

## Mixed signals for Spanish reforms

**Political uncertainty is taking a toll on Spain's post-crisis reform agenda, which has been helping to modernize its economy. Experts consulted for the sixth edition of the Spanish Reforms Monitor shine a light on key economic policies, improvements and nagging doubts.**



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Can Spain's political leaders find enough common ground to push forward with needed economic policy reforms? This is a key question for 2017 and beyond, as economists watch for reform measures related to Spain's labor market, financial system, tax policy and more.

"Growth and recovery appear to be well established with solid medium-term perspectives,

but policy reform in most areas remains stalled or advancing only too slowly," concludes the sixth edition of the Spanish Reform Monitor. The Reform Monitor is part of the SpanishReforms project, an initiative of IESE's [IESE's Public-Private Sector Research Center \(PPSRC\)](#) in conjunction with the savings-bank foundation Funcas.

## **Reasons for optimism re: economic performance**

In terms of the performance of the Spanish economy, the news is fairly good, if mixed, with minor improvements in the labor market and in competition and regulation. There's also stability in terms of Spain's fiscal policy.

## **A need for fresh reform stimulus**

However, when it comes to the evaluation of policies' goals (i.e., alignment with international best-practices) and progress, traction is slipping. "The deterioration is more significant and virtually pervasive across the policy spectrum," professors [Xavier Vives](#) and Ramon Xifré sum up. Policymakers should take note and keep up pressure to reform.

The lowest scores in the experts' panel, on a scale of 0 to 10, are associated with progress and delivery on reforms in competition and regulation (2.8), the labor market (2.8), and fiscal policy and public administration (3.0). On labor, for example, professor Sara de la Rica notes that Spain has been adding about half a million jobs per year since 2015, but that "job polarization" has accelerated and long-term unemployment remains an issue.

Look also at Spain's social security system, a key component of its welfare state that is under stress as the population ages. "Given the demographic projections, there is a clear need for urgent action," Vives and Xifré declare, noting that the Social Security Reserve Fund used to pay for the pension system's operating deficit has dwindled to less than a fifth of what it was back in 2012. Another key challenge for policymakers is the mounting debt in Spain's autonomous regions. In 2017, for the first time, regions' debt amounted to 25 percent of Spanish GDP.

However, the 2017 results reveal a bright spot. Spain's financial system scores between 5 and 6 points for its performance, policy goals and progress (i.e., all three dimensions analyzed). "The situation and prospects of the Spanish financial system continued to improve towards the end of 2017," professor Santiago Carbó, head of Financial Studies at Funcas, sums up.

# The origins of the reform monitor and a look ahead

It was back in 2010 that the PPSRC published 10 structural reforms Spain needed to overcome the crisis. In the same spirit, the PPSRC launched the SpanishReforms project in 2014 to track progress on the government's reform agenda for a modernized economy.

Now, hold on for a bumpy ride. "When looking ahead, if uncertainty was a main theme in our last release — at the time the country had an acting government — it is even more central now.... The responsibility of political leaders and policymakers is now even more of the essence," Vives and Xifré warn.

## Methodology, Very Briefly

The Spanish Reform Monitor quantitatively evaluates the performance of the economy, the adequacy of the policy goals set by the government, and the actual progress achieved for six broad economic policy areas, which are further explored in 18 subareas.

Experts set scores for all dimensions and areas and the information reported is the experts' panel average score. They also provide brief comments on their reform area of expertise.

For the sixth edition, the experts consulted are: [Antonio Argandoña](#), Antonio Cabrales, Santiago Carbó, Alain Cuenca, Rafael Doménech, Juan-José Ganuza, Sergi Jiménez, [Núria Mas](#), [Alfredo Pastor](#), Sara de la Rica, Raymond Torres and Ramon Xifré.

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