



SPANISH REFORM MONITOR

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FOREWORD



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The fourth release of the Spanish Economy Reform Monitor, 2015-Q2, marks the completion of our first cycle of assessments of the Spanish economic policy reforms by our panel of experts.

Aggregating policy areas on the whole, the general opinion of our experts remains basically stable on average in the three fronts we look at: the current performance of the Spanish economy (4.4 out of 10); the adequacy of economic policy goals set up by the Spanish Government (4.7) and the actual progress achieved by the reforms (3.9). The first grade coincides with that of the previous Monitor and the other two are up by 0.1. In terms of individual policy sub-areas, there are no significant departures from the previous release, except for a very noticeable improvement in our experts' assessment of the financial sector's reform policies, which is upgraded from 5.3 in the previous Monitor to 6 in the current one. It is remarkable that our experts believe that what has changed in this field is not the orientation of the Government's policy, but rather the actual performance and delivery of the reforms that had been adopted months, or even years ago. On the other hand, the panel has downgraded the score for the Government's reformism in competition and regulation, both in terms of goals and progress.

These opinions about the Spanish economy and the reform momentum may shed some light about the current economic and political juncture the country is going through. The regional and local elections held in May have led to a more diverse and fragmented composition of the representative bodies (city councils and regional parliaments). Public opinion polls point to a similar scenario for the country's parliament, which will be renewed in November. The central question is then whether and how economic policy reforms will be affected once the new government is in office. Obviously this depends on the election outcome but we believe that the Spanish Reforms project can contribute with some observations.

First, it is of the essence that the new government takes decisive action in four policy subareas where the reform progress so far has been specially poor (i.e. with a score lower than 3 according to our panel of experts): R&D and the knowledge economy, reform of the public administration, active labour market policies and the professional services sector. Second, a lesson we may extract from the past is that structural reforms in general need time to deliver the appropriate outcomes. Therefore, a certain minimal political consensus is needed in particularly sensitive issues to ensure regulatory and institutional stability. It appears that there has been this consensus regarding the reform of the financial sector, and probably the next areas where such political goodwill is more necessary are the education system and the welfare state.

Finally, it is with great pleasure that we acknowledge that Juan José Dolado, one of the experts of our panel, has been recently awarded the Prize "Rey Jaime I de Economía". We congratulate Professor Dolado for this so well-deserved prize and thank him, and all members of our panel of experts, for their contribution to the Spanish Reform project.

REFORM MONITOR

SPANISH REFORMS

The Reform Monitor is part of the SpanishReforms project, an academic, non-governmental website that aims at being a useful reference for those interested in independent, rigorous and up-to-date information about the Spanish economy and its economic policy reforms.

SpanishReforms intends to foster transparency in policy formulation, to serve as a tool for the evaluation of the reforms enacted in Spain and, ultimately, to help to transform the Spanish economy into a more competitive and growth-friendly one.

SpanishReforms is an initiative of the Public-Private Sector Research Center (PPSRC) at IESE Business School and it has as partners Fincas, which provides financial support; everis, the technological partner, and ESCI-UPF which provides editorial assistance.

Xavier Vives is the academic director of the PPSRC and Ramon Xifré coordinates the SpanishReforms project.

THE REFORM MONITOR

The Reform Monitor quantitatively evaluates three dimensions of the Spanish economy and its much-needed policy reforms: the performance of the Spanish economy; the adequacy of the policy goals set by the Spanish Government; and the actual progress achieved by the reform agenda that has been finally adopted.

These three dimensions are covered for six broad economic policy areas: growth and competitiveness, competition and regulation, the labour market, the financial system, fiscal policy and the public administration, and the welfare state. These six areas, regarding policy goals and progress, are in turn further developed in 18 policy subareas.

To produce the Monitor, PPSRC-IESE experts have been joined by some of the most prominent Spanish economists that collaborate with the project. All experts set scores for all dimensions and areas independently and the only quantitative information we report is the expert average score. In addition to these numerical evaluations, experts provide a brief comment on the Government's reform agenda in the policy area of their expertise.

In the current issue of the Reform Monitor the panel of experts is formed by:

PPSRC – IESE experts:

Alfredo Pastor, Xavier Vives, Antonio Argandoña, Núria Mas, Lluís Torrens, Ramon Xifré.

External experts:

Antonio Cabrales, Santiago Carbó, Javier Andrés, Sergi Jiménez.

As a part of our commitment to independence and plurality, we plan to gradually perform a partial replacement of experts. In the past, the following experts have contributed to the Monitor: Luis Garicano, Juan José Dolado, José Manuel Campa and Javier Díaz-Gimenez.

Both the Reform Monitor and the experts' comments are released twice yearly.

The Spanish Economy Reform Monitor, 2015-Q2

Assessing current economic performance and monitoring policy reform in Spain

Questions

- (1) What is your assessment of the performance of the Spanish economy in this area?
- (2) Are the economic policy targets set by the Spanish Government in this area adequate and in consonance with international best-practices? N. B. Absence of commitment by the Government is to be negatively assessed.
- (3) Is the economic reform agenda currently implemented by the Government in this area progressing as expected and likely to deliver adequate results?

Reported scores correspond to the average of the expert panel

All scores are in the scale 0 (bad) - 10 (good)

	Spanish economy performance	Spanish Government economic policy	
	(1)	GOALS (2)	PROGRESS (3)
1. GROWTH AND COMPETITIVENESS	4,2 =	4,2 =	3,2 =
1.1 R+D and the knowledge society		3,1 =	2,4 ▲
1.2 Internationalization		4,9 ▼	3,8 ▼
1.3 Entrepreneurship		4,6 ▼	3,4 =
1.4 Education		4,2 ▲	3,3 =
2. COMPETITION AND REGULATION	3,8 ▼	4,2 =	3,0 =
2.1 Competition enforcement		4,2 =	3,1 =
2.2 Regulation of product and service markets		4,3 =	3,2 ▼
2.3 Red tape and business environment regulation		4,5 =	3,1 =
2.4 Professional services		4,0 ▼	2,8 =
3. LABOR MARKET	4,0 ▲	4,4 ▲	3,5 ▲
3.1 Labor market regulations		5,4 ▲	4,2 =
3.2 Active labor market policies		3,4 ▲	2,8 ▲
4. FINANCIAL SYSTEM	5,9 =	6,2 ▲	6,0 ▲
4.1 Recapitalization and restructuring		6,9 =	6,8 ▲
4.2 Other financial measures*		5,5 ▲	5,1 ▲
5. FISCAL POLICY AND PUBLIC ADMINISTRATION	3,9 =	4,5 =	3,7 =
5.1 Economic governance**		5,1 ▲	4,2 ▲
5.2 Fiscal consolidation and fiscal reform		4,9 ▼	4,3 ▼
5.3 Reform of the Public Administration		3,5 =	2,5 ▼
6. WELFARE STATE	4,7 =	4,7 =	4,0 =
6.1 Social Security and pensions		6,2 =	5,5 =
6.2 Health system		4,5 ▲	3,7 =
6.3 Other welfare state reforms ***		3,5 =	2,9 ▲

Average scores

4,4 =

4,7 =

3,9 =

5

28%

3

17%

Policy areas with average score equal or above 5

Legend

		7 - 10
		5 - 6,9
		3 - 4,9
		0 - 2,9

Variation from previous Monitor

	> 0,2
	[-0,2; 0,2]
	< -0,2

* It includes reforms related to non-bank intermediation, government arrears and SME's access to finance.

** It includes measures to enhance transparency, independence or enforcement of public institutions.

*** It includes reforms related to poverty relief, child and family support and assistance for people with disability.

1. GROWTH AND COMPETITIVENESS



ANTONIO CABRALES

Professor, Department of Economics, University College London

Professor, Department of Economics, Universidad Carlos III de Madrid (currently on leave)

"The only change in the public R&D scenario that I perceive from the previous bulletins falls in the farcical division. The program for general R&D projects for this year contained a rule which outlined that certain mistakes in the documentation could not be amended. One of those was the length of the CV. So if a researcher presented a CV one line longer than the 4 pages allowed for the purpose, the whole project was deemed unsuitable, without any possibility of amendment. I am told that this rule is of doubtful legality, but more importantly, given the scarcity of funds we have discussed in previous instalments of this report, the discarding of dozens of potentially first-rate projects on the basis of such nonsensical regulation would be almost funny if the situation of science in Spain was not already tragic.

The other novelty on university is the Royal Decree 43/2015, modifying the one from 1312/2007. The main change is that BSc degrees can now have between 180 and 240 ECTS credits, rather than the required 240. It is very disappointing that of all the important reforms needed at the Spanish university, the only one that has been achieved by this parliament, ruled with a party enjoying an absolute majority, is this very small modification, which is unlikely to produce major variations in the quality of the training of our students, or in the science done on the campuses. It is also extremely disappointing that the public debate on this issue has been so shallow and politicized. Given the likely fragmentation of the next parliament, one cannot avoid but feel that future reforms can only come about now from inside particularly enlightened universities."



ALFREDO PASTOR

Professor of Economics, Department of Economics, IESE Business School

Banco Sabadell Chair of Emerging Markets

"Growth has resumed: the cycle seems to have turned. Growth has been led by domestic demand, especially in household consumption, due to lower savings and not higher incomes, although real wages are set to rise.

Since the public deficit target has not been met in spite of some efforts made to raise tax revenue and curb public spending, further cuts in healthcare and education are likely. Reforms, as distinct from cuts, are few; and the battle in healthcare between the public and the private, as old as it is misplaced, is threatening the loss of service quality.

Labor market reforms have not been resumed; stimulating greater competition in product and service markets is necessary; so is administrative simplification, in which no progress seems to have been made."

2. REGULATION AND COMPETITION



RAMON XIFRÉ

Associate Professor of Economics, ESCI – Universitat Pompeu Fabra

"The main issue in the competition and regulation policy arena has been the Government's disappointing withdrawal from the projected reform of professional services.

There have been multiple calls from international institutions to reform the professional services regulations in Spain (most notably, the IMF and the European Commission). These recommendations in general agree on the direction of the change: the number of professions that require compulsory registration requirements should be reduced and the transparency and accountability of professional bodies should improve with the overarching goal of opening up unjustifiably reserved activities in Spain. According to the Spanish government, this sector of activity concentrates 30% of graduate employment in Spain.

The Spanish government released a draft reform of the professional services law in August 2013 and since then, there had been no progress. Finally in February 2015, the Ministry of Economy and Competitiveness announced that the project for the reform had been postponed sine die. The alleged reason to freeze this reform was to align the Spanish policy changes with the EU revision of the corresponding directive. However, the issue of the professional services is politically very tricky. It is likely that the delay is in part due to the pressures and lobbying efforts that various interest groups potentially affected by the new regulations (engineers of various fields –in some cases with conflicts between fields–, architects, lawyers, pharmacists, etc.) have exerted against the reform.

To aggravate the issue, the performance of the previous Spanish government, of a different political orientation, was similar in that it tried but did not succeed in the approval of this reform.

In addition to this, the CNMC (the Spanish competition authority and macro-regulator) issued a report in April recommending changes in the way AENA (the airports management authority) computes the airport fees. This is the consequence of a change in the regulation, moving from "single till" to "dual till" accounting, that has forced AENA to differentiate between two types of costs when setting airport fees: those related to airport activities and those related to retail activities held in airports. The CNMC considers that AENA is currently underestimating the latter ones and urges the airport authority to fully account for the costs associated to retail activities. In order to do so, the CNMC proposes an econometric model that relies on the relationship between retail activity and passenger volume in airports".

3. LABOUR MARKET



ANTONIO ARGANDOÑA

*Emeritus Professor of Economics and Business Ethics, IESE Business School
"La Caixa" Chair of Corporate Social Responsibility and Corporate Governance*

"In the final months of 2014 and early 2015, the process of employment creation has continued apace, supported by the reforms carried out in 2012 and, in the short term, by the growth of the aggregate demand based on the consolidation of employment and income of the households, an increase in consumption and investment, cautious optimism in business, reduced oil prices, depreciation of the euro and an abundance of liquidity promoted by the European Central Bank.

There have been no significant reforms in the Spanish labor market. The government has placed greater emphasis on the fight against irregular employment and social security fraud, including the proposal of a new model of Labor and Social Security Inspection. It has also been working on a reform of a system of Vocational Training for Employment, which seeks to develop the right of workers to vocational training. The Congress has approved a Program for Employment Activation, which includes some timid steps to facilitate the return to work of long-term unemployed with family responsibilities. And the reduction of the number of working days required for entitlement to agricultural unemployment insurance in Andalusia and Extremadura was approved in February, representing a decrease in the efficiency of the protection system of unemployment and the mobility of labor."

4. FINANCIAL SYSTEM



SANTIAGO CARBÓ

Professor of Economics and Finance, Bangor Business School

"The situation and prospects of the Spanish financial system have improved towards the end of 2014 and at the beginning of 2015. Overall, the funding costs for both the public and the private sector have significantly improved with the risk premium back at around 100 basis points. As for the restructuring and recapitalization process, most Spanish banks have strengthened their solvency and have even envisioned or undertaken international acquisitions and other related corporate movements. These are all symptoms of a substantially improved investors' confidence in the Spanish financial sector. This confidence was also reinforced by the relatively good results achieved by the Spanish banks in the comprehensive assessment conducted by the European Central Bank and the European Banking Authority towards the end of 2014.

There are, however, remaining duties attached to some of the reforms already undertaken with the privatization of nationalized banks still representing a major task. There are also challenges ahead for the asset management company Sareb. Efforts have been undertaken to make a bad debt provision for troubled assets as well as to pay back debt, and 2015 is expected to be a year in which Sareb can obtain a net positive profit.

Other important aims that are being pursued on the reform side are those related to the reduction of the debt burden of the private sector. Among them, it is worthwhile mentioning the "Law on second chance mechanisms and the reduction in the financial burden, and other measures of a social order". The main objective is to help normalize the situation of the firms and individuals that have fallen into excessive debt with a system that resolves the insolvency of individuals as quickly as possible."

5. FISCAL POLICY AND PUBLIC ADMINISTRATION



JAVIER ANDRÉS

Professor of Economics, Universidad de Valencia

"The public sector has achieved most of its objectives for 2014. The public deficit has closed at 5.7 per cent of GDP, close to the target. Both the central and local governments have reduced their deficits, while regional governments have again deviated from their target.

Although some uncertainties remain for this year -mostly on the geopolitical front, but also those related to the upcoming electoral processes- there are reasons to believe that the deficit target for 2015 (4.2 per cent of GDP) might also be reached. The Eurozone is showing signs of an incipient recovery amid the new monetary strategy of the ECB and the depreciation of the euro. This, along with the continuous moderation of oil prices, might help to put the Spanish economy on track for a faster than expected growth.

On the negative side, the level of public indebtedness is still very high and is expected to keep on rising in the coming months. Although very low financial costs are giving some respite to the budget, a debt-to-GDP ratio around 100 per cent puts the Spanish public finances in an uncomfortable zone, should the financial climate get worse. The deficit reduction is mostly driven by the improving economic environment, rather than by sustained consolidation efforts. These, as well as further structural reforms, will still be necessary as the economy recovers."

6. WELFARE STATE



SERGI JIMÉNEZ

*Associate Professor, Department of Economics, Universitat Pompeu Fabra
Director of LaCaixa-FEDEA Chair on Health Economics at FEDEA*

"As regards Social Security, the assessment of the first quarter of 2015 is somewhat optimistic in the short run (in the long run, nothing has changed yet). The Social Security roll and also the Social Security contributions keep growing (fueled in the last month by the QE). However, the implied gains are still modest and do not fully compensate for the sustained growth of pension expenditures. More importantly, without a new wave of immigrants, the long term perspectives of Social Security balances are not good.

The recent months have confirmed a mild fiscal expansion (propelled by the continuous sequence that we face in 2015 and, in the last month, by the QE) which, at least, has prevented further deterioration of social spending. However, the current situation is not good at all, as the deterioration of the quality (as well as quantity) of services is (almost surely) going to have (some) permanent effect on individual health status. In the case of long term care, waiting times and access restrictions to services are simply unacceptable. It will take a long time to bring back the dependency system to normality."



NÚRIA MAS

Associate Professor of Economics, IESE Business School

"With Spain on the road to recovery, unemployment is decreasing, but it still remains at very high levels (23.2%) and the IMF estimates it to still be at 18% by 2019. Out of those, it is estimated that about 2.4m have been out of work for more than 2 years. Long-term unemployed find it harder to find another job and some of them become discouraged and end up leaving the labor market for life. The Spanish government has presented a benefit package of €426 for some of these workers in exchange for them joining a program to reintegrate long-term unemployed into the labor market. However, Spain is still lacking effective active policies to tackle this serious problem.

Regarding health policies, the Spanish government has unveiled a program to curb pharmaceutical spending by limiting its increase to the national GDP Growth. This is yet again another measure focused on cost containment but it does not take into account the key question of providing measures to foster a value-based health care system."

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An initiative of

The Public-Private Sector Research Center at IESE Business School.



The PPSRC at IESE was created in October of 2001 with the mission to foster cooperation between the private sector and public administrations as well as the exchange of ideas and initiatives, through dialogue, research and education. The aim is to open a way of cooperation and exchange of ideas and initiatives. In 2010, the PPSRC developed a Decalogue of reforms to be undertaken by the Spanish Government and this website continues on with the Decalogue.

Partners





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