

SPAIN

Convergence in GDP per capita vis-à-vis best performing OECD countries has continued in recent years, albeit at a slower pace. Substantial labour utilisation and productivity gaps remain.

Policy priorities

Limit the extent of administrative extension of collective agreements

Challenge and recommendations: To avoid creating nominal rigidities and excessive wage increases in some sectors, it was recommended that firms be given a legal right to opt out of the application of regional and sectoral wage agreements and that the use of inflation catch-up clauses be eliminated.

Actions taken: No action taken.

Reform employment protection legislation for permanent workers

Challenge and recommendations: To reduce the segmentation of the labour market and its negative effect on productivity growth and innovation, it was recommended that severance payments be reduced for workers with permanent contracts and a single contract be promoted by bringing in gradual increases in required severance payments linked to length of service.

Actions taken: No action since the reform that was enacted in July 2006. It raised fiscal incentives for new permanent contracts offered to target groups and restricted the successive use of temporary contracts.

Strengthen competition in the retail distribution sector

Challenge and recommendations: To foster competition in retail distribution, it was recommended that the various barriers to the establishment of new hypermarkets and shopping centres put in place by regional governments be eliminated.

Actions taken: No action taken.

Reform the higher education system

Challenge and recommendations: To improve human capital formation, it was recommended that the higher-education system be reformed by giving universities more freedom and holding them more accountable for their results. Indicators of university performance should be made easily available to teachers, students and employers.

Actions taken: A new framework law on universities was approved in March 2007 that gives universities greater autonomy, seeks to remove obstacles to the movement of teachers into the private sector and improves the governance of the system.

Reform the pension system

Challenge and recommendations: To avoid sharp increases in taxes and hence labour costs required in the future to cover the fiscal costs of population ageing, it was recommended that the pension system be made actuarially fairer.

Actions taken: The reform that entered into force in early 2007, agreed by the social partners and the government, contains additional restrictions on partial retirement, a modest increase in the effective contribution period to acquire pension rights and stronger incentives to extend work beyond the current age at which full pension rights can be acquired. Survivors' pension entitlements have been extended to unmarried couples.