

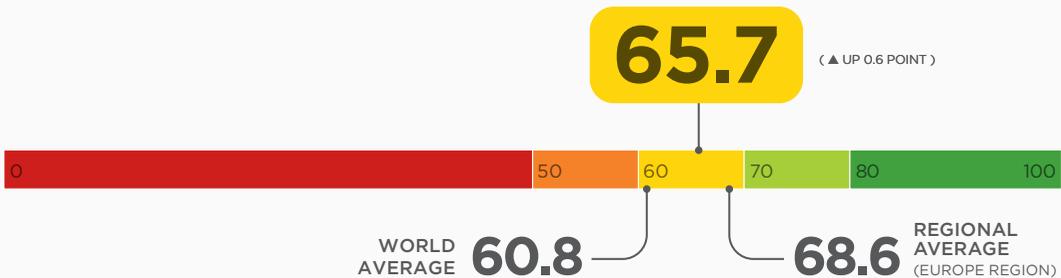
SPAIN

Spain's economic freedom score is 65.7, making its economy the 57th freest in the 2019 *Index*. Its overall score has increased by 0.6 point, with a significant increase in **fiscal health** offsetting a sharp drop in the score for **judicial effectiveness**. Spain is ranked 28th among 44 countries in the Europe region, and its overall score is below the regional average but above the world average.

The government's minority status constrains its ability to implement its controversial and costly program of labor, pension, health care, tax, and education reforms, and a budget deal with the populist left Podemos (We Can) party includes plans for more public spending, higher taxes, and a 22 percent increase in the minimum wage in 2019. Economic recovery has reduced Spain's borrowing costs, and inflation has remained modest. Despite relatively sound economic institutions and transparent regulatory and judicial systems, the indebted public sector is still a drag on growth.



ECONOMIC FREEDOM SCORE

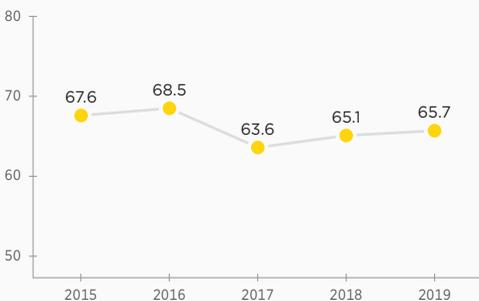


RELATIVE STRENGTHS:
Monetary Freedom and Trade Freedom

HISTORICAL INDEX SCORE CHANGE (SINCE 1995):
+2.9

CONCERNS:
Government Spending and Fiscal Health

FREEDOM TREND



QUICK FACTS

POPULATION:
46.3 million

GDP (PPP):
\$1.8 trillion
3.1% growth in 2017
5-year compound annual growth 1.9%
\$38,286 per capita

UNEMPLOYMENT:
17.2%

INFLATION (CPI):
2.0%

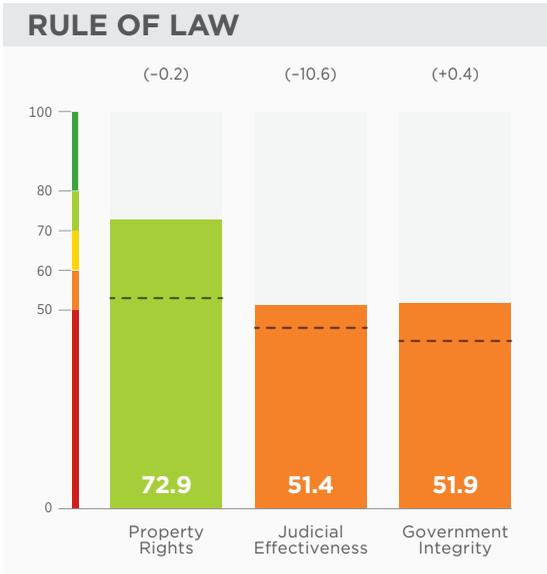
FDI INFLOW:
\$19.1 billion

PUBLIC DEBT:
98.4% of GDP

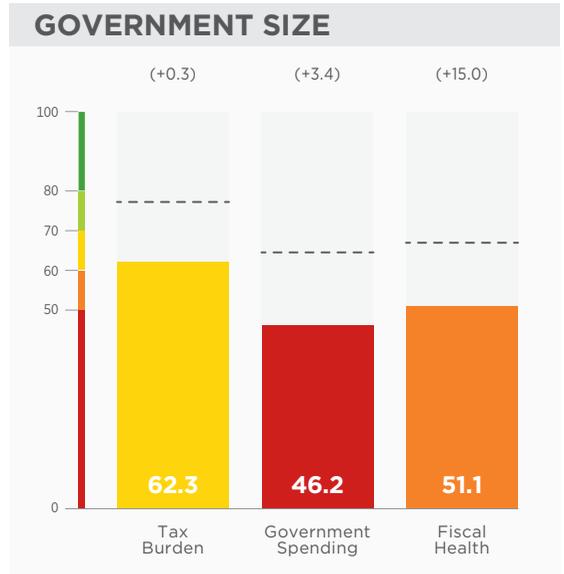
2017 data unless otherwise noted. Data compiled as of September 2018

BACKGROUND: Since returning to democracy in 1975, Spain has become the eurozone's fourth-largest economy. The European immigration crisis flared in 2018 as nearly half of seaborne migrants landed in Spain. The government in Madrid removed the rogue regional government of Catalonia after an October 2017 independence referendum that it deemed illegal, but a vote in December elections installed another pro-independence cabinet. Former Prime Minister Mariano Rajoy lost a parliamentary vote of no confidence in 2018, and Pedro Sánchez of the center-left Spanish Socialist Workers' Party took over as prime minister of a weak minority government. Spain's diversified economy includes manufacturing, financial services, pharmaceuticals, textiles and apparel, footwear, chemicals, and a booming tourism industry. Unemployment remains high.

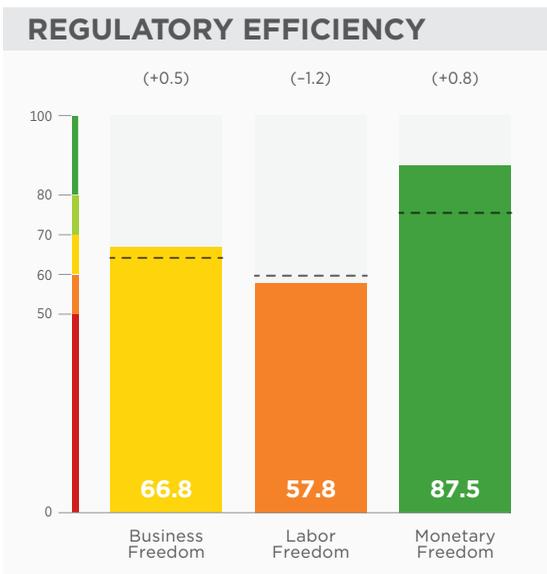
12 ECONOMIC FREEDOMS | SPAIN



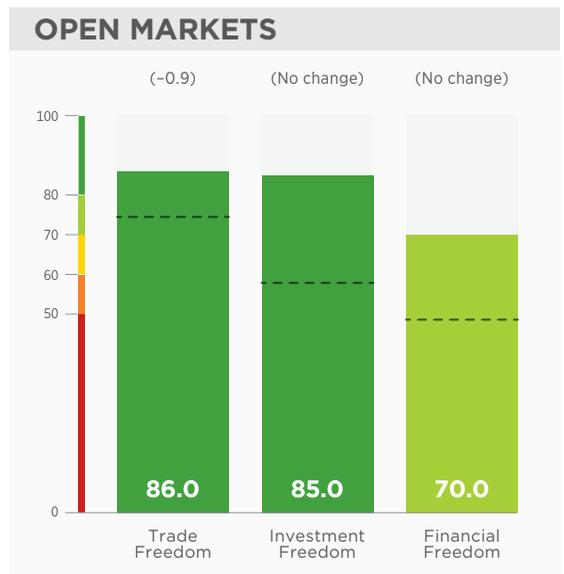
Spanish law protects property rights. The land registration system is rigid but functions efficiently. Case backlogs often leave courts overburdened and delay the delivery of justice. Although anticorruption laws are enforced on a generally uniform basis, the previous government was felled by a bribery scandal. Critics often fault government institutions for a lack of integrity or mechanisms to promote it.



The top individual income tax rate is 45 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax. The overall tax burden equals 33.5 percent of total domestic income. Over the past three years, government spending has amounted to 42.3 percent of the country's output (GDP), and budget deficits have averaged 4.3 percent of GDP. Public debt is equivalent to 98.4 percent of GDP.



Procedures for setting up a business have been streamlined, and the number of licensing requirements has been reduced, but the overall regulatory environment remains burdensome. The last significant structural reform took place in 2012 when labor market reforms were adopted. Price controls have all but disappeared, and the government has ended coal and renewable energy subsidies in favor of an auction system.



The combined value of exports and imports is equal to 65.5 percent of GDP. The average applied tariff rate is 2.0 percent. Spain implements a number of EU-directed nontariff trade barriers including technical and product-specific regulations, subsidies, and quotas. Most sectors are open to foreign investment. The overall condition of the financial sector continues to improve. Use of banking services is nearly universal among the adult population.