Spain

Spain’s economic freedom score is 68.2, making its economy the 41st freest in the 2022 Index. Spain is ranked 26th among 45 countries in the Europe region, and its overall score is below the regional average but above the world average.

Economic growth in Spain slowed from 2017 through 2019. The economy contracted in 2020, and growth resumed in 2021. During the same five-year period, economic freedom has improved. Lifted by higher scores for rule of law and business freedom, Spain has recorded a 4.6-point overall gain in economic freedom since 2017 and is in the upper half of the “Mostly Free” category. Monetary freedom and trade freedom are strong, but heavy government spending and poor fiscal health weigh on the economy.

IMPART OF COVID-19: As of December 1, 2021, 88,080 deaths had been attributed to the pandemic in Spain, and the government’s response to the crisis ranked 97th among the countries included in this Index in terms of its stringency. The economy contracted by 11.0 percent in 2020.

BACKGROUND: Since returning to democracy in 1975, Spain has become the eurozone’s fourth-largest economy. The government in Madrid removed a rogue regional government in Catalonia after an illegal 2017 independence referendum, but regional elections in February 2021 returned a pro-independence Catalan majority to power. Prime Minister Pedro Sánchez’s center-left Spanish Socialist Workers Party (PSOE) heads a minority coalition with the radical-left Podemos party. A July cabinet reshuffle was intended to boost the PSOE’s flagging popularity. The center-right People’s Party won Madrid regional elections in May 2021, and the conservative Vox is also gaining momentum. Spain’s diversified economy includes manufacturing, financial services, pharmaceuticals, textiles and apparel, footwear, chemicals, and a booming tourism industry.
The legal framework protects property rights, and the registration system functions efficiently. The judicial system is independent, open, and transparent but also sometimes overburdened and slow. Case backlogs are often long, and political interference is a growing problem. Spain is ranked 32nd of 180 countries in Transparency International's 2020 Corruption Perceptions Index, but its overall score (62) is one of Western Europe's lower scores.

The top individual income tax rate is 47 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax. The overall tax burden equals 34.7 percent of total domestic income. Government spending has amounted to 45.3 percent of total output (GDP) over the past three years, and budget deficits have averaged 5.6 percent of GDP. Public debt is equivalent to 117.1 percent of GDP.

Regulations are relatively transparent. A transparency website was launched in 2014. Small companies have some difficulty accessing credit. Ballooning pension costs and the duality of the labor market, with permanent workers receiving full benefits and temporary workers receiving fewer benefits, interferes with labor freedom. In 2021, the government expanded subsidies for electric vehicles and renewable energy projects.

As a member of the EU, Spain has 46 preferential trade agreements in force. The trade-weighted average tariff rate (common among EU members) is 2.9 percent with 640 EU-mandated nontariff measures in force. Nearly all sectors are open to foreign investment, and approval procedures have been streamlined. The financial sector has regained its stability with nonperforming loans continuing to decline.