

## SPAIN

*The Spanish economy has been resilient to the protracted European slowdown. However, the persistence of high inflation and stagnant labour productivity are undermining competitiveness.*

### Policy priorities

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

**Challenge and recommendations:** To raise real wage flexibility, it was recommended that the compulsory application of agreed wages to all firms in the sector be suppressed and that wage indexation clauses be eliminated. If the latter is not feasible, negotiations should focus on core rather than headline inflation.

**Actions taken:** Discussions are currently taking place between the social partners on labour market questions, including this issue.

#### **Ease employment protection legislation for permanent workers**

**Challenge and recommendations:** To reduce the segmentation of the labour market, it was recommended that the gap in protection between permanent and temporary workers be reduced by further lowering severance payments for permanent contracts and that controls on the illegal use of temporary contracts be improved.

**Actions taken:** The government has proposed that the lower dismissal costs for certain labour market groups be generalised to all permanent contracts, and this is currently being discussed by the social partners.

#### **Reform the education system to improve human capital**

**Challenge and recommendations:** To improve the quality of the education system, it was recommended that more autonomy be provided to schools and university departments and that university fees be increased to fund tertiary education, thus leaving more public resources for secondary education.

**Actions taken:** The government has started discussions with the social partners on this issue which may result in the implementation of some of the above recommendations.

#### **Remove distortions in the housing market**

**Challenge and recommendations:** To contain the booming housing market, it was recommended that tax advantages for home ownership be phased out and that land regulations be eased, including the removal of a compulsory transfer of 10% of building land to the municipalities.

**Actions taken:** The ceilings on the tax advantages for home ownership will be lowered, but only marginally.

#### **Reform the pension system**

**Challenge and recommendations:** To ease the strong pressures on public finances expected as from 2015-20, it was recommended that the public pension system be made actuarially fair.

**Actions taken:** No recent action has been taken.