Box: Measures to guarantee budgetary stability and competitiveness[1]

On July 13th, 2012, the Spanish government approved Royal Decree/Law 20/2012 on measures to guarantee budgetary stability and stimulate competitiveness. The decree includes a broad range of measures to reduce public spending, boost public revenues and foster the competitiveness of the economy. These measures may be summarised as follows:

- **Measures to reorganise and rationalise the public administration:** Staff costs have been reduced throughout the public sector by eliminating the December bonus in 2012 and by reducing the number of paid days leave to which staff are entitled for personal matters from 6 to 3 indefinitely. Seniority-based additional days leave for holidays and personal matters have also been eliminated. In order to reduce absenteeism, limits have been placed on the right of public employees to receive full pay while on sick leave. Finally, the paid time union representatives are entitled to spend on union matters has been reduced.

  The government estimates that in 2012, these measures will bring savings of 1.03 billion euros for central government; 3.44 billion euros for regional governments in the autonomous communities and 0.96 billion euros for local bodies. The total additional saving for all levels of government is estimated at 1.92 billion euros in 2013 and 1.87 billion euros in 2014.

- **Measures affecting the social security system and employment:** In relation to social security, a number of factors on which contribution calculations are based have been revised upwards. In the case of employment, firstly, the percentage basis on which benefits are calculated has been reduced from 60% to 50% as of the seventh month. This measure will only affect new beneficiaries receiving more than the minimum amount. Secondly, the unemployed will have to pay their own contributions to the social security system. Thirdly, benefits for persons over 45 and over 52 years of age have been cut in order to create incentives for "active ageing." Fourthly, the eligibility requirements for the "active insertion income" (minimum guaranteed income) have been made stricter. Finally, rebates for hiring new workers have been sharply reduced, in view of their limited effectiveness.

  The government estimates that these measures will save 1.97 billion euros in 2013; 4.65 billion euros in 2013 and 2.16 billion euros in 2014.

- **Measures to rationalise the dependency system:** Some of the benefits under Law 39/2006 on the promotion of personal autonomy and care for dependent adults have been cut. The categories of dependent persons have also been simplified and the time allowed to decide on cases without having to pay benefits retroactively has been extended from 6 months to 2 years. The government estimates savings of 0.16 billion euros in 2012; 1.39 billion euros in 2013 (0.86 billion euros for central government and 0.53 billion euros for the autonomous communities); and 1.47 billion euros in 2014 (0.87 billion euros for central government and 0.60 billion euros for the autonomous communities).

- **Fiscal measures:** As of September 1st, the general VAT rate will rise from 18% to 21% and the reduced rate from 8% to 10%. The super-reduced rate will remain at 4%. Some

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goods and services will be reclassified and so moved from the reduced rate to the new general rate. According to the government, this measure will raise 2.3 billion euros in 2012, €0.13 billion euros in 2013 and 9.67 billion euros in 2014.

Large companies' instalment payments for the corporation tax will be increased and the deduction for interest payments will be further limited. These measures are expected to increase revenues by 2.59 billion euros in 2012, 2.45 billion euros in 2013, and 2.45 billion euros in 2014.

In the case of personal income tax, in addition to the measures adopted by the new government on December 30th, 2011, the tax deduction for home purchases will be eliminated as of January 1st, 2013 and tax withholdings for professional activities will rise from 15% to 21% until December 31st, 2013. The expected increased revenues are 0.15 billion euros in 2012, 1.93 billion euros in 2012, and 2.04 billion euros in 2014. Finally, the tax on tobacco products has been increased, but the impact on revenues is expected to be limited.

- **Measures to liberalise commerce and stimulate business internationalisation:** In line with recommendations by international organisations, retailers will be given more flexibility to set their opening hours and to open on Sundays and public holidays. Common minimum opening hours will be established for the country as a whole. Promotions will also be liberalised, with a lifting of the timing restrictions on sales. Additionally, export support instruments will be boosted and more financial support given for businesses to expand overseas through the creation of new financial instruments (cédulas de internacionalización in Spanish).

- **Measures related to the real estate market:** Financial support subsidies on loans that were still in existence under the State Housing and Rehabilitation Plan 2009-2012 have been eliminated. Additionally, aid to facilitate payment of costs related to housing rentals by young people (Renta básica de emancipación in Spanish) has been reduced by 30%. Moreover, this form of aid has been declared incompatible with other types of aids or subsidies established under the regional government legal framework.

In short, the set of measures adopted, most of which will come into effect immediately, should help meet the new goal of reducing the excessive deficit set at the ECOFIN meeting last July 10th, 2012, whereby a deficit of 6.3% of GDP is envisaged for 2012, 4.55% for 2013, and 2.8% for 2014.