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

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Executive summary

This is the 10th specific monitoring report under the macroeconomic imbalances procedure for Spain. In the 2019 European Semester, Spain was found to experience imbalances. Large stocks of external and internal debt, both public and private, continue to constitute vulnerabilities, in a context of still high unemployment, and have cross-border relevance. The 2019 Country-Specific Recommendations to Spain are considered relevant for addressing those imbalances. This report reviews policy initiatives relevant for the correction of macroeconomic imbalances taken since November 2018. The cut-off date of the report is 4 December 2019.

Macroeconomic imbalances have further reduced in 2019, on the back of still robust GDP growth and employment creation, but their level remains high. Economic growth has slowed down throughout the first three quarters of 2019, but real GDP is still projected to have grown by 1.9% in 2019 as a whole. Economic activity is expected to moderate further going forward to 2021, but remain above the EU average. Job creation, which started to lose traction in mid-2019, is also expected to continue weakening. Still, the unemployment rate is set to continue falling to 12.8% in 2021, but remains high. Robust economic growth continued to facilitate the reduction of the high levels of public, private and external debt. However, government debt is expected to remain above 95% of GDP in 2021, deleveraging needs persist among both households and non-financial corporations and Spain's net external liabilities remain large. Low productivity growth weighs on potential growth.

There has been little progress in the areas of fiscal governance. The governance bodies envisaged in the March 2018 law on public sector contracts have still not been fully set up or are not completely operational yet, and the public procurement strategy, stipulated to be adopted in 2018, is delayed. There have been no other steps to strengthen the fiscal framework. In the area of public expenditure, seven expenditure reviews initiated in June 2017 have been completed and four new reviews are underway. The implementation of the recommendations from the completed reviews has started, but it will mainly be up to the next government to bring the results of the reviews to fruition. Furthermore, the long-term cost of ageing will increase, if the departures from the 2013 pension reform are made permanent and are not accompanied by other compensating measures.

Some initiatives aimed at reducing skills mismatches and early school leaving, fostering research and innovation and improving the business environment have been taken, but reforms have been delayed by the caretaker nature of the government. Skills mismatches are high, especially for tertiary graduates. Spanish universities increasingly try to take the needs of enterprises into account, but closer and more effective cooperation between universities and the business sector is still needed. A new strategic plan for vocational education and training (VET) has been approved. The plan could contributes to reducing skills mismatches and early school leaving. Involvement of the private sector in the design of qualifications has been reinforced. Spending on R&D remains low compared with other Member States. Advances in the governance of research and innovation were modest, and evaluation of research programmes and policies are not sufficiently widespread. Furthermore, despite some actions to improve the implementation of the Law on Market Unity, a stronger commitment by regions and local authorities would be key to overcoming excessive market fragmentation and fostering better regulation in Spain.

There was some improvement in the delivery of labour market policies, but their effectiveness remains modest and labour market segmentation pronounced. The share of temporary contracts in total employment remains high at above 26% in Q3-2019. Measures to reduce it have focused on fighting abuse of temporary contracts. In the public sector, the use of temporary contracts has increased in 2019, despite the objective to reduce it. Coordination between public employment and social services is being enhanced through the Social Inclusion Network ("RIS"). Efforts to strengthen the public employment services continue. The new Action Plan for Youth Unemployment and the ReincorporaT plan for the long-term unemployed are on track, but hiring subsidies still absorb about 40% of the budget for active labour market policies and do not seem to be very effective. Efforts to make the labour market more inclusive also included the increase in the minimum wage by about 22.3% at the start of 2019. At this stage, the impact of this increase on employment, wages, wage dispersion, and in-work poverty is unclear.

Overall, policy advances have been modest, leaving Spain's remaining structural weaknesses unaddressed. An evolving political context over the past year, with two general elections in 2019, has been reflected in general slow progress on reforms. A more decisive implementation of reforms and new policy initiatives in several areas remain key to increase productivity, potential growth, and social inclusion

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

On track	Wait-and-see	Action wanted
• Spending reviews by AIReF • Action plan for Youth Unemployment • Coordination between public employment and social services • Fight against abuse of temporary contracts • ReincorporaT plan for the long-term unemployed	• Implementation of new public procurement law • Fostering transitions towards open-ended contracts • Reduce temporary employment in the public sector • Relevance of tertiary education • Investment in R&D and innovation • Keeping the pension system on a financially sustainable path • Strengthening of innovation governance • Strengthening of the VET System	• Strengthening of fiscal framework including implementation of AIReF recommendations • Further implementation of the law on market unity • Better regulation • Tackling early school leaving and regional disparities in educational 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 21 November 2018, 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 review of the evolution of its macroeconomic imbalances. The In-Depth Review in the 2019 Country Report on Spain – published on 27 February 2019[2] – examined the nature, origin and severity of macroeconomic imbalances and risks in Spain. In its Communication published on 27 February 2019[3], the Commission concluded that Spain is experiencing macroeconomic imbalances. Large stocks of external and internal debt, both public and private, continue to constitute vulnerabilities, in a context of still high unemployment, and have cross-border relevance. On 30 April 2019, 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 four country-specific recommendations (CSRs)[6], which were subsequently adopted by the Council on 9 July 2019[7]. Most subparts of the CSRs addressed to Spain were considered MIP-relevant. They concern: fiscal policy, fiscal governance and the sustainability of the pension system; labour and social policies and transitions to permanent work contracts; education policy and educational outcomes; research and innovation; and the business environment.

The Commission conducted a specific monitoring mission within the framework of the MIP to Spain on 21-23 October 2019. 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 PPS report summarising the findings of the 12th PPS mission to Spain on 7-8 October was published on 29 November. On 14 June 2019, Spain exited the excessive deficit procedure and thus became subject to the preventive arm of the Stability and Growth Pact as of 2019. The Council CSR calls on Spain to pursue fiscal adjustment in line with the requirements of the Stability and Growth Pact, in particular by delivering an adequate fiscal effort towards the medium term objective of a balanced budget in structural terms. On 20 November, the Commission adopted Opinions on the 2019 Draft Budgetary Plans[10] (DBP) of euro area Member States. Spain's DBP, which

[2] https://ec.europa.eu/info/files/2019-european-semester-country-report-spain_en
[3] https://eur-lex.europa.eu/legal-content/en/ALL/?uri=CELEX:52019DC0150
[4] https://ec.europa.eu/info/sites/info/files/2019-european-semester-stability-programme-spain_en_0.pdf
[5] https://ec.europa.eu/info/sites/info/files/2019-european-semester-national-reform-programme-spain_es.pdf
[6] https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1560258234004&uri=CELEX:52019DC0509
[7] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:C:2019:301:FULL&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, as well as 2015, 2016, 2017 and 2018. 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
https://ec.europa.eu/info/publications/economy-finance/post-programme-surveillance-report-spain-autumn-2018_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#spain

was submitted on 15 October by the then outgoing government on the basis of unchanged policies, was assessed to be at risk of non-compliance with the Stability and Growth Pact.

2 Outlook and recent developments on imbalances

2.1 Recent economic developments and outlook

Economic growth is set on a moderating though still expansionary path and unemployment has continued to decline. Growth of the Spanish economy is now set on a moderating path, with a more balanced growth pattern than in previous cycles. Revised national accounts for the period 1995 to Q3-2019 show that in recent years and quarters, growth has been slightly lower than previously reported, with weaker private consumption and investment being partly offset by a higher contribution of net exports to growth. Weak private consumption in recent quarters has been partly due to low demand for durable goods, possibly related to global regulatory and technological uncertainty in the automotive sector, as well as potentially to an increase in precautionary savings by households, amid uncertainty. The revised national accounts imply that, going forward, the growth momentum will be lower than previously expected. As a result, growth is expected to decelerate from 2.4% in 2018 to 1.9% this year, which is still well above the euro area average.

Economic activity is expected to moderate further in 2020 and 2021. Growth is expected to decelerate to 1.5% in 2020 and 1.4% in 2021, mainly due to a declining contribution of net exports to growth. Private consumption growth is expected to recover slightly and then stabilize, as some of the temporary factors limiting car purchases gradually fade away and labour market conditions continue improving. Still, consumption should grow less than real disposable income until 2021, resulting in additional increases in the households' savings rate. Employment growth is set to moderate in 2020 and 2021, in line with economic growth, but the unemployment rate is expected to continue falling, to below 13% in 2021, the lowest level since 2008.

2.2 Developments as regards imbalances

<u>External position</u>

Spain has been recording a current account surplus since 2012, and the stock of net external liabilities is declining, but remains high. The current account surplus was above 2% of GDP in 2015-2017, and declined to 1.9% of GDP in 2018, due to the negative impact of cyclical and transitory factors, such as weaker external demand, higher oil prices and the appreciation of the euro. The current account surplus is expected to widen this year to 2.4% of GDP and reach 2.6% in 2021, driven by an improvement in the trade balance. Consequently, and also thanks to high nominal GDP growth, the NIIP's improvement over recent years is expected to continue at a steady pace into 2020 and 2021. Nevertheless, the stock of net external liabilities remains very high, at 79.9% of GDP in Q2-2019.

<u>Government debt</u>

The government debt-to-GDP ratio continues to slowly decline, from a very high level. It declined from 99.2% in 2016 to 97.6% in 2018. The Commission 2019 autumn forecast points to a further decline to 96.7% in 2019. The decline has been driven by strong nominal GDP growth and falling interest expenditure, whereas the primary balance remains in a slight deficit position until 2021 under the impact of expansionary measures taken in 2018. As nominal GDP growth is expected to remain strong, the debt ratio is projected to decrease slightly further to 96.6% in 2020 and 96.0% in 2021. 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

The private sector debt ratio continues declining, but remains high. Total private debt of households and non-financial companies decreased to 132% of GDP in consolidated terms in Q2-2019, down by more than 5 pps. compared to the second quarter 2018. For both households and non-financial corporations, the pace of reduction of the debt-to-GDP ratio is mainly driven by GDP growth. The consolidated non-performing loans ratio of Spanish banks continued to decrease from 4.1% to 3.6% year-on-year as of June 2019, slightly above the EU average of 2.9%.

Unemployment

Unemployment has continued its rapid decline, but remains very high, and temporary contracts still account for a large share of new employment contracts. The Commission's autumn forecast projects the unemployment rate to average 13.9% for the whole of 2019 and to decline to 12.8% by 2021. This is a fall of more than 13 pps. since the peak in 2013. Long-term and, especially, youth unemployment saw a similarly steep fall during this period, but 32.9% (seasonally adjusted) of the active population aged below 25 was still without a job in Q3-2019 (compared to an EU average of 14.4%). Also, as the labour market improved, the share of people at risk of poverty or social exclusion has continued to decline, albeit slowly, reaching 26.1% in 2018. It remains well above the EU average and the gap is increasing. The share of temporary contracts was 26.7% in Q3-2019, only slightly lower than in the same quarter of last year. The continued high share of temporary contracts, often failing to be stepping stones to a permanent job, has a negative impact on in-work poverty, income inequality, access to training, and labour productivity growth.

Labour productivity growth has been relatively weak in recent years. When measured as GDP per hours worked, labour productivity has been growing below the EU average since 2014, when the economic recovery started, at an average annual rate of 0.5% (vs 1% for the EU28 and 0.8% for the EA). It actually decreased slightly in 2018 and is projected to decrease further in 2019.

3 Policy implementation and assessment

3.1 Public finances

The new law on public sector contracts came into force in March 2018, but progress on its implementation has been modest so far. The law aims at enhancing competition and ensuring transparency and effective control mechanisms in public procurement. It sets out a new structure governing public procurement across the country and the obligation to develop a nation-wide public procurement strategy applying to all levels of government. The effectiveness of the law will, to a large extent, depend on the level of ambition in its implementation, the degree of ownership at all levels of government, and the resources devoted to it. The governance bodies foreseen in the law have still not been fully set up or are not completely operational yet, and the adoption of the strategy is delayed.

Key areas of public spending are undergoing thorough reviews. In mid-2019, Spain's independent fiscal authority AIReF[11] completed seven spending reviews of specific spending areas: prescription drugs; active labour market policies; university education scholarships; pre- and post-doctoral aid programmes in R&D and innovation; the re-industrialisation and industrial competitiveness programme (RIC); the national postal service; and the legal framework governing the granting of subsidies. Four additional spending reviews (on pharmaceutical and equipment expenditures in hospitals, investments in public infrastructure, tax expenditure and hiring incentives) have been undertaken and are expected to yield first results in early 2020. The recommendations stemming from the spending reviews are not binding, but if implemented, they have the potential to lead to increased efficiency and effectiveness of public spending in several areas. The implementation of the recommendations from the completed reviews has started, but has been limited by the caretaker nature of the government.

The stipulated and planned departures from the 2013 pension reform will lead to higher long-term spending on pensions. The 2011 and 2013 reforms helped to ensure the sustainability of pensions in the long term. However, should the policy of re-linking pension increases to inflation (as decided in 2018 and 2019 and planned in the DBP for 2020) be made permanent, compensatory measures would be needed to ensure the sustainability of the pension system in the medium to long term. Furthermore, even if these changes increase pension incomes, they do not address the main obstacles to the future adequacy of pensions, namely high unemployment, the frequent use of temporary contracts and short careers in the labour market.

Overall, limited steps have been taken to enhance public procurement and improve the efficiency of public spending. The new governance bodies envisaged by the new law on public sector contracts are not yet fully operational, and the adoption of the nation-wide public 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 completed or to be finalised have the potential to lead to increased efficiency and effectiveness of public spending in several areas, if the recommendations stemming from them are implemented. Finally, the long-term cost of ageing will increase, if the departures from the 2013 pension reform are made permanent and are not accompanied by other compensating measures.

3.2 Labour market, education and vocational training

Coordination between employment and social services is being enhanced, but still varies across regions. The Social Inclusion Network ("RIS") is co-funded by the European Social Fund to promote mutual learning between regions in the area of social services. Two new working groups were created in 2019 as part of the RIS. One discusses tools to improve the identification of vulnerability and the other the sharing of information between the third sector (the "voluntary sector") and public employment and social services. Progress has been limited so far. Pilot projects to strengthen the cooperation between regional employment and social services are ongoing. Meanwhile, the deployment of the Universal Social Card continued in 2019. By improving access of service providers to information on benefits

[11] Autoridad Independiente de Responsabilidad Fiscal

received by individuals, it should facilitate further coordination of employment and social services. However, some data gaps remain on benefits managed by regional and local authorities.

Measures to reduce the high share of temporary workers focus on fighting abuses. In 2018, 26.9 % of employees in Spain (age 15-64) worked on a temporary contract, almost twice the EU average. This share decreased only marginally in the three first quarters of 2019 to 26.7 % in Q3-2019. Temporary contracts are widespread even in sectors with little seasonality (e.g. education and health) and in high-skilled occupations. The use of very short contracts has increased in many sectors, and 29.8% of all temporary contracts signed in 2019 up until October were shorter than one week, against 16.3 % in 2008. As a measure to disincentivize very short-term contracts, the Government has increased the employers' social contribution surcharge for contracts shorter than 5 days. The fight against abuse of temporary contracts focuses on stepping up inspections by the labour inspectorates. Under the framework of the Master Plan for Decent Work 2018-2020, around 174 000 temporary contracts were converted into permanent ones between August 2018 and June 2019, and actions to convert more contracts continued to be taken in 2019. In the public sector, the share of employees on temporary contracts has continued to increase, despite the commitment to reduce it. In Q3-2019, 27.8 % of employees in the public sector had a temporary contract, up from 20 % in 2014 (INE). Recruitment competitions organised during the last two years have not yet halted this trend. Regional administrations are also organising competitions in the health and education sectors, which currently employ a very high share of temporary workers. Still, the target of an 8 % share of permanent contracts in the public sector set for 2021 seems very difficult to reach.

Efforts to reinforce public employment services (PES) continue, but the effectiveness of active labour market policies remains limited. The PES in Spain still manage a very small share of vacancies, with only 25% of the unemployed seeking a job through them, the lowest share in the EU. New case-workers are being recruited to increase the capacity of the regional PES to assist young people and the long-term unemployed. Two new action plans for the period 2019-2021 have been launched - the Action Plan for Youth Employment and the "ReincorporaT" plan for supporting the long-term unemployed. Compared to previous strategies, these new plans include more quantitative goals, put greater focus on monitoring and evaluation, as well as on digital skills and adaptation to technological change. However, hiring subsidies still absorb a large share of the resources allocated to them, and account for around 40 % of total spending in active labour market policies (ALMP). Past evidence shows limited effects of these subsidies for promoting quality employment. The forthcoming spending review by AIReF of hiring incentives, due by mid-2020, will re-examine the effectiveness of such schemes. In addition, the initiative to lower the age limit for eligibility to the unemployment assistance scheme for older unemployed people, as part of the "ReincorporaT" plan, may create disincentives for older unemployed people to go back to work.

The 22.3 % increase of the minimum wage in 2018 resulted in increased overall labour costs, but its potential impact on employment cannot be quantified yet. Statutory minimum wages can ensure decent pay, especially for workers in a weak bargaining situation, and reduce wage inequality and in-work poverty, but they can also have adverse effects on employment. When the increase in the minimum wage entered into force in January 2019, employment was still reported to be growing robustly. Employment growth has slowed down since then, but there is still not enough evidence to assess if part of that slowdown is due to the minimum wage increase. Data from Social Security affiliations indicate that employment for some groups in specific sectors (e.g. domestic workers, private guards, agriculture) may have been affected.

Progress in reducing the high rate of early school leavers was limited. Spain's rate of early school leavers was 17.9% in 2018. Progress has slowed in the last three years and the rate remains 7.3 pps. above the EU average. Since 2018, €160 million have been allocated to a territorial cooperation programme aimed at reducing and preventing school failure and drop-outs. Still, the rate of early school leaving varies from 10% in the Basque Country and Cantabria to more than 23% in Murcia, the Balearic Islands, Ceuta, and Melilla, and it grew in 7 out of 19 regions in 2018, which explains the slowdown in the decline of the national rate and which may make it difficult to reach the national target of 15% in 2020.

University graduates have difficulties finding jobs matching their qualifications. Out of those who graduated in 2014, 27.7 % were not in work in 2018, and 37.6 % had a job that did not require tertiary diplomas. Many employers nevertheless report difficulties finding candidates with qualifications matching their needs, notably in the fields of information and communication technology. However, public support to universities and STEM[12] learning in particular has weakened. Spanish universities increasingly try to take the needs of enterprises into account, but a closer and more effective cooperation between universities and the business sector could help reduce such skill shortages as well as mismatches for university graduates. At secondary level, educational guidance in schools focuses on special learning needs or language difficulties rather than on educational pathways for a smooth transition to the labour market.

A new strategy intended to boost participation in basic and intermediate VET programmes has been approved by the Government. Enrolment in intermediate (upper secondary) VET increased slightly in 2017, to 35.3% of students in upper secondary education, but is still well below the EU average (47.8%). A better performing VET system would contribute to reducing early school leaving by providing more educational options to students. The new Strategic Plan for VET for 2019-2022 aims to make VET more responsive to the current and projected labour market needs.

Overall, efforts have continued to strengthen employment services, improve their coordination with social services and fight abuse of temporary contracts, but with limited tangible outcomes. The Social Inclusion Network ("RIS") has enhanced coordination between employment and social services at the national and regional level through information exchanges. The full deployment of the Universal Social Card will also facilitate closer coordination. Labour inspectorates have had some success in fighting abuse of temporary contracts, but labour market segmentation remains very high, also in the public sector. Measures to reduce youth unemployment and long-term unemployment are being reinforced. The new Strategic Plan for VET is welcome. University-business cooperation is improving, but is still weak and 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 remains to be addressed.

[12] Science, Technology, Engineering and Math

3.3 Research and innovation

Public investment in research and innovation declined from 0.65% in 2009 to 0.54% of GDP in 2018, well below the EU average of 0.69%. Government budget appropriations or outlays for R&D increased slightly in nominal terms in 2017 and 2018, but have decreased as a share of GDP. Disbursement rates for several core programmes of Spain's innovation support agency (Centro para el Desarollo Tecnológico Industrial, CDTI) have been low, but have increased recently and are expected to increase further with the planned shift from loans to grants. Spain offers one of the most generous R&D tax benefits amongst the OECD countries and partner economies. The benefit is provided as a combination of R&D tax credit and social security contributions exemption for qualified research staff. However, the tax scheme is rather complicated to use and has therefore not had a large impact. In particular, its take-up amongst smaller companies is low. The scheme is currently being reviewed by AIReF.

Spain has taken steps to improve coordination and synergies in research and innovation policies. The new Spanish Ministry for Science, Innovation and Universities, created in 2018, is leading the design of the post-2020 strategic framework for innovation, in coordination with other relevant national and regional Ministries. Spain has also actively engaged with Smart Specialisation strategies, notably through the participation of Spanish regions as leaders of 12 out of 32 interregional partnerships on energy, agri-food and industrial modernisation. The Spanish Network on Public Policies for Research, Development and Innovation (RED IDI) plays a coordinating role for R&D and innovation policy. In July 2019, the network published guidance on the monitoring and evaluation of Smart Specialisation Strategies in preparation of the next programming period of Structural Funds. However, despite progress, coordination of R&D and innovation policy is still lagging and a smooth functioning of the Spanish multi-level governance system of research and innovation remains a challenge. On evaluation, Spain has progressed on the evaluation of R&D projects submitted for public funding, but the effectiveness of R&D and innovation policy could be improved through wider and stronger evaluation practices, notably for impact evaluations.

Overall, advances in the funding and governance of research and innovation were modest. The new Ministry for Science, Innovation and Universities is taking a coordinating role for R&D and innovation policy, which is very positive, but also challenging. The uptake of R&D tax measures is still slow due to complex procedures. The involvement and interaction of relevant actors in the design of innovation policy is being intensified through smart specialisation initiatives. While project evaluations are being used systematically, there has been little progress on developing systematic evaluations of research and innovation policy.

3.4 The business environment and the Law on Market Unity

Restrictiveness and fragmentation of regulation within Spain weigh on the business environment and prevent companies from benefiting from economies of scale.. Restrictions remain high in retail services, but with regional differences. Concerning professional services, there have been no new reform developments. According to the OECD Product Market Regulation indicators, Spain is not more restrictive for these services than on average in the 22 EU Member States for which the indicators are available. However, on the more granular restrictiveness indicator developed by the Commission, a number of professional services (architects, engineers, tourist guides, some legal professions) are more strictly regulated in Spain than on average in the EU (COM (2016) 820 final). At firm level, while the capacity of firms to grow primarily depends on factors like their organisational efficiency and market opportunities, size-contingent regulations can play a role. Although these regulation are normally intended to reduce the regulatory and fiscal burden on smaller firms, they could discourage firm growth beyond a certain threshold (e.g. 10 or 50 employees). A government study conducted by the Ministry of Economy in 2017 identified more than 130 such regulations, many of which are set out in primary law and the amendment of which would require parliamentary approval at national and regional level.

A more effective implementation of the Law on Market Unity would promote competition, and better regulation. The law was adopted in 2013 to remove restrictions to the establishment of firms and the free movement of goods and services across the country. Areas where such restrictions have been found are professional activities, trade, transport and telecommunications. According to the authorities, the slow implementation of the law is also due to the fact that it is not well-known to its potential users. Therefore, the authorities have taken steps to increase awareness of the Law among potential users and training civil servants on its application. Furthermore, specific approaches for removing restrictions and reducing fragmentation in individual sectors will be pursued in fora such as sectoral conferences. Stronger cooperation between and engagement of national, regional, and local administrations remains crucial to reap the full benefits of the Law on Market Unity.

Overall, progress in overcoming restrictions and fragmentation of regulation has been slow. Regulatory fragmentation and restrictions weigh on the business environment and prevent companies from benefitting from economies of scale. Stronger cooperation between and engagement of national, regional and local authorities would help to reap the full benefits of the Law on Market Unity.

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 **On 14 December 2018:** Spain's Council of Ministers commissioned AIRef to carry out four additional spending reviews	**Seven spending reviews** have been finalised in 2019 and informed the Council of Ministers on May 31st 2019. They cover subsidies for prescription drugs, ALMP, university scholarships, doctoral programmes for research, Industrial Competitiveness Programme (RIC), the Spanish post service, and general subsidy law regulating the procedures for granting subsidies. Furthermore, the a study on a national minimum income schemes is being finalised. **In 2019**, AIReF has launched reviews on: pharmaceuticals and equipment in hospitals, infrastructure (high speed trains, urban transport and island connectivity), tax benefits (including family allowances, R&D tax benefits, VAT exemptions), and hiring	**2017 CSR 1:** "Undertake a comprehensive expenditure review in order to identify possible areas for improving spending efficiency."

		incentives. **2019:** Extension of the Instrument for sustainability of pharmaceutical and health spending. Measures imposed on the Regions for further spending control are in line with AIReF's recommendations (spending review on prescription drugs).	

Public administration and business environment			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Announced for 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) **Dec 2018**: Adoption of the Plan for Ecological public procurement 2018-2025. **April 2019:** Adoption of the Plan for the promotion of socially responsible public procurement.	**9 March 2018:** Law 9/2017 on public sector contracts entered into force **February 2018**: The Cooperation Committee, created by law 9/2017, aiming at strengthening governance and ensuring cooperation of central, regional and local authorities on procurement matters. **July 2018:** The new Independent Office for Regulation and Supervision was set-up in May. Its President was appointed in July 2018.	**2018 and 2019 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 new Youth Employment Plan had been adopted. The areas of priority actions over the next three years are to promote quality employment, to fight against gender gap in employment and to reduce youth unemployment. **2019:** The "ReincorporaT" plan for 2019-2021 increases the support to the long-term unemployed, **Dec 2018:** Reinforcement of the Public Employment Services (SEPE) programs, in cooperation with the private sector. Council of Minister approved on December 21st 2018 a call for proposals corresponding to grants for 350 million € in three years (140 M€ in 2019, and 105 M€ in 2020 and in 2021.	**October 2018-2019:** Roll-out of the Universal Social Card (to be phased in in several stages) **2017-2019:** 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 and 2019 CSR 2:** "Ensure that employment and social services have the capacity to provide effective support for jobseekers.."

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 intended to reach tripartite agreements with Social Partners. The tripartite roundtables were suspended in March due to the elections. The goal was to improve internal flexibility measures of firms through: employment preservation, adaptation to changing environments, and facilitation of agreement and consensus in bipartite negotiation within the firm.	**28 December 2018:** Derogation of transitory measures on hiring incentives linked to an unemployment rate over 15%. Simplification of the contracts' menu. (Royal Decree Law 28/2018). **28 December 2018:** Increase from 36% to 40% of the surcharge on employer´s contribution for contract with a duration equal or under 5 days to disincentive very short term contracts (Royal Decree Law 28/2018). **2019**: In the framework of the Strategic Plan for decent Work two new Immediate Action Plans against fraud in temporary and part-time hiring have been approved in 2019.	**2017:** Establishment of working group on labour market segmentation **2017-2021:** Conversion of up to 90% of temporary contracts in public administration into indefinite contracts **2015-2019:** 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 and 2019 CSR 2:** "Foster transitions towards open-ended contracts."

Education			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Adaptation of the VET system to the needs of digitalisation of the economy: 12 new specialization courses are being designed.	**2019**. Approval of the VET Strategy 2019-2022 to boost participation in basic and intermediate VET.	**2018:** First cohorts from Industrial PhD Programme started entering job market **2019 and ongoing**: Reinforcement of private sector involvement in the VET qualifications design procedures and speeding up of the procedures.	**2018 CSR 3:** "Increase cooperation between education and businesses with a view to mitigating existing skills mismatches." **2019 CSR 2:** "Increase cooperation between education and businesses with a view to improving the provision of labour market relevant skills and qualifications, in particular for information and communication technologies."

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 review of R&D tax credits **2019:** Strategy on digitalization of the agro-food, and forestry sectors and rural areas. **2020**: National Strategy for artificial intelligence. **2020**: Strategy "Spain start-up nation"	**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**: Creation of the Observatory on 5G. **2019**: Strategy Plan for the automotive industry 2019-2025.		**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." **2019 CSR 3:** "Focus investment-related policy on fostering innovation…"

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 **2018-19:** Improved coordination between regional and national level through sectoral conferences as well as trainings and seminars organised by the government	**2018 CSR 3, 2019 CSR 4:** "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."