IN-DEPTH ANALYSIS

Exchange of views with Spain and Portugal on possible suspension of European structural and investment funds

REGI-ECON on 8 November 2016

Following the Council decision of 12 July 2016 establishing that Spain and Portugal did not take effective action under the Excessive Deficit Procedure, the Commission shall make a proposal to suspend, part or all, of the commitments or payments for the programmes related to the European Structural and Investment Funds for these two Member States.

In this context, the European Parliament invited the Commission for a structured dialogue on 3 October 2016. Further to this dialogue, the European Parliament has invited for an exchange of views Luis de Guindos Jurado, Minister of Economy and Competitiveness of Spain and Mário Centeno, Minister of Finance of Portugal. This note is an updated version of an earlier EGOV analysis in the context of the above-mentioned structured dialogue. The cut-off date for information included in this analysis was 27 October 2016.

1. Structured Dialogue: State of play

Within the framework of the structured dialogue, as set out in Article 23(15) of the Regulation (EU) No 1303/2013[1] (hereafter the Common Provisions Regulation - "CPR"), Vice-President Katainen and Commissioner Creţu were invited for a hearing in a joint REGI-ECON Committee on 3 October 2016. Members of BUDG, EMPL, AGRI and PECH Committees also attended this hearing. As outlined in the letter from REGI and ECON Chairs to President Schulz, the COM:

- Acknowledged *its legal obligation to come forward with a proposal to suspend part of ESI funds, while conceding that the legislation did not foresee any deadline*;
- Admitted that Article 23 does not specify the *minimum percentage of suspension*, although it considered that imposing a zero suspension *would contradict the 'spirit' of the Regulation*.

On 6 October 2016, the Conference of Presidents of the European Parliament (EP) concluded that further information was needed before this dialogue could be closed. To this end, as highlighted in the letter from President Schultz to President Juncker, the EP will undertake two additional initiatives:

- *Invite relevant ministers of the two Member States concerned for an exchange of views;*
- *Subsequently, the COM would be invited to give additional information on the implementation of Article 23(15) of the CPR. Then, REGI and ECON Committees would consider whether to hold another meeting.*

[1] Regulation (EU) No 1303/2013 of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006. See a separate EGOV note for on overview of Article 23 that sets out measures linking effectiveness of ESI Funds to sound economic governance.

Authors: M. Hradiský, J. Angerer, A. Zoppè, J. Vega Bordell and M. Ciucci

The COM provided a list of EU co-financed programmes for Spain and Portugal that could be subject to suspension in a letter of 14 July 2016 from Vice-President Katainen to President Schultz. This list includes, respectively, all national and regional programmes benefiting from ESI funding over the period 2014-2020, the Youth Employment Initiative (YEI) being outside the scope of suspension as set out in Annex III of the CPR, Point 2(A)(iv). However, the COM has not yet provided details on scope and potential level of suspension (see Section 2 for an overview of ESI Funds to Spain and Portugal).

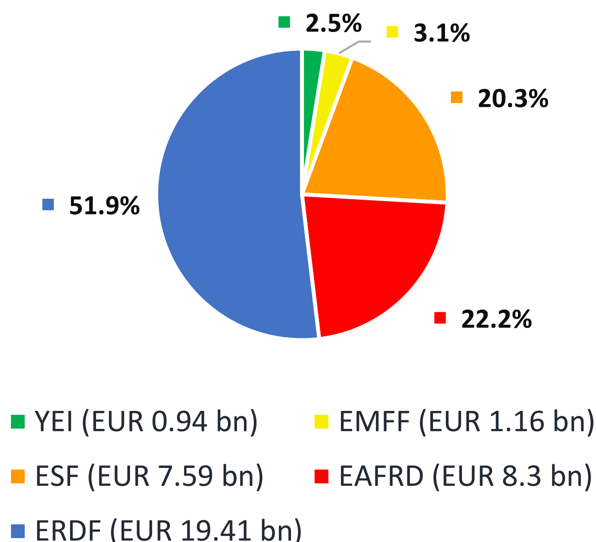
The COM is still to assess the effective action reports submitted by Spain and Portugal under the Excessive Deficit Procedure (EDP) (see Section 3 for further information) In this regard, Article 23(12) of the CPR provides that the COM must lift suspension of commitments for the programmes related to ESI funds without delay if: (1) the EDP is held in abeyance in line with Article 9 of Council Regulation (EC) No 1467/1997[2]; or (2) the Council decides to abrogate the decision on the existence of the excessive deficit under Article 126(12) of the TFEU.

2. ESI Funds for Spain and Portugal: A bird's eye view

Spain

Spain is set to receive about EUR 37.4 billion from the ESI Funds, including the specific allocation for YEI[3], over the period 2014-2020 as outlined in the Partnership Agreement (PA) of October 2014. This PA covers 64 national and regional programmes, co-financed by four ESI Funds (contrary to Portugal, Spain does not benefit from allocations under the Cohesion Fund). Decomposition of total allocations by the type of ESI Fund is shown in Figure 1.

Figure 1: Decomposition of allocations to Spain over the period 2014-2020 by ESI Fund
(in % of the total, total allocations = EUR 37.4 billion)



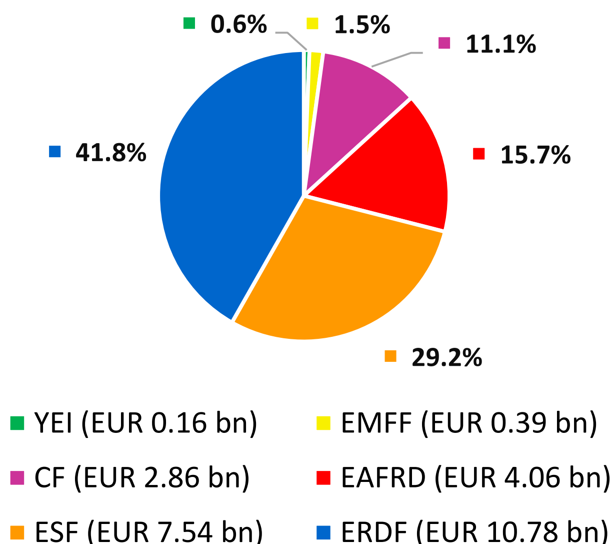
Source: European Commission and EGOV calculations.
Note: ESI Funds Source: ESI Funds consist of five EU funds, namely: the European Regional Development Fund (ERDF); the European Social fund (ESF); the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF). The Youth Employment Initiative (YEI) is considered as a separate category (rather than included under the ESF).

[2] Council Regulation (EU) No 1469/1997 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure.
[3] I.e. EUR 943.5 million.

Portugal

Portugal is set to receive more than EUR 25.8 billion euro from the ESI Funds, including the specific allocation for YEI[4], over the period 2014-2020 as outlined in the "Partnership Agreement" of July 2014. This PA covers 16 national and regional programmes, benefitting from allocations under all the five ESI Funds. Decomposition of total allocations by the type of ESI Fund is shown in Figure 2.

Figure 2: Decomposition of allocations to Portugal over the period 2014-2020 by ESI Fund
(in % of the total, total allocations = EUR 25.8 billion)



Source: European Commission and EGOV calculations.
Note: ESI Funds Source: ESI Funds consist of five EU funds, namely: the European Regional Development Fund (ERDF); the European Social fund (ESF); the Cohesion fund (CF); the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF). The Youth Employment Initiative (YEI) is considered as a separate category (rather than included under the ESF).

3. EDP decisions relating to Spain and Portugal: State of play

Recent decisions by the COM and the Council

On 8 August 2016, the Council stepped up the EDP for both countries, setting **new correction deadlines and giving notice** of measures to be taken under Article 126(9) TFEU. The Council decisions established the deadlines of **15 October 2016** for Spain and Portugal to take effective action and to submit a report to Council and COM. The reports shall include information on the actions being taken in response to the following requests of the notices:

- Spain: (1) the country shall put an end to the present excessive deficit situation by 2018; (2) it shall 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; this improvement in the general government deficit is considered consistent with a deterioration of the structural balance by 0,4 % of GDP in 2016 and an improvement of 0,5 % of GDP in both 2017 and 2018 based on the updated Commission 2016 spring forecast; (3) in addition to the savings already included in the updated COM 2016 spring forecast, Spain shall adopt and fully implement consolidation measures for the amount of 0,5 % of GDP in both 2017 and 2018; (4) Spain shall stand ready to adopt further measures should risks to the budgetary plans materialise (...);
- Portugal: (1) the country shall put an end to the present excessive deficit situation by 2016; (2) the country shall reduce the general government deficit to 2,5 % of GDP in 2016; this target does not include the impact of the direct effect of potential bank support; this improvement in the general government deficit is considered consistent with an unchanged structural balance with respect to 2015 based on the COM 2016 spring forecast; (3) Portugal shall also use all windfall

[4] I.e. EUR 160.8 million.

gains to accelerate the deficit and debt reduction; (4) in addition to the savings already included in the COM 2016 spring forecast, Portugal shall adopt and fully implement consolidation measures for the amount of 0,25 % of GDP in 2016. In particular, Portugal shall implement fully the consolidation measures incorporated in the 2016 Budget (...).

Spain submitted on 15 October the report on effective action (available in Spanish only) as required under Article 126(9) within the deadline given by the Council. Whether this report fulfils on substance the notice given to Spain on 8 August 2016 by the Council will be assessed by COM and Council together with the assessment of the Spanish 2017 Draft Budgetary Plan (DBP, available in Spanish only). The key figures as submitted by Spain in the effective action report and the 2017 DBP are identical (see Table 1 below).

Table 1: Comparison of key features of Spain's DBP and effective action report with current Council requests

	Projections included in 2017 DBP and Effective Action Report				Fiscal targets as requested by the Council in August 2016	
	GDP growth % change	**Debt** % of GDP	**Deficit/ Surplus** % of GDP	**Structural deficit/surplus** % of GDP *(y-o-y difference in % of GDP)*	**Deficit targets** % of GDP	**Annual change of the structural balance** % of GDP
2016	2.9	99.8	-4.6	*-2.7 (n.a.)*	-4.6	*-0.4*
2017	2.3	99.7	-3.6	-2.7 *(0.0)*	-3.1	*0.5*

Source: Spain's 2017 DBP and Effective Action Report (October 2016); the Council decision giving notice to Spain to take measures for the deficit reduction was judged necessary in order to remedy the situation of excessive deficit (August 2016). Note: n.a = not available in the 2017 DBP and in the Effective Action Report.

According to the figures included in the 2017 DBP and the effective action report:

- the projected nominal deficit for 2016 would meet the target set by the Council notice, while for 2017 the deficit would be **half a percentage point of GDP higher than the target set by the Council**;
- the projected structural balance is **not expected to improve in 2017**, while the Council notice included a structural improvement of 0.5% of GDP.

Because of the risks for the timely and durable correction of the excessive deficit by 2017, the COM sent on 25 October 2016 a letter to the Spanish government asking it to submit in the coming days an updated DBP "*which will ensure compliance with the targets set out in the Council decision under Article 126(9) TFEU of 8 August 2016*".

The final COM opinion on the DBP and the assessment of effective action (due by end of November 2016) will be based on a comprehensive analysis and on the COM autumn forecast which will be published early November; the nominal deficit, a detailed analysis of the structural balance and the impact of measures taken will be covered by the COM analyses.

The 2017 DBP of Spain has been assessed on 7 October 2016 by the "Independent Authority for Fiscal Responsibility (AIReF)" in accordance with the EU economic governance framework[5]. The AIRef endorsed the government's forecasts for the macroeconomic scenario as likely and considered the government's macroeconomic scenario to be plausible. It assessed risks deriving from the external environment as balanced, but also mentioned that *"there is great*

[5] Council Directive 2011/85/EU, the Regulation 1466/97 governing the preventive arm of the SGP and EU Regulation 473/2013 request that macroeconomic and budgetary forecasts of Member States shall be produced or endorsed by independent bodies.

uncertainty surrounding the magnitude of the restrictive effects of the fiscal policy required to consolidate Spain's public finances." Nevertheless, the AIReF also pointed out that there are *"significant biases observed in the forecasts of government consumption over the last four years"* and suggested good practices, such as *"indicating key forecasting elements in a simplified national accounting framework"*, to be implemented. The AIReF report did not include a more detailed macroeconomic analysis of the DBP.

Portugal submitted on 17 October 2016 the report on effective action as required under Art. 126 (9). Whether this report fulfils on substance the notice given to Portugal on 8 August 2016 by the Council will be assessed by COM and Council together with the assessment of the Portuguese 2017 DBP. The key figures as submitted by Portugal in the affective action report and the 2017 DBP are identical (see Table 2 below).

Table 2: Comparison of key features of Portugal's DBP and effective action report with current Council requests

	Projections included in 2017 DBP and Effective Action Report				Fiscal targets as requested by the Council in August 2016	
	GDP growth % change	**Debt** % of GDP	**Deficit/ Surplus** % of GDP	**Structural deficit/surplus** % of GDP *(y-o-y difference in % of GDP)*	**Deficit targets** % of GDP	**Annual change of the structural balance** % of GDP
2016	1.2	129.7	-2.4	-1.7 *(0.2)*	-2.5	*0.0*
2017	1.5	128.3	-1.6	-1.1 *(0.6)*	-	*(2016 CSR: achieve an annual fiscal adjustment of at least 0,6 % of GDP)*

Source: Portugal's 2017 DBP and Effective Action Report (October 2016); the Council decision giving notice to Portugal to take measures for the deficit reduction was judged necessary in order to remedy the situation of excessive deficit (August 2016).

According to the figures included in the 2017 DBP and the effective action report, both the projected nominal and structural budget balances for 2016 meet the targets set in August by the Council. The COM has, however, indicated in the letter of 25 October 2016 to the Portuguese government that there is for 2017 "a ***risk of significant deviation from the recommended improvement of at least 0.6% of GDP***. *The worse picture compared to the DBP presented by Portugal is related to a less optimistic macroeconomic scenario projected by the Commission and to the fact that some announced measures are not sufficiently specified.*

The COM asks the Portuguese government to reply by 27 October 2016 in order to allow the COM to use the additional information from Portugal in the final COM opinion on the DBP and its assessment of effective action, which will be both based on the upcoming COM autumn forecast) and will cover the nominal deficit, a detailed assessment of the structural balance and the impact of measures taken.

The Portuguese Public Finance Council (CFP) found that even with significant downside risks, the macroeconomic scenario underlying the DBP 2017 presents statistically plausible projections (see 2017 DBP annex p.48). Furthermore, the Public Finance Council pointed out that the significant downside risks on the present macroeconomic scenario are essentially related to forecasts of Portugal's external trade balance and gross fixed capital formation, highlighting that those are the key variables for achieving the projected scenarios. It points out as a recommendation, the need of macroeconomic scenarios underlying the different medium term budgetary planning documents. Only this way it is possible to assess the long term effects of the adopted policies and their sustainability.

Previous decisions and assessments

Based on the COM proposals of 27 July 2016, the Council decided on 8 August 2016 **not to impose fines on Spain and Portugal** for their failure to take effective action to correct their excessive deficits. The COM assessed positively (see here for Spain and here for Portugal) the **reasoned requests** submitted by both countries, which have not been published. The COM decided to postpone a possible proposal on a (partial) suspension of the ESI Funds under Reg. 1303/2013 (Art. 23, para 15) until it has had a **structured dialogue** with the EP.

The Council decided on 12 July 2016 (based on COM proposals of 7 July 2016 for Spain and Portugal) under Art. 126(8) that both Spain and Portugal failed to take effective action in response to the Council Recommendations of 21 June 2013 under the EDP:

- The assessment concluded that Spain's public deficit was 5,9 % of GDP in 2014 and 5,1 % of GDP in 2015, above the intermediate targets set by the Council of 5,8 % and 4,2 % of GDP. Furthermore, the country was forecast not to correct its deficit by 2016 as required; the COM also stated that the fiscal effort fell significantly short by all metrics of what was recommended by the Council, and that the fiscal stance in 2015 was even relaxed;
- The assessment concluded that the 2015 deadline to correct the excessive deficit was missed by Portugal. Even the deficit net of one-off measures related to the financial sector (resolution of Banif) would have remained above 3% of GDP. The assessment of effective action also found that the cumulative improvement in Portugal's structural balance in the 2013-15 period is estimated by the COM at 1.1% of GDP, significantly below the 2.5% recommended by the Council; when adjusted in the light of revised potential output growth and revenue windfalls or shortfalls, it is even slightly negative.

On 9 March 2016, the COM noted in a **separate recommendation to Spain** that the cumulative structural effort between 2013 and 2015 had been 0.8% of GDP, while the Council had requested a 2.7% of GDP effort in its latest EDP recommendation. For 2016, the COM noted that the fiscal effort of 1.5% of GDP recommended by the Council was not expected to be met since on the basis of any COM forecast:

- The unadjusted change of the structural balance was forecast to be unchanged;
- The structural balance change adjusted by potential output revisions and revenue shortfalls was forecast to deteriorate by 0.2% of GDP;
- The bottom-up analysis of measures taken indicated that no fiscal effort was projected to be delivered by Spain in 2016.

In autumn 2015 (February 2016 in the case of Portugal), the COM assessed in its **opinions on 2016 DBPs**:

- **Spain:** not to meet its nominal fiscal targets both in 2015 in 2016 and not to have taken effective action in structural terms each of these years;
- **Portugal:** while, on the basis of the plans of the Portuguese authorities, the estimated deviation for 2016 from the recommended structural adjustment is below 0.5% of GDP and therefore not significant, the gap might eventually be bigger due to implementation risks.

Next steps

Spain and Portugal have been requested to reply to the COM letters of 25 October 2016. These letters highlight potential non-compliances of both DBPs with the Council targets and ask the Spanish and Portuguese governments to submit, respectively, an updated DBP and further information.

Subsequently, the COM shall adopt an opinion on the DBPs as soon as possible and in any event by 30 November. No formal opinion on the concerned Member States' effective action reports, but "regular monitoring" by COM and Council is required by Council Regulation 1467/97. The precise methodology for so doing is left to each of those institutions, provided the rhythm is sufficiently sustained to track progress in the light of the notices given.

In accordance with Council Regulation 1467/97, the potential next step (see Boxes 1 and 2 for more information) are the following:

1) If an effective action report shows that the country acts in compliance with the notices given in accordance with Article 126(9), the EDP is held **in abeyance** (Article 9(1) of the Regulation).
2) If action by a Member State is not being implemented or, in the Council's view, is proving to be inadequate in the light of the notices given to it, the Council shall, upon Commission recommendation, immediately take a decision under **Article 126(9) or (11)** respectively.
   - A new decision under Article 126(9) may mean in particular that the Council adapts the deficit reduction efforts expected of the Member State in the light of the new situation and/or requests the Member State concerned to submit **new reports in accordance with a revised specific timetable in order to examine the adjustment efforts of that Member State**.
   - A decision under Article 126(11) would mean that the Council may decide to adopt one of the following measures:
     - require the Member State concerned to publish additional information, to be specified by the Council, before issuing bonds and securities,
     - invite the European Investment Bank to reconsider its lending policy towards the Member State concerned,
     - equire the Member State concerned to make a non-interest-bearing deposit of an appropriate size with the Union until the excessive deficit has, in the view of the Council, been corrected;
     - impose fines of an appropriate size (Article 11 of Council Regulation 1467/97 specifies the potential size of the fines).

Box 1: Selected TFEU provisions on the EDP

Article 126 TFEU

(...)

9. **If a Member State persists in failing to put into practice the recommendations of the Council**, the Council may decide to give notice to the Member State to take, within a specified time limit, measures for the deficit reduction which is judged necessary by the Council in order to remedy the situation. In such a case, the Council may request the Member State concerned to submit reports in accordance with a specific timetable in order to examine the adjustment efforts of that Member State.

10. The rights to bring actions provided for in Art. 258 and 259 [see below] may not be exercised within (...) paragraphs 1 to 9 of this Art.

11. **As long as a Member State fails to comply with a decision taken in accordance with paragraph 9, the Council may decide to apply or, as the case may be, intensify one or more of the following measures**:
- to require the Member State concerned to publish additional information, to be specified by the Council, before issuing bonds and securities,
- to invite the European Investment Bank to reconsider its lending policy towards the Member State concerned,
- to require the Member State concerned to make a non-interest-bearing deposit of an appropriate size with the Union until the excessive deficit has, in the view of the Council, been corrected,
- to impose fines of an appropriate size.

The President of the Council shall inform the European Parliament of the decisions taken.

12. The Council **shall abrogate some or all of its decisions or recommendations referred to in paragraphs 6 to 9 and 11** to the extent that the excessive deficit in the Member State concerned has, in the view of the Council, been corrected. If the Council has previously made public recommendations, it shall, as soon as the decision under paragraph 8 has been abrogated, make a public statement that an excessive deficit in the Member State concerned no longer exists.
(...)

Article 258 TFEU: If the COM considers that a Member State has failed to fulfil an obligation under the Treaties, it shall deliver a reasoned opinion on the matter after giving the State concerned the opportunity to submit its observations. If the State concerned does not comply with the opinion within the period laid down by the COM, the latter may bring the matter before the Court of Justice of the EU.

Article 259 TFEU: A Member State which considers that another Member State has failed to fulfil an obligation under the Treaties may bring the matter before the Court of Justice of the EU. Before a Member State brings an action against another Member State for an alleged infringement of an obligation under the Treaties, it shall bring the matter before the COM. The COM shall deliver a reasoned opinion after each of the States concerned has been given the opportunity to submit its own case and its observations on the other party's case both orally and in writing. If the COM has not delivered an opinion within three months of the date on which the matter was brought before it, the absence of such opinion shall not prevent the matter from being brought before the Court.

Box 2: Selected Council Regulation 1467/1997 provisions on the EDP

Council Regulation 1467/97: Articles 5-12

5 (1a): Following a Council notice under **Art. 126(9) TFEU**, the Member State concerned shall report to the Council and the COM on action taken in response thereto. The report shall include the targets for the government expenditure and revenue and for the discretionary measures on both the expenditure and the revenue side, as well as information on the actions being taken in response to the specific Council recommendations so as to allow the Council to take, if necessary, a decision in accordance with Art. 6(2) of this Regulation. The Member State shall make the report public.

5 (2): If effective action has been taken in compliance with a notice under **Art. 126(9) TFEU** and unexpected adverse economic events with major unfavourable consequences for government finances occur after the adoption of that notice, the Council may decide, on a recommendation from the COM, to adopt a revised notice under **Art. 126(9) TFEU**. The revised notice, taking into account the relevant factors referred to in Art. 2(3) of this Regulation may, in particular, extend the deadline for the correction of the excessive deficit by one year as a rule. The Council shall assess the existence of unexpected adverse economic events with major unfavourable consequences for government finances against the economic forecasts in its notice. In the case of a severe economic downturn in the euro area or in the Union as a whole, the Council may also decide, on a recommendation from the COM, to adopt a **revised notice under Art. 126(9)**, on condition that this does not endanger fiscal sustainability in the medium term.

6(1): The Council, when considering whether effective action has been taken in response to its notice made in accordance with **Art. 126(9) TFEU**, shall base its decision on the report submitted by the Member State (...) in accordance with Art. 5(1a) of this Regulation and its implementation, as well as on any other publicly announced decisions by the government of the Member State concerned. (...)

6(2): Where the conditions to apply Art. 126(11) are met, the Council shall impose sanctions in accordance with that Article. Any such decision shall be taken no later than four months after the Council decision under **Art. 126(9)** giving notice to the participating Member State concerned to take measures.

7: If a participating Member State fails to act in compliance with the successive acts of the Council in accordance with **Article 126(7) and (9)**, the decision of the Council under Art. 126(11) TFEU to impose sanctions shall be taken as a rule within 16 months of the reporting dates established in Art. 3(2) and (3) of Reg. (EC) No 479/2009. Where Art. 3(5) or Art. 5(2) of this Regulation is applied, the 16-month deadline shall be adjusted accordingly. An expedited procedure shall be used in the case of a deliberately planned deficit which the Council decides is excessive.

8: Any Council decision under Art. 126(11) TFEU to intensify sanctions shall be taken no later than two months after the reporting dates pursuant to Regulation (EC) No 479/2009. Any Council decision under Article 126(12) TFEU to abrogate some or all of its decisions shall be taken as soon as possible and in any event no later than two months after the reporting dates pursuant to Regulation (EC) No 479/2009.

9(1): The excessive deficit procedure shall be held **in abeyance**:

— if the Member State (...) acts in compliance with recommendations made in accordance with Art 126(7) ,

— if the participating Member State (...) acts in compliance with notices given **in accordance with Art. 126(9)**

(...)

10(1): The Council and the COM shall regularly **monitor the implementation of action taken**:

— by the Member State concerned in response to recommendations made under Art. 126(7),

— by the participating Member State **concerned in response to notices given under Art. 126(9)**

10(2): If action by a participating Member State is not being implemented or, in the Council's view, is proving to be inadequate, the Council shall immediately take a decision under **Art. 126(9)** and (11) respectively.

10(3): If actual data pursuant to Regulation (EC) No 479/2009 indicate that an excessive deficit has not been corrected (...) within the time limits specified either in recommendations issued under Art. 126(7) **or notices issued under Art. 126(9)**, the Council shall immediately take a decision under **Art. 126(9)** or Art. 126(11) respectively.

11: Whenever the Council decides under Art. 126(11) TFEU to impose sanctions on a participating Member State, a fine shall, as a rule, be required. The Council may decide to supplement such a fine by the other measures provided for in Art. 126(11) TFEU.

12 (1): The amount of the fine shall comprise a fixed component equal to 0,2 % of GDP, and a variable component. The variable component shall amount to one tenth of the absolute value of the difference between the balance as a percentage of GDP in the preceding year and either the reference value for government balance or, if non-compliance with budgetary discipline includes the debt criterion, the government balance as a percentage of GDP that should have been achieved in the same year according to the notice issued under **Art. 126(9) TFEU**.

12 (2): In each year following that in which a fine is imposed, until the decision on the existence of an excessive deficit is abrogated, the Council shall assess whether the participating Member State concerned has taken effective action in response to the Council notice in accordance with **Art. 126(9)**. In this annual assessment the Council shall decide, in accordance with Art. 126(11) TFEU, to intensify the sanctions, unless the participating Member State concerned has complied with the Council's notice. (...)

12 (3): No single fine referred to in paragraphs 1 and 2 shall exceed 0,5 % of GDP.

4. Economic and social situation

Spain

The Spanish economy has returned to growth since 2014 on the back of strengthening domestic demand. For 2016 and 2017, both the COM and the Spanish authorities expect growth to lose some momentum, but still remain robust. From the macroeconomic perspective, the country is experiencing imbalances, in particular in terms of large stock of net external liabilities, elevated public and private sector indebtedness. Unemployment remains at high levels despite the recent declines.

Spain successfully exited the ESM programme for the recapitalisation of domestic banking sector at the end of 2013. Since then, it is subject to post-programme surveillance (PPS)[6].

After contracting by around 9% between 2008 and 2013, the Spanish economy has returned to growth, expanding by 1.4% in 2014 and 3.2% in 2015. This upturn has been driven by domestic demand on the back of positive labour market developments, improving financing conditions for households and companies, return of confidence and low energy prices. This solid expansion has continued into the first half of 2016 (see the COM statement of 24 October 2016 following the sixth post-programme surveillance visit to Spain). According to the latest available COM forecast from August 2016 (that updates spring 2016 projections and underpins the Council decision of 8 August 2016)[7], the Spanish economy is set to grow by 2.9% in 2016 and 2.3% in 2017 as the expansion in both private consumption and investment are projected to somewhat decelerate. Note that this growth trajectory underpins the 2017 DBP the Spanish authorities submitted to the COM on 14 October 2016.

In 2015, Spain's nominal GDP stood at EUR 1 075 billion and the total population amounted to around 46.5 million. In terms of standards of living, as measured by GDP per capita in purchasing power parities, **the average income per person stood 8% below the EU 28 average in 2015**, while it was 3% above the EU 28 average before the onset of the financial crisis in 2007.

Prices have been on a subdued downward trend over the last two years, predominantly reflecting declines in energy and transport sector prices. Annual inflation, as measured by headline Harmonised Index of Consumer Prices (HICP) stood at -0.2% in 2014 and -0.6% in 2015. Looking ahead, the COM projected in spring 2016 only marginally negative inflation for 2016 (-0.1%) before it picks up in 2017 (1.4%) as negative base effects in energy prices progressively fade out and the economy closes the output gap. According to the latest Eurostat data, annual HICP inflation came in at 0.0% in September 2016.

The current account turned into surplus in 2013 and has remained in the positive territory since then, as positive trade balance more than offset (diminishing) outflows in primary and secondary incomes. The current account surplus came in at 1.4% of GDP in 2015 and was projected by the COM in spring 2016 to hover around this level over the next two years (1.5% in 2016 and 1.3% in 2017).

After peaking at 26.1% in 2013, the unemployment rate has been steadily decreasing, to 24.5% in 2014 and 22.1% in 2015, as the economy returned to growth and wage moderation has kept helped contain unit labour costs. Given that the average EU 28 unemployment rate was 9.4% in 2015, **the level of suspension of ESI Funds is to be reduced by 50% in line with the condition defined in the Annex III, Point 1(c) of the CRP[8]**. The latest Eurostat data show that Spain's unemployment rate further declined to 19.5% in August 2016 and remains the second largest within

---

[6] See a separate EGOV document (Financial Assistance to EU Member States) for more details. In particular, the COM concluded following the June 2016 review that "*favourable economic environment has not been used to put the public finances onto a sounder path and, given the political situation, recently there has been little or no progress in the structural reform agenda, including measures to improve innovation and skills in order to boost non-cost competitiveness and improving the business environment*".

[7] The COM is to publish its autumn forecast in November 2016.

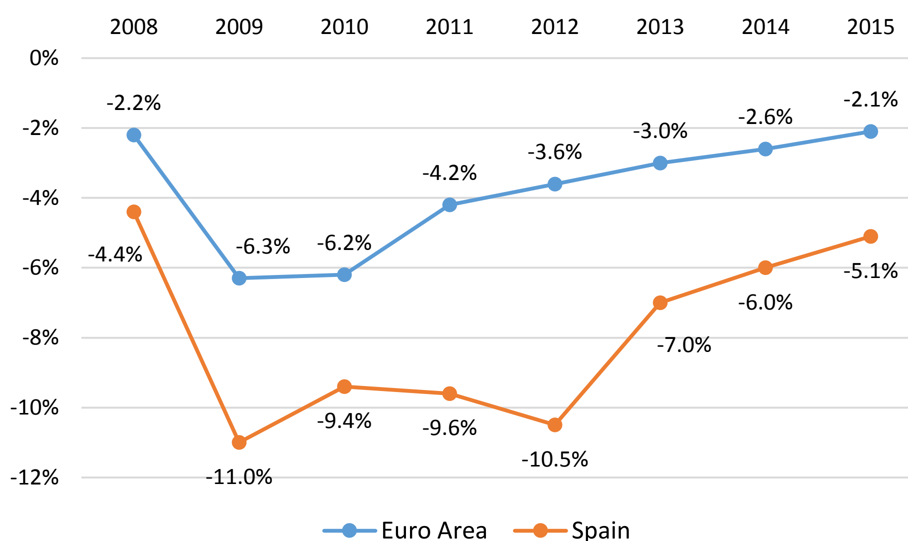
[8] Annex III, point 1(c) provides that if the unemployment rate in the Member State for the year preceding the trigger event [i.e. 2015] referred to in Article 23(9) exceeds the average rate for the Union by more than eight percentage points [22.1% - 9.4% = 12.7%], the maximum level of suspension shall be reduced by 50%.

the EU 28 (after Greece). In particular, the youth unemployment continues to stand at very high levels (43.2% in August 2016) despite substantial declines over the last two years or so[9].

As to **social indicators targeted under the EU2020 Strategy** (see Annex 5), the employment rate has steadily increased from its recent low of 65.4% of population aged 20-64 in 2013 to 69.1% in 2015 on the back of improving economic environment (the target being set at 75%) On the other hand, 28.6% of total population was at risk of poverty or social exclusion in 2015, namely 13.175 million of persons (the second highest level on record since the start of series in 2004). This is 2.8 million of persons more than in 2008 (the reference year under the EU2020 for this indicator), while the intended target specifies a reduction of 1.4 million of persons over the period 2008-2020. Regarding tertiary education attainment among citizens aged 30-34, it has continued its upward trend to stand at 40.9% of total population in 2015 (the EU2020 target being set at 44%).

The **public deficit has been on a downward path since 2012** and narrowed to 5.1% of GDP in 2015 on the back of improved macroeconomic conditions. According to the COM Spring 2016 forecast, it is set to further decline to 3.9% in 2016 and 3.1% in 2017 (under the customary no-policy change assumption) [10]. The public debt stood at 99.2% of GDP in 2015 and is expected to breach 100% in 2016 (100.3%) before it edges down to 99.6% a year later. In comparison, the Spanish authorities project in the 2017 DBP significantly larger public deficit for both 2016 and 2017 (4.6% and 3.6% respectively). While this 2016 projection is in line with the recently revised Council EDP target (4.6%), the 2017 estimate falls short of the Council recommendation (3.1%). This reflects, in particular, unchanged structural deficit between 2016 and 2017 (2.7%) as outlined in the 2017 DBP. Finally, based on the assumed GDP growth path, primary balance, interest payments and stock-flow adjustment (for 2016 only), public debt is projected to remain fractionally below 100% of GDP in both 2016 and 2017 (99.8% and 99.7% respectively). Based on Eurostat data, Spain's interest repayments on its debt amounted to 3.1% of GDP in 2015 (well above the euro area synthetic average of 2.4%). Finally, interest rate on the Spanish long-term government bonds stood at 1.04% in September 2016, as compared to -0.09% on the corresponding German Bund.

Figure 3: General government balance in Spain and the euro area



Source: Eurostat.

[9] The youth unemployment peaked at 56.0% in April 2013.
[10] However, this projected reduction relies on favourable macroeconomic outlook as the structural deficit is set to further deteriorate from 2.9% in 2015, to 3.1% in 2016 and 3.2% in 2017.

Portugal

Portugal's economy has been on a moderate recovery path since mid-2013, driven by domestic demand and improving financing conditions. Nevertheless, the country is experiencing excessive macroeconomic imbalances: large stocks of net external liabilities, private and public debt and a high share of elevated non-performing loans risk to hamper growth in a context of elevated unemployment.

In July 2014, Portugal exited an economic adjustment programme started in May 2011, under which it received 76 billion euro as financial assistance by the EU and the IMF. Since, the country is under specific monitoring by the EU and the IMF.

The recent conclusions of the IMF Board on Portugal read "*The economic recovery in Portugal is losing momentum. The slowdown in economic activity that began in the second half of 2015 has persisted, despite still-favorable cyclical tailwinds and supportive macroeconomic policy settings. The fiscal loosening in place since last year and the ECB's appropriately supportive monetary policy stance have translated into robust consumption growth. However, overall GDP growth is being held back by weaker export growth and sluggish investment, with the latter being weighed down by uncertainty, high levels of corporate debt, and still-pronounced structural bottlenecks. Accordingly, output is expected to increase by only 1.0 percent in 2016*".

Similarly, the COM considered in summer 2016 that "*High public and private debts and rigidities in labour and product markets still represent a major hindrance to growth. ... Amidst some backtracking, progress in structural reforms lost momentum since 2015. A more ambitious reform implementation is urgently needed to further enhance medium-term growth prospects, job creation and competitiveness.*"

According to the COM Spring forecast, GDP growth is expected to be at 1.5% in 2016 and slightly increase to 1.7% in 2017. In comparison, the IMF expects the GDP growth to be 1.0% and 1.1%, while the recently published Draft Budgetary Plan expects GDP growth to be 1.2% and 1.5% in 2016 and 2017, respectively.

In 2015, Portugal nominal GDP was around EUR 180 billion and the total population amounted to approximately 10 million. In terms of living standards, measured by GDP pro capita in purchasing parities, the average income per person stood 23% below the EU average.

In 2015, investments, also supported by EU funds, grew solidly by 4.5%; private consumption increased at a rate of 2.2% and is expected to grow in 2016 and 2017, although at a slower pace. Risks to the macroeconomic outlook are related to policy uncertainty, financial market developments and deleveraging in the private sector.

The trade balance is positive, and the current account was in slight surplus in 2015. The latter is projected to remain positive (0.3% of GDP) in 2016 and further widen to 0.5% of GDP in 2017.

Inflation, as measured by the HICP, was 0.5% in 2015 and the COM forecasts it to be 0.7% and 1.2% in 2016 and 2017 respectively, mainly driven by higher indirect taxes, against an EA indexes of 0.0% in 2015, 0.2% in 2016 and 1.4% in 2017.

The unemployment rate was 12.6% in 2015, expected to decrease to 11.6% in 2016 and to 10.7 in 2017. Consequently, in line with the condition defined in the Annex III, point 1(a) of the CRP, and given that the average EU 28 unemployment rate was 9.4% in 2015, **the maximum level of suspension is to be reduced by 15%[11].** Long-term unemployment was at 7.2% in 2015, slightly down from 8.4 in 2014, and youth unemployment was at 32%, down from its peak of 38.1% in 2013.

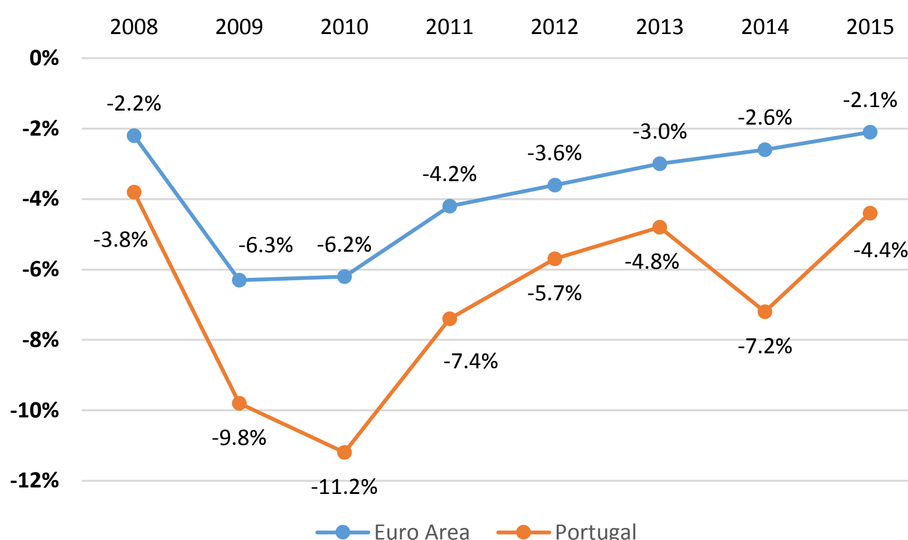
[11] Annex III, point 1(a) provides that if the unemployment rate in the Member State for the year preceding the trigger event [i.e. 2015] referred to in Article 23(9) exceeds the average rate for the Union by more than two percentage points [12.6% - 9.4% = 3.2%], the maximum level of suspension shall be reduced by 15%.

The employment rate in Portugal was 69.3% in 2015, expected to increase by 0.8% in 2016 and 0.5% in 2017, still far from the EU2020 target of 75%.

As to **social indicators targeted under the EU2020** strategy (see Annex 6), in 2015, 27.6% of total population was at risk of poverty or social exclusion: this represents 7000 people more than in 2008, but 114000 less than in 2013; the EU2020 objective of -200 000 persons with respect to 2008 seems not reachable. Tertiary education attainment among citizens aged 30-34 has increased from 22% in 2008 to 32% in 2015, nearing the EU 2020 objective of 40%. Among women, such shares increased from 26% to 40%.

The **public deficit** was 4.4% of GDP in 2015, compared to a target of 2.7% set by the authorities in 2014. The COM projects it to reach 2.7% of GDP in 2016 (below the Treaty reference value of 3%) and 2.3% of GDP in 2017. The government plans to reach a headline deficit of 2.4% of GDP in 2016 and improve it to 1.6% of GDP in 2017. In terms of structural deficit (net of cyclical fluctuations and one-off operations) however, the COM considered that Portugal is not meeting its commitments, as it is projected to increase in 2016 and 2017, and the Medium Term Objective of a structural surplus of 0.25% of GDP is not expected to be achieved within 5 years. However, the Portuguese authorities project the structural balance to be -1.7% in 2016 and 1.1% in 2017.

Figure 4: General government balance in Portugal and the euro area



Source: Eurostat.

The COM expects the **public debt** to decrease from 129.0% of GDP in 2015 to 126.0% in 2016 and to 124.5% in 2017 and to continue declining to 110% in 2020. In the DBP, the Portuguese authorities project the debt-to-GDP ratio to be 129.7% and 128.3 in 2016 and 2017 respectively. In 2015, Portugal spent 4.6% of GDP in interests on its debt, compared to an average in the euro area of 2.4% (source: Eurostat). Finally, interest rate on the Portuguese long-term government bonds[12] stood at 3.26% in September 2016, compared to 0.64 average for the Euro area, and to -0.09% on the corresponding German Bund.

DISCLAIMER: This document is drafted by the Economic Governance Support Unit (EGOV) of the European Parliament based on publicly available information and is provided for information purposes only. The opinions expressed in this document are the sole responsibility of the authors and do not necessarily represent the official position of the European Parliament. Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the publisher is given prior notice and sent a copy. © European Union, 2016

[12] All major credit rating agencies have downgraded Portugal's sovereign debt below the investment status, with the only exception of the DBRS (a Canadian rating agency) that has confirmed on 21 October 2016 its rating BBB (low) stable outlook, thereby avoiding possible restrictions on the eligibility of marketable debt instruments issued or guaranteed by the Portuguese government in the context of the ECB's QE programme.

Annex 1: Spain's key economic indicators

	2012	2013	2014	2015	2016f	2017f
Real GDP growth – *% change on previous year*						
Spain	-2.9p	-1.7 p	1.4 p	3.2	2.9**	2.3**
EA	-0.9	-0.3	1.1	2.0	1.6	1.8
GDP per capita – *Purchasing power parities, Euro*						
Spain	24,300 p	24,100 p	24,900 p	26,200 p	n.a.	n.a.
EA	28,700	28,800	29,400	30,600	n.a.	n.a.
General government budget balance – *% of GDP*						
Spain	-10.5	-7.0	-6.0	-5.1	-4.6**	-3.3**
EA	-3.6	-3.0	-2.6	-2.1	-1.9	-1.6
General government structural budget balance* – *% of potential GDP*						
Spain	-3.4	-2.0	-1.9	-2.9	-3.1	-3.2
EA	-2.1	-1.4	-1.0	-1.0	-1.3	-1.4
General government gross debt – *% of GDP*						
Spain	85.7	95.4	100.4	99.8	100.3	100.6**
EA	89.5	91.3	92.0	90.4	92.2	91.1
Interests paid on general government debt – *% of GDP*						
Spain	3.0	3.5	3.5	3.1	2.9	2.7
EA	3.0	2.8	2.7	2.4	2.3	2.2
Inflation (HICP) – *% change on previous year*						
Spain	2.4	1.5	-0.2	-0.6	-0.3**	1.4
EA	2.5	1.4	0.4	0.0	0.2	1.4
Unemployment – *% of labour force*						
Spain	24.8	26.1	24.5	22.1	20.0	18.1
EA	11.3	12.0	11.6	10.9	10.3	9.9
Youth unemployment – *% of labour force (15 - 24 years)*						
Spain	52.9	55.5	53.2	48.3	n.a	n.a
EA	23.6	24.4	23.8	22.4	n.a	n.a
Current account balance – *% of GDP*						
Spain	-0.2	1.5	1.1	1.4	1.5	1.3
EA	1.3	2.2	2.4	3.1	3.7	3.6
Exports – *% change on previous year*						
Spain	1.1 p	4.3 p	4.2 p	4.9 p	4.5	5.2
EA	2.6	2.1	4.5	6.5	3.5	4.7
Imports – *% change on previous year*						
Spain	-6.4	-0.5	6.5	5.6	5.8	5.8
EA	-0.8	1.3	4.9	6.4	4.6	5.3
Total investments – *% change on previous year*						
Spain	-8.6 p	-3.4 p	3.8 p	6.0 p	1.6	4.9
EA	-3.5	-2.5	1.4	3.2	2.9	3.8
Total investments – *% of GDP*						
Spain	19.8 p	18.8 p	19.1 p	19.7 p	n.a.	n.a.
EA	20.2	19.6	19.6	19.7	n.a.	n.a.
General government investments – *% change on previous year*						
Spain	2.5	2.2	2.2	2.5	n.a.	n.a.
EA	2.9	2.8	2.7	2.7	n.a.	n.a.
Total final consumption expenditure – *% change on previous year*						
Spain	-3.8	-2.9	1.1	2.6	n.a.	n.a.
EA	-0.9	-0.4	0.8	1.7	n.a.	n.a.
Households final consumption expenditure – *% change on previous year*						
Spain	-3.6 p	-3.2 p	1.6 p	2.8 p	n.a.	n.a.
EA	-1.2	-0.8	0.8	1.8	n.a.	n.a
Income Inequality (Gini Coefficient) – *Scale 0-100: 0 = total income equality; 100 = total income inequality*						
Spain	34.2	33.7	34.7	34.6	n.a	n.a
EA	30.4	30.7	31.0	30.8	n.a	n.a
Unit labour cost - nominal – *% change on previous year*						
Spain	-2.6 p	-0.6 p	-0.3 p	0.2 p	0.7	0.6
EA	2.0	1.1	0.7	0.3	0.9	1.1

Sources: Eurostat (data extracted on 24 October 2016), (f) the Commission Spring 2016 forecast; (*) DG ECFIN/AMECO and (**) the Commission forecast update (August 2016).

Annex 2: Portugal's key economic indicators

	2012	2013	2014	2015	2016f	2017f
Real GDP growth – *% change on previous year*						
Portugal	-4.0	-1.1	0.9	1.6	1.5	1.7
EA	-0.9	-0.3	1.1	2.0	1.6	1.8
GDP per capita – *Purchasing power parities, Euro*						
Portugal	20,500	20,600	21,400	22,300	n.a.	n.a.
EA	28,700	28,800	29,400	30,600	n.a.	n.a.
General government budget balance – *% of GDP*						
Portugal	-5.7	-4.8	-7.2	-4.4	-2.7	-2.3
EA	-3.6	-3.0	-2.6	-2.1	-1.9	-1.6
General government structural budget balance* **–** *% of potential GDP*						
Portugal	-3.1	-2.5	-1.4	-2.0	-2.2	-2.5
EA	-2.1	-1.4	-1.0	-1.0	-1.3	-1.4
General government gross debt – *% of GDP*						
Portugal	126.2	129.0	130.6	129.0	126.0	124.5
EA	89.5	91.3	92.0	90.4	92.2	91.1
Interests paid on general government debt – *% of GDP*						
Portugal	4.9	4.9	4.9	4.6	4.5	4.3
EA	3.0	2.8	2.7	2.4	2.3	2.2
Inflation (HICP) – *% change on previous year*						
Portugal	2.8	0.4	-0.2	0.5	0.7	1.2
EA	2.5	1.4	0.4	0.0	0.2	1.4
Unemployment – *% of labour force*						
Portugal	15.8	16.4	14.1	12.6	11.6	10.7
EA	11.3	12.0	11.6	10.9	10.3	9.9
Youth unemployment – *% of labour force (15 - 24 years)*						
Portugal	38.0	38.1	34.7	32.0	n.a	n.a
EA	23.6	24.4	23.8	22.4	n.a	n.a
Current account balance – *% of GDP*						
Portugal	-1.8	1.5	0.1	0.4	0.3	0.5
EA	1.3	2.2	2.4	3.1	3.7	3.6
Exports – *% change on previous year*						
Portugal	3.4	7.0	4.3	6.1	4.1	5.1
EA	2.6	2.1	4.5	6.5	3.5	4.7
Imports – *% change on previous year*						
Portugal	-6.3	4.7	7.8	8.2	4.3	5.6
EA	-0.8	1.3	4.9	6.4	4.6	5.3
Total investments – *% change on previous year*						
Portugal	-16.6	-5.1	2.3	4.5	1.6	4.9
EA	-3.5	-2.5	1.4	3.2	2.9	3.8
Total investments – *% of GDP*						
Portugal	15.8	14.8	15.0	15.3	n.a.	n.a.
EA	20.2	19.6	19.6	19.7	n.a.	n.a.
General government investments – *% change on previous year*						
Portugal	2.5	2.2	2.0	2.3	n.a.	n.a.
EA	2.9	2.8	2.7	2.7	n.a.	n.a.
Total final consumption expenditure – *% change on previous year*						
Portugal	-5.0	-1.4	1.7	2.2	n.a.	n.a.
EA	-0.9	-0.4	0.8	1.7	n.a.	n.a.
Households final consumption expenditure – *% change on previous year*						
Portugal	-5.7	-1.3	2.3	2.6	n.a.	n.a.
EA	-1.2	-0.8	0.8	1.8	n.a.	n.a
Income Inequality (Gini Coefficient) – *Scale 0-100: 0 = total income equality; 100 = total income inequality*						
Portugal	34.5	34.2	34.5	34.0	n.a	n.a
EA	30.4	30.7	31.0	30.8	n.a	n.a
Unit labour cost - nominal – *% change on previous year*						
Portugal	-3.2	1.8	-1.3	-0.5	1.0	0.3
EA	2.0	1.1	0.7	0.3	0.9	1.1

Source: Eurostat (data extracted on 24/10/2016); (f): the Commission Spring 2016 forecast; (*) DG ECFIN/AMECO.

Annex 3: Spain's Macroeconomic Imbalance Scoreboard

Indicators			Threshold	2007	2008	2009	2010	2011	2012	2013	2014	2015
External imbalances and competitiveness	**Current account balance (% of GDP)**	**3 year average**	-4/+6%	-8.7	-9.3	-7.7	-5.8	-3.8	-2.4	-0.6	0.8	1.3
		Year value	-	-9.6	-9.3	-4.3	-3.9	-3.2	-0.2	1.5	1.1	1.4
	Net international investment position (% of GDP)		-35%	-79.6	-80.2	-93.5	-88.6	-91.9	-89.9	-94.3	-97.5	-89.9
	Real effective exchange rate - 42 trading partners	**% change (3 years)**	± 5% €A	2.7	5.2	4.6	-0.3	-2.5	-5.3	-0.4	-1.0	-2.9
		% change y-o-y	-	1.6	2.5	0.4	-3.1	0.2	-2.4	1.9	-0.5	-4.2
	Share of world exports	**% change (5 years)**	-6%	-4.8	-14.3	-8.8	-11.4	-8.2	-17.6	-10.6	-12.0	-3.5
		% change y-o-y		5.0	-4.5	2.3	-9.6	-1.0	-5.8	3.7	0.7	-0.9
	Nominal unit labour cost	**% change (3 years)**	9% €A	11.3(p)	13.7(p)	11.8(p)	-5.7(p)	-1.0(p)	-5.1(p)	-4.1(p)	-3.5(p)	-0.7(p)
		% change y-o-y	-	4.1(p)	5.7(p)	1.6(p)	-1.6(p)	-1.0(p)	-2.6(p)	-0.6(p)	-0.3(p)	0.2(p)
Internal imbalances	**House prices** (% change y-o-y deflated)		6%	6..3	-4.8	-5.8	-3.7	-9.8	-16.8	-10.1	0.2	3.8
	Private sector credit flow (% of GDP)		14%	26.4	11.7	-1.2	0.9	-3.7	-11.2	-10.3	-7.2	-2.7
	Private sector debt (% of GDP)		133%	191.2	195.7	201.4	200.3	196.2	187.8	176.7	165.4	154.0
	General government gross debt (EDP) (% of GDP)		60%	35.5	39.4	52.7	60.1	69.5	85.4	93.7	99.3	99.2
	Unemployment rate	**3 year average**	10%	8.6	9.3	12.5	16.4	19.7	22.0	24.1	25.1	24.2
		Year value	-	8.2	11.3	17.9	19.9	21.4	24.8	26.1	24.5	22.1
	Total Financial Sector Liabilities, non-consolidated (% change y-o-y)		16.5%	16.8	3.8	3.7	-2.0	2.8	2.7	-11.6	-1.2	-2.1
Employment indicators	**Activity rate % 15-64 total pop.** (3 year change)		-0.2%	2.9	2.7	2.0	1.7	1.2	1.2	0.8	0.3	0.0
	Long-term unemployment active pop. 15-74 (3 year change)		0.5%	-1.8	-0.2	2.5	5.6	6.9	6.7	5.7	4.0	0.4
	Youth unemployment % active pop. 15-24 (3 year change)		2%	-3.9	4.9	19.8	23.4	21.7	15.2	14.0	7.0	-4.6

Source: Eurostat MIP Scoreboard indicators (data extracted on 19 October 2016 and therefore may not correspond to the 2016 AMR). A separate EGOV document provides an overview of the implementation of the MIP. Note: Grey cells signal data falling outside the MIP thresholds; p = provisional and (:) = missing.

Annex 4: Portugal's Macroeconomic Imbalance Scoreboard

Indicators			Threshold	2007	2008	2009	2010	2011	2012	2013	2014	2015
External imbalances and competitiveness	**Current account balance (% of GDP)**	**3 year average**	-4/+6%	-10.1	-10.8	-10.8	-10.9	-8.9	-6.0	-2.1	-0.1	0.7
		Year value	-	-9.7	-12.1	-10.4	-10.1	-6.0	-1.8	1.5	0.1	0.4
	Net international investment position (% of GDP)		-35%	-88.8	-95.1	-107.9	-104.3	-100.7	-116.5	-116.3	-114.9	-109.3
	Real effective exchange rate - 42 trading partners	**% change (3 years)**	± 5% €A	0.6	2.1	1.0	-3.1	-3.0	-4.0	-0.6	-1.8	-2.8
		% change y-o-y	-	1.0	0.6	-0.6	-3.1	0.7	-1.6	0.3	-0.5	-2.6
	Share of world exports	**% change (5 years)**	-6%	-3.3	-11.1	-7.9	-6.6	-8.2	-16.0	-6.8	-5.5	2.8
		% change y-o-y		4.4	-3.8	-0.0	-8.9	0.4	-4.5	6.8	1.4	-1.0
	Nominal unit labour cost	**% change (3 years)**	9% €A	5.1	4.5	6.6	4.2	-0.6	-6.3	-3.4	-2.7	0.0(e)
		% change y-o-y	-	1.0	2.8	2.7	-1.2	-2.0	-3.2	1.8	-1.3	-0.5(e)
Internal imbalances	**House prices** (% change y-o-y deflated)		6%	-1.9	1.0(b)	1.0	-1.0	-6.5	-8.7	-2.7	3.9	2.3
	Private sector credit flow (% of GDP)		14%	18.2	15.9	5.3	5.3	-0.9	-3.7	-1.9	-5.9	-2.3
	Private sector debt (% of GDP)		133%	185.0	196.2	204.2	201.5	204.1	211.7	204.4	192.4	181.5
	General government gross debt (EDP) (% of GDP)		60%	68.4	71.7	83.6	96.2	111.4	126.2	129.0	130.2	129.0
	Unemployment rate	**3 year average**	10%	8.9	8.9	9.5	10.5	11.9	13.6	15.0	15.4	14.4
		Year value	-	9.1	8.8	10.7	12.0	12.9	15.8	16.4	14.1	12.6
	Total Financial Sector Liabilities, non-consolidated (% change y-o-y)		16.5%	10.2	4.4	8.9	11.5	-4.5	-1.8	-5.3	-7.3	-1.6
Employment indicators	**Activity rate % 15-64 total pop.** (3 year change)		-0.2%	1.2	0.7	-0.2	-0.2	-0.3(b)	0.0	-0.7	-0.4	0.0
	Long term unemployment active pop. 15-74 (3 year change)		0.5%	0.8	-0.1	0.3	1.9	2.6	3.5	3.6	2.2	-0.5
	Youth unemployment % active pop. 15-24 (3 year change)		2%	1.7	0.8	4.1	6.8	8.6	12.7	9.9	4.5	-6.0

Source: Eurostat MIP Scoreboard indicators (data extracted on 19 October 2016 and therefore may not correspond to the 2016 AMR). A separate EGOV document provides an overview of the implementation of the MIP. Note: Grey cells signal data falling outside the MIP thresholds; p = provisional and (:) = missing.

Annex 5: Spain's progress towards EU2020 targets

Indicator	Spain			EU28	
Employment rate (% of population aged 20-64)	**74**		**Target 2020**	**75**	
	62.0		2015	70.1	
	59.9		2014	69.2	
	58.6		2013	68.4	
	59.6		2012	68.4	
Expenditure on R&D (% of GDP)	**2.0%**		**Target 2020**	**3**	
	n.a.		2015	n.a.	
	1.23		2014	2.03p	
	1.26		2013	2.03	
	1.28		2012	2.01	
Greenhouse gas emission[1]	**Total n.c.s.t.**[(1)] (Index 1990 = 100)	**Non-ETS 90**[(1)] (Index 2005 = 100)	**Target 2020**	**Total 80**[(1)] (Index 1990 = 100)	
	n.a.	n.a.	2015	n.a	
	117.54	n.a.	2014	77.05	
	116.87	n.a.	2013	80.24	
	126.58	84.36	2012	81.80	
Share of renewable energy (%)	**20**		**Target 2020**	**20**	
	n.a.		2015	n.a	
	16.2		2014	16.0	
	15.3		2013	15.0	
	14.3		2012	14.3	
Primary energy consumption (million tonnes of oil equivalent-TOE)	**119.8**		**Target 2020**	**1483**	
	n.a.		2015	n.a	
	112.6		2014	1,507.1	
	114.3		2013	1,569.1	
	122.1		2012	1,584.0	
Early school leaving (% of population aged 18-24)	**15**		**Target 2020**	**10**	
	20.0		2015	11.0	
	21.9b		2014	11.2b	
	23.6		2013	11.9	
	24.7		2012	12.7	
Tertiary educational attainment (% of population aged 30-34)	**44**		**Target 2020**	**40**	
	40.9		2015	38.7	
	42.3b		2014	37.9b	
	42.3		2013	37.1	
	41.5		2012	36.0	
Population at risk of poverty or social exclusion (thousand - % of total population)	**Reduction by 1,400 thousand**	**n.c.s.t.**	**Target 2020**	**Reduction by 20 million**	**n.c.s.t.**
	13,175	28.6	2015	n.a.	n.a.
	13,402	29.2	2014	122,258	24.4
	12,630	27.3	2013	122,685	24.6
	12,628	27.2	2012	123,601	24.7

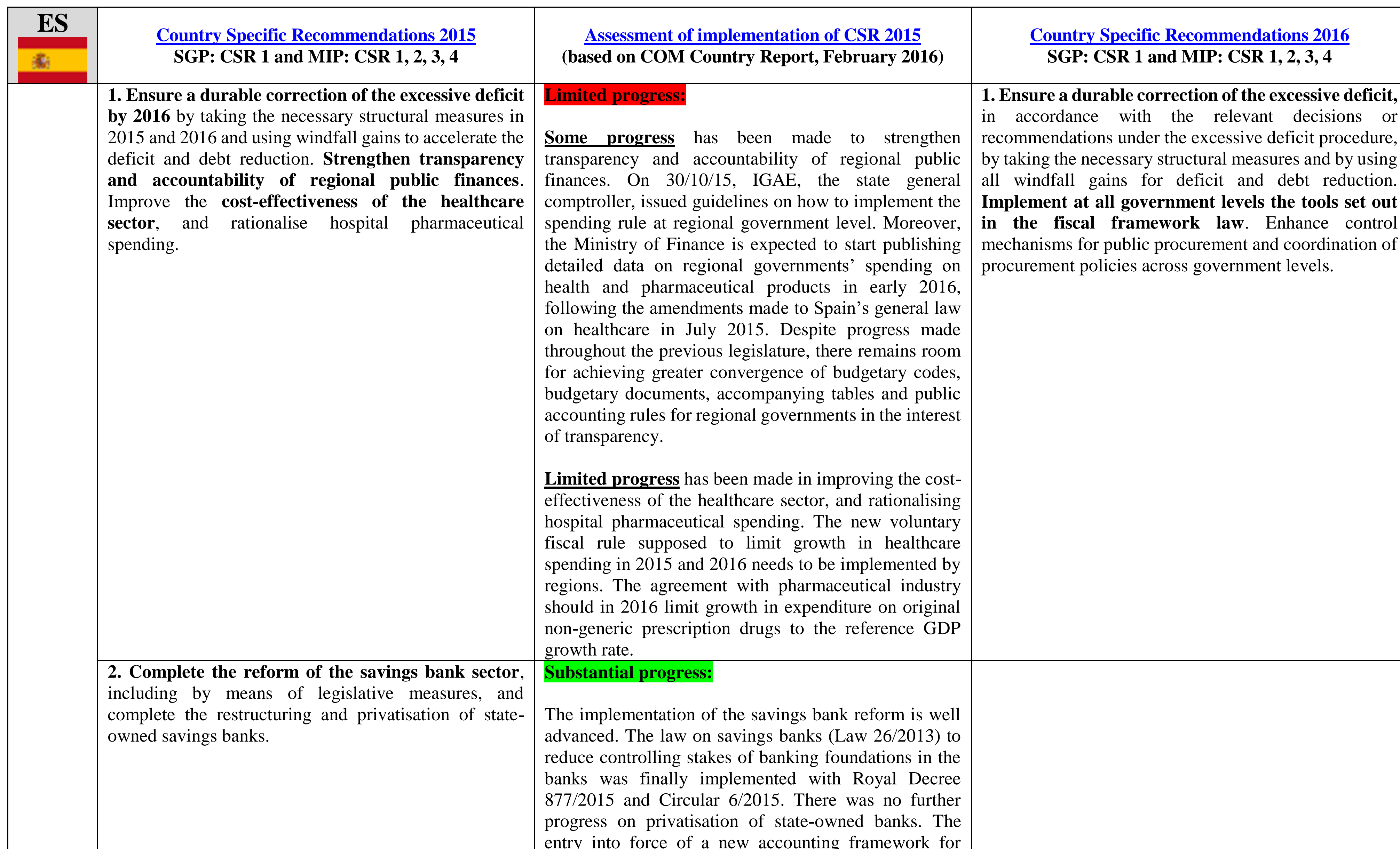
Source: Eurostat (data extracted on 22 September 2016).
(1) The Effort Sharing Decision (2009/406/EC) sets country-specific targets for non-ETS emissions only and an EU target for ETS-emissions. For Spain, non-ETS emissions will be reduced by 10% compared to 2005 levels. For the EU, ETS-emissions will be reduced by 21% compared to 2005 level and overall emissions by 20% compared to 1990 levels.
* = Estimate; n.c.s.t. = "no country specific target"; n.a = "not available"; p = provisional and b = break in time series.

Annex 6: Portugal's progress towards EU2020 targets

Indicator	Portugal			EU28	
Employment rate (% of population aged 20-64)	**75**		**Target 2020**	**75**	
	69.1		2015	70.1	
	67.6		2014	69.2	
	65.4		2013	68.4	
	66.3		2012	68.4	
Expenditure on R&D (% of GDP)	**2.7%**		**Target 2020**	**3**	
	n.a.		2015	n.a.	
	1.29[p]		2014	2.03[p]	
	1.33		2013	2.03	
	1.38		2012	2.01	
Greenhouse gas emission[1]	**Total n.c.s.t.** [(1)] (Index 1990 = 100)	**Non-ETS 101**[(1)] (Index 2005 = 100)	**Target 2020**	**Total 80**[(1)] (Index 1990 = 100)	
	n.a.	n.a.	2015	n.a	
	108.82	n.a.	2014	77.05	
	109.11	n.a.	2013	80.24	
	112.36	87.97	2012	81.80	
Share of renewable energy (%)	**31**		**Target 2020**	**20**	
	n.a.		2015	n.a	
	27.0		2014	16.0	
	25.7		2013	15.0	
	25.0		2012	14.3	
Primary energy consumption (million tonnes of oil equivalent-TOE)	**22.5**		**Target 2020**	**1483**	
	n.a.		2015	n.a	
	20.7		2014	1,507.1	
	21.0		2013	1,569.1	
	20.9		2012	1,584.0	
Early school leaving (% of population aged 18-24)	**10**		**Target 2020**	**10**	
	13.7		2015	11.0	
	17.4[b]		2014	11.2[b]	
	18.9		2013	11.9	
	20.5		2012	12.7	
Tertiary educational attainment (% of population aged 30-34)	**40**		**Target 2020**	**40**	
	31.9		2015	38.7	
	31.3[b]		2014	37.9[b]	
	30.0		2013	37.1	
	27.8		2012	36.0	
Population at risk of poverty or social exclusion (thousand - % of total population)	**Reduction by 200 thousand**	**n.c.s.t.**	**Target 2020**	**Reduction by 20 million**	**n.c.s.t.**
	2,765	26.6	2015	n.a.	n.a.
	2,863	27.5	2014	122,258	24.4
	2,879	27.5	2013	122,685	24.6
	2,667	25.3	2012	123,601	24.7

Source: Eurostat (data extracted on 22 September 2016).
(1) The Effort Sharing Decision (2009/406/EC) sets country-specific targets for non-ETS emissions only and an EU target for ETS-emissions. For Spain, non-ETS emissions will be reduced by 10% compared to 2005 levels. For the EU, ETS-emissions will be reduced by 21% compared to 2005 level and overall emissions by 20% compared to 1990 levels.
* = Estimate; n.c.s.t. = "no country specific target"; n.a = "not available"; p = provisional and b = break in time series.

Annex 7: Spain's Country Specific Recommendations for 2015 and 2016



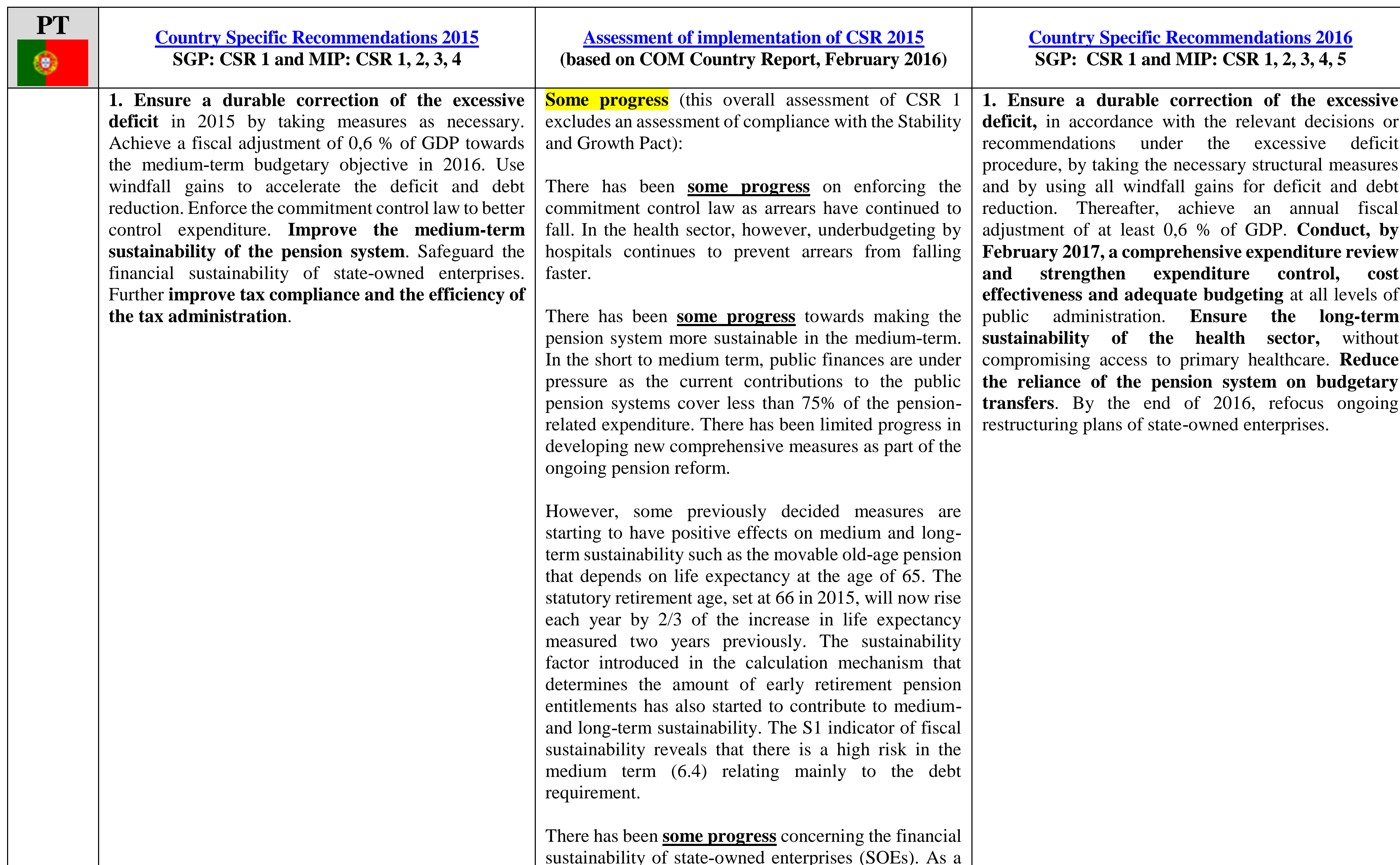
ES	Country Specific Recommendations 2015 **SGP: CSR 1 and MIP: CSR 1, 2, 3, 4**	Assessment of implementation of CSR 2015 **(based on COM Country Report, February 2016)**	Country Specific Recommendations 2016 **SGP: CSR 1 and MIP: CSR 1, 2, 3, 4**
	1. Ensure a durable correction of the excessive deficit by 2016 by taking the necessary structural measures in 2015 and 2016 and using windfall gains to accelerate the deficit and debt reduction. **Strengthen transparency and accountability of regional public finances.** Improve the **cost-effectiveness of the healthcare sector**, and rationalise hospital pharmaceutical spending.	**Limited progress:** **Some progress** has been made to strengthen transparency and accountability of regional public finances. On 30/10/15, IGAE, the state general comptroller, issued guidelines on how to implement the spending rule at regional government level. Moreover, the Ministry of Finance is expected to start publishing detailed data on regional governments' spending on health and pharmaceutical products in early 2016, following the amendments made to Spain's general law on healthcare in July 2015. Despite progress made throughout the previous legislature, there remains room for achieving greater convergence of budgetary codes, budgetary documents, accompanying tables and public accounting rules for regional governments in the interest of transparency. **Limited progress** has been made in improving the cost-effectiveness of the healthcare sector, and rationalising hospital pharmaceutical spending. The new voluntary fiscal rule supposed to limit growth in healthcare spending in 2015 and 2016 needs to be implemented by regions. The agreement with pharmaceutical industry should in 2016 limit growth in expenditure on original non-generic prescription drugs to the reference GDP growth rate.	**1. Ensure a durable correction of the excessive deficit,** in accordance with the relevant decisions or recommendations under the excessive deficit procedure, by taking the necessary structural measures and by using all windfall gains for deficit and debt reduction. **Implement at all government levels the tools set out in the fiscal framework law**. Enhance control mechanisms for public procurement and coordination of procurement policies across government levels.
	2. Complete the reform of the savings bank sector, including by means of legislative measures, and complete the restructuring and privatisation of state-owned savings banks.	**Substantial progress:** The implementation of the savings bank reform is well advanced. The law on savings banks (Law 26/2013) to reduce controlling stakes of banking foundations in the banks was finally implemented with Royal Decree 877/2015 and Circular 6/2015. There was no further progress on privatisation of state-owned banks. The entry into force of a new accounting framework for	

		SAREB, the Spanish asset management company, is a positive development, as it will allow proper treatment of impairments and asset-price evolution, and help in adapting deleveraging policies of SAREB to credible market assumptions.	
	3. Promote the alignment of wages and productivity, in consultation with the social partners and in accordance with national practices, taking into account differences in skills and local labour market conditions as well as divergences in economic performance across regions, sectors and companies. **Take steps to increase the quality and effectiveness of job search assistance** and counselling, including as part of tackling youth unemployment. **Streamline minimum income and family support schemes and foster regional mobility**.	**Some progress:** **Some progress** has been reached in wage setting, owing in particular to the latest collective bargaining agreement for 2015-2016 signed by social partners in June 2015. The agreement strives to take into account differences in skills and local labour market conditions, as well as divergences in economic performance across regions, sectors and companies. However, the number of workers covered by firm-level agreements is still very low. **Some progress** has been made to increase the quality and effectiveness of job search assistance and counselling, including as part of the tackling youth unemployment. The implementation of the Activation Strategy 2014-2016 is progressing very slowly, as well as the cooperation between the regions and the central government. The national Youth Guarantee was set in motion. However, participation in initiatives to increase labour market participation, entrepreneurship, and the employability of young people is still much lower than expected, and effective outreach mechanisms are lacking. **Limited progress** has been registered in ensuring effective minimum income support schemes that allows smooth transition to the labour market. Income support schemes and social services are scattered across many institutions and levels of government that limit the portability and mobility of the beneficiaries. The delivery of family support schemes (notably affordable early childhood education and care, and long term care) remains poor and regional mobility has not improved.	**2. Take further measures to improve labour market integration**, by focusing on individualised support and strengthening the effectiveness of training measures. Enhance the capacity of regional employment services and reinforce their coordination with social services. **Address gaps and disparities in minimum income schemes and improve family support schemes, including access to quality childcare and long-term care.**

	4. Remove the barriers preventing businesses from growing, including barriers arising from size-contingent regulations; adopt the planned reform on professional services; **accelerate the implementation of the law on market unity**.	**Some progress:** **Some progress** has been made in removing the barriers preventing businesses from growing. Some measures were adopted since the publication of the 2015 Country Report for Spain with a view to fostering company growth. The April 2015 law on corporate finance aims to improve SME's access to bank credit and non-bank financing. The October 2015 law on the legal framework of public administration sets out the obligation to assess the impact of new legislation on SMEs. **No progress** has been made in adopting the planned reform of professional services. The Spanish government decided in 2015 not to pursue this reform. As a result, no draft law has been sent to Parliament, despite the fact that technical work linked to the reform had been completed. **Some progress** has been made in accelerating the implementation of the law on market unity. At the cut-off date of this report, the central government had completed around 60% of the planned amendments to sector specific legislation. The rate of completed amendments at regional level is around 17%, thus showing little progress since the publication of the 2015 Country Report for Spain. At the time of writing one agreement had been reached at sectoral conference level on gambling. However, some technical groups reporting to the sectoral conferences have made agreements in the areas of industry, tourism, urban and environmental regulations. Cooperation mechanisms among the different administrations set out in the Law, such as the electronic application to share information among central, regional and local authorities, are operational. Lastly, the law also introduces a complaint mechanism offering the possibility for economic agents to seek redress on barriers to market unity within shorter deadlines than ordinary administrative appeals. At the time of writing, 150 complaints had been submitted.	**4. Accelerate the implementation of the law on market unity at regional level.** Ensure implementation by the autonomous regions of the reform measures adopted for the retail sector. Adopt the planned reform on professional services and associations.

			3. Take further measures to improve the labour market relevance of tertiary education, including by incentivising cooperation between universities, firms and research institutions. **Increase performance-based funding** of public research bodies and universities and **foster R&I investment** by the private sector.

Annex 8: Portugal's Country Specific Recommendations for 2015 and 2016



PT	Country Specific Recommendations 2015 **SGP: CSR 1 and MIP: CSR 1, 2, 3, 4**	Assessment of implementation of CSR 2015 **(based on COM Country Report, February 2016)**	Country Specific Recommendations 2016 **SGP: CSR 1 and MIP: CSR 1, 2, 3, 4, 5**
	1. Ensure a durable correction of the excessive deficit in 2015 by taking measures as necessary. Achieve a fiscal adjustment of 0,6 % of GDP towards the medium-term budgetary objective in 2016. Use windfall gains to accelerate the deficit and debt reduction. Enforce the commitment control law to better control expenditure. **Improve the medium-term sustainability of the pension system**. Safeguard the financial sustainability of state-owned enterprises. Further **improve tax compliance and the efficiency of the tax administration**.	**Some progress** (this overall assessment of CSR 1 excludes an assessment of compliance with the Stability and Growth Pact): There has been **some progress** on enforcing the commitment control law as arrears have continued to fall. In the health sector, however, underbudgeting by hospitals continues to prevent arrears from falling faster. There has been **some progress** towards making the pension system more sustainable in the medium-term. In the short to medium term, public finances are under pressure as the current contributions to the public pension systems cover less than 75% of the pension-related expenditure. There has been limited progress in developing new comprehensive measures as part of the ongoing pension reform. However, some previously decided measures are starting to have positive effects on medium and long-term sustainability such as the movable old-age pension that depends on life expectancy at the age of 65. The statutory retirement age, set at 66 in 2015, will now rise each year by 2/3 of the increase in life expectancy measured two years previously. The sustainability factor introduced in the calculation mechanism that determines the amount of early retirement pension entitlements has also started to contribute to medium- and long-term sustainability. The S1 indicator of fiscal sustainability reveals that there is a high risk in the medium term (6.4) relating mainly to the debt requirement. There has been **some progress** concerning the financial sustainability of state-owned enterprises (SOEs). As a	**1. Ensure a durable correction of the excessive deficit,** in accordance with the relevant decisions or recommendations under the excessive deficit procedure, by taking the necessary structural measures and by using all windfall gains for deficit and debt reduction. Thereafter, achieve an annual fiscal adjustment of at least 0,6 % of GDP. **Conduct, by February 2017, a comprehensive expenditure review and strengthen expenditure control, cost effectiveness and adequate budgeting** at all levels of public administration. **Ensure the long-term sustainability of the health sector,** without compromising access to primary healthcare. **Reduce the reliance of the pension system on budgetary transfers**. By the end of 2016, refocus ongoing restructuring plans of state-owned enterprises.

		result of rationalisation measures and mergers between companies, the operating performance of SOEs has been improving. Equity operations carried out by the state have also strengthened several companies' financial position. Partial reversal of the privatisation of the air carrier TAP may imply additional fiscal risks. Cancelling the award of urban transport concessions in Lisbon and Porto will have an immediate fiscal impact during 2016, as the savings these concessions were supposed to deliver will not materialise. Political choices in the transport sector will need to go hand-in-hand with measures to ensure that these SOEs are financial sustainable. There has been **some progress** on improving tax compliance and making the tax administration more efficient. The planned integration of local tax offices into the Aproximar programme is under way. Measures are being taken to combat tax fraud in the housing market, improve arrangements for sharing information with financial institutions, and strengthen Portugal's anti-money-laundering framework.	
	2. Promote the alignment of wages and productivity, in consultation with the social partners and in accordance with national practices, taking into account differences in skills and local labour market conditions as well as divergences in economic performance across regions, sectors and companies. Ensure that developments relating to the minimum wage are consistent with the objectives of promoting employment and competitiveness.	**Some progress:** **Some progress** on promoting the alignment of wages and productivity. The most recent data available show that wage developments have been moderate and in line with productivity over a medium-term horizon. Collective bargaining at sectoral level has been supportive of this process. However firm-level bargaining is not picking up, potentially limiting the scope for wage differentiation according to the dimensions mentioned in the CSR. **No progress** as regards the minimum wage. It was further increased in January 2016 from EUR 505 to EUR 530, in a context of low inflation and high unemployment, putting upward pressures on the overall wage structure with the risk of affecting employment and competitiveness perspectives.	**2.** In consultation with social partners, **ensure that the minimum wage is consistent with the objectives of promoting employment and competitiveness across sectors.**

	3. Improve the efficiency of public employment services, in particular by increasing outreach to non-registered young people. **Ensure effective activation of benefit recipients and adequate coverage of social assistance**, in particular the minimum income scheme.	**Some progress:** **Some progress** has been made in increasing outreach to non-registered young people but challenges in its implementation still persist. A broad network of partners engaged in the implementation of the Young Guarantee has been set to reach out to young people aged under 30 and not in employment, education or training (NEET). Another positive step has been the creation of a Youth Guarantee online platform where NEETs can register. **Some progress** has been made in improving the efficiency of the public employment services through a reinforced performance management and an ongoing shift towards digital services. While partnerships with municipalities, training organisations and social economy actors are well developed, there has been limited progress in binding partnerships with private employment services. The two pilot projects of partnership with private employment services in Lisbon and Porto have been delayed and a tender procedure has yet to be launched. There has been **some progress** in ensuring adequate coverage of social assistance, in particular through the minimum income scheme. There have been changes to the eligibility criteria of the minimum income scheme which may extend its coverage. Further measures in this area include an increase in child benefits, including for single parents households. No new specific measures have been taken on activation for minimum income scheme recipients.	**3. Ensure the effective activation of the long-term unemployed and improve the coordination between employment and social services.** Strengthen incentives for firms to hire through permanent contracts.
	4. Take further measures to reduce the corporate debt overhang, to address the corporate non-performing loans ratio in banks and to reduce the debt bias for corporates under tax provisions. **Improve the efficiency of debt restructuring tools** for viable companies by introducing incentives for banks and	**Some progress:** **Some progress** has been made on reducing the corporate debt overhang and allowing the private sector to deleverage This includes the well advanced implementation of the corporate deleveraging strategy, which includes the revamping of the PER and SIREVE	**4.** Take measures, by October 2016, to **facilitate the cleaning up of the balance sheets of credit institutions and address the high level of non-performing loans.** Reduce the debt bias in corporate taxation and improve the access to finance for start-ups and small and medium-sized enterprises via the capital market.

	debtors to engage in restructuring processes at an early stage.	insolvency tools and changes in the tax treatment of debt financing. However, at close to 190% of GDP Portugal's private sector is one of the most highly indebted in the EU. Moreover, access to credit remains costly and difficult for businesses, in particular SMEs. Therefore, there is still the need to continue to pay attention to the problem of high indebtedness and to encourage the banking sector to raise capital in order to be able to clean its balance sheet from the high burden of corporate non-performing credit.	
	5. Accelerate measures and increase transparency as regards concessions, including in the transport sector, and private-public partnerships at local and regional level.	**Limited progress:** **Limited progress** has been made on transparency. A revised framework for public-private partnerships (PPPs) entered into force on 1 June 2012. The government has renegotiated several road PPPs. In most cases, the Court of Auditors has already expressed its view that no prior approval is required for the changes to be effective. As regards water concessions at local level and railway PPPs, the Court of Auditors expressed a negative opinion of the way the state had managed the contracts. Existing legislation does not empower UTAP, the Ministry of Finance's taskforce for PPPs, to cover concessions, regional and local PPPs or even central government PPPs/concessions in the water/sewerage/waste businesses (or any concession given to SOEs by law in an in-house relationship). The authorities are aware of these loopholes and agree there is a need to find a solution. However, no concrete suggestions or timeline has yet been proposed.	**5. Increase transparency and efficiency in public procurement** as regards public-private partnerships and concessions. By the end of 2016, **improve and accelerate administrative and licensing procedures, accelerate tax litigations and reduce regulatory barriers,** especially in business services. Incentivise cooperation between universities and the business sector.