



# SPAIN

## Economic Freedom Score



World Rank: **36**

Regional Rank: **17**

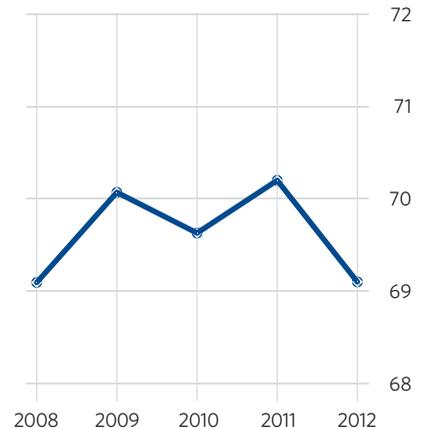
**S**pain's economic freedom score is 69.1, making its economy the 36th freest in the 2012 *Index*. Its score is 1.1 points lower than last year, with a significant deterioration in the management of government spending overwhelming a modest gain in business freedom. Spain is ranked 17th out of 43 countries in the Europe region, and its overall score is well above the world average.

Spain dropped from “mostly free” to “moderately free” in the 2012 *Index*, due primarily to expansive public spending. Challenges are particularly significant in the areas of fiscal freedom, government spending, and financial freedom. Government spending is over 40 percent of GDP. Large fiscal deficits and rising public debt signal the need for financial management reforms and a return to a sustainable level of public spending.

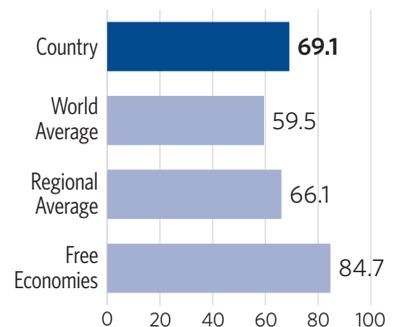
Since the financial crisis, Spain has imposed greater transparency on its banking system in comparison to other countries in the region. Savings banks (*cajas*) have been insulated from market pressures and have been considered too politically powerful to be allowed to fail. They remain burdened with bad loans from the years of the housing boom. As of October 2011, three savings banks had been nationalized. Consolidation of the savings banks has brought the number down from 45 to below 20, and their future is in question.

**BACKGROUND:** Spain has enjoyed democratic rule since 1977 and joined the European Community in 1986. Public security has been marred by the nearly 50-year terrorist campaign of the Basque separatist ETA. Following years of economic reform and growth under former People's Party Prime Minister José María Aznar, José Luis Rodríguez Zapatero of the Spanish Socialist Workers Party won office in the wake of a series of al-Qaeda bomb attacks in Madrid in 2004. Zapatero was re-elected in 2008. The global economic crisis hit Spain hard in 2009. To curb the recession, Zapatero introduced spending on public works and unemployment benefits, and the budget deficit has grown rapidly. In May 2010, the government introduced austerity reforms to reduce the deficit. Spain's conservative Popular Party, led by Mariano Rajoy, won the November 2011 election.

## Freedom Trend



## Country Comparisons



## Quick Facts

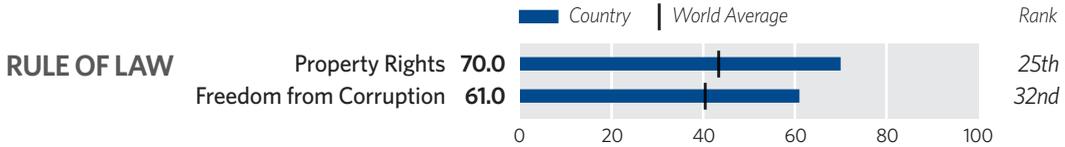
**Population:** 46.0 million  
**GDP (PPP):** \$1.3 trillion  
 -0.1% growth in 2010  
 5-year compound annual growth 0.9%  
 \$29,742 per capita  
**Unemployment:** 20.1%  
**Inflation (CPI):** 2.0%  
**FDI Inflow:** \$24.5 billion  
**Public Debt:** 60.1% of GDP

### How Do We Measure Economic Freedom?

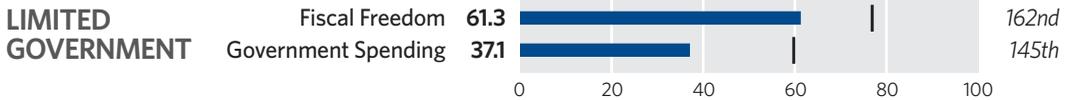
See page 455 for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

2010 data unless otherwise noted.  
 Data compiled as of September 2011.

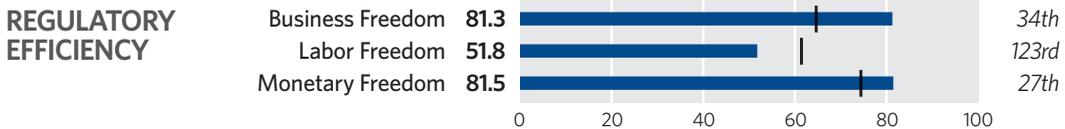
**THE TEN ECONOMIC FREEDOMS**



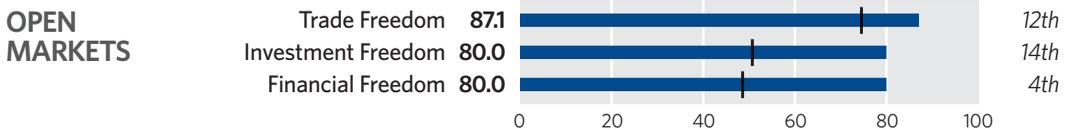
The judiciary is independent in practice, but bureaucratic obstacles are significant. Contracts are secure, although enforcement is very slow. Patent, copyright, and trademark laws approximate or exceed EU levels of intellectual property protection. Enforcement actions using Spain’s new legal framework concerning intellectual property rights have greatly increased criminal and civil actions against infringements.



The top income tax rate is 45 percent, and the top corporate tax rate is 30 percent. Other taxes include a value-added tax (VAT) and a capital gains tax, with the overall tax burden amounting to 30.7 percent of total domestic income. Government spending has increased to a level equivalent to 45.8 percent of GDP. The budget balance has fallen into deficit, and public debt has grown to around 60 percent of total domestic output.



Procedures for setting up a business have been streamlined, with the number of licensing requirements reduced. Bankruptcy proceedings are fairly easy and straightforward. Steps taken in 2010 to reform the labor market make it less costly to dismiss a permanent worker and give employers more influence over employee organizing. Despite some progress, labor regulations remain restrictive. Monetary stability has been well maintained.



Spain’s trade policy is the same as that of other members of the European Union, with the common EU weighted average tariff rate standing at 1.4 percent, but myriad non-tariff barriers increase the cost of trade. Nearly all sectors are open to foreign investment, and approval procedures have been streamlined. The banking sector has been under considerable strain, with savings banks burdened with volumes of bad loans.

**Score Changes**

RULE OF LAW	LIMITED GOVERNMENT	REGULATORY EFFICIENCY	OPEN MARKETS
Property Rights	Fiscal Freedom	Business Freedom	Trade Freedom
Freedom from Corruption	Government Spending	Labor Freedom	Investment Freedom
0	+0.3	+4.1	-0.5
0	-12.2	-1.2	0
		Monetary Freedom	Financial Freedom
		-0.9	0