

SPAIN

The Spanish economy has been resilient to the last international slowdown. Strong employment growth has led to a substantial decline in the high structural unemployment rate but labour productivity has stagnated.

Priorities supported by indicators

Limit the extent of administrative extension of collective agreements

Wages are bargained mainly at the provincial and sectoral level, with adverse effects on international competitiveness and for employment opportunities for certain groups and/or regions. Catch-up clauses for inflation are widespread, increasing the risk of an inflationary spiral when negative shocks hit the economy.

Actions taken: Recent national wage agreements have recommended limited nominal wage growth.

Recommendations: Decentralise the wage bargaining system by suppressing the compulsory application of agreed wages to all firms in the sector. The government should encourage the elimination of wage indexation clauses and the adoption of underlying inflation as reference in collective wage bargaining, especially in the public sector.

Ease employment protection legislation for regular workers

Severance payments are still very high for regular workers, despite the 1997 reform, while temporary contracts are widespread. This has created a dual labour market with damaging effects on productivity growth as employers provide little training for temporary workers.

Actions taken: Wage payments during litigation concerning dismissals have been suppressed in the cases where the employer accepts that the firing was “unfair”. This has slightly reduced the overall cost of dismissal.

Recommendations: Reduce the gap in protection between regular and temporary workers by further lowering severance payments for workers on regular contracts and strengthening controls on the illegal use of temporary contracts.

Reform the education system to improve human capital

Test scores of 15-year old students are below the OECD average, while dropout rates are high and attainment of upper-secondary education is low. There are many universities, but little specialisation and low student mobility.

Actions taken: Secondary and university education programmes have been reformed with the aim of improving the quality of education.

Recommendations: Provide more autonomy to schools and university departments. Increase university fees and use extra receipts to improve the grants and loans system and to increase resources for secondary education.

Other key priorities

- Land regulations should be reformed, while tax advantages for home ownership should be phased out to restore fiscal neutrality *vis-à-vis* the rental market.

- The public pension system should be made actuarially fair so as to ease the strong pressure on public finances expected as from 2015-20, which would require a sharp increase in taxes and labour costs in the absence of reforms.

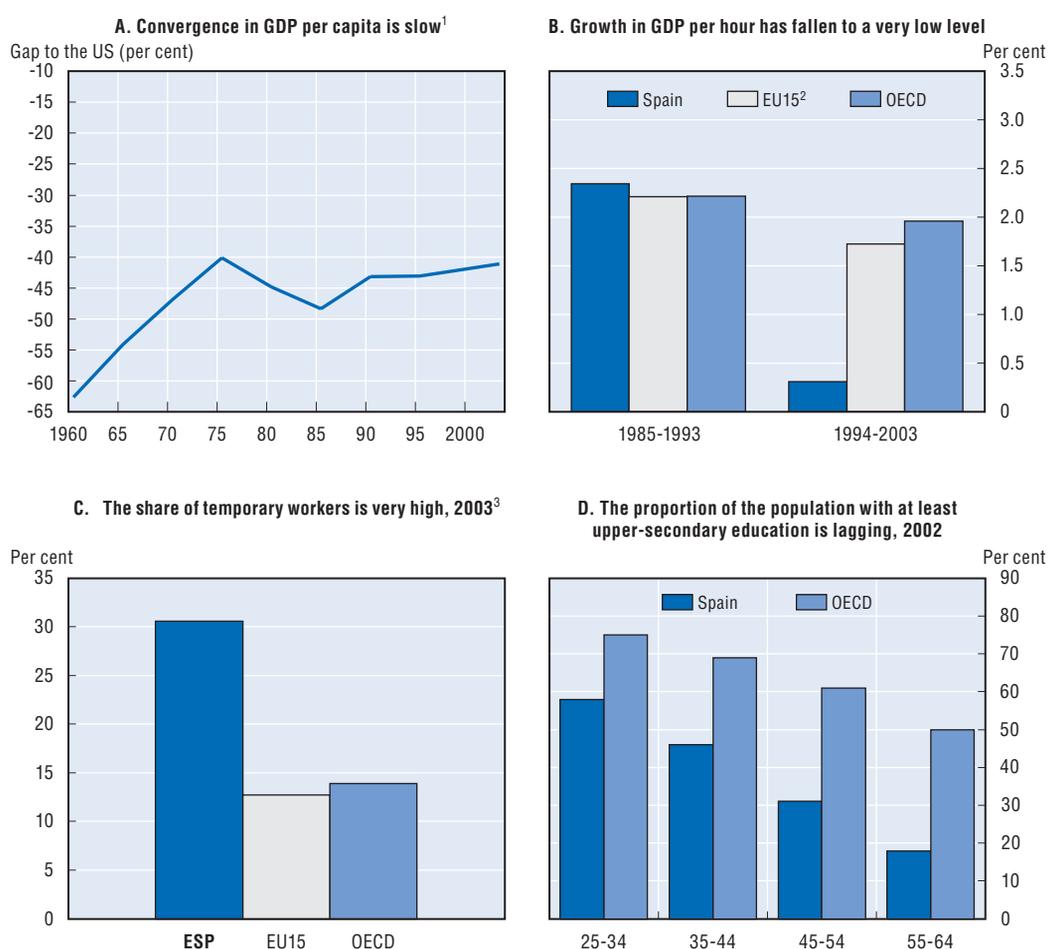
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Structural indicators

	1990	1995	2000	2003
Trend GDP per capita (% growth rate) ¹	3.1	2.8	2.3	1.3
Trend employment rate	49.6	52.1	57.2	60.6
Trend participation rate	57.2	59.6	64.7	68.2
Structural unemployment rate (NAIRU)	13.3	12.7	11.5	11.0

1. The regularisation process of immigrants in 2002 and 2003, which raised official population figures, partly accounts for the deceleration of trend per capita GDP in 2003.

Source: Estimates based on OECD Economic Outlook, No. 76.



1. Percentage gap with respect to US GDP per capita (in constant 2000 PPPs).

2. Excluding Austria and Luxembourg.

3. Share of temporary workers in total employment.

Source: Charts A and B: National Accounts of OECD Countries, 2004; OECD Labour Force Statistics, 2004; OECD Economic Outlook, No. 76; Chart C: OECD Labour Force Statistics, 2004; Chart D: OECD Education at a Glance, 2004.