



MINISTERIO  
DE ECONOMÍA Y EMPRESA

SECRETARIA DE ESTADO DE ECONOMIA Y  
APOYO A LA EMPRESA

SECRETARÍA GENERAL DEL TESORO Y  
FINANCIACIÓN INTERNACIONAL

*Carlos San Basilio Pardo*

SECRETARIO GENERAL

Mr. Marco Buti  
Director-General  
Directorate General Economic and Financial Affairs  
EUROPEAN COMMISSION

Madrid, 19<sup>th</sup> October 2018

Dear Marco,

Thank you for your letter dated 19<sup>th</sup> October 2018 on Spain's Draft Budgetary Plan (DBP).

As you know well, the preparation of this year's DBP has taken place in a particularly challenging environment. Whereas some details were not available on Monday, we are now in a position to provide the requested additional information to facilitate the Commission's assessment.

Let me take this opportunity to clarify some relevant points.

The underlying macroeconomic and budgetary premises of our DBP are prudent and have been endorsed by the Independent Fiscal Authority. According to the latest execution data, Spain is on track to exit the Excessive Deficit Procedure.

Your letter takes note of the planned structural effort in 2019 of 0.4% of GDP. This is well within the allowed margin of flexibility and thus compliant with the provisions of the Stability and Growth Pact. It is actually the largest structural effort to be implemented by Spain since 2013. Similarly, regarding the nominal growth rate of primary expenditure, the difference with respect to the recommendation in terms of GDP is below the 0.5% flexibility margin envisaged in the Pact. Moreover, the increase in nominal primary expenditure is below the medium term nominal potential growth rate. Regarding the debt rule, the determination of the Spanish Government to accelerate the pace of debt reduction has been clearly stated and is shown by the ambition of the envisaged structural measures and the priority given to achieving a primary surplus in 2019.

Today the Government has approved two Draft Laws (*Anteproyectos de Ley*) to introduce a Financial Transaction Tax and a Tax on certain Digital Services. The diligence and ambition with which the Government has acted leaves no doubt as to the commitment to implement the revenue measures foreseen. Other revenue measures included in the DBP regarding corporate, income and environmental taxes will be passed together with the Draft Budget Law to be adopted.

Moreover, the Government also adopted today a Draft Law to fight tax evasion and fraud, including very relevant measures in this regard, such as the establishment of a ceiling of 1.000 euros for cash payments or the banning of double-use software. Given the legal nature of these measures we consider that they should be taken into account in your analysis as has been the case in the past for measures of a lower legal standing.

We will provide a detailed no-policy change scenario to underline the consistency between our DBP and our fiscal targets. In line with other available forecasts, this scenario would lead to a deficit of at least 2.2% of GDP in 2019 and no improvement in the structural balance. This confirms that measures adopted by the current Government are instrumental to the improvement of the situation of public finances in Spain.

Further detailed explanation of revenue and expenditure measures and their impact will also be provided as well as further clarifications on the budgetary impact of the agreed minimum wage increase.

I would like to reiterate the Spanish Government's commitment to compliance with the Stability and Growth Pact. We are also committed to presenting the 2019 Draft Budget Law to Parliament as soon as possible and will keep you duly informed of any relevant developments throughout this process.

We trust that these clarifications as well as the detailed information that will follow will facilitate your assessment of the DBP and allow you to duly include the measures in your upcoming Autumn forecast. We will be in touch at services level to assist with any additional clarifications.

Yours sincerely,



Carlos San Basilio Pardo