



# SPANISH REFORM MONITOR

December, 2017. No.6

## CONTENTS

Foreword

Reform monitor

Experts' comments



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The sixth Spanish Reform Monitor, covering the period up to 2017-Q3, encounters a mix of signals about the state of the economy and the reformist agenda in Spain. Overall, the prevailing tone in our panel of experts accords with that of the previous release. Growth and recovery appear to be well established with solid medium-term perspectives but policy reform in most areas remains stalled or advancing only too slowly.

Comparing with the previous release, our experts keep on setting slightly lower scores for all three dimensions we look at: the performance of the economy, the adequacy of policy goals, and the real progress achieved by the various reform initiatives. In terms of the six individual policy areas we are monitoring, the performance of the Spanish economy is assessed to be only marginally different with respect to the previous monitor. There are minor improvements in the labour market and competition and regulation performance, stability in fiscal policy and minor declines in the rest. However, when it comes to the evaluation of policies, both in their goals (with an average score of 4.1/10) and especially their delivery (3.5/10), the deterioration is more significant and virtually pervasive across the policy spectrum. In the eyes of our experts, only the initiatives to support the internationalization of the economy and the moves to stabilize the financial system stand out with clear better results than in the previous release. The largest falls in our experts' average scores correspond to competition and business climate regulation issues, labour market regulations and, above all, the social security and pensions system.

When looking ahead, if uncertainty was a main theme in our last release – at the time the country had an acting government – it is even more central now. The recent political and institutional events in Catalonia, which some of our experts refer to in their individual comments, have added fresh worries. However, the prevailing view in our panel –aligned with that of the European Commission – seems to be that market reactions to this phenomenon have so far remained contained. Our reading of this is that the responsibility of political leaders and policymakers is now even more of the essence. In other words, their failure to find common ground and to articulate agreements has become more costly for all.

The Spanish economic reform agenda for the next months should tackle two main pressing issues. On the one hand, there is the reform of the pension system. The Social Security Reserve Fund that is being used to pay for the deficit of the system has been reduced to less than one fifth of the amount in 2012. Given the demographic projections, there is a clear need for urgent action. On the other hand, the debt of the autonomous regions has been steadily increasing and it reached for first time in 2017 25% of Spanish GDP. The Government commissioned a report from a panel of experts on the reform of the regions' financing system. A key message that emerges from this report is the convenience to improve the transparency of the system with the goal to enhance regions' responsibility in balancing their revenues and expenditures. However, the document also includes divergent views on some topics, highlighting the difficulty to reach consensus in this area.

## 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 growth-friendly, sustainable and inclusive 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 started up and 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 experts' 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:

### External experts:

Antonio Cabrales, Santiago Carbó, Alain Cuenca, Rafael Doménech, Juan-José Ganuza, Sergi Jiménez, Sara de la Rica, Raymond Torres.

### PPSRC – IESE experts:

Antonio Argandoña, Nuria Mas, Alfredo Pastor, Ramon Xifré.

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 economists have contributed to the Monitor: Javier Andrés, Luis Garicano, Juan José Dolado, José Manuel Campa and Javier Díaz-Giménez.

## The Spanish Economy Reform Monitor, 2017-Q3

Assessing current economic performance and monitoring policy reform in Spain

### Questions

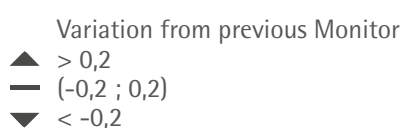
(1) What is your assessment of performance of the Spanish economy in this area?

(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 result?

Reported scores correspond to the average of the expert panel <i>All scores are in the scale 0 (bad) - 10 (good)</i>	Spanish economy performance		Spanish Government economic policy	
	(1)	(1)	GOALS (1)	PROGRESS (1)
<b>1. GROWTH AND COMPETITIVENESS</b>	—     4,5	— ○ 3,8	● 3,1	—
1.1 R+D and the knowledge society		— ○ 3,1	● 2,6	—
1.2 Internationalization		▲ ○ 4,7	● 3,9	▲
1.3 Entrepreneurship		— ○ 4,3	● 3,4	▲
1.4 Education		▼ ○ 3,2	● 2,6	▼
<b>2. COMPETITION AND REGULATION</b>	—     3,3	▼ ○ 3,6	● 2,8	▼
2.1 Competition enforcement		— ○ 4,3	● 3,0	▼
2.2 Regulation of product and service markets		▼ ○ 3,4	● 3,0	▼
2.3 Red tape and business environment regulation		▼ ○ 3,2	● 2,8	▼
2.4 Professional services		— ○ 3,4	● 2,4	▼
<b>3. LABOR MARKET</b>	▲     4,1	▼ ○ 3,7	● 2,8	▼
3.1 Labor market regulations		▼ ○ 4,3	● 3,3	▼
3.2 Active labor market policies		— ○ 3,2	● 2,2	—
<b>4. FINANCIAL SYSTEM</b>	—     5,9	— + 5,7	● 5,6	—
4.1 Recapitalization and restructuring		▼ + 6,0	● 5,9	▼
4.2 Other financial measures*		▲ + 5,5	● 5,4	▲
<b>5. FISCAL POLICY AND PUBLIC ADMINISTRATION</b>	—     3,6	— ○ 3,9	● 3,0	▼
5.1 Economic governance**		▼ ○ 4,2	● 3,6	▼
5.2 Fiscal consolidation and fiscal reform		▲ ○ 4,6	● 3,5	▼
5.3 Reform of the Public Administration		— ○ 3,0	● 2,0	▼
<b>6. WELFARE STATE</b>	—     3,6	▼ ○ 4,0	● 3,6	▼
6.1 Social Security and pensions		▼ ○ 3,8	● 3,4	▼
6.2 Health system*		— ○ 4,7	● 4,3	▲
6.3 Other welfare state reforms***		▼ ○ 3,4	● 3,0	—
<b>Averages scores</b>	—     4,2	▼ ○ 4,1	● 3,5	—

Legend



2 11%	2 11%
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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 institution.

\*\*\* 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)*

"Public R&D remains stagnant. What is worse, a large fraction of the budgeted money is never spent because it is given in the form of loans that public institutes of research do not want, because there is no future income with which to pay them back.

Another threat to future growth is a moribund competition policy and regulation. The body in charge of such policies, the CNMC, suffers from constant interference from the political power from which it is supposed to be independent.

A potentially even bigger threat is the political situation in Catalonia. Having one of the most dynamic parts of Spain intervened by a notoriously unagile central government, which is also unfamiliar with the internal working of the Catalan administration, can create serious disruptions. This can signify an important dampener for the economy of the whole country."



### ALFREDO PASTOR

*Emeritus Professor of Economics, IESE Business School*

*Banco Sabadell Chair of Emerging Markets*

"The consolidation of economic recovery in Spain in terms of GDP growth should allow it to address its twin problems: high unemployment and low productivity. So far priority has been given to unemployment; the unemployment rate has fallen significantly and the trend is expected to continue in the short run. This masks the fact that most of the new contracts are part-time and/or short term, many very short-term, often in activities with low productivity. Recent studies show how productivity growth has stagnated in the largest Southern economies of the Eurozone, Italy and Spain. Low productivity entails, of course, low wages and limits the coverage of the Spanish welfare State.

On the external side, it is worth noting that while during the worst crisis most of the improvement in the current account had come from a fall in imports while exports increased slightly their market share, the current account remains in balance even after growth has started to pick up. Furthermore, the internal devaluation that fell almost entirely on wages was concentrated in non-tradable activities: that shows that the Spanish economy has a solidly established export sector."

## 2. REGULATION AND COMPETITION



### JUAN-JOSÉ GANUZA

*Professor, Department of Economics at Universitat Pompeu Fabra  
Professor, Barcelona Graduate School of Economics.*

"The National Commission for Markets and Competition (CNMC) was created four years ago. The institution was born burdened by the fact that many of its executive appointments were made based more on political than on technical capabilities. Despite this, the CNMC during this period has shown determination in the defense of the competition policy, especially in relation to the fight against the cartels (thanks to the leniency program). However, the lack of its effectiveness and its internal organizational problems have also been evident. For example, many of the penalties imposed by the CNMC have been canceled by the courts. Regarding the promotion of competition, CNMC was very active, launching interesting analysis over key markets such as those related to the collaborative economy. However, the impact of these studies (maybe due to the lack of support) was very limited. Finally, the activity of the CNMC has been much more modest regarding regulation. In this area, the CNMC has not shown to be independent from the Spanish Public Administration.

The CNMC, acknowledging these problems, has launched a plan for improving its performance and the effectiveness of its resolutions and penalties. The main goals of the plan are to strengthen the economic analysis of its resolutions and to increase its transparency for the courts and firms under investigation. Apparently, the plan does not target the promotion of competition activities and regulation; two areas in which some reforms should be implemented.

It is quite soon to evaluate the plan announced by the CNMC. Regarding the agenda of the reform of the government in this area, it is quite modest and is always behind the reforms undertaken by the European Union that requires the Spanish administration to adapt its laws and regulations to European new directives and standards."



### RAMON XIFRÉ

*Associate Professor of Economics, ESCI – Universitat Pompeu Fabra  
Policy Research Fellow of the Public-Private Sector Research Center, IESE Business School*

"Concerning competition and regulation issues, one of the major recent developments has been the series of recent rulings of the Spanish High Court cancelling some of the highest fines imposed by the competition authority, CNMC. The legal conflict between the macro-regulator and the judges injects fresh uncertainty into the competition scenario in Spain.

Another issue that is to be considered in the near future is the regulation of specific activities, like the port cargo handling. Urged by the European Commission, in early 2017 the Government attempted to reform this activity but there has been no real progress with port cargo workers going on general strike in June. This conflict, coupled with other strikes in services related to transport (train, underground, taxi and security personnel at Barcelona airport), point to the need of drafting a new law regulating the calling of strikes. The current regulation is old, and although it has been amended many times, it is still not very clear.

Finally, it is also worth mentioning a recent initiative by the Parliament aimed at the depoliticising of the appointments in the regulatory and supervisory bodies. It is still soon to judge how this movement will turn into law, but it looks like a very promising step forward to put a remedy to 'crony capitalism', that has so badly damaged the Spanish economy for a long period of time."

### 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 government of Spain was an acting government until November 2016, and although the team of the Ministry of Employment and Social Security did not change, the reform activity was at a standstill, and has not recovered in 2017. Employment continued the recovery process, thanks to GDP growth and the effects of the 2012 labor reform, which needs a thorough review, about which there is no clear political will. Previous strategies aimed at providing employment for the young have continued as well as some measures for the unemployed. Pensions continue to present a growing deficit, which the Pact of Toledo - the mechanism designed to offer solutions agreed between the social partners and the parties - has not been solved."



#### SARA DE LA RICA

*Professor of Economics, Universidad del País Vasco  
Research Fellow, IZA Institute of Labour Economics*

"The Spanish Labour Market is recovering employment at approximately 500,000 workers per year since 2015. However, the Great Recession has accelerated job polarization. On the one hand, there is a growing increase in the demand for highly qualified workers, with digital and language skills. On the other hand, jobs related with personal services and/or with tourism are also growing, partly as a result of our excellent results in the tourist sector. But labour market conditions of the latter are poor, not only in wages but also in hours of work, particularly since the 2012 labour market reform. In addition, there are still around 2 million people who lost their jobs during the recession and have "chronified" their current state of unemployment. Active Labour Market measures envisaged in the 2012 Labour Market Reform are still, five years after, at an incipient level of development. Institutions to deliver appropriate active labour market policies were not created before the recession, and the 2012 reform has been very sluggish in creating them. And lastly, Long-Term Unemployment is by far one of the most prominent problems of our Labour Market."

## 4. FINANCIAL SYSTEM



### SANTIAGO CARBÓ

*Professor at CUNEF Business School  
Head of Financial Studies, Funcas*

"The situation and prospects of the Spanish financial system continued to improve towards the end of 2017 after some events that cause a certain level of uncertainty both at national and European level. In the domestic Spanish market, the resolution of Banco Popular looks like the last major step in the restructuring of the banking sector after the crisis. This resolution differs substantially from the resolution measures applied in the Italian banking sector and illustrates that bail-in measures are being heterogeneously implemented in the Euro area. Overall, the concerns regarding the health of the EU banking sector has not yet disappeared and will still require a substantial effort in the future. The creation of a pan-European bad bank is still under discussion. Meanwhile, banks are still facing important regulatory pressures and the lending activity faces substantial restrictions.

There are still challenges ahead for the asset management company Sareb. Many of Sareb's assets are still far from performing as expected and the goals of this institution have been revised accordingly. There are also challenges related to the placement of some of the public shareholdings of Bankia over private investors, in particular after the acquisition of BMN.

Financial stability remains stable and profit and capitalization levels have improved. Asset performance seems also to be improving as unemployment is also being reduced."



### RAYMOND TORRES

*Director for Macroeconomic and International Analysis at Funcas*

"Recently the government approved a draft legislation on housing loans. The new regulation reduces the cost of early amortization of variable interest rate loans. It also facilitates conversion of variable rate loans into fixed rate ones (essentially by eliminating the fees on such conversions). Finally, the reform is intended to improve transparency of mortgage contracts, notably by providing free professional advice to individual borrowers. The new legislation is timely. Indeed Spanish households tend to borrow at variable interest rates to a greater extent than in other countries, thereby making them vulnerable to sudden shifts in borrowing conditions -as will probably happen when the European Central Bank ends its supportive policy stance-. In addition, despite recent progress in deleveraging, household debt remains relatively high. In sum, the reform could help strengthen the resilience of the Spanish growth process to shocks."



## 5. FISCAL POLICY AND PUBLIC ADMINISTRATION



**ALAIN CUENCA**

*Associate Professor of Economics, Universidad de Zaragoza*

"Regarding Fiscal Policy and Public Administration, current data forecasts that Spain will come very close to achieving the target - agreed with the European Commission- of reducing the public deficit to 3.1 % of GDP (For example, Funcas forecast is 3.2 %). This means that the process of fiscal consolidation will be ongoing throughout 2017. An important point worth highlighting is that this year marks the beginning of the reform of the regional financing system, which is expected to be completed during the first half of 2018, once the issues surrounding the institutional crisis in Catalonia are resolved. If this reform is completed, it would imply a reallocation of public resources between the central and the regional levels of government. Given the situation of the Spanish deficit, the regional reform could be carried out alongside a tax reform that would be deeper than the one implemented in 2015-2016. On this point, the decision concerning the treatment of the region's debt with the central government will be especially relevant, even if it does not directly affect the Kingdom of Spain's public debt."



**RAFAEL DOMÉNECH**

*Professor of Economics, University of Valencia  
Head of Macroeconomic Analysis at BBVA Research*

"GDP and employment growth in 2017 are increasing public revenues, not only in nominal and real terms, but also with respect to GDP. The latest data on budget execution suggest that the deficit target at the end of the year is likely to be achieved, even with an increase in public expenditure in nominal and real terms. Nevertheless, advances in fiscal consolidation are quite heterogeneous across different levels of administrations.

The slow fiscal adjustment during the latest years has tried to minimise the short-term effects on growth, but at the cost of a high level of public debt, with negative effects on income, employment, and private consumption and investment. In this scenario, structural reforms that increase employment and productivity will strengthen the fiscal margin and reduce public debt significantly. If this is not the case, additional fiscal consolidation measures will be needed to reduce the current structural budget deficit.

The new system of regional financing is still pending, after the Experts Committee have proposed some improvements to the current system, although with no clear consensus in some additional proposals needed.

The reform of the Public Administrations is advancing too slowly. The gap in terms of efficiency and technological and digital transformation with the most advanced countries is still relatively large. According to the CIS public opinion surveys, higher efficiency of the public sector is a necessary condition for the Spanish society to accept future increases in the tax burden."

## 6. WELFARE STATE



### SERGI JIMÉNEZ

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

"Worries about Social Security finances are increasing, especially after the Reserve fund runs out of money. Many young people are worried about their future plans and legislators have yet to respond to these worries.

The only good news about social spending (health and long-term care spending) is that expenditure cuts did not go any further. However, our previous conclusion remains valid: "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*

"We do not appreciate major changes in the last months regarding the welfare state. The most important aspect worth mentioning is an increasing awareness by the general public about future potential tensions on their pensions. Regarding the healthcare system sustainability there are still some areas for improvement. Future reforms should focus on improving the efficiency in the provision of healthcare services, prioritize the healthcare system' goals, increase the transparency in the pricing and economic evaluation of new drugs, and reconsider the role of patients on low added-value services payments. Additional measures to improve healthcare system sustainability such as the co-payment for pharmaceuticals have been discarded at national government level due to their high political cost."

# PROJECT MANAGEMENT



**MIQUEL RODRIGUEZ PLANAS**

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SpanishReforms Project Manager*

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## An initiative of

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



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.

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



[www.spanishreforms.com](http://www.spanishreforms.com)



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