administration. While these measures are showing some success, the share of temporary contracts in total employment remains high, at about 26% in 2017. Efforts to increase labour market relevance of tertiary education have been limited to fostering dialogue and information exchange between stakeholders. Advances in the funding and governance of research and innovation were modest, despite some positive steps, and implementation and evaluation will be decisive. Furthermore, despite continued action on the implementation of the law on market unity, a stronger drive is needed to ensure the continued commitment of regions to cooperate on market unity and better regulation in Spain. No policy measures have been taken to remove unnecessary size-contingent regulations for companies or to reform professional services.

In sum, policy advances have been overall modest, leaving some structural weaknesses unaddressed. The new legislation on public sector contracts, if implemented well, is likely to improve efficiency and transparency in public procurement. Some well-intentioned initiatives, notably in the area of pensions and the minimum wage, would support disposable income of the affected groups but may also have adverse effects on the financial sustainability of the pension system and on job opportunities for some groups. Activation policies and improved innovation funding go in the right direction, but again implementation is key. Finally, efforts to reduce labour market segmentation as well as innovation governance and the business environment need to be stepped up in order to boost productivity and competitiveness.

Table 1: Key findings on implementation of reforms[1]

On track	Wait-and-see	Action wanted
1. Spending reviews 2. Activation strategy 3. Fight against abuse of temporary contracts	4. Implementation of the new public procurement law 5. Coordination between public employment and social services 6. Incentives to promote hiring on open-ended contracts 7. Reduction of share of temporary employment contracts in the public sector 8. Labour market relevance of tertiary education 9. Investment in research and innovation 10. Keeping the pension system on a financially sustainable path	11. Strengthening of fiscal framework 12. Further implementation of the law on market unity 13. Strengthening of innovation governance 14. Removing unnecessary size-contingent regulation for companies 15. Professional services reform 16. Early school leaving and regional disparities in education outcomes

[1] The table classifies reforms under review on the basis of their respective adoption and implementation process, uncertainty and their level of detail. “On track” are measures for which the legislative or implementation process has been completed or is progressing well according to the foreseen timeline, and which are expected to be sufficiently effective. “Wait and see” are measures for which the legislative process is on-going, but is still in a relatively early phase, or measures for which there is still uncertainty on the complete implementation and effectiveness. “Action wanted” are measures for which limited or no action has been taken, or measures that have been announced but which are not sufficiently detailed yet to be assessed.

1 Introduction

On 22 November 2017, the European Commission presented, in the context of the Macroeconomic Imbalance Procedure (MIP), its Alert Mechanism Report, which identified Spain as requiring an in-depth investigation into the evolution of its macroeconomic imbalances. The In-Depth Review in the 2018 Country Report on Spain – published on 7 March 2018[2] – examined the nature, origin and severity of macroeconomic imbalances and risks in Spain. In its Communication published on 7 March 2018[3], the Commission concluded that Spain is experiencing macroeconomic imbalances. In particular, the Commission emphasised vulnerabilities linked to high external and internal debt, both public and private, in a context of high unemployment. On 27 April 2018, Spain submitted its Stability Programme[4] and National Reform Programme (NRP)[5], respectively outlining the fiscal strategy and policy measures undertaken or planned to improve its economic performance and to unwind imbalances. Based on an assessment of these programmes, the Commission proposed three country-specific recommendations (CSRs)[6], which were subsequently adopted by the Council on 13 July 2018[7]. Most subparts of the CSRs addressed to Spain were considered MIP-relevant: fiscal policy and fiscal governance, active labour market policies and the framework for labour contracts, skills mismatches, research and innovation, and the business environment.

The Commission conducted a specific monitoring mission within the framework of the MIP to Spain on 22-24 October 2018. Also based on the findings of the mission, the present report assesses the latest key policy initiatives[8] undertaken by the Spanish authorities[9], with a focus on structural measures. MIP specific monitoring for Spain complements surveillance under Post Programme Surveillance (PPS), which focuses on the financial sector, and the Stability and Growth Pact, which focuses on the public finances. The report summarising the findings of the 10th PPS mission to Spain on 4-5 October 2018 will soon be published. On 21 November, the Commission adopted Opinions on the 2019 Draft Budgetary Plans (DBP) of euro area Member States.[10] Spain's headline deficit is projected to fall below 3% of GDP this year and continue declining over the next two years, allowing the country to exit the Excessive Deficit Procedure. Spain would thus become subject to the preventive arm of the Pact as of 2019. In this context, the DBP presented by Spain was found to be at risk of non-compliance with the Stability and Growth Pact. This is based on the Commission Autumn 2018 Economic Forecast projecting a significant deviation from the required adjustment path

[2] https://ec.europa.eu/info/sites/info/files/2018-european-semester-country-report-spain-en.pdf
[3] https://ec.europa.eu/info/publications/2018-european-semester-communication-country-reports-0_en
[4] https://ec.europa.eu/info/sites/info/files/2018-european-semester-stability-programme-spain-es_0.pdf
[5] https://ec.europa.eu/info/sites/info/files/2018-european-semester-national-reform-programme-spain-es.pdf
[6] https://ec.europa.eu/info/sites/info/files/2018-european-semester-country-specific-recommendation-commission-recommendation-spain-en.pdf
[7] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018H0910(08)&from=EN
[8] Details on the policy measures taken can be found in the overview table in the Annex.
[9] Previous MIP Specific Monitoring Reports were published in February and December 2014, 2015, 2016, and 2017. The 2014, 2015 and 2016 reports were published within the respective Post-Programme Surveillance Report:
https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/macroeconomic-imbalance-procedure/specific-monitoring_en
https://ec.europa.eu/info/publications/economy-finance/post-programme-surveillance-report-spain-autumn-2016_en
https://ec.europa.eu/info/publications/economy-finance/post-programme-surveillance-report-spain-autumn-2017_en
[10] https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/annual-draft-budgetary-plans-dbps-euro-area-countries/draft-budgetary-plans-2019_en

towards the medium-term budgetary objective and non-compliance with the transitional debt reduction benchmark in 2019.

2 Outlook and recent developments on imbalances

2.1 Recent economic developments and outlook

Despite a mild deceleration, Spain has continued to record robust growth, and unemployment has continued its steep decline. Real GDP expanded by 3.0% in 2017, with a more balanced growth pattern than before the crisis. In the first half of 2018, Spain's economy started to show signs of a mild deceleration, and growth was slightly lower than anticipated. Private consumption remained the main driver of growth and investment, especially in equipment, surprised by its strength. However, net exports gave a negative contribution to growth. Employment also continued to grow at a dynamic pace, despite some deceleration. According to the Commission 2018 autumn forecast,[11] real GDP will grow by 2.6% in 2018.

Economic activity is expected to decelerate further in 2019 and 2020, due to a slowdown in private consumption. According to the Commissions 2018 autumn forecast, growth is expected to slow to 2.2 % in 2019 and 2.0% in 2020. The deceleration is mainly driven by a slowdown in private consumption, as oil prices increase further and pent-up demand is absorbed. However, still robust job expansion and accelerating wage growth – also due to the planned increase in the minimum wage - should continue to support disposable income growth over the forecast horizon. The contribution of the net external sector to growth is expected to turn positive again, as Spain's export markets recover. Employment growth is expected to slow down as a consequence of the deceleration of final demand, as well as the dampening impact of the planned increase in the minimum wage. Still, unemployment is set to continue falling, to 13.3% in 2020, its lowest level since 2008.

2.2 Developments as regards imbalances

External position

Spain has been recording a current account surplus since 2013, and the net international investment position (NIIP) is declining, but it is still highly negative. After reaching 1.9% of GDP in 2017, the current account surplus is expected to weaken to 1.2% of GDP in 2018, due to the negative impact of cyclical and transitory factors, such as weaker demand from Spanish foreign markets, higher oil prices and the appreciation of the euro. The current account balance is expected to improve again in 2020. Also thanks to high nominal GDP growth, the NIIP's improvement over recent years is expected to continue at a steady pace into 2019 and 2020. Nevertheless, the stock of net external liabilities remains very high, at 82.4% of GDP in the second quarter of 2018.

Public debt

The Commission autumn forecast points to a further slight reduction of the debt-to-GDP ratio in 2018 to 96.9% in 2018, 1.2 percentage points lower than in 2017. The

[11] At its cut-off date of 22 October, the Commission 2018 autumn forecast could not incorporate the flash estimate for real GDP growth in the third quarter of 2018 nor the results of the Labour Force Survey for that quarter.

decline has been driven by strong nominal GDP growth and declining interest expenditure, whereas the primary balance remains in a deficit position under the impact of expansionary measures taken in 2018. As nominal GDP growth is expected to remain strong and the primary balance to turn into a small surplus in 2019, the debt ratio is projected to decrease slightly further to 96.2% in 2019 and 95.4% in 2020. Despite this downward trend, the still high stock of public debt constitutes a vulnerability for the economy in the face of potential changes in market sentiment.

Household and corporate debt

Private sector deleveraging is progressing, but private debt remains high. Total private debt of households and non-financial companies is projected to have decreased to 135.1% of GDP in consolidated terms in the second quarter of 2018, down by 8 percentage points compared to the second quarter 2017. However, as net lending from Spanish banks to households and companies, especially SMEs, has resumed, the pace of debt reduction has slowed down. Household debt even increased slightly in June 2018 due to growth in new consumer credit. The consolidated non-performing loans ratio of Spanish banks has continued to decrease, although it remains above the EU average (4.2% and 3.6%, respectively as of June 2018).

Unemployment

Unemployment has continued its rapid decline, but it remains at a very high level, and temporary contracts still account for a large share of total job creation. The Commission 2018 autumn forecast projects the unemployment rate to average 15.6% for the whole of 2018 and to decline to 13.3% in 2020. This constitutes a fall by more than 13 percentage points since the peak in 2013. Long-term and, especially, youth unemployment saw a similarly steep fall during this period, but 33% of the active population aged below 25 was still without a job in the third quarter of 2018. Also, as the labour market improved, the share of people at risk of poverty or social exclusion has continued to decline slightly to 26.6% in 2017, but remains above its pre-crisis level and well above the EU average. The share of temporary contracts has remained high at around 26% since 2017. The continued high share of temporary contracts, often failing to be stepping stones to a permanent job, has a negative impact on income inequality and discourages access to training, in turn impeding faster labour productivity growth.

3 Policy implementation and assessment

3.1 Public finances

The success of the new law on public procurement will to a large extent depend on the level of ambition in its implementation. The law came into force in March 2018. It sets out a new structure governing Spain’s public procurement and an obligation to set out a nation-wide public procurement strategy to, among other things, combat corruption, improve professionalization and promote economic efficiency. The new governance structure has been set up, but the drawing up and adoption of the nation-wide Procurement Strategy is delayed. The way the new institutional governance structure will operate will be crucial for the law and the procurement strategy to deliver results. Moreover, ownership of the strategy by all national and regional government levels is key to improving public procurement across Spain.

Reviews of central and regional government expenditure on subsidies by Spain's independent fiscal authority AIReF[12] are ongoing. The reviews comprise seven evaluations of subsidies in the following areas: prescription drugs, active labour market policies, university education scholarships, promotion of talent and employability in R&D and innovation (pre- and post-doctoral aid programmes), the re-industrialisation and industrial competitiveness programme (RIC), the Spanish national post service and finally an overall evaluation of the strategy and procedures in granting subsidies. The evaluations will be finalised by the end of 2018 or in the first half of 2019. Additionally, AIReF is currently carrying out an assessment of the existing programmes for low-income families and of the national minimum income scheme. Expenditures in several of these areas are wholly or partly regional competences. In 2019, AIReF has proposed to launch further evaluations of spending on pharmaceuticals in hospitals, investments in high-speed trains and subsidies to island connectivity by air, as well as of some tax benefits (family allowances, R&D tax benefits, and some specific VAT exemptions). AIReF's recommendations stemming from these reviews are not binding.

The authorities have announced a number of measures to raise tax revenues. They include higher income taxes on corporations and, to a lesser extent, households, as well as higher taxes on diesel and new taxes on digital services and financial transactions. The agreed increase in the minimum wage also implies an automatic increase in the minimum base for social contributions. These measures are intended to provide the financing for new expenditures mainly in the social area, but also on education and R&D policies, consistently with the need to bring the public finances on a sounder path.

The departures from the rules governing the pension system included in the 2018 budget and the more permanent ones now being discussed would lead to higher pension expenditure, in particular in the medium term. The 2011-2013 pension reforms improved the pension system's capacity to cope with the expected rapid ageing of the population. Nevertheless, sustainability risks remained, given the high public debt ratio. In relation to salary levels, pensions in Spain are among the highest in the EU. This is expected to remain the case also in the long term, even maintaining the rules of the 2011-13 reforms. Against this background, it is important that any decision to change the parameters of the pension system takes the impact on the long-term sustainability of the system and on inter-generational equity into account. Furthermore, even if these planned further changes will increase pension incomes, they do not address the main obstacles to the future adequacy of pensions, namely high unemployment, frequent use of temporary contracts and short careers in the labour market.

Overall, steps have been taken to enhance public procurement and assess the efficiency of spending. The implementation of the new governance structure for public procurement in Spain is ongoing, but the elaboration of the procurement strategy is delayed. The effectiveness of the new law will crucially depend on the degree of ownership achieved at all levels of government. The expenditure reviews carried out in 2018 and proposed for 2019 have the potential to lead to improvements in the efficiency and effectiveness of public spending in selected areas. No further measures have been taken to strengthen the fiscal framework. The announced new revenue measures to finance increased social and innovation

[12] Autoridad Independiente de Responsabilidad Fiscal

spending would be designed to avoid affecting disposable income in the lower quintiles of the distribution. While the increase of diesel taxes would increase environmental taxes, which are still below the EU average, the yield of the new taxes on financial transactions and digital activities are still subject to uncertainty. Finally, the recent initiatives to reform the pension system will increase the long term cost of ageing, if not accompanied by other measures aimed at preserving the financial sustainability of the pension system.

3.2 Labour market, education and vocational training

Efforts to improve coordination between public employment services and social services continue at national and regional level, with uneven results across regions. To facilitate exchange of information and cooperation between regional public employment offices and social services, the Social Inclusion Network (Red de Inclusión Social - RIS) was re-started in 2017 and a workplan for the 2017-2020 period was subsequently elaborated. RIS comprises the autonomous regions' employment and social services, the national employment agency, the corresponding national ministries, social partners and other civil society organisations. A working group on information exchange and another one on the transition from minimum income schemes to employment, started in October 2017, but the impacts are not clear, yet. Finally, the Universal Social Card started its testing phase in October 2018. When approved, the card will enable collecting information on all benefits received by individuals, in turn enabling improved coordination in delivering social protection. The system should reach over time a total of 14 million users.

In 2018, Spain continued strengthening the Public Employment Services (PES). Efforts to modernise the PES continue, but their capacity and effectiveness remain important challenges. The PES thus still play a limited role as intermediaries in the labour market, and there are substantial differences across regions in terms of capacity and effectiveness in providing individualised counselling and integrated assistance for jobseekers. While there is some progress on implementing the single points of contacts across regions and the use of the web portal (Empléate) is gaining momentum, the share of job-seekers who found employment with the help of PES remains low, and well below the EU average. The envisaged Action Plan for Youth for 2019-21 should partly address this challenge as the PES project to hire 3000 new counsellors, which should support their capacity to provide individualized support.

Strong labour market segmentation persists and abuse of temporary contracts is widespread. The proportion of open ended contracts in net employment growth has increased since 2016, but this has not yet significantly decreased the overall share of temporary contracts in employment, which has remained at around 26% since 2017. The recent Action Plan for Decent Work is an important part of the strategy to reduce segmentation. The plan envisages a 23% increase in staff of the labour inspectorates to fight the abuse of temporary contract. Actions against abuse of temporary contracts notably include intensified controls. While fighting the abuse of temporary contracts has become more successful, also due to additional resources for the labour inspectorates, employers continue to use them extensively also in sectors where temporary employment is normally less widespread.

A substantial share of temporary contracts in public employment is in the process of being converted into permanent contracts. An estimated 23.7% of total public employees were on a temporary posts in 2017. Approximately 250 000 such posts were planned to be filled through open competitions. Recruitment competitions to hire permanent staff on existing temporary posts in the Spanish public sector have already resulted in the conversion of about one fourth into permanent posts. A substantial number of posts to be converted are with the Autonomous Communities. A final 8 % target for temporary employment in all areas of public administration is still expected to be reached by 2019.

University-business cooperation remains weak, albeit improving, and students' career guidance has so far had limited impact on improving tertiary graduates' employability. Obstacles to a closer and more effective cooperation with the business sector include low mobility of university students and academic staff, limited traineeships' opportunities, the rigidity of the university governance system and the administrative burden faced by the Offices for the Transfer of Research Outcomes ("*oficinas de transferencia de resultados de investigación, OTRIS*"). The universities' association CRUE and the employers' association are encouraging stays of business people in universities and vice versa. Chambers of commerce facilitate placement of university graduates in companies, but to a limited extent. An industrial PhD programme was established in 2014 and the first cohorts of graduates start entering the job market, but the results are still too limited to allow an assessment of the programme's impact. Spain has joined the Commission expert group on graduate tracking for promoting mutual learning and exchange of best practices, but has not developed an efficient system for tracking the employment of graduates, yet.

New measures targeting young people below 30, people over 50, and the long-term unemployed have been taken with the adoption of the Spanish Activation Strategy 2017-2020. The strategy, which was approved at the end of 2017, includes a range of new measures and several process enhancements to improve assistance to the unemployed, and it provides as well for systematic evaluations. However, despite recent improvements, the labour market participation and employability of young people remain comparatively low. The share of young people neither in employment, nor in education or training is gradually falling (13.3 % in 2017), but remains high. It also varies greatly across regions, from 6.4 % in the Basque Country to 16.7% in Andalusia. Also, gaps still exist in access to quality jobs and work careers for women, persons with disabilities and third country nationals.

The impact of the planned increase of the minimum wage in 2019 by about 22% is complex to assess and remains to be seen. Statutory minimum wages can ensure decent pay, especially for workers in a weak bargaining situation, and they can reduce wage inequality and in-work poverty. However, a higher minimum wage could also have a negative impact on employment of specific groups, such as youth and low-skilled workers as well as on competitiveness. Given the large magnitude of the increase, and the high share of workers potentially affected, the effects should be monitored and further analysed.

Efforts to reform the education system, including on teacher's careers and vocational education and training, have stalled. Spain is one of the worst performers in terms of early school leaving in the EU with 18.3% early school leavers in 2017, with significant regional disparities in educational outcomes. Efforts have been made earlier to improve the situation and the share of early school leavers has already significantly declined, from 26.3% in 2013. If the downward trend continues Spain should be able to reach its national target of 15% by 2020, which is, however, still significantly above the EU average of 10.6% (2017), and further efforts are needed. There were in the past negotiations on a national pact on education, which included reforms of teacher's careers and vocational education and training, among others, but no agreement was reached.

Overall, efforts continue to strengthen employment services, improve their coordination with social services and fight abuse of temporary contracts. Further measures have been taken to address youth and long-term unemployment, but few effective steps have been taken to improve the labour market relevance of tertiary education and address existing skills mismatches. While on a downward trend, the still very high rate of early school leavers calls for additional measures. The RIS network has the potential to enhance coordination between employment and social services at the national and regional level through information exchanges, but there is a challenge to promote cooperation also with employers and the level of progress will depend on concrete actions. The roll-out of the Universal Social Card should also facilitate closer coordination. Except for labour inspectorates' improved success in fighting abuse of temporary contracts, efforts to address labour market segmentation show limited effectiveness so far or have not moved beyond the discussion stage. Measures to reduce youth unemployment and long-term unemployment and improve employability of low skilled workers are being reinforced, but the impact of the increase of the minimum wage on these groups remain uncertain. Measures to address skills mismatches in tertiary education are so far largely limited to the provision of information and advice. The share of early school leavers is on a downward trend, but it is still at a very high level.

3.3 Research and innovation

Public investment in research and innovation has declined from 0.65% in 2009 to 0.55% of GDP in 2016, well below the EU average of 0.69% (2017). Government budget appropriations or outlays for R&D have remained constant in nominal terms in 2016 and 2017, but have decreased as a share of GDP. The budget allocations for several core programmes of Spain's innovation support agency (Centro para el Desarollo Tecnológico Industrial, CDTI) were increased substantially in 2017, but disbursements were low. CDTI has in the past years disbursed most of its funds as loans, which normally are more cost effective means of innovation funding compared to grants. However, as the market for banking loans has normalised, the take-up of CDTI loans decreased. Therefore, the co-financing criteria in grant and loan application procedures have been relaxed. This is expected to lead to higher disbursements of funds for private research and innovation (R&I), but also to increase the share of grants as opposed to loans.

The R&D tax incentives are relatively generous compared to the OECD average. The system was reformed in 2014. However, their take-up, especially amongst smaller companies, is low, which seems partly due to complex application and reporting procedures. In addition, tax incentives are less attractive for young not-yet profitable firms, since they are only granted if corporate taxes are actually due. In 2018, the government has clarified certain procedures to make the tax incentives easier to use. A review is planned to be launched by AIReF in 2019.

2018 saw first steps to better involve and connect different actors in innovation governance. The R&D, technology and innovation strategy for 2017-2020 was adopted. The network "Red IDI", comprising central and regional administrations as well as academic, research and industry associations, has been restarted in 2018 to facilitate cooperation and improve coordination. One focus of the network will be the implementation of R&I support through “smart specialisation strategies” co-funded by the European Structural and Investment Funds. Finally, the Industry 4.0 plan ("Industria Conectada") was adopted (published in May 2018), aimed at systematically mapping programmes and actors in innovation and industrial policy. This is a first step towards more systematic information sharing between actors thereby facilitating mainstreaming innovation policy goals into industrial policy.

Public R&I support still lacks systematic evaluations, despite some improvements. CDTI has launched surveys among beneficiaries of certain programmes, immediately upon project finalisation as well as two years after that, which should allow assessing the programme's impact on beneficiary companies beyond the very short term. The agency intends to extend such follow-up surveys to all its support programmes.

Overall, advances in the funding and governance of research and innovation were modest, despite some positive concrete steps. Public funding for innovation in SMEs has increased and administrative procedures have been clarified to facilitate the uptake of R&D tax measures. Involvement and interaction of relevant actors in the design of innovation policy is being intensified. Systematic programme evaluations, however, have not yet become the rule despite some good practice examples.

3.4 Product market regulation and business environment

Further implementation of the Law on Market Unity is needed. The law, adopted in 2013, aims at removing measures that may directly or indirectly obstruct the free movement of goods and services and the establishment of new economic operators throughout Spain. Typical cases concern professional activities, trade and education. Recent court practice in assessing cases introduced by the Competition Authority suggests that the Law on Market Unity was not substantially weakened by the 2017 rulings of the Constitutional Court. The latter had notably declared null and void certain articles of the Law, such as the provisions setting out the principle of nation-wide effectiveness of licences and prior declarations granted by or submitted to any given region. While the mechanisms to protect economic operators under this Law are being used, their efficiency is still limited in terms of length of procedures and impacts on the regional legislation. Stronger cooperation between the national and regional governments is needed to reap the full benefits of the Law on Market unity. The role of sectoral conferences is being reinforced by organising meetings on new topics such as short-term rental of accommodation or transport. The Government is also promoting new actions to strengthen the implementation of the law such as trainings for civil servants and communication actions (forums and debates with stakeholders).

No concrete proposals have been made to mitigate the negative effects of size-contingent regulations. Such regulations are partly responsible for discouraging Spanish companies from growing, which reduces the potential for productivity growth and internationalisation. A government study identified more than 130 such regulations, many of which are set out in primary law and thus difficult to change without parliamentary and regional backing. The government is currently studying possibilities to amend such regulations, but no concrete proposals have been put forward, yet. On the contrary, the 2019 draft budgetary plan proposes to reintroduce a reduced corporate income tax (CIT) rate for certain SMEs.

Overall, product market reforms have progressed slowly, with only a few positive steps taken in 2018. The court practice in assessing cases introduced by the Competition Authority suggests that the Law on Market Unity was not substantially weakened by the 2017 rulings of the Constitutional Court, but the renewed commitment of regions and the central government to mutual co-operation on market unity and better regulation in Spain has so far translated into few tangible results. No policy measures were introduced to remove size-contingent regulations and reforming professional services.

4 Annex 1: Overview table of MIP-relevant reforms

MIP objective: Strengthening public finances and fiscal governance			
Public finances			
Fiscal policy and fiscal governance			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
December 2017: Approval of action plan for spending review on national and regional level focusing on subsidies	**2 June 2017:** Government commissions AIReF to carry out a spending review focusing on subsidies	**Eight spending reviews** are due to be finalised by the year end or in the first quarter of 2019. They cover subsidies for prescription drugs, ALMP, university scholarships, doctoral programmes for research, Industrial Competitiveness Programme (RIC), the Spanish post service, and overall strategies and procedures for granting subsidies. Furthermore, the existing programmes for low-income families and of the national minimum income scheme are also being assessed. **In 2019**, AIReF plans to launch reviews on: pharmaceuticals in hospitals, investments in high speed trains, subsidies to island connectivity and tax benefits (family allowances, R&D tax benefits, and some specific VAT exemptions).	**2017 CSR 1:** "Undertake a comprehensive expenditure review in order to identify possible areas for improving spending efficiency."

Public administration and business environment			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Expected in 4th quarter of 2018: Adoption of the National Strategy on public procurement aiming at reducing corruption, make procurement more professional, increase economic efficiency, enhance the use of electronic and strategic procurement and boost the participation of SMEs	**8 November 2017:** Official publication of the law on public contracts (law 9/2017)	**9 March 2018:** Law 9/2017 on public sector contracts entered into force **February 2018**: The Cooperation Committee aiming at ensuring cooperation of central, regional and local authorities on procurement matters was created to strengthen the governance of law 9/2017. **July 2018:** The new Independent Office for Regulation and Supervision was set-up in May. Its President was appointed in July 2018.	**2018 CSR 1:** “[…] measures to enforce the fiscal and public procurement frameworks at all levels of government."

MIP objective: Improving the functioning of the labour market			
Labour market, education and vocational training			
Active labour market policies			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
2018: A continuation of the Joint Action Plan for Enhancement of Attention to LTU is under preparation. The Joint Action Plan focuses on enhancing PES services to LTU, in particular profiling and targeting of ALMPs. **2018**: The Government is currently developing a new Youth Employment Plan. The Plan will contain 50 measures along the same axes as the Employment Activation Strategy. The areas of priority actions over the next three years are defined in line with the strategic objectives: to promote quality employment, to fight against gender gap in employment and to reduce youth unemployment.	**2017:** Spanish Activation Strategy 2017-2020, targeting young unemployed, those older than 50 years, and long-term unemployed.	**October 2018:** Roll-out of the Universal Social Card (to be phased in in several stages) **2017-2018:** Re-start of RIS network. Workplan for 2017-2020 elaborated. Two working groups created. **2017-2018**: Improvement of the Single Portal for Employment. **2018:** Continued implementation of the Youth Guarantee. Now fully rolled-out (over 1 million youth already registered).	**2018 CSR 2:** Ensure that employment and social services have the capacity to provide effective support for jobseekers, including through better cooperation with employers. NRP 2017

Employment protection legislation and framework for labour contracts			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
2018: Package of policy proposals to reduce temporary employment, to be discussed in working group on labour market segmentation **2018**: Reinforcement of legal causality by clarifying the objective criteria that allow the use of temporary contracts. Reduction in the number of contract types, to avoid an abusive and excessive use and to increase legal certainty. **2018**: The Government intends to reach tripartite agreements with Social Partners regarding the improvement of internal flexibility measures of firms with three goals: employment preservation, adaptation to changing environments, and facilitation of agreement and consensus in bipartite negotiation within the firm.		**2017:** Establishment of working group on labour market segmentation **2017-2019:** Conversion of up to 90% of temporary contracts in public administration into indefinite contracts **2015-2017:** Increase of Labour Inspectorates' resources and competences to step-up fight against false temporary employment **2018**: Strategic Plan for Decent Work 2018-2020 with two actions: o Action Plan against fraudulent temporary contracts o Action Plan against abusive part-time work The Strategic Plan foresees a further reinforcement of the Labour Inspectorates and more severe sanctions as well as actions to fight gender inequality and harassment. It also aims to promote collaboration with other countries, such as Portugal or France, to guarantee adequate social protection for displaced workers.	**2018 CSR 2:** "Foster transitions towards open-ended contracts."

Education			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
2018: A dual VET training system is being developed to promote vocational education and practical training. Regulations are being developed or modified in order to make the training contract the basis for carrying out practical training as well as to facilitate its use by companies.		**2018:** First cohorts from Industrial PhD Programme started entering job market	**2018 CSR 3:** "Increase cooperation between education and businesses with a view to mitigating existing skills mismatches."
MIP objective: Improving competitiveness and the business environment			
Research and innovation			
Research and innovation			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
No time indication: Establishment of minimum budgets for universities **2019:** AIReF plans review of R&D tax credits	**2018:** Clarification of certain procedures for R&D tax credits. **2017:** Adoption of national R&D, technology and innovation plan 2017-2020 **2017:** Update of Industry 4.0 strategy		**2018 CSR 3:** "Increase public investment in research and innovation and systematically carry out evaluations of support policies in this area to ensure their effectiveness."

Product market regulation and business environment			
Business environment			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Announced on 17 January 2017: Agreement between central government and regions to foster cooperation in implementing the law on market unity		**2017:** Publication of the implementation guide of the law on market unity and a catalogue of good practices for implementing law on market unity **2018:** Improved coordination between regional and national level through sectoral conferences as well as trainings and seminars organised by the government	**2018 CSR 3:** "Further the implementation of the Law on Market Unity by ensuring that, at all levels of government, rules governing access to and exercise of economic activities, in particular for services, are in line with principles of that Law and by improving cooperation between administrations."