

# European Semester

2012/2677(RSP) - 30/05/2012 - Follow-up document

**PURPOSE:** draft recommendation for a COUNCIL RECOMMENDATION on Spain's 2012 national reform programme and delivering a Council opinion on Spain's convergence programme for 2012-2015.

**BACKGROUND:** the European Commission has adopted a **package of recommendations for budgetary measures and economic reforms** to enhance financial stability, boost growth and create employment across the EU.

The recommendations are **country-specific**, taking account of the individual situation of each Member State. The Commission has also issued recommendations for the euro area as a whole. The country-specific recommendations put forward by the Commission give operational guidance for Member States while preparing their budgetary policies and for economic reforms that should be enacted over the coming twelve months to boost competitiveness and facilitate job creation.

The adoption of the recommendations marks the **concluding of the second phase of the European Semester** of economic policy coordination, which was launched with the Commission's [Annual Growth Survey](#) on 23 November 2011.

The basis for these recommendations is a thorough assessment of the implementation of those adopted in 2011, combined with a detailed analysis of the national reform programmes and stability or convergence programmes that Member States submitted by 30 April 2012. The analysis underpinning the recommendations is presented in 28 Commission staff working documents.

**CONTENT:** on 30 April 2012, **Spain** submitted its stability programme covering the period 2012-2015 and its 2012 national reform programme. The two programmes have been assessed at the same time.

Based on the assessment of the stability programme, the Council is of the opinion that the macroeconomic scenario underlying the programme is broadly plausible for 2012 and optimistic thereafter. **The Commission's 2012 spring forecast projected GDP growth to reach -1.8% in 2012 and -0.3% in 2013, against -1.7% and 0.2%, respectively, in the programme.** In compliance with the Excessive Deficit Procedure, the objective of the budgetary strategy outlined in the programme is to bring the general government deficit below 3% of the GDP reference value by 2013, based mainly on expenditure restraint, but also on some revenue-increasing measures. The programme projects the government debt ratio to peak in 2013 and to start declining thereafter. **The Commission considers that the deficit and debt adjustment paths are subject to important downside risks.** Macroeconomic developments could turn out less favourable than expected. Moreover, measures are not sufficiently specified from 2013 onwards.

The Commission states that the **main challenges facing Spain** are as follows:

- In 2011, Spain adopted reform of its pension system. However, the worsening of the economic prospects in Spain is limiting the impact of the reform on the projected age-related public expenditure. In addition, the reform still needs to be complemented by concrete measures to underpin the Global Employment Strategy for Older Workers for 2012-2014.
- The efficiency of the tax system can be improved by increasing the share of more growth-friendly indirect taxes.

- Spain has made considerable progress regarding the restructuring of its financial sector. The restructuring needs to continue, to ensure that unviable banks are resolved. Given the weakening of macroeconomic prospects, further strengthening of the banks' capital base may be required.
- In February 2012, the Spanish government adopted a comprehensive reform of the employment protection and collective bargaining system. The effects need to be monitored, in particular as regards wage developments and reduction of segmentation.
- To tackle Spain's high youth unemployment, the Youth Action Plan should be implemented without delay, including for apprenticeship and training contracts.
- Although Spain has taken measures to combat early school leaving, the rate remains high and conceals significant disparities across regions.
- Poverty has increased with 1.1 million more people at risk in 2010 and child poverty is at an alarming high of 26.2%. The in-work poverty rate for temporary workers is more than twice as high as the one for permanent workers.
- Professional services in Spain remain protected from competition (e.g. notaries, property registry agents, court officers). In addition, in Spain it takes the longest in the EU to obtain a business licence.

### **Recommandations proposed for Spain (2012-2013):**

#### **Budgetary measures:**

- deliver an annual average structural fiscal effort of above 1.5% of GDP over the period 2010-13 by implementing the measures adopted in the 2012 budget and adopting the announced multi-annual budget plan for 2013-14 by the end of July ;
- adopt and implement measures at regional level and strictly apply the new provisions of the Budgetary Stability Law regarding transparency and control of budget execution;
- establish an independent fiscal institution to provide analysis, advice and monitor fiscal policy, as well as to estimate the budgetary impact of proposed legislation.

#### **Pension system:**

- accelerate the increase in the statutory retirement age and the introduction of the sustainability factor provided for in the recent pension reform ;
- underpin the Global Employment Strategy for Older Workers with concrete measures to develop lifelong learning further, improve working conditions and foster the reincorporation of this group in the job market.

#### **Taxation:**

- introduce a taxation system more supportive to growth, including a shift away from labour towards consumption and environmental taxation;
- address the low VAT revenue ratio by broadening the tax base for VAT;
- ensure less tax-induced bias towards indebtedness and home-ownership (as opposed to renting).

#### **Financial sector:**

- implement the reform of the financial sector, in particular complement the on-going restructuring of the banking sector by addressing the situation of remaining weak institutions ;
- put forward a comprehensive strategy to deal effectively with the legacy assets on the banks' balance sheets, and define a clear stance on the funding and use of backstop facilities.

#### **Labour market:**

- implement the labour market reforms and take additional measures to increase the effectiveness of active labour market policies by increasing the use of training, advisory and job matching services, sharing information about job vacancies;
- youth employment, fight against poverty;
- review spending priorities and reallocate funds to support access to finance for SMEs, research, innovation and young people;
- implement the Youth Action Plan, in particular as regards the quality and labour market relevance of vocational training and education;
- reinforce efforts to reduce early school-leaving and increase participation in vocational education and training through prevention, intervention and compensation measures;
- take specific measures to counter poverty, by making child support more effective and improving the employability of vulnerable groups.

**Services:**

- take additional measures to open up professional services, including highly regulated professions, reduce delays in obtaining business licences;
- complete the electricity and gas interconnections with neighbouring countries and address the electricity tariff deficit in a comprehensive way, in particular by improving the cost efficiency of the electricity supply chain.

The recommendations are to be endorsed by the European Council on 28-29 June and formally adopted by the Council in July 2012.