2019 BUDGETARY PLAN AND QUARTERLY REPORTING

KINGDOM OF SPAIN

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INTRODUCTION

The preparation of the 2019 Budgetary Plan for the Kingdom of Spain has been marked by the current political scenario which, as yet, has not allowed for the presentation of the 2019 General State Budget (PGE, as per the Spanish).

Nevertheless, the Government is firmly committed to presenting and approving the 2019 General State Budget (PGE) and all its efforts are firmly geared towards this objective. Since the Government took office, it has been working on the design of a fiscal policy that guarantees budgetary consolidation and the sustainability of public finance and implements the necessary measures to guarantee inclusive growth and reduce inequality which has increased alarmingly in Spain over recent years.

The Government has been working along this line with the different parliamentary groups, with the aim of processing the 2019 General State Budget Draft Bill in the Parliament as soon as possible.

Similarly, the Government is working towards the Parliament's adoption of the new budgetary consolidation path approved by the Council of Ministers on 20 July last, which is consistent with the spirit of the obligations arising from the Stability and Growth Pact, as well as with maintenance of an adequate growth and employment creation rate.

In this context, this Budgetary Plan takes as its starting point the updated information pertaining to collection and budgetary execution of 2018, which, in line with the forecasts already published by the European Commission, points to a public deficit of 2.7% of GDP. Starting with this, if economic policy measures are not taken, that is in a "no-policy change scenario" for 2019, the information available on the evolution of revenue and expenditure for the whole General Administration point to a public deficit forecast of 2.2% for 2019.

Consequently, the Spanish Government believes it is essential to adopt measures in the fiscal policy sphere that allow for (i) consolidation of the reduction of the public deficit incorporating structural adjustment; (ii) consolidation of the reduction of public debt in particular by achieving primary surplus; (iii) protection of economic growth and job creation through an appropriate combination of income and expenditure measures; and (iv) contribution to inclusive growth through the strengthening of the Welfare State and the redistributive capacity of the budget.

The new tax measures set out in this annual budgetary plan will be included in three draft bills that will be put before the Council of Ministers over the coming weeks. Specifically, this consists of the draft bills to combat fraud and the transposition of the Anti-Tax Avoidance Directive (ATAD), the creation of the Tax on Specific Digital Services and the Financial Transaction Tax. The rest of the new tax measures set out in this document will be included in the 2019 General State Budget Draft, which will be put before the Council of Ministers in late November or early December.

This document contains a detailed analysis of the 2018-2019 macroeconomic scenario, endorsed by the Independent Authority for Fiscal Responsibility, which serves as the basis of the Budgetary plan. It also provides detailed information on expenditure and revenue measures agreed by the Government, which will be complemented by the corresponding normative texts once these have been formally adopted over the coming weeks.

This document also includes additional information for compliance with the information requirements set out for Member States within the framework of the excessive deficit procedure, as provided by Regulation

473/2102, of 21 May, on common provisions for monitoring and assessing budgetary plans and ensuring the correction of excessive deficit of Member States in the euro area, reinforced by means of the Council Decision of 6 August 2016. Therefore, detailed additional information on budgetary implementation is provided on a cash basis and on a national accounting basis for the Spanish General Government as a whole, and for each sub-sector, also including information on contingent liabilities.

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MACROECONOMIC SCENARIO 2018-2019

The macroeconomic scenario described below is the basis of the Budgetary Plan for 2019 and is backed by the Independent Authority for Fiscal Responsibility (AIReF) which has qualified the plans as feasible and considers the Government's macroeconomic scenario to be prudent overall.

1.2 Recent progress and situation in 2018

The macroeconomic scenario that accompanies the Budgetary Plan 2019 is framed within the current expansive phase of the Spanish economy, driven by robust employment growth, favourable financial conditions and advances made in the correction of macroeconomic imbalances. From the peak of the cycle, reached in 2015 with a GDP growth rate of 3.6%, the Spanish economy has continued to perform strongly, with more moderate growth rates as it reaches the mature stages of the cycle, in line with the progressive slowdown in global growth, the increase in oil prices and growing uncertainty in relation to the international environment.

Indeed, actual GDP growth rates have slowed in 2016 and 2017, years in which growth reached 3.2% and 3% respectively and this lower dynamism has continued into the first two quarters of 2018, with GDP registering quarterly growth of 0.6%.

The growth of the Spanish economy in this period has been primarily driven by domestic demand, while the export sector has also contributed positively to growth.

In 2017 as a whole, domestic demand accounted for 2.9 points to growth in GDP, five tenths of a percent more than in 2016 and in the period January-June 2018 the contribution reached 3.2 percentage points. Among the components making up domestic demand, particularly notable was the performance of private consumption (with growth rates of 2.5% in 2017 and 2.7% in the first half of 2018) and productive investment.

Investment in fixed capital is growing intensely, driven by domestic and external demand and by favourable financial conditions, the reduction of debt of non-financial companies, favourable business outlooks and the need to make up for investment not made during the recession. This acceleration of investment is being supported by its two main components: equipment and construction, which have closed the first half of this year with year on year rates in excess of 6%.

Final consumption expenditure by volume of the General Government, after closing last year with growth of 1.9%, registered a half-year increase of 2.1% in the period January-June 2018.

Increased indebtedness of the General Government over recent years has occurred in parallel with intense deleveraging in the private sector, whose consolidated debt went down by 67 points GDP from the maximum reached in mid-2010, to sit at 135.7% of GDP in the first quarter of 2018. Approximately two thirds of the reduction is due to deleveraging by non-financial companies while the remaining third corresponds to the deleveraging of homes. This deleveraging is being compatible with the performance of the credit market, with new transactions to homes and SMEs (using SME loans under one million euros as proxy) registering annual increases in excess of 8% for the past year. This favourable performance which has continued in the first half of 2018, is facilitated by the expansive monetary policy implemented by the European Central Bank.

In 2017, external demand contributed one tenth to growth in GDP, while the contribution in the first half of 2018 was negative to the tune of six tenths due to an advance of imports of goods and services that exceeded that of exports. Indeed, imports grew by 4.9% (5.6% in 2017) in this period, despite greater performance of internal demand, while exports increased in the period January-June by 2.9%, a rate that was lower to the 5.2% for 2017, as a consequence of the lower dynamism of export markets.

Spanish economic growth is being compatible with the progress made in the correction of external imbalances, which has been favoured in recent years by reduced oil prices. According to the Balance of Payments' figures, in the last twelve months up to June 2018 the Spanish economy generated a financial capacity to tackle foreign debt equivalent to 1.7% of GDP, a half point below the figure for the same period in 2017. Due to the reduction of the current account balance surplus, the financial capacity was reduced from 2% GDP previous year to 1,4% GDP. At the same time, the decrease in the current account balance is explained by the reduction of the goods and services surplus, down from 3.1% of GDP in the second quarter of 2017 to 2.5% in the same period of 2018, while the primary and secondary income deficit remained at 1% of GDP. For its part, the capital account surplus for the four quarters up to the second of this year was 0.3%, a tenth of a percentage higher than for the same period last year. The debit balance of the net position in terms of international investment and Spanish foreign debt for the second half of 2018 stood at 82.4% and 167.9% of GDP respectively, percentages below those for the same period the previous year (88.2% and 169% of GDP). Despite this favourable evolution, the current net debit international investment position continues to constitute an imbalance for the Spanish economy.

Economic growth remains intense in terms of employment creation, with employment rates registering close to 3% year-on-year and reducing the rate of unemployment by two points per year. According to the Labour Force Survey (EPA), in the second quarter of this year, over half a million net jobs were created (530,800) compared to a year previous, and unemployment fell by 400,000 people (424,200). Such favourable evolution of employment has continued in the third quarter of 2018, according to Social Security registrations which grew by 2.9% year on year in said period, while unemployment fell by 6%.

Nevertheless, employment levels remain below the pre-crisis maximum (almost 1.4 million fewer people in employment) and the level of unemployment is above the minimum (1.7 million more unemployed). Thus, in the second half of 2018, youth unemployment (under 25s) remained high at 34.7% and the long-term unemployed (more than 12 consecutive months unemployed) rose to around 1.5 million workers. The high rate of unemployment remains one of the most significant imbalances in the Spanish economy. Consequently, the creation of employment must remain a principal objective of economic policy so that growth benefits reach society as a whole.

In terms of prices, inflation, measured by the general Consumer Price Index (CPI as per the Spanish), grew slightly, up to 2.3% year-on-year, making it five consecutive months with rates slightly above 2%, due primarily to the increase in energy prices and, to a lesser extent, in non-processed food. For its part, underlying inflation in September stood at 0.8%, a rate similar to the previous month, remaining in and around 1% in the last three years.

1.2 Assumptions and the international scenario

The macroeconomic scenario that accompanies this 2019 Budgetary Plan is based on external hypotheses regarding exchange rates, oil prices, interest rates, Spanish export markets and global GDP, which have been prepared based on the information included in the European Central Bank's Macroeconomic Forecasts published in September and also based on the estimates of the Ministry of Economy and Business.

Table 1.1 Basic Assumptions

% variation over the same period of the previous year, unless otherwise stated.

	2017	2018	2019
Short-term interest rates (3-month Euribor)	-0.3	-0.3	-0.2
Long-term interest rates (10-year public debt, Spain)	1.7	1.6	1.8
USD/euro exchange rate	1.1	1.2	1.1
World GDP growth	3.8	3.9	3.7
Euro-zone GDP growth	2.5	2.0	1.8
Spanish export markets	4.9	3.6	3.8
Oil price (Brent, Dollars/barrel)	54.2	73.4	76.4

Sources: European Central Bank and Ministry of Economy and Business

With regard to the international context, the provisions of the ECB point to more moderate growth in the global economy excluding the Eurozone than envisaged some months ago, from 3.9% in 2018 to 3.7% in 2019, due to the some of the risks considered in previous forecasts materialising and increased global uncertainty. In this context, growth of the Eurozone economy remains robust on the forecast horizon, while a more intense deceleration than that expected is forecast, affected by lower growth in the global economy and greater uncertainty relating to the international environment.

Short-term interest rates will remain relatively stable and in negative territory this year and next and Spanish ten-year government debt yields are expected to be around 1.16% in 2018, similar to 2017 and to rise to 1.8% in 2019.

With respect to the prices of raw materials, the price of Brent oil, which stood at just under 45 dollars per barrel in the middle of last year, rose to 67 dollars in 2017, closing the year with an average annual price of 54.2 dollars per barrel. So far for 2018, the upward trend has intensified, with the average price for September around 80 dollars. In this context, oil prices are forecast at close to 75 dollars a barrel this year, and slightly higher in 2019 in line with the trend in Brent futures prices.

With respect to the Spanish export market, forecasts point to rates of in and around 3.7% annually for the forecast period, lower than those envisaged some months ago, in line with the outlooks for demand from our principal trading partners and greater uncertainty in the international environment.

In terms of the evolution of exchange rates, the euro has risen against the dollar by more than 10% from late 2016 up to September of this year, with exchange rates forecast at an annual average $1.18 per euro this year and $1.14 next year.

Macroeconomic Scenario 2018-2019

The Macroeconomic Scenario that accompanies this Budgetary Plan reflects the continuation of the expansive phases of the Spanish economy, while it also forecasts a moderation of the rate of growth of GDP for the period in question, from 2.3% in 2018 to 2.3% in 2019.

Said rates coincide with a scenario of inertia or "no-policy change," given the neutral effect the proposed measures will have on real growth.

The moderation forecast for 2019 responds, as has been previously pointed out, to the peak of the economic cycle, coherent with a slower pace of jobs creation and a gradual slowdown in internal demand. Moreover, it reflects a less favourable international context, with lower growth rates, and greater uncertainty in oil prices. All of this translates into a domestic demand in 2018 and 2019 of 2.7 and 2.13 percentage points respectively and a slightly negative contribution of net external demand in 2018 (-0.1 points) and a neutral demand in 2019.

Among the components of domestic demand for private consumption a slight slowdown in growth rates is forecast, 2.3% in 2018 and 1.9% in 2019, consistent with a slower rate of job creation and the expected recovery of savings rates in homes from this historic low recorded in 2017. Private consumption will be favoured by the positive impact some of the measures will have on families' disposable income. Real public consumption will grow this year to a rate of 1.9%, identical to last year's and slightly more moderately in 2019, by 1.7%.

Table 1.2 Macroeconomic outlooks

Chained volume series, Year 2010=100, unless otherwise stated

	ESA Code	2017	2017	2018	2019
		Level	year-on-year % change		
1. Real GDP	B1*g	105.5	3.0	2.6	2.3
2. Potential GDP		-	0.9	1.1	1.3
Contributions:					
Labour		-	0.1	0.1	0.3
Capital		-	0.3	0.4	0.5
Total factor productivity		-	0.5	0.5	0.5
3. Nominal GDP (Billion euros)	B1*g	1,166.3	4.3	3.9	4.1
Components of real GDP					
4. Private consumption expenditure	P.3	100.7	2.5	2.3	1.9
5. Government consumption expenditure	P.3	97.4	1.9	1.9	1.7
6. Gross fixed capital formation	P.51	98.9	4.8	5.3	4.4
7. Change in inventories (% of GDP)	P.52 + P.53	-	0.1	0.0	0.0
8. Exports of goods and services	P.6	136.1	5.2	3.2	3.4
9. Imports of goods and services	P.7	112.8	5.6	4.0	3.8
Contributions to real GDP growth					
10. Domestic demand		-	2.9	2.7	2.3
11. Change in inventories	P.52 + P.53	-	0.1	0.0	0.0
12. External balance of goods and services	B.11	-	0.1	-0.1	0.0

Sources: National Institute of Statistics and Ministry of Economy and Business

Thus, the expansive trend in Gross fixed capital formation stands out with rates of 5.3% and 4.4% in 2018 and 2019 respectively. In particular, investment in equipment is expected to increase by 5.5% this year and investment in construction by 5.8%, with rates of 44.4% and 5% respectively projected for 2019. This investment growth is sustained in the strengthening of expectations and favourable financial conditions which make this evolution compatible with the continuation of the deleveraging process of companies.

With regard to the foreign sector, real exports of goods and services will grow by 3.2% and 3.4% thus maintaining one of the most dynamic components of GDP, along with investments due to gains in competitiveness and the extension of the exporter company base. Imports will rise at a rate of 4% this year, and slightly below that (3.8%) next year, in line with the lower increase in final demand.

In this context, the financial capacity of the Spanish economy compared to the rest of the world sits at 1.5% of GDP this year, which constituted a slowdown compared to the previous year due to the growth observed in commercial flows in real terms and the deterioration of the real exchange relationship due to the higher oil prices. In 2019 the financing capacity of the Spanish economy should stand at 1.3% of GDP, which will allow for the continued reduction of overseas debt.

Full-time employment is expected to grow in 2018 at a rate of 2.5%, and that growth is forecast to decelerate half a point in 2019 to 2%, with the creation of more than 800,000 jobs in two years. Unemployment will fall progressively in 2019, to 13.8% of the active population.

Table 1.3 Evolution of the labour market (*)

	ESA Code	2017	2017	2018	2019
		Level	year-on-year % change		
1. Total employment (Full-time equivalent employment. Thousands)		17,951.3	2.9	2.5	2.0
2. Unemployment rate (% of labour force)		-	17.2	15.5	13.8
3. Productivity per worker (Thousand euros)		63.5	0.1	0.1	0.3
4. Compensation of employees (Billion Euros)	D.1	547.3	3.5	3.9	4.2
5. Compensation per employee (**) (Thousand euros)		35.2	0.3	1.0	2.0

(*) National Account data, except for unemployment rate.

(**) Compensation per employee, full-time equivalent.

Sources: National Institute of Statistics and Ministry of Economy and Business

Inflation is expected to be contained for the period in question, in line with the slowdown observed in underlying inflation and the GDP deflator, even in the current environment of rising oil prices. In 2018, the private consumption deflator reached a rate of 1.7% and the GDP deflator a rate of 1.3%. For 2019, both rates are forecast at 1.8%.

Table 1.4 Evolution of prices

	ESA Code	2017	2017	2018	2019
		Level	year-on-year % change		
1. GDP deflator		102.3	1.2	1.3	1.8
2. Private consumption deflator (*)		107.6	1.6	1.7	1.8
3. Public consumption deflator		99.9	0.2	1.3	1.7
4. Gross fixed capital formation deflator		97.0	2.1	1.9	2.5
5. Exports prices deflator (goods and services)		106.6	2.7	2.0	2.4
6. Imports prices deflator (goods and services)		111.9	3.5	3.2	2.9

(*) It includes households and non-profit institutions serving households.

Sources: National Institute of Statistics and Ministry of Economy and Business

Table 1.5 Sectoral Balances

	ESA Code	2017	2018	2019
		% of GDP		
1. Net lending (+) / Net borrowing (-) vis-à-vis the rest of the world	B.9	2.2	1.5	1.3
Balance on goods and services		2.9	2.3	2.1
Balance of primary incomes and transfers		-1.0	-1.0	-1.0
Capital account		0.2	0.2	0.2
2. Net lending (+) / Net borrowing (-) of the private sector	B.9	5.2	4.3	3.1
3. Net lending (+) / Net borrowing (-) of General Government (*)	B.9	-3.1	-2.7	-1.8

(*) The figures include financial assistance.

Sources: National Institute of Statistics and Ministry of Economy and Business

[2]

ORIENTATION OF FISCAL POLICY

2.1 Path of consolidation

The current path of consolidation is that approved by the Council of Ministers on 7 July 2017 and subsequently ratified by the Parliament. In accordance with said path, the public deficit target for the Spanish General Government is set at 2.2 per cent for 2018, 1.3 per cent for 2019 and 0.5 per cent for 2020. The table below shows a breakdown of these objectives between the subsectors of the Spanish General Government.

Table 2.1. Budgetary targets of the General Government 2018-2020

As a % of GDP

% of GDP	2018	2019	2020	2021
Central Administration	-0.7	-0.3	0.0	0.0
Autonomous Communities	-0.4	-0.1	0.0	0.0
Local Entities	0.0	0.0	0.0	0.0
Social Security	-1.1	-0.9	-0.5	0.0
General Government	**-2.2**	**-1.3**	**-0.5**	**0.1**

Source: Ministry of Finance

The European Commission, in its assessment of the Stability Programme, stated that the deficit forecasts for 2018 and 2019 were above the approved targets.

In light of this, the current Government, upon taking office, considered it fundamental to have access to a clear analysis of fiscal outlooks and, for this reason, tasked the Independent Authority for Fiscal Responsibility (AIREF) to prepare a study of the macroeconomic and budgetary scenarios for 2018 and 2019 under the "no policy change" scenario, that is, based on a trend macroeconomic scenario and income and expenditure trends within the current regulatory framework.

In that study, the AIREF estimated public deficit of 2.7% and 2.2% of GDP in 2018 and 2019 respectively, for the Spanish General Government as a whole. These estimates are in line with those published by the European Commission in its assessment of the Stability Programme of 23 May.

According to these forecasts, compliance with the deficit objective of 1.3% in 2019 would require a revenue and expenditure adjustment of around €11 billion euros, which would put economic growth and job creation, priority objectives of the Government's economic policy, at risk.

Based on this, the Government considered the most reasonable response was to update the stability objectives for the period 2019-2021 to adjust to the budgetary situation of 2018, to protect economic growth and employment creation and to respond to the doubts of the European Commission in relation to meeting deficit objectives.

Thus, the Council of Ministers approved, on 20 July last, new budgetary stability objectives and a breakdown by subsectors included in the following table. In accordance with said path, the public deficit target for the Spanish General Government as a whole would be set at 1.8 per cent for 2019, 1.1 per cent for 2020 and 0.4 per cent for 2021.

Table 2.2. New budgetary objectives for the General Government 2019-2021

In % of GDP

% of GDP	2019	2020	2021
Central Administration	-0.4	-0.1	0.0
Autonomous Communities	-0.3	-0.1	0.0
Local Entities	0.0	0.0	0.0
Social Security	-1.1	-0.9	-0.4
General Government	**-1.8**	**-1.1**	**-0.4**

Source: Ministry of Finance

In the breakdown by subsector, the deficit of the General Government and the Autonomous Communities will be progressively reduced to reach balance in 2021. For Local Governments, budgetary balance is envisaged for the period 2019-2021. Finally, the Social Security will reduce its deficit to 0.4% of GDP in September 2021, as the subsector making the greatest effort toward consolidation.

This new path maintains the downward trend in the public deficit and guarantees its maintenance at levels lower than the reference value of 3% in the medium term, thus ensuring Spain's exit from the Excessive Deficit Procedure (EDP). Moreover it constitutes an adjustment equivalent to the previous path - 0.9 percentage points - but from a realistic starting point of the deficit in 2018, and therefore in no case should it be interpreted as a relaxation of consolidation efforts.

Table 2.3. Comparison of consolidation paths 2019-2021

In % of GDP

% of GDP	2019	2020	2021	Total adjustment
Old consolidation path	-1.3	-0.5	0.1	1.4
New consolidation path	-1.8	-1.1	-0.4	1.4

Source: Ministry of Finance

Similarly, new objectives also allow for the continued reduction of public debt, which will be reinforced when new primary surpluses begin to be recorded in 2019, something which has not occurred since 2007.

Table 2.4 General Government Debt Development (Q13) and Forecasts

	ESA Code	2017	2018	2019
1. Gross debt / GDP (a)		98.1	97.0	95.5
2. Change in gross debt / GDP ratio		-0.8	-1.1	-1.5
Contributions to change in gross debt / GDP ratio				
3. Primary balance		-0.5	-0.3	0.6
4. Interest expenditure	D.41	2.6	2.4	2.3
5. Stock-flow adjustment		0.1	-0.1	0.7
p.m.: Implicit interest rate		2.7	2.6	2.5

(a) As defined in EC Regulation number 479/2009.

Source: Ministry of Economy and Business

It also has positive repercussions for citizens, given that it will allow for the consolidation of growth and transfer of the benefits of the economic recovery to citizens rapidly and clearly. In effect, the new objectives will allow for the preparation of more social and redistributive budgets that contribute to preserving and driving the revitalisation of the Welfare State.

Finally it is necessary to indicate that the proposed path is still pending ratification by the Parliament in accordance with the provisions of budgetary stability regulations. The Government is currently working to achieve this support. One of the initiatives introduced to achieve it has been the amendment of Organic Law 2/2012, of 27 April, on Budgetary Stability and Financial Sustainability (LOEPSF), to correct the "anomalous" situation with respect to the processing of other regulations, which is that the Senate holds a veto.

2.2 Revenue and expenditure forecasts

The forecasts contained in the AIREF study prepared last July, in which the 2018 public deficit is placed at 2.7% rather than the 2.2% of GDP contained in the Stability Programme served as the basis for the quarterly notification sent to the Commission last July in accordance with the strengthened information requirements. With such forecasts the main deviations included herein for the 2018 closing are analysed.

In 2018, the public revenue to GDP rose to 38.5% and the expenditure to GDP ratio rose to 41.2%, representing a slight increase in both resources and expenditures compared to the latest forecasts released in July. On the resources side, a slight decrease of one percentage point of GDP is estimated compared to previous forecasts of Taxes on production and imports, which are rising to 6%. It is envisaged that in 2018 they will reach 11.7% of GDP. With regard to current taxes on income and wealth, better performance of these tax figures is envisaged. They are expected to reach 10.5% of GDP by the end of 2018. The forecast for social contributions are also improved, given the good pace observed during the first half of the year.

The increase in revenue, in line with the positive economic context, was limited by the impact of fiscal reforms in previous years. In particular, the reduction of income taxes in 2015 and the successive reforms of Corporation Tax have led to a series of fiscal expenditure and a loss of revenue estimated at €12 billion between 2015 and 2017. For 2018, the public revenue to GDP ratio is expected to rise to 38.5% of GDP, which constitutes a significant improvement in resources.

The State's tax income include collection results of prevention and fight against tax and customs fraud obtained by the Tax Authority (AEAT), that is, the amount, in collection terms, arising from the actions carried out by the AEAT, for the prevention and control of fraud (income from administrative settlements and for the lowering of reimbursements), as well revenue arising as a result of such actions (late self-assessments).

The revenue results of the State Tax Administration Agency's efforts to combat fraud, in the first half of 2018 reached a total of €8.429 billion, which represents an increase of 17.14% compared to the same period last year. This piece of data, although conditioned by extraordinary results, consolidates the trend observed in previous years that allows us estimate the potential annual revenue from the fight against a fraud at €14 billion, a figure which will be comfortably surpassed in 2018 according to available forecasts. In parallel, the efforts in terms of information and services to the contributor combined with the effect of control activities is seeing increased levels of voluntary compliance with fiscal obligations and a positive trend in tax receipts, which is the main strategic objective of the State Tax Administration Agency.

Furthermore, it is expected that in 2018 and 2019 the normative, organisational and operative measures adopted within the scope of the prevention and the fight against fiscal fraud constitute a significant increase, as reflected in Section 3.2 letter (i) and in Table A.4 of the Annex.

On the revenue side, an improvement in the income forecast from property and other assets stands out, fundamentally arising from improved performance of dividends from the Central Bank of Spain, ENAIRE and Lotteries up to July. With respect to expenditure, as has been indicated it is estimated that at year end an expenditure to GDP ratio of 42%.

It is foreseen a slight increase in compensation of employees up to 10.4% of GDP brought about fundamentally by the behaviour observed in the Territorial Administrations during the first half of the year, which grew above initial forecasts. This component incorporates, as it is known, the public sector pay rise of 1.75% for 2018.

A certain acceleration in expenditure on intermediate consumption has been observed, particularly in the case of Autonomous Communities and Local Corporations which grew by 2.8% and 2.4% respectively up to July.

In the first seven months of the year, social benefits, other than social transfers in kind grew 4%, with unemployment benefits in particular standing out having fallen by 0.8% up to July. It is expected that total benefits will reach 17.9% of GDP by year-end.

With respect to interest expenditure it must be highlighted that a downward trend has been maintained over the course of the last year, with deceleration noted only in the months of July and August. It is estimated that by the end of the year, a level below 2017's 2.4% of GDP will be reached. As was already included in the Excessive Deficit Procedure Notification sent on 30 September last, forecast interest expenditure for 2018 stands at €29.616 billion.

Higher spending on subsidies is also observed. This component includes spending to cover the electricity deficit, which rises by €136 million. Small changes are noted in investment expenditure. The forecast for 2018 of €1.8 billion is maintained for Asset Liability of the General Government for motorways in insolvency, which is included in the component for Gross Capital Formation. The forecast notified on 30 September last for this component was €27.043 billion.

Table 2.5 Income and expenditure targets for the whole General Government

In % of GDP

	ESA Code	2018	2019 policy change
1. Total revenue target	TR	38.5	39.1
Of which			
1.1. Taxes on production and imports	D.2	11.7	11.9
1.2. Current taxes on income, wealth, etc.	D.5	10.5	10.7
1.3. Capital taxes	D.91	0.5	0.5
1.4. Social contributions	D.61	12.4	12.5
1.5. Property income	D.4	0.6	0.6
1.6. Other		2.9	2.9
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		34.9	35.5
2. Total expenditure target	TE	41.2	40.9
Of which			
2.1. Compensation of employees	D.1	10.4	10.4
2.2. Intermediate consumption	P.2	5.0	5.0
2.3. Social transfers	D.62, D.63	17.9	18.0
Of which unemployment benefits		1.4	1.4
2.4.Interests	D.41	2.4	2.3
2.5. Subsidies	D.3	1.0	0.9
2.6.Gross fixed capital formation	P.5	2.2	2.1
2.7. Capital transfers	D.9	0.7	0.6
2.8. Other		1.6	1.6

Source: Ministry of Finance

Based on this closing forecast for 2018, the “no policy change” scenario for 2019 would see a public deficit of 2.2% of GDP, thus failing to meet the objective set in the new plan proposed by the Government and without the structural adjustment recommended by the EU institutions, necessary to ensure the achievement of the balanced budget objective in the medium term.

That is why the Government has agreed to adopt a change of policy through a battery of measures which will be implemented by means of the appropriate regulatory changes, and the 2019 PGE Law, in order to comply with the public deficit objective of 1.8% of GDP and to execute the necessary structural adjustment to accelerate the reduction of debt to GDP. The present Budgetary Plan details the different income and expenditure measures agreed, starting from the most recent 2018 budgetary execution forecasts available.

Policy change scenario

The “Policy Change” scenario, as its name indicates, includes additional new measures both on the income side and on the expenditure side and which, overall, would guarantee compliance with the budgetary stability objective of 1.8% of GDP in 2019.

The non-financial expenditure limit sets at €125.064 billion, which represents an increase of 4.4% on 2018 figure. This non-financial expenditure limit, approved by the Council of Ministers, is considered a milestone reached in the framework for the preparation of the 2019 SB.

The Government has worked intensely to implement a package of fiscal measures coordinated within the European Union in certain sectors, highlighting, among others, financial transactions, the digital economy and green taxation, which will total €5.6 million (see Table 3.1). We must add to this the greater increase in social contributions as a result of the increase in the minimum wage. In expenditure terms, a series of unavoidable expenses, as well as new measures with a clear social orientation such as pensions, dependency, subsidies, paternity leave, and raising the minimum wage, among others, with the objective of fostering and reinforcing the Welfare State and redistributing the benefits of economic growth.

The fiscal strategy for the General Government as a whole, in the “policy change” scenario, consists of increasing the public revenue to GDP ratio from 38.5 % in 2018 to 39.1 % of GDP in 2019, and an expenditure decrease rate of 0.3 percentage points of GDP, from 41.2% of GDP in 2018 to 40.9% in 2019.

As already indicated in 2018, the deficit will be reduced by up to 2.7% of GDP in line with the new path proposed by the Government for the period 2019-2021. For 2019, as a result of the revenue and expenditure forecasts in a policy change scenario with changes in public policies, the estimated deficit is equivalent to 1.8% of GDP. This is due to the fact that projections for 2019 have included revenue measures to the tune of 0.6% of GDP and expenditure measures for a sum of 0.2%, allowing us to carry out the necessary adjustment to go from 2.2% of GDP in the no policy change scenario to 1.8% in the scenario with these measures.

As mentioned above, the revenue ratio will reach 38.5% of the GDP in 2018, with an estimate of 39.1% for 2019. This improvement is due to a package of measures amounting to €5.678 billion that the government is designing and some of which will be approved over the coming days so they come into force from 1 January 2019 and to the higher increase in social contributions as a result of the rise in the minimum wage. Thus, taxes on production and imports will move from 11.7% of GDP in 2018 to 11.9% of GDP in 2019. The same is true for current income taxes and taxes on wealth, which move from 10.5% of GDP in 2018 to 10.7 % of GDP in 2019. Finally, Capital taxes remain at 0.5% of GDP for 2019.

On the other hand, estimated Social Security contributions are in line with the macroeconomic scenario presented which envisages employment growth of 2.5% in 2018 and a slight moderation in 2019, when it is expected to grow by 2%. The impact the increase of the minimum wage to €900 will have on revenue from fixed rate contributions and on maximum contribution rates has also been included. As a result, Social Security contributions will go from 12.4% of GDP in 2018 to 12.5% in 2019.

On the expenditure side, the ratio falls from 41.2% of GDP in 2018 to 40.9% in 2019. This containment is the result of the growth of nominal expenditure below that of GDP.

Employee compensation includes the salary increase agreed with Trade Unions on 8 June last, and it is forecast to remain at 10.4% of GDP for 2019.

In relation to intermediate consumption, as indicated in 2018, consumption will fall below 3% and for 2019 this section is expected to remain at said rate, caused by higher expenditure in Territorial Administrations, remaining at 5% of GDP in 2019.

The pace of reduction in interest expenditure will slow in 2018, with a conservative projection for 2019. In terms of GDP, the interest expenditure of the General Government will continue to decrease next year, from 2.4% to 2.3% of the GDP.

Expenditure on social transfers is determined firstly by the revaluation of pensions in accordance with the CPI and the increase in minimum pensions and non-contributory pensions by 3%. In this respect it must be pointed out that the rise of 3% in minimum and non-contributory pensions is financed by the General State Budget, without this measure damaging the budgetary balance of the Social Security. As a consequence, social transfers will grow below the nominal GDP rate, by 4.2% in 2018 and 4.7% in 2019, moving from 17.9% of GDP in 2018 to 18% of GDP in 2019.

Finally in terms of the evolution of expenditure on investment (gross capital training), in 2019 it is estimated that investment will grow once again to accommodate new financially sustainable investments. A €1 billion euro impact is also forecast as a once-off expenditure measure for several different rulings in Autonomous Communities. In line with this, gross capital formation is expected to go from 2.2% of GDP in 2018 to 2.1% in 2019.

Finally, the measures agreed to reduce public deficit will allow for a primary surplus to be achieved in 2019, for the first time since 2007, and for accelerated reduction of public debt. Debt will therefore be reduced by 1.5 points of GDP, to 95.5% of GDP, which represents the biggest reduction recorded since 2014.

Comparison with European Commission forecasts

In order to comply with Article 4.1 of Council Directive 2011/85/EU, of 8 November 2011, on the requirements applicable to the budgetary frameworks of Member States and Article 6 of Royal Decree 337/2018 of 25 May, on the requirements applicable to macroeconomic and budgetary forecasts, these budgetary provisions are compared with the latest European Commission spring projections below.

Table 2.6 Comparison with European Commission forecasts

In % of GDP

	2018		2019	
	Spain	European Commission	Spain	European Commission
Total revenue	38.5%	38.1%	39.1%	38.1%
Total expenditure	41.2%	40.7%	40.9%	40,0%
Net lending (+) / Net borrowing (-)	2.7%	2.6%	1.8%	1.9%

Source: Ministry of Finance

In relation to 2018, the public deficit forecast stands at 2.7% of GDP, in line with the European Commission projections which estimate 2.6%. Nevertheless, there are differences in terms of total income and expenditure forecast.

The European Commission forecasts a revenue to GDP ratio of 38.1% compared to the 38.5% estimated by the Government. In this respect, it must be pointed out that the European Commission dates back to May while the Government's projection has been updated for the preparation of this document. The latter is based, therefore, on the more recent public account data, covering a longer period of time and more indicative of revenue performance over the course of the year.

These data, which correspond to the month of August for the State, and to the month of July for the Central Administration, Autonomous Communities and Social Security, and to the second quarter for the Public Administration as a whole, show the strength of income, especially tax income.

It is also important to underline that the forecast of 38.4% published by AIREF in July is very close to the Government's.

With regard to expenditure, the European Commission forecasts a figure of 40.7% of GDP, while the Government's estimate is 41.2%. Once again, the forecast included in this document takes the latest performance data which provide more accurate information on the main items of expenditure. In this case, a slight increase in certain items of spending is observed, such that it has been considered prudent to adjust this forecast upwards. Once again, this forecast is in line with the forecasts of AIREF which estimate total volume of expenditure equivalent to 41.1% of GDP.

In the scenario put forward for 2019 the forecasted public deficit is 1.8% of GDP, compared to that forecasted by the European Commission of 1.9%. The difference, as is evident, comes from the inclusion of different measures, fundamentally concerning revenue, which the Government of Spain intends to include in the General State Budget Draft for 2019 which it will present soon. These measures constitute an increase in the revenue to GDP ratio to 39.1% compared to 38.1% estimated by the European Commission.

Spending will stand at 40.9% given that several unavoidable existing commitments which the Government must fulfil plus the measures included in the 2019 PGE.

2.3 Orientation of the fiscal policy

For the purpose of analysing the orientation of fiscal policy, Table 2.7 displays the real GDP growth rates and well as potential GDP estimates and output gap forecasts for the 2018-2022 period, following the methodology of the production function used by the European Commission (EC) and agreed within the Output Gap Working Group (OGWG).

Table 2.7 contains the observed and forecast GDP growth rates, estimated potential GDP growth up to 2019 and the contributions to potential growth of the main determinants and the performance of the output gap. Potential GDP will accelerate slightly this year and next, converging around the middle of the year to rates of close to 1.5% of GDP. In terms of components, Total Factor Productivity (TFP) will contribute a half point to every year, potential growth for the 2017-2019 period while the contributions work and capital factors will increase two tenths of a percent in said period, to 0.3% and 0.5% respectively. As a result of the performance of real and potential GDP, the output gap or production gap will close in 2018, with this year already showing positive values and a figure of 1.1% of GDP is forecast for 2019.

As detailed in the previous section, the General Government deficit forecast for 2018 is 2.7% of GDP and 1.8% of GDP for 2019, which will see Spain exit the Excessive Deficit Procedure and enter the preventive arm of the Stability and Growth Pact. For 2019, taking into account our estimates for the production group, the economic cycle would produce a half-point fiscal adjustment and a structural adjustment of 0.4 percentage points of GDP, as a consequence of the measures detailed in this Plan and which the Government plans to implement. This would therefore comply with the European Commission 's structural effort recommendation to Spain for 2019. It will also be the most significant structural adjustment made in the country in the last 6 with even negative structural efforts recorded in recent years.

Table 2.7 Budgetary goals for the whole General Government and its sub-sectors

	ESA Code	2017	2018	2019
Net lending (+) / borrowing (-) by subsector in % GDP				
1. General Government	S.13	-3.1	-2.7	-1.8
2. Central Administration	S.1311	-1.9	-1.5	-0.4
3. Autonomous Communities	S.1312	-0.4	-0.3	-0.3
4. Local Corporations	S.1313	0.6	0.6	0.0
5. Social Security	S.1314	-1.4	-1.5	-1.1
General Governmet (S.13) (% GDP, unless otherwise indicated)				
6. Interests	D.41	2.6	2.4	2.3
7. Primary balance		-0.5	-0.3	0.6
8. One-off and other temporary measures (*)		-0.1	-0.2	-0.1
of which financial assistance		0.0	0.0	0.0
9. Real GDP (% change)		3.0	2.6	2.3
10. Potential GDP (% change)		0.9	1.1	1.3
contributions				
Labour		0.1	0.1	0.3
Capital		0.3	0.4	0.5
Total factor productivity		0.5	0.5	0.5
11. Output gap		-1.4	0.1	1.1
12. Cyclical balance		0.7	0.1	0.6
13. Cyclically adjusted balance (1-12)		-2.3	-2.8	-2.4
14. Cyclically adjusted primary balance (13+6)		0.2	-0.3	0.0
15. Structural balancel (13-8)		-2.2	-2.6	-2.2

(*) A positive signe corresponds to a deficit reduction measure
Sources: Ministry of Economy and Business and Ministry of Finance

With regard to the second pillar of the preventive arm, eligible net nominal spend would fall to a rate of 1.7% in 2019, below the nominal potential growth rate of the Spanish economy in the medium term, which the Government estimates at 3%. The fact that net discretional spending on new measures of spending is growing below the potential rate also evidences that a structural adjustment of a magnitude equivalent to that indicated in the first pillar of the preventive arm focussed on the variation of structural balance. These calculations are based on a prudent estimate of the revenue impact of the discretionary revenue measures approved both in 2018 and 2019. The reform of IRPF in 2018 is forecasted to produce a fall-off in tax collection of in and around €900 million in 2018, in line with the estimates published in this respect by the Independent Authority for Fiscal Responsibility.[1] In light of this, the measures included in the Draft Budgetary Plans would result in an increase in revenue of around €7.4 billion. Of this estimate, €5.678 billion comes from taxation measures, €200 million from the increase in other current income and the remaining €1.5 billion from the increase in social

[1] See "Informe sobre la Actualización del Programa de Estabilidad del Reino de España 2018-2021" by the Independent Authority for Fiscal Responsibility:
http://www.airef.es/documents/10181/775963/2018+05+22+Informe+AIReF+APE+DEFINITIVO/1281f6b7-e088-46e6-ae59-10ed80dcd7b2

security contributions arising from the increase of the minimum wage in 2019 to 900 euros. This draft budgetary plan complies with the requirements of the Growth and Stability Pact in 2019.

	2018	2019
Nominal GDP (1)	1,211.8	1,261.3
General Government total expediture (2)	499.8	515.6
Interests (3)	29.6	29.5
Expenditures financed by EU funds (4)	5.2	5.4
Gross fixed capital formation (5)	21.8	20.9
Mean of Gross fixed capital formation of the last 4 years (6)	21.3	20.9
Expenditure on cyclical unemployment benefits (7)	-1.7	-1.7
Effect of discretionary revenue measures (8)	-0.9	7.4
Eligible net nominal expenditure (9) (9) = (2) - (3) - (4) - (5) + (6) - (7) - (8)	467.1	474.9
Eligible net nominal expenditure growth (10)		1.7

Sources: Ministry of Economy and Business and Ministry of Finance

Note: the cyclical expenditure on unemployment for the calculation of the Expenditure Benchmark has been calculated as the product of the estimated fall in the number of unemployed for the unemployment expenditure per unemployed person obtained from the COFOG Eurostat database in 2016.

[3]

BUDGETARY PLAN FOR CENTRAL GOVERNMENT AND SOCIAL SECURITY

3.0. Introduction

Given the complexity of the political context over the months following the update to the Stability Programme in the month of April, it has not yet been possible to present the General State Budget for 2019 (PGE), which includes the State budget and that of the Social Security, Public Companies and State corporations.

However, the process for preparation of the General State Budget for 2019 is at a very advanced stage, and the Government intends to present it as soon as the political situation improves, foreseeably during the month of November. This Budgetary plan includes a scenario with the measures already agreed upon (policy change scenario), for both revenue and expenditure.

3.1 Scenario with new measures

Revenue measures

The Government of the Kingdom of Spain has decided to adopt a series of measures to increase aggregate revenue with the aim of bringing Spanish taxation levels closer to the average for surrounding countries.

The aim is for those with the most wealth to contribute equitably within a progressive fiscal model where one contributes based on their capacity and receives based on their needs, preserving the working and middle classes, who have borne the brunt of the toughest moments of the crisis.

In this sense, the Government of Spain is committed to coordinated fiscal measures within the scope of the European Union in sectors related to financial transactions, the digital economy and green tax. The measures to be adopted cannot be delayed further and will put us on the cutting edge of taxation, in line with the demands of international bodies. Ultimately, an adapted and modern taxation system that is fair and efficient and that contributes to the transformation of the model of economic growth and guarantees the welfare state.

A set of taxation measures has been announced, the structural impact of which is estimated at €55.7 billion, grouped into the following packages, i) measures that affect Corporation Tax, which are forecast to raise an additional €1.5 billion; ii) creation of two new taxes: the Financial Transaction Tax and the Tax on Specific Digital Services ,with an expected impact of €2. billion; iii) increase of PIT on high earners, contributing €328 million in 2019 and 332 in 2020; iv) measures relating to VAT and Special Environmental Taxes with an expected impact of €617.9 million; v) increase of Wealth tax, with an expected impact of €339 million and vi) anti-fraud measures, with an estimated impact of an additional €828 million in 2019.

The new tax measures considered in this annual budgetary plan will be included in three draft bills that will be put before the Council of Ministers over the coming weeks. Specifically, these consist of draft bills to combat fraud and the transposition of the Anti-Tax Avoidance Directive, the creation of the Tax on Specific Digital Services and the Financial Transaction Tax. The rest of the new tax measures set out in this document will be included in the 2019 General State Budget Draft Bill, which will be put before the Council of Ministers in late November or early December.

Table 3.1 Revenue measures

Millions of €

Measure	Impact
Corporation Tax: Limitation of exemptions and minimum taxation	1.776
Corporate Tax: Reduced rate for SMEs	-260
Creation of the Tax on Financial Transactions	850
Creation of the Tax on Digital Services	1.200
Increase in income tax	328
Green taxation	670
VAT reduction on veterinary services	-35
Gender and inequality tax measures	-18
Increase of the Patrimony Tax	339
Limitation of cash payments	218
Strengthen the list of defaulters	110
Adoption of international best practices in the prevention and fight against fraud	500
Total impact	5.678

Ministry of Finance

A. Package of Corporation Tax measures

The purpose of the set of Corporation Tax measures is to bring the effective rate closer to the nominal rate, in search of a greater contribution on the part of the large companies and consolidated groups.

The economic recovery which has taken place over recent years has seen in 2017 corporate profits return to pre-recession levels, however, Corporation Tax revenue has not risen in the same proportion. There is a clear gap between the accounting result obtained by companies, the consolidated taxable base declared and the payable tax, which is significantly lower. This divergence is explained by the existence of adjustments to accounting results, such as the application of deductions and allowances, which determine that the importance of this tax on tax collection has not been recovered.

Therefore, two decisions have been adopted: firstly, to limit exemptions to dividends and capital gains generated abroad. The current regulation allow companies to not pay tax on dividends and capital gains generated through their participation in subsidiary companies for the purpose of eliminating any potential double taxation which may arise (they are 100% exempt); which allows these companies to reduce their taxable base significantly in relation to the accounting result obtained. The measure consists of reducing the aforementioned exemption by 5% for non-deductible costs in the tax, in management of the participation the parent company maintains in the subsidiary, as foreseen and permitted in the Parent-subsidiary Directive and which several EU countries have established. This way, the exemption is reduced from 100% to 95%, for "costs necessary for obtaining non-deductible income" which constitutes a minimal taxation on income and earnings arising from participation in other companies.

The second measure is to apply minimum rate of Corporation tax (minimum liquidity rate) of 15% to the positive taxable base. In the case of entities taxed at the higher 30% rate, this minimum rate will be 18%. These measures seek to ensure that effective taxation is not excessively affected by the use of deductions and allowances that reduce the amount of the tax paid, especially in the case of large companies. This measure will only affect groups that pay under the consolidated or non-integrated fiscal regime and companies not integrated into groups which have a turnover equal to or higher than €20 million and therefore will not affect SMEs.

The combination of both of these measures will have a revenue impact of €1.8 million.

On the other hand, there will also be a reduction in the nominal rate of Corporation Tax for companies turning over less than one million euros, from 25% to 23%. This measure is aimed at ensuring that small businesses, normally family businesses, which are very important in our production model and which have been harder hit during the recession, benefit from an improvement in their income. This will have a revenue impact of -€260 million.

B. Creation of a Financial Transaction Tax

A Tax is created on Financial Transactions, consisting of a levy of 0.2% on Spanish equity purchase operations executed by operators of the financial sector.

Since 2013, ten countries in the European Union are working for the creation of this Tax as a common EU tax. Taking into account the time that has passed and for the reasons indicated above, it is considered the right time to establish a Financial Transaction Tax on a national level, but without abandoning the procedure for strengthening co-operation in such a way that when a harmonised tax at EU level is introduced, Spain would adapt its Tax to avoid any lack of coordination.

The configuration of the Tax follows the line adopted by neighbouring countries, including France and Italy, thus contributing to greater coordination around these levies in the European scope.

It is an indirect tax that levies onerous acquisitions of shares in Spanish companies, regardless of the residence of the persons or entities involved in the transaction, or the place where it is negotiated, provided the following conditions are met:

a) They are admitted to trading on a regulated market.

b) That the market capitalisation value of the company exceeds €1 billion.

It must be underlined that transactions now subject to the tax, in general terms, are not effectively subject to indirect taxation, and therefore establishing this tax implies a significant step forward in terms of tax equity.

As a general rule, the taxable base is the sum of the remuneration, not including costs associated with the transaction, without prejudice to the introduction of certain special rules.

The taxable subject shall be the financial intermediary that transmits or executes the acquisition order, whether it acts in its own name and account or on behalf of a third party; and, finally the applicable tax rate is 0.2 percent.

The tax shall accrue, in the case of acquisitions executed at a trading centre, or in the framework of the activity of a systematic internaliser at the time of effective settlement or, in the case of acquisitions not executed at trading centre or as part of the activity of a systematic internaliser, at the time the lines of the shares are recorded in favour of the purchaser.

Taxable subjects must determine and submit the taxable debt at the place and times and in the manner established by the Minister of Finance.

Nevertheless, under the terms set forth by regulation, taxable subjects may pay the tax via a central securities deposit responsible for the registration of securities subject to acquisition, located in Spanish territory who, in the name and on the account of the taxable subject, shall file the tax return and pay the tax owed. This procedure may be extended to other central securities depositories located in EU Member States or in third States recognised as service providers in the European Union, through collaboration agreements subscribed to such effect.

Taxable subjects must file an annual tax return which will include exempt operations at the time and place in the manner established by the Minister of Finance.

The Management Company of Securities Registration, Compensation and Liquidation Systems, along with participating entities, for the purposes of facilitating control and management of the tax must maintain the documentation or files relating to operations subject to the Tax available to the State Tax Administration Agency at all times.

It is estimated that the creation of this tax will constitute an increase of €850 million.

C. Creation of a Tax on Specific Digital Services

A Tax on Specific Digital Services is created in order to levy incomes obtained in Spain by large international companies from specific digital activities that lie outside the current fiscal framework.

This is an indirect tax that is largely in line with that proposed by the European Commission in the proposal for a Directive of 21 March 2018, and which will be adapted to the solution adopted at European level as soon as this is approved.

The Tax is aimed at the provision of certain digital services in relation to which there is a participation on the part of users which constitutes an essential contribution to the value-creation process of the company that provides the services and through which the company monetizes these contributions of users.

Only the following provisions of services are levied as taxable transactions:

- online advertising services;
- online intermediation services; and
- the sale of data collated from information provided by the user.

The legal persons and other entities with net turnover exceeding €750 million in the previous calendar year and whose income arising from the provisions of services subject to this tax in Spain exceeds €3 million in the previous calendar year shall be subject to the Tax. This will help ensure the SMEs are not levied by this tax.

The taxable base of the tax shall be comprised of revenue excluding, where applicable, VAT and other equivalent taxes obtained by the contributor for each of the provisions of digital services subject to the tax.

The tax shall be applied at a rate of 3 percent and the settlement period shall coincide with the natural quarter.

Contributors must present the corresponding self-assessments, and lodge the tax due at the place and time and in the manner established in the relevant Ministerial Order.

A specific sanction regime is envisaged to prevent any action or omission that involves misrepresentation or concealment of the Internet Protocol (IP) address or other geo-localisation instruments or evidence of the place of completion of the provision of digital services.

It is estimated that this tax will increase collection by €1.2 billion.

D. Increase in Personal Income Tax rates for high-earners

The tax rates on the general taxable base for earning over 130,000 euros are increased by two points and the rate for those earning over 300,000 euros by four points. Also, the state tax rate on the savings base will increase by four percentage points for saving incomes of more than 140,000 euros

The adoption of this measure responds to the social justice imperative and citizens' ability to contribute so that those with the highest income contribute more.

The forecast amount of this increase to be collected is estimated to 328 million € in 2019 and 332 in 2020.

E. Green taxation

Tax on fuel will be increased based on emissions, which consists of an increase of 38 euros for every thousand litres in the case of diesel fuels.

The measure increases the tax rate on diesel fuel as its consumption is widespread and it causes the highest emissions of polluting gases affecting the air quality of our cities such as NO_2

Nevertheless, the tax rate on diesel for professional use and subsidised diesel will not be affected, in order to give users more time to adapt their economic activity to the use of other less harmful products so that their competitiveness is not affected during such adaptation process.

This measure is justified at the start of the path to progressively adapt the taxation system for diesel fuel and gasoline in line with international recommendations without affecting the transport and agricultural sectors. Traditionally, diesel was taxed at lower rates, as it was understood to be more efficient than gasoline in terms of use in motor vehicles and to be less harmful in terms of carbon dioxide (CO_2).pollution. However, recent international studies show that it causes more atmospheric contamination.

This measure does not pursue a revenue objective but seek to protect the environment through correctly internalising negative externalities, as part of a package of climate change measures. Nonetheless, it will still have an impact on revenue. The increase, including VAT, will be of 670 million euros.

F. Reduction of VAT on veterinary services.

The VAT rate on veterinary services is lowered to the reduced rate of 10%. It was considered necessary to adjust taxation of these services to the one of medicines for veterinary use, which is 10%.

The estimated impact of this measure is -€34.5 million.

G. Gender and inequality tax measures

In order to incorporate the gender perspective to the tax system, the rate of VAT on female hygiene products will be reduced.

This measure would have an estimated impact of -€17.6 million for 2019.

H. Increase of Wealth Tax

The rate of Wealth Tax applied to asset portfolios in excess of €10 million is increased by 1%, with an expected impact of €339 million.

Anti-fraud measures

A set of measures are established to strengthen the fight against tax fraud with a double purpose. On the one hand to proceed with the transposition of EU law into national legislation within the scope of measures to fight tax fraud, arising from aggressive international tax planning, and the mechanisms for the resolution of tax litigation. And on the other hand, to introduce changes to the tax law and to facilitate activities to prevent and combat fraud by strengthening tax control, including the following:

<u>List of Tax Havens</u>

For the purpose of ending tax havens used by fraudsters to avoid contributing to society, the tax regulations are strengthened to be more demanding with other countries and ensure that all those that do not meet minimum tax standards are included in the Spanish list of tax havens. In addition, we align the national tax haven list with the standards and lists adopted within the international framework.

This way, for the purpose of combating tax fraud more efficiently the concept of the tax haven is broadened in line with the criteria of tax equality and transparency, identifying those countries and territories characterised by the existence of extraterritorial companies due to the attraction of profits without any real economic activity or the existence of low or zero taxation or opaque or non-transparent process, both due to the absence of any applicable mutual assistance regulation or effective exchange of information between said country and Spain. In this sense, once these criteria are approved, the Government will adopt the necessary provisions for the publication of the list of countries, which must be updated periodically with a dynamic focus that will guarantee a firm response to the use of such countries and territories for fraudulent purposes.

On the other hand, for the purposes of guaranteeing a more precise response to certain types of fraud, we must also identify those damaging, preferential tax regimes established in certain countries or territories that facilitate tax fraud, making a regulatory provision for same.

Limitation of cash payments

The reduction of the limits for the prohibition of payments in cash, both in general from 2,500 euros to 1,000 euros and those applicable to payments made by natural persons not tax resident in Spain, from 15,000 to 10,000 euros.

Notwithstanding the foregoing, in order to minimise the collateral effect of the measure on small domestic economies, the limit of 2,500 euros is maintained for payments made by natural persons not acting in the capacity of business owners and professionals.

The estimated impact of this measure is €218 million.

Reinforcing the List of Public Finance Debtors

The list of debtors is broadened to expressly include, along with the main debtors, parties jointly liable, due to the importance of these individuals in the existence of such debts.

Thus, jointly liable parties are, among others, those who cause or actively collaborate in a tax violation, those who cause or collaborate in the concealment of the transfer of assets form for the purpose of preventing the activity of the Tax Administration or those who violate embargo orders.

Furthermore, the limit for inclusion on the list is reduced from 1,000,000 euros to 600,000 euros.

The estimated impact of this measure is €110 million.

Adoption of best practice for the preventing and combating fraud

In the permanent process of adaptation of the State Tax Administration Agency to the economic environment, regulatory, organisational and operational measures are adopted in line with international best practice, including the following: strategy towards new contributors beginning economic activity (Right from the start) to foster voluntary compliance with tax obligations, regulatory measures to combat the manufacture, distribution and use of the so-called dual-use software with which sales and services with retail customers are concealed (Sales suppression software), the creation of a unit for control of high net worth individuals, optimisation of activities of the control of information obtained through the immediate supply of information and the Common Reporting Standard the automatic exchange of data (big data and data analytics).

This way, with the aim of not allowing the production and possession of IT programmes and systems that allow for the manipulation of accounting and management data, the obligation is established that IT or economic systems that support the accounting or business management processes must fulfil certain requirements guaranteeing the integrity, conservation and inviolability of files is established, requirements whose technical specifications could be subject to regulatory development, including the possibility of subjecting this to certification.

Also, in line with said regulation, a specific sanctions regime is established for merely producing such systems or programmes or for possession of same without adequate certification.

Finally, in the context of the globalisation of the economy, new business models and the appearance of disruptive technological advances constitute important challenges, the prevention and the fight against tax fraud requires a comprehensive strategy that in addition to the appropriate legal framework includes tax administration with the necessary means to optimise the results. This will make it necessary for the legal amendments that come with certain organisational and operational measures to be accompanied by certain organisational and operational measures that update the State tax administration, that is the State Tax Administration Agency, Directorate General for Taxes and the Economic-Administrative Courts, to the same level as the countries most advanced in this area.

In particular, efforts must be concentrated on control of high net worth individuals and their company and family environments in order to foster compliance with tax obligations, which will be carried out through the creation of a Central Coordination Unit for such control activities.

The estimated impact of this measure is €500 million.

Expenditure measures

The 2019 budget will be the tool to reverse the deterioration of the Welfare State suffered over recent years; this can be defined as a budget at the service of citizens with a clear social outlook to foster and strengthen the Welfare State and redistribute the benefits of economic growth, ensuring at the same time compliance with the commitments acquired in the area of fiscal consolidation. Thus, this allows for the national accounts to be fairer and more egalitarian and they can transfer the fruits of economic recovery to the whole society, especially to those most vulnerable.

This document presents the general lines to be included in the preparation of the 2019 General State Budget which will allow for the commitments assumed to consolidate economic growth and strengthen social policies. In addition, these national accounts set out a clear commitment to equality between men and women, work and family life balance and child protection. Thus, along with the 2019 budget bill, the first ever Child, Adolescent and Family Impact Report, which will analyse the impact of the different expenditure programmes on these groups, is currently being prepared and will be published shortly. At the same time, the analysis of the expenditure programmes from a gender perspective, carried out in previous years and which include the Gender Impact Report which accompanies the General State Budget, will be reinforced.

Listed below are the expenditure measures which will be included in the General State Budget 2019:

- Compensation of employees (pay increase agreed with trade unions on 8 March last, set out in the 2nd Agreement to improve public sector employment and work conditions)
- Revaluation of pensions in line with CPI in 2018 and 2019, ensuring pensioners' purchasing power is maintained.
- Minimum and non-contributory pensions will rise by 3%, thus mitigating the situation of vulnerability of pensioners.
- Gradual removal of pharmaceutical co-payment for pensioners, starting in 2019 for the most vulnerable.
- Increase of grants and improvement of processing thereof, as a fundamental tool for compensating economic inequality among students and making access to, and continuation of, education possible.
- School material grants in compulsory periods with the aims of helping families meet the costs that arise at the start of the school year.
- Improve sums at minimum level and in Dependency agreement, with a gradual effort to improve financing at minimum level and recovery of the level obtained.
- Recovery of Social Security contributions of carers. To do so, the special agreement on carers in the Social Security system will be recovered along with the General Government's Social Security contribution allowance.
- Increase of Minimum Wage to 900 euros in order to guarantee workers an increase in living standards to meet their needs and those of their families. This measure will have a positive impact on Social Security revenue, as it constitutes an increase in social contributions.
- Recovery of unemployment benefit for those aged over 52, reinstating said age for access to the subsidy, establishing the calculation of income based primarily on the beneficiary and not the family unit, removing to obligation to access early retirement when it is received, and re-establishing the minimum contribution to Social Security during receipt of same at 125% of the Minimum Wage.
- Develop the Minimum Income, increasing the provision per dependent child for vulnerable families and subsequently creating a programme of guaranteed income for families with no income or very low income. Thus, the provision per dependent child will be increased, starting with the severe poverty thresholds which include those people most in need.
- School dining hall assistance to combat child poverty with the aim of ensuring that all children from

families in precarious situations or at risk of exclusion can access dining halls ensuring a correct diet.

- Promote universal schooling between ages 0-3 as a measure not only contributing to the reduction of inequality and to improvement of work and family life balance, but also as a powerful factor to combat academic failure, fostering personal talent from the earliest age in life.
- Progressive equivalence of paternity leave and maternity leave, so that in 2019 fathers can enjoy leave of eight weeks, three more that at present, a measure which, within the framework of personal, family and professional life balance, will favour more equal family and personal responsibilities between women and men. This is complementary to the trade union agreement on improving public sector employment.
- Increase of allocations in Science
- Support and foster the production and the visibility of cinema productions in our different languages.,
- Funds allocated to programmes to eradicate gender-based violence implemented by City Councils will be doubled.
- Creation of depopulation offices in 20 rural counties that require urgent intervention. The function is to accompany people and companies wishing to relocate in the area, providing all the contacts necessary and mediation in the process.

[4]

BUDGETARY PLAN FOR AUTONOMOUS COMMUNITIES

The 2018 financial year saw all the Autonomous Communities, with the exception of Catalonia and Asturias-which extended their budget cycles from the previous year,-approve their General Budgets, in a scenario of compliance with the stability objective of -0.4% of regional GDP established for this financial year.

With respect to 2019, all the Autonomous Communities have issued information along the basic lines of the 2019 budget in accordance with the provisions of Article 27.2 of Organic Law 2/2012, of 27 April on Budget Stability and Financial Sustainability (LOEPSF).

In relation to the expenditure rule, in general, the information issued is consistent with the reference rates of 2.4% for 2018 and 2.7% for 2019, without prejudice to the fact that some Autonomous Communities have included possible deviations as a result of the execution of certain court orders or of the projected evolution of certain expenditure items.

Regarding this scenario, it is worth noting that the projected evolution of the resources of the financing system subject to delivery on account and subsequent settlement, which, without considering the provincial participation for the Regions of Murcia and Asturias, would increase in 2019 according to data reported to Autonomous Communities last July, 4% above 2018, which is equivalent to an increase of €4.161 billion. It must be considered that in the 2019 financial year, the resources include the revenues arising from the Autonomous Community section of the fuel tax. In any case, such evolution is subject to the process of submission and approval of the General State Budget for 2019. With regard to these resources, it must be pointed out that some Autonomous Communities have forecast in the information relating to the basic lines of their budget, higher amounts than those communicated, which fundamentally affect a higher settlement forecast than in 2027, indicating, in certain cases, that the source of this difference is the effect on this settlement of the implementation of the Immediate Supply of Information System in relation to VAT. The Comunitat Valenciana has also forecast, as in previous years, greater resources of the system for 2019, up to €1.325 billion.

In relation to 2019, it must be taken into account that by virtue of content of the report on Article 17.3 of Organic Law 2/2012, of 27 April, on Budgetary Stability and Financial Sustainability, twelve Autonomous Communities would have failed to comply with some of the 2017 fiscal rules, which is why they must present an Economic-Financial Plan with period of reference of 2018-2019. All of these Autonomous Communities have presented the corresponding Plans, with those falling under the Common Regime (Aragon, Asturias, Castilla y León, Castilla – La Mancha, Catalonia, Extremadura, Comunidad de Madrid, Murcia and Comunitat Valenciana) having been approved in the plenary session of the Council on Fiscal and Financial Policy of 31 July 2018. For their part, the Plans pertaining to the Autonomous Communities of the Basque Country and Navarre must be subject to the approval of the Joint Committee for the Economic Agreement and the Coordinated Economic Agreement Committee respectively.

According to the report on Article 17.4 of Organic Law 2/2012, of 27 April, on Budget Stability and Financial Sustainability published in October, fourteen Autonomous Communities have failed to comply with some of the 2017 fiscal rules, adding Andalusia and Galicia to the group based on the April data.

Finally, in relation to the measures envisaged for 2019, the positive impact in terms of revenue arising from the application of the maximum rate of the autonomous tariff of the Fuel Tax in 2019 must be highlighted, as can be observed in the corresponding tables included as an Annex to this Plan. On the other hand, other measures are envisaged that will lead to lower revenue in relation to Inheritance and Gift Tax and the Property Transfer Tax and Documented Legal Acts Tax. These measures are partially compensated by Personal Income Tax within the scope of the competency of the Autonomous Communities and by Other Taxes.

With respect to the measures in relation to expenditure in 2019, Personnel Costs are highlighted, with, on the one hand, a positive effect arising from the reversal of the measure relating to the repayment of the extra payment of the year 2012, the sum of which is less than the returns paid in 2018. Nevertheless, this is partially compensated by different measures relating to personnel with an incremental effect on expenditure. Also worth highlighting are the measures relating to expenditure on pharmaceutical and health products, as well as those communicated in relation to the budget heading on current expenditure in goods and services, with positive effects on expenditure containment or reduction in both cases.

[5]

BUDGETARY PLAN FOR LOCAL GOVERNMENTS

Local Governments, as a whole, have obtained fiscal surpluses since 2012. Starting from a deficit of 0.4% in 2011[2], surpluses of 0,32% of GDP in 2012, 0.55% in 2013, 0.53% in 2014, 0.42% in 2015, 0.62% in 2016, and 0.61% in 2017 have been achieved. In the first half of 2018, in terms of estimated GDP, the result obtained is equivalent to 0.05% of this magnitude, 0.07 points lower than in the same period in 2017, representing a total of €615 million.

Over the last 10 years (since 2009), 1,851 dependent entities have been closed, reducing the number from 6,222 in 2009 to 4,371 in the second quarter of 2018, reflecting a reduction of practically 30% in the number of entities.

For the year 2019, in accordance with the information on the budgetary plans 2019-2021 received in March 2018, non-financial revenue of €65.548,1 billion and non-financial expenditure of €62.508 billion are expected, leaving a non-financial balance of €3.040 billion, thus maintaining the run of surpluses shown by Local Governments since 2012.

In terms of revenue, with regard to taxation, resources will increase due primarily to the overall trend rather than to any change in fiscal policy on the part of Local Governments. Municipal Councils consider that in 2019, their revenue from the Tax on Value Increase of Urban Land ("Capital gain" tax) might fall 3%, the effect of which on overall revenue would be very diluted, considering the relative weight of the tax, accounting for 5.6% of non-financial revenue.

Growth is forecast for all taxes except the aforementioned one and the Construction, Installation and Works Tax. In overall terms, direct and indirect local tax revenue will increase in 2019 by 1% compared to 2018.

On the expenditure side, growth of 1.8% on current expenditure in 2019 compared to 2018 is forecast, with personnel costs accounting for 1.2% and the purchase of goods and services received by the Local Governments accounting for 2%. To compensate, capital expenditure would fall at around 13%, to stand at slightly above €7 billion in 2019.

In the 2019-2021 period, strengthened transparency in the local public management shall be pursued and, as in previous years, requirements shall be issued to Local Governments found to be in breach of their obligations in relation to the supply of information to remedy such issues.

Also in 2018, there shall be a driver promoting compliance with the fiscal rules contained in the LOEPSF, requiring the approval of Economic-Financial Plans not compliant with the expenditure rule of the budgetary stability objective, and the strengthening of fiscal discipline through control of the application of the standards contained in the LOEPSF and the recast text of the Law regulating Local Finance Departments.

Finally, this year should also see an advance in the review of the local financing system simultaneous to that developed for the Autonomous Community level, it being necessary to have the report presented by the Expert Committee in late July 2017 assessed by the representation of the Local Governments in the National Local Administration Commission.

[2] Without considering the effect of the negative settlements of the State tax participation model

[6]

LINK BETWEEN THE BUDGETARY PLAN AND COMPLIANCE WITH SPECIFIC RECOMMENDATIONS OF THE COUNCIL

Recommendation		Recommendation	Measures	link Description
Scope	Number			
1. FISCAL AND BUDGETARY	1.1	Ensure compliance with Council Decision 2017/984	Draft General State Budgets for 2019	"Spain's public deficit remains on a downward trend: in 2017, Spain met the stability objective after closing the year with a deficit of 3.1% of GDP, and the data available up to the moment of 2018 show a favorable evolution of the deficit, so that it is expected that at the end of the year it will be below the 3% reference value, which will allow Spain to exit the Excessive Deficit Procedure next year. - State execution data for the month of August, whose deficit was equivalent to 1.56% of GDP, a fall of 0.28 percentage points over the previous year (11.9% less). This result is explained by an 8.3% increase in non-financial income, making expenses by 5.1%. - The consolidated deficit of the Central Administration, Autonomous Communities and Social Security for the month of July stood at 1.87% of GDP, excluding financial aid, which represents a fall of 0.45 percentage points with respect to 2017 (-16.3%). This better result compared to the same period of the previous year is due to the fact that non-financial resources advance by 6.8%, while expenses do so by 4.2%. -The budget execution data of the set of Public Administrations corresponding to the second quarter, amounting to 21,997 million, a reduction of 14.6%. It is worth mentioning the data of the Local Corporations, whose surplus is equivalent to 0.05% of the GDP. In addition, the draft General State Budgets for 2019 in which the Government is working includes a broad battery of permanent measures, particularly on the revenue side, which will allow for the nominal and structural fiscal adjustment required.
	1.2	Measures to enforce the fiscal framework	Strengthening the functions and independence of AIReF, through Royal Decree 105/2018, of March 9, which modifies the Organic Statute of the Independent Authority of Fiscal Responsibility approved by Royal Decree 215/2014, of 28 March	Through this Royal Decree, the limitation that exists for the Authority to request information that is of an auxiliary or support nature is eliminated, thus ensuring the full adaptation of the Spanish regulations to the Stability, Coordination and Governance Treaty in the Economic and Monetary Union, in particular as regards the principles that should govern the definition of budgetary correction mechanisms and the functions and independence of supervisory institutions. Another step is also taken to improve the incorporation into the Spanish legal framework of the precepts contained in said Treaty, whose principles establish that publicly explain why the recommendations made by independent oversight institutions are not followed. To this end, article 5.1 of the Organic Law 6/2013, of 14 November, already established that if the Administration or the entity receiving a report from the Independent Authority of Fiscal Responsibility deviates from the recommendations contained therein, it must motivate and incorporate this report in the corresponding file. With this reform, the publication of said motivations is expressly foreseen
			Royal Decree 337/2018, of 25 May, on the requirements applicable to macroeconomic and budgetary forecasts. Beyond qualifying the competences regarding the preparation and publication of the aforementioned forecasts, it establishes the use of the most recent statistical and economic information. It also defines the variables on which hypotheses should be prepared in order to elaborate the macroeconomic scenario, which should be the most probable or prudent in application of the principle of prudence. Finally, it provides for the comparison of macroeconomic and budgetary forecasts with those of other organizations, including the European Commission, the carrying out of a sensitivity analysis and an ex post evaluation of them.	This Royal Decree increases the transparency of the process of preparing macroeconomic and budgetary forecasts and allows us to count on macroeconomic and budgetary forecasts of quality, realistic and unbiased, which undoubtedly improves the effectiveness and efficiency of policy decision-making economic, and in particular budgetary planning. - The realisation of the sensitivity analysis established by the Royal Decree makes it possible to analyze how the main budgetary variables would evolve and anticipate the possible effects of a forecast error on the behavior of fiscal variables, which greatly reduces the risk that the fiscal discipline is compromised by potential forecasting errors. - The comparison with the forecasts of other organizations is a useful reference tool that allows the contrast of the prepared forecasts and contributes to the validity of them. - Carrying out a periodic, unbiased, complete evaluation based on objective criteria of the macroeconomic and budgetary forecasts substantially improves the quality of these forecasts. In the area of the Autonomous Communities as recent actions to strengthen the budgetary framework in order to promote compliance with fiscal rules in the Ministry of Finance, on September 18 it has sent various communications to the Autonomous Communities of Aragón, Baleares, Cantabria, Castilla La Mancha, Castilla León, Catalonia, Extremadura, Murcia and Comunidad Valenciana. In these communications, warnings of possible risk of non-compliance with some of the fiscal rules are sent, requesting the submission of information and details of the measures to be adopted, most of them having responded to date.

	1.3	Measures to enforce the public procurement frameworks at all levels of government	**<u>Law 9/2017, of 8 November, on Contracts of the Public Sector.</u>** 1. Entry into force on 9 March 2018 of Law 9/2017, of 8 November, on Contracts of the Public Sector. 2. Creation of the Consultative Board of Public Contracting of the State, which is designated as a point of reference for cooperation with the Commission. 3. Constitution of the Cooperation Committee on public procurement, with representatives of the AGE, the CCAA and the CCLL. 4. Creation of the Interministerial Commission for the incorporation of social criteria in public procurement, through Royal Decree 94/2018, of 2 March, with representation from all the ministries. 5. Creation of the Indendent Office for the Regulation and Supervision of Public Commitment, full organic and functional independence and must report annually to the Cortes Generales. It is integrated into the National Evaluation Office, which will analyze the financial sustainability of works contracts and service concessions.	The new Law on Contracts of the Public Sector advances in the reinforcement of the principles of efficiency, transparency and the fight against corruption. Improvement of the quality-price ratio in public procurement and efficiency, transparency and competence and neutrality in the bidding procedures of the several public contracts. Measures are introduced to streamline procedures, generalize electronic contracting, provide greater guarantees of publicity to contracting procedures and encourage the participation of SMEs. Configuration of public procurement as an instrument to promote responsible policies and practices in social, labor, environmental and innovation promotion matters.
			Consolidation of the centralised government procurement system and expansion of the compulsory and voluntary scope, by adhesion of organizations of the CCAA and EELL, in products whose contracting is already declared of centralised contracting	With this measure, it is intended to enhance the specialisation and professionalisation of contracting, obtain better prices for a more appropriate design of the contracting process and the aggregation of demand and save management costs, in relation to dispersed contracting. Likewise, through the centralised contracting system, the strategic contracting will be promoted, consistent with the public policies on ecological, social, and SME matters, the procedures for contracting and simplifying procedures will be harmonized.
	1.4	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	Draft General State Budgets for 2019	The draft General State Budgets for 2019 in which the Government is working includes a broad battery of permanent measures, particularly on the revenue side, which will allow for a structural adjustment compatible with the effort required, and in turn ensure a moderate evolution of public expenditure computable for the purposes of the expenditure rule.
2. EMPLOYMENT, SOCIAL SECURITY AND EDUCATION	2.1	Ensure that social and employment services provide effective support for jobseekers, including thought better cooperation with employers	Programme of joint action with the Autonomous Regions for the orientation of long-term unemployed people over 30 years of age	Personal attention is provided to long-term unemployed, improving the capacity of the Public Employment Services of the Autonomous Communities. It includes the realisation of an individualised profile of employability and the design of a personalised employment itinerary
			Spanish Strategy for Activation for Employment	It is a normative framework for the coordination and execution of the active employment and labor intermediation policies in the State as a whole, including both the services and programmes carried out by the public employment services with state funds and those that the Autonomous Communities carry out with own economic resources. The Annual Employment Policy Plans (PAPE) are the annual concretion of the Strategy. They are the operative instruments through which the provisions of this Strategy have to be developed and concretised through specific actions.
			Youth guarantee and support for young people with low training	The National Implementation Plan for the Youth Guarantee (December 2013) arose in response to the European Council Recommendation of April 2013 establishing a Youth Guarantee, which aims to ensure that all young people under 30 receive a good offer. employment, continuing education, apprenticeship or internship within a period of four months after completing formal education or becoming unemployed. The Law 6/2018, of 3 July, on General State Budgets for 2018 has complemented this Plan with the incorporation of the youth guarantee bond (accompanying cocnomic aid), which supposes an additional aid of € 430 for young people with contracts of training and learning

	2.2	Foster transition towards open-ended contracts	Package of proposals to promote open-ended contracts	1. Reinforce the principle of causality in temporary contracts within the framework of collective bargaining and determine the volume of fixed-term contracts, in addition to promoting indefinite contracts and the transformation of temporary contracts into permanent contracts. 2. Strengthen the actions of the Labor and Social Security Inspectorate in matters of recruitment fraud, promoting the transformation into permanent contracts without cause, and revise the sanctioning regime in the Law of Infractions and Sanctions in the Social Order, in order to increase penalties for fraud. This measure has been developed in the Master Plan for Decent Work
	2.3	Improve family support	Aid programme for the financing of textbooks and teaching materials	1. Promotion of the principles of equity and equality to compensate the most unfavorable socio-economic situations. 2. The purpose of this programme is to establish the necessary cooperation mechanisms between the Ministry of Education and Vocational Training and the Autonomous Communities in order to collaborate with families in the financing of the acquisition of textbooks and didactic materials destined to the students enrolled in educational centers of the Spanish educational system.
	2.4	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	Unemployment subsidy recovery for over 52 years	The access to the subsidy is again fixed at that age, establishing the calculation of rents mainly on the basis of those of the beneficiary and not of the family unit, eliminating the obligation to have access to early retirement when it is perceived and returning to establish in the 125% of the SMI the minimum contribution base to the Social Security during its perception.
			Gradual implementation of the minimum income	Increase the provision for dependent children for vulnerable families and subsequently creating an income guarantee programme for families with no income, or with very low incomes, thus progressively increasing the benefit for dependent children, starting at the thresholds of severe poverty that They include the most needy people.
			Extraordinary Subsidy for Unemployment	This new subsidy comes to "replace" the previous Professional Retraining programme (Prepara) and Activation for Employment Program, created through Law 6/2018, of 3 July, of the General Budgets of the State for the year 2018. May be beneficiaries of the same unemployed people registered as job seekers who, on the date of the application, are in any of the following situations: - Extinguishing the unemployment benefit by exhaustion and accrediting the active search for employment - To be a long-term unemployed person and to have extinguished any of the corresponding benefits due to exhaustion and to have involuntarily ceased in the last job performed in case of having worked after the exhaustion of the last right
	2.5	Reduce early school leaving	Territorial cooperation programme of orientation and reinforcement for the advancement and support in schooling	1. Update of teacher training, focusing on intervention programmes to reduce school dropout. 2. Support to students with absentee profile through evening and summer reinforcements. 3. Incorporation of individualised actions within school hours. 4. Promotion of the 0-3 cycle of early childhood education (measure of high preventive value of abandonment and proactive for success in apprenticeships)
	2.6	Reduce regional disparities in educational outcomes, in particular by better supponrting students and teachers	Updating and expansion of territorial cooperation plans	1. Early detection of learning difficulties through a review of national assessments of the education system 2. Cooperation for development Educational Digital Transformation Plan 3.Impulse of a strategic territorial cooperation plan on teacher training. Strengthening the teaching staff of primary or secondary education centers that can influence the training and education of groups at risk of exclusion, establishing individualised programmes of attention and educational support and specific interventions aimed at vulnerable groups
3. SCIENCE, EDUCATION AND ECONOMY	3.1	Increase public investment in research, development and innovation and sistematically carry out evaluations of support policies in this area to ensure their effectiveness	Development of the Spanish Strategy for Science and Technology and Innovation and the State Plan for Scientific and Technical Research and Innovation	The objective of the Plan is to increase the total investment in R & D & I, through actions that promote greater private investment and the education sector, and a reinforcement of public investment
	3.2	Increase cooperation between education and businesses with a view to mitigating existing skills mismatches	Close collaboration of the Ministry of Science, Innovation and Universities with the Chamber of Commerce of Spain. Industrial doctorates. Beatriz Galindo aids to attract research talent. Employability study of official university degrees. Study and negotiation tables on internationalisation, and reform of academic management	It will contribute positively to having a more efficient and balanced university system, adapting the preferences of students and the needs of the labor market and avoiding processes of disagreement between the offer of university degrees and job offers, necessary conditions to reduce unemployment rates and avoid inefficient use of public resources

	3.3	Ensure the correct application of the law on Market Unity, current legislation and the future	During 2017, the implementation and the consolidation of these special mechanisms and procedures has continued: The Secretariat of the Council for the Market Unit has processed about 325 complaints since its creation. The different Administrations have issued more than 1400 reports and about 35% of the cases have been resolved in favor of the plaintiff. Almost 45 regulations have been challenged by the National Commission of Markets and Competition (CNMC) in the National Court and the first ten judgments have already been published (six of them totally or partially estimated). On the other hand, more than 275 regulation projects have been shared between the Administrations through a specific platform created for this purpose and in 2017 a Catalog of good and bad practices of the LGUM and a Guide to implement the Law of market unit adopted by the Market Unit Council. In addition, the need to assess the ex ante impact of the rules in the market unit has been included in a mandatory manner in the regulations and a methodology guide is currently being worked on. Multiple training initiatives (courses and modules) are also being carried out. With the aim of promoting the improvement of economic regulation and cooperation within the framework of the Law on Market Unity training initiatives are already underway, projects to improve the dissemination of the standard, initiatives to increase transparency, type informative and consolidation of the doctrine. Especially, among other issues, the promotion of inter-administrative cooperation relations between the single points of contact and the reinforcement of cooperation with sectoral conferences and with the National Commission of Markets and Competition has been foreseen	According to estimates updated by the Ministry of Economy and included in the PNR of 2018, the impact of implementing the LGUM is 0.26 percentage points in GDP in the short term and 0.34 percentage points in employment. The long-term impact of the reform on GDP and employment is 1.63 and 0.89 percentage points respectively.

[7]

LINK BETWEEN THE BUDGETARY PLAN AND THE EUROPEAN GROWTH AND EMPLOYMENT STRATEGY

National objectives	List of measures	Link description
Employment 74% employment for persons aged 20 to 64 years	Spanish Strategy for Employment Activation	Normative framework for the coordination and execution of active employment and labor intermediation policies in the State as a whole, including both the services and programmes carried out by the public employment services with state funds and those that the Autonomous Communities carry out with their own economic resources . The Strategy establishes three types of objectives, which are included in the Annual Plans for Employment Policies: • Key objectives, stable throughout the duration of the Strategy • Strategic or priority objectives, which acquire special relevance at a given moment • Structural objectives, of a stable nature, that have to be addressed by public employment services in their ordinary operation through sustained services over time The Annual Employment Policy Plans (PAPE) are the annual concretion of the Strategy. For this reason, they are the operative instruments through which the provisions of this Strategy have to be developed and concretised through specific actions
	Youth Guarantee	The National Implementation Plan for the Youth Guarantee (December 2013) arises in response to the European Council Recommendation of April 2013 establishing a Youth Guarantee, in coherence with the Entrepreneurship and Youth Employment Strategy 2013-2016. The aim is to ensure that all young people under 30 receive a good job offer, continuing education, apprenticeship training or internship period within four months after finishing formal education or becoming unemployed. In force since July 2014, it was modified by Royal Decree Law 6/2016, of 23 December, on urgent measures to boost the National Youth Guarantee System. The Law 6/2018, of 3 July, of General State Budgets for 2018 has complemented this Plan with the incorporation of the youth guarantee bond (accompanying cocnomic aid), which supposes an additional aid of € 430 for young people with contracts of training and learning
	Entrepreneurship and Youth Employment Strategy	The original Strategy, in force during the period 2013-2016, included actions to improve employability, facilitate insertion in the workplace, provide entrepreneurship and improve the situation of young people in the labor market. At present, work is being done on the preparation of a Young People's Shock Plan, which is expected to be presented in December 2018
	Programme of joint action with the Autonomous Regions for the orientation of long-term unemployed people over 30 years of age	Personalised attention is provided to long-term unemployed, improving the capacity of the Public Employment Services of the Autonomous Communities, including the realisation of an individualised profile of employability and the design of a personalised employment itinerary
	PREPARA Professional Retraining programme	For 6 months, it facilitates 400 euros of aid to unemployed people who exhaust the unemployment benefit, as well as personalised itineraries of specific active employment policies." It is a conjunctural program, which is automatically extended while the unemployment rate (according to the EPA) be higher than 18% (originally at 20%, the threshold was lowered in April 2016). This programme has ceased to be effective on April 30, 2018 in accordance with the provisions of Royal Decree-law 14/2017, of October 6, which approves the extraordinary and limited-time reactivation of the professional requalification programme of people who exhaust their unemployment protection.
	Employment Activation Program	Specific and extraordinary temporary program, aimed at long-term unemployed people that includes active employment and labor intermediation policies managed by the Public Employment Services in order to increase opportunities for return to the labor market and offers financial assistance of accompaniment managed by the Public State Employment Service, linked to participation in the already mentioned activation policies for employment. This programme has ceased to be valid because it was not renewed by Law 6/2018, of the General State Budgets for the year 2018, establishing a transitory regime for potential beneficiaries in Royal Decree-law 8/2018, of 3 August, which modifies Royal Decree-law 16/2014, of 19 December, which regulates the Activation for Employment Programme

	Extraordinary Subsidy for Unemployment	This new subsidy comes to" "replace" "the previous Professional Retraining programme (Prepara) and Activation for Employment Program, created through Law 6/2018, of 3 July, of the General Budgets of the State for the year 2018. May be beneficiaries of the same unemployed people registered as job seekers who, on the date of the application, are in any of the following situations: - Extinguishing the unemployment benefit by exhaustion and accrediting the active search for employment - To be a long-term unemployed person and to have extinguished any of the corresponding benefits due to exhaustion and to have involuntarily ceased in the last job performed in case of having worked after the exhaustion of the last right. Persons who would have previously received help from the Employment Activation programme will not be able to access this subsidy. The maximum duration of the subsidy will be 180 days and can not be perceived on more than one occasion. The amount of the subsidy will be equal to 80% of the public monthly multipurpose income indicator in effect at each moment. It will be valid for six months from its entry into force, and will be automatically extended for six-month periods, until the unemployment rate falls below 15 percent according to the last Active Population Survey published prior to the date of the extension
	Measures to promote open-end contracts	1. Reinforce the principle of causality in temporary contracts within the framework of collective bargaining and determine the volume of fixed-term contracts, in addition to promoting indefinite contracts and the transformation of temporary contracts into permanent contracts. 2. Strengthen the actions of the Labor and Social Security Inspectorate in matters of recruitment fraud, promoting the transformation into permanent contracts without cause, and revise the sanctioning regime in the Law of Infractions and Sanctions in the Social Order, in order to increase penalties for fraud. This measure has been developed in the Master Plan for Decent Work approved in July 2018
	Universal Social Card	It is created as an Information System, in order to improve and coordinate the social protection policies promoted by the different public administrations. It will include up-to-date information corresponding to all contributory, non-contributory and assistance social benefits of economic content, financed from public resources and other protection measures that are determined. It will also collect information on the situation of the owners, and offer based on this information functionalities and utilities to the different public administrations and citizens.
	Support for young people with low education	Aimed at young people who do not have a bachelor's degree or equivalent, and who commit themselves to start a training activity and start providing services through a training and learning contract, with a minimum duration of one year. The young beneficiaries will receive financial assistance during the duration of the apprenticeship contract. After the end of the apprenticeship contract, companies can receive a bonus of Social Security contributions to encourage conversion into an indefinite contract
R&D Investment of 2% of the GDP	State R & D Budget	The General State Budget for 2018 includes a total expenditure on civil R & D of 6,366 million euros, 5.4% more than in 2017, including grants and reimbursable credits. The total non-financial budget amounts in 2018 to 2,629 million euros (+ 7.1% compared to 2017). The total financial budget (reimbursable loans) is 3,738 million euros (+ 4.2% compared to 2017). State Research Agency. 2018 is the second year in which the Agency has its own budget dedicated to the promotion and coordination of scientific and technological research. The budget of the Agency in 2018 amounts to 640 million euros, of which 614 are dedicated to aid from the National State Plan for Research and Scientific and Technological Innovation
	Promotion of R & D companies through direct incentives and access to public funding	Improvement of public financing conditions. The CDTI (Center for Technological and Industrial Development) adopted since 2018 a new policy on non-reimbursable loans to increase financial coverage (85% in general), increase the advance (up to 35%) and make the repayment of the loan more flexible (up to 10 years) The CDTI invests in 2018, 974 million euros supporting 1,657 R & D & I projects. Its traditional instruments of action are the IDIS, R & D Projects; Strategic Business Projects CIEN, INNOGLOBAL international cooperation and NEOTEC for technology-based companies. It has also convened in 2018 INTERCONNECTA (first phase May 2018) experimental development projects in regional consortiums, in several Autonomous Communities, as part of the FEDER Technological Fund
	Promotion of the Spanish Innovation Ecosystem: Red Cervera	In 2018, a new instrument, the Cervera Plan, was established to provide support and finance a network of technology centers and institutes to foster public-private partnerships around a defined number of cross-cutting technological domains to support technological advances and innovation. The total budget is 20 million euros in grants + 480 million euros in loans. It includes the creation of a new mechanism to reduce the cost of guarantees for SMEs that access CDTI loans.

	Strengthening the innovation capabilities of SMEs	In 2018 the reinforcement of the action in support of innovation in SMEs is given by the implementation of new CDTI instruments to support innovation: PRIMA, support to consortiums in the Mediterranean Area; FEMP, European Maritime and Fisheries Fund; SME horizon, feasibility studies and business plan; Proof of concept; the Cervera Plan, to support technology centers of excellence and, finally, LICa, regional aid for innovative investment.
	Human Resources in R & D	Replenishment rate of 100% in public research organizations and universities Sustainable financing for the hiring of researchers and technicians to carry out R & D activities. In the Research Agency, 197.3 million euros are allocated for the hiring of researchers and technicians who develop R & D activities in public and business research.
	Internationalisation of R & D activities and improvement of the EU's added value	Increase participation and leadership in the EU in Horizon 2020: 2,793 million euros in competitive competition allocated to Spanish R & D groups and entities. The Spanish Strategy for Science, Technology and Innovation 2013-2020 includes among its main priorities the alignment of national R & D policies with those of the EU, as well as increasing the participation of Spanish institutions and companies in the projects of the EU funded under Horizon 2020. The rate of return of the Horizon 2020 accumulated until May 2018 is 10.1%, due to the objective of the Spanish Strategy for 2020 (9,5%)
	Internationalisation of R & D activities and improvement of the EU's added value	Increase participation and leadership in the EU in Horizon 2020: 2,793 million euros in competitive competition allocated to Spanish R & D groups and entities. The Spanish Strategy for Science, Technology and Innovation 2013-2020 includes among its main priorities the alignment of national R & D policies with those of the EU, as well as increasing the participation of Spanish institutions and companies in the projects of the EU funded under Horizon 2020. The rate of return of the Horizon 2020 accumulated until July 2017 is 9.1%, due to the objective of the Spanish Strategy for 2020 (9,5%)
Protect 100% of vulnerable families from situations of energy poverty	Improvement of the current social bond (introduced in RDL 15/2018) Creation of a social bond for thermal uses (introduced in RDL 15/2018) Development of the figure of the social worker against energy poverty Include single-parent families as a special condition (+0.5 times IPREM), (introduced in RDL 15/2018)	This is a set of measures that seek greater protection of the most vulnerable sectors, for which purpose it is proposed to increase the annual energy limits with the right to a social bonus, included in Annex I of RD 897/2017 of the vulnerable consumer. social bonus and flexibilisation of the calculation of the annual limits within the year. It also proposes the development of a new bonus mechanism or "energy check" for use in the payment of energy supplies or, alternatively, the improvement of efficiency in the case of vulnerable households (income criterion); as well as the development, in collaboration with the Ministries of Health and Employment, the FEMP, as well as with municipalities of municipalities with a population of over 4000 inhabitants, counties and island councils, the figure of the social worker against energy poverty within the framework of the department of social services of said corporations
Reinforcing the penetration of renewable energy sources in the final energy consumption (pending definition objectives in coordination with the development of the Integrated National Energy and Climate Plan)	Promotion of renewable energies: (i) control of speculation and sale of access and connection permits (introduced in RDL 15/2018), (ii) promotion of PPAs and private micro-PPAs with generators through the possibility of contracting with two suppliers (introduced in RDL 15/2018), (iii) approval of a Plan to Promote the Repowering of existing plants, especially those that include hybridisation of technologies, (iv) auction schedule to increase predictability and (v)) extension of access permits beyond December 2018 (introduced in RDL 15/2018). Promotion of self-consumption (measures introduced in RDL 15/2018): (i) recognise the right to self-consume and store electric power without charges and without any limitations other than those derived from technical and safety conditions, (ii) the right is recognised to share self-consumption, (iii) small-scale facilities are exempt from registering in the electricity generator register and (iv) the principle of administrative simplification for small installations	The promotion of renewable energies through the establishment of a stable and predictable regulatory framework will achieve the objectives of renewable energy penetration by the year 2030. In this way, it will be required to attract a private investment of around € 8,000 -10,000 M with the purpose of increasing the renewable capacity of the Spanish electricity system by 60-80 GW. Likewise, the signing of bilateral contracts between customers and renewable generators will be promoted outside the auction system, promoting the long-term renewable generation objectives. On the other hand, compliance with these objectives will be complemented with the deployment of self-consumption that, in the face of a decreasing cost scenario of photovoltaic technology and storage systems, will allow consumers to generate, consume and store the locally produced energy.

Improve energy efficiency (pending definition objectives in coordination with the development of the Integrated National Energy and Climate Plan)	Energy efficiency: (i) Promote energy efficiency in outdoor lighting installations, (ii) improve the insulation of buildings and the obligation of energy labels in sales and writing advertising, (iii) accounting for individual consumption in facilities The following measures are included in the LCC: (i) promotion of the renovation of existing buildings, both public and private, for the purpose of extending the system of efficiency obligations through the FNEE until 2030. achieve buildings with high energy efficiency and decarbonised by 2050, (ii) measures to encourage the modification of patterns of electricity consumption by citizens, large industrial consumers and other large facilities and (iii) promotion of the market for services energy services, facilitating access to it by all economic actors, including small and medium-sised enterprises. Consumer protection (introduced in the RDL 15/2018): (i) enabling the possibility of access to certain information related to consumer demand in order to encourage efficiency actions, (ii) information campaign (measure introduced in RDL 15/2018) on the existence of access tolls with time discrimination, (iii) suspend, by means of RDL 15/2018, the application of billing by reactive power for consumers of up to 15 kW of contracted power, (iv) anti-fraud measures of fraudulent marketers, (v) prohibition of realisation and / or modification of the contract of customers at home to domestic customers, (vi) favor an adequate hiring power through the possibility of contracting by fractions of 0.1 kW, (vii) obligation for the CORs to inform consumers receiving PVPC, on their invoice, what the billing would have been without discrimination and with discrimination hourly time Taxation: (i) Temporary suspension, through the RDL, 15/2018 for 6 months of the 7% tax on electricity generation and (ii) temporary suspension, through RDL 15/2018, for 6 months of the Hydrocarbons tax for the energy products for the electricity production	The objectives for 2030 in terms of improving energy efficiency and reducing primary energy consumption will be enhanced by the proposed measures, which in terms of outdoor lighting facilities will save approximately € 400 M in 10 years for municipalities , mobilizing € 3,600 M of investment in the same period through ERDF co-financing (50% -85% depending on the region). On the other hand, the efficiency obligations through the National Energy Efficiency Fund (FNEE) will depend on the savings set for Spain in 2021-2030 As a reference, the total of the current budget of the FNEE committed to aid programmes since 2014 is € 707,197 M. More than 3000 applications have been received for a value of € 1,503.3 M of investment, with an aid of € 367.5 M and a financing of € 247.9 M. Consumer protection measures will encourage the modification of consumption patterns towards more efficient models, especially through the implementation of market signals that encourage a shift in demand towards trough periods, since the change to a time-based discrimination mode of 2 periods (2.0DHA) would result in a reduction in the cost of supply for 98% of consumers. 60% of consumers would obtain savings of more than € 20 / year
Energy efficiency reduction in primary energy consumption (European objective of saving 20% compared to 2005)	Mobility: (i) liberalisation of recharge activity, (ii) encourage the implementation of recharging points and mandatory availability in certain service stations, (iii) electric vehicle charging infrastructure in buildings, (iv) promote transportation to work (PTT) plans and shared mobility services. Additionally, the following measures contained in the LCC are mentioned: (i) elimination of the emissions generated by the consumption of fossil fuels from ships and auxiliary devices when those are docked in the ports, (ii) establishment of low emission areas not later than 2025, in which the circulation of vehicles with direct emissions of carbon dioxide will not be allowed; (iii) measures to facilitate travel on foot, by bicycle or other means of active transport; (iv) measures for the improvement and use of the public transport network and (v) measures for the electrification of the public transport network.	In addition to the measures introduced previously in relation to self-consumption, efficiency, renewables, consumer protection and taxation; the promotion of a more sustainable mobility also pursues the achievement of the 2030 objectives regarding the reduction of greenhouse gases. In particular, the mobility measures will allow a greater decarbonisation of the Spanish economy through the electrification of the transport system. a Strategy to boost the vehicle with alternative energies (VEA) in Spain (2014-2020) sets a minimum target for 2020 of 1,090 urban access points for public access (there are currently 4,341 points). These measures aim to promote the installation of at least 1000 recharge points during 2019.

Early school leaving less than 15%	1. Implementation of an educational reform in primary education, compulsory secondary education, vocational training and baccalaureate. 2. Continuation of the Plan that establishes the main strategies to reduce early school leaving. 3. Start-up of the Basic Vocational Training studies that extends the necessary contents to apply a good orientation and advice to access the working world. 4. Update of the National Catalog of Qualifications. 5. Orientation and Reinforcement programme for advancement and support in Education 6. Aid programme for the financing of textbooks and teaching materials	"1. The educational reform can contribute to reduce the early abandonment of education up to 15% in 2020, by early detection of learning difficulties and reinforcing learning through the key competences for academic development. 2. It will contribute to reducing the early school drop-out rate through specific actions on the main risk factors and reinforcing personalised attention measures. 3. It will help to reduce early school leaving by offering alternative itineraries for students whose skills, aptitudes and expectations are directed to a more applied education. 4. Encouraging easy and rapid updating of vocational training qualifications to the labor market and professional and personal development of students, making vocational training a more attractive option, will contribute to the reduction of early school leaving. 5. Updating of teacher training focused on intervention programmes to reduce school drop-out and support for students with absenteeism through evening and summer reinforcements. 6. Guaranteeing equity and equality of rights and opportunities with the aid programme for the financing of textbooks and teaching materials establishes cooperation mechanisms between the Ministry of Education and Vocational Training and the Autonomous Communities
Tertiary education Third-stage studies for 44% of persons aged 30 to 34	1. Measures to improve entrepreneurship. 2. New admission procedures for foreigners in Spanish universities and more agility in the procedures for homologation of the studies obtained abroad. 3. Flexibility in the organisation of university studies. 4. Promotion of Dual Professional Training in the upper grades. 5. Incentives for the incorporation of companies of workers in training process.	All these measures will contribute to increase the number of adults with tertiary education: 1. Increasing the attractiveness and quality of higher education 2. facilitating access and admission of foreigners to Spanish universities 3. offering varied training, adapted to the demands of economic and social training 4. having a positive impact on the completion and certification of basic vocational training 5. Making it more attractive by providing paid professional experience to companies. The number of young people between 18 and 24 years old who enroll in the universities has increased from 23.4% in the 2007-08 school year to 31.5 in 2015 (Source of data: Integrated University Information System- SIIU- MECD)
Poverty Reduce the number of persons living in poverty or experiencing social exclusion by 1,400,000 (compared to 2009)	New National Strategy for the Prevention and Fight against Poverty (2017-2020)	In order to meet the poverty reduction target set in the European 2020 Strategy, Spain is committed to approving a new Strategy that will allow the coordination of all agents and that will integrate different lines of action aimed at reducing poverty and reducing poverty. promotion of social inclusion. The main objective of this National Strategy is to avoid and reduce situations of poverty and social exclusion, as well as to strengthen personal skills in the field of training and employment. The starting point is to consider that the best way to fight against poverty is its prevention, and the best tool to promote access to employment for those sections of the labor market. Training is a determining factor in the case of less qualified people or those whose qualifications do not adapt to the demands of the labor market. In the elaboration of this Strategy, the different distribution of responsibilities among the different Public Administrations in the field of social protection will be taken into account. Other social agents such as NGOs, trade unions and business organizations will be consulted, as well as experts in social and intervention policies
	National Strategy for the Homeless (2015-2020)	The National Comprehensive Strategy for Homeless Persons (2015-2020) is the instrument proposed by the Government to resolve homeless situation and establish a comprehensive action framework in this area. To date, there has not been a comprehensive and coordinated approach involving all public administrations to solve this problem. The ultimate goal of the strategy is the complete eradication of people begging in our country, through the medium-term goal of the number of homeless people, as well as through the prevention of such situations and improvement of their living conditions. The strategy has been designed by all the actors involved in its implementation: General State Administration, Autonomous Communities and Local Entities, as well as the third sector of social action and the homeless.
	FEAD European Aid Fund for the Most Disadvantaged (2014-2020)	The European Aid Fund for the Most Disadvantaged provides food assistance and social inclusion measures in Spain, such as assistance and support to help people get out of poverty through their operational program. The FEAD Operational programme will contribute to achieve the national goal of poverty reduction of 1.4-1.5 million people, covering the basic needs of the beneficiaries and providing them with social assistance and work to increase their employability and social inclusion.
	National Strategy for the Social Inclusion of the gipsy Population (2012-2020)	The National Strategy for the Social Inclusion of the gipsy Population 2012-2020 is aimed at improving the situation and living conditions of this population by reducing the gap between this group and the rest of the population. The Estregia has a direct impact on four main areas (education, health, employment and habitability) that are considered the main pillars to facilitate a progressive convergence between the general population and the gipsy community.

	Normative Project of Law of Integral Support to the Family	Its main objective is to organize, systematize, update and improve the support and assistance that all types of families receive from Spanish state agencies in a transversal way (employment, social security, health, education, state housing policy, etc.). It will contained general measures applicable to all types of households as well as specific measures aimed at households with special needs
	New PENIA: National Strategic Plan for Children and Adolescents (2018-2021)	The objective of the new PENIA is to continue by moving integral and transversal actions with impact on the welfare of children. In this sense, PENIA allows us to frame the fight against social exclusion from a multidimensional scope
	National Strategy on Drugs and Addictions 2017-2024. Action plan 2017-2020.	The Spanish Strategy on Drugs and Addictions 2017-2024 aims to avoid the exclusion of addicted people and achieve adequate rehabilitation and social and labor reintegration. It will develop actions that promote safe behaviors, reduce preventable risks and contribute to reducing social inequalities and access to healthcare among population groups affected by addiction problems, eliminating the risk of social exclusion derived from these factors. In accordance with this objective, the First Action Plan that the Estartegia will develop will incorporate activities aimed at adapting services and programmes, as well as expanding them (occupational services and especially for labor reintegration) to the new profiles of the people served (including addictions without substances), and in response to the different impact of addictions in men and women and the specific needs addicted over 18 years old.
	New social bonus and protection measures for vulnerable consumers	Royal Decree 897/2017, of 6 October, has been approved, which regulates the figure of the vulnerable consumer, the social bonus and other protection measures for domestic consumers of electricity. A new social bonus is launched, based fundamentally on income criteria so that consumers who need it most can access it. The discount on the electric bill will be 25% for vulnerable consumers, 40% for the severe vulnerable and 50% if they are also being served by social services. In addition, a mechanism is regulated to avoid supply cuts in the case of vulnerable consumers at risk of social exclusion. Lastly, measures are adopted to strengthen consumer protection in marketing and in the event of power cuts.

[Addendum]

Methodology, economic models and assumptions underlying the macroeconomic and budgetary forecasts contained in the Draft Budget.

Estimation technique	Phase of the process in which it is used	Relevant features of technique/model used
Short-term forecast equation models	Preparation of macroeconomic scenario under no-policy change scenario	Multi-factor model and transfer functions
Long-term forecast equation models	Preparation of macroeconomic scenario as continued policy	Co-integration error correction models
REMS model	Analysis of fiscal and macroeconomic impact of new measures	General dynamic equilibrium macroeconomic model
Tax revenue forecasts	Basis for the fiscal Budgetary Plan and the General Budgetary Plan and quantification of the General State Draft Budget and calculation of the fiscal effect of measures.	Microsimulation models based on macroeconomic provisions and analysis of temporal statistical series.
Tax revenue forecasts	Basis of Budgetary Plan and General State Draft Budget	The expenditure forecasts are based on compliance with fiscal rules, on the sectoral budgetary proposals, the analysis of the time statistical series and on the measures adopted by the Government in relation to, among other, public sector personnel and pension policies.
Fiscal effort forecasts	Estimation of structural effort and break-down by ESA subsectors	European Commission methodology developed in the Output Gap Working Group.

[Addendum Tables]

The tables included in this Addendum correspond to the policy change scenario, in particular Tables 3a, 3b, 4 and 5.

Table A.1 GDP Deflator

	ESA Code	2017	2017	2018	2019
		Nivel	year-on-year % change		
1. GDP deflator		102.3	1.2	1.3	1.8

Sources: National Institute of Statistics and Ministry of Economy and Business

Table A.2 Guarantees granted by General Government

(In euro)

	2013	2014	2015	2016	2017
General Government					
One-off guarantess					
Total stock, excluding debt assumed by Government	**193,152**	**133,627**	**102,955**	**86,527**	**77,650**
Of which: public corporations	91,108	74,048	53,538	40,848	34,838
Financial corporations	188,277	129,585	99,723	83,158	73,827
Guarantess granted in the context of the financial turmoil	95,604	55,090	46,385	42,656	39,369
Standarised guarantees	**0**	**0**	**0**	**0**	**0**
Total Stock					
Central Administration					
One-off guarantess					
Total stock, excluding debt assumed by Government	**188,593**	**129,842**	**99,795**	**83,248**	**73,920**
Of which: public corporations	90,609	73,557	53,065	40,393	34,416
Financial corporations	188,277	129,585	99,723	83,158	73,827
Guarantess granted in the context of the financial turmoil	95,604	55,090	46,385	42,656	39,369
Standarised guarantees					
Total Stock					
Autonmous Communities					
One-off guarantess					
Total stock, excluding debt assumed by Government	**3,604**	**3,024**	**2,500**	**2,411**	**1,933**
Of which: public corporations					
Financial corporations					
Guarantess granted in the context of the financial turmoil					
Standarised guarantees					
Total Stock	**0**	**0**	**0**	**0**	**0**
Local Entities					
One-off guarantess					
Total stock, excluding debt assumed by Government	**955**	**761**	**660**	**868**	**1,797**
Of which: public corporations	499	491	473	455	422
Financial corporations					
Guarantess granted in the context of the financial turmoil					
Standarised guarantees					
Total Stock	**0**	**0**	**0**	**0**	**0**

Notes:

1. There are only "one-off guarantees"

2. Following the conclusions of the "Task force on the implications of Council Directive 2011/85 on the collection and dissemination of fiscal data", the heading "Total stock of guarantees excluding debt assumed by Government" does not include guaranteed debt of other units of public administrations included in S.13 (FROB, FTDSE...) nor guaranteed debt of the ESF.

3. Only the guaranteed prinicpal is included

Table A.3. General Government expenditure by function

Table A.3.a. General Government expenditure on education, health and employment

	2018		2019	
	% GDP	% Total Expenditure	% GDP	% Total Expenditure
Education	4.0	9.7	4.0	9.7
Health	6.0	14.6	6.0	14.6
Employment1	1.8	4.5	1.9	4.6

[1]This expenditure category includes Government spending related to active labour market policies including public employment services.

Table A.3.b. Classification of expenditure by functions

Functions	Código COFOG	2018	2019
		% GDP	% GDP
1. General public services	1	5.5	5.4
2. Defense	2	0.9	0.9
3. Public order and safety	3	1.9	1.8
4. Economic affairs	4	3.9	3.7
5. environmental protection	5	0.9	0.9
6. Housing and community amenities	6	0.5	0.5
7. Health	7	6.0	6.0
8. Recreation, culture and religion	8	1.1	1.1
9. Education	9	4.0	4.0
10. Social protection	10	16.6	16.7
11. Total expenditure	TE	41.2	40.9
GDP used		1,211,811	1,261,287

Source: Ministry of Finance

A. 4. Expected budgetary impact of the measures of income adopted and planned: Taxes (before cession):

Measures	Description	Objective (expenditure / revenue)	Accounting principle	State of play	Additional budgetary impact per year (million €) 2017	2018	2019
PERSONAL INCOME TAX (PIT)					**1.670**	**-833**	**-1.373**
Objective assessment scheme criteria (modules)	Limits to the taxpayers that can apply the objective assessment scheme criteria	Revenues	Cash and National Accounts	Act 26/2014, of 27 November	28		
Withholding of subscription rights	All subscription rights are taxable, including the so called scrip dividends	Revenues	Cash and National Accounts	Act 26/2014, of 27 November	40	2	
PIT Reform	Wide modification on the PIT: tax brackets have been changed, tax rates reduced, different treatment to certain investment products, introduction of new family tax credits	Revenues	Cash and National Accounts	Act 26/2014, of 27 November	1.602		
New Measures for 2018	Increase of the earned income reduction, enlargement of rebates: "Handicap Rebate" (spouse) "Birth Rebate " (numerous families) and , "Kindergarten Rebate"	Revenues	Cash and National Accounts	Act 6/2018, July, 3, General State Budget for 2018		-835	-1.373
CORPORATE INCOME TAX (CIT)					**-1.049**	**81**	**0**
Modification of the CIT instalment payments regime	Modification of the CIT instalment payments regime, increasing them to 23% for non financial companies with an accounting profit of more than 10M euros, and 25% for financial companies.	Revenues	Cash and National Accounts	Royal Decree Law 2/2016, of 30 September	-2.967		
CIT Reform	Rate reduction to 25% in two years, creation of a capitalisation reserve and levelling reserve.	Revenues	Cash and National Accounts	Law 27/2014, of 27 November, Corporate Income Tax	618		
2017 measures	Limits on negative tax bases and to deduction for double taxation. Reform of reversals of impairment losses of equity assets. On deductibility of losses resulting from the transfer of securities representative of own equity	Revenues	Cash and National Accounts	Royal Decree Law 3/2016, of 2 December	1.283	80	
Withholding of subscription rights	All subscription rights are taxable, including the so called scrip dividends	Revenues	Cash and National Accounts	Act 48/2015, of 29 October, General State Budget for 2016	17	1	
OTHER DIRECT TAXES					**-6**	**0**	**0**
Non-Resident Income Tax (IRNR, in Spanish)	Tax rate cuts	Revenues	Cash and National Accounts	Act 26/2014, of 27 November	-6		
VAT*					**635**	**-75**	**-39**
Deferment and fraction policy	VAT deferments will automatically be rejected unless it is justified that passed quotas have not being charged	Revenues	Cash	Royal Decree-Law 3/2016, of 2 December	656		
Tax rate reduction for live cultural shows	Tax rate reduction from 21% to 10%	Revenues	Cash and National Accounts	Act 3/2017, of 27 June, General State Budget for 2017	-21	-75	-39

EXECISE DUTIES					**184**	**-7**	**-75**
Taxes on tobacco products	Changes in the minimum specific rate and ad valorem rate	Revenues	Cash and National Accounts	Royal Decree-Law 3/2016, of 2 December	133		
Taxes on alcohol	Increase of 5% of the alcohol tax, without VAT effect	Revenues	Cash and National Accounts	Royal Decree-Law 3/2016, of 2 December	35	6	
Hydrocarbon	Refund reduction on agriculture gas	Revenues	Cash and National Accounts	Act 3/2017, of 27 June, General State Budget for 2017	16	12	
Hydrocarbon	Exemption of the Hydrocarbon Excise Duty of energy products used in electricity production in power plants, or electricity production or heat production or co-generation in combined plants	Revenues	Cash and National Accounts	Royal Decree Law 15/2018, of 5 October, Urgent Measures for energy transition and consumer protection		-25	-75
OTHER INDIRECT AND ENVIRONMENTAL TAXES					**28**	**-253**	**-4**
Tax on the Value of the Production of Electric Power	Exemption of the Tax on the Value of the Production of Electric Power	Revenues	Cash and National Accounts	Royal Decree Law 15/2018, of 5 October, Urgent Measures for energy transition and consumer protection		-265	-4
Tax on fluorinated greenhouse gases	New environmental tax on certain consumptions	Revenues	Cash and National Accounts	16/2013 Law, of 29 October	28	12	
FEES AND OTHER TAXES					**401**	**846**	**308**
Levy on the use of water for electrical production	Levy on the use of water: fee for the protection and improvement of the hydraulic public through Hydrographic Confederations. In 2017 is modified in order to increase the tax rate	Revenues	Cash and National Accounts	Royal Decree-Law 10/2017, June, 9		7	
Judiciary Levies	Introduction of new exemptions	Revenues	Cash and National Accounts	Law 10/2012 and 2013 and 2015 modifications	-70		
Asset provision for the conversion of DTA	Asset provision for the conversion of DTA into tax credits	Revenues	Cash	Act 48/2015, of 29 October, General State Budget for 2016	471		
Other measures contained in the Royal Decree Law 15/2018, of 5 October	Hired power reduction and change to discriminating time	Revenues	Cash and National Accounts	Royal Decree Law 15/2018, of 5 October, Urgent Measures for energy transition and consumer protection		-11	-230
CO2 Emission Rights	The electric system will be assigned with collection surpluses of CO2 Emission Right Auctions over 450 M euros	Revenues	Cash	Royal Decree Law 15/2018, of 5 October, Urgent Measures for energy transition and consumer protection		850	538

TOTAL					**1.863**	**-241**	**-1.183**

MEASURES AGAINST TAX FRAUD					**1.468**	**318**	**0**
Plan on measures against tax fraud	Modification of the General Tax Law	Revenues	Cash and National Accounts	Act 34/2015, of 21 September	1.000	0	0
Measures against tax fraud 2017	System of Immediate Information Supply art.95 bis measures	Revenues	Cash and National Accounts	Royal Decree-Law 3/2016, of 2 December	468	318	0
TOTAL TAX MEASURES					**3.331**	**77**	**-1.183**

*The Immediate Supply o f information on VAT (known in Spanish by the acronym SII) has been eliminated in the list of Measures as it only has an impact in terms of cash, but does not affect the estimations in terms of National Accounts and or public deficit.

2019 TAX MEASURES							**5.678**
Increase of the PIT	Tax rates will be increased by 2 points over the general tax base for tax payers with incomes over 130,000 euros and by 4 points for the part that exceeds 300,000 euros. At the same time the state rate for the savings tax will be increased by 4 points for the savings incomes above 140,000 euros	Revenues	Cash and National Accounts	At a preliminary draft stage			328
Wealth Tax	The tax rate will increase by 1% for wealth over 10 million euros	Revenues	Cash and National Accounts	At a preliminary draft stage			339
CIT, limitation of exemptions and minimum taxation	Limitation of exemptions of dividends and capital gains generated abroad and a 15% of minimum taxation of the positive tax base. In the case of companies with a tax rate of 30% the minimum taxation will be 18%	Revenues	Cash and National Accounts	At a preliminary draft stage			1.776
CIT, reduced tax rates for SMEs	Reduced nominal tax rate for companies with less than 1 million euro turnover, from 25% to 23%.	Revenues	Cash and National Accounts	At a preliminary draft stage			-260
VAT reduction on veterinary services	The VAT tax rate on veterinary services will be reduced to a 10%	Revenues	Cash and National Accounts	At a preliminary draft stage			-35
Gender and inequality tax measures	Reduced VAT tax rate for feminine-hygiene products	Revenues	Cash and National Accounts	At a preliminary draft stage			-18
Green taxation (gasoil)	Tax rate oh ydrocarbons will be increased depending on its emissions. This will consist on an increase of 38 euros for every thousand litres in the case of diesel	Revenues	Cash and National Accounts	At a preliminary draft stage			670
Creation of the Tax on Financial Transactions	A Tax on Financial Transactions is created, wtat taxes with a 0.2% the purchases of Spanish stocks executed by financial operators	Revenues	Cash and National Accounts	At a preliminary draft stage			850
Creation of the Tax on Digital Services	A Tax on Digital Services is created. It taxes revenues obtained in Spain by big International companies from certain digital activities that are not currently taxed	Revenues	Cash and National Accounts	At a preliminary draft stage			1.200
Limitation of cash payments	Limits of cash payments are reduced, both, the general from 2,500 euros to 1,000 and the one applied to natural persons with tax residence abroad from 15,000 euros to 10,000 euros	Revenues	Cash and National Accounts	At a preliminary draft stage			218
Strengthen the list of defaulters	The list of defaulters is strengthened to expressly include among the main debtors the severely liable due to the importance that it has on those debts. The limits to be included in the list are reduced from 1,000.000 de euros to 600,000 euros.	Revenues	Cash and National Accounts	At a preliminary draft stage			110
Adoption of international best practices in the prevention and fight against fraud	Normative, organizational and operational measures will be taken in line with international best practices. Examples of it are Right from the start, Sales suppression software, High Net Worth Individuals, Big data and Data analytics.	Revenues	Cash and National Accounts	At a preliminary draft stage			500

2019 TOTAL TAX MEASURES, WITH THE NEW MEASURES					**3.331**	**77**	**4.495**

Table A.5: Expected budgetary impact of the expenditure and revenue measures adopted and planned by State and Employment and Social Security

(+) expenditure savings and increase of revenue; (-) vice versa

Measures	Description	Objective (expenditure / revenue)	State of play	Budgetary impact		
				2017	2018	2019
1% wages increase	1% in 2017	Expenditure	Law 3/2017, of 27 June, on General State Budgets for the year 2017	-1,203		
	1.75% + 0.20% additional funds in 2018 and salary equalization		Law 6/2018, of 3 July, on General State Budgets for the year 2018		-2,709	
	Minimum level 2.5% in 2019 and salary equalisation Police and Civil Guard	Expenditure	Agreement with the unions			-3,386
	Maximum level 2.75% (2.5% plus 0.25% of additional funds) in 2019 and salary equalization		Agreement with the unions			-3,700
Return of public employment 2012 extra pay in 2017	Return of public employment extra pay that had been abolished under RDL 20/2012, of 13 July	Expenditure	Royal Decree-Law 20/2012, of 13 July	583		
Public employment (replacement rate) *	In 2017 the replacement rate was 100% for the priority sectors and 50% for the rest	Expenditure	Law 3/2017, of 27 June, on General State Budgets for the year 2017	157		
	The 2018 General State Budgets includes a replenishment rate of 100% in general, for those Public Administrations that meet the deficit, debt and expenditure rule objectives, and an additional 8% exchange for the sectors considered prioritised by the respective Public Administrations. This stock exchange will be 10% for the EELLs that have amortised their financial debt, which will be reduced in case the aforementioned obligations are not met. In the case of the State Security Corps and Forces, the replacement rate will be 115%.		Law 6/2018, of 3 July, on General State Budgets for the year 2018		-40	

Temporary disability	Since 2012 there have been discounts in the salaries of public employees linked to the situation of temporary disability.The Agreement with the unions, in this matter, allows each public Administration to determine the remuneration that its staff can receive in these situations, up to maximum of 100%, returning to the situation before 2012. The calculation of the impact has been made in the maximum hypothesis of disappearance of all the discounts on the retributions that could be made. Therefore, it is a maximun cost	Expenditure	Law 6/2018, of 3 July, on General State Budgets for the year 2018		-267	-7
Establishment of FLAT RATE in social contributions to the Social Security and extension in 2015 and minimum exempt since 2015	To encourage indefinite hiring that implies net employment creation, a flat contribution rate was created, until March 2015. In order to consolidate the positive evolution of permanent hiring and enhance its impact for groups with greater difficulties for stable job placement , an exempt minimum is set in the employer's contribution for contingencies common to Social Security, from which all companies that hire indefinitely and create net employment will benefit. The first 500 euros of the monthly base corresponding to common contingencies will be exempted from business quotation when the contract is concluded full time. When the contract is concluded on a part-time basis, said amount shall be reduced in proportion to the percentage in which the working day decreases, which may not be less than 50% of the day of a full-time worker. Duration March 2015 to August 2016	Revenue	Royal Decree Law 3/2014, of 28 February, on urgent measures for the promotion of employment and permanent hiring. Royal Decree-Law 17/2014, of 26 December, on measures of financial sustainability of the autonomous communities and local entities and others of an economic nature. Royal Decree-Law 1/2015, of 27 February, of second chance mechanism, reduction of financial burden and other measures of social order	260		

System of direct payment of Social Security contributions	The new system of direct payment of social security contributions will allow an active role to be taken in the collection process, moving from a self-assessment model of quotas by companies to a billing model	Revenue	Law 34/2014, of 26 December, on measures regarding settlement and entry of Social Security contributions	126		
Update of the maximum limit and the maximum contribution bases in the Social Security system	The amounts of the maximum limit of the contribution base to the Social Security, in the regimes that have it established, as well as the maximum bases of contribution in each of them, increasing them by 3 percent with respect to those in force in 2016	Revenue	Decree Law 3/2016, of 2 December, by which measures are adopted in the tax field aimed at the consolidation of public finances and other urgent measures in social matters	300		
	The amounts of the maximum limit of the contribution base to the Social Security, in the regimes that have it established, as well as the maximum contribution bases in each of them, increasing them by 1.4% in 2018.	Revenue	Law on General State Budget for the year 2018		132	780
Special activation programme for employment	Activation programme for long-term unemployed who have exhausted other benefits and subsidies and have family responsibilities. The programme combines specific activation actions and a temporary financial aid of six months, compatible with employment. It contributes to two objectives. On the one hand, address the situation of these unemployed and contribute to keep them active. On the other, to promote the modernisation of public employment services, guaranteeing a personalised treatment of the beneficiaries and a greater link between active and passive policies. The duration of the programme	Expenditure	Royal Decree-law 16/2014, of 19 December, which regulates the Employment Activation Programme	-48	-102	-3

	is scheduled until 15 April 2016 and an evaluation of its impact in terms of employability is foreseen					
New requirements for access to active insertion income (RAI)	The requirements for access to the RAI were modified to increase its link with active employment policies and strengthen compliance with the activity commitment	Expenditure	Royal Decree-law 16/2014, of 19 December, which regulates the Employment Activation Program	234	200	150
Trainning bonus	Aid is granted to young workers enrolled in the SNGJ who are hired for training and learning	Expenditure	Law 6/2018, of 3 July, of General State Budget for the year 2018		-500	-229
Bonus transformation into long term training and apprentice contracts	Entrepreneurs who hire for training and apprenticeship young people enrolled in the SNGJ who receive the training bonus can be reduced the conversion of the contract in indefinite	Expenditure	Law 6/2018, of 3 July, of General State Budget for the year 2018		0	-5

Simplification of extraordinary programmes (SED and RAI) and expansion of the beneficiary group of the unemployment benefit (under 45 years without family responsibilities) ***						-38
Improve the autonomous regime. Promotion of entrepreneurial activity.	A set of measures is articulated with which it will be possible to continue influencing the improvement of the conditions in which the autonomous workers carry out their activity, guaranteeing their future expectations and, with this, the creation of productive wealth in our country, which it constitutes one of the defining signs of the group of entrepreneurs. These measures are oriented, among others, to the following objectives: facilitate and improve the Social Security contribution, reduce the administrative burdens of self-employed workers, clarify the deductibility of expenses incurred by the self-employed in the exercise of their activity, extend the already existing benefits.	Expenditure	Law 6/2017, of 24 October, on Urgent Reforms of Autonomous Work		-530	
Expansion of paternity leave	In 2018, the duration of the paternity benefit is extended from four to five uninterrupted weeks, which can be extended in cases of multiple births in 2 more days for each child from the second	Expenditure	Law 6/2018, of 3 July, of General Budgets of the State for the year 2018	-195	-53	-53
Pensions reforms	Pension reforms since 2011 and 2013 (retirement, early retirement, revaluation index and sustainability factor), with differential impact on future pension expenditure	Expenditure	Law 27/2011, on the reform of Social Security; RDL 5/2013; Law 23/2013, of December 23, regulating the Sustainability Factor and the Revaluation Index	1200		
Increase in pensions in 2018 **	Increase in the regulatory base for widow's pensions from 52% to 56%	Expenditure	Law 6/2018, of 3 July, of General State Budget for the year 2018		-184	
	Increase of 3% of non-contributory pensions (the	Expenditure	Law 6/2018, of 3 July, of		-68	

additional impact to the revaluation of 0.25% foreseen by the application of the revaluation index is included)	General State Budget for the year 2018

	Increase of 3% of minimum pensions (the additional impact to the revaluation of 0.25% foreseen by the application of the revaluation index is included)	Expenditure	Law 6/2018, of 3 July, of General State Budget for the year 2018		-556	
	Increase of 1.6% of the rest of pensions (the additional impact to the revaluation of 0.25% foreseen by the application of the revaluation index is included)	Expenditure	Law 6/2018, of 3 July, of General State Budget for the year 2018		-1451	
	Increase in pensions of civil servants pensions as a result of the previous measures	Expenditure	Law 6/2018, of 3 July, of General State Budget for the year 2018		-249	
Increase in pensions in 2019 **	Increase in the regulatory base for widow's pensions from 56% to 60%	Expenditure				-704
	Increase of 1.6% of all pensions (the additional impact to the 0.25% revaluation foreseen by the application of the revaluation index is included)	Expenditure				-1.761
	Increase in pensions of civil servants pensions as a result of the previous measures	Expenditure				-285
Social thermal bonus	Direct financial support so that vulnerable households can afford their heating, hot water or kitchen expenses this winter, regardless of the fuel they use	Expenditure	Royal Decree Law 15/2018			-100
ICT State government improvements	ICT development measures for the provision of more efficient electronic public services to citizens, companies and Public Administrations	Expenditure	Royal Decree Law 769/2017	350		
New Strategic Plan for the Impulse and Transformation of the Public Administration for the period 2017-2019		Expenditure	Royal Decree 769/2018 Creation of the Office of Strategic Planning		137	137
Total with minimum wage increase in 2019				**1,764**	**-6,240**	**-5,504**
Total with maximum wage increase in 2019				**1,764**	**-6,240**	**-5,818**

(*) This figure corresponds to the set of Public Administrations: Central Administration, regional Governments, Local Entities and Social Security.

(**) The impact of the revaluation of 0.25% is not included, which is not a discretionary measure, but the result of the application of the Revaluation Index based on current regulations

(***) In the budgetary impact of these two measures the effect of the introduction of active job search on all beneficiaries of the new subsidies has not been computed. If the mechanism works in a similar way to what happened in the PAE or PREPARA, the aforementioned expenditure will be reduced by around 20%. In addition, the application of personalised itineraries of insertion to the beneficiaries, will result in a greater collection of income for the placements obtained that could be estimated at least 50 million euros in 2019.

NEW EXPENDITURE MEASURES 2019				
Measures	**Description**	**Objective (expenditure / income)**	**State of play**	**Estimated Budgetary impact 2019**
Compensation given to pensioners for the December inflation being above the CPI forecast	Revaluation of pensions according to the CPI in 2018 and 2019. Minimum and non-contributory pensions will rise by 3%	Expenditure	Draft law 2019 General State Budgets	-736
Spending on long term care policies (dependencia)	A gradual effort will be made to improve the financing of the minimum level and the agreed level of the SAAD is recovered.	Expenditure	Draft law 2019 General State Budgets	
The government pays the pension contributions of long term care informal carers	The special agreement in the social security system of non-professional carers and the payment by the General State Administration of Social Security contributions will be recovered	Expenditure	Draft law 2019 General State Budgets	
Minimum wage increase to 900 euros	Minimum wage (SMI) increase to 900 euros in order to guarantee the workers an improvement in their level and the satisfaction of their needs and those of their families.	Expenditure	Draft law 2019 General State Budgets	
Reinstatement of the unemployment benefit for long term unemployed aged 52 or more	The age of access to the subsidy decreases from 55 years to 52 years, establishing the calculation of rents mainly on the basis of those of the beneficiary and not of the family unit, eliminating the obligation of having to access early retirement when receives and re-establishes 125% of the SMI the minimum contribution base for Social Security during its perception	Expenditure	Draft law 2019 General State Budgets	-1,364
Gradual implementation of the minimum income scheme, taking the form of child care support for low income families	Provision for dependent children will be progressively increased for vulnerable families and subsequently creating an income guarantee programme for families without income or with very low income. Thus, the benefit for dependent children will progressively increase, beginning at the thresholds of severe poverty that include the most vulnerable people.	Expenditure	Draft law 2019 General State Budgets	
Bring gradually the conditions for paternity leave to the same level as conditions for maternity leave	Progressive matching of paternity leave to maternity leave so that by 2019, parents will enjoy an eight-week permit, three more than the current ones	Expenditure	Draft law 2019 General State Budgets	
Increase in social contributions	Increase in the collection by quotas and the maximum contribution bases as a consequence of the increase of the Interprofessional Minimum Wage to € 900	Revenue	Draft law 2019 General State Budgets	1,500
NEW EXPENDITURE MEASURES 2019				**-600**

Table A. 6: Regional Governments. Expected budgetary impact of revenue and expenditure measures.

Measures	Description	Target (expenditure/revenue)	Additional budgetary impact per year (Million €)					
		ESA Code	2016	2017	2018	2019	2020	2021
Personnel expenditure	Management measures/ staff planning and remuneration reduction	D1	-430	105	-72	77	-41	-19
	No replacement	D1	295					
Non availability agreements Art. 25.1 LOEFSP			1,500	384	-300	-24		
Pharmaceutical expenditure and health products	Pharmaceutical expenditure due to centralized procurement	D63	0	30	50	50		
	Other measures regarding pharmacy and health products expenditure	D63	35	67	100	273		
Current expenditure and public provision	Savings measures related to provision of services and supplies	P2	13	10	20	9		
	Other measures in Chapter II	P2	-25	9	79	63	50	50
Financial expenditure and interests (no impact in General Government)	Interest savings, improving conditions of funding mechanisms	D41	-650	-273	-95	-10	-5	0
Current transfers	Other from Chapter IV	Other current expenditure	-214	-50	4	-5	20	20
Capital Transfers	Other from Chapter VII	D92, D99	15	-66	60			
Other measures	Other measures (investment)	P51	0	-5				
Total expenditure measures			**539**	**210**	**-154**	**433**	**24**	**51**
Personal Income Tax and other direct taxes		D51	-14	-7	-102	81	-120	-86
Inheritance and Gift Tax		D91	-98	-57	-81	-83	-16	
Wealth tax		D5	8	33	4	-1		
Environmental taxes		D29	5	6	20			
Transfer Tax and Stamp duty		D21	68	148	65	-77	-16	
Hydrocarbons Tax		D21	20		0	342		
IGIC AIEM		D21	1	-5	-28			
Fees		D29	-39	1	8	4		
Other taxes		D29	317	152	137	23		
Non- tax Revenues		-P51	-102	0	-16	-4	-54	
Total revenues			**166**	**271**	**7**	**285**	**-206**	**-86**
Total Regional Governments			**705**	**481**	**-147**	**718**	**-182**	**-35**

Table A. 7: Local entities. Expected budgetary impact of measures adopted and planned

Measures	Description	Target (expenditure/revenue) ESA Code	Additional budgetary impact (Million €) 2018	2019
Personnel	Remuneration	D1	482	-279
	No replacement	D1		
Current expenditure	Cost reduction in purchases of goods and services	P2	634	-426,2
Corporate public sector	Company dissolution	P2	15.1	0
Supression of services	Disappearance of minor local entities and deletion of services that are not under local competencies	P2, other current expenditure		860.5
Health, education, social services	Transfer of competencies in health, education and social services	D1, P2		
Integrated management and mergers	Integrated management of Public services and municipal mergers	D1, P2		
Total expenditure			**1,131.1**	**155**
Taxes	Tax increases, deletion of exemptions and voluntary bonuses	D29	470.1	237.9
	Fees and public prices	D29 and P11	0.4	116.2
Total revenues			**470.5**	**354.1**
Total Local Entities			**1,601.6**	**509.1**

2019 figures from 2019-2021 budgetary plans
2018 figures from 2018 budget compared to 2017 budget

Table A. 8: Budgetary execution for the whole of the General Government and its sub-sectors.

million € (accumulated) *Not consolidated data*	2017				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	July (2+3+5)	August State
Budgetary balance by subsector (6-7)								
1. General Government	24,542	30,341	38,100	22,657	24,830	32,297	NA	NA
2. Central Administration	17,094	12,784	11,855	6,737	18,303	13,844	5,858	14,106
3. Autonomous Communities	-597	377	12,673	8,728	-2,536	-606	5,203	NA
4. Local Entities	5,672	7,821	11,904	6,350	5,863	7,333	NA	NA
5. Social Security	2,373	9,359	1,668	842	3,200	11,726	5,557	NA
General Government								
Total revenue	196,319	406,240	618,829	872,007	207,450	417,292	NA	NA
Total expenditure	171,777	375,899	580,729	849,350	182,620	384,995	NA	NA
Central Administration								
Total revenue	76,335	146,093	217,998	308,576	82,232	145,378	184,757	183,752
Total expenditure	59,241	133,309	206,143	301,839	63,929	131,534	178,899	169,646
Autonomous Communities								
Total revenue	62,186	135,260	214,384	304,577	65,535	142,915	179,396	NA
Total expenditure	62,783	134,883	201,711	295,849	68,071	143,521	174,193	NA
Local Entities								
Total revenue	19,755	42,867	64,469	88,329	19,967	42,479	NA	NA
Total expenditure	14,083	35,046	52,565	81,979	14,104	35,146	NA	NA
Social Security								
Total revenue	38,043	82,020	121,978	170,525	39,716	86,520	103,167	NA
Total expenditure	35,670	72,661	120,310	169,683	36,516	74,794	97,610	NA

* The 2017 quarterly data are the ones submitted within the second EDP notification at the end of September 2018

Tables A. 9: Execution in national accounts basis for the whole of the General Government and its sub-sectors.

Table A.9.1 Quarterly execution in national accounts for General Government

Million € (accumulated)	ESA Code	2017				2018			
		Q1	Q2	Q3	Q4	Q1	Q2	July (2+3+5)	August State
Net lending (+) / borrowing (-) by subsector (6-7)									
1. General Government	S.13	-5,327	-25,759	-18,283	-35,903	-4,230	-21,947	NA	NA
2. Central Administration	S.1311	-5,144	-12,559	-17,715	-22,036	-5,592	-9,888	-19,461	-18,895
3. Autonomous Communities	S.1312	-2,352	-8,678	481	-4,231	-1,273	-7,133	681,000	NA
4. Local Entities	S.1313	636	1,446	5,536	7,139	652	665	NA	NA
5. Social Security	S.1314	1,533	-5,968	-6,585	-16,775	1,983	-5,591	-3,787	NA
General Government									
6. Total revenue		**102,646**	**207,349**	**322,750**	**442,223**	**107,915**	**219,728**	**240,933**	**123,522**
of which									
Taxes on production and imports	D.2	36,672	70,553	104,150	135,242	38,595	74,588	69,089	64,246
Current taxes on income, wealth, etc.	D.5	22,779	47,221	83,108	118,616	24,850	51,144	62,187	41,570
Capital taxes	D.91	1,441	2,843	4,220	5,743	1,346	2,794	1,782	111
Social contributions	D.61	34,932	70,794	106,465	143,056	36,403	74,191	86,631	4,839
Property income	D.4	1,461	2,917	3,855	7,244	1,469	3,480	3,605	4,532
Other		5,361	13,021	20,952	32,322	5,252	13,531	17,639	8,224
7. Total expenditure		**107,973**	**233,108**	**341,033**	**478,126**	**112,145**	**241,675**	**263,500**	**142,417**
of which									
Compensation of employees	D.1	27,438	60,137	88,488	123,045	27,865	61,219	58,158	11,555
Intermediate consumption	P.2	14,650	29,104	42,594	58,817	14,672	29,566	22,480	3,066
Social transfers	D.62, D.632	45,479	102,502	148,823	207,725	46,900	105,392	122,037	11,177
Interests	D.41	7,165	15,031	22,112	29,817	6,871	14,716	17,130	17,641
Subsidies	D.3	2,137	5,034	7,818	12,088	2,332	5,201	5,436	2,924
Gross Fixed capital formation	D.51	5,288	11,026	16,766	23,019	6,760	14,047	12,441	4,610
Capital transfers	D.9	1,645	2,466	3,249	6,863	1,921	3,110	3,695	1,520
Other		4,171	7,808	11,183	16,752	4,824	8,424	22,123	89,924
8. Gross debt		**1,126,273**	**1,135,138**	**1,133,377**	**1,144,425**	**1,160,736**	**1,163,885**	**NA**	**1,020,664**

Table A.9.2 Central Administration

Million € (accumulated)	ESA Code	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 July	2018 August (State)
Net lending (+) / borrowing (-) by subsector (6-7)									
1. General Government	S.13								
2. Central Administration	S.1311	-5,144	-12,559	-17,715	-22,036	-5,592	-9,888	-19,461	-18,895
3. Autonomous Communities	S.1312								
4. Local Entities	S.1313								
5. Social Security	S.1314								
Central Administration									
6. Total revenue		**45,178**	**91,062**	**141,508**	**196,151**	**48,561**	**98,693**	**115,845**	**123,522**
of which									
Taxes on production and imports	D.2	27,335	51,092	74,418	94,052	28,932	54,296	60,484	64,246
Current taxes on income, wealth, etc.	D.5	11,326	25,060	43,533	66,615	13,081	28,311	34,779	41,570
Capital taxes	D.91	263	301	332	368	270	310	323	111
Social contributions	D.61	2,198	5,026	7,218	10,085	2,176	4,993	5,729	4,839
Property income	D.4	1,514	3,006	3,993	7,280	1,551	3,657	4,036	4,532
Other		2,542	6,577	12,014	17,751	2,551	7,126	10,494	8,224
7. Total expenditure		**50,322**	**103,621**	**159,223**	**218,187**	**54,153**	**108,581**	**135,306**	**142,417**
of which									
Compensation of employees	D.1	5,072	11,301	16,428	23,200	5,119	11,401	13,261	11,555
Intermediate consumption	P.2	2,121	4,247	6,257	8,609	2,131	4,259	5,016	3,066
Social transfers	D.62, D.632	3,881	9,746	13,867	19,488	4,074	10,130	11,722	11,177
Interests	D.41	6,363	13,439	19,700	26,461	6,065	13,057	15,517	17,641
Subsidies	D.3	833	2,384	3,659	5,536	1,112	2,484	2,962	2,924
Gross Fixed capital formation	D.51	1,567	3,236	5,021	7,085	2,751	5,574	6,265	4,610
Capital transfers	D.9	1,494	1,967	2,364	5,391	1,742	2,475	2,645	1,520
Other		28,991	57,301	91,927	122,417	31,159	59,201	77,918	89,924
8. Gross debt		**986,600**	**994,860**	**998,757**	**1,010,779**	**1,027,582**	**1,032,903**	**NA**	**1,020,664**

Table A.9.3 Autonomous Communities

Millones € (acumulado)	Código ESA	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 July
Net lending (+) / borrowing (-) by subsector (6-7)								
1. General Government	S.13							
2. Central Administration	S.1311							
3. Autonomous Communities	S.1312	-2,352	-8,678	481	-4,231	-1,273	-7,133	681
4. Local Entities	S.1313							
5. Social Security	S.1314							
Autonomous Communities								
6. Total revenue		**35,850**	**72,856**	**123,199**	**169,153**	**37,876**	**77,072**	**101,616**
of which								
Taxes on production and imports	D.2	3,326	6,814	10,576	14,790	3,544	7,421	8,605
Current taxes on income, wealth, etc.	D.5	9,439	18,745	32,834	42,927	9,587	19,147	27,408
Capital taxes	D.91	534	1,149	1,821	2,458	528	1,228	1,459
Social contributions	D.61	64	134	198	295	66	144	169
Property income	D.4	64	173	273	510	72	185	225
Other		22,423	45,841	77,497	108,173	24,079	48,947	63,750
7. Total expenditure		**38,202**	**81,534**	**122,718**	**173,384**	**39,149**	**84,205**	**100,935**
of which								
Compensation of employees	D.1	16,665	36,468	53,896	74,848	16,945	37,237	43,505
Intermediate consumption	P.2	7,175	14,146	20,701	28,212	7,090	14,392	16,851
Social transfers	D.62, D.632	7,042	14,838	22,239	31,406	7,322	15,343	18,060
Interests	D.41	1,064	2,104	3,171	4,354	1,031	2,146	2,471
Subsidies	D.3	496	1,099	1,743	3,018	414	1,042	1,207
Gross Fixed capital formation	D.51	2,382	4,991	7,480	10,196	2,510	5,228	6,092
Capital transfers	D.9	211	891	1,425	3,837	213	1,060	1,397
Other		3,167	6,997	12,063	17,513	3,624	7,757	11,352
8. Gross debt		**279,356**	**285,903**	**284,393**	**288,107**	**289,678**	**293,246**	**NA**

Table A.9.4 Local Entities

Million € (accumulated)	ESA Code	2017				2018	
		Q1	Q2	Q3	Q4	Q1	Q2
Net lending (+) / borrowing (-) by subsector (6-7)							
1. General Government	S.13						
2. Central Administration	S.1311						
3. Autonomous Communities	S.1312						
4. Local Entities	S.1313	636	1,446	5,536	7,139	652	665
5. Social Security	S.1314						
Local Entities							
6. Total revenue		**15,979**	**33,185**	**52,693**	**75,039**	**16,337**	**33,760**
of which							
Taxes on production and imports	D.2	6,011	12,647	19,156	26,400	6,119	12,871
Current taxes on income, wealth, etc.	D.5	2,014	3,416	6,741	9,074	2,182	3,686
Capital taxes	D.91	644	1,393	2,067	2,917	548	1,256
Social contributions	D.61	51	122	186	266	55	117
Property income	D.4	101	207	335	464	108	228
Other		7,158	15,400	24,208	35,918	7,325	15,602
7. Total expenditure		**15,343**	**31,739**	**47,157**	**67,900**	**15,685**	**33,095**
of which							
Compensation of employees	D.1	5,157	11,154	16,377	22,486	5,258	11,370
Intermediate consumption	P.2	5,093	10,196	14,875	20,958	5,195	10,394
Social transfers	D.62, D.632	308	644	965	1,328	311	645
Interests	D.41	158	315	472	628	144	279
Subsidies	D.3	373	652	935	1,355	337	625
Gross Fixed capital formation	D.51	1,296	2,721	4,148	5,590	1,462	3,175
Capital transfers	D.9	131	295	489	927	93	314
Other		2,827	5,762	8,896	14,628	2,885	6,293
8. Gross debt		**31,710**	**32,429**	**30,550**	**29,077**	**28,993**	**29,413**

Table A.9.5 Social Security

Million € (accumulated)	ESA Code	2017				2018		
		Q1	Q2	Q3	Q4	Q1	Q2	July
Net lending (+) / borrowing (-) by subsector (6-7)								
1. General Government	S.13							
2. Central Administration	S.1311							
3. Autonomous Communities	S.1312							
4. Local Entities	S.1313							
5. Social Security	S.1314	1,533	-5,968	-6,585	-16,775	1,983	-5,591	-3,787
Social Security								
6. Total revenue		**37,425**	**74,746**	**111,367**	**148,418**	**38,851**	**77,379**	**92,829**
of which								
Taxes on production and imports	D.2							
Current taxes on income, wealth, etc.	D.5							
Capital taxes	D.91							
Social contributions	D.61	32,619	65,512	98,863	132,410	34,106	68,937	80,733
Property income	D.4	202	358	485	616	107	176	202
Other		4,604	8,876	12,019	15,392	4,638	8,266	11,894
7. Total expenditure		**35,892**	**80,714**	**117,952**	**165,193**	**36,868**	**82,970**	**96,616**
of which								
Compensation of employees	D.1	544	1,214	1,787	2,511	543	1,211	1,392
Intermediate consumption	P.2	261	515	761	1,038	256	521	613
Social transfers	D.62, D.632	34,248	77,274	111,752	155,503	35,193	79,274	92,255
Interests	D.41							
Subsidies	D.3	435	899	1,481	2,179	469	1,050	1,267
Gross Fixed capital formation	D.51	43	78	117	148	37	70	84
Capital transfers	D.9				3			
Other		361	734	2,054	3,811	370	844	1,005
8. Gross debt		**17,173**	**17,173**	**23,187**	**27,393**	**27,363**	**34,888**	**NA**