

## SPAIN

*Convergence vis-à-vis best performing countries has continued in recent years, but substantial productivity and labour utilisation gaps remain.*

### Priorities supported by indicators

#### **Limit the extent of administrative extension of collective agreements**

Wage negotiations are carried out mainly at the provincial and sectoral levels, and application of the resulting outcomes is made compulsory for all firms by administrative extension. This, coupled with the widespread use of indexation clauses, results in excessive wages for some groups in certain regions, with detrimental effects on their employment.

**Actions taken:** Social partners are having ongoing discussions on this issue.

**Recommendations:** Allow firms to opt out of the application of provincial and sectoral wage agreements.

#### **Reform employment protection legislation for regular workers**

The high level of severance payments for permanent workers, especially in comparison to those of temporary workers, has created a segmented labour market with a negative effect on productivity growth and innovation.

**Actions taken:** The recent labour market reform contains restrictions on the successive use of temporary contracts, increases in fiscal support for the creation of jobs with permanent contracts and transitory incentives to convert temporary contracts into permanent ones.

**Recommendations:** Further reduce firing costs for workers with permanent contracts and promote a single contract where required severance payments increase with the length of service. One option is to require employers to pay regular earnings-related contributions into individual severance accounts that can be accessed by the worker in the case of lay-off.

#### **Strengthen competition in the retail distribution sector**

Restrictions created by regional governments on the opening of new outlets impede competition in retail distribution, contributing to weak productivity gains and excessive profit margins in the sector.

**Actions taken:** The central government has adopted measures to increase the availability of information about prices and margins in the sector.

**Recommendations:** Eliminate the numerous barriers to the establishment of new hypermarkets and shopping centres put in place by regional governments, taking advantage of the new EU Services Directive which allows the central government to dismantle existing restrictions at the regional level.

### Other key priorities

- In order to improve human capital formation, reform the higher education system by giving more independence to universities and making them more accountable for their results, which should be made easily available to teachers, students and employers.
- In order to reduce the incentives for some categories of workers to withdraw early from the labour force, raise the degree of actuarial fairness of the pension system by bringing lifetime contributions and benefits better into line.