

3.9 Spain

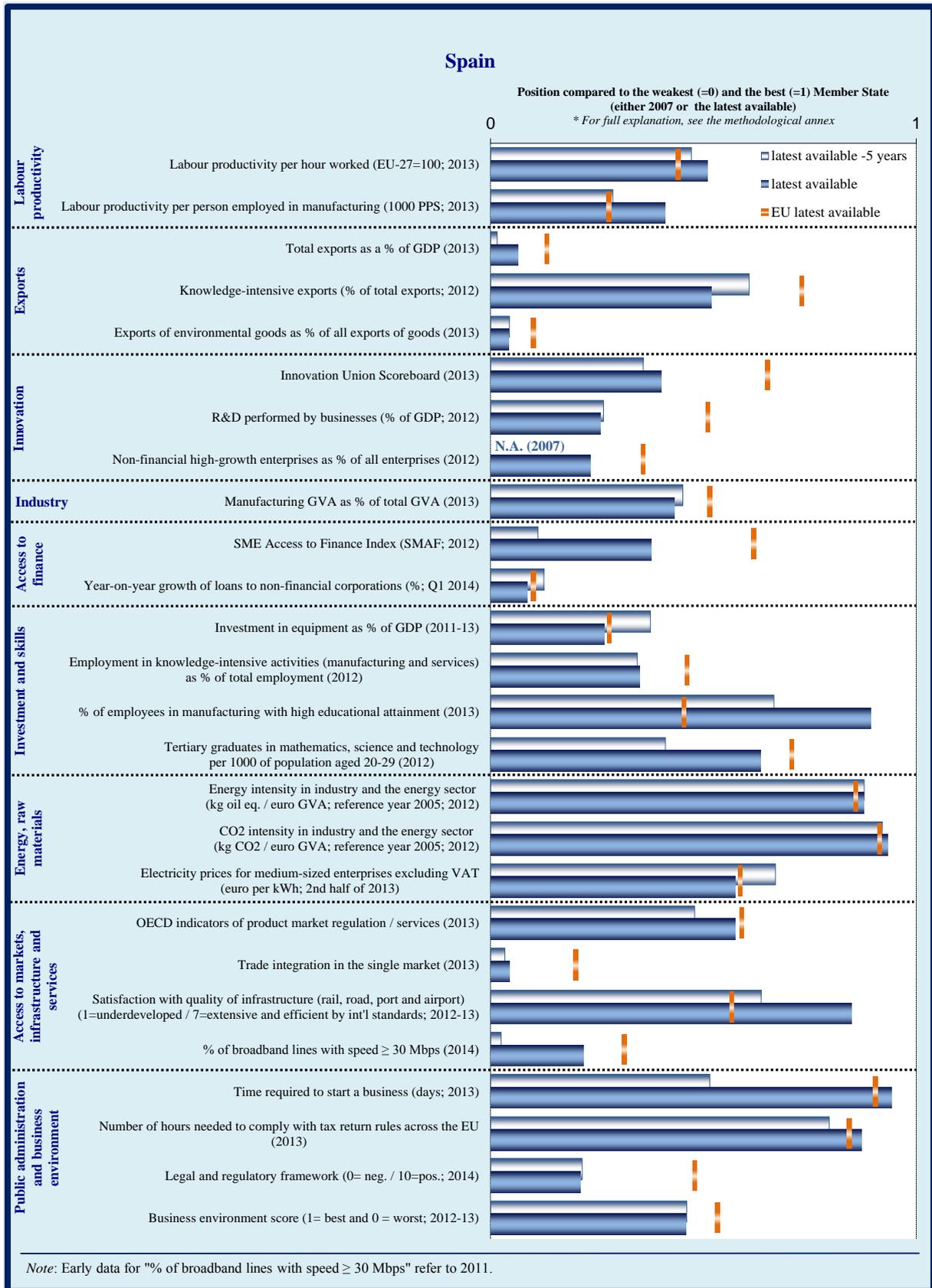
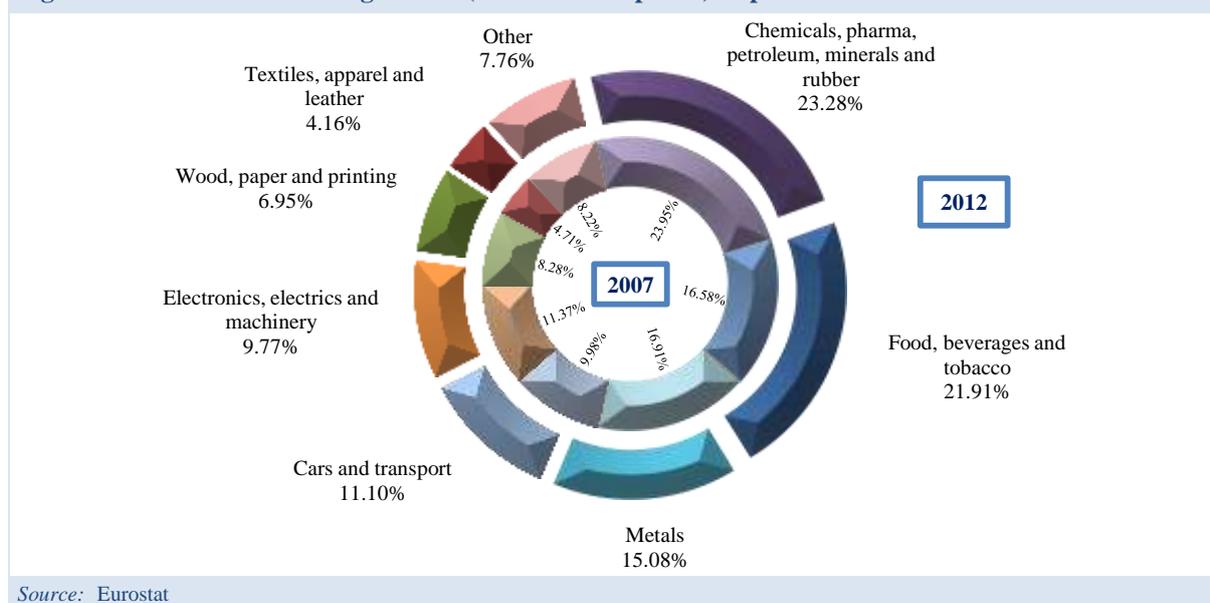


Figure 3.9.1: Manufacturing sectors (GVA at basic prices) - Spain

3.9.1 Introduction and performance

Since the beginning of the crisis, Spain has made considerable progress in making up for past losses of its price and cost competitiveness. During the boom period, growth in Spain was driven mainly by an increase in labour utilisation, while productivity measured by total factor productivity made a negative contribution. Since 2007, labour productivity per person employed has been improving. However, part of this adjustment has been due to cyclical factors, in particular the sharp fall in employment.

Spain has significantly improved its export performance. Exports have grown considerably since 2009 because of an improvement in both cost and non-cost factors. The number of exporting firms has increased, and Spain now exports to a wider range of countries. While cyclical factors explain some of the improvement in the trade balance, a structural improvement of Spain's export capacity is taking place.⁽¹⁾

The government adopted in July 2014 an action plan for strengthening the industrial sector in Spain. It comprises a series of proposals that contribute to mainstreaming industrial competitiveness aspects across various policy fields, including: transport, investment, smart regulation, energy, R&D, SMEs,

⁽¹⁾ See Macroeconomic Imbalances – Spain 2014, European Economy, Occasional Papers 176, European Commission, March 2014.

education and skills, access to finance, internationalisation and trade policy.

Despite the progress achieved, the economy remains vulnerable, given the large stocks of accumulated imbalances. Sustainable rebalancing of the economy requires Spain to remove obstacles to competition in product and service markets and barriers to the growth of firms as recognised by the Commission in its assessment of the 2014 national reform programme and the proposed country-specific recommendations. Spain should also foster a more innovation-friendly environment to support the transition to a knowledge-based economy.

3.9.2 Access to finance and investment

While the availability of bank financing has recently improved, Spanish SMEs still face tougher financing conditions than SMEs in other euro area countries. Against a backdrop of significant deleveraging needs, access to finance remains a major concern for Spanish SMEs⁽²⁾, although flows of new credit⁽³⁾ are gradually improving. The credit contraction is proving steeper for SMEs, given their higher dependency on bank lending. Spanish SMEs still face tougher financing conditions than those in other euro

⁽²⁾ See SAFE survey (October 2013) http://ec.europa.eu/enterprise/policies/finance/files/2013-safe-analytical-report_en.pdf.

⁽³⁾ Loans to non-financial corporations with a nominal amount below EUR 1 million are used as a proxy for loans to SMEs.

area countries. ⁽⁴⁾ Interest rates remain high compared to other Member States, also owing to the weak macroeconomic situation and heightened corporate credit risk. The availability of equity and mezzanine financing remains limited, in particular in the early stages of business development.

Spain has adopted a variety of instruments to stimulate bank lending to SMEs. One of the main measures has been to step up public guarantee schemes to cover, at least partially, the risk inherent in lending. In 2013, SMEs received EUR 13.9 billion through Public Credit Institute (ICO) credit lines, and EUR 17 billion has been allocated for 2014. Mutual guarantee companies have been strengthened and the definition of an SME for banks' capital requirements purposes has been amended ⁽⁵⁾ to facilitate lending to SMEs. Furthermore, in January 2014 Spain successfully concluded a financial sector programme to recapitalise its financial institutions.

Initiatives to promote non-bank financial intermediation have also been put forward. Capital funds ⁽⁶⁾ are being developed. The first tender for allocating investment commitments has been awarded and more tenders are planned in 2014. An alternative bond market for SMEs ⁽⁷⁾ has been set up. The first issuance on this market occurred in December 2013, and several others are in the pipeline. Other measures adopted include the introduction of more flexible securitisation rules, together with tax incentives for equity financing and for business angels' networks.

The government is currently working on a package of legislation to foster business financing. The measures under consideration include: provision of financial information to SMEs by banks; enhancing provision for securitisation; easing transfers between the traditional and the alternative stock markets; and creating a framework for crowd funding.

In July 2014, the government adopted a draft law regulating venture capital companies and closed-end collective investment schemes. This law is expected to create new institutions known as 'SME-venture capital companies' which will benefit from a more flexible financial framework to make use of debt instruments. They would be required to invest at least

70 % of their assets in SMEs, to take part in their management and to provide them with advisory services. The law is also expected to reduce administrative burdens and speed up administrative procedures for venture capital companies.

Business liquidity problems have been aggravated by long delays in receiving payment, particularly from the public sector. Spain remains one of the Member States with the longest payment delays by public authorities, well above the EU average. ⁽⁸⁾ The government notified the Commission of the national transposition measure for the Late Payments Directive, which requires the public sector to pay within 30 days. The government has also taken measures to address the situation, notably paying EUR 42 billion in commercial arrears owed by regional and local governments. ⁽⁹⁾

3.9.3 Innovation and skills

Innovation

Spain's innovation performance improved overall between 2006 and 2013, but the gap with the EU average has increased. The latest Innovation Union Scoreboard ⁽¹⁰⁾ continues to place Spain in the group of moderate innovators with performance below the EU average. Relative weaknesses include low licence and patent revenues from abroad, and a lack of knowledge-intensive services exports. Relative strengths are the publication of scientific research and the commercialisation of innovation. The government is now focusing on implementing the 'Spanish strategy for science, technology and innovation' adopted in early 2013.

R&D investment has been adversely affected by the economic crisis. ⁽¹¹⁾ This follows substantial growth over the last decade which nevertheless failed to foster the transition to a more knowledge-based economy.

Skills

The transition from education and training to work remains the most pressing issue; the early school leaving rate is still high, not enough use is made of

⁽⁴⁾ Survey on SME's access to finance, April 2014, European Central Bank.

⁽⁵⁾ Banco de España Circular 4/2013.

⁽⁶⁾ ICO Global funds, EIF-AXIS business co-investment fund 'Fondo Isabel la Católica'.

⁽⁷⁾ Mercado Alternativo de Renta Fija (MARF).

⁽⁸⁾ Source: European Payment Index 2014, Intrum Justitia,

⁽⁹⁾ 'Plan de pago a proveedores'.

⁽¹⁰⁾ Innovation Union Scoreboard 2014, European Commission.

⁽¹¹⁾ In 2012, Spain's R&D intensity stood at 1.30%, versus 1.39% in 2009, despite a shrinking GDP.

vocational education and training, and there are skills mismatches between education and the labour market. To address these challenges, Spain has continued to implement the reform of its vocational education and training system. Work-based learning is being strengthened and apprenticeships are being encouraged.

Spain has adopted a new education reform act ⁽¹²⁾ which aims to improve the quality of the education system and its links with the labour market. The reform establishes a new ‘basic’ two-year vocational training level that would allow those without a basic compulsory education diploma to access vocational training. The reform also introduces entrepreneurship-related content in the secondary school curriculum. Spanish regions have also set up entrepreneurship workshops for their primary and secondary schools and have developed education laws that include these subjects in the curriculum at the education levels yet uncovered.

3.9.4 Energy, raw materials and sustainability

In the electricity sector, an important reform was initiated in July 2013 to contain the so-called tariff deficit, ⁽¹³⁾ following various measures adopted in 2012 and 2013. In December 2013, Spain adopted a legislative package which among other things foresees a review of the support for renewable energy sources, a reduction of the remuneration of transmission and distribution activities, and an increase of network access tariffs for consumers. If these measures fall short of reducing the tariff deficit, an automatic balancing mechanism would be triggered and access tariffs increased further.

The government has taken steps in 2013 to promote efficient use of energy, including environmental taxes; and the suppression of some tax exemptions for gas and coal. A new national energy efficiency action plan is being prepared.

Capacity for cross-border transmission to France is being increased. A new electricity line should be operational in 2015, doubling the interconnection capacity between both Member States. The low

interconnection level between the Spanish and French gas systems remains a major infrastructure bottleneck. A study is also being carried out on the scope for integrating the Iberian gas market; it is expected to be finished in 2014.

3.9.5 Access to markets, infrastructure and services

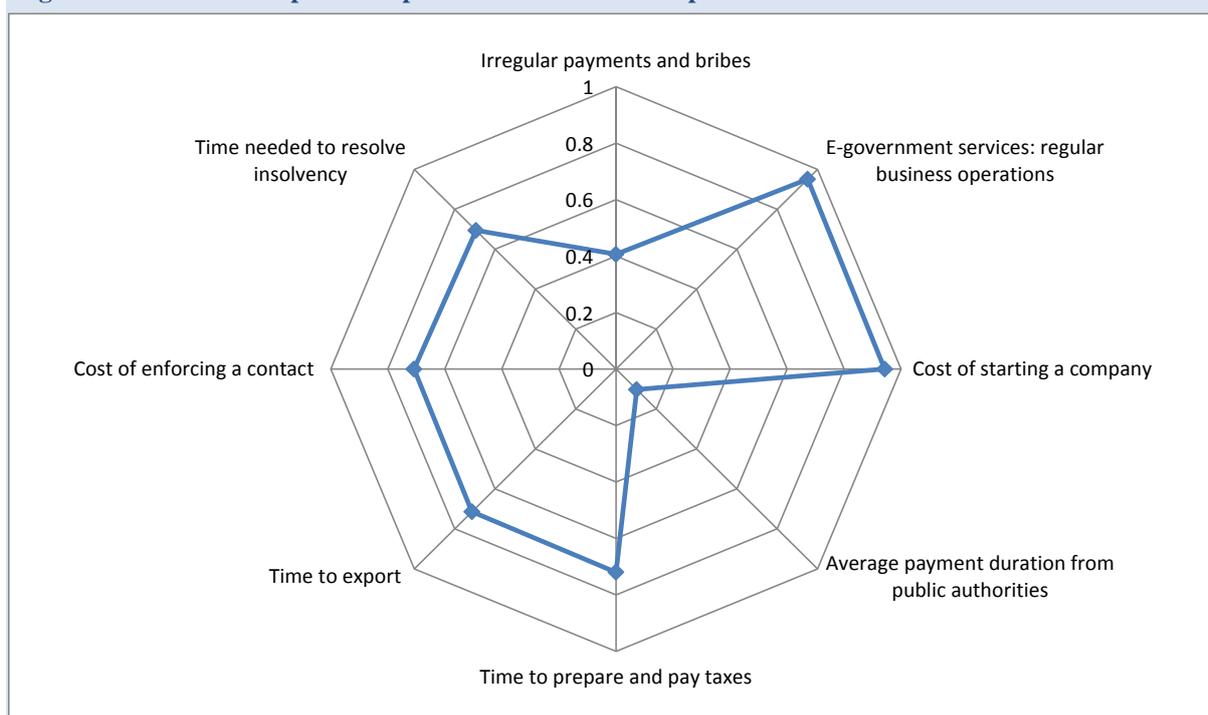
Exports have grown considerably since 2009 on the back of a rapidly increasing export propensity of Spanish firms both at the intensive and extensive margins. The number of exporting firms has increased by more than 30 % since 2010, and the range of countries towards which Spain exports is broader. Improvements in both cost and non-cost factors have supported this positive development. As unit labour costs have decreased, product and geographical diversification have helped to sustain export performance. Lower recent demand from outside the EU has been offset by redirecting exports to European markets. High technology exports increased in 2013 by 10.2 % to represent 10.1 % of total manufacturing exports, up from 9.7 % in 2012. The exports of non-tourism services have also increased and account for more than half of the exports of services.

The government adopted in February 2014 the strategic plan for the internationalisation of the Spanish economy 2014-2015. The plan comprises 41 measures centred on the following six areas: business environment; access to foreign markets; access to finance; trade promotion and business support; fostering a culture of internationalisation, including training activities; and fostering innovation. The plan is expected to be updated every two years.

Spain adopted in November 2013 a new strategy on logistics with a view to streamlining the transport of goods. The strategy comprises 18 priority actions, including: a single window for administrative procedures, increasing the competitiveness and connections of ports, and enhancing the liberalisation of rail freight. At the same time the liberalisation of passengers’ railway services will be proceeding gradually during 2014. Freight and passenger rail liberalisation will be supported by measures such as the current splitting up of the incumbent Renfe Operadora into four entities and a review of infrastructure access charges.

⁽¹²⁾ Law 8/2013, of 9 December 2013.

⁽¹³⁾ Gap between regulated ‘access tariffs’ paid by consumers and various regulated costs — including distribution costs and subsidies for renewable energy production.

Figure 3.9.2: Overall profile of public administration - Spain

Note: Values have been scaled so that the best observation (Member State) gets 1 and the worst gets 0.

Source: World Bank Doing business; Intrum Justitia; OECD; World Economic Forum; European Commission

3.9.6 Public administration and business environment

Business environment

Several recent and on-going important initiatives aim at improving the business environment and fostering greater competition. However, starting up a business remains more time-consuming than in the EU on average, although it is less costly. Several measures have therefore been adopted to ease licensing procedures, though their impact is not yet clear. They include: limits on the need for authorisations from local authorities; ⁽¹⁴⁾ greater use of the ‘express licence regime’, ⁽¹⁵⁾ although it remains mostly limited to small or medium-sized retail and services; adoption of the general principle of a single licence for the whole of Spain in order to gain access to an economic activity or perform it; and new rules for environmental impact assessments, which now have to be transposed into regional law.

⁽¹⁴⁾ Law 27/2013, of 27 December.

⁽¹⁵⁾ Royal decree-law 19/2012, of 25 May; law 14/2013, of 27 September; and law 20/2013 of 9 December.

In September 2013, the omnibus law on entrepreneurship ⁽¹⁶⁾ was approved. It included a number of measures to facilitate SME access to capital markets, support the internationalisation of businesses, promote the participation of SMEs in public procurement, simplify the business environment to ease company start-ups, and introduce entrepreneurship content in education. Spain has also decided to adopt the ‘one-in, one-out’ principle to reduce administrative burdens, but this awaits the approval of implementing regulations.

The law on entrepreneurship has also enhanced the insolvency framework for corporates by introducing a new debt refinancing procedure with the possibility of a partial debt discharge. The law has also facilitated out-of-court debt refinancing agreements and has narrowed the personal liability of limited liability entrepreneurs. The government has also adopted a new law on the refinancing and restructuring of corporate debt ⁽¹⁷⁾ which aims to facilitate these procedures by speeding them up and increasing their flexibility.

⁽¹⁶⁾ Law 14/13, of 27 September 2013.

⁽¹⁷⁾ Royal decree-law 4/2014, of 7 March 2014.

The law on market unity ⁽¹⁸⁾ was adopted in December 2013. It ensures that any product or service which complies with one region's legislation can be traded throughout the country, based on the single licence principle. It should allow businesses to benefit from economies of scale and scope and tackle conflicts stemming from overlapping regulations which hamper the launch or pursuit of economic activities. The law has also prompted moves towards simpler regulation of business at all administrative levels.

A new law on the Chambers of Commerce was adopted in April 2014. One of its effects is to transform the 'Consejo Superior de Cámaras' into Spain's Chamber of Commerce, which would play a more significant role in helping businesses expand abroad and support increased cooperation with the education administration on the implementation of a dual vocational education and training system.

In 2014, the government plans to approve the delayed law on professional services. The law is expected to change the rules on registration with a professional association, membership fees, and the transparency and accountability of professional bodies.

Public administration

Several initiatives to modernise public administration are under way. Spain is implementing the set of measures recommended by an experts' committee ⁽¹⁹⁾ report on the reform of public administration, issued in June 2013. These measures fall into four categories: (i) removing overlapping administrative bodies between central and regional government; (ii) reducing administrative burdens; (iii) improving the management of common services and reducing overheads; and (iv) rationalising the so-called institutional administration of central government. A monitoring body to assess and report on their implementation has been set up. ⁽²⁰⁾ At this point, most of the suggested measures have been or are close to being implemented. ⁽²¹⁾

⁽¹⁸⁾ Law 20/2013, of 9 December 2013.

⁽¹⁹⁾ Comisión para la reforma de las administraciones públicas (CORA).

⁽²⁰⁾ Oficina para la ejecución de la reforma de la administración (OPERA).

⁽²¹⁾ As of March 2014, 63 measures have been completed and 158 are being implemented, of which 137 are at an advanced stage.

The reform of local administration was approved in December 2013. ⁽²²⁾ It aims among others to clarify the remit of municipalities, increase budgetary discipline, and rationalise their services. As part of its work on e-government, Spain adopted a new law on e-invoicing in December 2013. ⁽²³⁾ Measures are also being taken to foster the use of electronic ID.

As concerns the judicial reforms, the government adopted amongst others measures to foster out-of-court settlements (September 2013) and to reform the criminal code (October 2013) and legal aid (October 2013). In December 2013, Spain also completed the implementation of the mediation directive. ⁽²⁴⁾ An ambitious draft reform of the judiciary is currently in the process of adoption. The implementation of previous reforms continues, such as the development of the Oficina Judicial, a common pool of resources to assist judges, and of links between regional electronic case management systems. Data available for 2010-12 show that length of proceedings and rate of resolving cases improved for litigious civil, commercial and administrative cases in the court of first instance ⁽²⁵⁾.

An anti-corruption legal framework is largely in place in Spain and law enforcement has shown good results in investigating corrupt practices. However, political corruption and shortcomings in checks and balances are particularly challenging, notably in regional and local public spending and audit mechanisms. Against this backdrop, Spain has adopted a law on transparency, public access to information and good governance. ⁽²⁶⁾ The government has approved two bills on supervision of party funding and accountability of high-ranking officials, and in December 2013 reported plans to reform criminal law and criminal procedure law to tackle corruption more effectively.

⁽²²⁾ Law 27/2013, of 27 December.

⁽²³⁾ Law 25 / 2013, of 27 December.

⁽²⁴⁾ Directive 2008/52/EC of 21 May 2008 on certain aspects of mediation in civil and commercial matters.

⁽²⁵⁾ Source: The 2014 EU justice scoreboard, COM(2014) 155 final, European Commission.

⁽²⁶⁾ Law 19/2013, of 9 December.

3.9.7 Conclusions

Spain is in the process of regaining competitiveness. There have been visible advances in the reform agenda. Timely and effective implementation of the measures adopted is critical to facilitate business growth and regain competitiveness.

The implementation of a large number of structural reforms is improving business conditions and the functioning of markets. The measures adopted, particularly the law on market unity and the law on entrepreneurship, have the potential to improve the Spanish business environment. Spain is also taking various steps to reform its public sector, which may help simplify administrative procedures.

Bank financing conditions remain tight, in particular for SMEs, thus hampering the growth of viable businesses and innovative companies. The government is taking measures to both facilitate access to bank credit and to foster alternative sources of financing. Companies' liquidity problems continue to be made worse by long delays in receiving payment, in particular from the public sector. Fostering a more innovation-friendly environment and tackling the skills mismatches between education and the labour market are still major challenges.