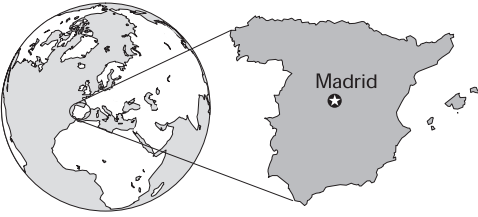


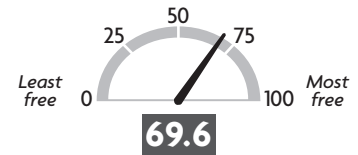
SPAIN



World Rank: **36**

Regional Rank: **19**

Economic Freedom Score



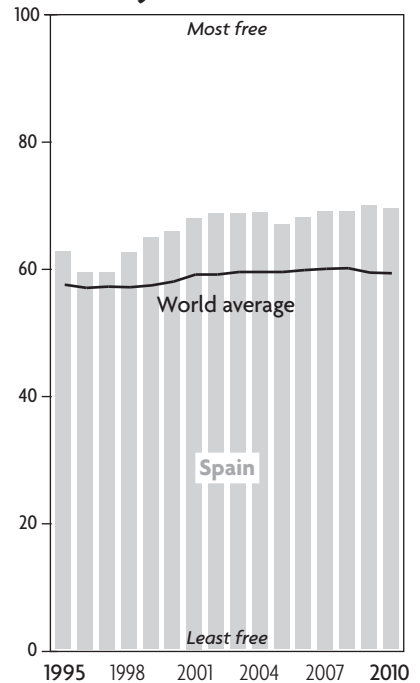
Spain's economic freedom score is 69.6, making its economy the 36th freest in the 2010 *Index*. Its score is 0.5 point lower than last year, reflecting reduced scores in six of the 10 economic freedoms, including freedom from corruption. Spain is ranked 19th out of 43 countries in the Europe region, and its overall score is well above the world average.

The Spanish economy has benefited from fairly high levels of business freedom, trade freedom, investment freedom, financial freedom, and property rights. Procedures for business formation have become streamlined and efficient, and the overall entrepreneurial environment is conducive to vibrant private-sector development. Foreign investment is subject to few restrictions. Spain enjoys a modern and competitive financial system. Regulations are transparent, and domestic access to credit is good. The judicial system is independent of political interference.

Challenges to Spain's overall economic freedom remain in fiscal freedom, government spending, and labor freedom. Total government spending equals nearly 40 percent of GDP, and improving budget management would be a key reform. Wage growth has outpaced that in other European countries, home ownership has been heavily subsidized, and spending has been untargeted. The labor market remains rigid.

BACKGROUND: Spain, which has enjoyed democratic rule only since 1977, joined the European Community in 1986. Public security has been marred by the nearly 50-year terrorist campaign of the Basque separatist movement ETA, which has claimed more than 800 lives, including a politically motivated killing during the 2008 elections. Following years of economic reform and brisk growth under former Prime Minister José María Aznar, current Prime Minister José Luis Rodríguez Zapatero won office in the wake of the al-Qaeda massacre in Madrid in 2004 and was re-elected in 2008. The global economic crisis hit Spain hard in 2009, especially in the home-building sector.

Country's Score Over Time



Quick Facts

Population: 45.6 million

GDP (PPP): \$1.5 trillion

1.2% growth in 2008

3.1% 5-year compound annual growth

\$31,954 per capita

Unemployment: 11.3%

Inflation (CPI): 4.1%

FDI Inflow: \$65.5 billion

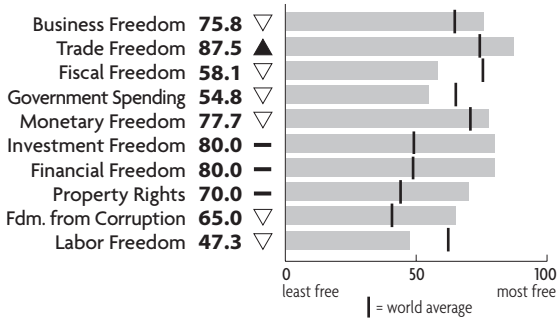
2008 data unless otherwise noted

Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

SPAIN'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 75.8

The overall freedom to start, operate, and close a business is relatively well protected under Spain's regulatory environment. Starting a business takes 47 days, compared to the world average of 35 days. Obtaining a business license takes less than the world average of 18 procedures. Bankruptcy proceedings are fairly easy and straightforward.

TRADE FREEDOM — 87.5

Spain's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.3 percent in 2008. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and Spanish policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Pharmaceutical and biotechnology regulations and services market access barriers exceed EU policy, and protection of intellectual property rights can be problematic. Ten points were deducted from Spain's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 58.1

Spain has a high income tax and a moderate corporate tax. The top income tax rate is 43 percent, and the top corporate tax rate is 30 percent. Other taxes include a value-added tax (VAT), a property tax, and a capital acquisitions tax. The wealth tax was abolished in 2009. In the most recent year, overall tax revenue as a percentage of GDP was 37.9 percent.

GOVERNMENT SPENDING — 54.8

Total government expenditures, including consumption and transfer payments, are relatively high. In the most recent year, government spending equaled 38.8 percent of GDP. A recent stimulus package equal to 1.1 percent of GDP provides for public works investment, support of the auto industry, and social assistance.

MONETARY FREEDOM — 77.7

Spain is a member of the euro zone. Inflation has been moderate, averaging 3.8 percent between 2006 and 2008. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting the prices of agricultural products. It also controls the prices of medicines and public transport and influences prices through regulation and state-owned enterprises and utilities. Ten points were deducted from Spain's monetary freedom score to account for policies that distort domestic prices.

INVESTMENT FREEDOM — 80

In general, foreign and domestic investments are treated equally under the law. Foreign investment of up to 100 percent of equity is permitted in most sectors. Bureaucratic procedures have been streamlined, and much red tape has been eliminated. There are no restrictions or controls on resident or non-resident foreign exchange accounts, capital movements, or repatriation of profits. The Bank of Spain requires reporting on most credit and lending activities.

FINANCIAL FREEDOM — 80

Spain's financial sector is well developed, providing a wide range of financing tools for entrepreneurial activity. The regulatory system is transparent and consistent with international norms. All commercial banks are privately owned, and credit is allocated on market terms. Four financial institutions dominate the banking system. The government provides subsidized financing for some activities. The non-bank financial sector remains small. Capital markets are well developed and open to foreign investors. Deterioration in asset quality that began in 2008 has resulted in a sharp increase in non-performing loans, which are now close to 4 percent of total loans.

PROPERTY RIGHTS — 70

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 (especially private-sector initiatives) using Spain's new IPR legal framework have greatly increased the criminal and civil actions against intellectual property pirates.

FREEDOM FROM CORRUPTION — 65

Corruption is perceived as minimal. Spain ranks 28th out of 163 countries in Transparency International's Corruption Perceptions Index for 2008. Giving or accepting a bribe is a crime, and bribes are not tax-deductible for corporations or individuals.

LABOR FREEDOM — 47.3

Spain's labor regulations are inflexible. The non-salary cost of employing a worker is high, and dismissing an employee is difficult. Regulations on work hours are rigid.