SPANISH REFORMS POLICY BRIEF

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Spain's response to EC and OECD economic policy recommendations

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This analysis overviews the relative progress of Spain in enforcing the economic policy recommendations issued by the European Commission (EC) and the OECD. To start with, the overall reformist progress of the Spanish Government is put in international perspective. Subsequently, the analysis compares progress in Spain across different policy dimensions. Finally, it describes how the OECD and EC reform priorities have changed over time since 2012. This work is part of the SpanishReforms project, whose objective is to regularly monitor the progress of Spain in making economic policy reforms. Accordingly, the overview is made following the classification of economic policy in six broad areas and 18 subareas.

1. INTERNATIONAL INSTITUTIONS RANK SPAIN AS A TOP OVERALL REFORMER

Measuring economic reform progress is not a straightforward procedure as recommendations vary depending on the international organization. Even when agreeing on the same benchmark, such as the Country Specific Recommendations (CSR) for EU member states, assessments may also fluctuate depending on the categorization of these recommendations in economic policy areas, the sources for conducting the analysis or the countries considered. For example, according to the European Parliament (2014), 35% of the 2011 CSR for Spain were fully implemented whereas 26% of the reforms were still under some progress and partially implemented. In 2012, partial implementation –respect to CSR 2012- increased up to 52%, placing Spain as the leader economic reformer in Europe[2]. However, the European Parliament (2013a) was more optimistic about Spanish status of implementation of 2012 CSR but placed Spain as the top sixth European reformer.

[2] *The ranking is the sum of measures considered "fully implemented" and those with "some progress and partial implementation".*

Table 1 summarizes the main assessments of Spain's reform effort and it compares them to Europe. ECFIN (European Commission 2014d) does not provide a detailed assessment of status on the implementation of reforms but a synthetic indicator of progress by country. Following ECFIN, the SpanishReform Monitor also constructs a synthetic indicator to measure Spain's progress in structural reform

Table 1. Progress on economic reforms with respect to recommendations issued between 2011 and 2014

	Status on implementation of reforms	Recommendations issued in: 2011 Fully implemented	2011 Some progress and partial implementation	2011 Ranking	2012 Fully implemented	2012 Some progress and partial implementation	2012 Ranking	2013 Fully implemented	2013 Some progress and partial implementation	2013 Ranking	2014 Synthetic indicator of progress Q1	2014 Synthetic indicator of progress Q3
According to	**European Parliament (September 2013)**				ESP - 56% EU - 35%	ESP - 41% EU - 54%	# 6º					
According to	**European Parliament (October 2013)**								EU - 15%			
According to	**European Parliament (March 2014)**	ESP - 35% EU - 20%	ESP -26% EU - 35%	# 8º	ESP - 35% EU - 16%	ESP - 52% EU - 42%	# 1º					
According to	**European Commission (June 2014)**							ESP - 8%	ESP -74%			
According to	**Sven Giegold (Member of EU Parliament) (July 2014)**				ESP - 0% EU - 3%	ESP - 75% EU - 43%	# 12º	ESP - 12% EU - 1%	ESP - 89% EU - 55%	# 1º		
According to	**OECD (September 2014)**				ESP - 29%	ESP -67%	# 3º					
According to	**ECFIN (October 2014)**	EU - 6%	EU - 83%		EU - 10%	EU - 58%	* It includes 2012 and 2013 CSR					
According to	**ECFIN (October 2014)**				Synthetic indicator of progress ESP ~ 44% (Some progress) EU - 43% (Some progress)		# 11º	Synthetic indicator of progress ESP ~ 60% (Some progress) EU - 40% (Some progress)		# 2º		
According to	**SpanishReform Monitor (October 2014)**				ESP - 40%						ESP - 43%	ESP - 43%

(TABLE 1)

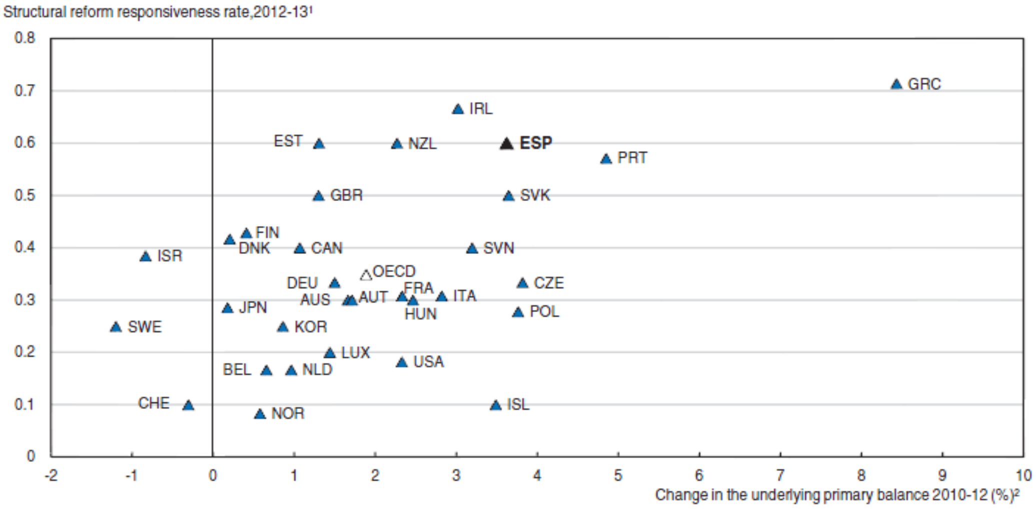
** * European Commission, European Parliament or OECD do not follow the same criteria to assess progress on economic reform. Annex 1 provides the table that allow comparing the criteria used by different organizations and a detailed description of the methodology. ECFIN and SpanishReform Monitor use a synthetic indicator to measure progress on implementation of economic reforms.*

From 2012, reform implementation in Spain took traction and reached top positions among European and OECD reformers. Nevertheless, some studies and the synthetic indicator show that Europe may be experiencing some reform fatigue as reforms advance at a slower pace. This may be due to the extent that reforms takes places, subsequent policy action may be more difficult to get fully implemented. For instance, OECD recommends further reduce compensation for unjustified dismissal and if the reform does not prove to be effective, to adopt a single contract -which politically may be less feasible to be adopted-. Some evidence (European Commission 2014d) also suggests that the electoral cycle and the end of enforcement programmes may alleviate pressure on countries to reform.

Several studies in Table 1 exclude countries under adjustment programmes, namely Greece, Ireland, Portugal and Romania (see Annex 1). A new report on market reforms (European Commission, 2014a) includes these countries and recognizes Spain's ambitious structural reform agenda. It suggests that there are clear signs that the large restructuring process in Spain is starting to pay off, in contrast to Greece or Italy.

The OECD agrees with the European institutions in acknowledging Spain's initiative to tackle economic reforms. It holds periodic surveys about major challenges faced by each country, evaluates the short-term outlook, and makes its own specific policy recommendations. The OECD analysis generally allows the country performance in relative terms to other OECD members to be compared.

Figure 1. Fiscal consolidation and structural reform efforts



Source; OECD (2014), Economic Policy Reforms 2014: Going for Growth interim Report and Economic Outlook: Stadistics and Projectiones (database), July.

(FIGURE 1)

1. The reform responsiveness indicator is a measure of the extent to which countries hace followed up on recommendations for structural reforms as given in past Going for Growth reports. It does not aim to assess overall reform intensity per se. The indicator is based on a scoring system in which recommendations set in the prevoius edition of Going for Growth take the value of ine if "significant" action is taken and zero if not. A priority may entail more than one specific recommendation; the scoring is often based on more than one reform opportunity per priority. For more details see OECD (2010), Economic Policy Reforms 2010: Going for Growth.

2. Underlying government primary balance in per cent of potential GDP.

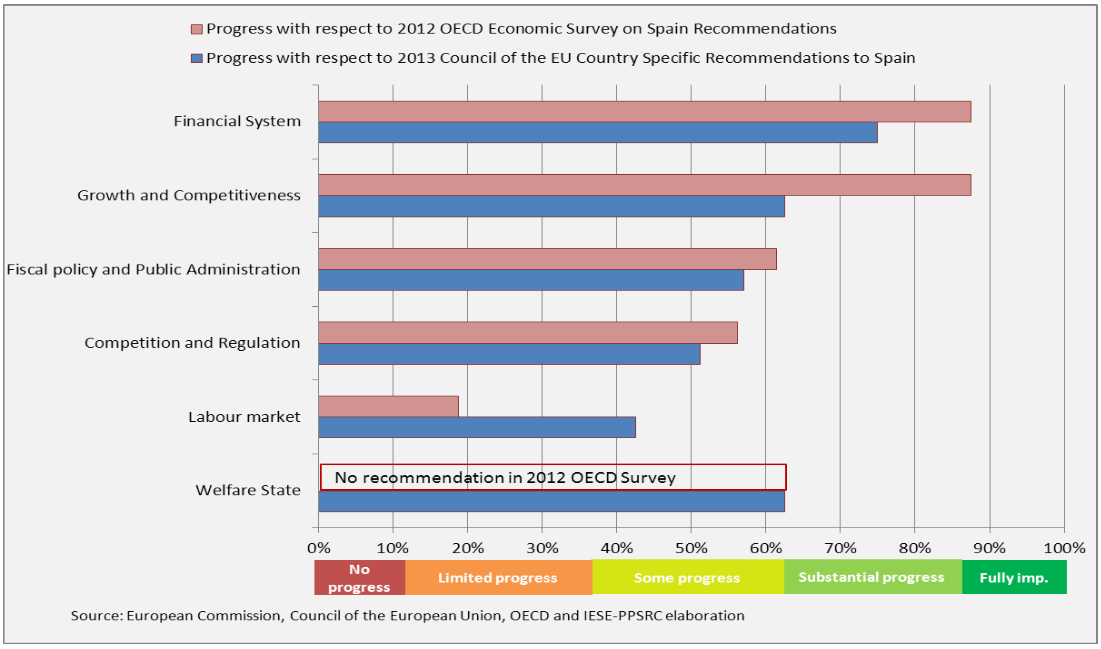
The recently published Economic Survey of Spain analyzes the structural reform responsiveness rate with respect to past OECD recommendations. Figure 1 shows countries' reform efforts with respect to fiscal consolidation, which was, along with the financial system, the main economic concern and target of most international recommendations two years ago. Spain is the third country more closely following past recommendations out of 31 countries, along with New Zealand and Estonia and only after Greece and Ireland (the last two countries were both under Economic Adjustment Programmes).

In general terms and compared to its peers, Spain looks like it is responding to international recommendations. However, there is a high degree of variability depending on the economic policy area. The next section explores these differences and the reasons behind them.

2. SPAIN'S PROGRESS DIFFERS SIGNIFICANTLY ACROSS POLICY AREAS

The SpanishReform project classifies economic policy in 6 broad areas and 18 subareas (see Annex 2 for details). This original classification allows the easy follow-up of international recommendations, evaluating government progress in different economic policy areas and highlighting those which are not delivering. Figure 2 shows the progress of Spain with respect to the recommendations issued in the OECD (2012) and in the Council of the European Union (2013).

Figure 2. European Commission and OECD assessment in 2014 of Spain's implementation of international recommendations



In 2014, the OECD reviewed actions taken by Spanish Authorities[3] and recognized almost "full implementation" of the recommendations in the financial system, thanks to the improvements in recapitalization and restructuring, and in the area of growth and competitiveness, because of addressing main education policy recommendations (it had only issued two in 2012: narrowing criteria to grade advancement and combining vocational education and training contracts). On the contrary, the OECD considered that "limited progress" had been achieved in the labour market with no action taken to further reduce compensation for unjustified dismissal and to abolish legal extension of higher level collective bargaining agreements. Annex 3 provides a detailed description of the specific recommendations and how the subsequent actions taken by the Spanish Government were assessed.

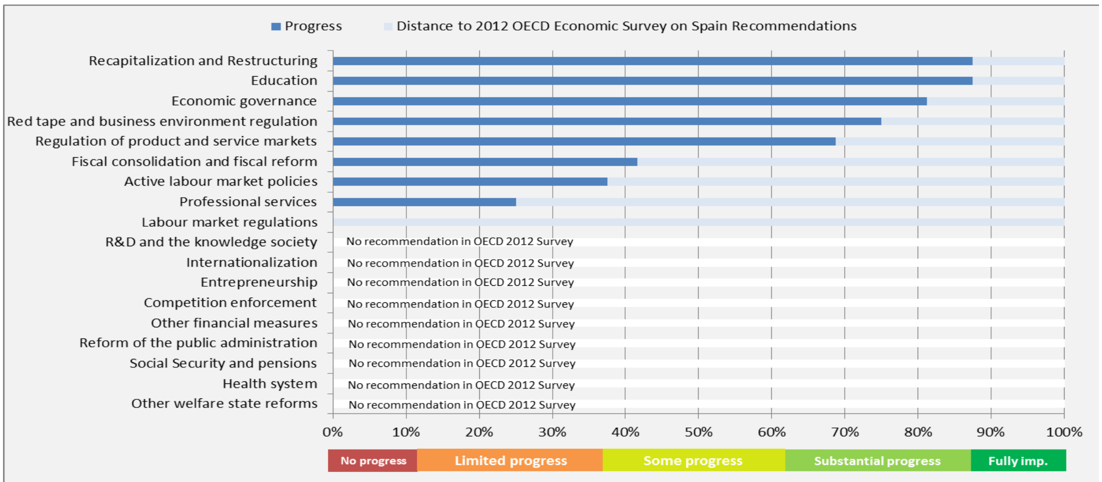
Similarly, the European Commission (EC) annually analyses the country member's macroeconomic imbalances and budgetary and structural policies, and delivers insightful assessments on country progress on structural reforms. In its recent report on Spain (European Commission, 2014c), the EC analysed the progress with respect to recommendations approved by the Council of the EU in 2013. "Substantial progress" is found in the financial system, with recapitalization and restructuring measures being fully adopted, and in the area of growth and competitiveness, mainly regarding internationalization and entrepreneurship. The EC also recognized "some progress" with respect to the welfare state, fiscal policy and the Public Administration, and competition and regulation. Contrary to the OECD's view, it considers that "some progress" has also been achieved in the labour market.

In short, the OECD and the European Commission recognize Spain to have made substantial progress in addressing the financial system reform, mainly in the area of recapitalization and restructuring but also by adopting other financial measures (Figure 3A and 3B provide a detailed evolution of Spain's implementation of economic policy reforms). The main differences between both analyses lies in the year of issuing the recommendations and in the number of recommendations issued and assessed. The OECD reviewed 9 subareas (out of 18) with respect to 2012, whereas the European Commission examined action taken since 2013 in 17 subareas.

[3] Up to July 10th 2014, on recommendations issued in previous 2012 Survey. OECD (2014b) Economic Survey of Spain was published on September 8th 2014.

Figure 3. Assessment of Spain's response to previous international recommendations

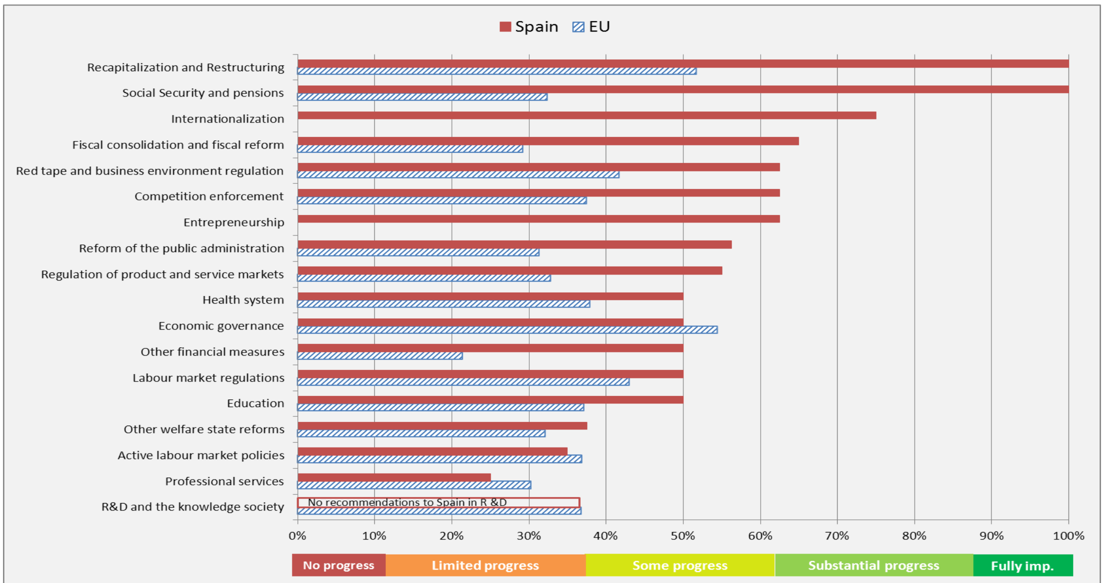
Figure 3A. Progress with respect to OECD recommendations issued in 2012



Source: OECD (2014) Economic Survey on Spain and IESE-PPSRC elaboration

Spain overall reform efforts are remarkable when compared to Europe. However, Figure 3B should be interpreted with caution as data for Spain and for the EU come from different sources and EU data does not include Greece, Ireland, Portugal and Cyprus. Both international organisms point to active labour market policies and professional services as the main structural reforms lagging behind.

Figure 3B. Progress with respect to Country Specific Recommendations issued in 2013



Source: European Commission, Council of the EU and IESE-PPSRC elaboration. See Annex 2 and 3 for a methodological description.

To end this section, Table 2, extracted from European Commission (2014a), provides a series of indicators to evaluate Spain's reform progress in relation to international standards. For instance, Spanish product market regulation (PMR) as measured by the OECD[4] has improved in line with other countries hard-hit by the crisis, namely Italy and Portugal. Improvement in the Spanish business environment may be well related to measures such as the 2012 simplification of licensing for small retail outlets, the Royal Decree to liberalise opening hours and create local touristic zones[5], the plans to open the national rail market for passengers or the new Law on market unity[6]. On the contrary, indicators show that some barriers with respect to entrepreneurship and justice

[4] *The three components of the OECD Product Market Regulation indicators are state control, barriers to trade and investment, and barriers to entrepreneurship.*

[5] *Royal Decree Law 8/2014.*

[6] *Other reforms also include the 2009 Transposition of the Service Directive, the Royal Decree Law 13/2010 on business corporations, Chambers of Commerce and the liberalization of airports and lottery state companies, the 2012 Suppliers' Payment Scheme, the Transposition of the European Late Payment Directive (February 2013), the law on entrepreneurship (approved in July 2013), on corporate refinancing and debt restructuring agreements (Royal Decree Law 4/2011), on bankruptcy (Royal Decree Law 11/2014, 17/2014), and on professional services (to be adopted by the end of 2014).*

administration remain in Spain. Despite recognized reform efforts taken by Spanish Authorities, these may not be sufficient to obtain good indicators since they usually also reflect the state of the macroeconomy and the financial environment; e.g. getting credit or paying taxes. Structural reform efforts may take time to materialize in statistics.

Table 2. Business environment indicators. Country rankings with respect to the EU average

	Year		Greece	Italy	Portugal	Spain
	Before the crisis	Recent	Before the crisis / Recent	Before the crisis / Recent	Before the crisis / Recent	Before the crisis / Recent
DB Dealing with construction permits	2008	2013	↑	↓	↑	↓
DB Enforcing Contracts	2008	2013	↓	↑	↑	↑
DB Getting Credit	2008	2013	↑	→	→	→
DB Paying taxes	2008	2013	↑	↑	↑	↑
DB Protecting investors	2008	2013	↑	→	→	→
DB resolving insolvency	2008	2013	↓	↑	↑	↑
DB Starting a Business	2008	2013	↑	↑	↑	↑
DB Trading Across Borders	2008	2013	↑	↑	↑	↑
FI Business Regulation	2008	2011	↓	↑	↑	↑
WB Regulatory Quality	2008	2012	↓	↓	↓	↓
WEF Goods Markets	2008	2013	↓	↓	↓	↓
IJ Business Late Payments	2008	2013	↓	↓	↑	↓
IJ Public Late Payments	2008	2013	↓	↓	↑	↓
FI Legal Structure and Property Rights	2008	2011	↓	↑	↓	↑
WB Rule of Law	2008	2012	↓	↓	↑	↓
CEPEJ Clearance Rate	2008	2012*	↓	↑	↑	↑
CEPEJ Disposition Time	2008	2012*	↓	↓	↑	↓
MPR State control	2008	2013	↑	↑	↑	↑
PMR Barriers to trade and investment	2008	2013	↑	↑	→	↑
PMR Barriers to entrepreneurship	2008	2013	↑	↑	↑	↑

Source: World Bank and International Finance Corporation Doing Business, World Bank Worldwide Governance Indicators, Product Market Regulation OECD, Fraser Institute, World Economic Forum, Intrum Justitia, CEPEJ. Extracted from Market reforms at Work (2014a) and author's own elaboration.

(TABLE 2)

1. The axis represents the EU average. Colours are assigned as follows: full red bar refers to a value more than one standard deviation below the mean (mean and the standard deviation computed for both years); half red bar to a value between the mean and one standard deviation below the mean; half green bar to a value between the mean and one standard deviation above the mean and full green bar to a value more than a standard deviation above the mean. The table also depicts the evolution (arrows). (*) CEPEJ rate and disposition time are computed for total non-criminal cases. Data for Spain refers to 2010.

3. EUROPEAN COMMISSION AND OECD REFORM PRIORITIES OVER TIME

This section analyzes a complementary issue, i.e. how the EC and the OECD economic reform priorities prescribed to Spain have changed over time since 2012. Initially, the crisis severely hit national public finances and put 26 European countries into the Excessive Deficit Procedure (EDP). Spain was required to adopt appropriate policy responses in February 2009 and, together with 10 more EU countries, has still ongoing EDP. The opening of these procedures shifted fiscal consolidation to the top of the European agenda.

The recapitalization and restructuring of the financial system became the other economic priority when Spain signed the Memorandum of Understanding (MoU) in July 2012. The European Financial Assistance Programme was subject to bank-specific conditionality and horizontal conditionality, the latter mainly related to the fiscal position of Spain. International pressure became very intense and Spain made a commitment to adapt economic policy reforms.

Consequently, in 2012 most of the OECD and EC recommendations for Spain were focused on the financial and fiscal front. Specifically, the OECD in its biannual survey focused 27 out of the 92 recommendations issued on the financial system, mainly in the recapitalization and restructuring of the system (See Figure 4). Measures related to fiscal policy and public administration formed the second most important economic policy area with 19 recommendations. Two years after, the OECD considered the Spanish Government to have progressed with respect to these economic areas and its recommendations shifted towards growth and competitiveness, mainly research and development, and competition and regulation.

Figure 4. Number of recommendations issued to Spain in the main reports of the OECD and the European Commission

Source: OECD Economic Survey for Spain, EC Country Specific Recommendations to Spain and IESE-PPSRC elaboration.

In 2013, the European Commission's main concern was Spain's fiscal consolidation and fiscal reform (this subarea accounted for 21% of all recommendations). In 2014, the number of recommendations about the labour market and growth and competitiveness grew both in absolute and in relative terms, and became, together with competition and regulation reform, priorities in the European agenda.

In sum, despite the disappointing performance of Spain's public finances to accomplish EDP adjustment and debt stabilization (Xifré, 2014), major advances in the financial front (Carbó and Rodriguez, 2014a, 2014b) along with changes in the European policy agenda contributed to shift international focus on economic reforms. The OECD's and EC's initial reform emphasis on the financial and fiscal consolidation eventually moved towards other economic areas such as growth and competitiveness, competition and regulation, and labour market reforms. However, the welfare state is regarded as not being of international concern.

4. CONCLUSIONS

International pressure, the Memorandum of Understanding (MoU) and the Excessive Deficit Procedure (EDP) forced Spain to commit to adopt economic policy reforms, mainly in the financial and the fiscal front. The OECD's and European Commission's assessments show that the reformism of the Spanish Authorities is noteworthy mainly when compared to its European peers. However, several reforms such as those on the active labour market and professional services are lagging behind, whereas other economic areas, where action has already been taken, are far from delivering appropriate results. More efforts are needed to fully follow international economic guidance.

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ANNEX 1

European Parliament (2013a) assessment on progress of CSRs 2012 is based exclusively on the analysis of the Stability and Convergence Programmes (SCPs) and the National Reform Programmes (NRPs). Recommendations are included in 6 distinct policy areas: Fiscal policy; labour market; social policy; market policy; environment; financial market. It uses five broad categories similar, while not identical, to: “No progress”, “Limited progress”, “ Some progress”, “Substantial progress” and “Full compliance”. It excludes Greece, Portugal, Ireland and Romania as no CSRs were issued in 2012. (1)

European Parliament (2013b) “Points out that the Commission has identified a significant degree of progress in comparison with previous years in only 15 % of the around 400 country-specific recommendations.” (2)

European Parliament (2014) assessment on progress of CSRs 2012, CSRs 2011 is based on the analysis of the SCPs, NRPs, OECD, IMF, EC and data from Eurostat and AMECO. Recommendations are included in 3 distinct policy areas: Fiscal policies; MIP policies; Others. It uses three broad categories: “Fully done”, “Serious work in progress” and “not implemented”. It excludes Greece, Portugal, Ireland and Romania as no CSRs were issued in 2011 and 2012. (3)

European Commission (2014c) assessment on progress of the Council of the EU 2013 CSRs to Spain. Data collected by IESE-PPSRC. (4)

Sven Giegold (2014) MEP and Member of the European Parliament’s Committee for economic and monetary affairs. Progress on implementation of CSRs 2013 (based on Commission staff documents from June 2014). It uses five broad categories similar, while not identical, to: “No progress”, “Limited progress”, “ Some progress”, “Substantial progress” and “Full compliance”. It excludes Greece, Portugal, Ireland and Romania as no CSRs were issued in 2011. It excludes Greece, Portugal, Ireland and Romania as no CSRs were issued in 2012. (5)

OECD (2014b) assessment on progress on OECD Survey on Spain 2012. Data collected by IESE-PPSRC. (6)

ECFIN (European Commission 2014d) assessment on progress of CSRs 2013, 2012, CSRs 2011 is based on the analysis of the 2014 European Semester Staff Working Documents. Recommendations are included in 5 distinct policy areas: Public Finances; Financial Sector; Labour market, education and social policies; Structural policies; Public Administration and business environment. It uses 5 broad categories: “No progress”, “Limited progress”, “ Some progress”, “Substantial progress” and “Full compliance”; and three broad categories for 2011: “Fully implemented”, “Partially Implemented”, “No Progress”. It excludes Greece, Portugal, Ireland and Romania as no CSRs were issued in 2011 and 2012. (7)

SpanishReform Monitor: The panel of experts assesses current economic performance and monitors policy reform in Spain. The synthetic indicator of progress is constructed as an average of the three dimensions assessed by the expert panel, namely, (a) the Spanish economy performance, (b) the Spanish Government economic policy goals and (c) the progress of the Spanish Government economic policy. More information in www.spanishreforms.com/reform-monitor. (8)

*Number of recommendations for Spain: (1) 34 in 2012; (3) 23 in 2011 and 31 in 2012; (4) 85 in 2013; (5) 8 in 2012 and 9 in 2013; (6) 92 in 2012. Respect to Europe, (1) identified 438 recommendations in 2012; (2) 400 in 2013; (5) 143 in 2012 and 141 in 2013; (7) 118 in 2011, 138 in 2012 and 141 in 2013; The number of recommendations mainly depends on how detailed is the analysis and the categorization in policy areas.

I use the following table to convert different assessment criteria into 5 broad categories: “No progress”, “Limited progress”, “ Some progress”, “Substantial progress” and “Fully implemented”.

Table 3. Different assessment criteria used in the literature

European Commission (2014c, 2014d)	European Commission (2014d) -on 2011 CSR-	European Parliament (2013a)	European Parliament (2013b)	European Parliament (2014)	OECD (2014b)
Fully implemented	Fully addressed	done		Fully done	OECD provides detailed description of recommendations and action taken. IESE-PPSRC matches with corresponding category.
Substantial progress	Partial implementation	Partiallly implemented	Significant progress	Serious Work	
Some progress		Promised			
Limited progress		Not specified			
No progress	No implementation	Not done		Not done	

ANNEX 2

Economic policy reform classification according to the SpanishReform methodology and European Commission (2014d).

Table 4. SpanishReforms and European Commission's economic policy classification

Spanish Reform		European Commission (2014)
Area	**Subarea**	**Subarea**
GROWTH AND COMPETITIVENESS	R&D and the knowledge society	Research & innovation
	Internationalization	
	Entrepreneurship	
	Education	Education
		Skills & life-long learning
COMPETITION AND REGULATION	Competition enforcement	Competition & regulatory framework
	Regulation of product and service markets	Housing market
		Telecom, postal services & local public services
		Energy, resources & climate change
		Transport
	Red tape and business environment regulation	Business environment
		State-owned enterprises
		Civil justice
		Shadow economy & corruption
	Professional services	Competition in services
LABOUR MARKET	Labour market regulations	Employment protection legislation & framework for labour contracts
		Unemployment benefits
		Wages & wage setting
	Active labour market policies	Active labour market policies
		Incentives to work, job creation, labour market participation
FINANCIAL SYSTEM	Recapitalization and Restructuring	Financial services
		Insolvency framework
	Other financial measures	Access to finance
		Private indebtedness
FISCAL POLICY AND PUBLIC ADMINISTRATION	Economic governance	Fiscal policy & fiscal governance
	Fiscal consolidation and fiscal reform	Taxation
	Reform of the public administration	Public administration
WELFARE STATE	Social Security and pensions	Long-term sustainability of public finances, inc. pensions
	Health system	Health & long-term care
		Childcare
	Other welfare state reforms	Poverty reduction & social inclusion

ANNEX 3

Table 5 collects the recommendations to Spain issued by the Council of the European Union (2013). The European Commission (2014c) pp. 40 – 46 uses the following categories to assess progress in implementing the 2013 CSRs of the Council Recommendation, respectively. No progress (0): The Member State has neither announced nor adopted any measures to address the Country Specific Recommendations (CSR). This category also applies if a Member State has commissioned a study group to evaluate possible measures. Limited progress (1): The Member State has announced some measures to address the CSR, but these measures appear insufficient and/or their adoption/implementation is at risk. Some progress (2): The Member State has announced or adopted measures to address the CSR. These measures are promising, but not all of them have been implemented yet and implementation is not certain in all cases. Substantial progress (3): The Member State has adopted measures, most of which have been implemented. These measures go a long way in addressing the CSR. Fully addressed (4): The Member State has adopted and implemented measures that address the CSR appropriately. The assessment is done by the European Commission and the grades (0-4) are assigned by the IESE-PPSRC to build up the graphs and process the data.

OECD data is extracted from OECD (2014b) Annex pp. 51-53 and collected in Table 6. It includes the description of recommendations issued in the 2012 Survey and the subsequent actions taken by Spanish Authorities. IESE-PPSRC matches this description with the corresponding category following the European Commission classification described above and assigns the corresponding grade. Thanks to the economic policy reform classification provided by SpanishReforms (see Annex 2) and this methodology, we may directly compare economic reform assessments from different sources.

Following the methodology used by the European Commission in the construction of the synthetic indicator, the cardinal numbers in the assessment scales (0-4) were converted into a percentage scale. The correspondence of synthetic indicator values to assessment categories is: No progress (0-12.5%); Limited progress [12.5%, 37.5%); Some progress [37.5%, 62.5%); Substantial progress [62.5%, 87.5%); Fully implemented [87.5%, 100%].

Table 5: Council of the EU recommendations in 2013 and European Commission assessment and grade in 2014

EUROPEAN COMMISSION COUNTRY SPECIFIC RECOMMENDATIONS FOR SPAIN 2014			
Area / Subarea	**Council of the EU Recommendations in 2013**	**European Commission Assessment in 2014**	**EC Grade**
Growth and Competitiveness			**2,5**
1.1. R+D and knowledge society			
1.2. Internationalization	(By the end of 2013, adopt) the Law on Entrepreneurship. Regroup and concentrate support schemes for the internationalisation of firms.	Substantial progess	3
1.3. Entrepreneurship	(By the end of 2013, adopt) the Law on Entrepreneurship. Regroup and concentrate support schemes for the internationalisation of firms.	Substantial progess	3
1.3. Entrepreneurship	Review insolvency frameworks for companies and individuals, including through limiting personal liability of entrepreneurs and easing second chances for failed businesses.	Some progress	2
1.4. Education	Continue with efforts to increase the labour market relevance of education and training, to reduce early school leaving and to enhance life-long learning, namely by expanding the application of dual vocational training beyond the current pilot phase and by introducing a comprehensive monitoring system of pupils' performance by the end of 2013.	Some progress	2

Competition and Regulation			2,1
2.1. Competition enforcement	Ensure the effectiveness, autonomy and independence of the newly created regulatory authority.	Substantial progess	3
2.1. Competition enforcement	Set up an independent observatory to inform the assessment of future major infrastructure projects. Take measures to ensure effective competition in freight and passenger rail services.	Some progress	2
2.2. Regulation of product and service markets	Reduce the contingent liability for public finances stemming from unprofitable transport infrastructure.	Some progress	2
2.2. Regulation of product and service markets	Reduce the number and shorten licensing procedures, including for industrial activities, and spread the use of the "express licence" approach to activities other than retail.	Substantial progess	3
2.2. Regulation of product and service markets	Remove unjustifiable restrictions to the establishment of large-scale retail premises	Limited progress	1
2.2. Regulation of product and service markets	Tackle the electricity tariff deficit by adopting and implementing a structural reform of the electricity sector by the end of 2013. Intensify efforts to complete the electricity and gas interconnections with neighbouring countries.	Some progress	2
2.2. Regulation of product and service markets	By March 2014, review the effectiveness of the regulatory framework to support the development of the housing rental market	Substantial progess	3
2.3. Red tape and business environment regulation	Intensify the fight against the shadow economy and undeclared work.	Some progress	2
2.3. Red tape and business environment regulation	Urgently adopt and implement the draft Law on Market Unity and speed up all complementary actions needed for its swift implementation	Substantial progess	3
2.4. Professional services	By the end of 2013, adopt and implement the Law on professional associations and services, so as to remove any unjustified restriction to the access and exercise of professional activities,	Limited progress	1
Labour market:			**1,7**
3.1. Labour market regulations	Finalise the evaluation of the 2012 labour market reform covering the full range of its objectives and measures by July 2013, and present amendments, if necessary, by September 2013	Some progress	2
3.2 .Active Labour Market policies	Implement and monitor closely the effectiveness of the measures to fight youth unemployment set out in the Youth Entrepreneurship and Employment Strategy 2013-2016, for example through a Youth Guarantee.	Some progress	2
3.2 .Active Labour Market policies	Adopt the 2013 national Employment Plan by July 2013 and enact swiftly a result-oriented reform of active labour market policies, including by strengthening the targeting and efficiency of guidance	Some progress	2
3.2 .Active Labour Market policies	Reinforce and modernise public employment services to ensure effective individualised assistance to the unemployed according to their profiles and training needs.	Limited progress	1
3.2 .Active Labour Market policies	Reinforce the effectiveness of re-skilling training programmes for older and low-skilled workers.	Limited progress	1
3.2 .Active Labour Market policies	Fully operationalize the Single Job Portal and speed up the implementation of public-private cooperation in placement services to ensure its effective application already in 2013	Limited progress	1
Financial System:			**3**
4.1. Recapitalization and Restructuring	Implement the financial sector programme for the recapitalisation of the financial institutions, including the measures promoting non-bank intermediation adopted in November 2012	Fully addressed	4
4.2. Other financial measures	Review insolvency frameworks for companies and individuals, including through limiting personal liability of entrepreneurs and easing second chances for failed businesses.	Some progress	2

Fiscal policy and Public Administration:			2,3
5.1. Economic Governance	Establish an independent fiscal authority	Some progress	2
5.2. Fiscal consolidation and fiscal reform	Deliver the structural fiscal effort as required by the Council recommendation under the EDP	Some progress	2
5.2. Fiscal consolidation and fiscal reform	Ensure a strict and transparent enforcement of the Budgetary Stability Law	Substantial progess	3
5.2. Fiscal consolidation and fiscal reform	Improve the efficiency and quality of public expenditure at all levels of government, and conduct a systematic review of major spending items by March 2014	Some progress	2
5.2. Fiscal consolidation and fiscal reform	Finalise by end-2013 the regulation of the sustainability factor so as to ensure the long-term financial stability of the pension system, including by increasing the effective retirement age by aligning retirement age or pension benefits to changes in life expectancy.	Fully addressed	4
5.2. Fiscal consolidation and fiscal reform	Conduct a systematic review of the tax system by March 2014. Consider further limiting tax expenditure in direct taxation, explore the scope to further limit the application of the reduced VAT rates and take additional steps in environmental taxation, notably as regards excise duties and fuel taxes. Take further measures to address the debt bias in corporate taxation.	Some progress	2
5.3. Reform of the Public Administration	Adopt in line with the presented timetable the reform of the local administration and define by October 2013 a plan to enhance the efficiency of the overall public administration.	Some progress	2
5.3. Reform of the Public Administration	Take measures to reduce the outstanding amount of government arrears, avoid their further accumulation and regularly publish data on outstanding amounts.	Substantial progess	3
5.3. Reform of the Public Administration	Adopt the disindexation law to reduce the degree of price inertia in public expenditures and revenues, in time to have it in force by the beginning of 2014 and consider additional steps to limit the application of indexation clauses.	Some progress	2
5.3. Reform of the Public Administration	Adopt and implement the on-going reforms to enhance the efficiency of the judicial system.	Some progress	2
Welfare State			**2,5**
6.1 Social Security and Pensions	Finalise by end-2013 the regulation of the sustainability factor so as to ensure the long-term financial stability of the pension system, including by increasing the effective retirement age by aligning retirement age or pension benefits to changes in life expectancy.	Fully addressed	4
6.2 Health system	Increase the cost-effectiveness of the health-care sector, while maintaining accessibility for vulnerable groups, for example by reducing hospital pharmaceutical spending, strengthening coordination across types of care and improving incentives for an efficient use of resources.	Some progress	2
6.3 Other Welfare State reforms	Adopt and implement the necessary measures to reduce the number of people at risk of poverty and/or social exclusion by reinforcing active labour market policies to improve employability of people further away from the labour market	Some progress	2
6.3 Other Welfare State reforms	Improving the targeting and increasing efficiency and effectiveness of support measures including quality family support services.	Limited progress	1

(TABLE 5)

Source: European Commission (2014c) Country Specific Recommendations for Spain.

Table 6: OECD recommendations in 2012 and description of action taken by Spanish Authorities up to 2014

OECD ECONOMIC SURVEY SPAIN 2014				
Area / Subarea	**Recommendations in previous OECD Survey (2012)**	**Action taken (according to OECD SURVEY 2014)**	**IESE -PPSRC Assessment**	**IESE -PPSRC Grade**
Growth and Competitiveness				**3,5**
1.4. Education	Widen access to upper secondary education by narrowing criteria for grade advancement in lower secondary education to core competencies.	"A new assessment system with standardised external exams will be implemented at the secondary level from the 2015/16 school year. The requirements to sit the lower secondary exam have been narrowed – a pass in Spanish and mathematics and the failure of no more than two subjects in internal assessment rather than an internally assessed pass in all subjects.	Substantial progess	3
1.4. Education	Combine the school-based vocational education system and training contracts into one single scheme.	The dual VET regulation (Royal Decree 1529/2012) brings together the basic rules for vocational education and training contracts.	Fully addressed	4
Competition and Regulation				**2,3**
2.2. Regulation of product and service markets	Entry barriers for large-surface retail outlets imposed by regional governments should be lowered	The 2012 simplification of licensing for small retail outlets (express license) was extended both in time and scope, covering larger outlets (up to 750 square meters) and activities beyond the retail trade.	Fully addressed	4
2.2. Regulation of product and service markets	Shop opening hours should be liberalised in those regions where restrictions remain.	"A Royal Decree was approved to liberalise opening hours in areas declared as of tourism interest. The number of festive days when opening is allowed has increased to 16 days per year. Application of these new regulations varies across regions."	Some progress	2
2.2. Regulation of product and service markets	Raise the national minimum limit on hours that regions have to apply when regulating shop opening hours.	"Royal Decree Law 8/2014 extends the list of Spanish cities that must include a Touristic Zone within their boundaries (Zona de Gran Afluencia Turística). These zones benefit from greater freedom on opening hours. This law also institutes as a general rule that the setting up, move or enlargement of commercial establishments does not require authorisation. It also diminishes the associated administrative burden and time associated with processing the authorisation."	Substantial progess	3
2.2. Regulation of product and service markets	Further reduce the costs and procedures necessary to create businesses and eliminate sector-specific entry barriers, including rail and road transport.	There are plans to open the national rail market for passengers to private operators in 2014. In road transport a modification of the Land Transportation Law was approved in 2013, including measures to reduce the number of licences required, reduce administrative burden and make contractual resolution easier.	Some progress	2
2.3. Red tape and business environment regulation	Further reduce the costs and procedures necessary to create businesses and eliminate sector-specific entry barriers	The Market Unity Law foresees broader use of the declaration and notice systems (with ex post controls) to simplify licensing procedures. The new system will be based on mutual recognition by all regions of approval in one region rather than requiring individual approvals from every region in which a business operates.	Substantial progess	3
2.4. Professional services	Further reduce the costs and procedures necessary to create businesses and eliminate sector-specific entry barriers, including for professional services	A law on professional services and professional bodies, aiming at opening up professional services and highly regulated professions, has been prepared but its approval has been delayed.	Limited progress	1
Labour market:				**0,8**
3.1. Labour market regulations	Further reduce compensation for unjustified dismissal. If the reform does not prove to be effective, a single contract with initially low but gradually increasing severance payments would reduce the still large difference in dismissal costs between temporary and permanent contracts. This would help reduce duality effectively	No action.	No progress	0
3.1. Labour market regulations	An option to improve the flexibility to adapt to economic conditions is to abolish legal extension of higher level collective bargaining agreements or replace it by an opt-in system, where employers decide whether to be represented in sectoral wage bargaining.	No action.	No progress	0
3.2 .Active Labour Market policies	Extend access to training and job-search assistance for unemployed youth.	In February 2013 a comprehensive strategy based on talks with social partners included 100 measures in the education and training spheres to tackle youth unemployment. A youth guarantee plan was presented in December 2013. The infrastructure (information systems, profiling tools, application procedure) is being developed in 2014.	Some progress	2

3.2 .Active Labour Market policies	Introduce comprehensive monitoring and benchmarking of placement services and active labour market policy (ALMP) implementation at regional level.	The new Activation Strategy for Employment Strategy 2014-16 includes a regional ALMP performance model of 22 indicators. In 2013 and 2014, 15% and 40% respectively of ALMP funds were allocated by the central government to the regions based on the model. In 2015 it will be 60%	Limited progress	1
Financial System:				**3,5**
4.1. Recapitalization and Restructuring	"Viable banks with capital needs should be recapitalised promptly and non-viable banks should be resolved in an orderly manner as soon as possible, as foreseen in the Memorandum of Understanding."	"On the basis of independent stress test results and the subsequent bank plans to address potentially identified capital shortfalls, all banks requiring fresh capital were recapitalised. Some banks relied solely on private sources, while others were restructured and received state funds. As a result of this process and previous injections of public capital, the state (via the Spanish Fund for the Orderly Restructuring of Banks, FROB) became the controlling owner of a significant part of the banking sector (holding an estimated 18% of system loans). The FROB will be gradually divesting itself of this ownership interest. Most illiquid and difficult-to-value assets (mainly real estate, including land, and related loans) were segregated from state-aided banks and transferred to a newly created asset management company (SAREB)."	Fully addressed	4
4.1. Recapitalization and Restructuring	Holders of subordinated debt and lower-ranked hybrid capital instruments should absorb losses of banks which are resolved or are restructured, as foreseen in the Memorandum of Understanding	From the total of EUR 56 billion (5.5% of GDP) in capital shortfalls identified by the stress test, 70% was met by public capital injections, 23% by bailing-in junior debt and 6% by private capital injections.	Substantial progess	3
Fiscal policy and Public Administration:				**2,5**
5.1. Economic Governance	To improve the fiscal framework, establish a fiscal council with a strong mandate.	The Independent Authority for Fiscal Responsibility was established in November 2013 and it became operational in July 2014.	Fully addressed	4
		The Authority will monitor and report on compliance of all levels of government including regional and municipal.	Fully addressed	4
	Strictly implement control of regional government budget policies	11 out 17 regional governments complied with their deficit targets for 2013.	Limited progress	1
	The new requirements on the publication of regional government budget outcomes.	Budgetary reporting at central, regional, and social security levels is now all published monthly on a national accounts basis. Local governments have quarterly budgetary reporting on a national accounts basis.	Fully addressed	4
5.2. Fiscal consolidation and fiscal reform	The government should aim at meeting its new headline deficit targets, unless growth is far lower than expected, in which case the automatic stabilisers should be allowed to operate, at least partially.	Growth was lower than anticipated and as a result headline deficit targets were relaxed but the structural effort was maintained. The deadline for complying with the European Commission criterion of 3% of GDP was postponed by two years to 2016.	Fully addressed	4
	The consolidation measures needed to reach the deficit target in 2014 should be spelt out. Their regressive impact, if any, should be minimised, to foster the social consensus around consolidation needs.	"Consolidation measures to reach the 2014 deficit target were specified in Budget 2014 and in the Stability Program Update. Two thirds of the fiscal consolidation measures are revenue-based, including higher revenues raised by regional administrations and higher corporate tax revenues. On the expenditure side, measures include reducing spending on personnel and labour market policies, less spending by regional administrations and a programme to increase efficiency in the public administration."	Some progress	2
	Raise taxes on environmental externalities, including on transport fuels.	No action on transport fuels.	No progress	0
		New environmental taxes on the sale of electricity energy, on the production of radioactive waste and on the storage of radioactive waste were introduced in 2013. Moreover, a new tax on fluorinated greenhouse gases has being introduced in 2014.	Substantial progess	3
	Apply the standard value-added tax (VAT) rate to more goods and services.	A tax reform proposal foresees moving medical goods to the standard VAT rate.	Limited progress	1
	Make increases in the taxation of real estate values permanent and reduce taxation of housing transactions	No action on taxation of real estate values and housing transactions.	No progress	0
Welfare State				**#N/A**

(TABLE 6)

Source: OECD (2014) Economic Survey on Spain.

ANNEX 4

Table 7. Detailed number of recommendations by economic policy subareas

NUMBER OF RECOMMENDATIONS	OECD ECONOMIC SURVEY ON SPAIN				EC COUNTRY SPECIFIC RECOMMENDATIONS			
	2012		2014		2013		2014	
Growth and Competitiveness	**8**	**(9%)**	**25**	**(29%)**	**10**	**(12%)**	**20**	**(15%)**
R+D and knowledge society			12	(14%)	2	(2%)	6	(4%)
Internationalization			3	(3%)	2	(2%)		(0%)
Entrepreneurship			4	(5%)	2	(2%)	3	(2%)
Education	8	(9%)	6	(7%)	4	(5%)	11	(8%)
Competition and Regulation	**12**	**(13%)**	**24**	**(28%)**	**18**	**(21%)**	**28**	**(20%)**
Competition enforcement	1	(1%)	5	(6%)	5	(6%)	5	(4%)
Regulation of product and service markets	6	(7%)	7	(8%)	9	(11%)	9	(7%)
Red tape and business environment regulation	4	(4%)	8	(9%)	3	(4%)	11	(8%)
Professional services	1	(1%)	4	(5%)	1	(1%)	3	(2%)
Labour market	**18**	**(20%)**	**14**	**(16%)**	**8**	**(9%)**	**23**	**(17%)**
Labour market regulations	10	(11%)	6	(7%)	1	(1%)	8	(6%)
Active Labour Market policies	8	(9%)	8	(9%)	7	(8%)	15	(11%)
Financial System	**27**	**(29%)**	**7**	**(8%)**	**3**	**(4%)**	**8**	**(6%)**
Recapitalization and Restructuring	14	(15%)		(0%)	1	(1%)	5	(4%)
Other financial measures	13	(14%)	7	(8%)	2	(2%)	3	(2%)
Financial System	**27**	**(29%)**	**7**	**(8%)**	**3**	**(4%)**	**8**	**(6%)**
Recapitalization and Restructuring	14	(15%)		(0%)	1	(1%)	5	(4%)
Other financial measures	13	(14%)	7	(8%)	2	(2%)	3	(2%)
Fiscal policy and Public Administration	**19**	**(21%)**	**13**	**(15%)**	**31**	**(36%)**	**39**	**(28%)**
Economic Governance	6	(7%)	1	(1%)	9	(11%)	7	(5%)
Fiscal consolidation and fiscal reform	11	(12%)	7	(8%)	18	(21%)	20	(15%)
Reform of the Public Administration	2	(2%)	5	(6%)	4	(5%)	12	(9%)
Welfare State	**8**	**(9%)**	**3**	**(3%)**	**15**	**(18%)**	**19**	**(14%)**
Social Security and Pensions	8	(9%)	1	(1%)	4	(5%)	2	(1%)
Health system			1	(0%)	6	(7%)	4	(3%)
Other Welfare State reforms			1	(0%)	5	(6%)	13	(9%)
TOTAL	**92**	**(100%)**	**86**	**(100%)**	**85**	**(100%)**	**137**	**(100%)**

(TABLE 7)

Source: IESE-PPSRC break down of OECD and European Commission recommendations.

ABOUT SPANISH REFORMS

The SpanishReforms project is 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 Funcas, 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 project.
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