



# **Economic Challenges of Lagging Regions**

*Annex 2*

*Task 2 - Country report SPAIN*

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*Contact: Blazej Gorgol*

*E-mail: [Blazej.GORGOL@ec.europa.eu](mailto:Blazej.GORGOL@ec.europa.eu)*

*European Commission  
B-1049 Brussels*

# Economic Challenges of Lagging Regions

Annex 2

Task 2 - Country report SPAIN



A joint effort by

- › The Vienna Institute for International Economic Studies  
Wiener Institut für Internationale Wirtschaftsvergleiche
- › Cambridge Econometrics
- › Applica Sprl.

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## Preliminary note

The Country Reports are concerned with identifying the main structural imbalances in each of the 8 Member States on the basis of a broad range of data from various sources with regard to the 6 reform areas that has been identified as likely to most influence investment decisions and which are:

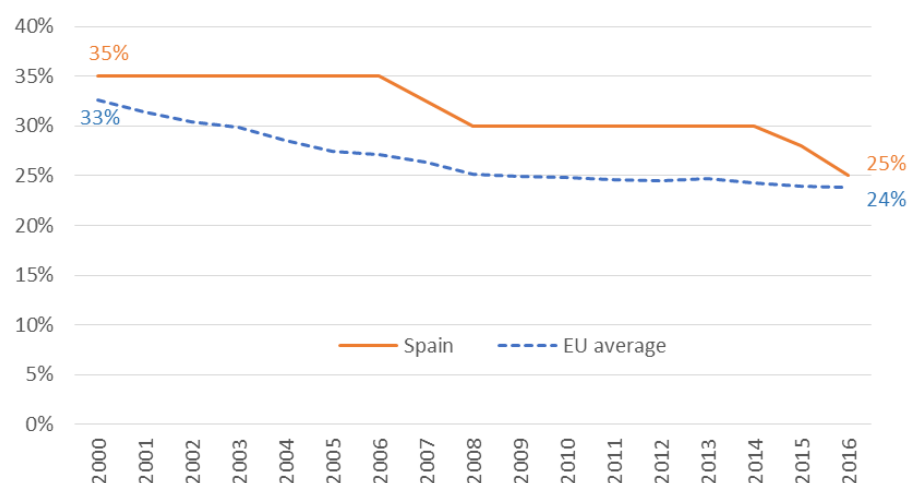
1. Corporate taxation
2. Banking and Access to finance
3. Labour market
4. Education
5. Business environment including product markets, research and innovation
6. Governance

The approach is to compare, for each structural variable, the situation in the country concerned and, so far as possible, in the lagging (NUTS 2) regions where data are available with the EU average, used as a benchmark. The findings are then confronted with the reforms recommended and implemented so to identify areas still in need of reform.

A summary of the main findings coming out from the detailed analysis provided in the Country Reports is included in the main report.

## 1. CORPORATE TAXATION

**Figure 1.1 – Corporate income tax rate in Spain, 2000-2016**

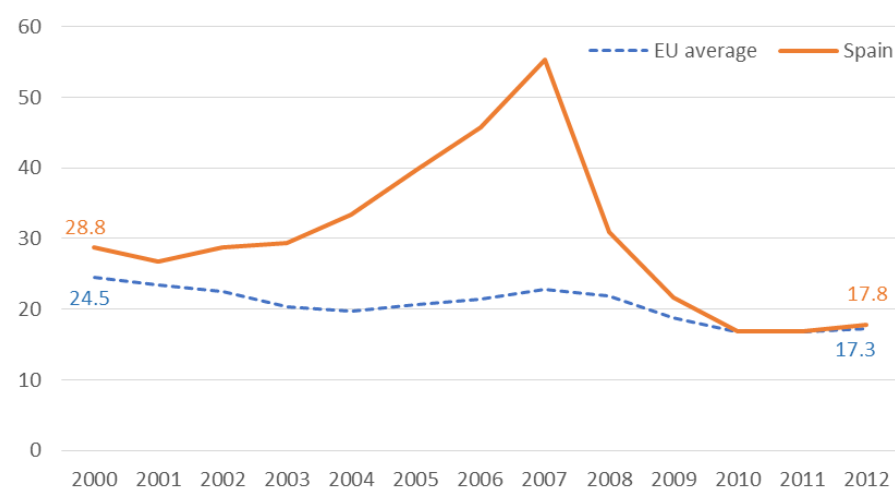


Source: OECD Tax Database.

Notes: The data presented is the combined corporate income tax rate, which is the combination of the central government corporate income tax rate and the sub-central government corporate income tax rate.

The EU average does not include BG, LT, LV, MT, HR and RO.

**Figure 1.2– Implicit tax rate on capital and business income of corporations in Spain, 2000-2012**



Source: Eurostat, Government statistics [gov\_a\_tax\_itr].

Note: The EU average does not include BG, DK, DE, IE, EL, HR, LU, MT and RO.

CORPORATE TAXATION in Spain	
Country-specific recommendations, 2011-2015	
2011-2013	-
2014	Consider lowering employers' social security contributions (in particular for low wage jobs). Continue to tackle the debt bias in corporate taxation. Take measures to avoid that taxation hinders the smooth functioning of the internal market.

2015	-
<b>Structural reforms carried out, 2011-2015</b>	
2010-2015	In 2010, the government approved the general application of accelerated depreciation of assets for company tax purposes until 2015, raised the upper limit for small firms to qualify for the reduced corporate income tax rate and extended the tax base to which that rate is applicable; it also exempted small companies from stamp duty on all transactions for the creation, capitalisation and maintenance of companies, and made the Chamber of Commerce fee voluntary.
2013	Measures to address the debt bias in corporate taxation.
2015	Comprehensive tax reform to enter into force in January 2015 (covering personal and corporate income taxation) to make the tax system simpler and more conducive to growth and job creation. The reform aimed at reducing the corporate income tax rate, increasing the taxable base and raising the effective tax rate with measures such as increasing payments by instalment and limiting deductions.
<b>Outstanding challenges</b>	
	A relatively high effective marginal corporate tax rate (in the non-financial sector) might hamper investment in the real economy.
	The high debt bias in corporate taxation hampers developments in equity markets.
	Corporate taxation remains a structural barrier to investment.

Sources: CSRs 2011-2015, CR 2016 (SWD2016 - 78 final), National Reform Programmes (NRP) 2001-2015, Member States Investment Challenges – SWD(2015) 400 final.

## Overview

The corporate income tax rate in Spain has been progressively reduced since 2000. Between 2000 and 2006 the rate was relatively high at 35%, but was reduced to 30% between 2007 and 2008 in line with the 2004 Corporate Tax Act and was further reduced to 28% in 2015 and 25% in 2016, following the adoption of the 2014 Tax reform. Over the last decade the difference with the EU average rate was significant, but this has markedly narrowed in the last few years (in 2016 the gap was only 1 pp).

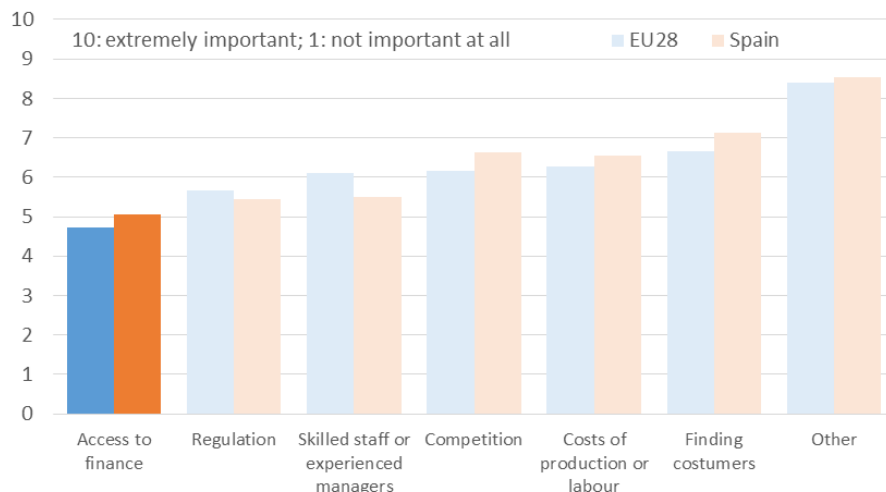
Notwithstanding the reduction of the basic rate, the effective (or implicit) tax rate on corporate income tax has constantly increased between 2000 and 2007, reaching in that year the peak of 55%: one of the higher effective tax rates in the EU. Since then, the implicit tax rate has fallen down drastically and is very much the same as the EU average over the 2010-2012 period (more recent data is not available).

The 2014 country specific recommendations on corporate taxation focused primarily on tackling the debt bias - the tendency of corporate tax systems to favour debt over equity – and to favour a tax system more conducive to growth. Starting from 2010, the government intervention focused on limiting interest deductibility for companies and on restricting tax deduction for equity increases. In addition, in 2015 a comprehensive tax reform entered into force, which reduced the corporate income tax rate and extended the tax base. The debt bias however still represents an obstacle to the development of the equity market.

## 2. ACCESS OF ENTERPRISES TO FINANCE

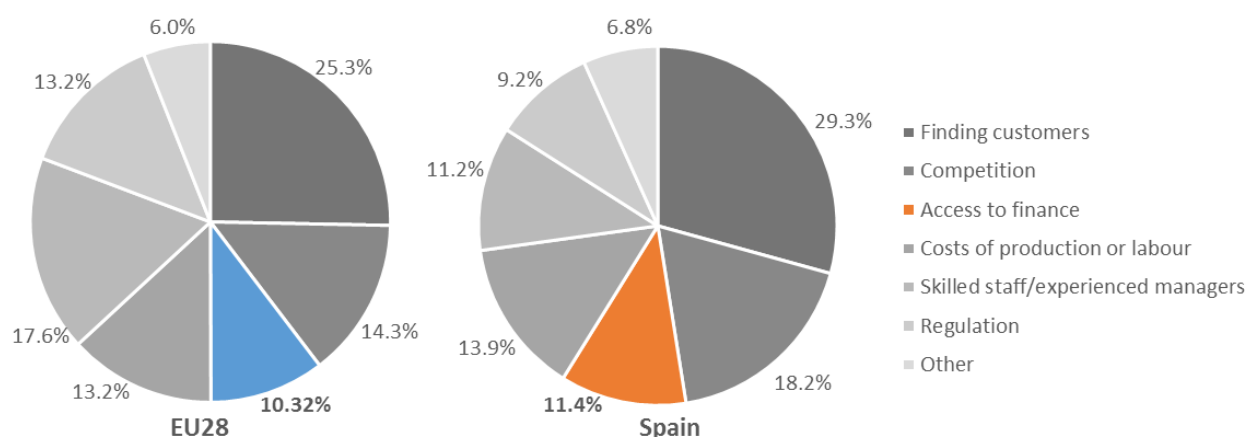
Figure 2.1 – Problems faced by enterprises in the past 6 months in Spain, 2015





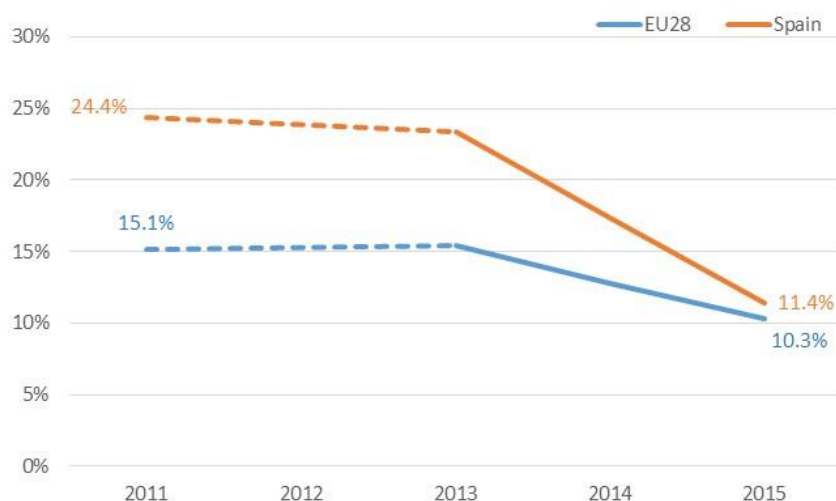
Source: SAFE, wave 13.

**Figure 2.2 – Current most important problem for enterprises in Spain, 2015**



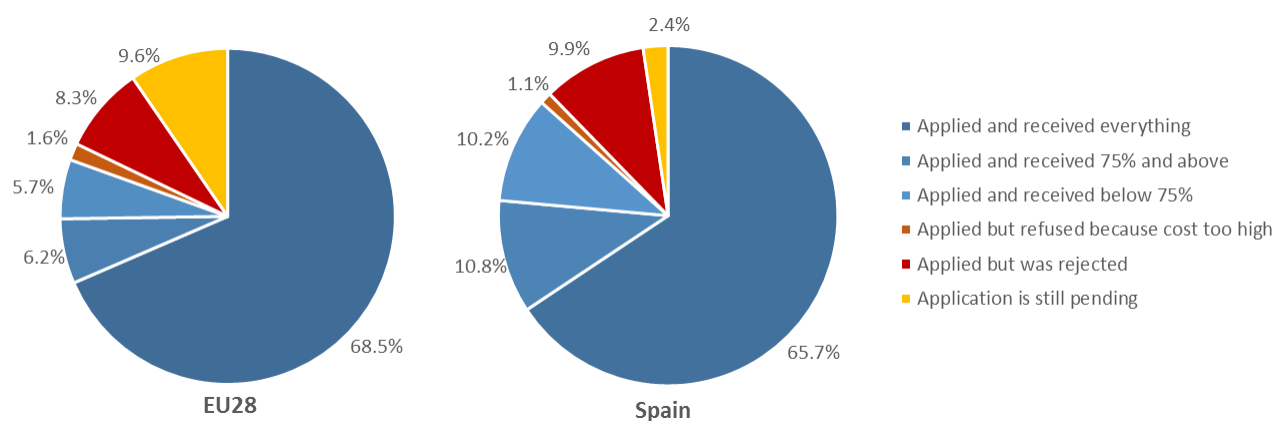
Source: SAFE, wave 13.

**Figure 2.3 – Share of responding enterprises that said that access to finance was the current most important problem for them in Spain, 2011-2015**



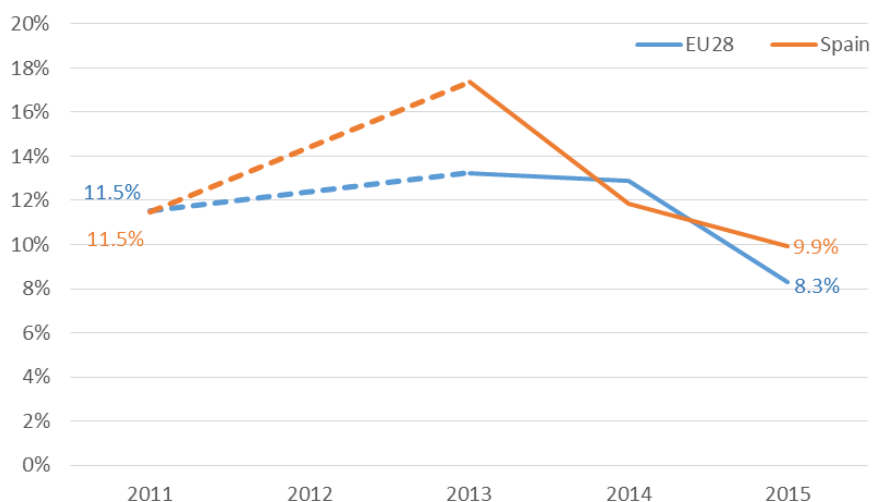
Source: SAFE, waves 5, 9, 11 and 13.

**Figure 2.4 – Outcome of applications by enterprises for bank loans in Spain, 2015**



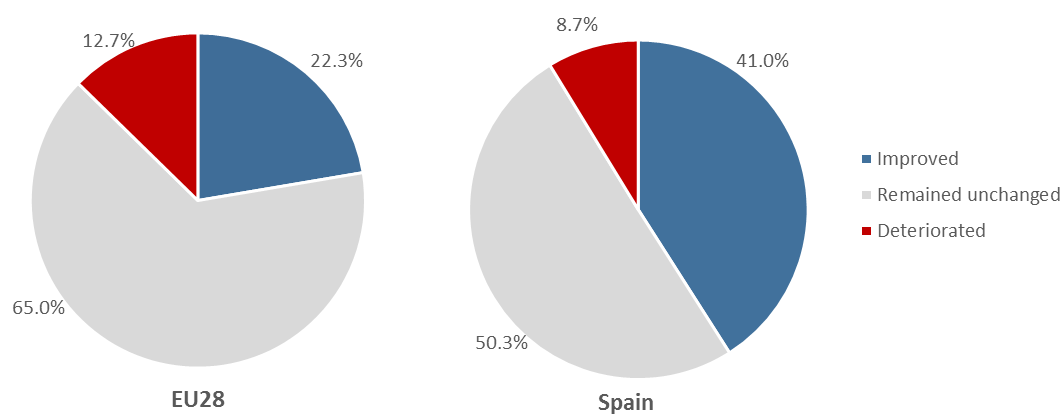
Source: SAFE, wave 13.

**Figure 2.5 – Share of responding enterprises that applied for a bank loan but saw their application rejected in Spain, 2011-2015**



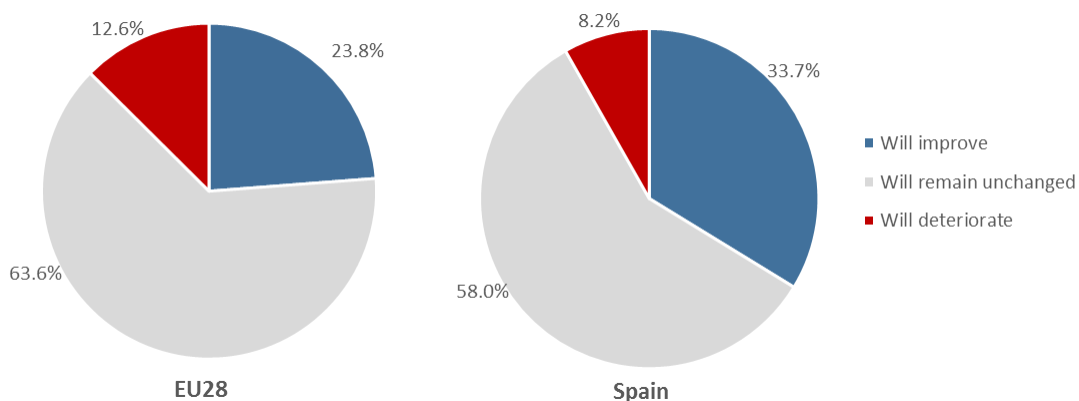
Source: SAFE, waves 5, 9, 11 and 13.

**Figure 2.6 – Availability of bank loans over the past 6 months in Spain, 2015**



Source: SAFE, wave 13.

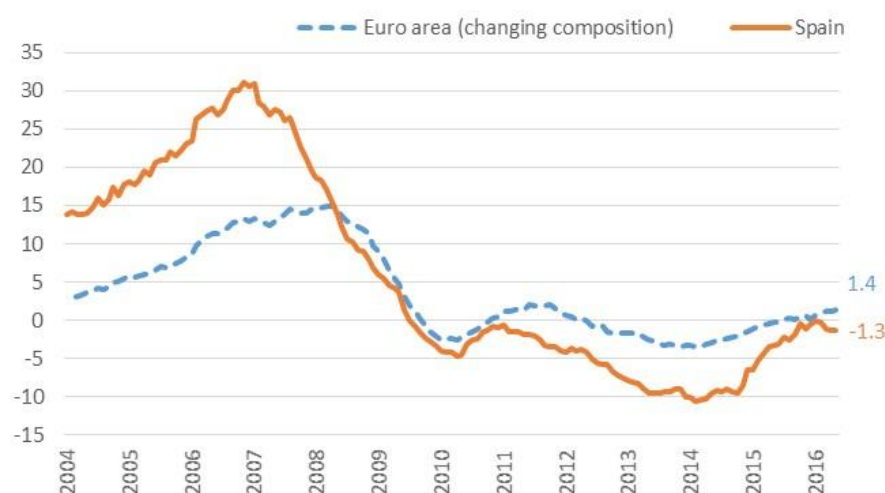
**Figure 2.7 – Evolution of the availability of bank loans for the future in Spain, 2015**



Source: SAFE, wave 13.

## Stock of bank loans to non-financial corporates

**Figure 2.8 – Annual growth rate of monetary financial institutions loans to non-financial corporations, 2004-2016 in Spain, 2015**



Source: European Central Bank, Balance Sheet Items, 2010-2016

Notes: Annual growth rate of loans adjusted for sales and securitisation to euro area non-financial corporates (NFC), data neither seasonally nor working day adjusted. Index of Notional Stocks.

ACCESS TO FINANCE in Spain	
<b>Country-specific recommendations, 2011-2015</b>	
2011	-
2012	Reallocate funds to support access to finance for SMEs.
2013	Implement the financial sector programme for the recapitalisation of the financial institutions including the measures promoting non-bank intermediation adopted in November 2012.
2014	Complete the reform of the savings bank sector and complete the restructuring of state-owned savings banks. Complete the ongoing measures to widen SMEs access to finance (in particular by finalising measures to improve non-bank financial intermediation).
2015	Complete the reform of the savings bank sector and complete the restructuring and privatisation of state-owned savings banks.
<b>Structural reforms carried out, 2011-2015</b>	
2012	A large plan for payment of regional and local governments' commercial debt to companies and launched various initiatives to widen the financing options for firms was implemented.
2013	Several measures were adopted in order to make it easier for SMEs to access finance. Access for SMEs to bank finance was boosted via credit lines from the Official Credit Institute (ICO), a commitment from domestic banks to increase loans by 10 billion euros and an enhanced system of public guarantees. Finance to SMEs has been promoted through risk capital and business angels. Specifically, new co-investment funds have been created with public contributions, there has been an improvement in the regulatory framework and tax incentives will be introduced for investors of this kind. Access for companies to both equity and fixed-income financial markets has been eased.
2014	Measures were taken to improve access of firms to bank and non-bank financing and facilitate debt restructuring.
2015	The SME Initiative, a programme co-financed by the European Regional Development Fund, should

	contribute to the improving access of SMEs to finance. New law on corporate financing to improve access to bank credit and develop non-bank financial intermediation was adopted.
<b>Outstanding challenges</b>	
	The availability of equity financing remains limited, in particular in the early stages of business development. The deleveraging process will continue to weigh on access to finance, but recent actions have already contributed to improve it. Access to finances remains a structural barrier to investment.

Sources: CSRs 2011-2015, CR 2016 (SWD2016 - 78 final), National Reform Programmes (NRP) 2001-2015, Member States Investment Challenges – SWD(2015) 400 final.

## Overview

Based on the SAFE results for 2015, access to finance was not considered the primary issue of concern for enterprises in Spain which seem more concerned about finding customers, the level of competition as well as the cost of production or labour. Access to finance tended to be a major issue before 2013, when about one fourth of enterprises operating in Spain declared that this was the most important problem for them; however, in the last two years this share has significantly went down to achieve 11.4% in 2015, which is about one percentage point more than the EU average.

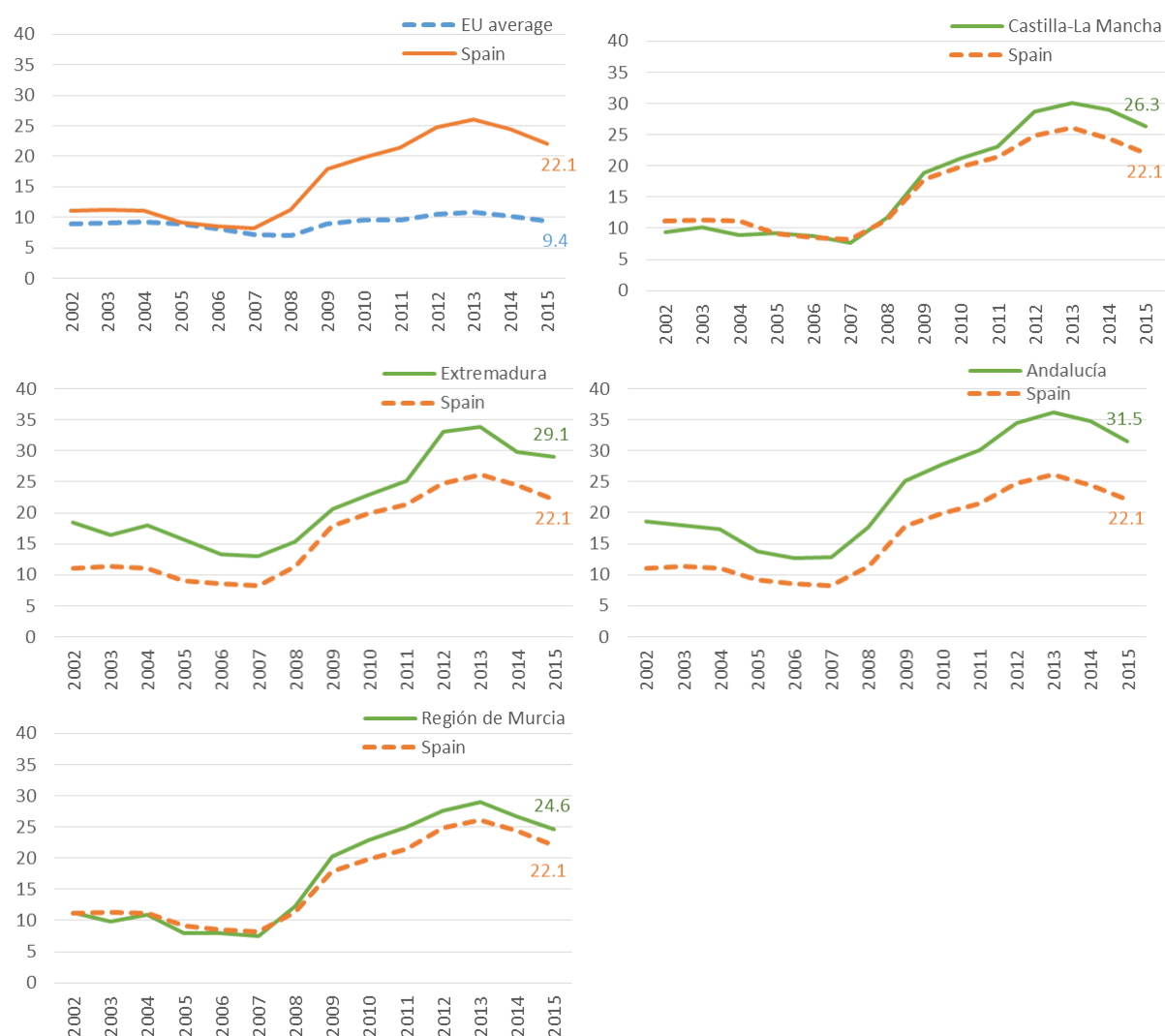
Data on the outcome of bank loan applications in 2015 confirm that access to capital tends to be slightly more difficult for enterprises in Spain as compared to those in the rest of the EU. The share of responding enterprises that applied for a bank loan but saw their application rejected is higher in Spain than in the rest of EU. However, the situation has markedly improved as this share was much larger over the preceding years. This is also evidenced by data on bank loans availability over the past 6 months, which show an improved situation for a higher share of responding enterprises as compared to the EU on average. In addition, enterprises in Spain seem more confident in the future availability of such loans than in the rest of the EU.

The European Central Bank indicator on the growth rate of the stock of loans to non-financial corporations confirms that access to credit is currently less of a concern for Spanish enterprises compared to the previous years. Although the rate is still negative in 2016 and below the EU average, the extent of the reduction is lower compared to the previous years when the rate was mainly influenced by the reduction in investment in the real estate sector (including construction and real estate services) and in SMEs.

The country-specific recommendations mainly focused on the recapitalisation of the financial institutions and on promoting access to finance for enterprises, particularly for SMEs. Starting from 2012 the Spanish government has responded to the recommendations through the introduction of new measures aimed at providing new sources of funding for SMEs (among others credit lines from the Official Credit Institute, new co-investment funds with public resources, debt restructuring). Despite the fact that several measures have been implemented and, notwithstanding the abovementioned improvements in the enterprises access to credit compared to the previous years, the availability of resources for investments remains limited, particularly for SMEs and early stage business.

## 3. LABOUR MARKET

**Figure 3.1 – Unemployment rate (15 and over) in Spain, 2002-2015**



Source: Eurostat, LFS [lfst\_r\_lfu3rt].

**Table 3.1 – Unemployment rate in Spain, 2015**

Region	Unemployment rate, 15 and over (%)
Castilla-La Mancha	26.3
Extremadura	29.1
Andalucía	31.5
Región de Murcia	24.6
<b>Spain</b>	<b>22.1</b>
EU average	9.4

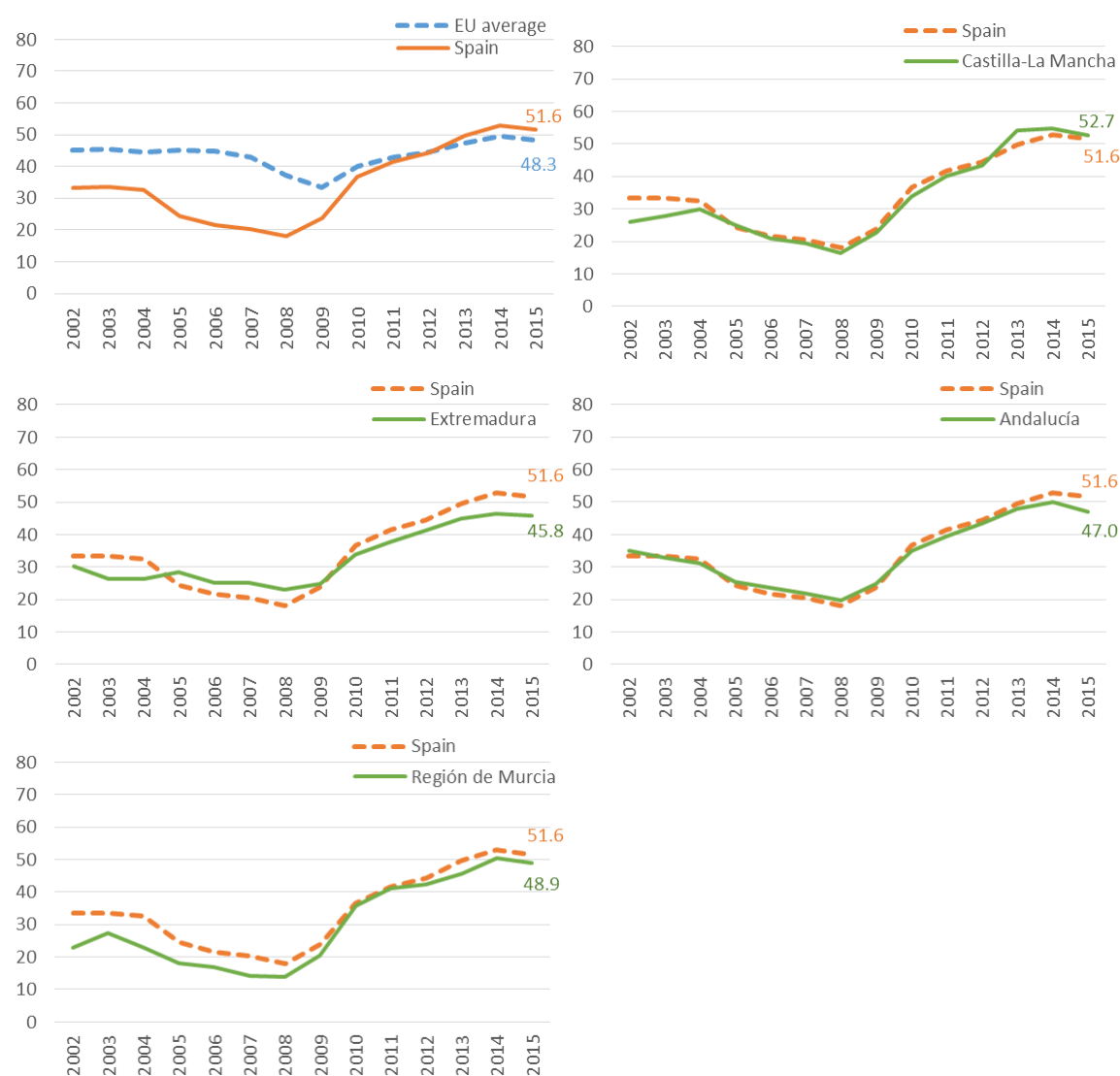
Source: Eurostat, LFS [lfst\_r\_lfu3rt].

Notes: Rates which are higher than the national average are shown in red. Rates which are higher than the EU average are highlighted in grey.

**Commentary**

The unemployment rate in Spain was significantly above the EU average in 2015. Between 2002 and 2007 the rates were very similar but from 2008 onwards, the unemployment level in the country has followed an increasing trend reaching 22% in 2015 of the total labour force, which is more than the double of the EU average (9.4%). In all lagging regions was the unemployment rate higher than the national average. In Extremadura and Andalucía, the rate has been consistently above the national average over the period 2007-2013 and in the preceding years. Whereas in the other two lagging regions, Castilla-La Mancha and Murcia, unemployment was above the national average from 2009 onwards, while the rate tracked the national average relatively closely before that. Job shortages, therefore, seem to be a particular problem in all the four lagging regions although it appears more rooted in Extremadura and Andalucía.

**Figure 3.2 – Long-term unemployment in Spain, 2002-2015, % of total unemployed**



Source: Eurostat, LFS [lfst\_r\_lfu2ltu].

**Table 3.2 – Long-term unemployment in Spain, 2015**

Region	LTU rate (% of total unemployed)
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Castilla-La Mancha	52.7
Extremadura	45.8
Andalucía	47.0
Región de Murcia	48.9
<b>Spain</b>	<b>51.6</b>
EU average	48.3

Source: Eurostat, LFS [fst\_r\_lfu2ltu]

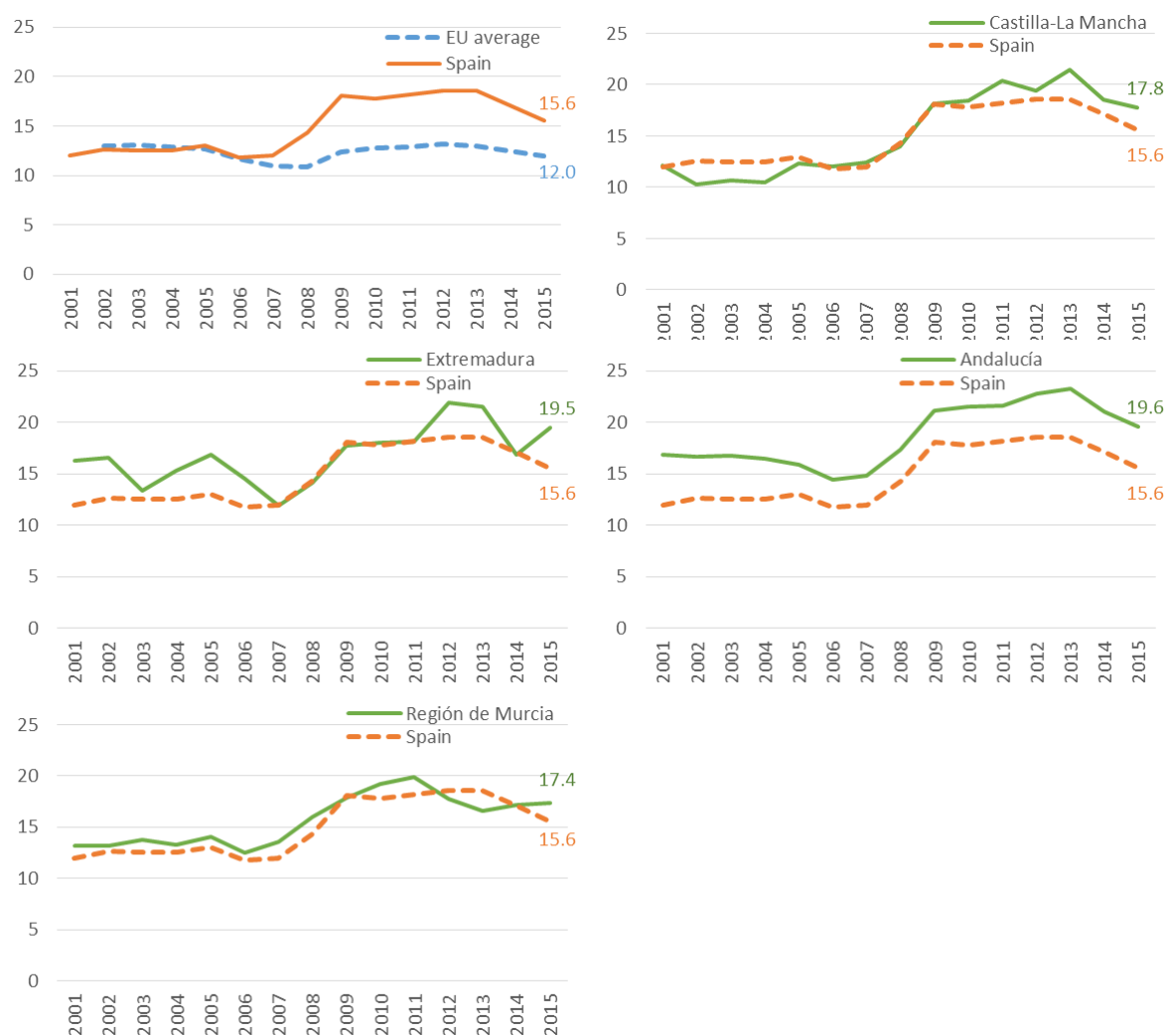
Notes: Rates which are higher than the national average are shown in red. Rates which are higher than the EU average are highlighted in grey.

### Commentary

The share of unemployed out of work for a year or more – i.e. long-term unemployment – was slightly higher in Spain in 2015 than in the rest of the EU as well as in the two previous years, although it was constantly and significantly below the EU average before 2010. This suggests that structural unemployment has become more of an issue in Spain over the recent years. The lagging regions however seem to be less affected by long-term unemployment than elsewhere in the country with the exception of Castilla-La Mancha where the rate was slightly above the national average. In Andalucía and Extremadura, the rate was also below the EU average. Structural unemployment, therefore, is a particular problem only in Castilla-La Mancha.

**Figure 3.3 – Proportion of young people aged 15-24 neither in employment nor in education and training in Spain, 2001-2015**





Source: Eurostat, LFS [edat\_lfse\_22].

**Table 3.3 – NEET rate in Spain, 2015**

Region	NEET rate (15-24), %, 2015
Castilla-La Mancha	17.8
Extremadura	19.5
Andalucía	19.6
Región de Murcia	17.4
<b>Spain</b>	<b>15.6</b>
EU average	12.0

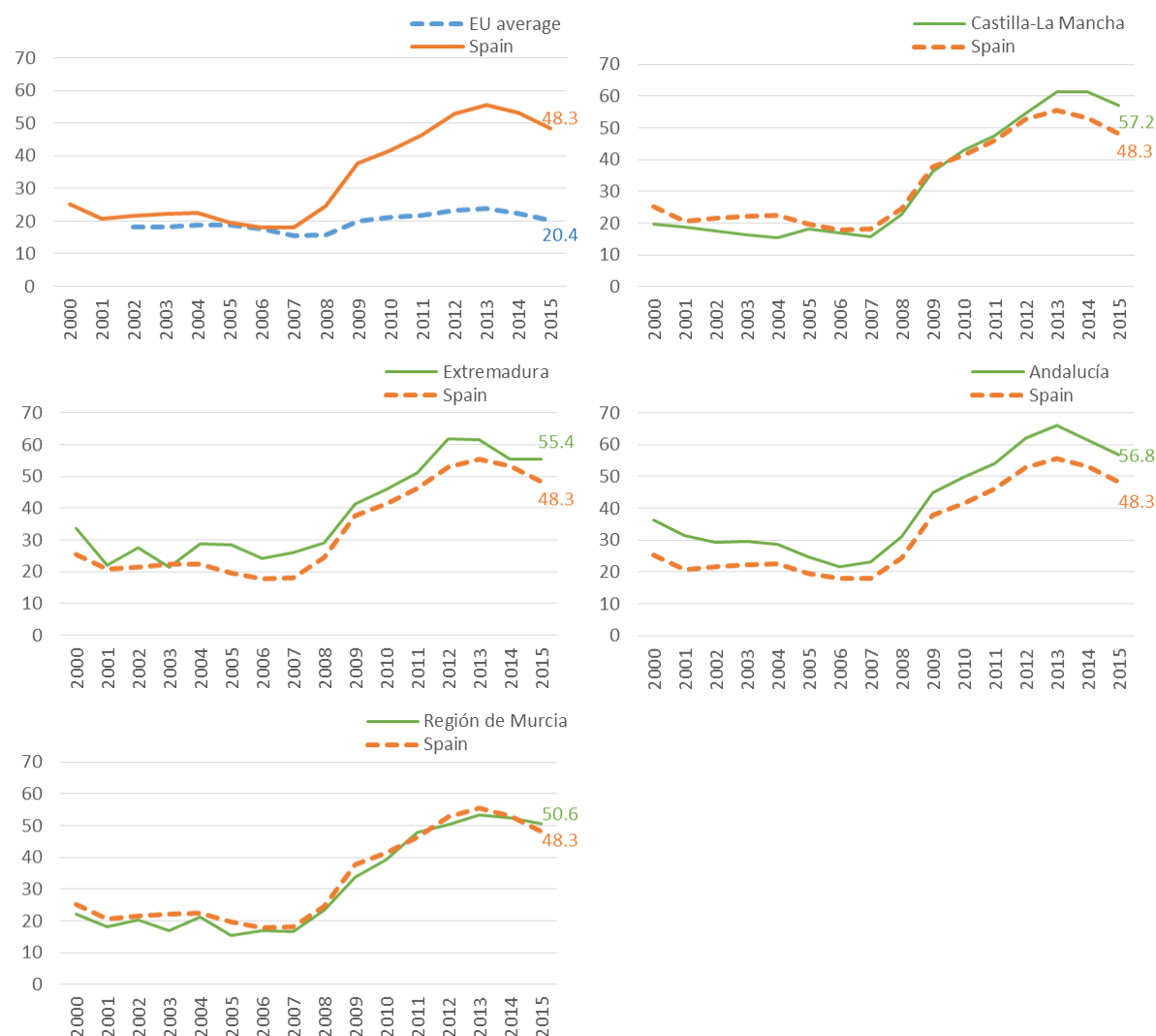
Source: Eurostat, LFS.

Notes: Rates which are higher than the national average are shown in red. Rates which are higher than the EU average are highlighted in grey.

**Commentary**

The NEET rate for young people aged 15-24 in Spain was above that in the rest of the EU in 2015 as it had been over the preceding 8 years. In 2015, the rate was even higher than the national average in all the lagging regions, particularly in Andalucía and Extremadura. In both regions the rate was about four percentage points higher than the national average; while in the former the rate has been constantly above the national average over the period considered (2001-2015), in the latter the rate has tracked the national average quite closely between 2007 and 2011, but was above it during most of the years before and after this period. In Castilla-La Mancha, the NEET rate used to be in line with the national average between 2005 and 2009 but from 2010 onward it was above. In the region of Murcia, instead, the rate has been above or equal to the national average over the whole period considered, with the exception of the years between 2012 and 2014, when it was below. The lack of jobs for young people and/or their limited participation in education or initial vocational training is a problem in all the four lagging regions but is particularly acute in Andalucía and Extremadura.

**Figure 3.4 – Unemployment rate (15-24 years) in Spain, 2000-2015**



Source: Eurostat, LFS [lfst\_r\_lfu3rt].

**Table 3.4 – Youth unemployment rate in Spain, 2015**

Region	Unemployment rate (15-24), %, 2015
Castilla-La Mancha	57.2
Extremadura	55.4
Andalucía	56.8
Región de Murcia	50.6
<b>Spain</b>	<b>48.3</b>
EU average	20.4

Source: Eurostat, LFS.

Notes: Rates which are higher than the national average are shown in red. Rates which are higher than the EU average are highlighted in grey.

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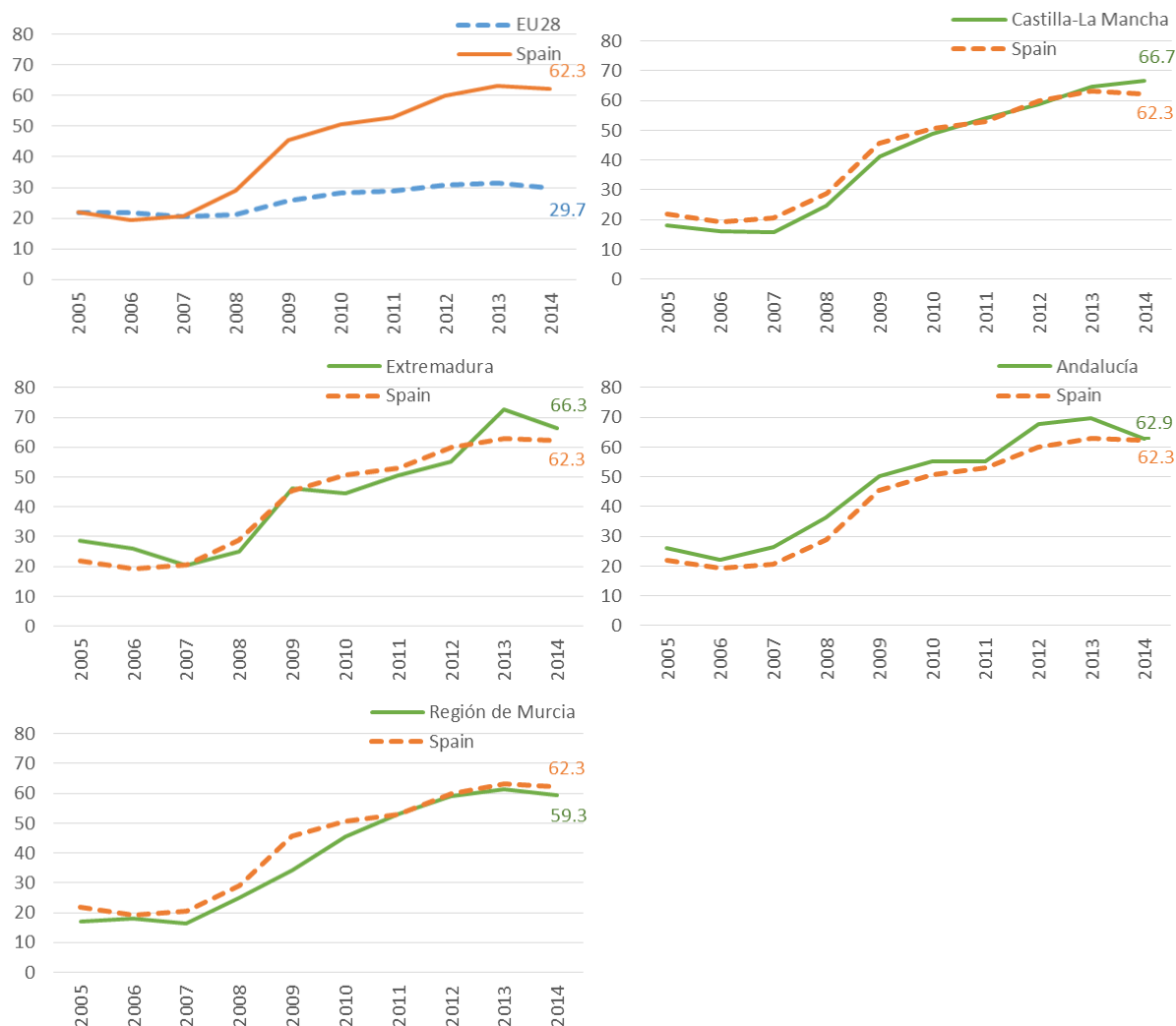
### Commentary

The unemployment rate of young in Spain was about 48% in 2015, which is more than twice the rate in the EU on average. In particular, youth unemployment has increased significantly more in Spain than in the EU since the inception of the crisis in 2007, widening the gap between the two. The youth unemployment rate is also significantly higher compared to the NEET rate. This indicates that youth in Spain found much more difficult entering the labour market as compared to youth in other parts of the EU and, therefore, many of them remained in education or participated in initial training.

In all lagging regions is the unemployment rate of young people higher than the national average. It was only slightly above in Murcia in 2015, while in the other three lagging regions the rate was markedly higher. Moreover, in Andalucía and Extremadura, the youth unemployment rate was almost constantly above the national average over the entire period considered (2000-2015), while in Castilla-La Mancha it was in line with the national average or below it up to 2012. Starting from that year, the difference widened up and in 2015 Castilla-La Mancha showed the highest youth unemployment rate among the lagging regions (57.2%) together with Andalucía (56.8%).

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**Figure 3.5 – Unemployment rate of young people aged 15-24 with low education in Spain, 2005-2014**



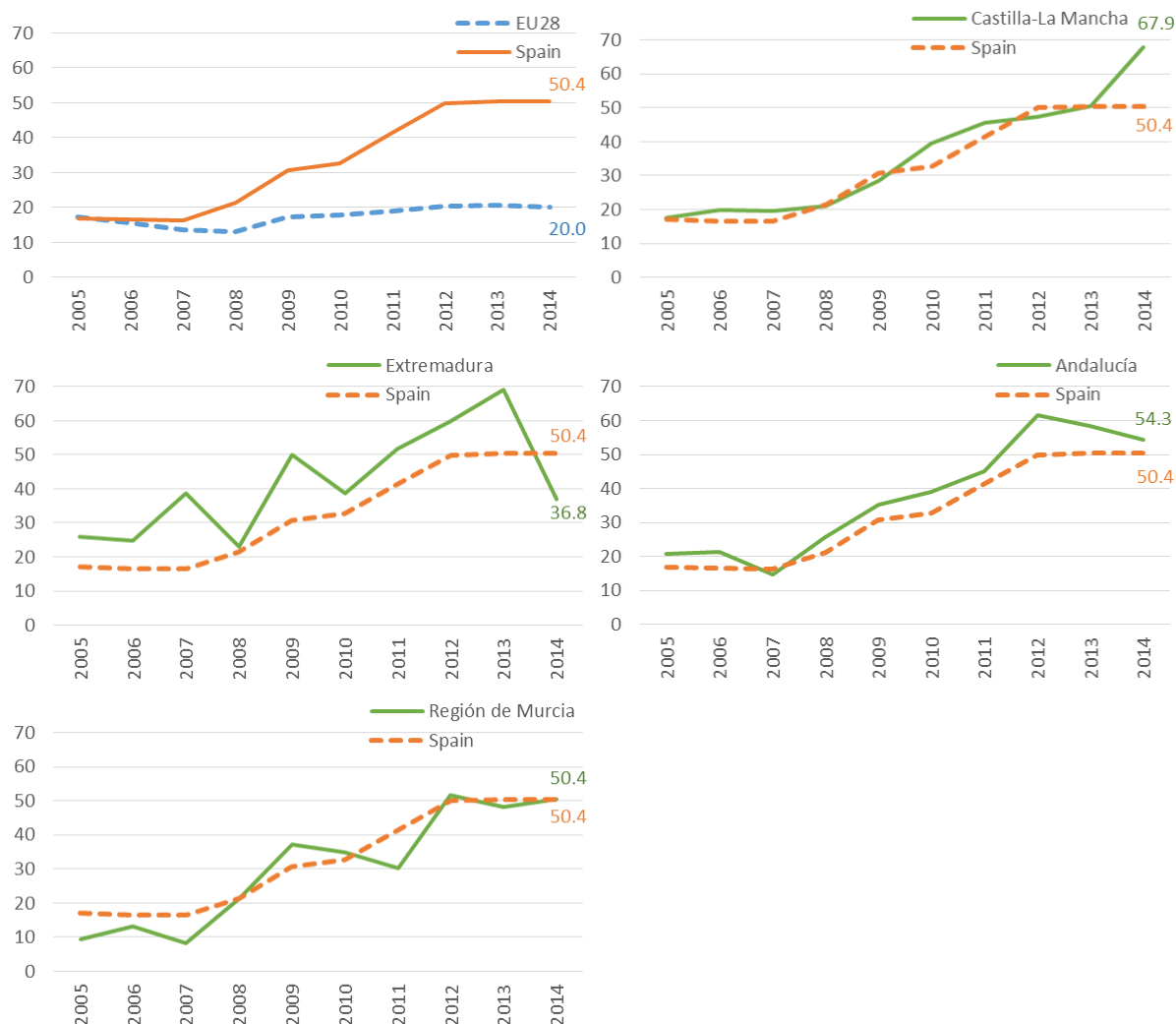
Source: Eurostat, LFS microdata.

### Commentary

The unemployment rate among young people with only basic schooling was more than twice as high in Spain than in the rest of the EU in 2014. The difference between the Spanish and the EU rates has widened over the preceding 6 years. Nonetheless, taking into consideration the proportion of the overall youth unemployment rate in Spain in relation to the EU average, the unemployment rate among young people with only basic schooling is proportionally not higher than the overall youth unemployment rate.

At the regional level, the problem of young people not finding employment was particularly acute in Castilla-La Mancha and Extremadura, where over two thirds of those aged 15-24 with low education are unemployed. The rate was also above the national average in Andalucía, though less so, while it was below in Murcia. In all the lagging regions, however, the youth unemployment rate of those with low education is relatively less severe as compared to the youth unemployment rate at national level.

**Figure 3.6 - Unemployment rate of young people aged 15-24 with medium education in Spain, 2005-2014**



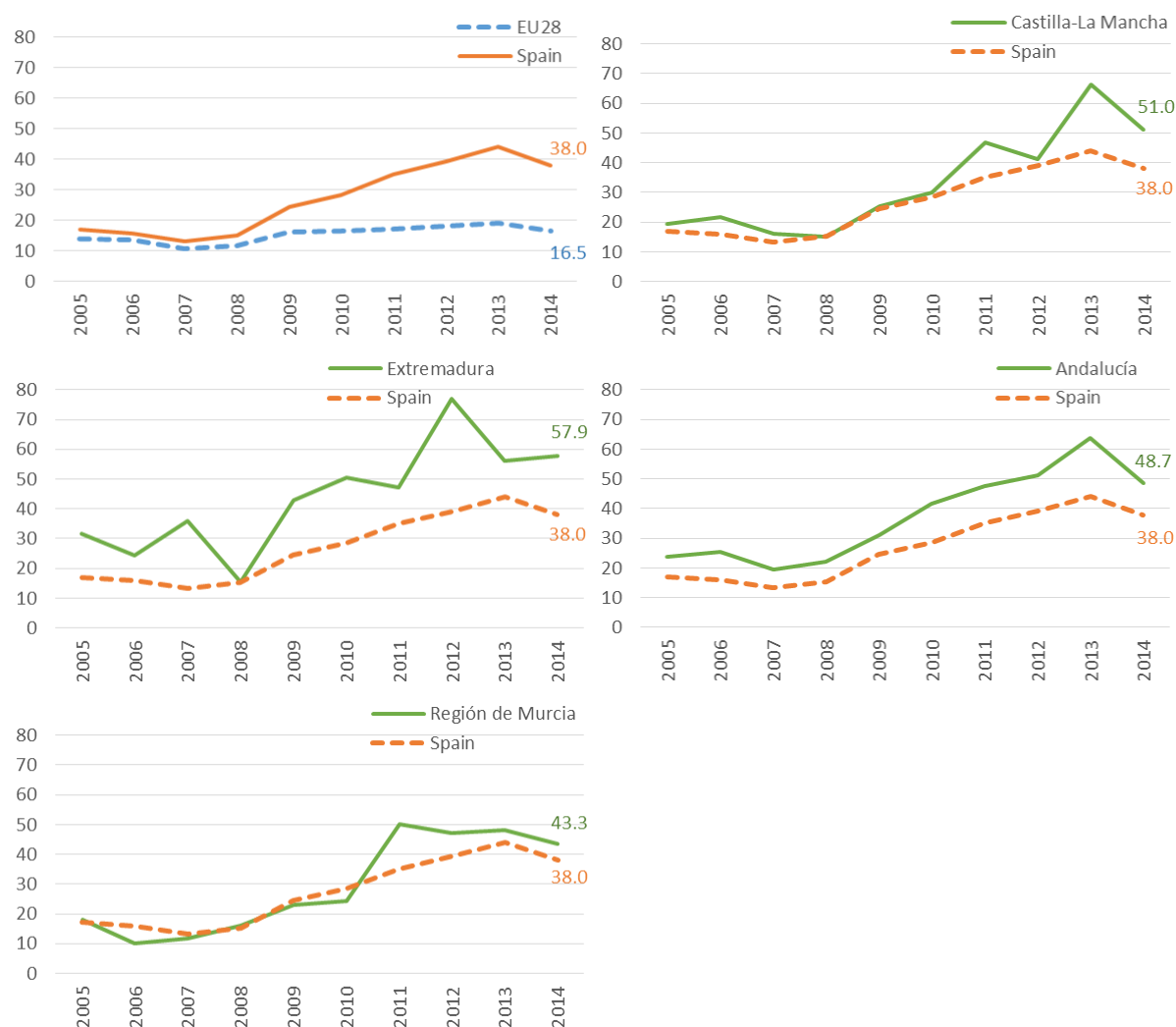
Source: Eurostat, LFS microdata.

**Commentary**

In 2014, the unemployment rate among young people with upper secondary education in Spain was also more than twice the EU average. However, unlike for those with low education, the unemployment rate of young with secondary education was proportionally higher than the overall youth unemployment rate in Spain.

The rate was relatively higher in Castilla-La Mancha and Andalucía. The rate in Murcia was in line with the national data, while it was much lower than the national average in Extremadura, due to a sudden decrease in 2014.

**Figure 3.7 - Unemployment rate of young people aged 15-24 with high education in Spain, 2005-2014**



Source: Eurostat, LFS microdata.

**Table 3.5 – Youth unemployment rate by education attainment level in Spain, 2014**

Region	Unemployment rate, 15-24, %		
	Isced 0-2	Isced 3-4	Isced 5-8
Castilla-La Mancha	66.7	67.9	51.0
Extremadura	66.3	36.8	57.9
Andalucía	62.9	54.3	48.7
Región de Murcia	59.3	50.4	43.3
<b>Spain</b>	<b>62.3</b>	<b>50.4</b>	<b>38.0</b>
EU average	29.7	20.0	16.5

Source: Eurostat, LFS.

Notes: Data are from the published LFS microdata, more up-to-date data will be obtained from Eurostat. Rates which are higher than the national average are shown in red. Rates which are higher than the EU average are highlighted in grey.

### Commentary

The unemployment rate for young people with tertiary education in Spain in 2014 was 38%. The rate is again more than twice the rate at EU level; however, taking into consideration the overall unemployment rate of those aged 15-24, the youth unemployment rate of those with tertiary education is proportionally less severe in Spain than in the EU on average.

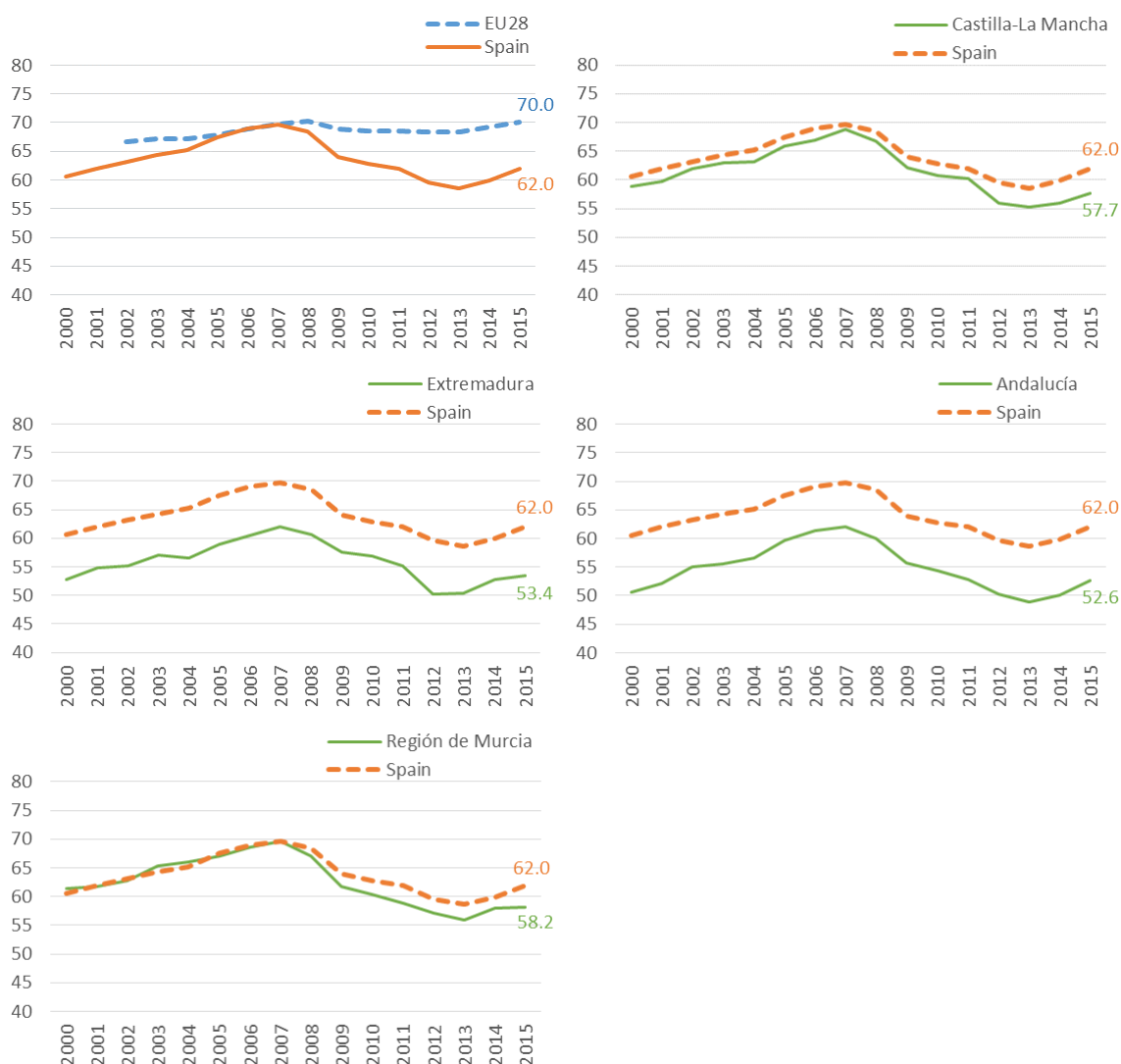
In the lagging regions, however, the youth unemployment rate of those with tertiary education is much higher compared to the national average. In particular, in both Castilla-La Mancha and Extremadura where it was above 50%. Taking as a benchmark the unemployment rate at national level broken down by education level, youth unemployment in the lagging regions was relatively more accentuated for young people with tertiary level of education.

In sum, the unemployment rate of young people is much higher in Spain as compared to the EU average irrespective of the educational level. However, proportionally to the overall unemployment rate, the unemployment rate among those with upper secondary education is higher in Spain than in the EU.

The unemployment rate of young people was higher than the national average in three out of four of the lagging regions (Andalucía, Extremadura and Castilla-La Mancha) for all the three levels of education, except in Extremadura for those with medium education. In these regions, therefore, irrespective of their education level, there was a severe shortage of jobs for young people entering the labour market. By contrast, in Murcia, the unemployment rate of young people was above the national average only for those with high education level. Therefore, the shortage of jobs for young people concerned relatively more those with higher level of education.

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**Figure 3.8 – Employment rate (20-64 years) in Spain, 2000-2015**



Source: Eurostat, LFS [lfst\_r\_lfe2emppt].

**Table 3.6 – Employment rate in Spain, 2015**

Region	Employment rate (20-64 years), %, 2015
Castilla-La Mancha	57.7
Extremadura	53.4
Andalucía	52.6
Región de Murcia	58.2
<b>Spain</b>	<b>62.0</b>
EU average	70.0

Source: Eurostat, LFS.

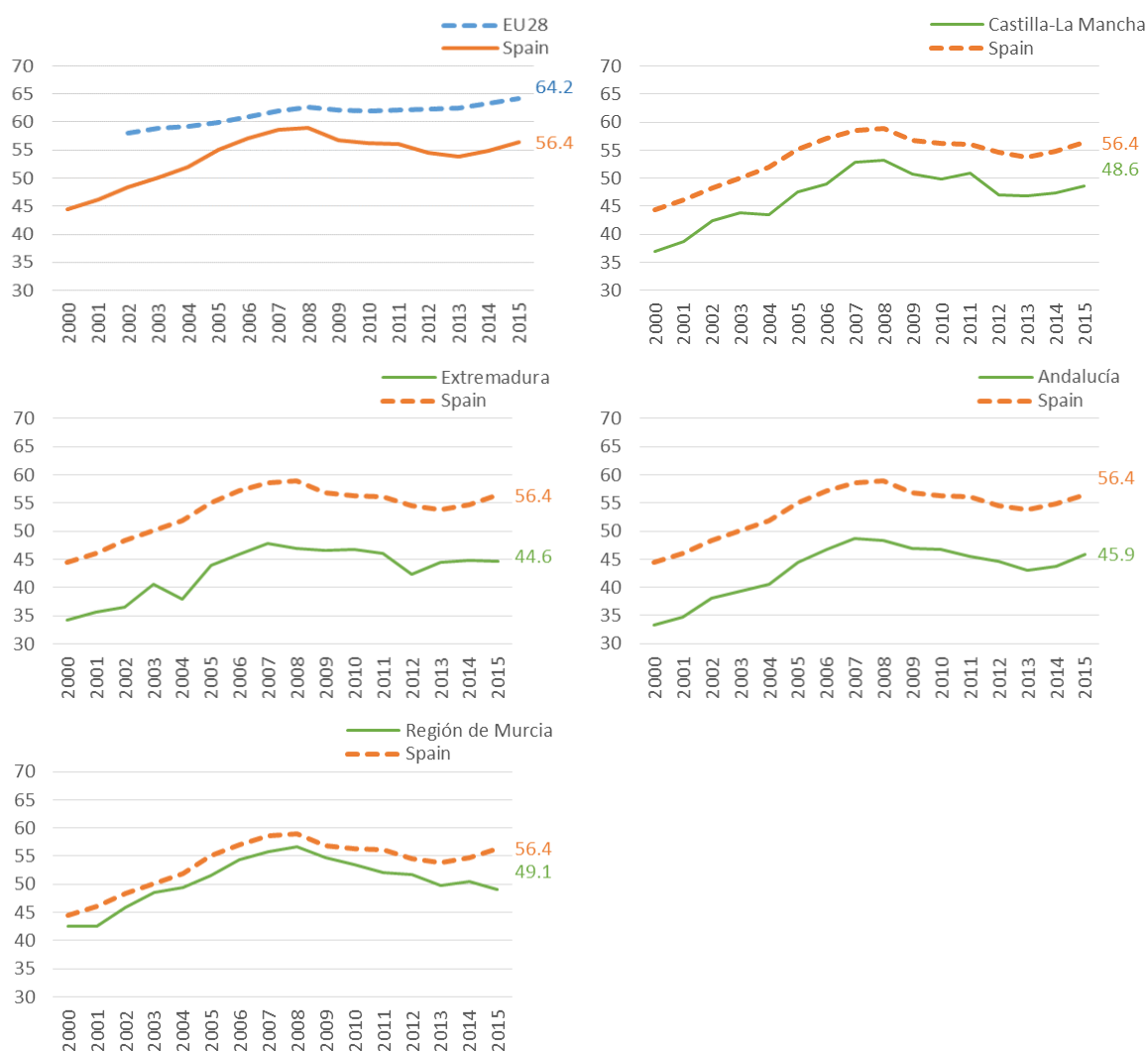
Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

### Commentary



In 2015, 62% of the working population (20-64 years) was employed. Despite an increase between 2000 and 2007, starting from 2008 the employment rate has been decreasing and has remained well below the EU average, reflecting the negative effect of the crisis which affected the Spanish economy more than other Member States. Nonetheless, after 2013, the employment rate in Spain has started to increase as a reflection of the improvement in the economic situation. Similarly, the employment rate has increased in all the lagging regions starting from 2013; however, it remains below the national average, in particular in Andalucía and Extremadura where it was sensibly below the national average over the whole period considered (2000-2015). This is in line with the unemployment rate which tends to be markedly above the national average throughout the entire period in both regions. In Castilla-La Mancha, instead, the employment rate is also below the national average throughout the considered period, however the difference started to widen from 2012 onward. Similarly, in Murcia, the unemployment rate was tracking closely the national rate up to 2007 and afterwards the difference increased.

**Figure 3.9 – Employment rate of women (20-64) in Spain, 2000-2015**



Source: Eurostat, LFS [lfst\_r\_lfe2emprr].

**Table 3.7 – Employment rate of women in Spain, 2015**

Region	Female employment rate (20-64 years), %, 2015
Castilla-La Mancha	48.6
Extremadura	44.6
Andalucía	45.9
Región de Murcia	49.1
<b>Spain</b>	<b>56.4</b>
EU average	64.2

Source: Eurostat, LFS.

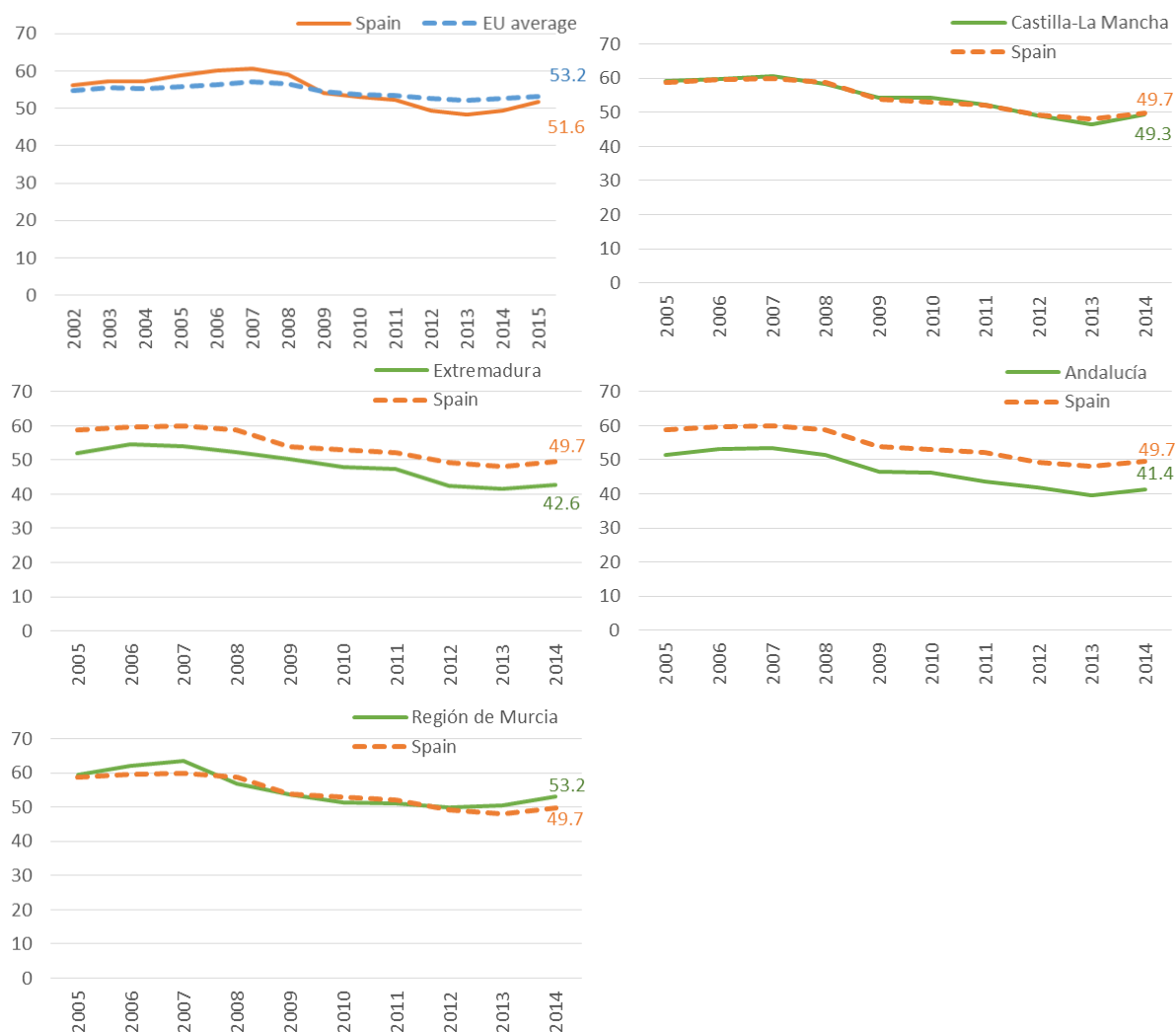
Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

### Commentary

The employment rate of women in Spain was lower than the overall employment rate, reflecting the lower participation of women in the work force. The difference was however slightly smaller in Spain compared to the EU. About 56% of working age women are in employment against 64% in EU.

In all lagging regions is the female employment rate lower than the national average, and this was particularly true in Extremadura and Andalucía. Women, therefore, seem to face additional difficulties in finding employment compared to men in the lagging regions; although the overall participation rate is also relatively low and decreasing since 2007, which might reflect a shortage of jobs as effect of the crisis as well as a reluctance to be in paid employment.

**Figure 3.10 – Employment rates of those aged 25-64 with low education in Spain in 2002-2015 and lagging regions in 2005-2014**



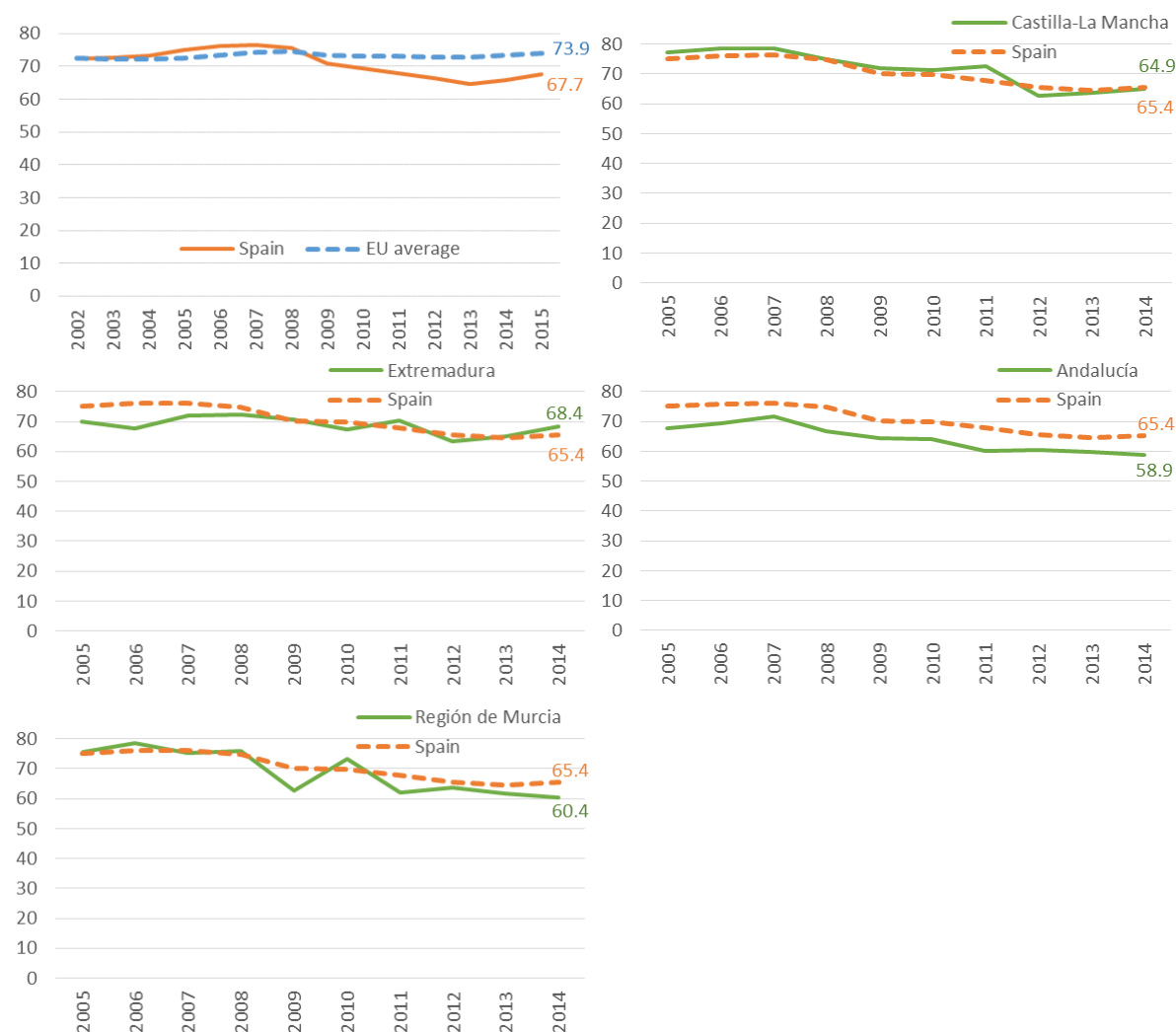
Source: Eurostat, LFS [lfst\_r\_lfe2eedu] and LFS microdata for the regional data.

### Commentary

The employment rate of those aged 25-64 with only basic schooling in Spain was slightly below the EU average in 2015 and the preceding 6 years, while it was slightly above the EU average before 2009. Proportionally to the overall employment rate, those with only basic education are more likely to be employed in Spain than in the EU..

Again, in Andalucía and Extremadura the employment rate was below the national average in 2014 as it has been throughout the whole period considered; while in Castilla-La Mancha the rate was only slightly below the national average and in Murcia it was above the national average. In the latter, therefore, there seem to be relatively more jobs available for the low-educated people than in the rest of the country and participation rates among those concerned are higher.

**Figure 3.11 – Employment rate of people aged 25-64 with medium education in Spain in 2002-2015 and its lagging regions in 2005-2014**



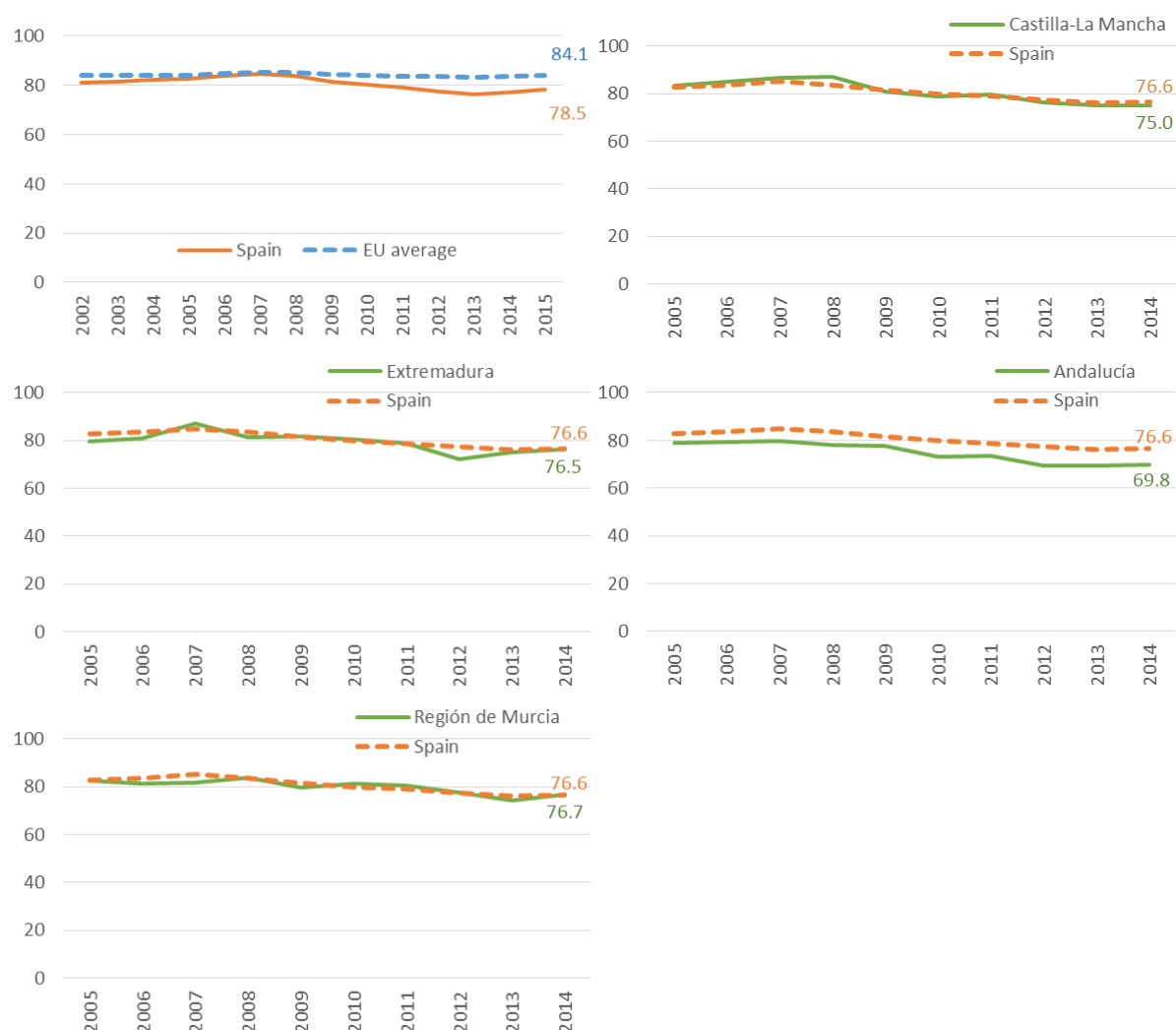
Source: Eurostat, LFS [lfst\_r\_lfe2eedu] and LFS microdata for the regional data.

### Commentary

The employment rate of those with upper secondary education in Spain was also below the EU average, although the distance with the EU benchmark is larger than for those with basic schooling. Particularly, the difference between the national and the European average has widened since the inception of the crisis, the rate in Spain settling in 2015 at about six percentage points below the EU level.

In the lagging regions, the rate was below the national average in Murcia, Castilla-La Mancha and, especially, in Andalucía, where the rate has been constantly below the national average throughout the whole period considered. Extremadura is the exception: in 2014 the employment rate of those with upper secondary education was 3 percentage points higher than in the rest of the country (though well below the EU average).

**Figure 3.12 – Employment rate of people aged 25-64 with high education in Spain in 2002-2015 and its lagging regions in 2005-2014**



Source: Eurostat, LFS [lfst\_r\_lfe2eedu] and LFS microdata for the regional data.

**Table 3.8 – Employment rate by education attainment level in Spain, 2014**

Region	Employment rate (25-64), % 2014		
	ISCED 0-2	ISCED 3-4	ISCED 5-8
Castilla-La Mancha	49.3	64.9	75.0
Extremadura	42.6	68.4	76.5
Andalucía	41.4	58.9	69.8
Región de Murcia	53.2	60.4	76.7
<b>Spain</b>	<b>49.7</b>	<b>65.4</b>	<b>76.6</b>
EU average	52.8	73.4	83.6

Source: Eurostat, LFS.

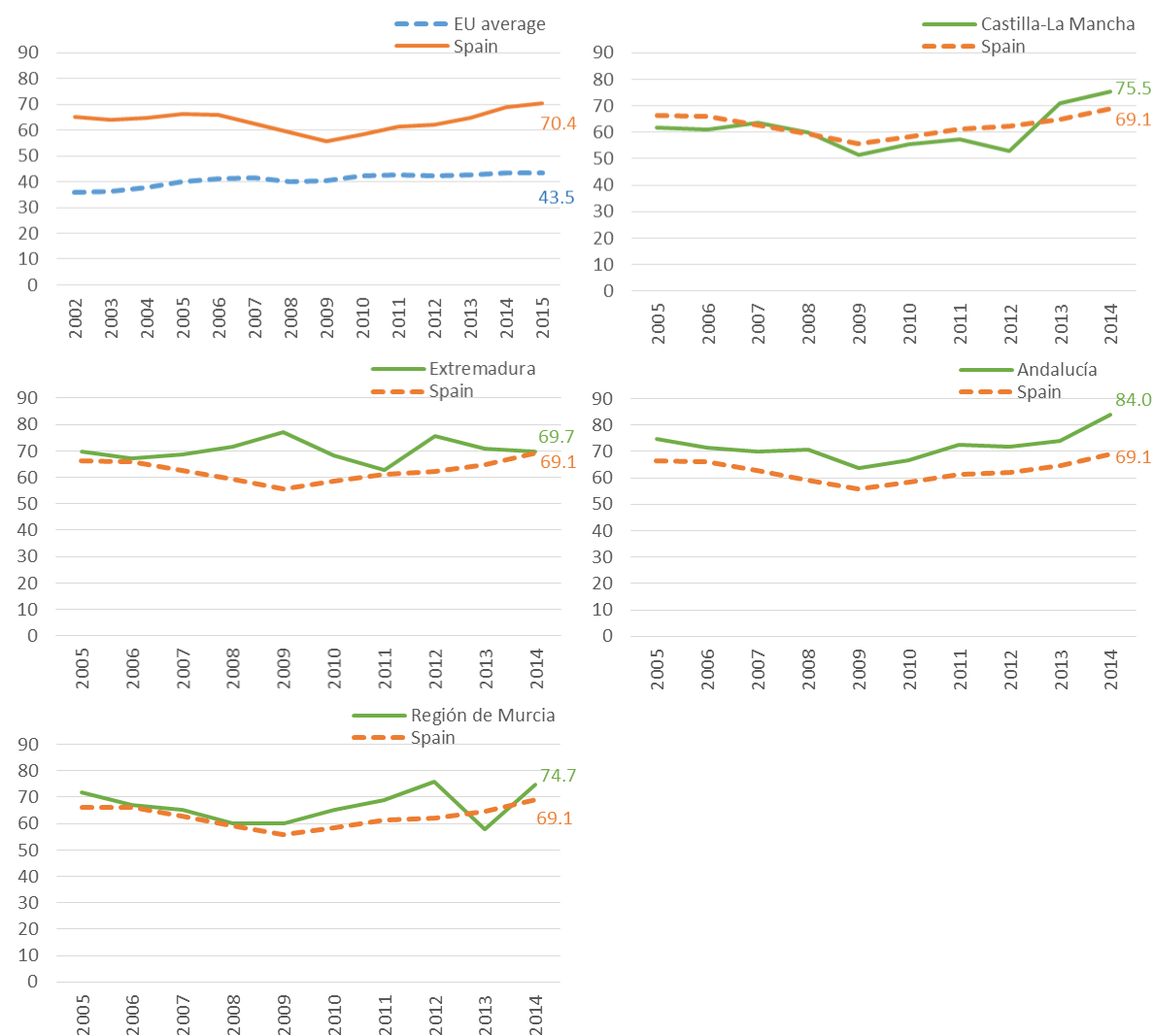
Note: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey. Data are from the published LFS microdata, more up-to-date data will be obtained from Eurostat.

**Commentary**

As for the employment rates for the low educated and those with upper secondary education, the rate for those with tertiary education in Spain was below the EU average in 2015 and over the preceding 7 years. However, the distance from the EU benchmark is larger for those with a higher level of education as compared to those with basic schooling.

The employment rate of people with tertiary education was below the national average in Castilla-La Mancha and Andalucía and much the same as the national average in Extremadura and Murcia. This indicates a lower demand for university graduates in the former two regions, most especially in Andalucía, as compared to the national average.

**Figure 3.13 – Temporary employment (% of total employees aged 15-24) in Spain in 2002-2015 and its lagging regions in 2005-2014**

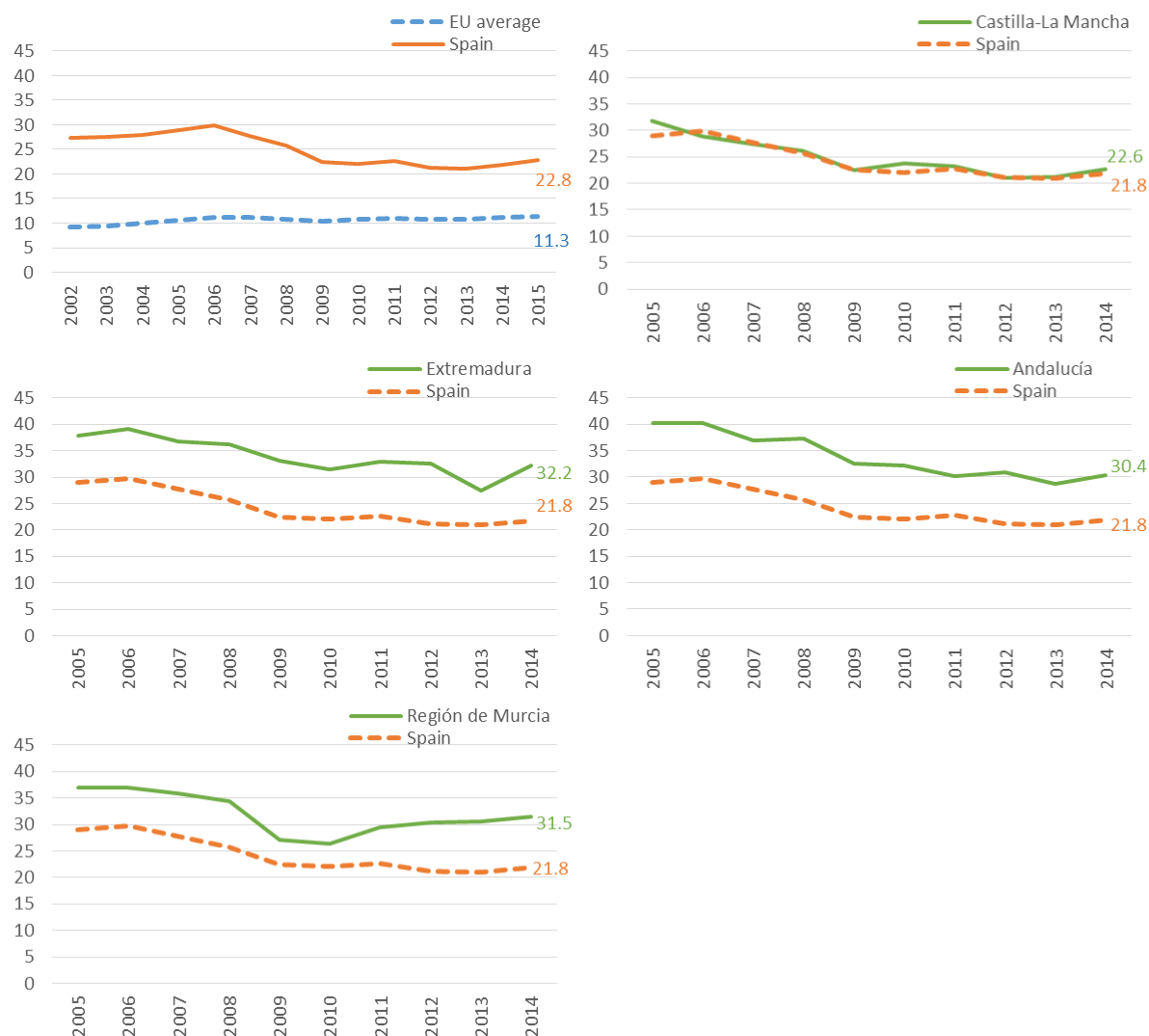


Source: Eurostat, LFS [lfsa\_etpga] and LFS microdata for the regional data.

**Commentary**

The share of young employees aged 15-24 in temporary jobs is much larger in Spain than in the rest of the EU. The share has decreased since 2006, but after 2009 it has taken an increasing path and in 2015 about 70% of the overall young people employed had a temporary job as against 43% in the EU. This was also the case in all the lagging regions, where the proportion was even larger (e.g. in Andalucía the share in 2014 reached 84%), reflecting a general tendency to employ young people on short-term contracts, in many cases for a probationary period or on a traineeship.

**Figure 3.14 – Temporary employment (% of total employees aged 25 or over) in Spain in 2002-2015 and in lagging regions in 2005-2014**



Source: Eurostat, LFS [lfsa\_etpga] and LFS microdata for the regional data.

**Table 3.9 – Temporary employment in Spain by age group, 2014**

Region	Temporary employment (% of total employees), 2014	
	15-24	25 or over
Castilla-La Mancha	75.5	22.6
Extremadura	69.7	32.2
Andalucía	84.0	30.4
Región de Murcia	74.7	31.5
<b>Spain</b>	<b>69.1</b>	<b>21.8</b>
EU average	43.4	11.1

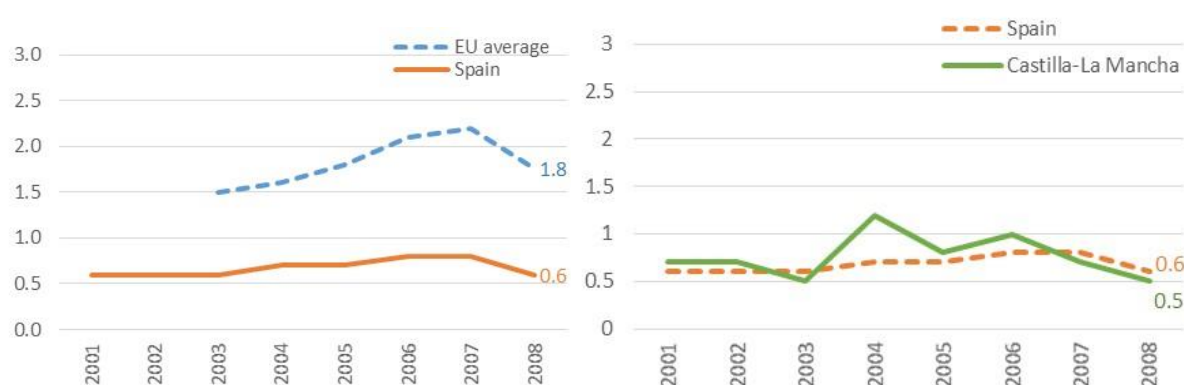
Source: Eurostat, LFS.

Notes: Rates which are higher than the national average are shown in red. Rates which are higher than the EU average are highlighted in grey. Data are from the published LFS microdata, more up-to-date data will be obtained from Eurostat.

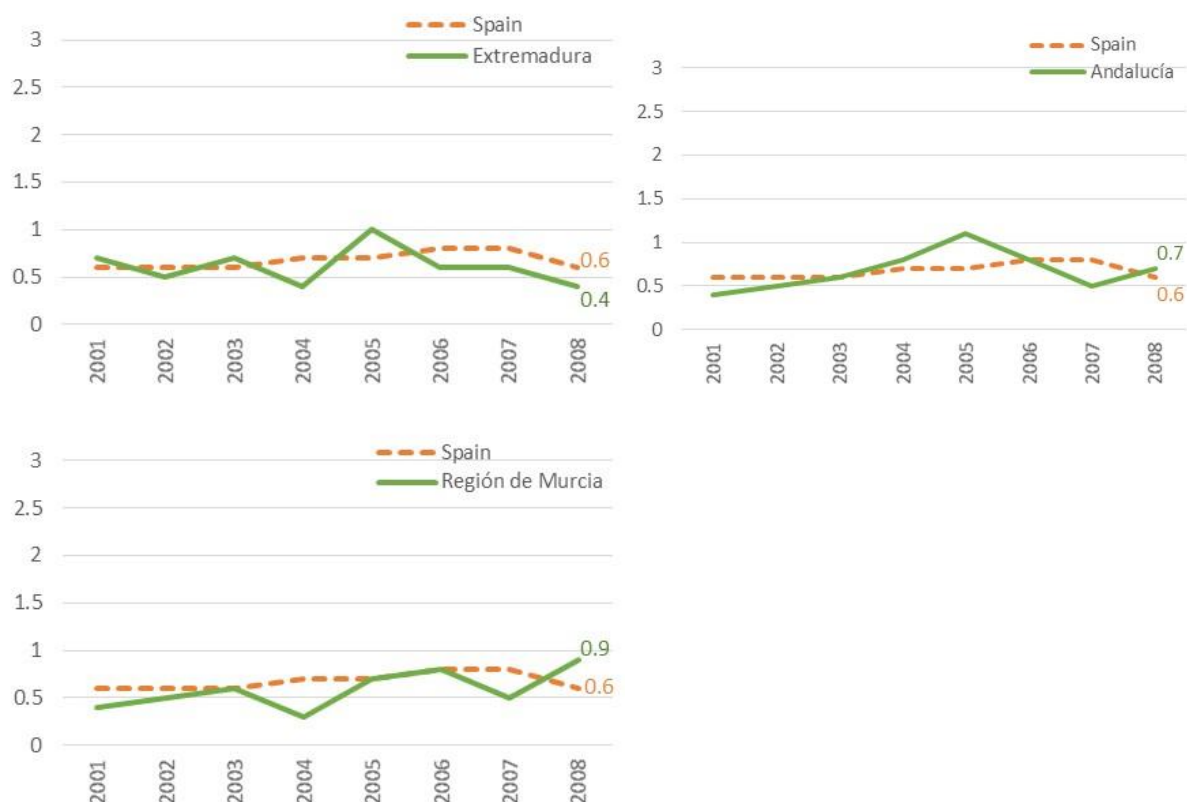
### Commentary

The share of employees aged 25 and over who are in temporary jobs is a more relevant indicator of labour market issues than the share of young people. In 2015, the share in Spain was twice as high as the EU average, and it is relatively stable since 2009. In 2014, in Extremadura, Andalucía and Murcia the share was well above the national and EU average, overpassing 30% of employees aged 25 or over. On the contrary, the share was only slightly above the national average in Castilla-La Mancha. Therefore, although temporary work among this age group represents a significant proportion of the overall employment in Spain in general, it is relatively more widespread in Extremadura, Andalucía and Murcia. This reflects the preference of employers to take on workers on fixed-term contracts rather than on standard contracts of employment, which is likely to be a response to the costs involved in dismissing workers should the need arise. It has important implications for the extent of continuing training and, accordingly, for labour productivity (i.e. employers are likely to be more reluctant to provide training to temporary employees than permanent ones).

**Figure 3.15 – Job vacancy rate in Spain, 2001-2008**







Source: Eurostat, Job vacancy statistics [jvs\_a\_nace2].  
 Notes: EU average corresponds to EU27 figure as provided by Eurostat.

**Table 3.10 – Job vacancy rate in Spain, 2008**

Region	Job vacancy rate, %, 2008
Castilla-La Mancha	0.5
Extremadura	0.4
Andalucía	0.7
Región de Murcia	0.9
<b>Spain</b>	<b>0.6</b>
EU average	1.8

Source: Eurostat, Job vacancy statistics.

**Commentary**

In 2008 (which is the latest year for which job vacancy statistics are available in Spain), the rate of unfilled job vacancies was much less in Spain than the EU average. In that year, both in Extremadura as well as in Castilla-La Mancha the vacancy rate was even lower than the national average, while in Andalucía and Murcia the rate was slightly higher. It seems therefore that, in 2008 (as well as in the preceding years), there was not a specific problem regarding unfilled vacancies as such. However, especially taking into consideration the high level of unemployment and inactivity, this highlights the insufficient demand of labour.

**Summary 1 – Overview of labour market (percentage point differences relative to the EU average for the national figures and relative to the national average for the regional figures)**

<b>LABOUR MARKET</b>					
	<b>Spain</b>	<b>Castilla-La Mancha</b>	<b>Extremadura</b>	<b>Andalucía</b>	<b>Región de Murcia</b>
<b>Unemployment and long-term unemployment</b>					
Unemployment rate (15+), 2015	+12.7	+4.2	+7.0	+9.4	+2.5
LTU rate (15+), 2015	+3.3	+1.1	-5.8	-4.6	-2.7
<b>NEETs</b>					
NEET rate (15-24), 2015	+3.6	+2.2	+3.9	+4.0	+1.8
<b>Youth unemployment rate</b>					
Youth unemployment rate (15-24), 2015	+27.9	+8.9	+7.1	+8.5	+2.3
Youth unemployment rate (15-24), ISCED 0-2, 2014	+32.6	+4.4	+4.0	+0.6	-0.3
Youth unemployment rate (15-24), ISCED 3-4, 2014	+30.4	+17.5	-13.6	+3.8	+0.0
Youth unemployment rate (15-24), ISCED 5-8, 2014	+21.5	+13.0	+19.9	+10.7	+5.4
<b>Employment rate</b>					
Total employment rate (20-64), 2015	-8.0	-4.3	-8.6	-9.4	-3.8
Female employment rate (20-64), 2015	-7.8	-7.8	-11.8	-10.5	-7.3
Employment rate (25-64), ISCED 0-2, 2014	-3.1	-0.4	-7.0	-8.3	+3.5
Employment rate (25-64), ISCED 3-4, 2014	-7.9	-0.5	+3.0	-6.5	-5.0
Employment rate (25-64), ISCED 5-8, 2014	-6.9	-1.6	-0.1	-6.9	+0.0
<b>Temporary work</b>					
Temporary employees (15-24), 2014	+25.7	+6.4	+0.6	+14.9	+5.6
Temporary employees (25+), 2014	+10.7	+0.8	+10.4	+8.6	+9.7
<b>Job vacancy*</b>					
Job vacancy rate, 2015		-0.1	-0.2	+0.1	+0.3
<b>STRUCTURAL IMBALANCE</b>					
Number of unfavourable variables	15	16	13	15	12
Number of favourable variables	0	0	3	1	4

Notes: Unfavourable situations compared to the EU average are highlighted in grey and situations which are unfavourable relative to the national average are shown in red.

\* The job vacancy rate is considered in conjunction with the unemployment rate. Low vacancies and high unemployment mean that there is insufficient demand for labour, that there are unused resources which could add to GDP; high vacancies and high unemployment mean that there are structural problems in the sense that labour is available but it does not have the skills demanded by employers; high vacancies and low unemployment signal the labour available is not sufficient to

meet the demand; low vacancies and low unemployment suggests a balanced labour market. Since there are problems in comparing vacancy statistics across countries because of the partial extent of coverage, the comparison here is relative to the national average only.

“.” Not available

<b>LABOUR MARKET in Spain</b>	
<b>Country-specific recommendations, 2011-2015</b>	
2011	Complete the adoption and proceed with the implementation of a comprehensive reform of the collective bargaining process and the wage indexation system to ensure that wage growth better reflects productivity developments as well as local and firm-level conditions and to grant firms enough flexibility to internally adapt working conditions to changes in the economic environment. Assess by end-2011 the impact of the labour market reforms of September 2010 and the reform of the active labour market policies of February 2011 accompanied if necessary by proposals for further reforms to reduce labour market segmentation, to improve employment opportunities for young people.
2012	Implement the labour market reforms and take additional measures to increase the effectiveness of active labour market policies by improving their targeting, by increasing the use of training, advisory and job matching services, by strengthening their links with passive policies and strengthening coordination between the national and regional PES. Implement the Youth Action Plan in particular as regards the quality and labour market relevance of vocational training and education. Improve the employability of vulnerable groups.
2013	Finalise the evaluation of the 2012 labour market reform. Adopt the 2013 national Employment Plan by July 2013 and enact swiftly a result-oriented reform of active labour market policies including by strengthening the targeting and efficiency of guidance. Reinforce and modernise PES to ensure effective individualised assistance. Reinforce the effectiveness of re-skilling training programmes for older and low-skilled workers. Fully operationalise the Single Job Portal and speed up the implementation of public-private cooperation in placement services to ensure its effective application.
2014	Pursue new measures to reduce labour market segmentation. Continue regular monitoring of the labour market reforms. Strengthen the job search requirement in unemployment benefits. Enhance the effectiveness and targeting of active labour market policies. Accelerate the modernisation of the PES. Implement the 2013-2016 Youth Entrepreneurship and Employment Strategy and evaluate its effectiveness. Provide good quality offers of employment, apprenticeships and traineeships for young people and improve the outreach to non-registered young unemployed in line with the objectives of the YG. Ensure the functioning of the Single Job Portal.
2015	Promote the alignment of wages and productivity taking into account differences in skills and local labour market conditions as well as divergences in economic performance across regions, sectors and companies. Take steps to increase the quality and effectiveness of job search assistance and counselling, including as part of tackling youth unemployment.
<b>Structural reforms carried out, 2011-2015</b>	
2011	A reform of the active labour market policies was adopted, it included: <ul style="list-style-type: none"> <li>- The <i>Annual Employment Policy Plan</i>, which sets the priority objectives for active policies and established the cooperation between national and regional public employment services.</li> <li>- Rationalisation of recruitment incentives by eliminating most of them and concentrating on the groups that find it most difficult to find jobs.</li> <li>- The development of a new training system based on greater competition between the training service providers and a clear definition by the public authorities of the priority actions to be financed with public funds.</li> <li>- A major boost for vocational training actions as an instrument for promoting youth employment.</li> <li>- Stronger links between active and passive employment policies that reinforce control over recipients of unemployment benefits and subsidies with respect to their obligations relating to active job search and to improving their employability.</li> <li>- The improvement of employment intermediation services to make it easier to match job vacancies with jobseekers across the country. In addition, action has been taken to implement a series of</li> </ul>

	measures for public-private collaboration in the area of job placement services.
2011	An <i>Emergency Plan</i> was implemented by law through two programmes. The first establishes a 100% rebate on the employer social security contributions of companies with up to 250 workers (75% in larger companies) that hire young people and long-term unemployed (LTU) by creating new part-time jobs (50-75% of full-time hours) lasting at least 6 months. The second programme (PREPARA) is aimed at people who have exhausted their unemployment benefits and combines retraining measures and professional reinsertion programmes with financial support (400 EUR) for six months. The Government also approved a Training and Work Experience Plan for Young People with large companies to create 30,000 internships for training of low-skilled unemployed young people through a system of 6-month internship compatible with classroom training.
2011	New legislation passed on labour intermediation; public/private partnership is established in labour intermediation by authorising for-profit Private Placement Agencies
2012	As part of the labour market reform, a capitalisation fund was established for workers in the form of a number of days per year worked; the employee may draw upon this fund in cases of dismissal, geographic mobility, training or retirement. Also, severance compensation for termination of temporary contracts will be gradually increased from 8 to 12 days by January 2015.
2012	The government adopted a comprehensive reform of the employment protection and collective bargaining system in order to tackle the high level of unemployment and the sharp segmentation in the labour market. This second reform of the labour market also included more decisive measures including: favouring internal flexibility as an alternative to job destruction, improving employability through training and effective labour mediation, promoting quality jobs and reducing labour market duality, combating unjustified absence from work, strengthening the control and prevention of fraud. The reform also reduced the severance payment for unjustified dismissals from 45 to 33 days per year of service, gave priority to company-level collective agreements, allowed firms to opt out of agreements on higher level, granted firms greater internal flexibility and provided financial hiring incentives. It also allowed private employment services to act as intermediaries, to complement the capacity of the PES and expand hiring capacity.
2012	The 2012 reform of unemployment benefits reduced unemployment benefits for recipients who draw them for more than six months.
2013	The National Youth Employment and Entrepreneurship Strategy 2013-2016 presented in March 2013 incorporated a range of short and longer-term measures to improve employment opportunities for young people including vocational training measures that allow young unemployed people who receive unemployment benefits to start-up and develop a self-employed activity. Reductions in social security contributions for hiring young and new employees were introduced, in 2013 and 2014.
2013	A common database (Single Job Portal) was created combining all the training and job vacancies managed by national and regional PES (including international vacancies).
2014	Social partners' commitment to wage moderation in 2012-2014 helped to provide firms with greater flexibility and limit job losses. Further measures were introduced in 2013 and early 2014 to facilitate stable part-time employment and reduce temporarily social security contributions on new indefinite contracts. Progress has been made in the reform of active labour market policies (including the approval of the annual Employment Plan). Progress was made in fostering cooperation with private placement agencies.
2015	Social partners reached a comprehensive inter-professional pre-agreement for 2015-2017 which states the importance of establishing the principle that wages should move in line with inter-firm productivity differentials.
2015	New measures were launched to continue to promote job creation: - A new reduction in employer social contributions to boost the creation of permanent employment. - New measures to support self-employment and entrepreneurship. -The new reform in in-job professional training will be deployed. This reform aims at increasing the quality of training both for the employed and the unemployed, while increasing transparency in public resources management.

2015	New activation programme for LTU combining income support and jobsearch assistance.
2016	Assessment of subsidies offered to employers recruiting new staff were to be carried out by May 2016.
<b>Outstanding challenges</b>	
	Despite the simplification measures introduced by the 2012 reform, a degree of uncertainty on the outcomes of labour disputes remains, combined with a gap between costs for fair and unfair dismissals.
	Collective bargaining remains centralized, though recent reforms eased the diffusion of firm-level agreements and opt-outs from sectoral agreements.
	Unemployment remains very high (in particular for youth), LTU is also very high. Labour market duality between permanent and temporary contracts remains high.
	Action to modernise the PES seems to progress slowly and full operationalisation of the Single Job Portal has suffered delays. Regional disparities in public employment services remain.
	Aspects of the labour market legislation remain as a structural barrier to investment.

Sources: CSRs 2011-2015, CR 2016 (SWD2016 - 89 final), National Reform Programmes (NRP) 2001-2015, Member States Investment Challenges – SWD(2015) 400 final and SWD(2016) - 78 final.

## Overview

Unemployment stands as a serious problem in all the four lagging regions in Spain, especially in Andalucía and Extremadura, where about one people out of three is unemployed. In particular, unemployment among young people aged 15-24 constitutes a serious obstacle to development as almost half are unemployed in the country, whereas in all the lagging regions the phenomenon is even more accentuated. Lagging regions, and particularly Andalucía and Extremadura, also have to face the notably high share of young people who are neither employed nor in education or training.

At the same time, the employment rate in Spain is particularly low (accounting for only 62% of the working-age population). In the lagging regions, the employment rate is even below 50%. The employment rate for women is about 8 percentage points smaller than the overall employment rate but this problem appears even more acute in the lagging regions, Extremadura and Castilla-La Mancha in particular.

The level of education is one of the factors affecting the chances to find a job. In fact, in 2015, only about half of the working-age population with basic education is employed in Spain as against about 79% of those with tertiary education. Notwithstanding this, taking into consideration the overall employment rate relative to each level of education, it appears that those with higher level of education face relatively more difficulty in finding a job. At the regional level, in all the lagging regions the employment rate was lower than the national baseline, irrespective of the level of educational attainment, with the exception of the rate of employment of those with basic and higher education in Murcia and of those with upper-secondary education in Extremadura.

Finally, the share of employees with temporary jobs in Spain is well above the EU average. This type of contract appears to be well widespread at the national and regional level in three out of four lagging regions (Extremadura, Murcia and Andalucía) with major consequences both on the extent of continuing training, as well as on labour productivity.

The country-specific recommendations have focused on tackling the high level of unemployment, especially among young people, and reducing labour market segmentation. By the end of 2010 and beginning of 2011, the Spanish government enacted the Labour Market reform and the reform of the Active Labour Market Policies. Particularly, the former favours company-level collective

bargaining process, which allows companies to introduce more internal flexibility and induces the wages to align to work productivity. The latter establishes stronger link between active and passive employment measures as well as it promotes training and intermediation services improvements, particularly to favour youth employment. To face the high level of youth and long-term unemployment, in 2011 the government launched the Emergency plan, including the coverage of social security contributions to promote the employment of those categories, as well as the combination of financial support with vocational training programmes for those who were long-term unemployed. In the same year, the government also approved a Training and Work Experience Plan for Young People, while in the following years additional measures to support self-employment and entrepreneurship were also implemented.

In the lagging regions, the labour market situation in Murcia seems to be more favourable than in the other lagging regions, with a relatively higher employment rate, a lower rate of unemployment and few NEETs as compared to the other three lagging regions. Also, Murcia showed in 2015 a relatively low proportion of long-term unemployed, which suggests the existence of the skills required by employers.

In Castilla-La Mancha, although the employment rate is below the national average and the unemployment rate is above it, the labour market situation is less critical than in the other lagging regions. The most important issue, however, relates to the high rates of youth and long-term unemployment, which are the largest among the lagging regions. On the contrary, the NEET rate was only slightly above the national average, suggesting that a relatively large proportion of the 15-24 age group remains in education or initial training rather than entering the labour market.

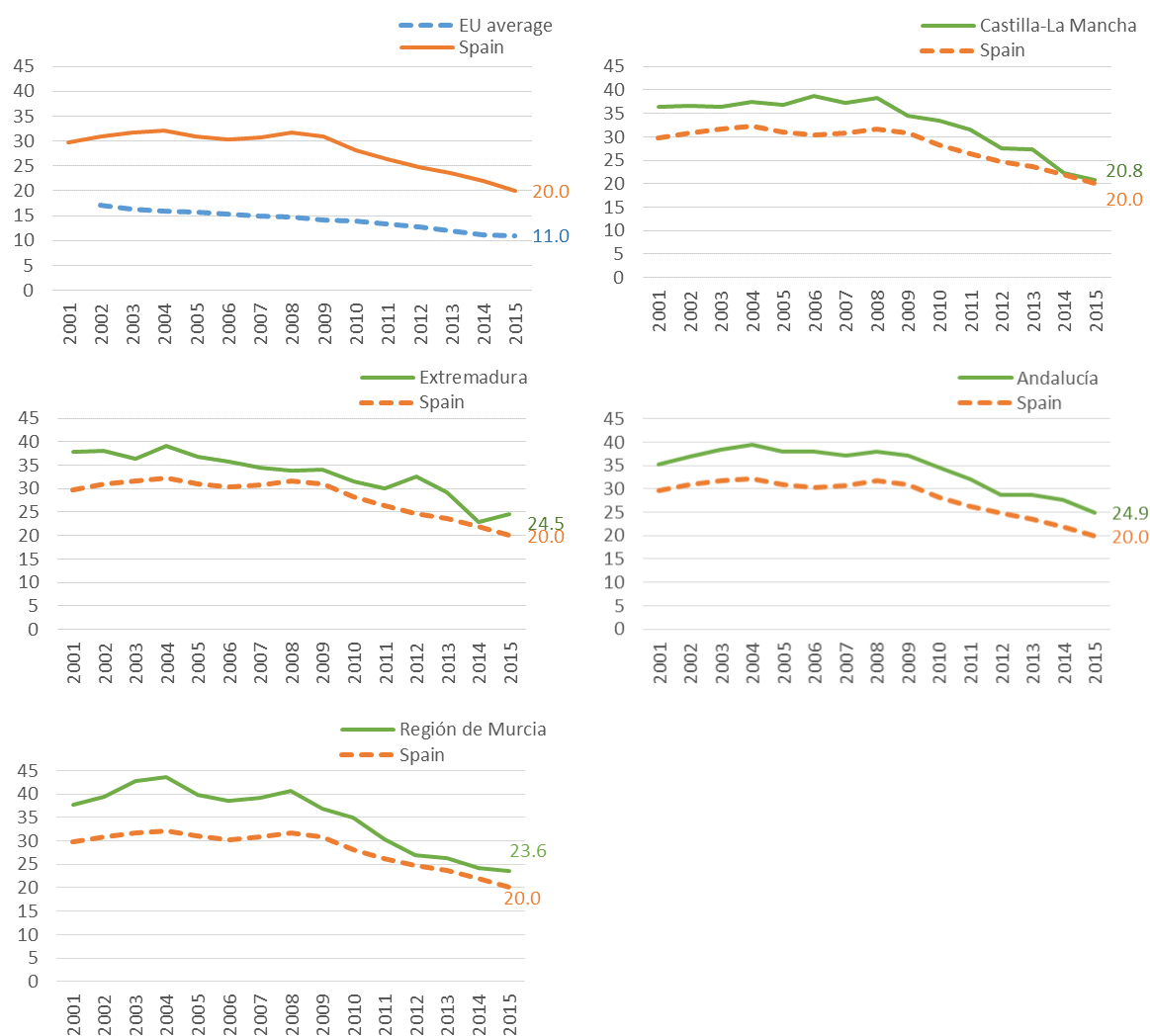
Youth unemployment is also a problem in Extremadura. The NEET rate among young people is also relatively large. The employment rate is well below the national average and the overall unemployment is higher than in the rest of the country. The unemployment rates of young people with tertiary education, however, is much higher than the national average while the rate for those with secondary education was well below, suggesting that there were relatively more jobs available for those with medium education but less so for those with a university diploma or equivalent.

Finally, in Andalucía, the labour market situation seems particularly unfavourable, with the highest unemployment rate combined with the lowest employment rate among the lagging regions, signalling an acute shortage of jobs. This is especially so for young people who have the highest NEET rate among all the lagging regions and a relatively high unemployment rate.

#### **4. EDUCATION AND TRAINING**

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**Figure 4.1 – Early leavers from education and training in Spain, 2001-2015**



Source: Eurostat, LFS [edat\_lfse\_16].

**Table 4.1 – Early leavers from education and training in Spain, 2015**

Region	Early leavers aged 18-24, %, 2015
Castilla-La Mancha	20.8
Extremadura	24.5
Andalucía	24.9
Región de Murcia	23.6
<b>Spain</b>	<b>20.0</b>
EU average	11.0

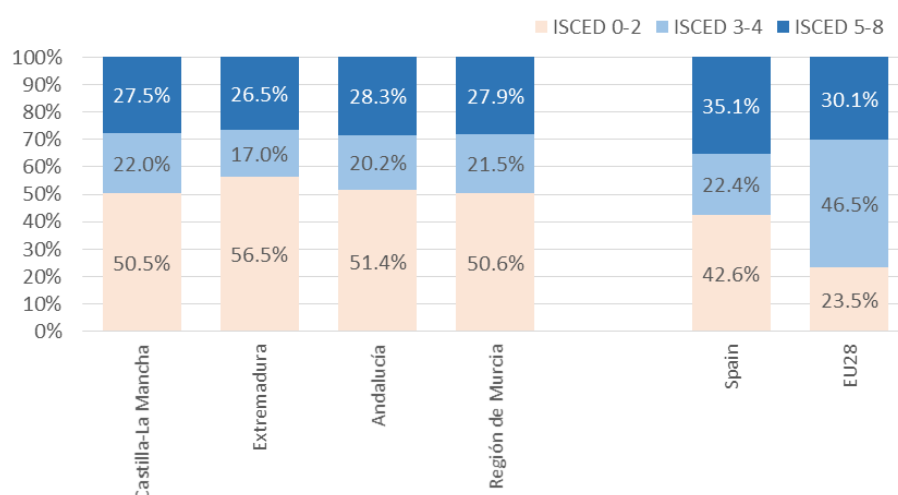
Source: Eurostat, LFS.

Notes: Rates which are higher than in the national average are shown in red. Rates which are higher than in the EU are highlighted in grey.

### Commentary

The relative number of young people leaving school without any qualifications beyond basic schooling in Spain is well above the EU average, although it has been constantly decreasing since 2008. The situation in the lagging regions is even less favourable, although in Castilla-La Mancha the rate is very similar to the national average. Since the employment rate of those with only basic education is relatively low, this represents an obstacle both for the early leavers to find a job and for the region to achieve its growth potential.

**Figure 4.2 – Educational attainment by ISCED level in Spain, % of population aged 25-64, 2015**



Source: Eurostat, LFS [edat\_lfse\_04].

**Table 4.2 – Percentage of population aged 25-64 by educational attainment in Spain, 2015**

Region	Individuals with ISCED 3-8, %	Individuals with ISCED 5-8, %
Castilla-La Mancha	49.5	27.5
Extremadura	43.5	26.5
Andalucía	48.6	28.3
Región de Murcia	49.4	27.9
<b>Spain</b>	<b>57.4</b>	<b>35.1</b>
EU average	76.5	30.1

Source: Eurostat, LFS.

Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

### Commentary

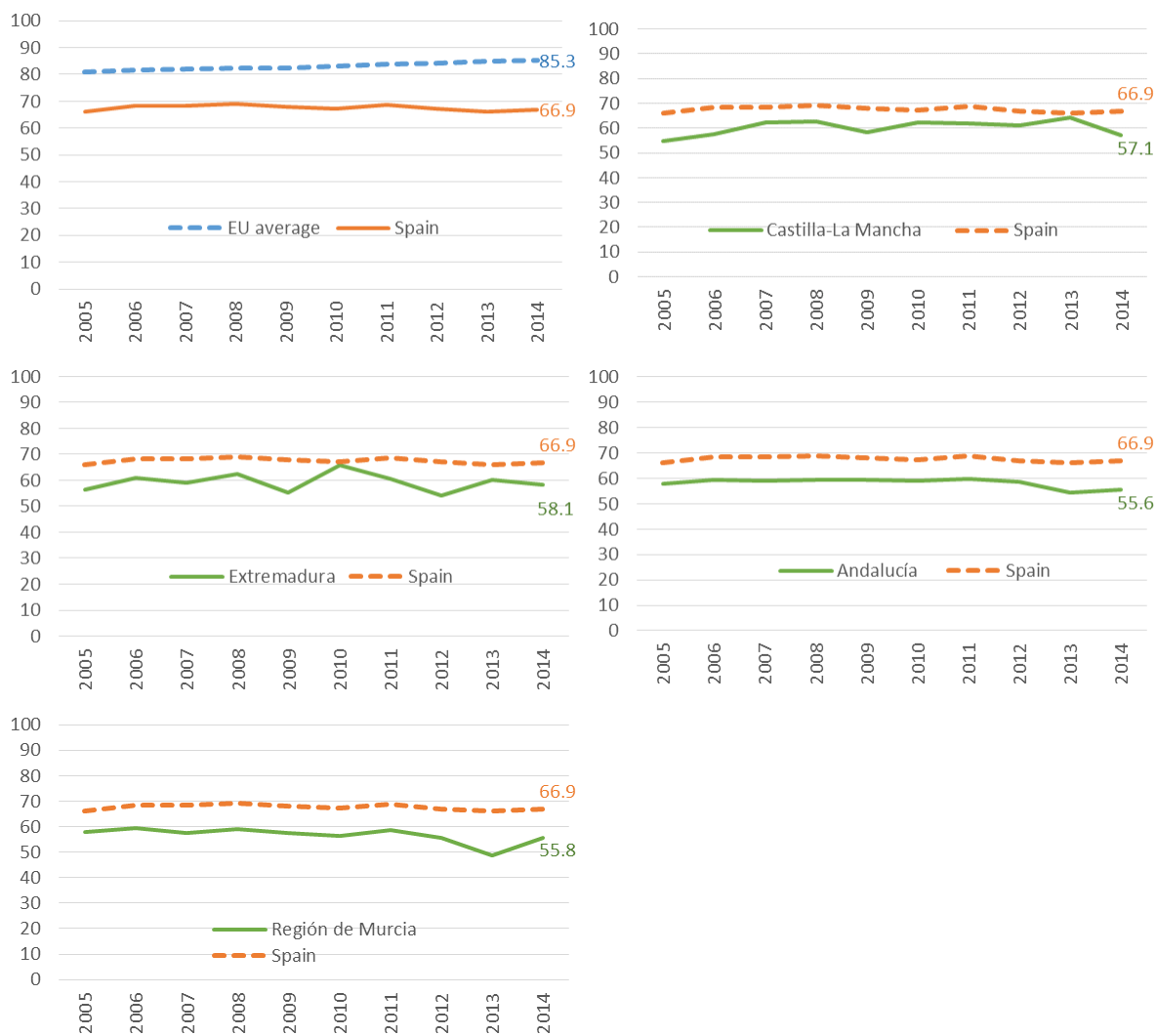
The relative number of people of working age (25-64 years) with only basic schooling education is much higher in Spain than in the rest of the EU and this is even more the case in the lagging regions, most especially in Extremadura. In all of them, the share of working age population with this level of education accounted for over 50% of the total workforce in 2015.

Interestingly, the share of people of working age with tertiary education is also higher in Spain than in the EU. However, this is not the case in the lagging regions, where the rates in 2015 were below



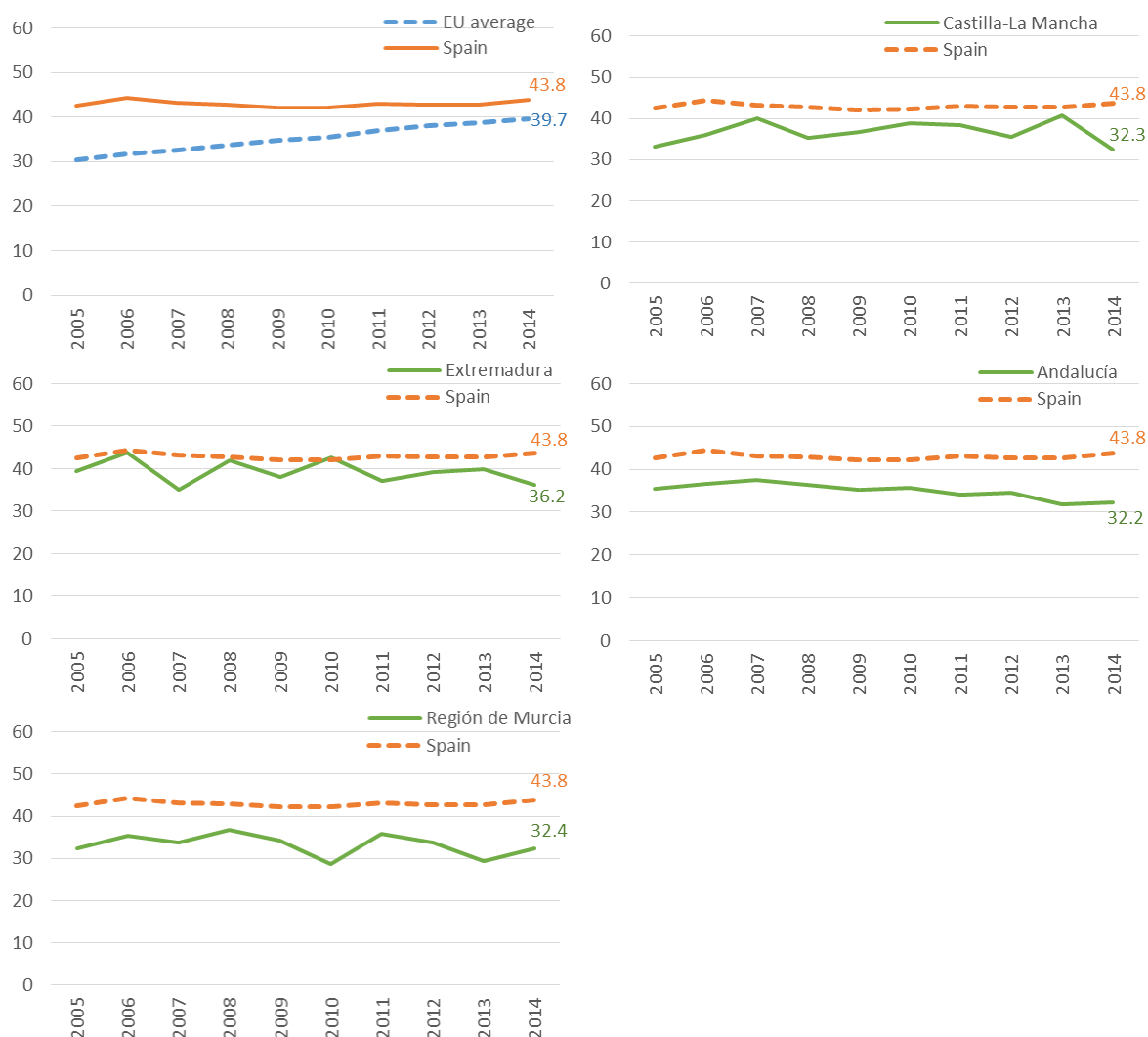
the national and the EU average. Given the fact that the proportion of the work force with tertiary education has consistently been found to be closely correlated with GDP per head, the relatively small proportion in the lagging regions in particular is a potential hindrance to growth.

**Figure 4.3 – Proportion of individuals aged 25-34 whose highest education level attained is ISCED 3-8 in Spain, 2005-2014**



Source: Eurostat, LFS microdata.

**Figure 4.4 – Proportion of individuals aged 25-34 whose highest education level attained is ISCED 5-8 in Spain, 2005-2014**



Source: Eurostat, LFS microdata.

**Table 4.3 – Highest educational level attained among people aged 25-34 in Spain, 2014**

Region	ISCED 3-8, %	ISCED 5-8, %
Castilla-La Mancha	57.1	32.3
Extremadura	58.1	36.2
Andalucía	55.6	32.2
Región de Murcia	55.8	32.4
<b>Spain</b>	<b>66.9</b>	<b>43.8</b>
EU average	85.3	39.7

Source: Eurostat, LFS.

Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey. Data are from the published LFS microdata, more up-to-date data will be obtained from Eurostat.

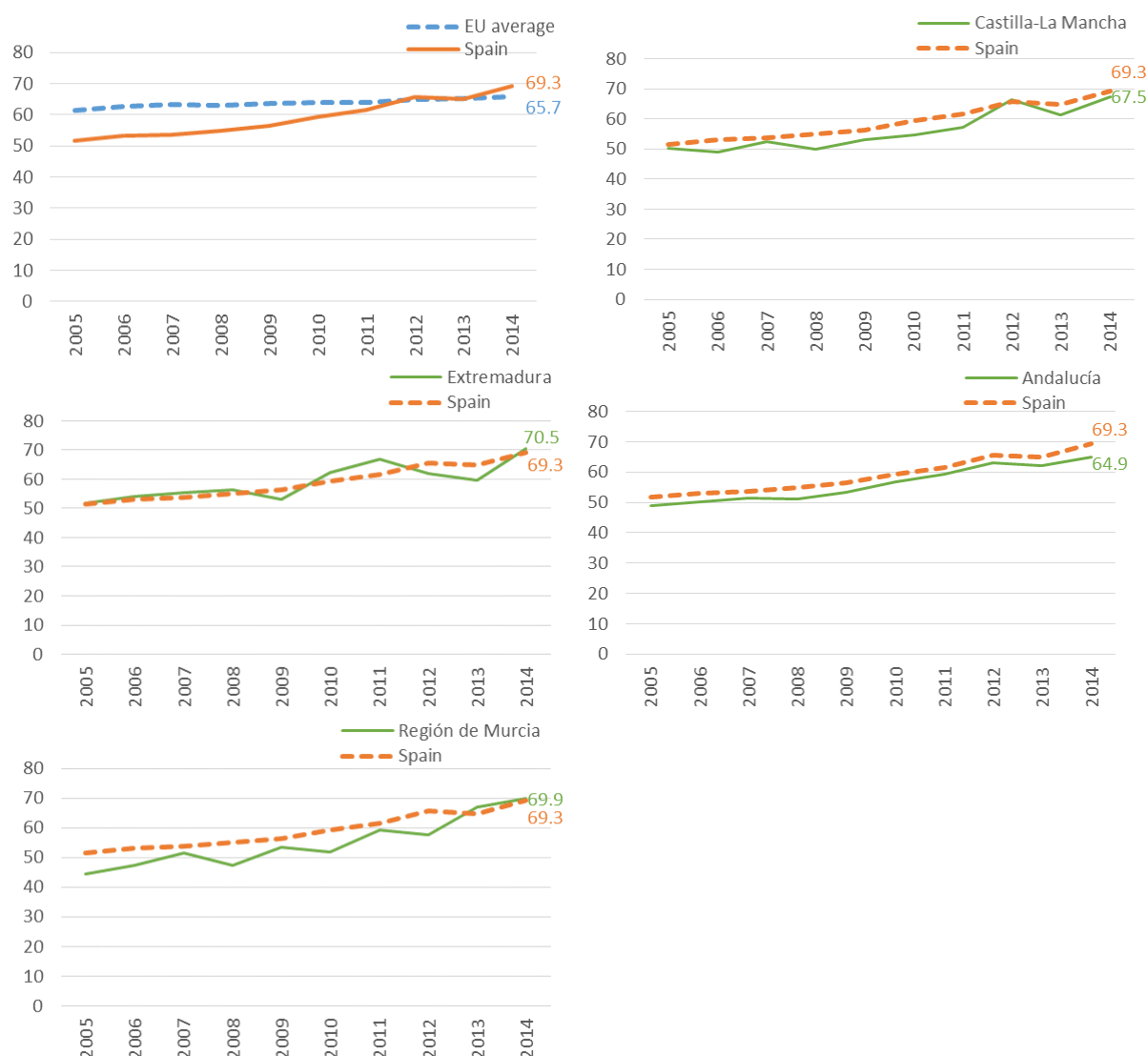
### Commentary

The analysis on those aged between 25 and 34 shows a similar picture as for the working age population as a whole. The proportion of those with tertiary education within the age group 25-34 is

much higher in Spain than in the EU on average. This proportion has remained relatively stable over the 2005-2014 period while the EU benchmark has increased steadily but remained below the Spanish level over the same period, which resulted in the reduction of the difference between the Spain and EU averages in the recent years.

In all the lagging regions is the share of people with tertiary education among those aged 24-34 below both the national and the EU average. It is particularly low in Castilla-La Mancha, Andalucía and Murcia, suggesting that there has been less of an increase in young people participating in tertiary education in these regions than in others or, alternatively, that a significant number of those who have participated have left the region to live and work elsewhere.

**Figure 4.5 – Share of young people aged 15-24 in regular education or vocational training in Spain, 2005-2014**



Source: Eurostat, LFS microdata.

**Table 4.4 – Share of young people aged 15-24 in regular education or vocational training in Spain, 2014**

Region	Young people in regular education or vocational training (% of population 15-24) 2014
Castilla-La Mancha	67.5
Extremadura	70.5
Andalucía	64.9
Región de Murcia	69.9
<b>Spain</b>	<b>69.3</b>
EU average	65.7

Source: Eurostat, LFS.

Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average appear are highlighted in grey. Data are from the published LFS microdata, more up-to-date data will be obtained from Eurostat.

**Table 4.5 – Share of young people aged 15-24 in vocational education or training in Spain, 2014**

Region	Young people in vocational education or training (% of population 15-24) 2014
Castilla-La Mancha	8.3
Extremadura	8.1
Andalucía	6.6
Región de Murcia	8.9
<b>Spain</b>	<b>8.4</b>
EU average	16.4

Source: Eurostat, LFS.

Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey. Data are from the published LFS microdata, more up-to-date data will be obtained from Eurostat.

### Commentary

The proportion of young people aged 15-24 in education or initial vocational training is higher in Spain than in the rest of the EU. The Spanish average has increased constantly over the 2005-2014 period and was significantly exceeded the EU average for the first time in 2014. The proportion was higher than the EU average in all the lagging regions except Andalucía, and higher than the national average in Extremadura and Murcia. In the other two lagging regions, Castilla-La Mancha and Andalucía, the proportion of young in education or initial vocational training was below the national average.

On the contrary, within the same age group, the share of young people in vocational education or training was twice as low in Spain than in the rest of the EU, as in all the lagging regions, especially in Andalucía. With the exception of Murcia, the proportion in all the lagging regions was below the national average in 2014.

**Figure 4.6 – Participation rate of people aged 25-64 in continuing education and training in Spain, 2000-2015**



Source: Eurostat, LFS [trng\_lfse\_04].

**Table 4.6 – Participation rate of people aged 25-64 in continuing education and training in Spain, 2015**

Education and training participation rate, %, 2015	
Región	
Castilla-La Mancha	9.6
Extremadura	9.5
Andalucía	9.2
Región de Murcia	9.9
<b>Spain</b>	<b>9.9</b>
EU average	10.7

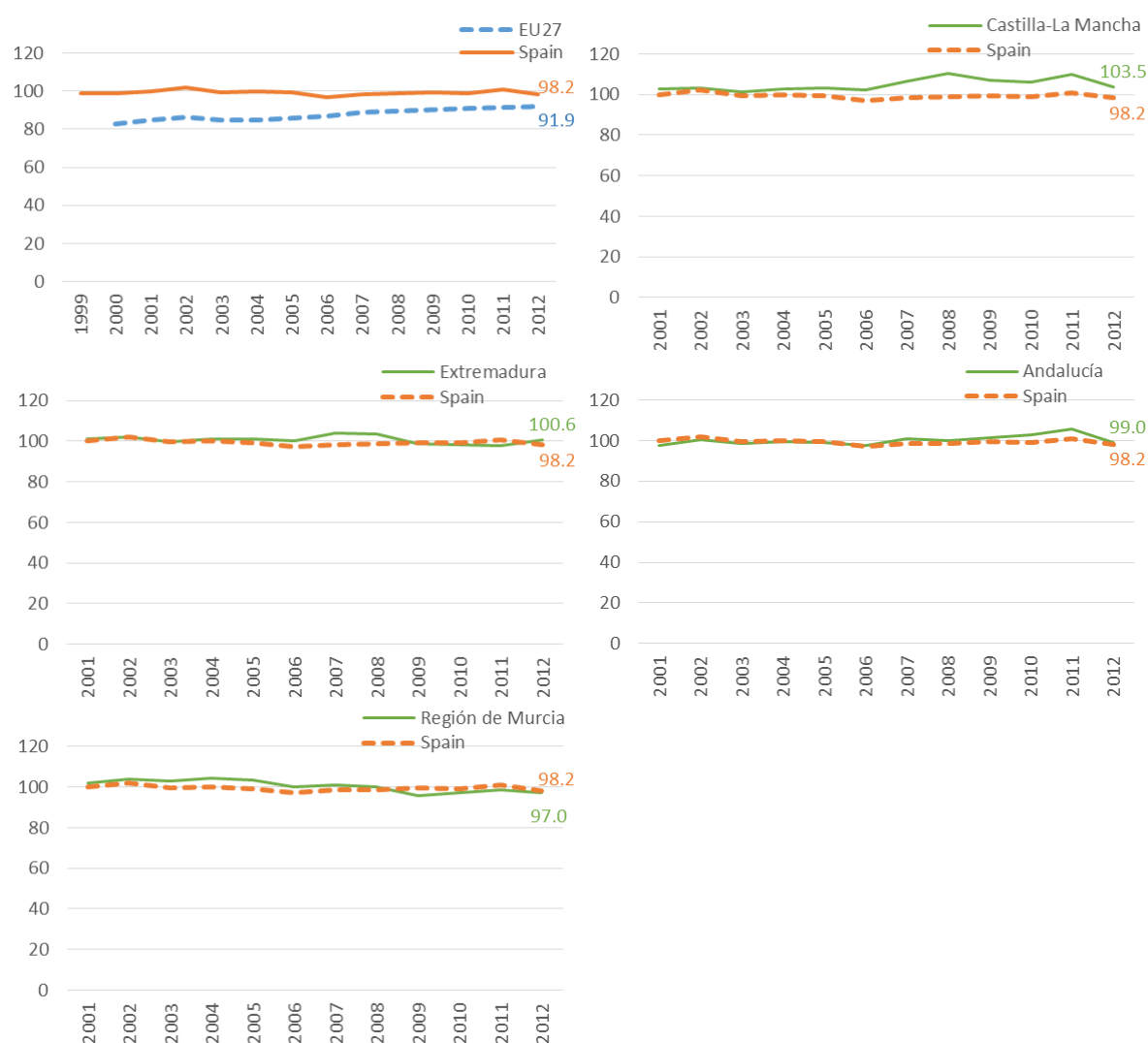
Source: Eurostat, LFS.

Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

### Commentary

Participation to continuing education and training among those aged 25-64 was lower in Spain in 2015 than in the rest of the EU. However, while the EU average (just above 10% in 2015) was relatively stable over the preceding two years, in Spain the participation rate suddenly dropped in 2014 and 2015 (to about 10%). The situation is similar in all the lagging regions, which have broadly tracked the national trend. In all the regions (but in particular in Andalucía), the rate was slightly lower than the national one, with the exception of Murcia, where the proportion was the same in 2015. Therefore, the implication is that in Spain, generally, and in the lagging regions in particular, workers have slightly less possibility of improving their skills or acquiring new ones than in the rest of the EU. Equally, the unemployed have less access to training to help them increase their employability.

**Figure 4.7 – Participation rate of 4-years-olds in education in Spain, 1999-2012**



Source: Eurostat, Regional education statistics [educ\_regind].

**Table 4.7 – Participation rate of 4-year-olds in education in Spain, 2012**

Region	4-years-old in education, %, 2012
Castilla-La Mancha	103.5
Extremadura	100.6
Andalucía	99.0
Región de Murcia	97.0
<b>Spain</b>	<b>98.2</b>
EU average	91.9

Source: Eurostat, Regional education statistics.

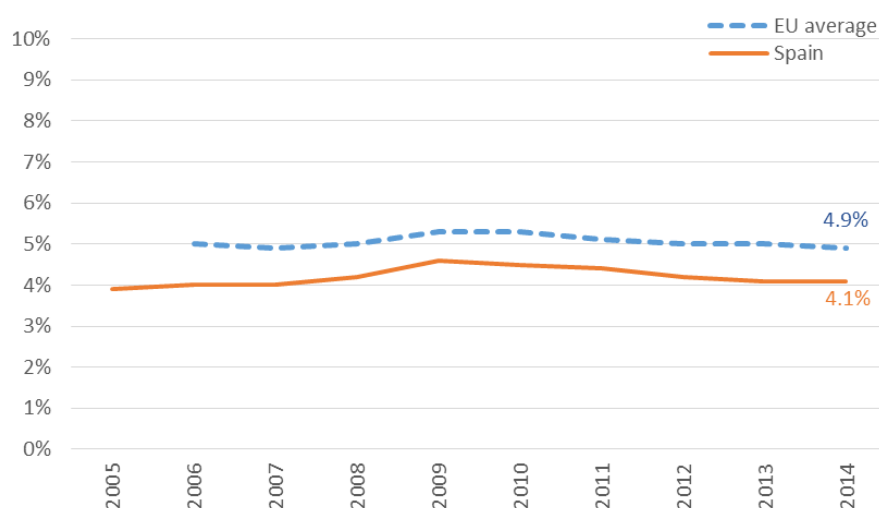
Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

Rates above 100% can be explained by the fact that statistics on enrolment are related to population data. Even if the reference date for the age is the same (1<sup>st</sup> of January), differences in data collection dates are likely to affect the participation rate: [http://ec.europa.eu/eurostat/cache/metadata/en/educ\\_uoe\\_enr\\_esms.htm](http://ec.europa.eu/eurostat/cache/metadata/en/educ_uoe_enr_esms.htm)

### Commentary

The proportion of children participating in education at the age of 4 is higher in Spain than in the rest of the EU (at least up to 2012 which is the latest year for which data are available). It is even higher in the lagging regions, with the exception of Murcia, where the proportion is slightly below the national average. All the other regions show higher participation rates of young children to education than in the country as a whole, particularly Castilla-La Mancha and Extremadura. The implication is that children appear to be better prepared for school in Spain, and in particular in the lagging regions, than those in other parts of the EU.

**Figure 4.8 – Expenditure of the general government in education in Spain, 2005-2014, % of GDP**



Source: Eurostat, General government expenditure [gov\_10a\_exp].

### Commentary

Expenditure on education was lower in relation to GDP in Spain than in the EU on average in 2014. While expenditure on education of the general government in relation to GDP has remained fairly unchanged over the period in the EU, there has been a moderate decrease in Spain since 2009.

**Summary 2 – Overview of Education (percentage point differences relative to the EU average for the national figures and relative to the national average for the regional figures)**

<b>EDUCATION</b>					
	<b>Spain</b>	<b>Castilla-La Mancha</b>	<b>Extremadura</b>	<b>Andalucía</b>	<b>Región de Murcia</b>
<b>Early leavers</b>					
Early leavers aged 18-24, 2015	+9.0	+0.8	+4.5	+8.8	+10.3
<b>Educational attainment level</b>					
Share of population aged 25-64 with ISCED 3-8, 2015	-19.1	-7.9	-13.9	-8.8	-8.0
Share of population aged 25-64 with ISCED 5-8, 2015	+5.0	-7.6	-8.6	-6.8	-7.2
Share of population aged 25-34 with ISCED 3-8, 2014	-18.4	-9.8	-8.7	-11.3	-11.1
Share of population aged 25-34 with ISCED 5-8, 2014	+4.1	-11.4	-7.5	-11.6	-11.4
<b>Education and apprenticeship</b>					
Students or apprentices aged 15-24 in regular education, 2014	+3.6	-1.8	+1.2	-4.4	+0.6
Young people aged 15-24 in vocational education or training, 2014	-8.0	-0.1	-0.4	-1.8	+0.5
<b>Lifelong learning</b>					
Participation rate of 25-64 in continuing education and training, 2015	-0.8	-0.3	-0.4	-0.7	+0.0
<b>Early childhood education</b>					
Participation rate of 4-year-olds in education, 2012	+6.3	+5.3	+2.4	+0.8	-1.2
<b>Education expenditure</b>					
General government expenditure in education (% of GDP), 2014	-0.8	:	:	:	:
<b>STRUCTURAL IMBALANCE</b>					
Number of unfavourable variables	6	8	7	8	6
Number of favourable variables	4	1	2	1	3

Notes: Unfavourable situations compared to the EU average are highlighted in grey and those which are unfavourable relative to the national average are shown in red  
 “:” Not available, “-” No difference.

**EDUCATION in Spain**



<b>Country-specific recommendations, 2011-2015</b>	
2011	Ensure a close monitoring of the effectiveness of measures set out to reduce early school leaving and facilitate the transition to vocational education and training.
2012	Reinforce efforts to reduce early school leaving and increase participation in vocational education and training through prevention, intervention and compensation measures.
2013	Continue with efforts to increase the labour market relevance of education and training, to reduce early school leaving and to enhance lifelong learning namely by expanding the application of dual vocational training beyond the current pilot phase and by introducing a comprehensive monitoring system of pupils' performance by end-2013.
2014	Reinforce the coordination between labour market and education and training policies. Effectively implement the new educational schemes to increase the quality of primary and secondary education. Enhance guidance and support for groups at risk of early school leaving. Increase the labour market relevance of vocational education and training and of higher education.
2015	-
<b>Structural reforms carried out, 2011-2015</b>	
2011	The <i>Law on Sustainable Economy</i> (adopted on 15 February 2011) includes measures aiming at increasing the quality and quantity of human capital through education and vocational training.
2011	The <i>Sustainable Economy Act and Complementary Organic Act</i> included amendments to the legislation to facilitate access to vocational education, permanence in the education system and better quality. Access to Professional Qualification Programmes (PCPI) was made easier by lowering the entry age to 15; access from PCPI to intermediate level vocational education was made more flexible; options are configured in the final year of compulsory secondary education to guide students towards the different forms of high school and the different cycles of intermediate vocational training; access to intermediate vocational training for people without a school certificate were made easier by creating induction courses; information and career guidance was to be enhanced to enable proper decision making by students and their families in relation to training routes beyond compulsory education; the range of vocational education options was expanded by making it possible to combine work or family obligations with lifelong learning; the Act also provided for greater participation by companies and trade unions in designing and delivering vocational education programmes
2012	Measures were taken to combat early school leaving.
2012	Two specific action plans were implemented to tackle school drop-out rate: one was targeted at preventing leaving school early and promoting a return to the education system; the other was for meeting educational needs associated with the social and cultural environment that has an impact on the drop-out rate.
2013	Dual vocational training was introduced.
2013	A new Law on Education included new instruments to detect learning problems early and activate special support programmes. A new basic vocational education diploma (Formación Profesional Básica) can be accessed without completing compulsory education. Changes will be introduced to higher vocational education diplomas to adapt the studies to the different occupational areas. This reform of vocational education will be combined with measures already adopted, or to be adopted in the future, to promote training and apprenticeship contracts and to promote a system of dual vocational training that improves the employability of young people in response to the reality of productive sectors and companies. In order to adapt vocational education to the new occupational realities and the needs of the productive sectors, a revision of the content of vocational education diplomas has been initiated as well as the professional certificates used to certify vocational training acquired by means other than the vocational education diploma courses, for example through training and apprenticeship contracts.
2015	New educational schemes were introduced to increase the quality of primary and secondary education.

2015	There are plans to extend dual vocational training scheme in 2015 but considerable differences remain in the implementation of this scheme across the regions.
2011-2015	In the different regions, there has been an increase in the number of actions aimed at developing dual vocational training experience, creating incentives for training and apprenticeship contracts and work experience, and developing training programmes that lead to the attainment of a professional certificate or that involve a hiring compromise. In addition, most regions are carrying out actions aimed at reducing early school-leaving through participation in national programmes and, in some cases, executing their own initiatives.
<b>Outstanding challenges</b>	
	Early school leaving is high (one of the highest in the EU).
	Labour and skills shortages in some sectors that are essential for economic growth, such as skilled human resources in science and technology. Limited progress made in increasing the labour market relevance of vocational education and training and efforts to improve cooperation between higher education institutions and employers are behind schedule.
	Cooperation between public authorities, education providers and employers is still a challenge.
	Considerable differences remain in the implementation of dual vocational training scheme across the regions.

Sources: CSRs 2011-2015, CR 2016 (SWD2016 - 89 final), National Reform Programmes (NRP) 2001-2015, Member States Investment Challenges – SWD(2015) 400 final and SWD(2016) - 78 final.

## Overview

The extent of early school leaving is higher in Spain as compared with the rest of the EU and the same is the case in the lagging regions in the country, though this is more the case in Andalucía and Extremadura, where in 2015 about one fourth of young people aged 18-24 left school without adequate qualifications. This is probably one of the most important weaknesses of the education and training system in Spain.

On the other hand, the proportion of young people aged 15-24 in regular education or vocational training is higher in Spain than in the rest of the EU. The Spanish average has grown faster than the EU average, narrowing down the gap with the former and by-passing it in 2014. Nonetheless, the proportion of young in education or vocational training is lower than the national average in two of the four lagging regions, Castilla-La Mancha and Andalucía, in the latter it was equally below the EU average.

The proportion of people of working age with at least upper secondary education is much lower in Spain than in the EU and it is even lower in the lagging regions, particularly in Extremadura. The analysis of those aged 25-34 shows a similar picture. The proportion of those in this age group with at least secondary education is lower in Spain than in the EU and the share has remained largely unchanged over the period. The share is even lower in all lagging regions than in Spain, in particular in Andalucía and Murcia. On the contrary, the proportion of those with tertiary education within the age group 25-34 is much higher in Spain than in the EU. While about 40% of the people in this category of age have tertiary education in the EU, in Spain it is almost 4 percentage points higher, although this share has remained relatively stable over the last 9 years while the EU benchmark has increased steadily. The situation in the lagging regions is, however, very different, as in all of them the share of people with tertiary education among those aged 24-34 is below both the national and the EU average, particularly in Castilla-La Mancha, Andalucía and Murcia. Since tertiary education is generally regarded as being particularly important for the economic development of certain areas, there is a clear disadvantage in this regard in the lagging regions of Spain. The small proportion of young people who have successfully completed tertiary education suggests that the overall share of

working-age population with this level of education is likely to remain low in future years, which might represent an handicap for these regions to catch up the most developed ones.

The extent of earlier childhood education (the proportion of 4-year olds in school or pre-school) is high in Spain than in the rest of the EU, as it is in all the lagging regions where in each case it is higher than the national average, with the exception of Murcia, which suggests that children are better prepared for their future schooling in Spain and its lagging regions than those elsewhere.

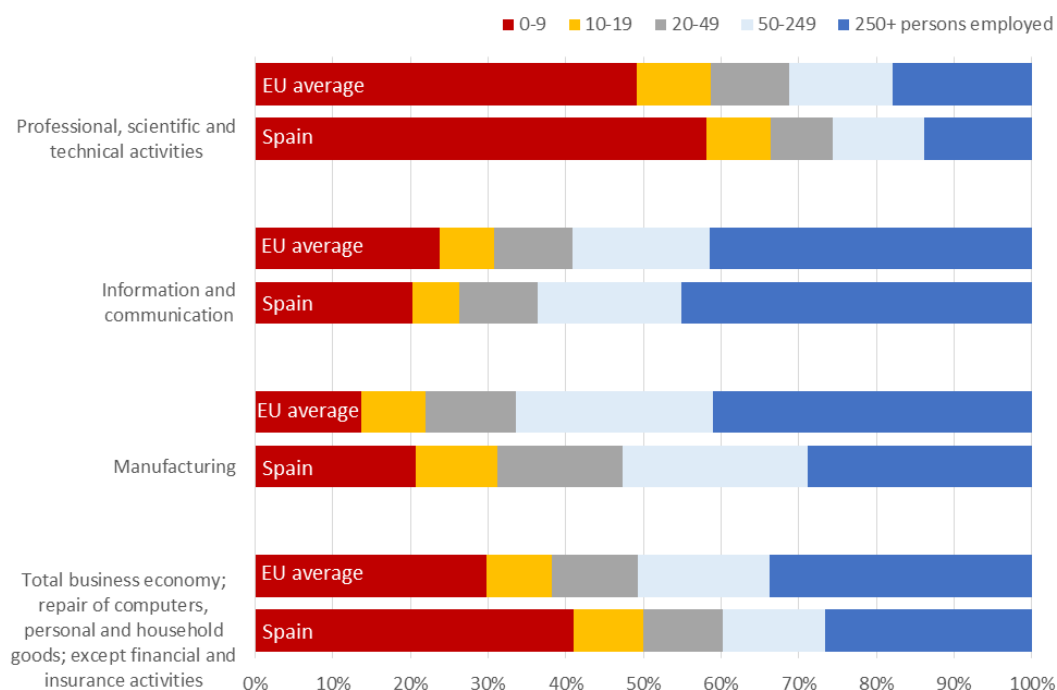
Country-specific recommendations in relation to education and training have mainly focused on reducing early school leaving, promoting a system of dual vocational training that improves the employability of young people, as well as on strengthening the links between the content of education and training programmes and the labour market needs. At the beginning of 2011, the Spanish government enacted the Law on Sustainable Economy which is aimed at facilitating young people access to vocational education and at favouring their permanence within the educational system. In the following years, in order to address school drop-out, two specific action plans were implemented, whereas the Education Law entailed the revision of the content of the vocational education diploma to better adapt them to the new occupational realities. Notwithstanding the measures taken, at the end of 2015, the share of early school leaving remained one of the highest in Europe and a mismatch between the supply and demand of skills in the labour market was still present.

In the lagging regions, the education situation is particularly unfavourable. All the regions show an early school drop-out rate higher than both the EU and national average, with the highest figures recorded in Extremadura and Andalucía, where almost one fourth of the young people aged 18-24 drop from school without adequate qualification. In addition, in all the lagging regions, it is equally the case that the proportion of people (aged 25-64 and 25-34) with tertiary education is well below the national average.

## **5. BUSINESS ENVIRONMENT AND RDTI**

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**Figure 5.1 – Breakdown of employment by size of enterprise in critical sectors in Spain in 2013**



Source: Eurostat, Structural Business Statistics [sbs\_sc\_sca\_r2].

### Commentary

Spain's productive fabric is largely based on small enterprises; about 40% of the companies employ less than 9 people against 30% in the EU. On the other hand, large companies play a comparatively less important role as just 25% of them employ over 250 people as against 34% in the EU.

In Manufacturing and even more in Professional, scientific and technical activities, there is a larger share of employment in micro and small firms in Spain than in the rest of the EU, which could imply a disadvantage in competing on national and international markets. By contrast, the share of employment in information and communications in large and medium-sized enterprises is slightly bigger in Spain than in the rest of the EU, which indicates that in this sector firms are not at a size disadvantage compared to those in other countries.

**Table 5.1 – Ease of doing business in Spain, 2015**

Region (city)	Ease of doing business (ranking 1-19)
Castilla-La Mancha (Albacete)	9
Extremadura (Badajoz)	5
Andalucía (Seville)*	14
Región de Murcia (Murcia)*	16
<b>Spain (rank in the EU, 1-28)</b>	<b>17</b>

Source: World Bank: Doing Business report 2015 and Doing Business in Spain report 2015.

Notes: \* Andalucía (Seville) and Región de Murcia (Murcia) appear in the bottom half of the ranking in Spain.

A low value corresponds to a high ease of doing business.

**Table 5.2 – Starting a business in Spain, 2015**

Region (city)	Starting a business (ranking 1-19)
Castilla-La Mancha (Albacete)*	12
Extremadura (Badajoz)	6
Andalucía (Seville)	1
Región de Murcia (Murcia)*	11
<b>Spain (rank in the EU, 1-28)</b>	<b>22</b>

Source: World Bank: Doing Business report 2015 and Doing Business in Spain report 2015.

Notes: \* Castilla-La Mancha (Albacete) and Región de Murcia (Murcia) appear in the bottom half of the ranking in Spain. A low value implies a more favourable situation in terms of the regulatory environment for starting a business.

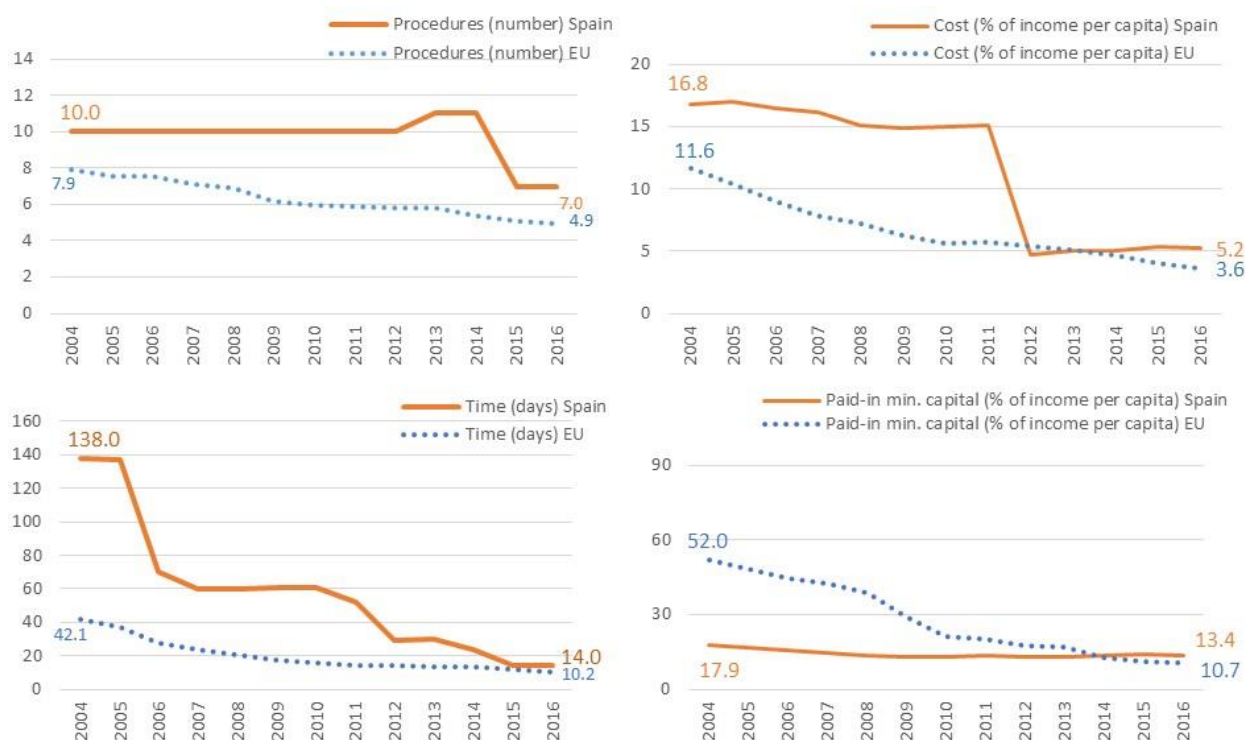
**Table 5.2 – Starting a business indicators in Spain, 2015**

Region (city)	Procedures (number)	Time (days)	Cost (% of income per capita)	Paid-in minimum capital (% of income per capita)
Castilla-La Mancha (Albacete)	10	15.5	5	13.8
Extremadura (Badajoz)	9	14.5	3.4	13.8
Andalucía (Seville)	7	14.0	3.4	13.8
Región de Murcia (Murcia)	10	15.0	4.6	13.8
<b>Spain</b>	<b>7</b>	<b>14</b>	<b>5.3</b>	<b>13.8</b>
EU average	5.1	11.5	4.0	11.3

Source: World Bank: Doing Business report 2015 and Doing Business in Spain report 2015.

Notes: Values which are higher than the national average are shown in red. Values which are higher than the EU average are highlighted in grey.

**Figure 5.2 – Starting a business indicators in Spain, 2004-2016**



Source: World Bank: Doing Business 2004-2015.

## Commentary

It is relatively less easy to do business in Spain than in the EU (i.e. the country is ranked 17<sup>th</sup> out of the 28 EU Member States). At the regional level, there is a marked variation between the lagging regions, with Murcia and Andalucía being ranked as among the least favourable locations to do business while Extremadura and Castilla-La Mancha perform better and are ranked among the most favourable locations.

The situation is even more critical in terms of the ease of starting a business as Spain is ranked 22<sup>nd</sup>, which means that it is more difficult to start a business in Spain than in most of the other EU countries. The overall rate takes into consideration several indicators, including the number of procedures to start a business as well as the cost associated with these. In Spain both these indicators, although substantially declined in 2015 and 2012 respectively, remain relatively higher than in the rest of the EU. Interestingly, despite the decrease in the time taken to start up a business over the past 10 years in Spain, which passed from about 70 days in 2006 to about 14 days in 2016, the average time taken to start a business in the rest of EU is still lower, taking approximately 10 days on average. While therefore significant progress has been made over the period considered to ease business start-up in Spain, the country is still disadvantaged in this regard and further progress is necessary.

At the regional level, there is again a marked variation between the lagging regions. In 2015, Murcia (as for the ranking on the ease of doing business) and Castilla-La Mancha were ranked among the least favourable location to start a business in terms of regulatory environment. In all the lagging regions, except Andalucía (which features in the first position of the ranking), both the number of procedures and the time needed to start a business were longer than the national average. Nonetheless, the cost implied to start-up a business was lower in all the lagging regions as compared

to the national average, particularly in Extremadura and Andalucía where it was even lower than the EU on average.

**Table 5.3 – Product Market Regulation (PMR) indicators in Spain, 2003, 2008 and 2013**

	Overall PMR			State control			Barriers to entrepreneurship			Barriers to trade and investment		
	2003	2008	2013	2003	2008	2013	2003	2008	2013	2003	2008	2013
<b>Spain</b>	1.79	1.59	1.44	2.49	2.16	1.86	2.47	2.20	2.10	0.42	0.42	0.37
EU average	1.78	1.53	1.44	2.57	2.27	2.17	2.15	1.85	1.69	0.63	0.45	0.47

Source: OECD PMR indicators.

Notes: Values which are higher than the EU average are highlighted in grey.

The index ranges from 0 to 6, from least to most restrictive.

### Commentary

Product Market Regulation indicators by OECD are available only at national level. They provide the following picture: the State control index has declined at a higher rate in Spain than in the rest of the EU (and has been below that in the EU in 2003, 2008 and 2013); barriers to entrepreneurship have also diminished but are still higher than the EU average (in line with the World Bank index on starting a business); and barriers to trade and investment have equally been reduced, in this case to well below the corresponding index in the rest of the EU. As a consequence, the overall PMR indicator in Spain is assessed as equally restrictive as in the EU, which is broadly in line with the situation observed ten years ago.

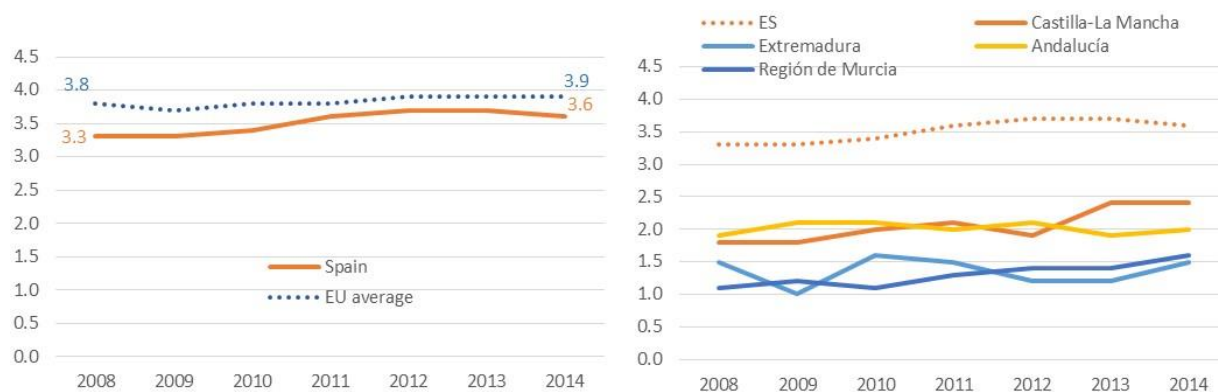
**Table 5.4 – Employment in high-technology sectors (manufacturing and knowledge-intensive services) in Spain, 2014, % of total employment**

Region	Employment in high-technology sectors (% of total employment), 2014
Castilla-La Mancha	2.4
Extremadura	1.5
Andalucía	2.0
Región de Murcia	1.6
<b>Spain</b>	3.6
EU average	3.9

Source: Eurostat, High-tech statistics [htec\_emp\_reg2].

Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

**Figure 5.3 – Employment in high-technology sectors (manufacturing and knowledge-intensive services) in Spain, 2008-2014, % of employment**



Source: Eurostat, High-tech statistics [htec\_emp\_reg2].

### Commentary

The share of employment in high tech manufacturing and knowledge-intensive sectors in Spain (3.6% of total employment in 2014) was slightly smaller than the EU average (3.9%). Up to 2013, the share in Spain has tended to increase by more than the share in the EU, narrowing the gap, though in 2014 the difference started to widen again. In all the lagging regions the share of employment in high tech manufacturing and knowledge-intensive sectors was well below the national average over the 2008-2014 period. In Extremadura and Murcia, the share was about half the national average. In the lagging regions, however, the proportion has shown a tendency to increase over the recent years (except in Castilla-La Mancha where it remained stable).

**Table 5.5 – R&D personnel and researchers in Spain, 2013**

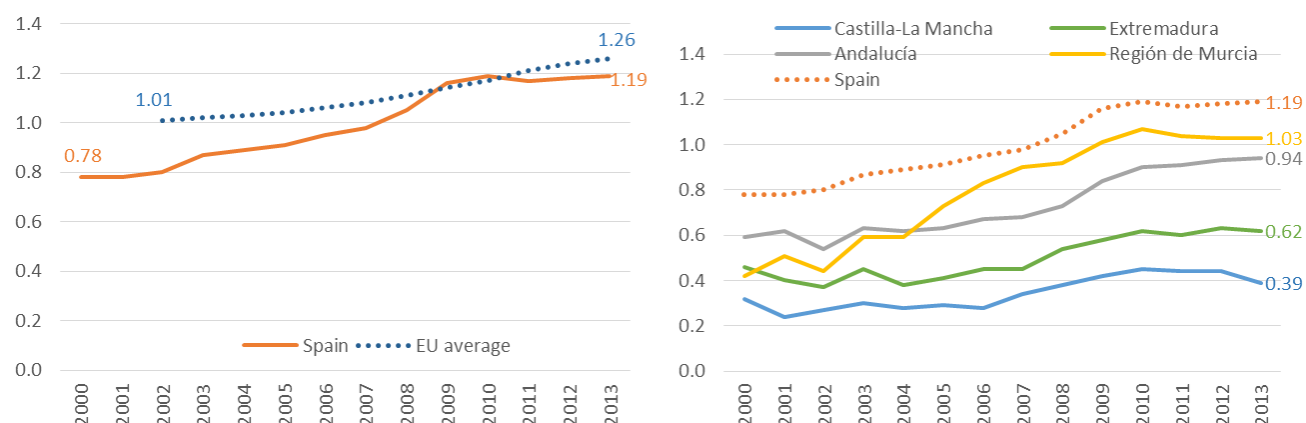
Region	Total R&D personnel and researchers (% of total employment), 2013
Castilla-La Mancha	0.4
Extremadura	0.6
Andalucía	0.9
Región de Murcia	1.0
<b>Spain</b>	<b>1.2</b>
EU average	1.3

Source: Eurostat, R&D statistics [rd\_p\_persreg].

Note: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

**Figure 5.4 – R&D personnel and researchers in Spain, 2000-2013, % of total employment**





Source: Eurostat, R&D statistics [rd\_p\_persreg].

### Commentary

The share of R&D personnel and researchers accounted for 1.3% of total employment in Spain in 2013, which is slightly below the EU average (1.2%). While the EU share has been steadily increasing over the whole period considered (2000-2013), the share in Spain has increased faster between 2000 and 2009, reaching the EU average, but then it has remained somehow stable in the following 4 years, thus widening again the gap with the rest of the EU. The share was smaller than the national average in all the lagging regions, though less so in Murcia, where the share has risen consistently between 2004 and 2010 and then remained stable at around 1% of total employment. The share was particularly small in Castilla-La Mancha and Extremadura.

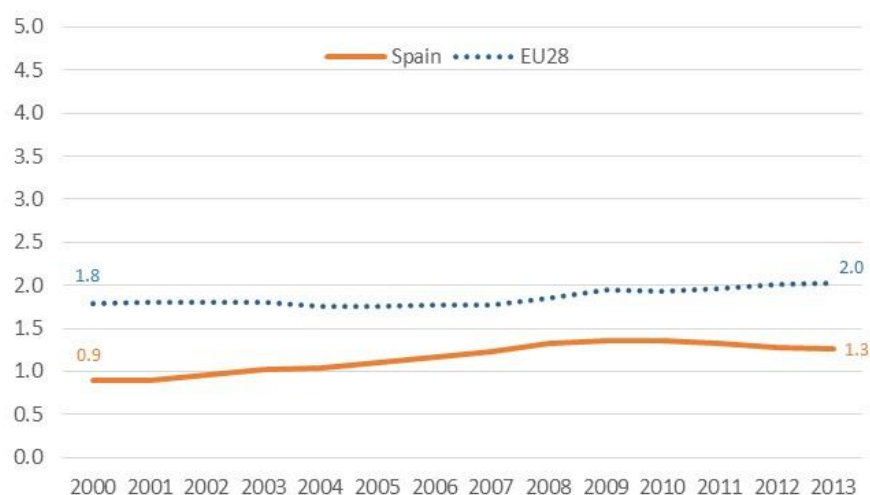
**Table 5.6 – Total intramural R&D expenditure in Spain, 2013**

Region	Total intramural R&D expenditure (GERD) % of GDP, 2013
Castilla-La Mancha	0.6
Extremadura	0.8
Andalucía	1.1
Región de Murcia	0.8
<b>Spain</b>	<b>1.3</b>
EU average	2.0

Source: Eurostat, R&D statistics [rd\_e\_gerdreg].

Note: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

**Figure 5.5 – Total intramural R&D expenditure in Spain, 2000-2013, % of GDP**



Source: Eurostat, R&D statistics [rd\_e\_gerdreg].

### Commentary

In 2013, R&D expenditure in Spain relative to GDP accounted for about two thirds of the EU average and, although up to 2008 it has shown a tendency to converge towards the EU average, in recent years this tendency has gradually dissipated. The share of expenditure on R&D was well below the national average in all the lagging regions though less so in Andalucía, where the share was close to the national average but still below it. It was particularly low in Castilla-La Mancha, in line with the small share of researchers in total employment observed in this region.

### Summary 3 – Overview of business environment (percentage point differences relative to the EU average for the national figures and relative to the national average for the regional figures, except where otherwise stated)

BUSINESS ENVIRONMENT AND RDTI					
	Spain	Castilla-La Mancha	Extremadura	Andalucía	Región de Murcia
<b>Doing business</b>					
Ease of doing business ranking, 2015	Bottom half (17/28)	Top half (9/4)	Top half (5/19)	Bottom half (14/19)	Bottom half (16/19)
Starting a business ranking, 2015	Bottom half (22/28)	Bottom half (12/4)	Top half (6/19)	Top half (1/19)	Bottom half (11/19)
Procedures (number), 2015	+1.9	+3.0	+2.0	-	+3.0
Time (days), 2015	+2.5	+1.5	+0.5	-	+1.0
Cost, 2015 (% of income per capita)	+1.3	-0.3	-1.9	-1.9	-0.7
Paid-up min. capital, 2015 (% of income per capita)	+2.5	-	-	-	-
<b>PMR indicators (The index ranges from 0 to 6, from least to most restrictive)</b>					
Overall PMR, 2013	+0.0	:	:	:	:
State control, 2013	-0.3	:	:	:	:
Barriers to entrepreneurship,	+0.4	:	:	:	:

2013					
Barriers to trade and investment, 2013	-0.1	:	:	:	:
<b>Employment in technology and knowledge intensive sector</b>					
Employment in high-technology and knowledge intensive sector, 2014	-0.3	-1.2	-2.1	-1.6	-2.0
<b>R&amp;D personnel/researchers and expenditure</b>					
Intramural R&D expenditure, 2013	-0.8	-0.7	-0.5	-0.2	-0.4
R&D personnel and researchers, 2013	-0.04	-0.7	-0.6	-0.3	-0.1
<b>STRUCTURAL IMBALANCE</b>					
Number of unfavourable variables	11	5	4	4	6
Number of favourable variables	2	3	4	2	2

Notes: Unfavourable situations compared to the EU average are highlighted in grey and those which are unfavourable relative to the national average are shown in red.

“:” Not available.

“-”: No difference with benchmark.

<b>BUSINESS ENVIRONMENT AND RDTI in Spain</b>	
<b>Country-specific recommendations, 2011-2015</b>	
2011	Further open up professional services and enact the planned legislation in order to redesign the regulatory framework and eliminate current restrictions to competition, efficiency and innovation. Implement measures aimed at improving the business environment and enhancing competition in the product and service markets at all levels of government. Improve coordination between regional and national administrations to reduce the administrative burden for enterprises.
2012	Take additional measures to open up professional services, reduce delays in obtaining business licences and eliminate barriers to doing business resulting from overlapping and multiple regulations by different levels of government. Reallocate funds to support research and innovation.
2013	Urgently adopt and implement the draft Law on market unity and speed up all complementary actions needed for its swift implementation. By end-2013 adopt and implement the Law on professional associations and services in order to remove unjustified restriction on access to and exercise of professional activities and the Law on entrepreneurship. Reduce the number and shorten licensing procedures, and spread the use of 'express licence' approach to activities other than retail. Review insolvency frameworks for companies including through limiting personal liability of entrepreneurs and easing 2nd chances for failed businesses. Remove unjustifiable restrictions to the establishment of large-scale retail premises.
2014	Remove remaining bottlenecks in the corporate insolvency framework. Ensure an ambitious and swift implementation of the Law on market unity at all levels of administration. Further reduce the time, cost and number of procedures required for setting up an operating business. Address unjustified restrictions to the establishment of large scale retail premises.
2015	Remove the barriers preventing businesses from growing, including barriers arising from size-contingent regulations. Adopt the planned reform on professional services. Accelerate the implementation of the Law on market unity (which aims at removing measures that may obstruct free movement of goods and services and the establishment of economic operators throughout Spain).

<b>Structural reforms carried out, 2011-2015</b>	
2011	The Law on Sustainable Economy included a wide array of measures to improve the business environment, strengthen competition and promote environmental sustainability.
2011	The <i>Science, Technology and Innovation Act (LCTI)</i> : Creation of the new State Research Agency, comprehensive reform of the public research organisations and launch of new excellence programmes, greater incentives for technology transfer from universities and public research organisations and researcher mobility between the public and private sector, a new model of governance for RDI that ensures coordination between the regions and the Central Government and improves the linkage between the Spanish system and the entire European Research Area. The Act also provides more attractive and stable career paths for research and technical staff (new incentives for excellence and mobility).
2011	The <i>National Innovation Strategy</i> (which started to be implemented in 2010) envisages various actions: Supporting the capitalisation of knowledge and public-private cooperation through new programmes that are more in line with the needs of SMEs, launching a venture capital fund for innovative companies, innovative public procurement, plan to support the internationalisation of innovation in target countries, new instruments and more funds for industry to hire talent to meet individual companies' needs, new framework agreements with the regions to support initiatives of common interest.
2012	The retail reform made shop opening hours more flexible, simplified licensing procedures for small retail outlets, and liberalised sales periods.
2012	The government adopted a draft law to merge the national competition authority with supervisory and regulatory authorities in six sectors, thus creating a single body: the National Commission for Markets and Competition.
2013	The Law on market unity was adopted and its implementation started.
2013	The Law on entrepreneurship and company internationalisation brought improvements to the framework for corporate insolvency and more flexible company forms and as regards the rationalisation of support schemes for the internationalisation of firms. The use of express licencing has been extended thus simplifying the opening of small-scale outlets and other measures have been taken to facilitate business licencing.
2013	National strategy for science, technology and innovation adopted.
2014	New measures were taken to enforce an average period of payments to commercial suppliers of 30 days across all levels of government.
2015	Corporate insolvency reforms undertaken in 2015 made insolvency procedures and out-of-court procedures more flexible. The corporate insolvency law reformed the in-court debt restructuring process by expanding substantially the scope of agreements and revising downwards the voting majorities of creditors required for validating agreements.
2015	
2015	Recent policies include a recruitment policy to fill all vacancies for civil servants in public research organisations (up from a 50% replacement rate in 2014), new programmes to support mobility of talent across sectors — such as the Spanish 'Industrial PhD' scheme — and a decision to prioritise available public funding towards global societal challenges in the calls for proposals to roll out the national plan for research and innovation.
2015	The central government's budget law for 2016 has increased slightly funding for the implementation of the national strategy for science, technology and innovation and the national plan for research and innovation.
2015	The State Agency for Research was legally incorporated to (among other things) ensure an efficient management of public R&I funding.
<b>Outstanding challenges</b>	

	The time needed to get licences and permits required to take up and perform a specific activity in Spain is longer compared to that of most EU Member States.
	The fragmentation of the domestic market due to the proliferation of regulations at different levels of the administration (regional, local), in different sectors and areas, prevents businesses from taking advantage of economies of scale. Although recent reforms have been introduced to increase market unity, further work must be carried out, especially as regards regional regulation.
	Obstacles to access regulated professions contribute to low productivity.
	Spain remains one of the Member States with the longest payment delays by public authorities and between businesses, giving rise to tighter financial conditions. Recent efforts to tackle late payment are expected to reduce payment delays and the stock of public debt once they enter into force.
	There is relatively low venture capital investment at seed stage. Overall investment in science technology and innovation remains low (below pre-crisis levels). The pending reform on the public administration of R&D funds continues to be delayed, which hampers a proper functioning of the system. Duplications and gaps between national and regional R&I programmes and weak incentives for science-industry cooperation, result in a relatively weak cooperation between the public and business R&D sectors. The framework conditions for research and innovation remains a structural barrier to investment.
	The use of (company) pre-insolvency and insolvency proceedings could increase.

Sources: CSRs 2011-2015, CR 2016 (SWD2016 - 89 final), National Reform Programmes (NRP) 2001-2015, Member States Investment Challenges – SWD(2015) 400 final and SWD(2016) - 78 final.

## Overview

According to the World Bank Report 2015 it is more difficult doing business in Spain than in 16 out of the 28 Member States; although it exists a marked variation between the lagging regions, being more difficult doing business in Murcia and Andalucía and being easier in Extremadura and Castilla-La Mancha. Concerning the ease to start a business, Spain's performance seems even worst, being ranked 22<sup>nd</sup> out of 28 Member State. Particularly, notwithstanding the significant progress the country has made over the period considered, the number of procedures to start a business as well as the cost and the time associated with these remain relatively high compared to the rest of the EU. At the regional level, there is again a marked variation between the lagging regions. Murcia and Castilla-La Mancha are considered the least favourable location to start a business among all the lagging regions. With the exception of Andalucía, the number of procedures and the time needed for starting a business are higher than in Spain on average. Lagging regions are however not disadvantaged in terms of the cost implied to start a business in comparison to other regions in Spain.

Product market regulation in Spain has been improving over the last 10 years: state control as well barriers to trade and investment both declined and remained lower than the EU level, while barriers to entrepreneurship have equally been reduced but still remain above the EU average (in line with the World Bank index on starting a business).

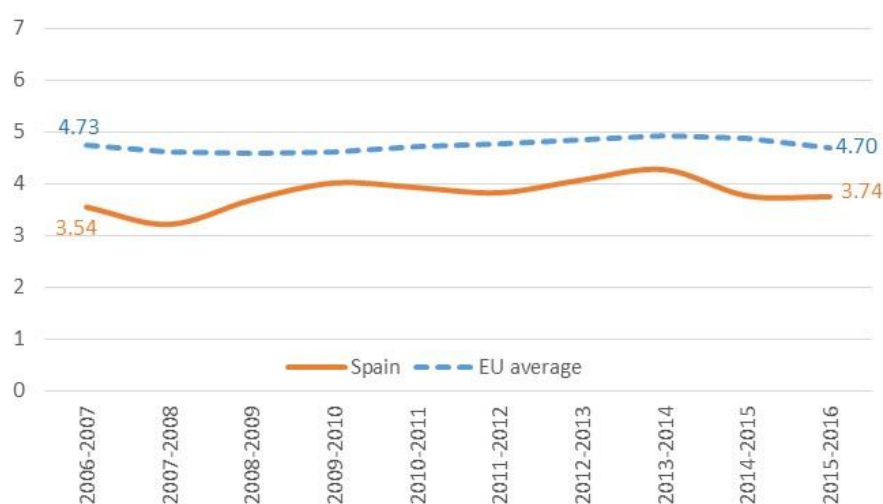
Spain's performance in relation to high-tech manufacturing and knowledge-intensive activities remains below the EU average. Despite the increase of the previous years, the employment shares in these sectors has inversed the trend and in 2014 slightly decreased. In addition, the relative number of R&D personnel and researchers rate, which has constantly grown between 2000 and 2010, remained practically unchanged from 2011 onward. Similarly, R&D expenditure relative to GDP has risen up to 2010 but then decreased slightly and in 2013 (the last year available) it was only around two third of the EU average. The capacity of the lagging regions in performing research and development activities is even more limited.

Accordingly, both the regulations in place and the limited availability of research expertise and R&D facilities are likely to discourage investment in Spain, especially in the areas with most growth potential (in knowledge-intensive sectors) and in the lagging regions in particular.

The focus of country-specific recommendations has been on removing the restriction on access to and exercise of professional activities, on reducing the procedures to obtain a license to start a business, as well as on reviewing the corporate insolvency framework. Despite the numerous measures taken so far, including the adoption of the Law on Sustainable Economy, which attempts to improve the business environment, and of the Law on Entrepreneurship and Company Internationalization, which focuses on improving the framework for corporate insolvency, there remains further room for improvement in different areas. For example, the time required to obtain licences to carry out specific activities is longer in Spain than in most of the EU Member States and obstacles still exist to access regulated profession; in addition, Spain remains one of the EU Member States with the longest payment delays by public authorities.

## 6. GOVERNANCE

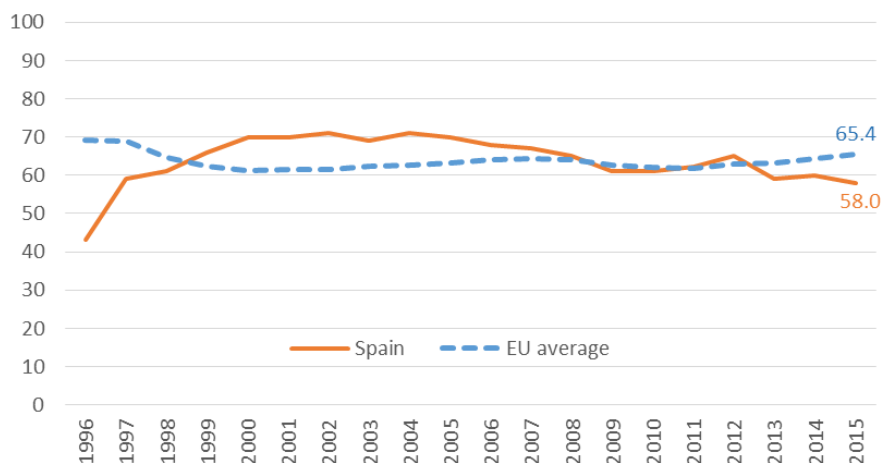
**Figure 6.1 – Judicial independence in Spain, 2006-2016**



Source: World Economic Forum.

The scale ranges from 1 to 7, from least to most independent (i.e. a higher value reflects a more independent judicial system).

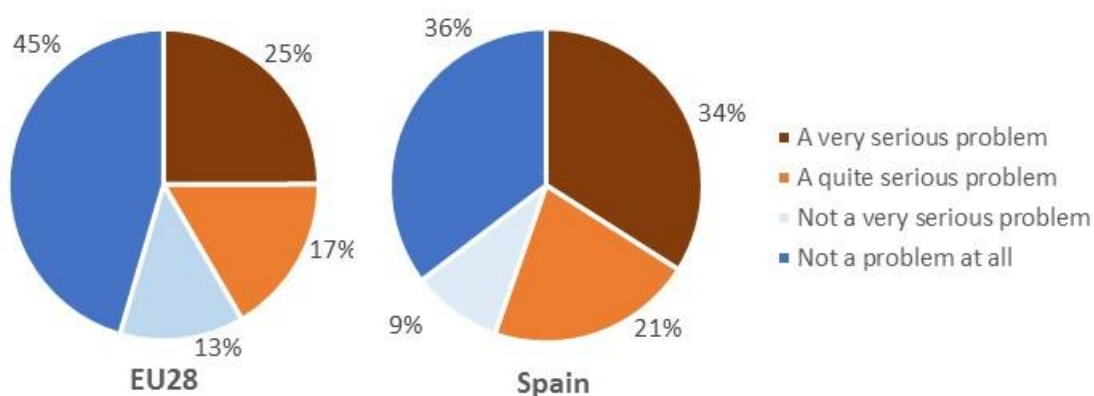
**Figure 6.2 – Corruption perception index in Spain, 1996-2015**



Source: Transparency International.

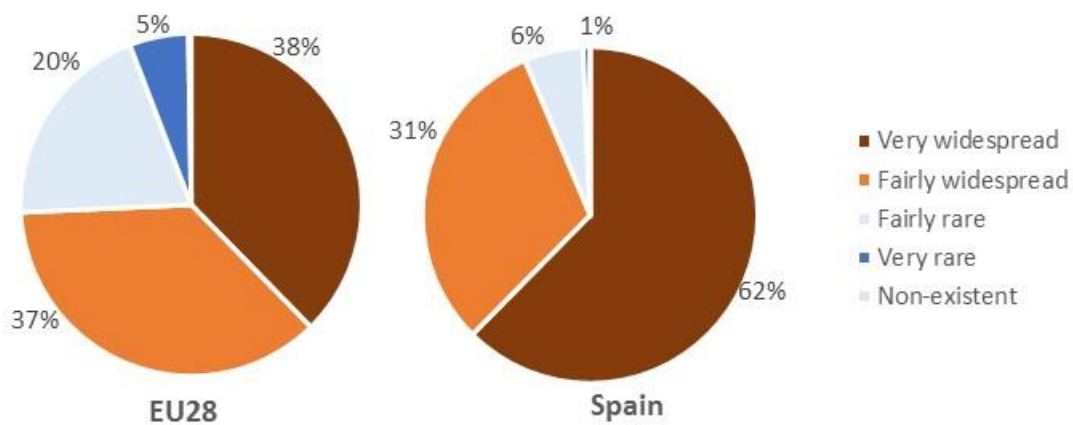
Note: The scale ranges from 0 to 100, from highly corrupt to highly clean.

**Figure 6.3 – Corruption as problem for doing business in Spain, 2015.**



Source: Flash Eurobarometer 428, European Commission.

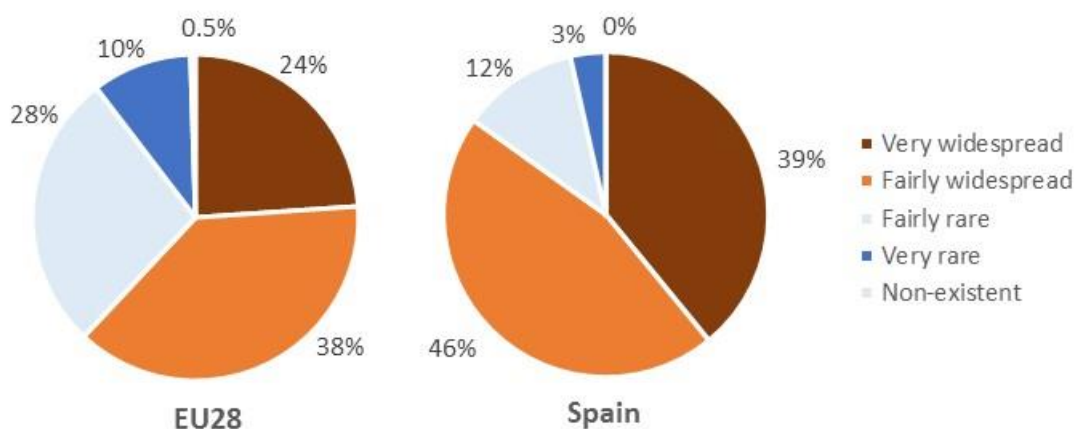
**Figure 6.4 – Extent of corruption in Spain, 2015**





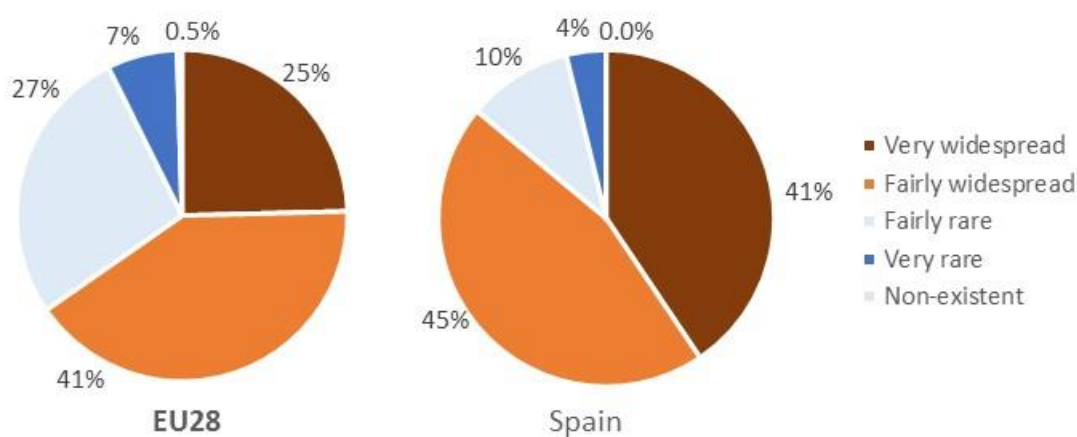
Source: Flash Eurobarometer 428, European Commission.

**Figure 6.5 – Extent of corruption in public procurement managed by national authorities in Spain, 2015**



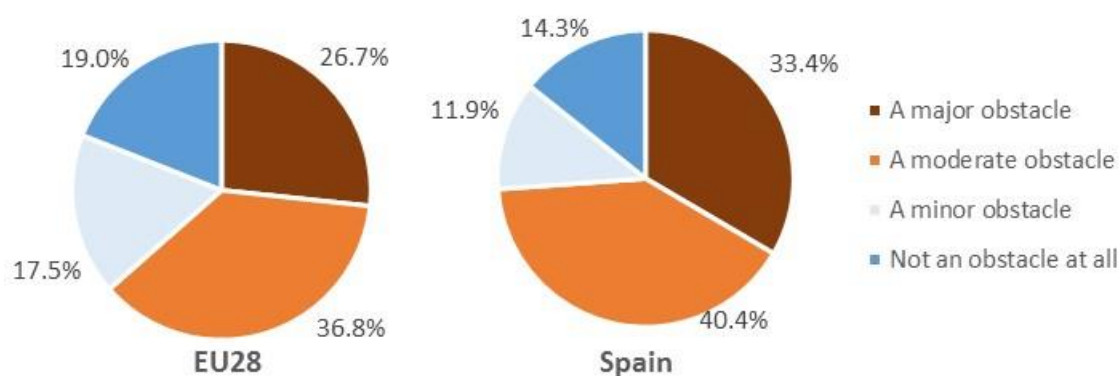
Source: Flash Eurobarometer 428, European Commission.

**Figure 6.6 – Extent of corruption in public procurement managed by regional or local authorities in Spain, 2015**



Source: Flash Eurobarometer 428, European Commission.

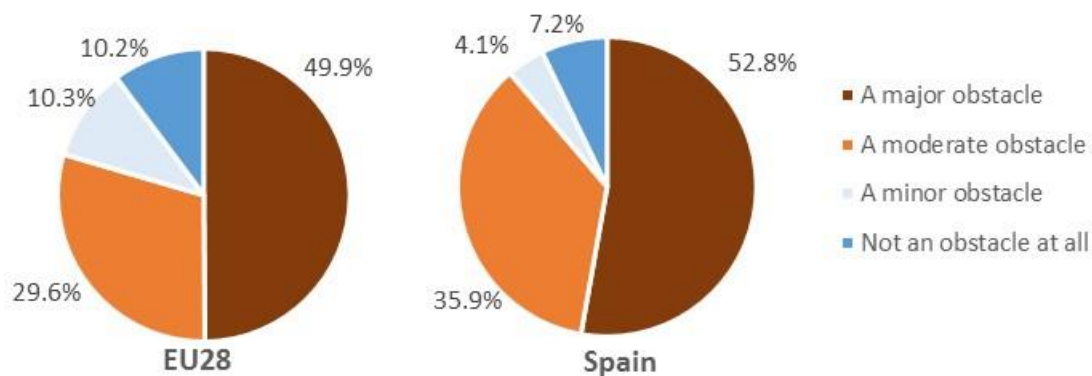
**Figure 6.7 – Procedures for contract enforcement is an obstacle to the activities of enterprises in Spain, 2015**





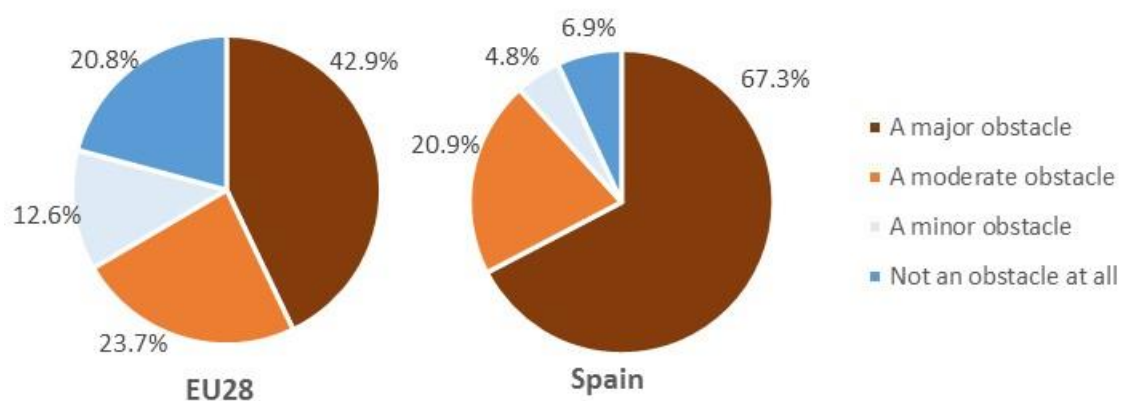
Source: Flash Eurobarometer 417, European Commission.

**Figure 6.8 – Lack of predictability and stability of legislation is an obstacle to the activities of enterprises in Spain, 2015**



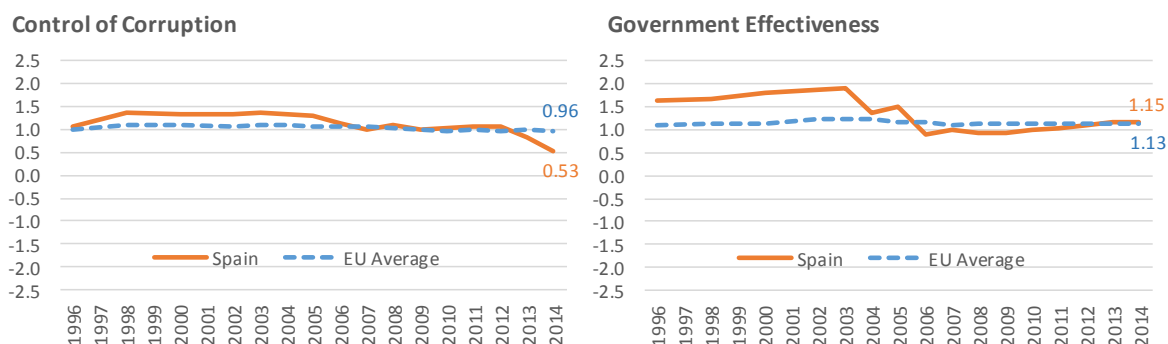
Source: Flash Eurobarometer 417, European Commission.

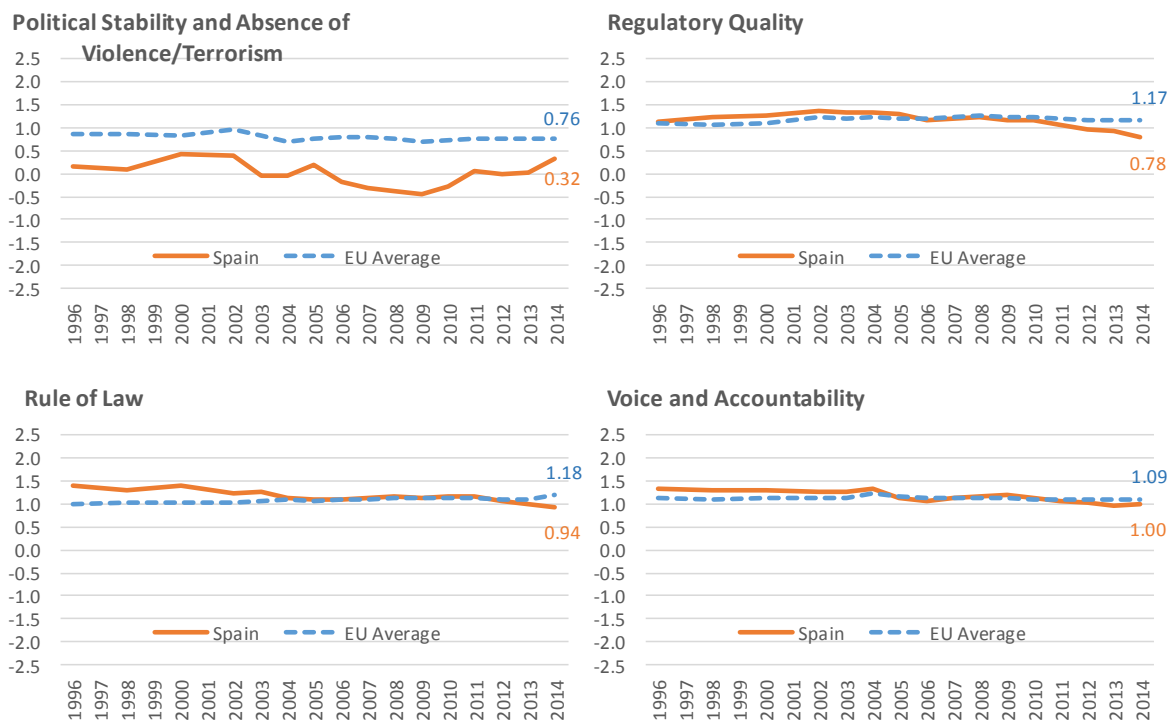
**Figure 6.9 – The existence of an informal economy is an obstacle to the activities of enterprises in Spain, 2015**



Source: Flash Eurobarometer 417, European Commission.

**Figure 6.10 – Worldwide Governance Indicators in Spain, 1996-2014**

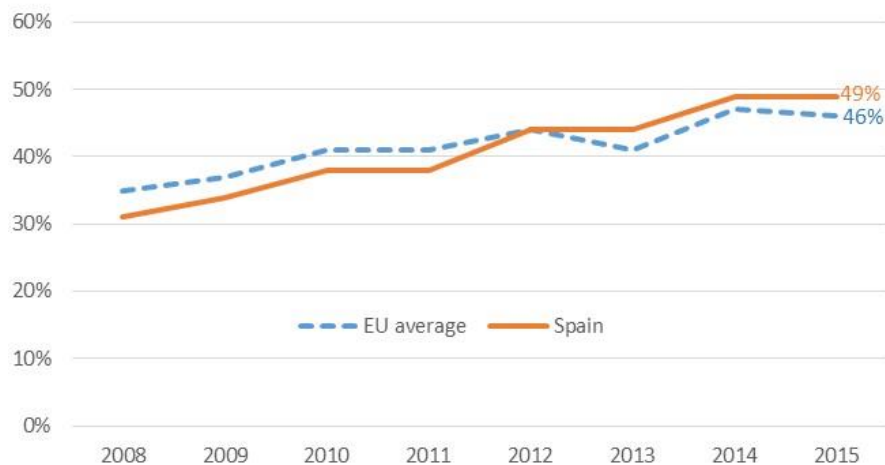




Source: Worldwide Governance Indicators, World Bank.

Note: The scale ranges from -2.5 to 2.5, higher values corresponding to better governance.

**Figure 6.11 – People aged 16-74 using the internet for interaction with public authorities in Spain, 2008-2015 (% total)**



Source: Eurostat ([tsdgo330] for years 2000-2010; [tin00012] afterwards).

**Table 6.1– People aged 16-74 using the internet for interaction with public authorities in Spain, 2015**

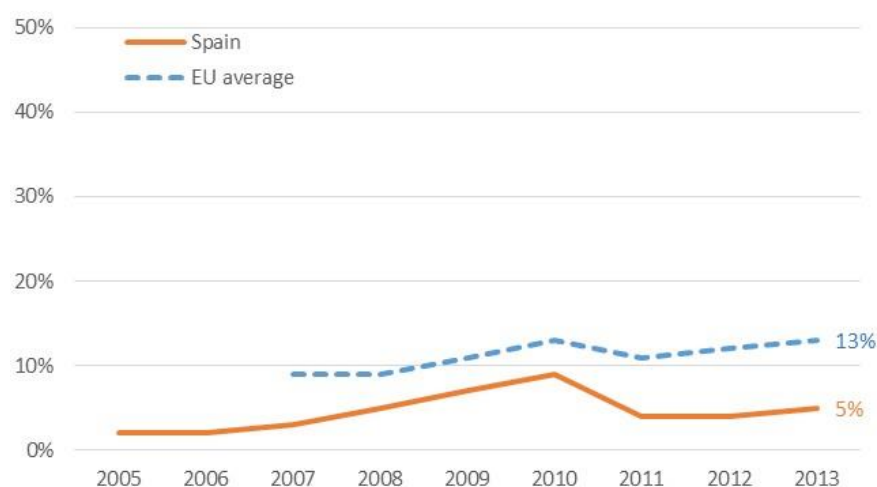
Region	% of individuals 16-74 2015
Castilla-La Mancha	48.0

Extremadura	45.0
Andalucía	46.0
Región de Murcia	42.0
<b>Spain</b>	<b>49.0</b>
EU average	46.0

Source: Eurostat [isoc\_r\_gov\_i].

Notes: Values which are lower than in the whole country are shown in red. Values which are lower than in the EU are highlighted in grey.

**Figure 6.12 – Enterprises using the Internet to submit a proposal to public authorities in Spain, 2005-2013**



Source: Eurostat [tin00109].

**Table 6.2 – European Quality of Government Index in Spain, 2010 and 2013**

Region	European Quality of Government Index (0-100)	
	2010	2013
Castilla-La Mancha	47.2	65.0
Extremadura	54.3	69.7
Andalucía	49.2	55.7
Región de Murcia	57.9	66.7
<b>Spain</b>	<b>51.3</b>	<b>60.8</b>
EU average	51.2	61.7

Source: N. Charron, L. Dijkstra and V. Lapuente, 'Mapping the Regional Divide in Europe: A Measure for Assessing Quality of Government in 206 European Regions'.

Notes: Values which are lower than in the whole country are shown in red. Values which are lower than in the EU are highlighted in grey.

In 2013, Spain was ranked 15<sup>th</sup> among the EU countries.

The scale ranges from 1 to 100 range, higher values corresponding to a better quality of government.

<b>Country-specific recommendations, 2011-2015</b>	
2011	-
2012	-
2013	Adopt the reform of the local administration and define by October 2013 a plan to enhance the efficiency of the overall public administration. Adopt and implement the ongoing reforms to enhance the efficiency of the judicial system.
2014	Strengthen control mechanisms and increase the transparency of administrative decisions in particular at regional and local levels. Complete and monitor the ongoing measures to fight against the shadow economy and undeclared work. Adopt pending reforms on the structure of the judiciary and on the judicial map and ensure implementation of adopted reforms.
2015	-
<b>Structural reforms carried out, 2011-2015</b>	
2011	The <i>Strategic Plan for the Modernisation of the Justice System 2009-2012</i> is structured in 24 programmes of action and 147 specific actions. The main areas in which progress has been made include: new judicial office, Mediation Act, Act to Reform the Arbitration Act and regulation of institutional 14 arbitration in the Central Government, Civil Registry Act (creation of a single computerised civil registry), Act regulating the use of ICT in the justice administration.
2011	The National plan against undeclared work and social security fraud was approved.
2012	A Commission for the Reform of Public Administration was created to review the public administration services and examine their efficiency in detail and reduce their cost without lowering the quality of services.
2013	The government presented a draft Law on Local Administration Reform and a committee for the reform of the public administration was established. The <i>Law on Rationalisation and Sustainability of Local Authorities (Law 27/2013)</i> aims to reduce the number of local authorities and clarify their competences, organise their structures to avoid duplication, improve financial and budgetary control, strengthen the powers of local auditors and improve regulations encouraging private economic initiative. A similar process was planned at the regional level.
2013	The <i>Law on Transparency, Access to Public Information and Good Governance (Law 19/2013)</i> aims to make it easier for people to be aware of the law and other relevant information from the different public administrations. A Transparency and Good Governance Council was also created to promote transparency of public actions and ensuring the right to access public information.
2013	The <i>National Competition Commission</i> was created. It includes in a single body, the National Competition Commission and the current supervisory bodies of the network regulated sectors (electronic and audio-visual communications, the electricity and gas sector, the postal sector, the railway sector and airport tariffs). The objectives are to: <ul style="list-style-type: none"> <li>- Strengthen legal security: by applying uniform criteria in regulated sectors and at the same time guaranteeing coherence between sectoral policies and the supervision of competition policy.</li> <li>- Increase efficiency in assignment of public funds, avoiding duplication and achieving savings and synergies.</li> <li>- Improve supervisory quality by grouping together technical, sectoral and competition knowledge, by clarifying the functions of the new authority and by increasing its independence and neutrality.</li> </ul>
2015	Steps were taken to improve the transparency of administrative decisions.
2015	Some progress was made in implementing the adopted reforms (including the reform introducing the digitisation of justice and improving the interoperability of regions' electronic case management systems).
2015	Recent legislative reforms are intended to improve the quality, independence and efficiency of the judicial system: <ul style="list-style-type: none"> <li>- By making the professional judiciary better qualified</li> <li>- By having a new organisation of the judicial system and organisation of legal matters</li> <li>- By reforming the system of legal fees</li> <li>- By promoting the extra-judicial solution of conflicts.</li> </ul>

Outstanding challenges	
	The Spanish public procurement framework has features which do not allow for a full leveraging of private investment, in particular at regional and local level (e.g. excessive use of the negotiated procedure without prior publication of a contract notice, inefficient controls to minimise wrongdoings). Supervisory systems (in particular in public procurement at regional and local level) still need to be strengthened.
	Recent reforms promoting the use of extra-judicial mechanisms facilitate a rapid resolution of cases and may be effective in order to reduce the burden of courts and tribunals. However, there has been limited progress made with regard to the adoption of judicial reforms aimed at improving the effectiveness of the justice system.
	Lengthy proceedings, in particular for commercial litigation, can affect investment.

Sources: CSRs 2011-2015, CR 2016 (SWD2016 - 89 final), National Reform Programmes (NRP) 2001-2015, Member States Investment Challenges – SWD(2015) 400 final and SWD(2016) - 78 final.

## Overview

According to the World Economic Forum survey, the judiciary system in Spain is perceived to be less independent of Government and other sources of influence than the EU average and the difference with the latter has widened over the recent years. In addition, Spain is perceived to be more corrupt than the rest of the EU as indicated by the corruption perception index of Transparency International indicator, which also shows that this problem is slightly aggravated during the last decade or so. This is also confirmed by the 2015 Eurobarometer survey of business views on corruption, which indicates that corruption is seen as more of a problem in Spain than in other parts of the EU both in terms of doing business and in relation to public procurement.

Also, a larger proportion of businesses in Spain surveyed by Eurobarometer in 2015 considered the lack of predictability and stability of legislation, as well as the existence of an informal economy and the procedures for enforcing contracts as major obstacles compared to the EU as a whole).

The World Bank Worldwide Governance Indicators show that Spain is viewed less favourably than the EU average in terms of political stability and absence of violence, rule of law, quality of regulations, and control of corruption, though for the last, the situation has deteriorated rapidly in the recent years. The degree of accountability and the extent to which people have a voice is viewed as very similar in Spain as in the EU as a whole, while the country is regarded as having a slightly more effective government than the EU average.

The extent to which the internet is used by people to communicate with public authorities in Spain is higher than the EU average. However, in all the lagging regions, the extent is lesser than the national average and, in the case of Murcia and Extremadura, even lesser than the EU average. By contrast, a much lower proportion of enterprises in Spain used the internet to submit a proposal to public authorities in 2013 (the latest year for which there are data) than in the rest of the EU.

The European quality of government index, based on a survey of residents, shows government in Spain to be assessed less favourably than that in other parts of the EU on average. However, higher values than the national average were observed in 2013 in all the lagging regions apart from Andalucía. This is somehow in line with the situation in 2010 when Andalucía and Castilla-La Mancha were considered to have a lower quality of government than the national average. (The marked variability over just three years however raises a question-mark over the reliability of the index, or at least over the significance of relatively small movements in it over time.)

The focus of country-specific recommendations in respect of governance over the years 2011-2015 in Spain has been on the reform of the local administration and of the judiciary system. In 2013, the Spanish government enacted the Law on Rationalisation and Sustainability of Local Authorities and the Law on Transparency and Access to Public Information, the former aimed at rationalising the local authorities structure to avoid overlapping of competences and duplication, the latter focused on ensuring the access to public information. Nevertheless, at the end of 2015, the public procurement framework, especially at the regional and local level, was still considered as burdensome and inefficient. Furthermore, few progress was made to improve the efficiency of the judiciary system and lengthy proceedings remains one of the factors that discourage investments. Complexity of the legislation and the frequent changes made were identified as outstanding challenges to be addressed, along with the low quality and inefficiency of public administration and lengthy judicial proceedings. These challenges apply equally to the lagging regions, even though the quality of government has been regarded as better in all of them, except Andalucía.

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