IN-DEPTH ANALYSIS

European Parliament

Economic Dialogue with Spain

ECON on 22 January 2019

This note presents selected information on the current status of the EU economic governance procedures and related relevant information in view of an Economic Dialogue with Nadia Calviño, Minister of Economía y Empresa in Spain, in the ECON committee of the European Parliament. The invitation for a dialogue is in accordance with the EU economic governance framework. The last Economic Dialogue with the Spanish authorities took place in January 2014 and an exchange of views took place in November 2016.

1. Introduction

The current government

The current Spanish Prime Minister, Pedro Sanchez, was appointed on 1 June 2018 following a non-confidence vote held on the 31 of May and 1 of June that dismissed Mariano Rajoy (Partido Popular) government. With 84 out of 350 seats in the national parliament, the Sanchez Socialist Government relies on parliamentary support of various other parties. Scheduled elections are foreseen in 2020.

Minister Calviño took office as *Ministra de Economía y Empresa* on 7 June 2018. The Ministry is responsible for executing the government economic, competitiveness, industrial development, telecommunications, media and communication policies, the Digital Agenda and support to companies. The Minister is in charge[1] of a Government delegated committee (*Comisión Delegada de Asuntos Económicos*) comprising the Ministers dealing with policies affecting the Spanish economy or relevant sectors within it, namely, finance infrastructures, education, labour, migration, social security, industry, trade and tourism, agriculture, fisheries, territorial policy, ecological transition (including energy), education, science and innovation[2]. By its breath, the committee enables the Minister to have an important coordinating role within the Government and facilitates tasks assigned to it, such as the preparation of the National Reform and Stability Programmes.

The Ministry also oversees the agencies in charge of money laundering prevention (*Comisión de Prevención del Blanqueo de Capitales e Infracciones Monetarias*), securities markets (*Comisión Nacional del Mercado de Valores*), statistics (*Instituto Nacional de Estadísticas*) and the national promotional bank (*Instituto de Crédito Oficial*). The Ministry is responsible for insurance and pensions markets' oversight. The executive national

[1] Under the former government structure, this committee was led by the President of the Government.

[2] Other areas can be involved, depending on the substance to be discussed. The committee is responsible for discussing issues pertaining to more than one of the involved areas, analysing and preparing joint proposals for discussion at Council of Ministers' level, deciding on matters of common concern not requiring involvement of the Council of Ministers and any other matters so defined, either in law or by Council of Ministers' delegation.

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resolution authority (FROB - *Fondo de Reestructuración Ordenada Bancaria*) is also under the remit of the Ministry, and in turn, is the main shareholder of SAREB (*Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, SA*), the so called Spanish *bad bank*.

Budgetary state of play

Spain submitted on 15 October 2018 its 2019 Draft Budgetary Plan (DBP) to the Commission (COM) without submitting, in parallel, a Draft Budget Law to the national Parliament. The DBP planned a public deficit of 1.8%, based on an update in September of the existing macroeconomic forecasts and a new proposal for the **expenditure path** (*senda de gasto*) agreed by the previous Government. However, the Government was unable to pass through Senate the revision of the path, having then to come back to previously agreed targets, namely a deficit of 1.3% in 2019.

The draft Budget Law for 2019[3] was agreed by the Council of Ministers on the 11 January 2019 and sent to Parliament on 14 January for approval. The draft budget law foresees an increase in social spending (which will represent around 57% of the total budget)[4] on the back of tax increases aiming the wealthier individuals and larger companies. New taxes will be also introduced, namely a digital tax and a Financial Transaction Tax[5] [6]. The draft budget is designed so as to contribute to change the economic model and fight inequality whilst keeping the deficit under control. Based on the proposed measures, the Government is expecting deficit to reach 1.3% with public debt reaching 95.4% (down from 96.9%[7]).

In its assessment of the Spanish DBP (where the expected deficit for 2019 was -1.8% of GDP), the COM (which expects the Spanish deficit to reach 2.1% of GDP in 2019) has requested Spanish authorities to submit a new version of the DBP if the budget law differs significantly from the DBP submitted on 15 October 2018 (see section 3 below).

Current policy recommendations

The Council adopted in July 2018 (presented in Annex 4) three country specific recommendations addressed to Spain, all underpinned by the macro imbalances procedure (see in particular sections 3 and 4). The policy efforts required to Spain aim at ensuring a more durable growth path and achieving higher productivity growth. More specifically:

[3] Available in Spanish only.

[4] The Government proposes (here and here, in Spanish only), namely, to increase (a) pensions (around 6,2% increase compared with the 2018 Budget); (b) the amounts allocated to addressing disabilities (increase of around 59,3%); (c) the funds available to fight gender violence, child poverty and education; (d) the amounts allocated to unemployment protection (around 4%). The Government also proposes to increase the minimum salary to EUR 900 (from EUR 858.55). Other proposals include the increase of paternity leave (from 5 to 8 weeks). I&D expense related is foreseen to increase around 8% and infrastructure expenditure around 39.9%, compared with 2018.
On the revenue side, the Government estimates an increase of 9.5% in relation to the 2018 Budget mostly due to tax hikes on personal income above EUR 130.000 and 300.000, minimum tax rates of 15% for large companies and of 18% for banks and hydrocarbon companies, limitation of the exemptions and minimum taxes, and two new taxes, on digital services and financial transactions. The fight against money laundering and higher tax efficiency in reducing defaults are also considered. SMEs will have reduced rates and the TVA will be lowered to a number of products, including digital content. On total, the Government foresees a total impact on revenues of around EUR 5.654 million.
The draft budget also increases (in around 6.2% more than 2018) the transfers for financing public services (education and health) at regional level, thus reinforcing local cohesion.

[5] The Spanish Authorities foresee an increase in non-financial revenues of around 11.9% in relation to estimates for budget execution of 2018 (page 6).

[6] The financial transaction tax will cover purchase of stock market shares issued in Spain by listed companies whose market capitalization is more than €1 billion.

[7] Forecasts for 2018 of the Spanish Authorities in page 4 of the budget presentation.

1. Spain should pursue fiscal consolidation, with a view to decisively reduce its high government debt ratio and re-build the fiscal buffers needed to overcome any possible adverse shocks, while preserving the long-term sustainability of its public finances.
2. It should increase the efficiency of the employment and social services. Spain should also reduce regional disparities, and take actions against early school leaving.
3. Spain should improve the business environment and enhance the innovation capacity of its economy.

In the latest Article IV report the IMF (November 2018) recommends Spain to further enhance the resilience of the economy by:

(a) Improving the pace of debt reduction through a clear medium-term fiscal strategy aiming at lowering fiscal vulnerabilities while safeguarding the pension system's financial viability and enhancing its social acceptability;

(b) Preserving the thrust of the past labour market reforms aiming at making the labour market more inclusive by raising the attractiveness of open-ended contracts for employers, strengthening active labour market policies, and enhancing incentives for labour mobility across regions;

(c) Provide new impetus to productivity growth through policies that facilitate competition, foster innovation, address skills mismatches, and dismantle barriers for firms' growth, ensuring better regional coordination to lower regions' productivity disparities;

(d) Cleaning up legacy bank assets, continue improvement in bank profitability and capitalization, rigorous management of interest rate and liquidity risks, and reform of the institutional framework for financial oversight.

The representative of the Spanish Authorities issued a statement mentioning broad agreement with the Staff analysis and key policy objectives but pointing different views on some policy recommendations, particularly in the area of labour market. Spain refers that the government prioritises "*reducing the public debt-to-GDP ratio, further lowering unemployment—in particular, long-term and youth unemployment—improving the quality of jobs, reducing inequality and the risk of poverty, and fostering productivity*." within the context of a policy agenda based on three axis - fiscal discipline, social inclusion and sustainable growth.

2. Economic situation

Situation in 2018

In 2018, Spain's economy was in its fifth year of expansion. According to the latest COM forecast (autumn 2018), growth has been robust but lower than expected in the first half of 2018. Spain's economy started to show signs of a mild deceleration in the first half of the year.

According to the OECD, Spain's economic growth outpaced during the last years most of the Euro area economies showing a net GDP expansion by 3% in 2017 and 2.5% in 2018, largely underpinned by a cluster of labour market and financial reforms kicked off under the EU financial assistance programme from which Spain successfully exited at the end of 2013.

Forecasts

The 2019 draft budgetary plan (DBP) of Spain outlines an expected GDP growth for the current year of 2.3%, almost in line with the Commission's Autumn forecast of 2.2%. The draft budget law submitted to the national parliament in January 2019 includes a downward revision of the 2019 GDP growth forecast to 2.2%[8] (see section 3).

[8] Data given by the Spanish Authorities.

According to the 2018 COM's Autumn forecast, the deceleration in 2019 and 2020 is mainly driven by a slowdown in private consumption, as oil prices increase further and pent-up demand is absorbed. However, job expansion and accelerating wage growth continue to be robust, also due to the planned increase in the minimum wage, which will have a positive impact on disposable income growth over the forecast horizon.

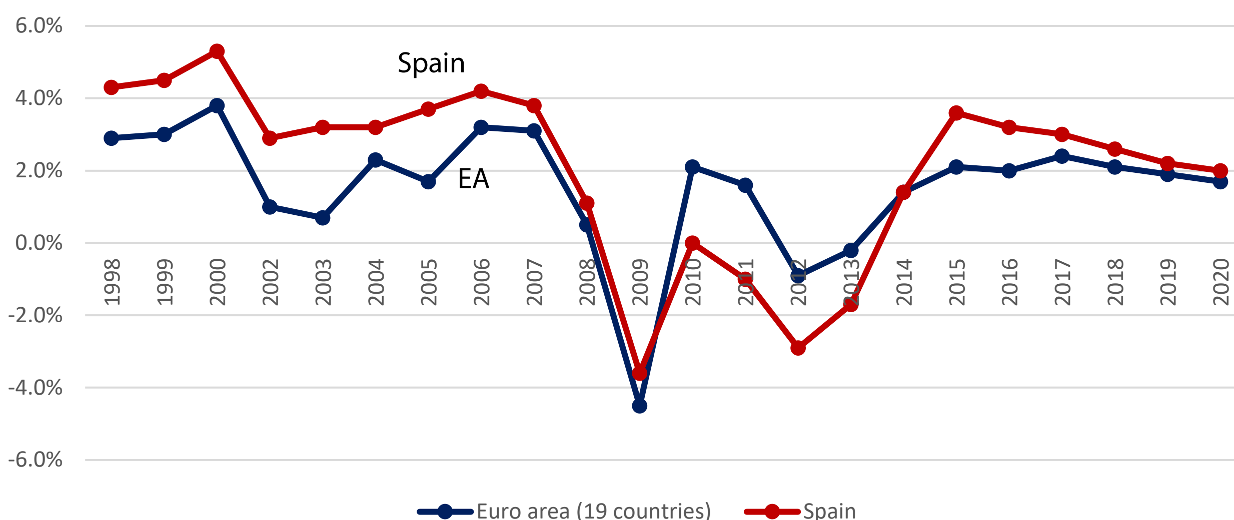
According to the Spanish Central Bank, **the cyclical upturn is expected to further endure** in the upcoming years. Yet, **growth is set to decelerate** as a result of the gradual easing of the positive effects of monetary policy measures on financing conditions in the economy.

Also the OECD expects a **moderation of economic growth in 2019 and 2020.** Domestic demand is assessed to remain the main driver of growth, due to favourable financial conditions, strong employment gains and measures in the 2018 budget, such as wage and pension increases. The **current account** will remain in surplus, but lower than in the past two years, as export growth moderates with weaker export market growth. The OECD recommends that policy measures should **address remaining imbalances and low productivity growth**. The labour market remains segmented, with **high rates of youth and long-term unemployment and temporary contracts**. Continuing efforts to fight against the abuse of temporary contracts is key to reducing labour market duality. Improving co-ordination of social and employment services would lower unemployment and inequalities. Increasing the provision of early childhood education would boost labour participation of women and improve future skill formation, especially for children from disadvantaged backgrounds. Improved teacher training and further extensions of dual vocational education would also boost skills and enhance the labour market prospects of vulnerable groups.

The Spanish Central Bank stresses that the **risks to the baseline growth scenario are on the downside**. They are linked to the external environment, including to the impact of the economic policy mix in the United States and a possible escalation of protectionist measures that could affect global trade and economic activity. They are, among others, also linked to the uncertainty surrounding the Brexit process.

Headline inflation, as measured by the HICP index, according to COM Autumn 2018 forecast, is assessed to permanently remain below the value registered in 2017 of 2.0% (1.8%,1.7% and 1.5% in 2018, 2019 and 2020 respectively), mainly driven by the downturn in the energy component.

Graph 1: Spain GDP growth rate in the period 1998-2020



Source: Eurostat (1998-2017), European Economic Forecasts - Autumn 2018 (2018-2020)

See annex 1 for further figures on the economic situation of Spain.

3. Public finances

According to COM autumn 2018 forecast, the public deficit has decreased from 4.5% of GDP in 2016 to 3.1% of GDP in 2017, 2.7% in 2018 and is projected to decrease to 2.1% in 2019, thanks to still robust economic growth. *"The somewhat slower pace of deficit reduction is due to measures included in the 2018 budget law, namely the higher revaluation of pensions, the pay hike for public employees and, to a lesser extent, the tax cut for low-income earners."* Higher expenditure on items such as pensions, long-term care and paternity leave are also included and partly offset the impact of revenue-raising measures. The Commission assessment of the 2019 DBP indicates that Spain's structural deficit is expected to deteriorate by 0.2% of GDP in 2018 to reach about 3% of GDP, before stabilising around that level in 2019. The debt to-GDP ratio is estimated to have decreased from 98.1% of GDP in 2017 to 96.9% in 2018 and is forecast to further decrease to 96.2% of GDP in 2019.

Excessive Deficit Procedure

Spain has been since 2009 in an Excessive Deficit Procedure (EDP); the reference year triggering the procedure was 2008. It is the only EU Member State which is still under EDP. On the basis of validated data for 2018, the COM will assess Spain public finances in May 2019 and decide on abrogating the EDP. The latest Council recommendations on public finances are in the following box.

Box 1: Latest Council recommendations on public finances

2018 Country Specific Recommendation on public finances (July 2018)

Ensure compliance with Council Decision (EU) 2017/984 giving notice under the excessive deficit procedure, including through measures to enforce the fiscal and public procurement frameworks at all levels of government. Thereafter, **ensure that the nominal growth rate of net primary government expenditure does not exceed 0.6 % in 2019, corresponding to an annual structural adjustment of 0.65 % of GDP.** Use windfall gains to accelerate the reduction of the general government debt ratio.

Council Decision (EU) 2017/984 under the EDP (August 2016)

1. Spain shall put an end to the present excessive deficit situation by 2018.

2. Spain 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 consistent with a deterioration of the structural balance by 0.4 % of GDP in 2016 and a 0.5 % of GDP improvement in both 2017 and 2018 (...). Spain shall also use all windfall gains to accelerate the deficit and debt reduction.

3. In addition to the savings already included in the updated Commission 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. Fiscal consolidation measures shall secure a lasting improvement in the general government structural balance in a growth-friendly manner.

5. Spain shall adopt measures to strengthen its fiscal framework, in particular with a view to increasing the automaticity of mechanisms to prevent and correct deviations from the deficit, debt and expenditure targets and to strengthening the contribution of the Stability Law's spending rule to public finance sustainability.

2019 Draft Budgetary Plan (DBP) and Draft Budget Law

While Spain submitted to COM in October 2018 a [Draft Budgetary Plan (DBP) for 2019] and while the COM assessed it and issued an [opinion], like for all other euro zone Member States, Spain did not submit in parallel a draft budget law to the Spanish parliament[9]. On 14 January 2019, the Government submitted the draft budget Law to the national Parliament, which is pending discussion and adoption.

The DBP and the draft budget law foresee different growth[10] and deficit levels. In particular, the DBP contained for 2019 a deficit target of 1.8% of GDP, while the draft law of January 2019 foresees a deficit objective of 1.3% of GDP. One may note that the COM requested in its opinion on the 2019 DBP of Spain: "*In light of the fact that the DBP was submitted without a draft Budget Law being submitted to the national parliament in parallel, the national authorities are invited to submit to the Commission and the Eurogroup an updated DBP in the event that the draft Budget Law that eventually is submitted to the parliament differs significantly from the DBP submitted on 15 October 2018.*".

The [COM overall assessment of the Spanish DBP] is as follows: *"Overall, the COM is of the opinion that **the DBP of Spain is at risk of non-compliance with the provisions of the Stability and Growth Pact**. In particular, the COM projects a risk of **significant deviation from the required adjustment path to the MTO**. Moreover, Spain is **not expected to make sufficient progress towards compliance with the debt reduction benchmark in 2019**. Therefore, the COM invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2019 budget will be compliant with the SGP and to use windfall gains to accelerate the reduction of the government debt-to-GDP ratio" (p.4).*

As regards 2018, the COM opinion included the following assessments:

- *"Both the DBP and the COM 2018 autumn forecast project that the **headline deficit target of 2.2 % of GDP for 2018** required by the Council Decision of 8 August 2016 **will not be achieved** (...) **However, at 2.7 % of GDP, the headline deficit is forecast to be below the Treaty reference value of 3.0% in 2018, in line with the deadline set by the Council**."*
- *"In addition, the required fiscal effort is not expected to be met, according to all usual metrics."*

As regards 2019, the COM opinion included the following assessments:

- "***The growth rate of net primary expenditure as recalculated by the COM on the basis of the DBP is 2.2%, which corresponds to a gap to the required growth rate of 0.6% of GDP"*** *[remark by EGOV: please note that that the gap between the expected growth rate of net primary expenditure (2.2%) and the required maximum growth rate of net primary expenditure (0.6%) amounts to 1.6%].*
- ***The improvement in the recalculated structural balance in the DBP amounts to 0.4% of GDP, implying a gap with the required adjustment of -0.3% of GDP. According to the COM 2018 autumn forecast, the gaps are even larger, at -1.1% of GDP for the expenditure benchmark and -0.6 % of GDP for the structural balance**. It points to a risk of a significant deviation from the recommended adjustment path towards the MTO in 2019*".

On 4 December 2018, the Eurogroup issued [a statement on the 2019 DBPs], in which it noted *inter alia* that current economic conditions call for the urgent need to rebuild fiscal buffers, notably in Member States that have not reached their MTO (which is the case for Spain) and that Belgium, France, Portugal and Spain are not expected to comply *prima facie* with the debt reduction benchmark in 2019. It invited all countries identified by the COM to be at "*risk of non-compliance*" to address in a timely manner the risks identified by the COM and to ensure that their 2019 budget will be compliant with SGP provisions.

[9] The [Code of Conduct on the Two Pact] explains the difference between a draft budget and a DBP: "*Whereas the draft budget is a national act that, according to national procedures typically involving the national parliament, proposes the nature, amount and allocation of the resources of the State, the DBP is a synthetic document presenting the main aspects of the budgetary situation of the general government and its sub-sectors for the year to come.*"

[10] Data provided by the Spanish Authorities.

Table 1 shows that on the basis of the autumn 2018 forecast the nominal budget balance and the fiscal effort were significantly below the Council targets in 2016, 2017 and 2018. Even though the budget balance is not expected to be excessive in 2018 and 2019, the fiscal effort and government expenditure targets are not expected to be met, neither in 2018 nor in 2019; furthermore, the structural balance remains in 2018 and 2019 far away from a MTO of a balanced structural position.

On 15 October 2018, the independent fiscal body of Spain (*Independent Authority for Fiscal Responsibility, AIReF*) endorsed the Government's macroeconomic forecasts included in the 2019 DBP. AIReF considered the Government's macroeconomic scenario to be prudent overall, considering the exogenous assumptions and defined policies. It considered that the basic assumptions underlying the macroeconomic scenario accompanying the 2019 DBP and that the macroeconomic impact of the fiscal measures advanced by the Government are feasible.

This analysis is further confirmed by the opinion[11] issued on 11 January 2019 on the macroeconomic forecasts underpinning the draft budget. AIReF maintains the forecasts are overall prudent although the increase of the growth rate of the Euro Area in 2018 and 2019 might be considered optimistic. The growth composition is also deemed appropriate, noting the reduction in external contributions. Reference is also made, as before, to the need to increase transparency in information made available.

Table 1: Overview of Spain's key fiscal indicators

Year	Council requests				Actual or estimated data relating to compliance with Council requests COM forecast - autumn 2018 (under no policy change scenario)			
	Nominal budget balance targets as % of GDP	Medium Term Objective (MTO) structural balance as % of GDP	Fiscal effort in structural terms as % of GDP	Expenditure benchmark Requested % change of net primary government expenditure	Nominal budget balance as % of GDP	Structural budget balance as % of GDP		Net primary government expenditure % change
						level	y-o-y change	
2016	-4.6	MTO of a balanced budgetary position not planned to be reached within the horizon of the 2018 Stability Programme.	-0.4	-	-4.5	-3.3	-0.8	-
2017	-3.1		0.5	-	-3.1	-2.9	0.4	-
2018	-2.2		0.5	-	-2.7	-3.1	-0.2	-
2019	-		0.65 (if ES under preventive arm)	0.6 (if ES under preventive arm)	-2.1	-3.1	0.0	1.7

Sources: Council EDP Decision (EU) 2017/984 (August 2016) , Council 2018 CSRs (July 2018), COM analysis (November 2018) of the 2019 DBP of Spain (for the net primary expenditure) and COM autumn 2018 forecast annex tables: 1 (GDP growth), 36 (nominal budget balance), 41 (structural budget balance) and 42 (gross debt).

[11] Available only in Spanish.

Box 2: Latest post programme surveillance

The ESM programme for the recapitalisation of the Spanish banking sector expired on 31 December 2013. Spain is since then subject to PPS/EWS, with the latest visit taking place in April 2018. The EC staff concluded that the Spanish economy has continued to grow at a robust pace and its rebalancing has progressed further, although private and public debt as well as unemployment still remain at high levels. Staff recommended putting in place policy efforts so as to achieve a durable growth path and higher productivity growth, while pursuing fiscal consolidation to ensure a decisive reduction in the government debt ratio. Staff considered that the Spanish banking sector enjoys overall comfortable liquidity and noted that several banks increased their issuance of debt securities. Capital buffers have been supported by the issuance of both core and non-core capital instruments, facilitating further reduction in the ratio of non-performing loans which declined to close to the EU average. Spain made its eighth voluntary repayment of € 3 billion to the ESM in September 2018, bringing the total amount of loans repaid to €14.6 billion (about 35% of the funds borrowed). Spain did also a scheduled payment of unused funds in July 2014.
IMF released its last annual Article IV report last 21 November 2018. The Staff concluded that Spain continues in a cycle of growth, but at a moderate speed and with risks looming ahead. Structural fiscal adjustment and preserving the thrust of the labour market reforms are seem as major policies going forward, as well as rebuilding fiscal buffers, a sustainable and comprehensive pension package and a more inclusive labour market. The Staff also pointed out to the positive effects of reforming the supervisory structure.

4. Macroeconomic imbalances

Under the MIP framework, Spain has experienced macroeconomic imbalances since 2013, and as such it is submitted to specific monitoring by the COM.

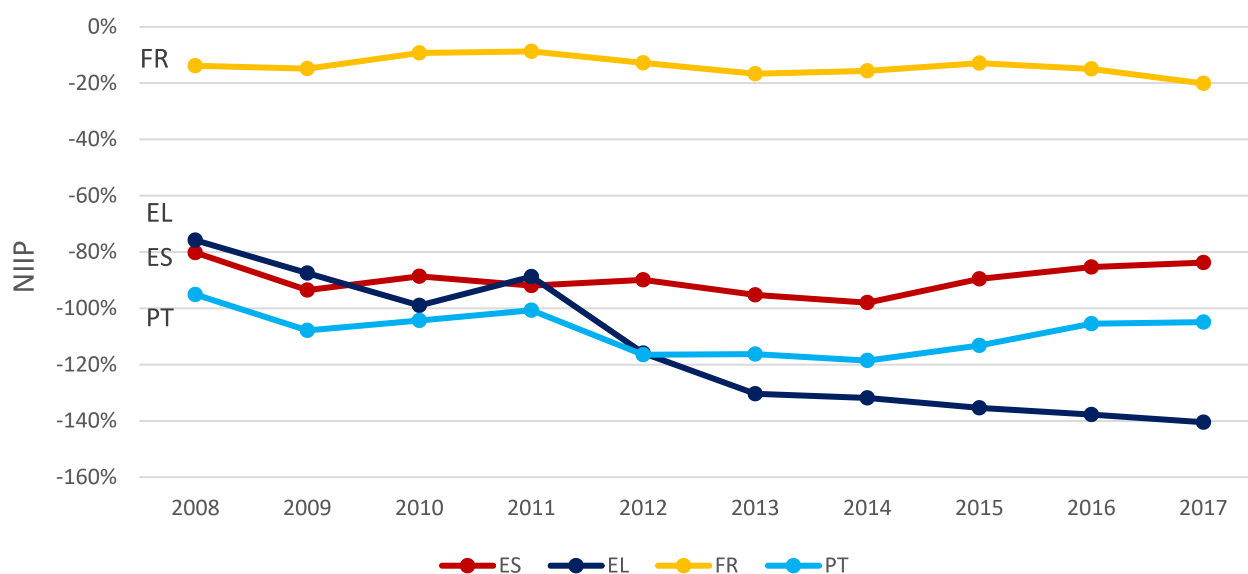
In the 2019 MIP scoreboard (with data referring to 2017, presented in Annex 2), the following indicators are beyond the indicative threshold: the net international investment position (NIIP), the private and government debt ratios, the unemployment rate, as well as the change in the activity rate.

In the Alert Mechanism Report published in November 2018, and on the basis of an economic reading of the scoreboard, the COM identifies critical issues relating to external sustainability, private and public debt, and labour market adjustment, in a context of weak productivity growth.

According to the COM, Spain's **external imbalances** are recovering, although relatively slowly, and while the NIIP, which measures the net stock of external assets and liabilities, has improved since 2014, it remains highly negative (see graph 2). The share of exports (as a percentage of world exports) is growing, despite the slight appreciation of the real effective exchange rate in 2017.

Therefore, the COM decided in November 2018, also taking into account the identification of macroeconomic imbalances in March 2018 and their cross-border relevance, to subject Spain to an **in-depth-review,** aimed at examining the persistence of imbalances or their unwinding.

Graph 2: Net International Investment position: Spain, Greece, Portugal, France (2008-17) % of GDP

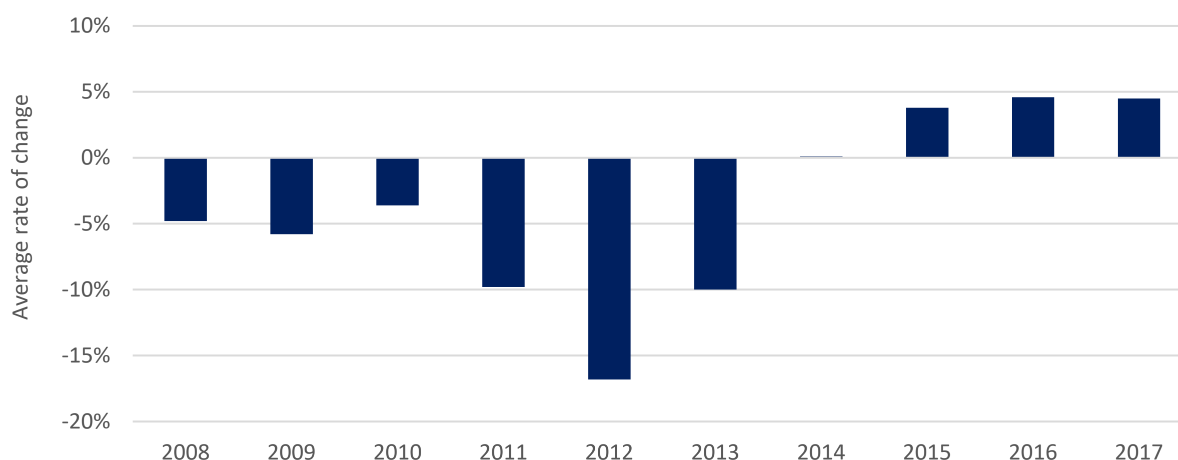


Source: [Eurostat]

Private sector consolidated debt has continued to decline throughout 2017 (at 138.8% of GDP, compared to its peak of 201.6% in 2019), especially for business corporations. Even if deleveraging seems to have continued in 2018 (with estimates for 3rd quarter 2018 at 134.6% of GDP), deleveraging needs remain. New credit has started flowing to business, supporting investments. For households, the pace of debt decline is limited by a strong increase in consumer credit. **House prices** have been recovering in recent years (see graph 3 below), after previous undervaluation following continuous decreases from 2008 to 2013 (in 2012 house price decrease 16.8pp respect to the previous year).

The decrease in the **government debt ratio** is mainly due to the strong economic growth. Since 2014, public debt in absolute terms increased, with GDP increasing even more (according to the latest Eurostat data, available here).

Graph 3: House Price Index, Spain (2008-2017), pp change over previous year



Source: Eurostat

Unemployment has been declining rapidly, but remains very high, especially among youth. The low productivity growth makes competitiveness gains dependent on cost advantages. See section 6 for additional analysis on social matters.

All the three CSR adopted by the Council in July 2018 (presented in Annex 4) are underpinned by the MIP.

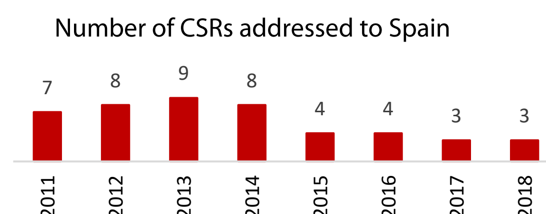
5. Implementation 2013-17 Country-Specific Recommendations

As most of all other Member States, the number of CSRs addressed to Spain has decreased over the period under review, reflecting the Commission efforts to streamline the European Semester process by, inter alia, proposing fewer and more targeted recommendations. From the legal basis perspective, the recommendation related to public finances (CSR 1) was underpinned by both the SGP and MIP legal bases, while all the remaining CSRs were based on the MIP legal framework.

Table 2 below depicts Spain's progress with Country-Specific Recommendations (CSRs) over the years 2015-2017 European Semester cycles, based on the Commission's assessment outlined in its Country Reports.

Table 2: Spain's progress with Country Specific Recommendations

EU Semester	Legal base (EU secondary law)			
	SGP & MIP	MIP		
2015	CSR 1	CSR 2	CSR 3	CSR 4
2016	CSR 1	CSR 2	CSR 3	CSR 4
2017	CSR 1	CSR 2	CSR 3	



Source: EGOV based on the Commission's Country Reports (2016, 2017, 2018).

Note: SGP (Stability and Growth Pact), MIP (Macroeconomic Imbalances Procedure). The assessment grid of CSRs implementation is as follows: full/substantial progress, some progress and limited/no progress.

According to the Commission's assessments, Spain's implementation track record has slowed down in the last two years, after significant progresses seen in the period 2012-15 mainly driven by the financial sector reforms. More specifically, policy actions related to the recapitalisation and restructuring of banks that received state aid, the resolution of Banco Popular and the reform of the insolvency framework. In addition, the two 2011 and 2013 pension reforms improved the sustainability of public finances, while the reform of corporate and personal insolvency frameworks has facilitated private debt reduction.

Overall, the COM assesses that Spain made **limited progress** in addressing two out of three **2017 CSRs**:

1. In the area of **fiscal policy** and governance (2017 CSR 1), **some progress** was done related to the adoption of a new law on public procurement to improve its transparency and control mechanisms; an expenditure review both at central and regional level was started to improve the quality and composition of public finances; limited progress was done to strengthen the automaticity of the Stability Law's spending rule in the fiscal framework.
2. In the area of **labour market, social and education policies** (2017 CSR 2), some progress was made in a few regions, to advance towards better coordination between public employment and social services, with some important deficiencies in the cooperation with employers; however, **limited progress** was done to promote hiring on open-ended contracts, to mitigate labour market regional fragmentation, to address regional disparities in early school leaving rates and student performances, and to increase the relevance of tertiary education. Section 6 further details Spain's developments in labour markets, social and education policies.

- In the area of **investment and innovation** (2017 CSR3), **limited progress** was done to promote investments in SMEs; if the level of public funding supporting investments in SMEs saw a moderate increase, the fiscal framework put in place during the financial crisis largely prevented it from being executed. Limited progress has also been achieved with the Law on Market Unity, with a recent Constitutional Court ruling potentially limiting its effectiveness.

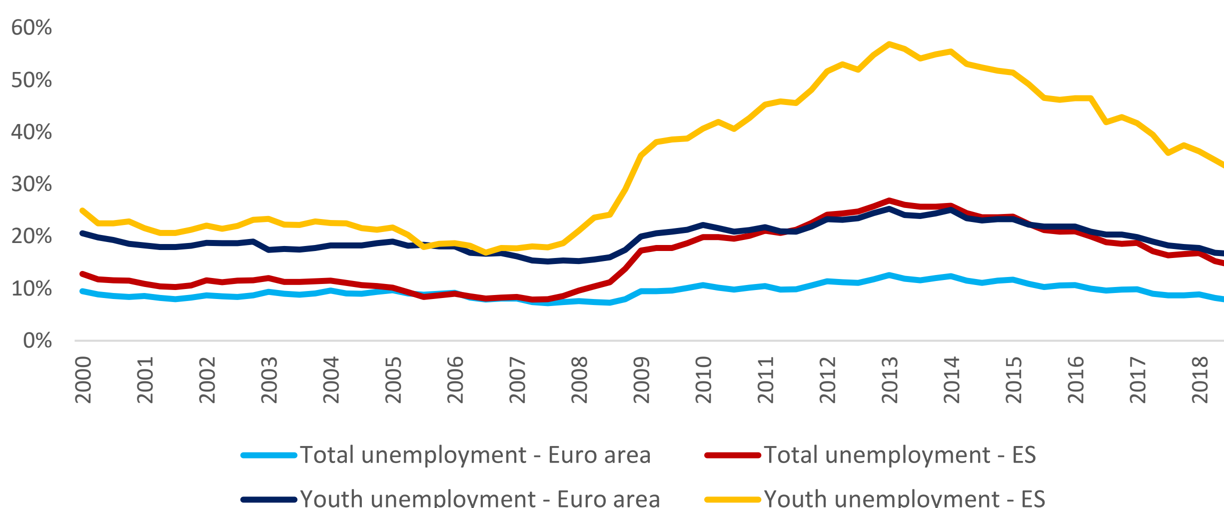
6. Employment and social situation

The economic recovery of recent years has been particularly job intensive. The labour market in Spain has experienced high job creation and a continued decline in unemployment. The policy of the Spanish authorities has focused on enhanced job creation and on making the labour market more inclusive. These efforts in combination with robust economic growth strongly supported net job creation, however unemployment and labour market segmentation still remain high.

According to the recent OECD economic survey and the IMF Article IV report it is essential to preserve the thrust of past reforms, including continuing to address labour market duality, strengthen active labour market policies, enhance incentives for greater labour mobility across regions, as well as increase wage flexibility. Improving employability of the low-skilled unemployed to decrease regional disparities remains a high priority. Since the policy objectives are formulated by the central government, while the responsibility of implementation is in the hands of the regions, enhanced regional cooperation remains important to further strengthen the employment strategy.

The European Commission country report 2018 noted that the employment rate reached 66.9% in Q2-2018 and the unemployment rate continued to steadily decrease to 16.6% in Q3-2018. The indicators remain nevertheless far from the pre-crisis levels of 2007 (70% employment rate and 8% unemployment rate in Q3-2007). The unemployment rate has been particularly high among the young population (33.0% for 15-24 year olds in Q3-2018) and third countries nationals (20.6 % in Q3-2018). The trend of long-term unemployment is on decline (43.4% in Q2-2018), although still 1.5 million people in Spain are outside of the labour market. Although the temporary employment rate remains very high (26.9% in Q2-2018), the number of open-ended contracts in net employment growth has increased to 54% on average in 2017, down from an average of 39 % in 2015, pointing to a positive trend in breaching the gap between permanent and temporary employment contracts.

Graph 4: Total and youth unemployment, as % of active population



Source: Eurostat

High labour market segmentation and qualification mismatches continue to pose challenges. According to the 2019 Joint Employment Report, the ratio between low-qualified adults and the number of jobs requiring low levels of qualification is on average 3 to 1 in the EU, whereas in Spain there are on average 4.4 low-skilled workers for every low-skilled job.

The draft Budget recently adopted by the Government (see section 1) contains measures addressing social issues, namely increased social benefits for unemployment, the raise of the minimum wage, additional funds to finance studies and reduced taxes to access university and further financing to limit youth unemployment. The budget also foresees an increase in the amount available to finance youth renting houses at affordable prices.

Spain continued to strive towards its EU 2020-targets. Between 2008 and 2017, Spain reduced school drop-out rates by 13.4 percentage points, making substantial progress towards its national target of 15%. The share of 30 to 34 year olds with tertiary education was in 2017 broadly the same as in 2008, at 41.2% and below the national target of 44%. The number of people at risk of poverty and social exclusion, on the other hand, has risen. In spite of improvements in 2015 and 2016, Spain would still need to lift about 3.4 million people out of risk of poverty to meet its 2020 objective. Despite substantial improvements in employment levels, in 2017 Spain was behind its national target of 74% by 8.5 percentage points.

7. Banking issues

Although the Ministry of Economy and Enterprise is not responsible for banking supervision and resolution in Spain, it is ultimately responsible for financial stability and participates in the governance structures of FROB and SAREB (see section 1). Therefore, this section deals only with issues under the Ministry remit.

Most recent international reviews

In their last post programme surveillance mission press release[12], Commission Staff pointed out to an "overall comfortable solvency and liquidity" position of the Spanish banking system, linked to the reduction in non-performing loans. The Staff mentioned adequate progress in implementation of the January 2018 merger of Banco Mare Nostrum with Bankia and the prospects of a new management strategy for SAREB assets. It further recommended completing the privatisation of Bankia and encouraging further divestment of banking foundations in savings banks to further reinforce the sector. The Government decided in December to postpone divestment in Bankia for two years.

The last IMF Article IV Staff report on Spain recommended further cleaning up of "*legacy bank assets, continued improvement in bank profitability and capitalization, rigorous management of interest rate and liquidity risks, and reform of the institutional framework for financial oversight*" along the lines of the 2017 IMF FSAP. The IMF Staff concluded that the banking sector has been strengthening (albeit CT1 levels remain below European peers[13]) and NPLs reducing, although still above EU average on business (real estate, construction and SME loans among the highest). Banks' profitability turned negative in 2017 due to the resolution of Banco Popular.

Spanish Banking sector: selected issues

Sareb (*Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria*) is the asset management company to which the Spanish banks transferred their troubled loans and real estate assets. The company was set up in November 2012 as part of the Memorandum of Understanding, in order to assist the restructuring and recapitalisation of the Spanish banking sector. Sareb took over a portfolio of EUR 50.8

[12] The mission Report is still not available in the Commission website.

[13] Referring to estimates, the report also mentions that the Spanish banking sector may face MREL targets shortfalls (point 38 in page 21 of the report).

billion, approximately 80% thereof were loans to property developers, the other 20% real estate property assets.

Sareb's overall objective is to liquidate the assigned portfolio of assets in an orderly manner over a period of 15-year at maximum (until November 2027), trying to maximise the returns from the orderly liquidation.

The majority of Sareb's share capital is privately owned (55% in total held by Spanish banks, i.e. Banco Santander, Caixabank, Banco de Sabadell, and others), the other 45% are in the hands of FROB, the publicly owned Spanish Fund for Orderly Bank Restructuring.

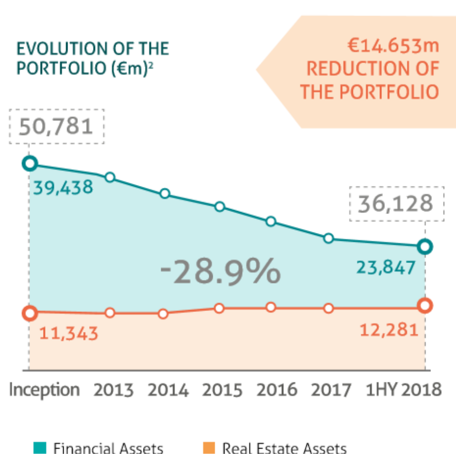
Sareb is subject to the supervision of the Bank of Spain and the Monitoring Committee. The Monitoring Committee is chaired by the Ministry of Economy and Business (currently Minister Calviño), and comprised of the Bank of Spain, the Ministry of Finance, and the National Securities Markets Commission (CNMV). The Monitoring Committee's role is to check Sareb's compliance with its general objectives, to analyse the company's business plan, plan for the disinvestment and plan for the amortisation of the underwritten debt, and to look for any potential deviations.

DG ECFIN's post-programme surveillance report of November 2018 notices (p. 14) that:

"*The liquidation of SAREB's assets - both loans and real estate - in H1 2018 was slower than planned* ***and the company continued to post net losses****. [...]* ***The company continued to miss its annual budgetary objectives set in the business plan****. [...] Furthermore, the legal and administrative proceedings to convert loans into foreclosed assets were delayed.*" (own emphasis)

We also note that, while the total portfolio at aggregate level has been reduced by 29% over the five-year plus period, the nominal value of the real estate sub-portfolio has not been reduced but has increased, in relative and even in absolute terms (see graph 4). That increase is due to the fact that the portfolio reduction achieved by the disposal of real estate units (approximately 80.000 over the whole period) is more than offset by incoming new properties that Sareb took possession of as collateral.

Graph 5: The evolution of Sareb's portfolio since inception



Source: Sareb's Activity Report / First Half 2018, p. 12

Sareb's debt (funding) is guaranteed by the State; if Sareb hence failed to meet its divestment targets in the long-time horizon, a payment burden could fall to the taxpayer.

The **2019 Draft Budget proposes** a number of measures that may impact the Spanish banking sector: (a) a minimum corporate tax rate of 18% for banks; (b) a financial transaction tax (see section 1).

Further briefings addressing the Spanish banking sector can be found here.

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Annex 1: Euro area - Key macroeconomic indicators

	2014	2015	2016	2017	2018f	2019f	2020f
Real GDP growth – *% change on previous year*							
Euro area	1.4	2.1	2.0	2.4	2.1	1.9	1.7
Spain	1.4	3.6	3.2	3.0	2.6	2.2	2.0
GDP per capita – *purchasing power parities, Euro*							
Euro area	29,600	30,900	31,100	31,900	n.a	n.a	n.a
Spain	24,900	26,300	26,700	27,600	n.a	n.a	n.a
General government budget balance – *% of GDP*							
Euro area	-2.5	-2.0	-1.6	-1.0	-0.6	-0.8	-0.7
Spain	-6.0	-5.3	-4.5	-3.1	-2.7	-2.1	-1.9
General government structural budget balance* – *% of potential GDP*							
Euro area	-0.9	-0.9	-1.0	-0.8	-0.7	-1.0	-1.1
Spain	-1.5	-2.5	-3.3	-2.9	-3.1	-3.1	-3.1
General government gross debt** – *% of GDP*							
Euro area	94.2	92.1	91.2	88.9	86.9	84.9	82.8
Spain	100.4	99.3	99.0	98.1	96.9	96.2	95.4
Interests paid on general government debt – *% of GDP*							
Euro area	2.6	2.3	2.1	2.0	1.9	1.8	1.8
Spain	3.5	3.1	2.8	2.6	2.4	2.3	2.2
Inflation (HICP) – *% change on previous year*							
Euro area	0.4	0.0	0.2	1.5	1.8	1.8	1.6
Spain	-0.2	-0.6	-0.3	2.0	1.8	1.7	1.5
Unemployment – *% of labour force*							
Euro area	11.6	10.9	10.0	9.1	8.4	7.9	7.5
Spain	24.5	22.1	19.6	17.2	15.6	14.4	13.3
Youth unemployment – *% of labour force (15 – 24 years)*							
Euro area	23.7	22.3	20.9	18.8	n.a	n.a	n.a
Spain	53.2	48.3	44.4	38.6	n.a	n.a	n.a
Current account balance** – *% of GDP*							
Euro area	3.0	3.3	3.5	4.0	3.8	3.6	3.6
Spain	1.0	1.1	2.2	1.9	1.2	1.0	1.1
Exports – *% change on previous year*							
Euro area	4.8	6.6	3.0	5.2	3.3	3.5	3.3
Spain	4.3	4.2	5.2	5.2	2.6	3.3	3.4
Imports – *% change on previous year*							
Euro area	4.9	7.7	4.2	3.9	3.0	3.9	3.6
Spain	6.6	5.4	2.9	5.6	3.5	3.5	3.2
Total investments – *% change on previous year*							
Euro area	1.7	4.9	4.0	2.6	3.3	3.0	3.0
Spain	4.7	6.7	2.9	4.8	5.4	3.9	3.3
Total investments – *% of GDP*							
Euro area	19.6	20.0	20.4	20.5	n.a.	n.a.	n.a.
Spain	19.3	19.9	19.9	20.5	n.a.	n.a.	n.a.
General government investments – *% of GDP*							
Euro area	2.7	2.7	2.6	2.6	2.7	2.7	2.8
Spain	2.1	2.5	1.9	2.0	2.2	2.0	2.0
Total final consumption expenditure – *% change on previous year*							
Euro area	0.8	1.7	1.9	1.5	1.3	1.6	1.3
Spain	1.1	2.8	2.4	2.4	1.9	1.7	1.5
Households final consumption expenditure – *% change on previous year*							
Euro area	0.9	1.8	2.0	1.6	1.6	1.8	1.6
Spain	1.5	3.0	2.8	2.5	2.3	1.8	1.4
Income Inequality (Gini Coefficient) – *Scale 0-100: 0 = total income equality; 100 = total income inequality*							
Euro area	30.9	30.8	30.7	30.5	n.a	n.a	n.a
Spain	34.7	34.6	34.5	34.1	n.a	n.a	n.a
Unit labour cost – nominal – *% change on previous year*							
Euro area	0.6	0.4	0.6	0.8	1.6	1.2	1.5
Spain	-0.3	0.6	-0.7	-0.2	0.9	1.9	1.2

Source: all indicators, if not indicated differently, are from Eurostat, with data extracted on 14/01/2019; forecasts (f) and (*) are from DG ECFIN/AMECO; the euro area is defined as variable composition (EA18-2014, EA19); the euro area general government gross debt is non-consolidated for intergovernmental loans; (**) from the European Economic Forecasts Autumn 2018.

Annex 2: Spain: Macroeconomic Imbalance Scoreboard

Indicators			Threshold	2009	2010	2011	2012	2013	2014	2015	2016	2017
External imbalances and competitiveness	**Current account balance** as % of GDP	**3 year average**	-4/+6%	-7.7	-5.8	-3.8	-2.4	-0.6	0.8	1.3	1.5	1.8
		Year value	-	-4.3	-3.9	-3.2	-0.2	1.5	1.1	1.2	2.3	1.8
	Net international investment position as % of GDP		-35%	-93.5	-88.6	-91.9	-89.9	-95.2	-98.0	-89.5	-85.3	-83.8
	Real effective exchange rate - 42 trading partners	**% change (3 years)**	± 5%	4.6	-0.3	-2.5	-5.3	-0.3	-1.0	-3.1	-4.3	-2.5
		% change y-o-y	-	0.4	-3.2	0.3	-2.4	1.9	-0.5	-4.5	0.7	1.3
	Share of world exports	**% change (5 years)**	-6%	-9.0	-11.7	-8.6	-18.2	-11.2	-12.3	-4.0	2.7	9.8
		% change y-o-y		2.1	-9.7	-1.1	-6.1	3.7	0.9	-1.3	5.8	0.4
	Nominal unit labour cost	**% change (3 years)**	9%	11.8	5.7	-1.0	-5.1	-4.1	-3.4	-0.3	-0.5p	0.0p
		% change y-o-y	-	1.6	-1.6	-1.0	-2.6	-0.6	-0.3	0.6	-0.7p	0.2p
Internal imbalances	**House prices** % change y-o-y deflated		6%	-5.8	-3.6	-9.8	-16.8	-10.0	0.1	3.8	4.6	4.5
	Private sector credit flow as % of GDP		14%	-1.2	0.9	-3.7	-11.2	-10.4	-6.9	-1.8	-1.2p	0.2p
	Private sector debt as % of GDP		133%	201.6	200.6	196.4	188.0	177.2	165.8	154.8	146.8p	138.8p
	General government gross debt (EDP concept) as % of GDP		60%	52.8	60.1	69.5	85.7	95.5	100.4	99.3	99.0	98.1
	Unemployment rate	**3 year average**	10%	12.5	16.4	19.7	22.0	24.1	25.1	24.2	22.1	19.6
		Year value	-	17.9	19.9	21.4	24.8	26.1	24.5	22.1	19.6	17.2
	Total Financial Sector Liabilities % change y-o-y , non-consolidated		16.5%	3.8	-1.8	3.0	2.9	-10.9	-0.4	-1.2	0.8	4.0
Employment indicators	**Activity rate % 15-64 total pop.** (3 year change)		-0.2%	2.0	1.7	1.2	1.2	0.8	0.3	0.0	-0.1	-0.3
	Long-term unemployment active pop. 15-74 (3 year change).		0.5%	2.5	5.6	6.9	6.7	5.7	4.0	0.4	-3.5	-5.2
	Youth unemployment % active pop. 15-24 (3 year change)		2%	19.8	23.4	21.7	15.2	14.0	7.0	-4.6	-11.1	-14.6

Source: Eurostat MIP Scoreboard indicators, data updated on 14 January 2019, see also AMR 2019.

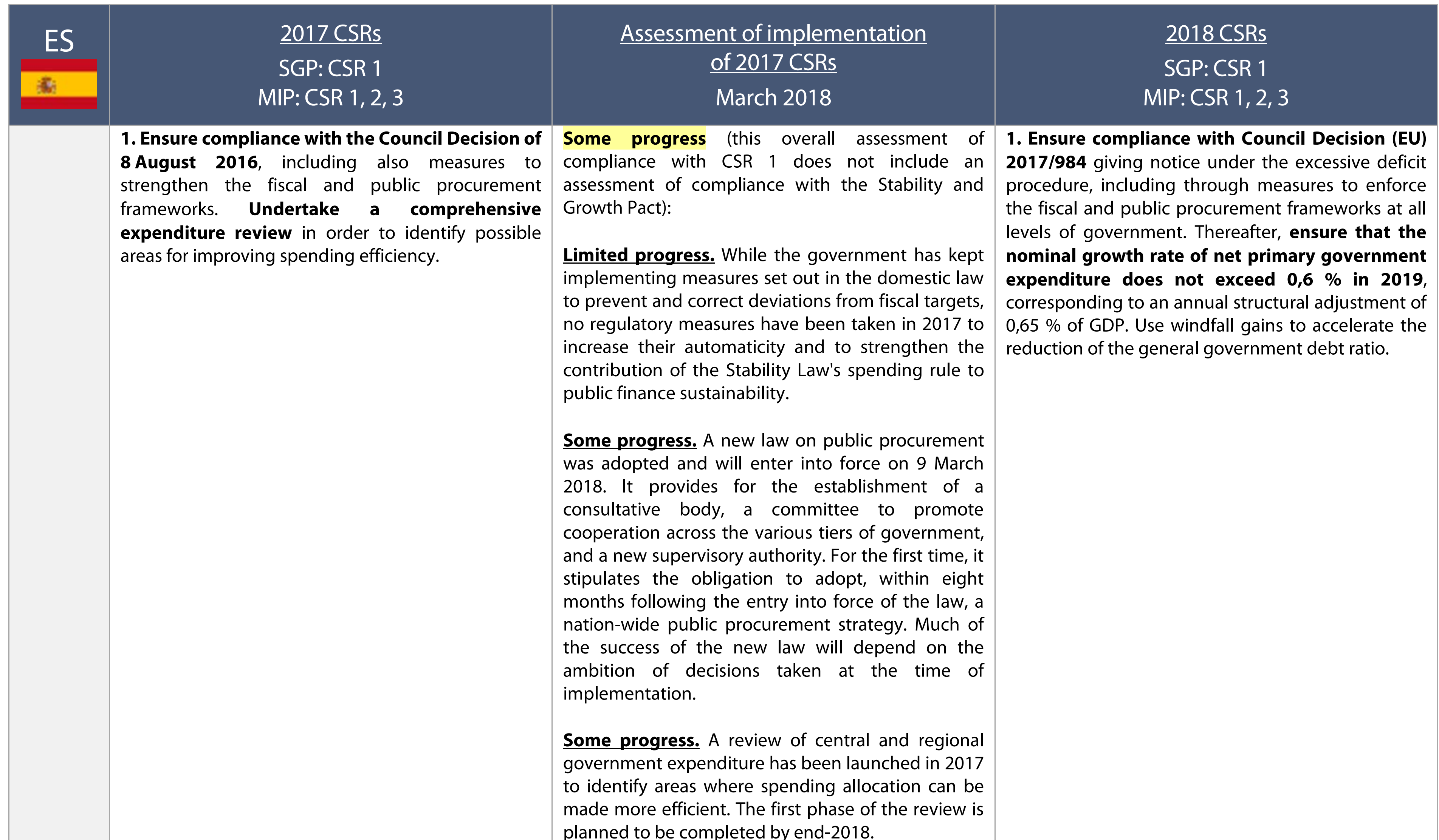
Indicators above/ below the thresholds

Annex 3: Progress towards the EU2020 targets

Indicator	ES			EU28	
Employment rate (% of population aged 20-64)	**74**		**Target 2020**	**75**	
	n.a.		2018	n.a.	
	65.5		2017	72.2	
	63.9		2016	71.1	
	62.0		2015	70.1	
Expenditure on R&D (% of GDP)	**2**		**Target 2020**	**3**	
	n.a.		2018	n.a.	
	1.20		2017	2.07	
	1.19		2016	2.04	
	1.22		2015	2.04	
Greenhouse gas emission[1]	**Total n.c.s.t.[1]** (Index 1990 = 100)	**Non-ETS 90[1]** (Index 2005 = 100)	**Target 2020**	**Total 80** (Index 1990 = 100)	
	n.a.	n.a.	2018	n.a.	
	n.a.	84.70	2017	n.a.	
	116.43	84.10	2016	77.64	
	119.67	83.10	2015	77.99	
Share of renewable energy (%)	**20**		**Target 2020**	**20**	
	n.a.		2018	n.a.	
	n.a.		2017	n.a.	
	17.3		2016	17.0	
	16.2		2015	16.7	
Primary energy consumption (million tonnes of oil equivalent-TOE)	**119.8**		**Target 2020**	**1,483**	
	n.a.		2018	n.a.	
	n.a.		2017	n.a.	
	117.2		2016	1,542.7	
	117.1		2015	1,531.9	
Early school leaving (% of population aged 18-24)	**15**		**Target 2020**	**10**	
	n.a.		2018	n.a.	
	18.3		2017	10.6	
	19.0		2016	10.7	
	20.0		2015	11.0	
Tertiary educational attainment (% of population aged 30-34)	**44**		**Target 2020**	**40**	
	n.a.		2018	n.a.	
	41.2		2017	39.9	
	40.1		2016	39.1	
	40.9		2015	38.7	
Population at risk of poverty or social exclusion (thousand - % of total population)	**Reduction by 1400 thousand**	**n.c.s.t.**	**Target 2020**	**Reduction by 20 million**	**n.c.s.t.**
	n.a.	n.a.	2018	n.a.	n.a.
	12,236	26.6	2017	112,917	22.5
	12,827	27.9	2016	118,040	23.5
	13,175	28.6	2015	119,049	23.8

Source: Eurostat (data extracted on 08/01/2019). Note: (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 decrease 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; n.c.s.t. = "no country specific target"; n.a = "not available".

Annex 4: 2017 and 2018 Country Specific Recommendations



ES	2017 CSRs SGP: CSR 1 MIP: CSR 1, 2, 3	Assessment of implementation of 2017 CSRs March 2018	2018 CSRs SGP: CSR 1 MIP: CSR 1, 2, 3
	1. Ensure compliance with the Council Decision of 8 August 2016, including also measures to strengthen the fiscal and public procurement frameworks. **Undertake a comprehensive expenditure review** in order to identify possible areas for improving spending efficiency.	**Some progress** (this overall assessment of compliance with CSR 1 does not include an assessment of compliance with the Stability and Growth Pact): **Limited progress.** While the government has kept implementing measures set out in the domestic law to prevent and correct deviations from fiscal targets, no regulatory measures have been taken in 2017 to increase their automaticity and to strengthen the contribution of the Stability Law's spending rule to public finance sustainability. **Some progress.** A new law on public procurement was adopted and will enter into force on 9 March 2018. It provides for the establishment of a consultative body, a committee to promote cooperation across the various tiers of government, and a new supervisory authority. For the first time, it stipulates the obligation to adopt, within eight months following the entry into force of the law, a nation-wide public procurement strategy. Much of the success of the new law will depend on the ambition of decisions taken at the time of implementation. **Some progress.** A review of central and regional government expenditure has been launched in 2017 to identify areas where spending allocation can be made more efficient. The first phase of the review is planned to be completed by end-2018.	**1. Ensure compliance with Council Decision (EU) 2017/984** giving notice under the excessive deficit procedure, including through measures to enforce the fiscal and public procurement frameworks at all levels of government. Thereafter, **ensure that the nominal growth rate of net primary government expenditure does not exceed 0,6 % in 2019**, corresponding to an annual structural adjustment of 0,65 % of GDP. Use windfall gains to accelerate the reduction of the general government debt ratio.

		In **May 2018**, the Commission provided its assessment of compliance with the SGP as part of the Assessment of the Stability Programme for Spain, concluding that: *"In 2017, Spain achieved a headline deficit of 3.1% of GDP, in line with the EDP deficit target.* ***Spain plans to correct its excessive deficit by the 2018 deadline set by the Council, but the programme does not project to reach the MTO set in Spain's Stability Law within the programme horizon.*** *Based on the Commission 2018 spring forecast, the headline deficit is expected to decrease to 2.6% of GDP in 2018 and further to 1.9% of GDP in 2019. Short-term risks to the achievement of the fiscal targets relate to uncertainty about tax revenues at this stage of cycle, the pace of public employment growth and the possible materialisation of contingent liabilities.* *Based on the Commission 2018 spring forecast,* ***the projected change in the unadjusted structural balance falls short of the fiscal effort required by the Council in 2018 and cumulatively over the 2016-18 period.*** *This also holds for the adjusted change in the structural balance and the fiscal effort measured by the bottom-up method. This reflects the expansionary nature of the draft 2018 budget, including the additional expenditure on pensions following from the higher annual revaluation of the pensions than foreseen by the 2011-13 pension reforms.* *Should the excessive deficit be corrected in a durable manner by 2018, as expected, Spain will be subject to the preventive arm of the Stability and Growth Pact from 2019 onwards and to the transition period as regards compliance with the debt criterion. According to the Commission 2018 spring forecast,* ***Spain would be at risk of significant deviation from the***	

		recommended adjustment path towards its MTO in 2019. Moreover, in 2019, Spain would not progress towards compliance with the debt criterion either. *In addition, in August 2016, the Council required Spain to take measures to improve its fiscal and public procurement policy frameworks. However, the Stability Programme does not report plans to improve its fiscal policy framework. Spain has made progress with the adoption of a new law on public sector contracts in November 2017. Nevertheless, the new legislation can only improve the efficiency and transparency of public procurement if it is swiftly and ambitiously implemented by setting up the new governance structure and enhancing control mechanisms of procurement procedures at all levels of government."* (p. 24)	
	2. Reinforce the coordination between regional employment services, social services and employers, to better respond to jobseekers' and employers' needs. Take measures to promote hiring on open-ended contracts. **Address regional disparities and fragmentation in income guarantee schemes and improve family support**, including access to quality childcare. Increase the labour market relevance of tertiary education. **Address regional disparities in educational outcomes**, in particular by strengthening teacher training and support for individual students.	**Limited progress** **Some progress.** Some regions advanced moderately towards better coordination between public employment and social services. However, cooperation with employers still presents important deficiencies. The Network for Social Inclusion has the potential to effectively enhance coordination between employment and social services at the national and regional level. The roll-out of the Universal Social Card starting in 2018 should also facilitate closer coordination. Overall the scope of measures is limited and their effect can only be assessed once implementation has begun. **Limited progress.** While Spain became more successful in fighting the abuse of temporary contracts, most efforts to promote hiring on open-ended contracts have shown limited effectiveness so far or have not yet moved to implementation stage.	**2. Ensure that employment and social services have the capacity to provide effective support for jobseekers,** including through better cooperation with employers. Foster transitions towards open-ended contracts. **Improve family support and increase the effectiveness of income guarantee schemes**, by addressing coverage gaps, simplifying the system of national schemes and reducing disparities in access conditions to regional ones. **Reduce early school leaving and regional disparities in educational outcomes**, in particular by better supporting students and teachers.

		Limited progress. While fragmentation has been mitigated to some extent, initiatives intended to address limited effectiveness in national income guarantee schemes are progressing very slowly. **Limited progress.** Measures to increase labour market relevance of tertiary education are so far largely limited to provision of information and advice, or too recent to measure effects on graduate cohorts. **Limited progress.** Regional disparities persist in early school leaving rates and student performance, although some improvements have been made to close the gap between best and worst performing regions.	
	3. Ensure adequate and sustained investment in research and innovation and strengthen its governance across government levels. **Ensure a thorough and timely implementation of the law on market unity** for existing and forthcoming legislation.	**Limited progress** **Limited progress.** Public funding for innovation in SMEs somewhat increased, but fiscal measures put in place during the crisis appear to limit the adequate execution of R&I budget lines. Administrative procedures are being modified to encourage uptake of support measures. Involvement and interaction of relevant actors in the design of innovation policy is being intensified. Examples of initiatives include the work to increase the efficiency of "Unique Scientific and Technical Infrastructures" (ICTS) through a second mapping, and increased support for the R+D+I Public Policy Network (REDIDI), which has the potential to improve national-regional coordination of R&I policy. Systematic programme evaluations, however, have not yet become the rule despite some good practice examples. **Limited progress.** Supporting guidelines for implementing the law on market unity have been issued, but the renewed commitment of regions and the central government to mutual cooperation on	**3. Increase public investment in research and innovation** and systematically carry out evaluations of support policies in this area to ensure their effectiveness. **Increase cooperation between education and businesses** with a view to mitigating existing skills mismatches. **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.

		market unity and better regulation in Spain has so far not translated into tangible results. The Constitutional Court rulings on the Law on Market Unity might limit effective progress in this area for the time being. National authorities have given reassurances that it will be possible to achieve the objectives of the law using the provisions unaffected by the rulings.	