



SPANISH REFORM MONITOR

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FOREWORD



XAVIER VIVES

Academic Director of the Public-Private Sector Research Center



RAMON XIFRÉ

SpanishReforms Project Academic Coordinator

Associate Professor of Economics, ESCI – Universitat Pompeu Fabra

Policy Research Fellow of the Public-Private Sector Research Center, IESE Business School

The fifth release of the Spanish Reform Monitor, 2016-Q1, goes to press when there is still no government in Spain after the general election that took place in December. The economic uncertainty this generates is one of the most salient features in our experts' comments. So far, there are no signals that this is affecting real activity in Spain. However, many major remaining reforms are pending and downside risks are more prevalent in the international scenario now than four months ago.

Aggregating policy areas on the whole, and comparing with the previous release, our experts have set slightly lower scores for all three dimensions we look at: the performance of the Spanish economy, the adequacy of the policy goals and the actual progress achieved by the reforms. In terms of the six individual policy areas we work at the SpanishReforms project, our experts consider that the performance of the Spanish economy has especially deteriorated concerning the welfare state and competition and regulation affairs. Indeed, there is a decline in four of them and only the financial sector and competitiveness receive higher scores than in the previous release. In terms of policy goals and reform progress, the average scores are lower in practically all 18 policy subareas, likely reflecting the general political uncertainty that currently surrounds the country.

Looking ahead, it is clear that Spain needs a government in place with a well-defined and agreed-upon reformist agenda. The worst of the crisis is definitely over but the country is still far from having reasons for complacency, particularly when one looks at the labor market, competition and regulation, public finances and the welfare state, as our experts highlight. In our previous Monitor, we already anticipated that the general elections were likely to deliver a more diverse and fragmented parliament. Even more, it now seems clear that for some time Spaniards will hardly award any party a majority in the parliament. It is therefore the responsibility of political leaders to find common ground that helps articulate genuine reforms and progress. The risk of moving backwards is non-negligible.

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 Funcas. everis is the technological partner and ESCI-UPF 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 labor 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 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, Miquel Rodríguez Planas, Ramon Xifré.

External experts:

Antonio Cabrales, Javier Andrés, Santiago Carbó, Alain Cuenca, 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: Javier Andrés, José Manuel Campa, Juan José Dolado, Javier Díaz-Gimenez and Luis Garicano,

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

The Spanish Economy Reform Monitor, 2016-Q1

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

Legend

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

Variation from previous Monitor

▲	> 0,2
=	[-0,2; 0,2]
▼	< -0,2

Policy areas with average score equal or above 5

* 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.

▶ EXPERTS' COMMENTS

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)

"I can see only stagnation in this quarter and the following one. The political situation is very fragile and none of the parties carries the weight to implement big reforms that are necessary to jump start growth promoting changes. In all likelihood, the education law of the previous government will be repealed if an even moderately left-wing government forms. There were some interesting ideas on both R&D and education from some of the emerging parties, but given the foreseeable lack of fiscal resources, the only important changes would have to be in terms of organizational measures, and until there is a new government, it is very hard to assess the direction those measures could take."



ALFREDO PASTOR

Emeritus Professor of Economics, IESE Business School

Banco Sabadell Chair of Emerging Markets

"Growth continues, and there is talk of it having slowed down, although there is still little data to take a firm stand. Of course, political uncertainty is often quoted as threatening growth; but it is again still too early to say. If nothing happens till the new possible elections in late June, this delay is bound to result in postponed investment, but probably not in household consumption."

As far as reforms go, nothing of substance can be achieved as long as there is no new government. However, the CNMC (the competition watchdog) has announced a major report on the sharing economy, and some of its recommendations regarding taxicab services (Uber), and tourist accommodation (Airbnb) are supposed to be far-reaching. One will have to wait for the full report to be made public."

2. REGULATION AND COMPETITION



RAMON XIFRÉ

Associate Professor of Economics, ESCI – Universitat Pompeu Fabra

Policy Research Fellow of the Public-Private Sector Research Center, IESE Business School

"The competition policy and regulation policy area is particularly dependent on the government's initiatives and broader economic policy lines. The last significant policy measures were adopted eight months ago, before summer, and the reforms in this dimension appear to have remained frozen since then. It is true that the CNMC (the competition watchdog) has not ceased to work and; indeed, it recently produced some interesting documents on some hot issues like taxi licensing and apartment sharing in which it takes a rather liberalizing stance. However, the general impression is that until Spain has not a stable government in place, with a clear roadmap for the next four years agreed-upon, no major change or reform will be adopted at all.

Of course, this is not what the country needs, particularly in a period where international risks on the downside appear to be gaining strength and a confidence boost would be much appreciated."

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

"The second part of 2015 was dominated by the call for general elections, whose outcome has been hindering the formation of a new government. The process of labor market reforms was practically frozen; the positions of parties and candidates on labor reform have been polarized: some parties have proposed the immediate withdrawal of the measures of 2012, and others defend their continuance. The future of the reforms depends on the political coalitions that are formed, but it is not very promising.

In this period, job creation and reducing unemployment continued at a satisfactory pace, mainly due to the growth of GDP by internal factors (consumption and investment in equipment, with the recovery in employment in construction) and external factors (exports); the consequences of the reform of 2012 have continued to promote job creation, with positive aspects (wage moderation, mainly) and other negative ones (duality of contracts, low levels of starting salaries and the wages of workers with low qualifications), however, the impact of the reform is losing strength.

In the second half of 2015 and early 2016, there have been more discussions on the revision of working hours and their compatibility in the perception of a retirement pension with income from work. The government has stepped up the fight against fraud in employment and social security; the Budget for 2016 has been approved, without substantial reforms, and in September 2015, the Law of Reform of the System of Vocational Training for Employment and the Law for the Promotion of Self-Employment and Social Economy were published, without substantial changes in the legal framework."

4. FINANCIAL SYSTEM



SANTIAGO CARBÓ

Professor of Economics and Finance, Bangor Business School

"The situation and prospects of the Spanish financial system continued to improve towards the end of 2015. However, at the beginning of 2016, market conditions have substantially worsened. EU banks have lost significant market value over doubts on both the evolution of the international economy as well as on the true solvency status of a number of banks in some countries. Although most of the concerns have affected countries like Germany, Italy or Portugal, market contagion has been widespread. In any event, one advantage of the Spanish banking sector on this front is the augmented transparency exercise that these institutions have gone through as part of their restructuring and reshaping. Additionally, it is worthwhile mentioning that efforts from supervisory bodies have continued with the adoption of several measures aimed at incorporating both international measures adopted within the Basel III framework, as well as some others related to single supervision and resolution within the so-called European Banking Union.

There are, however, some remaining duties. The political deadlock in Spain may not favour that these remaining tasks can be achieved in the short-run although there seems to be time and leeway to conduct them appropriately. They mainly refer to the privatization of nationalized banks. There are also challenges ahead for the asset management company Sareb. Many of Sareb's portfolio has gone through a new appraisal exercise and there could be some losses attached to such revaluation.

In any event, financial stability appears to keep on improving and profit and capitalization levels have increased as shown by the accounts presented by the Spanish banks corresponding to 2015Q4."

5. FISCAL POLICY AND PUBLIC ADMINISTRATION



ALAIN CUENCA

Associate Professor of Economics, Universidad de Zaragoza

"In the final months of 2015 and early 2016, the second phase of the tax reform approved in 2014 came into effect. Some tax reductions planned for 2016 have been brought forward to July 2015. Thus, the tax policy has produced three expansionary effects since January 2015. The resulting reduction in government revenue took place in the context of difficulties in compliance with the fiscal deficit target. Spain's general government deficit could reach close to 5% of GDP in 2015, from 5.8% of GDP in 2014. Perhaps a comprehensive tax reform, more focused on efficiency and less on reducing the tax burden on households, would have been preferable.

Challenges to achieving fiscal consolidation primarily arise from problems within the Social Security administration and regional governments. In the case of the former, although there have been fundamental reforms aimed at controlling spending growth, their implementation has proven to be a lengthy process. In addition, several recent measures have eroded revenues. Bold reforms are still needed in this area. As regards regional governments, there had been considerable expenditure reduction until 2013. This effort slowed down during 2014 and it seems that in 2015, expenditure once again picked up. Nevertheless, there is a structural shortfall in regional governments' revenues that will have to be corrected in the coming years. Therefore, the regional governments must continue improving both sides of their budgets in order to reduce deficits.

To sum up, the path towards fiscal consolidation to be assumed by the next government will be a difficult one."

6. WELFARE STATE



SERGI JIMÉNEZ

*Associate Professor, Department of Economics, Universitat Pompeu Fabra
Director of the FEDEA-LaCaixa Economía de la Salud y Hábitos de Vida Chair.*

"As regards Social Security, people are starting to realize future pension cuts. More importantly, many of them do not have room to increase savings. Given the continuous increase in the health capacity to work at an advanced age that has been observed in recent years, the only short run solution to compensate them is to make work and (shrinking) pensions fully compatible, especially for low incomers, even those that (have to) retire early.

Nothing has changed in recent months as regards social spending. The uncertain outcome of the recent national election and the lack of government afterwards makes it difficult to predict what direction social spending is going to take. At this stage, we have to insist on our previous assessment: '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

*Professor of Economics, IESE Business School
Jaime Grego Chair of Healthcare Management*

"Welfare state reforms are moving forward but at quite a slow pace.

With the economic recovery and the decrease in unemployment, the social security deficit has diminished, but it remains positive (in deficit).

Spain introduced a dependency law in 2006 with the goal of improving access to long term care. There were significant advances at the beginning but as a result of the crisis and the financial pressures on the government's budget, its expansion has stopped. The proportion of population (65 and older) receiving long-term care subsidies is still below the OECD average and there are long lines of applicants waiting for their access to the system. Moreover, there are enormous differences in terms of access and coverage across the different Spanish regions.

Regarding healthcare policies, financial pressures have led to a significant budget reduction and a lot of efforts have focused on cost cutting, but very little has been done to try to improve the efficiency of the system. More efforts should concentrate in making sure that the available resources are being used to the best –where they generate more value in health in the best possible way. It is also crucial for Spain –as it is for all the advanced economies– to start thinking about the possibility of improving the integration of health and social services. This is fundamental in an ageing society where more than 70 percent of healthcare spending is related to patients that suffer from at least one chronic disease."

PROJECT MANAGEMENT



MIQUEL RODRIGUEZ PLANAS

*Public-Private Sector Research Center Manager
SpanishReforms Project Manager*

TEAM

JORDI SALVADOR

*Public-Private Sector Research Center IESE
Research Assistant*

CARLOTA MONNER

*Public-Private Sector Research Center IESE
Technical support*

An initiative of

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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.

The Fundación de las Cajas de Ahorros (FUNCAS) is a private, non-for-profit foundation, created in 1980 and financially supported by the Confederation of Spanish Saving Banks (Confederación Española de Cajas de Ahorros). Its mandate is to foster research on Spanish economic and social issues.

Partners





Public-Private Sector
Research Center



Av. Pearson, 21
08034 Barcelona
Spain

www.spanishreforms.com
www.iese.edu/ppsrc
ppsrc@iese.edu