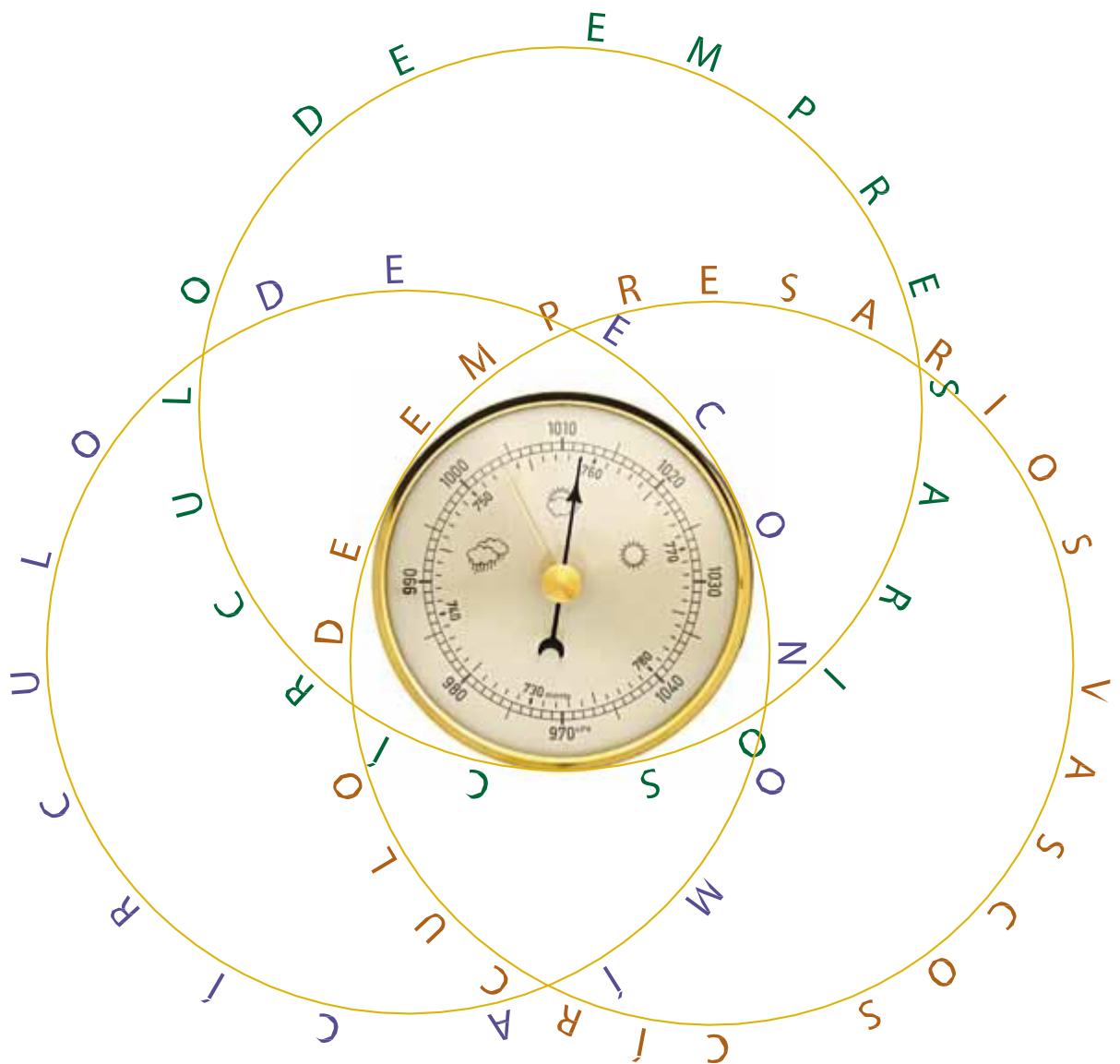
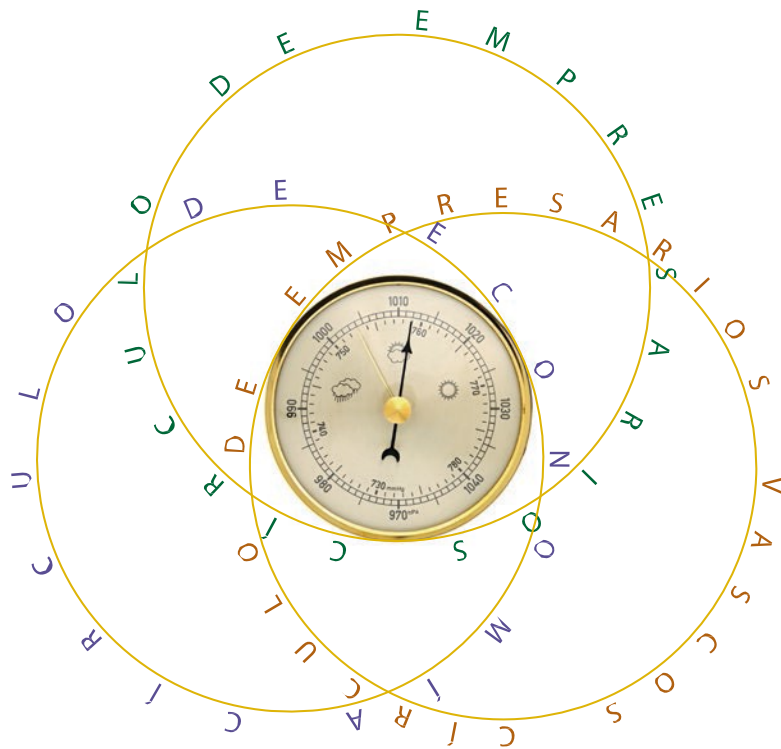


The Barometer of the Círculos 2015



The Barometer of the Círculos 2015



2015



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Letter from the Círculos

The Círculo de Empresarios, the Círculo de Economía and the Círculo de Empresarios Vascos, in their effort to help diagnose the structural situation of the Spanish economy and support its transformation, present the second edition of the Barometer of the Círculos. It includes the principal strengths and competitive weaknesses of our economic and business surroundings, and we make a series of proposals for structural reforms.

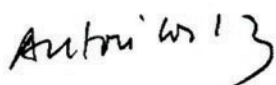
On this occasion, in our attempt to structure civil society, we have been joined by the Asociación Valenciana de Empresarios, the Club Financiero Vigo- Círculo de Empresarios de Galicia, and the Institución Futuro de Navarra, thus making the Barometer 2015 more representative both geographically and by sectors.

The Barometer offers a series of conclusions and recommendations for action to be taken by both the Public Administrations and the companies themselves. It also provides some special information about other international indicators of competitiveness by adding the analysis and opinions of a wide range of businessmen and executives from Spanish companies and multinational firms operating in Spain.

We are aware of the serious problem of unemployment and excessive debt in the Spanish economy, and the global challenges it will have to face, and in this report we want to help promote a more dynamic and competitive Spain that will generate greater wellbeing and wealth.

As with the first edition, we hope that the Barometer 2015 will generate wide public debate, and that it will lead to a common project for the country.

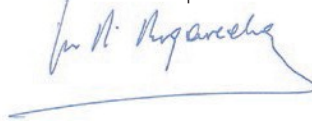
Antón Costas Comesaña
President Círculo de Economía



Javier Vega de Seoane
President Círculo de Empresarios



José María Bergareche Busquet
President Círculo de Empresarios Vascos



Executive summary

In this Barometer 2015, businessmen express greater optimism about the recovery of the Spanish economy thanks to the reforms carried out by the government, especially in the labor and financial markets; to improved expectations and monetary conditions (supported by the ECB's expansionary monetary policy); and to changes in the prices of raw materials. Greater growth and improved competitiveness, principally through improved unit labor cost, have contributed to the fact that the weight of exportations over GDP has increased 41%, from 22.7% of GDP in 2009 to 32% in 2014.

Nevertheless, businessmen are concerned that the present economic growth be sustained, and strong enough to eliminate the principal imbalances in the Spanish economy over the medium term. Outstanding among these imbalances: the high unemployment rate (23.8% in March of 2015), the public deficit (5.8% of the GDP), and the public debt (around 100% of GDP). All these things are negative for social welfare, bringing the relative breach in per capita income between Spain and the OECD to levels similar to those in 1986.

We should be conscious of our strengths. We have a work force that is well qualified and highly valued internationally, good infrastructures, a sufficiently large domestic market, a strategic

geographical location, a competitive and international business fabric, and a responsible civil society that is aware of the economic realities.

Starting from these strengths, civil society should help design a project for Spain that we all agree on, one that that will allow us to generate more solid and stable economic growth, and that will help reduce the weaknesses of the Spanish economy. This means carrying out new structural reforms, based on the success of those in other countries, so as to achieve quality in education and the justice system, greater efficiency in the Public Administrations, and a more dynamic labor and business environment.

STRUCTURE OF THE BAROMETER OF THE CÍRCULOS

The Barometer concentrates on five aspects of economic activity: (i) the current perception of Spain as a market and production center; (ii) the evaluation of the potential of our basic resources in physical infrastructures, human capital and technology; (iii) the analysis of the markets in goods, labor and finance; (iv) the factors that determine the dynamism of our business sector, such as entrepreneurship and the effective functioning of the markets of good and services; and (v), the contribution of the Public Administrations to competitiveness.

MARKET DYNAMISM

Expectations are improving about the development and dynamism of the markets. There is special optimism about internal demand, exports and overseas investment.

With regard to exports, Spanish products and services are well regarded overseas for their good quality/price ratio and their ability to adapt to local needs.

Foreign investors in Spain value our qualified and competitive work force as one of our principal attractions. If the Barometer 2014 reflected concern about the Spanish economy, in this edition the large foreign multinational companies are again expressing confidence in Spain as a center for their activities, although they continue to find problems of a structural nature, such as bureaucracy, the functioning of the domestic market, and the stability of the regulatory and institutional framework. Additionally, the Spanish branches of foreign companies are doing well for their overseas headquarters.

BASIC RESOURCES

In general, the respondents feel that the quality of the infrastructures in Spain is satisfactory. However, they also feel that there are areas where management and regulation could be improved, and especially consider that the price of energy is too high. They think that recent greater electricity interconnection with France is positive because it reduces Spain's energy isolation from the rest of Europe.

They stress that Spain lacks good service to transport merchandise by train and other means. They also feel that there should be lower costs and improvements in telecommunications services.

The results show that Spanish technicians are highly valued for their qualifications and competitiveness. Nevertheless, businessmen reveal their concern about the quality of Spain's educational system. Among its principal weaknesses: relatively little vocational training, the low quality of primary education, little ability to speak foreign languages, an absence of education to encourage entrepreneurship, and the disconnection between the university and the business world. For these reasons, it is important to achieve a national covenant about Spain's educational model. At the same time, the companies should tailor their own training programs to their needs.

In spite of the fact that Spain is not one of the top 20 countries in innovation, businessmen are not pessimistic about the country's capacity to innovate. They think that rather than increase public spending and R+D, it should come about through greater tax incentives; the companies must have a larger role in the innovation ecosystem; there should be more public-private financing programs with more flexible structures, and more incentives for cooperation between the universities and the companies.

LABOR AND FINANCIAL MARKETS

The Barometer 2015 reflects concern about the labor market and its efficiency, which is lower than that in the OECD countries.

Most of the businessmen who were interviewed are positive about the availability and costs of a skilled workforce, and about recent reforms in labor legislation. They stress that these reforms have made hiring more flexible and has made it easier for companies to adapt to changing economic circumstances. Nevertheless, they feel that there should be more changes: establish a greater connection between productivity and salaries; reduce the social security contributions that are made by employers; simplify the different models of contracts; and close the distance between the courts' interpretation of the letter and the spirit of the labor laws.

They stress the positive effects of reforms in the financial sector, which has brought greater access to credit and obliged the Public Administrations to pay their suppliers more swiftly. Nevertheless, those surveyed feel that there could be improvements with regard to alternative sources of financing and collection periods.

COMPANY DYNAMISM

According to the Barometer 2015, businessmen have a positive opinion about the level of competitiveness in the different sectors, and about their capacity to adapt, grow and be efficient: they are at the average levels of the OECD. With regard to the functioning of the markets, they feel there are areas that could be improved, such as the mechanisms that supervise competition, with fewer regulatory and bureaucratic barriers. With regard to bureaucracy –and in spite of improvements since last year's edition of this report– they continue to express concern about regulations that are unclearly and inefficiently applied, especially in the different regional autonomies. They also note that many regulations are duplicated on a national and regional level.

Other issues that need to be resolved: entrepreneurship and the contribution of the SMEs to business dynamism. On the one hand, they feel that society continues to undervalue entrepreneurship, and that to correct this situation there must be new reforms in education and regulations. On the other, measures should be taken to increase the size of the SMEs, eliminating 'threshold effect' measures in the regulatory, labor and fiscal areas, and improving their access to financing.

PUBLIC ADMINISTRATIONS

The greatest criticism in the Barometer 2015 was for the way the Public Administrations work, mainly because public spending is seen as inefficient. (In the first quarter of 2015, the number of employees in the public sector increased by 29,200). The justice system is regarded as slow and unpredictable. In spite of the fact that the Public Administrations have been reduced in size, businessmen feel that there is still room to further cut their operating costs. The territorial model of Public Administrations must be redesigned and their functions must be redistributed: they must be transformed and modernized to improve their information systems and the way they make purchases.

Likewise, the people surveyed point out the need to carry out further tax reform, reduce corporate tax rate and eliminate its deductions and bonuses, lower social security contributions from companies to employees, and step up the battle against fraud and the black economy.

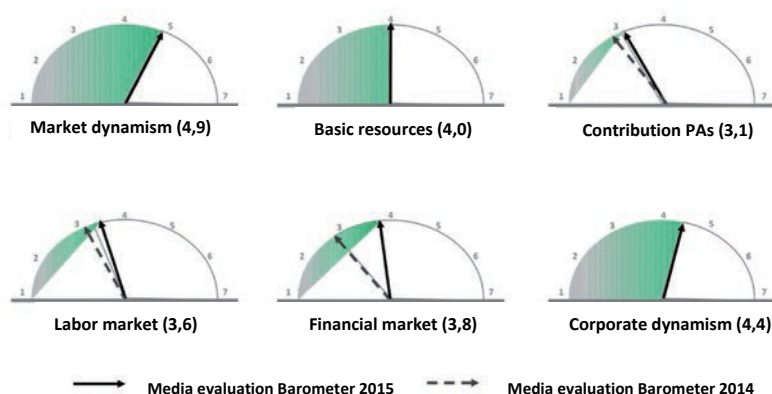
SUMMARY OF RESULTS

The results of the second edition of the Barometer reveal, firstly, a more positive economic situation: there is greater optimism about increased internal demand, the consolidation of exports and direct investment by Spanish companies overseas. Those surveyed view positively the reforms in the financial sector, and provisions for liquidity in the Public Administrations. Finally, the labor reform has been positive, although there are still areas where it could be improved.

In addition, the Spanish economy continues to maintain its strong points, principally in the quality of the infrastructures and in the availability of highly qualified human capital. The Barometer 2015 continues to detect structural weaknesses such as high unemployment, the Spanish educational model, and the functioning of the Public Administrations.

In the Barometer 2015 different sections of the Spanish economy were rated on a scale of 1 to 7. Three of these sections maintained their rating of the year before: Market Dynamism (with the highest grade, 4.9), Company Dynamism (4.4) and Basic Resources (4.0). The Financial Market got a 3.8, which was a marked improvement over its Barometer 2014 position (2.9). The worst grades were repeated in the Labor Market (3.6) and Contribution of the Public Administrations (3.1), which in 2014 were 3.3 and 3.0, respectively.

Finally, the Barometer 2015 concludes with a section of recommendations from the Círculos. It is our contribution to the structural reforms that we feel must be introduced to achieve Spain's future economic model: one that will generate greater and more stable growth and higher levels of equality and social welfare.



Report



1. Introduction

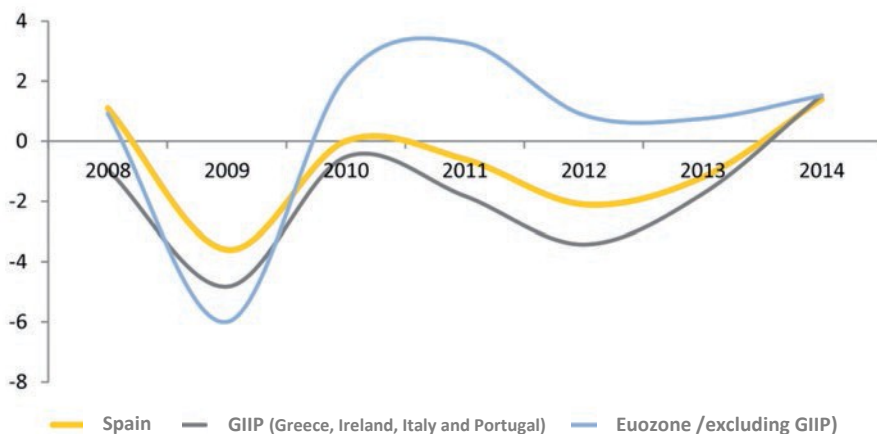
The first edition of the Barometer of the Círculos 2014 identified the principal structural strengths and weaknesses of the Spanish economy, and expressed the view that we were beginning to emerge from the crisis. It also expressed the doubts businessmen had over whether, during the crisis, there had been sufficient reforms to make our economy more competitive.

The Barometer of the Círculos 2015 confirms that optimism about the economy over the short term, but also reflects the businessmen's concern that persisting structural weaknesses could slow down growth in the middle and long term.

Indeed, the businessmen do find an improved economy, supported by an international recovery and by the structural reforms that have been carried out in Spain, principally in the labor and financial markets. This optimism coincides with growth of GDP, as seen in Graph 1. The Bank of Spain predicts further growth: 2.8% in 2015 and 2.7% in 2016.

One of the positive results of the adjustment of the Spanish economy has been a reduction in unit labor cost of 6.5% since 2009, allowing us to again occupy the position we held in 2000 with regard to the Eurozone. Also, since 2009 the weight of exports on GDP has increased 41%, from 22.7% of GDP to 32% in 2014.

In addition, the improved competitiveness of the Spanish economy is reflected in the increased foreign direct investment (FDI), some 10% annually over the last two years; in 2014 it reached 17,000 million euros. Investors from outside Spain have a positive opinion about the way society as a whole has made adjustments and sacrifices while maintaining social and political stability.



Graph 1
Development in the
growth of GDP (%).
Spain, Eurozone
and GIIP. 2008-2015

Source:
Own compilation with data
from Eurostat, 2015.

Nevertheless, the businessmen are not convinced that that this growth is sufficiently sustainable to eliminate the imbalances in the Spanish economy in the middle term: there is a high rate of unemployment (23.8% in April of 2015), a public deficit of 5.8% of the GDP, in spite of the fiscal consolidation; and a public debt of nearly 100% of GDP in 2014.

The crisis has shown that the Spanish economy maintains its traditional weaknesses with respect to its more competitive European partners. In spite of these weaknesses, since 1986 Spain has improved its per capita income by 60% in real terms. Nevertheless, since we joined the European Union, our gap with the more advanced countries has scarcely been closed: in 1986 our per capita GDP was only 81% of the OECD average and in 2014 it was 83% (Graph 2).

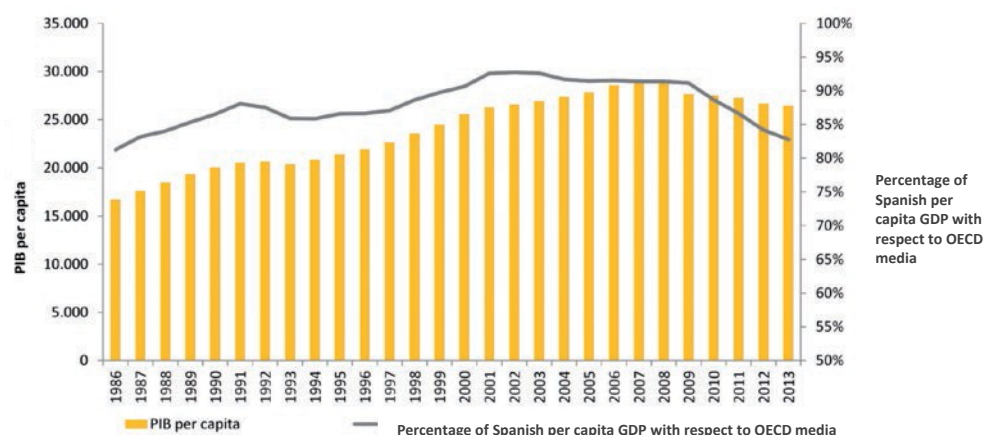
Spain has some comparative advantages: a competitive and skilled work force that is valued internationally; some quality infrastructures that do not need large investments over the medium term; an attractively-sized domestic market and a strategic location; a business fabric that has improved its competitiveness; and a responsible civil society that is conscious of the economic realities.

There are still structural problems that must be addressed to consolidate growth and guarantee the wellbeing of the Spanish people. Starting from these strengths, civil society should help design a project for Spain that we all agree on, one that that will allow us to generate more solid and stable economic growth, and that will help reduce the weaknesses of the Spanish economy. To do this we must carry out new structural reforms, using as a model the successes in other countries, to bring about quality education and Justice system, a greater effectiveness of the Public Administrations, and a more dynamic labor and business environment. A good model would be the measures taken by those countries that enjoy the greatest wellbeing.

Graph 2
Per capita GDP. Spain
and the relative gap
with the OECD.
1986-2014

Source:
Own compilation with data
from the OECD, 2015.

Note: The per capita GDP is
measured in USD, constant
prices of 2005, and
exchange rates based on
purchasing power parity
(PPP).

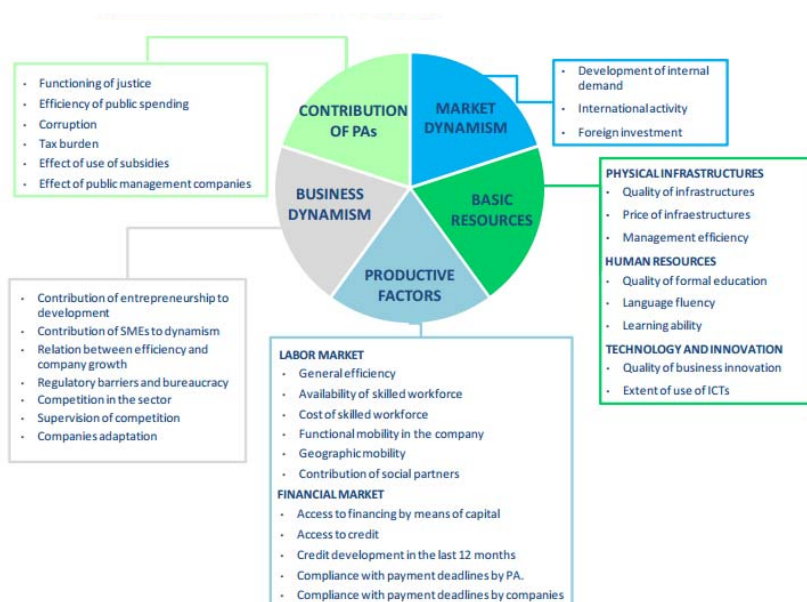


BAROMETER 2015

Methodologically, and just as in 2014, the Barometer 2015 is structured by means of three instruments. In the first place, a selective review of the regularly published principal indicators of the comparative competitiveness among countries, with the most relevant conclusions. This information is used to compare the business environment in Spain with those in the principal OECD economies. Secondly, an online survey that was answered, in this case, by 209 businessmen, most of whom are members of one of the six institutions taking part in this report. The survey is a measure of their opinion about the weaknesses and strengths of the Spanish economy, and about the principal norms that have been incorporated or announced for the near future. And thirdly, a series of in-depth personal interviews with 27 presidents and CEOs from the leading firms in their fields.

These interviews make it possible to validate the results of the on-line survey, while at the same time detecting relevant nuances about the origin of competitiveness at companies that are leaders in the Spanish economy, and about priorities in general economic policy.

As regards content, the Barometer is based on five sections that provide a full vision of the principal aspects that affect competitiveness and business dynamism in Spain. Graph 2 shows these five sections as well as the variables that are analyzed in each one of them.



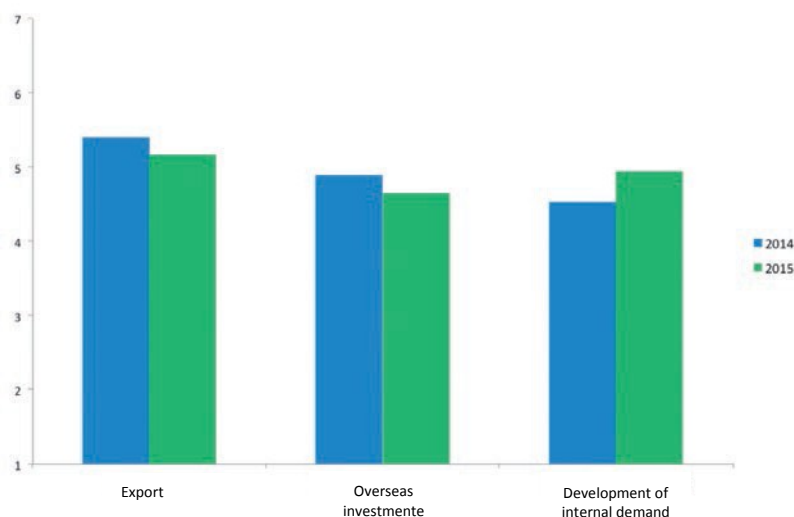
Graph 3
Composition of
the Barometer



2. Market Dynamism

En el apartado de dinamismo de mercado, el *Barómetro* refleja las expectativas de crecimiento tanto de la demanda interna como de las exportaciones y la inversión en el extranjero, comparadas con las obtenidas en la edición anterior. También se identifican los mercados más atractivos para las empresas españolas, y las ventajas y desventajas de nuestro país como destino de inversión extranjera.

In the present edition there is growing optimism about the chance of increased domestic demand, as can be seen in graph 4. This is consistent with GDP growth predictions by the Bank of Spain for 2015 and 2016 (2.8% and 2.7% respectively). But respondents' views on domestic demand contrast with their predictions about investment overseas and exports, which seem to be declining.



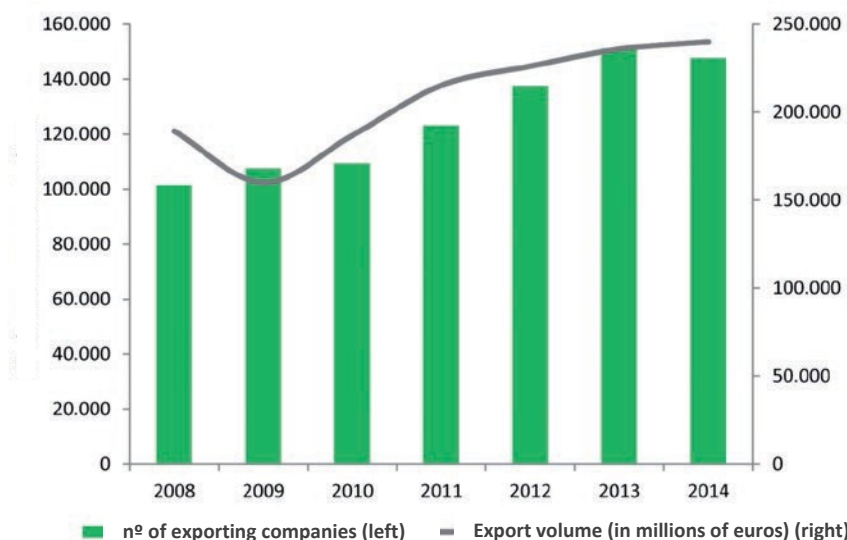
Graph4
Expectations
of activity

Source:
Own compilation with data
from the survey
"Barómetro of
the Círculos", 2015.

Graph 5
Exporting activity in
Spanish companies.
2008-2014

Source:
Own compilation with data from ICEX,
2015

Regarding forecasts about exports, the answers don't imply a change in trends but rather a moderation in expectations for growth over the next three years, as seen in Graph 5.



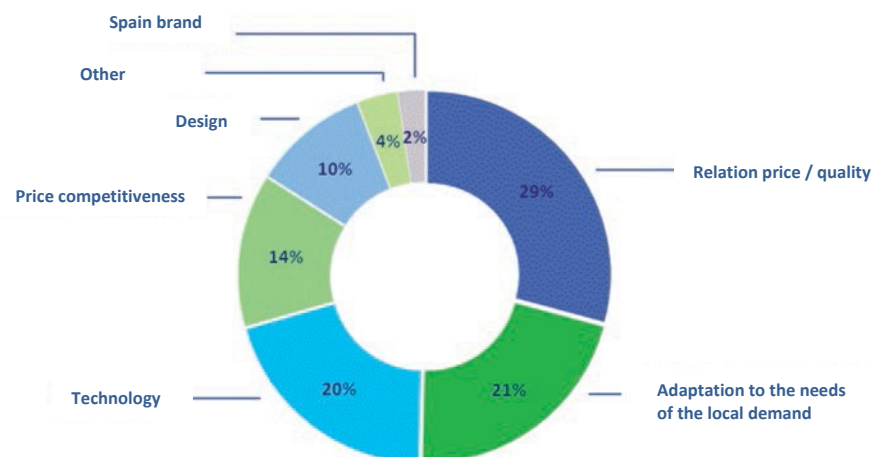
Spanish products and services continue to be attractive in overseas markets, essentially because of their good quality-price ratio, their adaptability to local needs, and their technological level. They are also valued for aspects like competitiveness in price and design.

In this edition, greater value is given to the quality-price ratio, as against competitiveness based solely on price. This is important when positioning the products and services of Spanish companies as having a high added value, although it's also true that the adjustment in nominal costs affects their competitiveness.

Graph 6
Elements that make the
products of Spanish
companies attractive

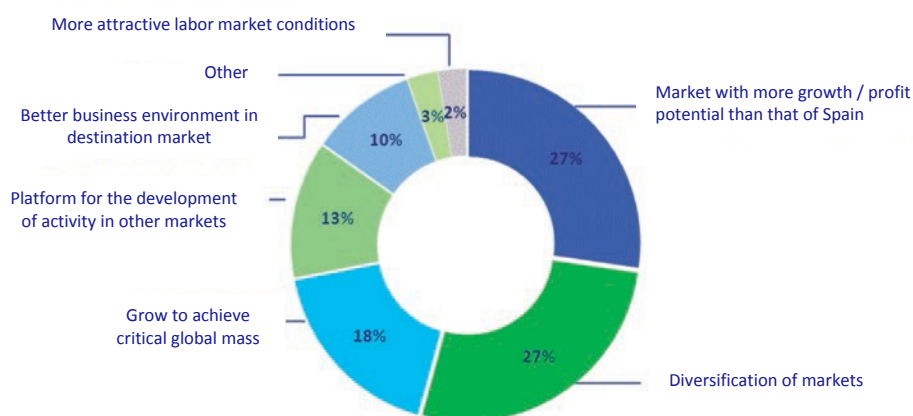
Fuente:
Own compilation with data from
the survey "Barometer of the
Círculos, 2015".

Note: The percentages are calculated
according to the number of people
surveyed who have chosen that option
as one of the three most relevant.



The reasons Spanish companies invest directly overseas continue to be potential for growth and profit in the chosen market, along with the possibility for diversification, an option that is increasingly important.

Also important: the need to grow so as to reach critical global mass; foreign investment can be a platform for activity in other markets, as seen in graph 7.



Graph 7
Most important reasons for investing overseas

Source:
Own compilation with data
from the survey
"Barómetro of
the Círculos", 2015.

Note: The percentages are calculated
according to the number of people
surveyed who have chosen that option
as one of the three most relevant.



Graph8
**Competitive strengths
 and weaknesses of the
 Spanish economy**

Source:
 Own compilation with data from
 the survey
 Barometer of the Círculos 2015.

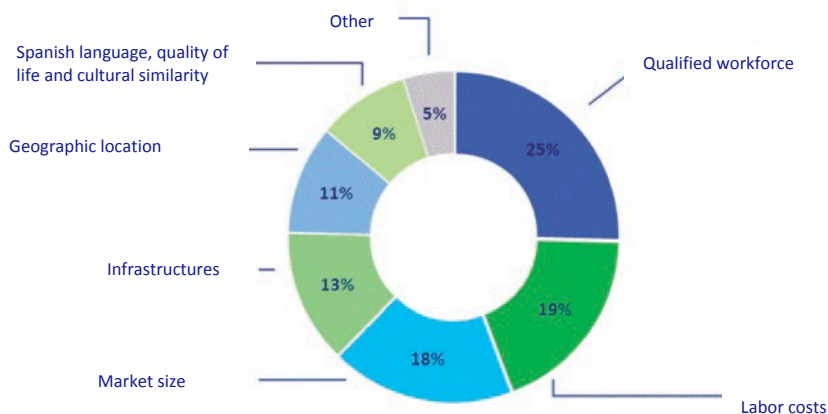
*Nota: the percentages are calculated
 according to the number of people
 surveyed who have chosen that option
 as one of the three most relevant.*

**SPAIN AS A PLACE
 FOR INTERNATIONAL ACTIVITY**

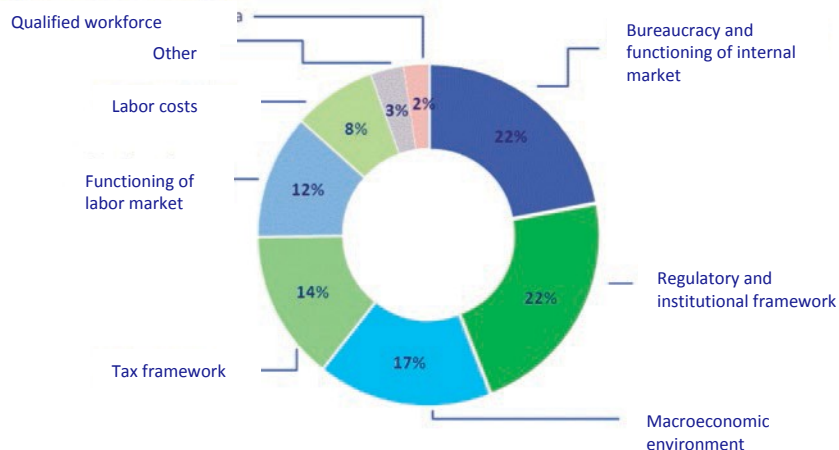
Once again we have analyzed the strengths and weaknesses of Spain as a place for foreign multinationals to invest and do business. To do this, we have asked representatives of the branches of foreign companies in Spain to explain why the parent company decided to work here.

According to a fourth of these multinational respondents, Spain's principal strength is its qualified workforce, followed by labor costs. Other relevant factors: the size of the Spanish market, the country's geographical location, and the quality of the infrastructures, although they are ranked notably below the advantages of the workforce.

Competitive strengths

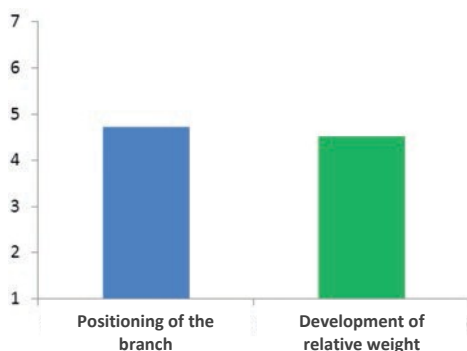


Competitive weaknesses



As regards Spain's difficulties in attracting overseas investment, the aspect that most worried the foreign businessmen surveyed last year was the negative outlook for economic growth. This year, however, that is no longer their principal concern, because of the positive development of the Spanish economy. However they identify as difficulties the bureaucracy, the functioning of the internal market, and an unstable regulatory and institutional framework. Foreign firms are concerned because there is a lack of continuity in the reforms and in regulatory activity, which generates uncertainty. They see this generally in the different industries, but especially in the electricity sector.

In the Barometer 2015 we have tried to evaluate the Spanish subsidiaries in relation to the multinational's other branches with regard to management and relevance over the past three years. In both cases, the answers have been positive, as can be seen by graph 9. This is important for Spain as a potential site of operations by large foreign multinationals. Spain's efforts to overcome its economic crisis, and the confidence of the multinationals in their branch management teams here, have been key factors in making these branches an stand out within the overall operation. All this has led some of them to set up centers of excellence in Spain.



Graph 9
Positioning and development of subsidiaries in Spain

Source:
Own compilation with data from the survey
"Barometer of the Círculos 2015".

To conclude: the optimism of the first Barometer report has solidified and increased because of economic results and a positive outlook for economic growth, especially domestic demand. The quality and cost of the workforce are Spain's two strengths when it comes to doing business, although

there are persistent structural difficulties, such as the bureaucracy and the regulatory and institutional framework. Spain has increasing potential to attract value added investments and the branches of foreign companies.

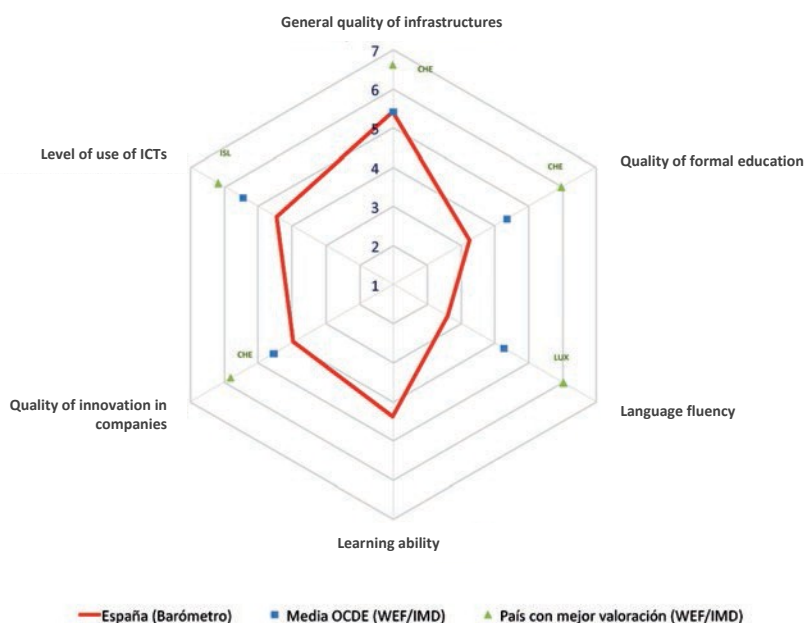


3. Basic Resources

Under the heading Basic Resources, the Barometer evaluates those aspects of production linked to physical infrastructures, education and innovative capacity.

As shown in graph 10, businessmen have a positive opinion about the quality of the infrastructures in Spain, but are negative about innovation and education. In education, they stress that little importance is given to learning foreign languages or to formal education in general. This is one of the aspects that most concerns businessmen.

Graph 10 compares the Barometer valuations for Spain with the results obtained by other countries, as seen in two principal international studies. (the Global Competitiveness Report and the World Competitiveness Yearbook). Thus we see valuations for the OECD average and for the OECD country with the highest score in each variable. Spain is clearly inferior in all these areas, with the exception of the quality of its infrastructures, which when compared to the OECD average has not changed since last year.



Graph 10
**Basic resources.
Evaluations on the
Barometer of the Círculos**

Source:
Own compilation with data from the survey "Barometer of the Círculos, 2015", Global Competitiveness Report (World Economic Forum), 2014-15 and World Competitiveness Yearbook (IMD), 2014.
Note: For each indicator there is a relative evaluation from "1" (the worst) to "7" (the best).

PHYSICAL INFRASTRUCTURES

There is general satisfaction with the physical infrastructures in Spain, which constitute one of our competitive advantages. Nevertheless some of them are considered to be poorly managed, in their mechanics and pricing. There is also a notable absence of rigorous, transparent procedures when it comes to taking decisions about new public investments.

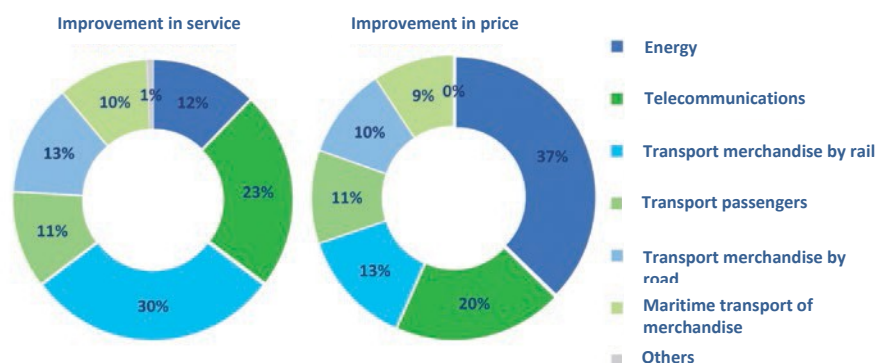
There are cases of important cost-benefit imbalances in these infrastructures, and an inability to take into account industry needs. In many cases, investments in infrastructures have been made without fully taking into account their efficiency, planning and management. And in the case of transportation, passengers have been favored over merchandise.

In this sense, graph 11 shows that the greatest percentage of those surveyed feel that the energy sector is the infrastructure that requires improvements in prices, followed by telecommunications. The price of electricity is repeatedly identified as one of the principal disadvantages, in terms of its impact on production costs, that manufacturing companies face. It is considered that the recent reform in the electricity sector has not been sufficiently effective to solve this problem of prices, although it does seem to have channeled the problem of the tariff debt.

**Graph 11
Needs for
improvement in the
service and prices in
infrastructure**

Source:
Own compilation with data from the survey
"Barometer of the Círculos, 2015".

Note: The percentages are calculated
according to the number of people
surveyed who have chosen that option
as one of the three most relevant.

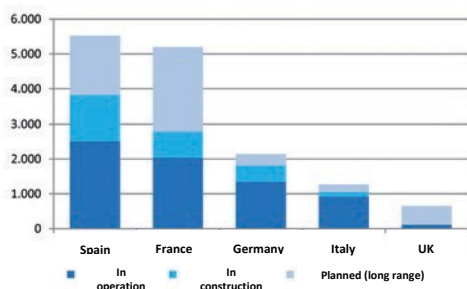


Regarding the need to improve service in infrastructures, there is a notably negative opinion about the transportation of merchandise by train, followed by criticism of telecommunications. The case of railway transport is particularly symptomatic, because while Spain is the world's second country in kilometers of high-speed railways, the transport of merchandise accounts for only 4.8% of the total rail market, as against the 18.2% average in the European Union.

Maritime transport is the sector that causes the least concern, but there is a need to improve some physical installations, in particular connections between the last mile of roads and railways with the seaports. It is also necessary to improve the flexibility in hours and the functions of the cargo operators in Spanish ports. These improvements are important if Spain wants to take advantage of its excellent geographical location and become an international logistical power.

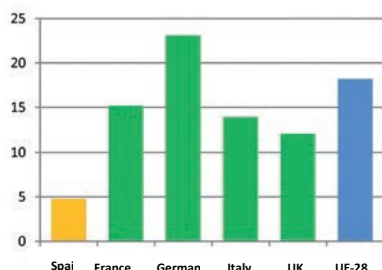
Train passengers

High speed railways km, 2014



Train merchandise

Train over total merchandise transport, 2012



Graph 12
Basic resources. Relative importance of rail transport of passengers and merchandise in Spain in relation to other European economies

Source: Own compilation with data from UIC and Eurostat.

Best International Practices I

Guide for evaluating and taking decisions about infrastructure projects, United Kingdom

Source:
Own compilation with data from the Department of Transport, UK, 2015

The United Kingdom has established procedures to evaluate and make decisions about infrastructure projects so that investment decisions will be rigorous, internally consistent and transparent. Projects approved by the government should systematically and obligatorily apply two directives: the Transport Analysis Guidance, to evaluate the projects, and the Business Case Assessment, for taking decisions. The first, which has been drawn up by the Department for Transport, is a set of principles, methods and instruments to generate information and quantitative evidence that will be used in the Business Case Assessment. This latter instrument, established by the Treasury, develops a decision-making process that is structured around the checking of five aspects, or cases: strategy (objectives of transport policy), economy (cost-benefit), commercial (profitability and risks), financial (financially acceptable) and management (feasibility of execution).

These procedures assure that before a decision is taken, the aims of a project have been carefully identified and the different options have been analyzed.

The fact that all government departments must use the same procedure and methods makes it easy to compare projects and develop technical knowledge and experience to make investment decisions more predictable and transparent.



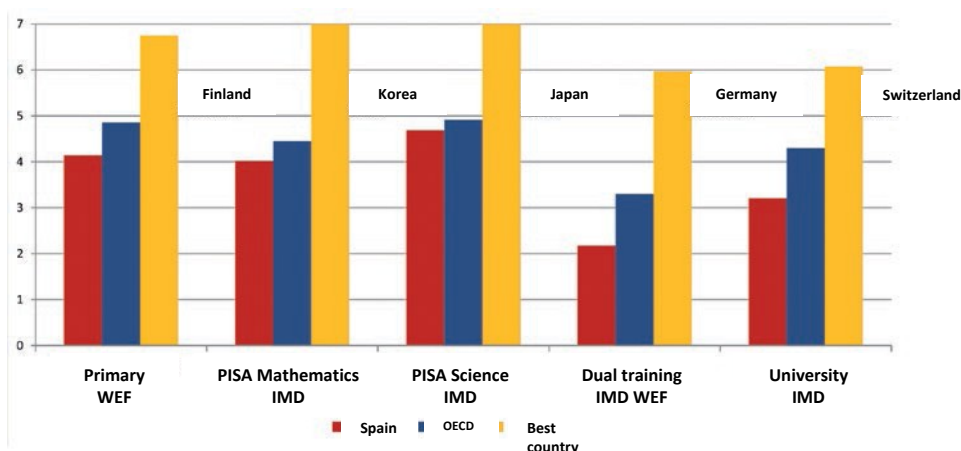
Graph 13
Basic resources.
Comparative evaluation of
Spanish education
according to different
international
indicators

Source:
WEF, 2015, IMD, 2015,
PISA, 2014

EDUCATION

Just as in the Barometer 2014, it has become apparent that education is an important weakness in the Spanish economy and society. Our top technicians and managers are very competitive and are highly considered domestically and on an international level. But as graph 10 shows, there is a generalized perception that formal education is very deficient.

Among the more important problems mentioned are the students' lack of knowledge of foreign languages, the weakness of their professional training, and their lack of entrepreneurial capacity. These perceptions are supported by some principal international indicators, as seen in graph 13.



The universities have also been criticized. While many students make an effort to complement their academic formation, the Spanish university is considered too rigid to adapt itself to the needs of the markets and the graduates.

The principal causes of this rigidity: the way professors are hired, the scant connection between research and the business world, and the way the universities are governed.

Best International Practices II.

Sistema de enseñanza en la Universidad en Suiza

Source:
Own compilation with information from the
Federal Department of Economic
Affairs and the Federal Office for
Professional Education and
Technology, Switzerland.

Switzerland has two of the best universities in continental Europe, according to the QS World University Rankings, and seven of the top 200. With a population of some 8 million, it is the world leader in the university/population ranking.

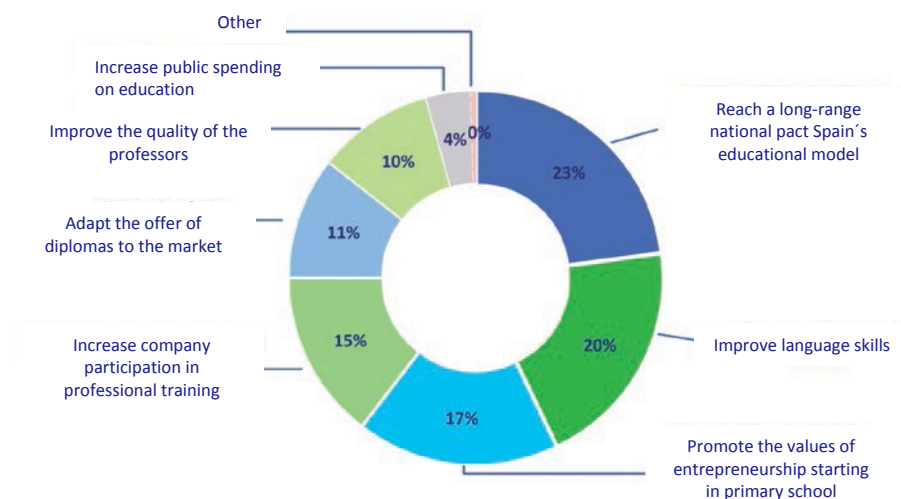
Switzerland combines the traditional model of university teaching with the UAS (Universities of Applied Sciences). The UAS are based on the dual model of secondary education, which combines formal education with practice in companies. The system is thus much more oriented toward practical training and meeting the real needs of companies. It also offers university access to those students who have chosen the UAS dual model of secondary education, an option exercised by approximately 40% of the Swiss university students.

Besides offering undergraduate and master's degrees, they also provide services to companies, such as continuous training that is specifically designed to meet the concrete needs of the companies, and applied research, which they carry out mostly in conjunction with the SMEs.

Among measures considered important for improving the quality of education, graph 14 shows the advisability of reaching a national covenant on the educational model in Spain. Among the other measures recommended are the command of foreign languages, the cultivation of entrepreneurial values in primary education, and the participation of companies in providing professional training.

INNOVATION

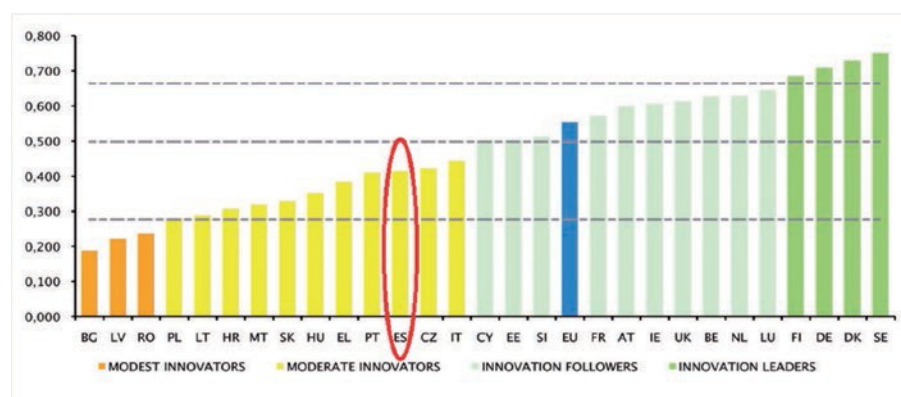
The evaluation businessmen give to innovation in Spain is not negative, especially in relation to the use of information and communications technology (ICT). But this perception is perhaps somewhat optimistic when compared to the results of other international studies, such as the Innovation Scoreboard of the European Commission: its latest edition placed Spain far below the European average, and behind the leading countries. (Graph 15).



Graph 14
Most important measures to improve education in Spain

Source: Own compilation with data of the survey "Barometer of the Círculos, 2015".

Note: The percentages are calculated according to the number of people surveyed who have chosen that option as one of the three most relevant.



Graph 15
Index of comparative innovation

Source: Own compilation with data from the Innovation Scoreboard of the European Commission, 2014

Graph 16
**Most important
 measures to improve
 the innovative
 capacities of Spanish
 Companies**

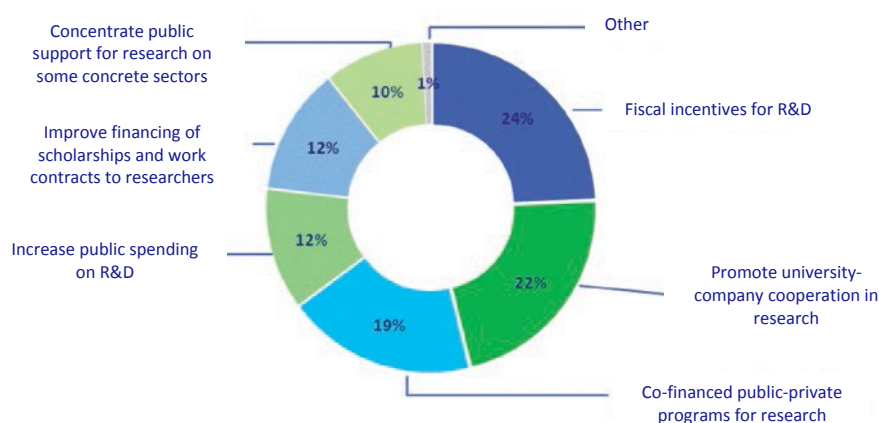
Source:
 Own compilation with data
 from the survey
 "Barometer of the Círculos, 2015".

*Nota: The percentages are calculated
 according to the number of people
 surveyed who have chosen that option as
 one of the most relevant..*

To improve company capacity for innovation, those businessmen surveyed feel it is necessary to provide tax incentives for R+D, and that there should be greater cooperation in innovation between universities and companies. It is important to identify and finance areas of research that meet the real needs of the companies.

Bureaucratic requirements for joint projects need to be simplified and facilitated, thus making public research systems more flexible. If there were more programs financed by public and private funds, it would be possible to invigorate innovative capacity by the companies.

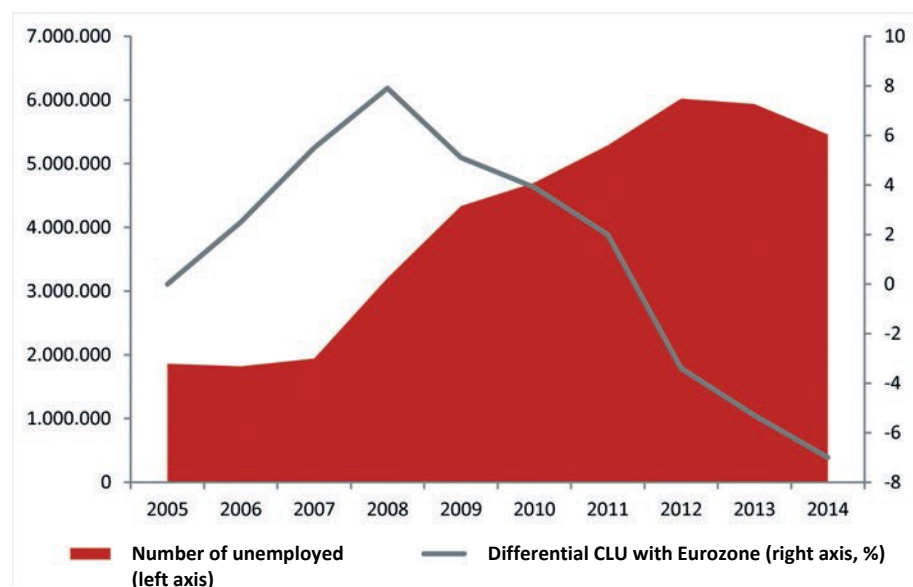
The role of the companies is essential in the innovation ecosystem as an interlocutor between research centers, universities and markets.



4. Labor market

The Spanish labor market has traditionally been the most dysfunctional during periods of crisis. The most important imbalance in the current crisis has been the level of unemployment, which went from 1.9 million workers in 2007 to 6 million in 2012, with a rate of 23.78% in the first quarter of 2015, according to Spain's Labor Force Survey. This is one of the principal problems faced by Spanish society.

Unit labor costs have been adjusted since 2008, with the result that the Spanish economy has recovered the level of competitiveness in labor costs with regard to the Eurozone that it had in the year 2000.



Graph 17
Labor market. Level of employment and differential in the index of unit labor costs (0 in 2015), 2005-2014

Source:
Own compilation with data from INE (EPA) and Bank of Spain, 2015.

Note: The differential of unit labor costs with respect to the Eurozone is the difference in absolute terms between Spain's ULC index and that of the Eurozone, with both measured from a base of 100 in 2005.

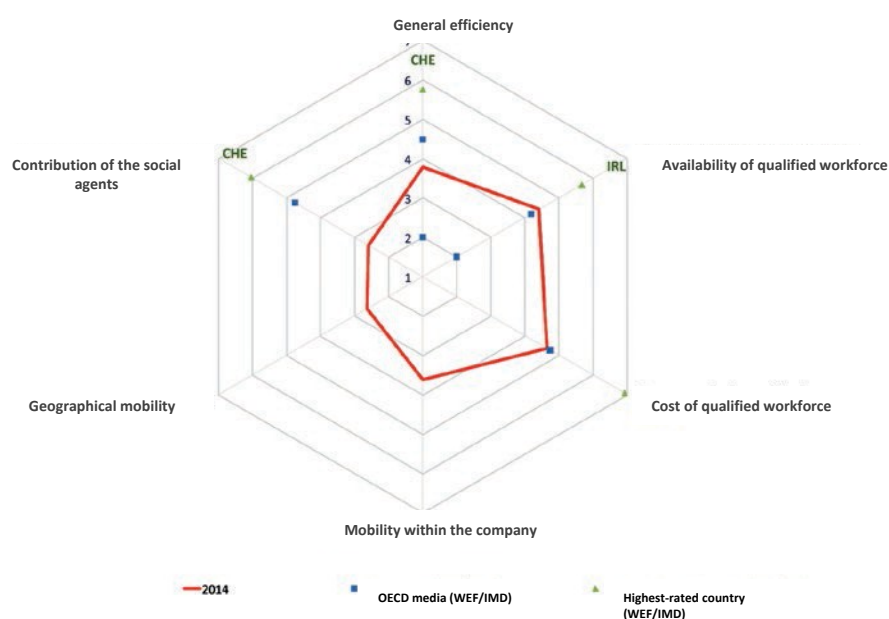
Graph 18
Labor market. Perceived
evaluations in the
*Barómetro de los
Círculos*

Source:
Own compilation with data of the survey
"Barómetro de los Círculos 2015",
Global Competitiveness Report (World
Economic Forum), 2014-15 and World
Competitiveness Yearbook (IMD),
2014.

Note: For each indicator there is a
relative evaluation from "1" (the
worst) to "7" (the best).

The Barometer 2015 has reflected the negative
opinions that businessmen have about Spain's
labor market. As seen in graph 18, their
assessment about the general efficiency of the
labor market is slightly below 3, which is lower

than average evaluations in the OECD and in
Switzerland, the country most highly regarded.
Nevertheless the valuation is good, above 4, when
it comes to availability and costs of the skilled
workforce.



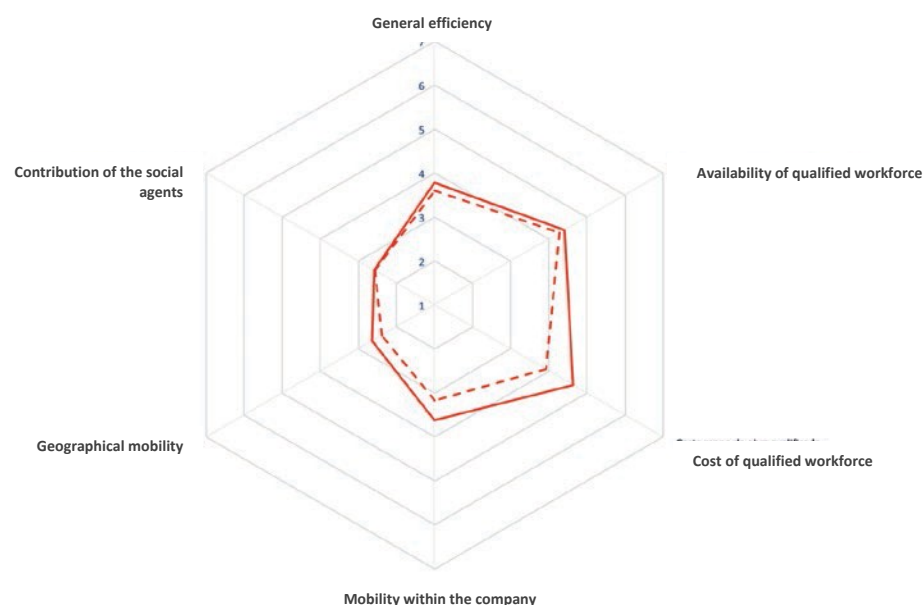
These results do not differ much from those
obtained in the 2014 edition, with the exception of a
perceptible improvement in the cost of the skilled
workforce and a more moderate improvement in

the willingness of employees to change jobs within
a company or be transferred within Spain or moved
overseas.

Graph 19
Labor market.
Variation
in the evaluations between
the Barometers of 2014
and 2015

Source:
Own compilation with data from the survey
Barometer of the Círculos, 2015.

Note: For each indicator there is a
relative evaluation from "1" (the
worst) to "7" (the best).



In spite of their negative evaluation of the situation in the work market, most of the businessmen who were surveyed have a positive opinion about the labor reform. They are practically unanimous in believing that this reform has helped, either directly or indirectly, to change the attitudes and expectations of companies and workers.

In particular, the businessmen noted the positive effects of the reform on flexibility and hiring. It had less impact on training and worker productivity.



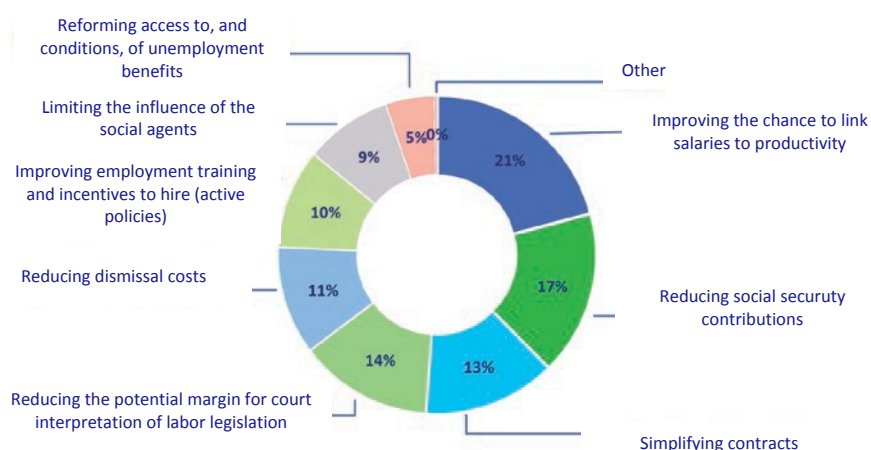
Graph 20
Impact of the measures contained in the recent labor reform law on the effectiveness of the labor market

Source:
Own compilation with data from the survey "Barometer of the Círculos" 2015.

Note: For each indicator there is a relative evaluation from "1" (the worst) to "7" (the best).

The businessmen thus feel that the labor reform has been a step forward but that, as indicated in graph 21, there is still room for improvement, especially with regard to the link between productivity and salaries,

the reduction of social security contributions, the simplification of contract models, and the disparities in the way courts interpret labor law.



Graph 21
The most important reforms to improve the situation in the labor market in Spain

Source:
Elaboración Own compilation with data from the survey "Barometer of the Círculos" 2015.

Note: The percentages are calculated according to the number of people surveyed who have chosen that option as one of the three most relevant.

**Best International
Practices III.**

***Decentralized system of
salary negotiations,
Germany***

Source: Own compilation based on
From Sick Man of Europe to Economic
Superstar: Germany's Resurgent
Economy and the Lessons for Europe,
2014. NEG

Special mention should be made of the role of the social partners, the trade unions and employers. In this survey both parties receive low marks in general, and for concrete aspects like workplace training, which is considered essential for increasing employment and productivity. Nevertheless a large number of businessmen in the industrial sector have a high opinion of the works committees when it comes to introducing more flexible workdays and linking salaries to productivity rather than to rises in the consumer price index. The automobile sector and its suppliers have been exemplary in this sense, pioneers not just in Spain but perhaps even Europe.

This apparent dichotomy may be explained by the different behavior of businessmen and labor unions in different industrial sectors, generally the largest companies, which are subject to much more international competition than other sectors. In sectors where competitiveness is less evident, as well as in a large number of SMEs, the unions seem to understand less the need for flexibility, and the businessmen seem to have more difficulties in convincingly communicating how important it is. Indeed, in this survey the average values that the SMEs assign to "the contribution of the social partners" is lower than the average (2.3 as against the 2.6 average). In future, one of the principal aims must be to extend effective labor relations from the most competitive industrial sectors to the economy in general.

The German system of labor relations is not included in legislation, but is established in the contracts and mutual agreements between the three main players in the labor market: labor unions, employee associations, and works councils (the representatives of the workers in medium-sized and large companies). This decentralizes the process of establishing salaries.

This was achieved in Germany starting in the 1990s because of a sharp drop in participation of workers covered by collective agreements, and by an increase in open-ended clauses, which strengthened the role of the works councils in determining salaries.

Several of the regulations that in Germany are determined voluntarily by labor contracts, are obligatory in other countries (such as the minimum salary) or implemented on a national level (collective wage agreements that include all the companies in the economy). To change these rules it is necessary to get approval from above, on the national or political level. This reduces flexibility and makes it hard to link a firm's productivity and costs in these countries.



Since the 1980s the UK has devoted considerable effort to promoting active employment policies. It has created different programs to motivate unemployed persons to look for work. In 1999, it introduced a national minimum salary and a series of tax breaks. The aim was cut unemployment and benefits and get people back to work. For example there were greater incentives for single fathers to work, and employment among this group grew from 45% in 1997 to 57% in 2009.

In 2010 the Work Programme was introduced: employment agencies became private subcontracted companies. They sought to find work for people who had been idle for long periods and for young people, among others: it was obligatory to use these services for two years so as to receive unemployment subsidies. These placement services charged a small fixed fee, but most of their income came when they found someone a job.

Another recent change has been Universal Credit, which unifies into a single subsidy several of the different allowances that currently exist, from unemployment benefits to housing assistance and help people with low income. The aim is to provide more incentives for most of the families to find a job. For example it includes childcare regardless of the number of hours that the parent works.

Best International Practices IV.

Active employment policies in the United Kingdom

Source: Own compilation based on IZA Policy Papers and Activation and Active Labour Market Policies in OECD Countries: Stylized Facts and Evidence on their Effectiveness, John P. Martin, June 2014.

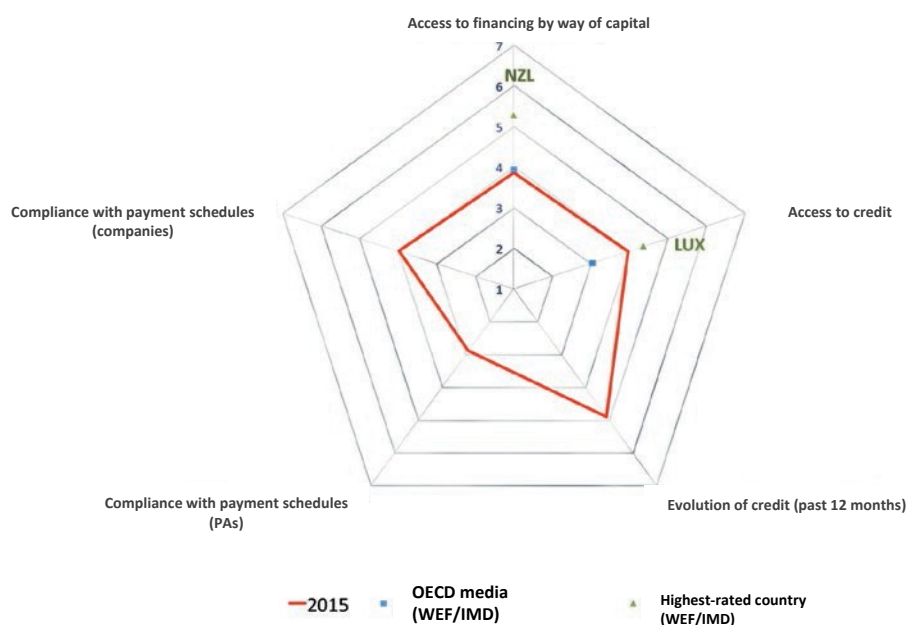




5. Financial Market

Of all the sections studied in the Barometer, the financial market is doubtless the one that has improved most in the eyes of those people surveyed.

As reflected in graph 22, it received grades of more than 4 in all aspects.



Graph 22
**Financial market.
Evaluations in the Barometer
of the Círculos**

Source:
Own compilation with data from the
"Barometer of the Círculos", 2015, Global
Competitiveness Report (World Economic
Forum), 2014-15 and World
Competitiveness Yearbook (IMD), 2014.

Note: For each indicator there is a relative
evaluation from "1" (the worst) to "7" (the
best)..

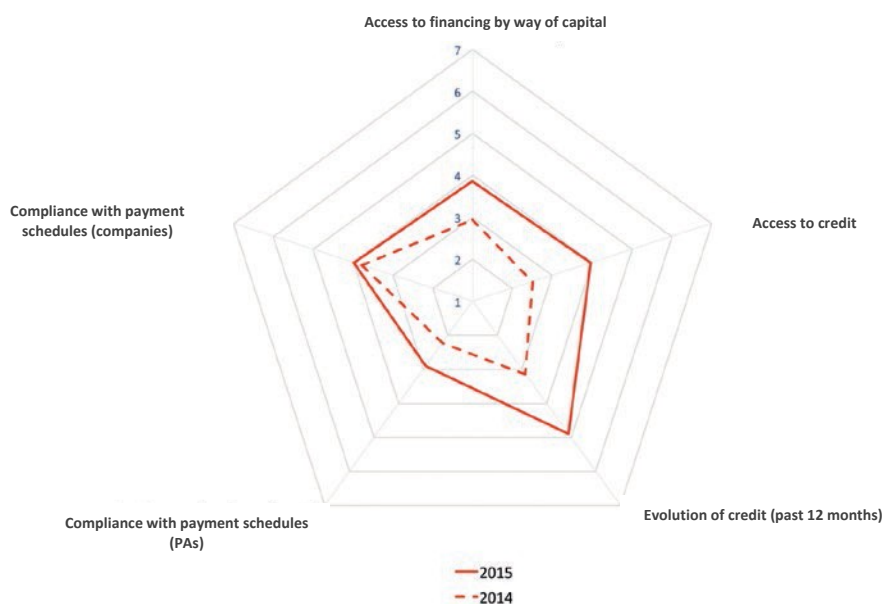
Graph 23
Financial market.
Variations in the
evaluations between the
Barometers of
2014 and 2015

Source:
 Own compilation with data
 from the survey Barometer of the
 Círculos 2015.

Note:
 For each indicator there is relative
 evaluation from "1" (the worst) to
 "7" (the best).

When compared with the Barometer 2014, there is a notable recovery on practically every side, with the single exception of companies' compliance with payment deadlines, which received a rating of 4 in 2014. These evaluations are very similar for the SMEs that were surveyed (which is not reflected in the graph), with a very slight deviation regarding access to credit (3.7 against the average of 4).

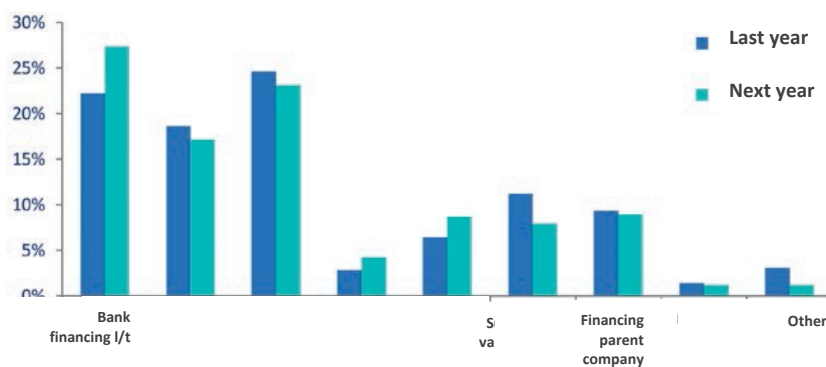
Over the next 12 months there is expected to be an increase in long-term bank financing and a reduction of short-term financing and self-financing. Graph 24 illustrates this aspect by comparing the most commonly used sources of financing over the last 12 months with those that are expected to be used in the next 12 months.



Graph 24
Sources
of financing
used by the
companies

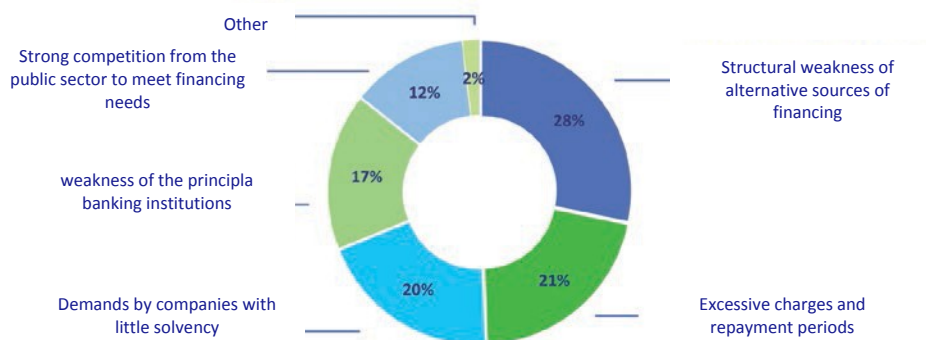
Source:
 Own compilation with data
 from the survey Barometer of the
 Círculos 2015.

Note:
 The percentages are calculated according
 to the number of people surveyed who
 have chosen that option as one of the three
 most relevant.



Asked to list the main problems that affect the financial markets, the people who were surveyed underlined the structural weaknesses in non-banking sources of financing, the repayment periods and excessively high interest rates, and the fact that some of the companies asking for financing were not especially solvent.

These problems tend to be more severe for the small and medium-sized companies, whereas the larger firms have access to alternative financial markets and don't suffer as much from shorter repayment schedules and excessive interest rates.



The NOVO bond fund, based on the norms of the Fonds Commun de Titrisation (Common Securitization Funds), is a financial vehicle established in France in July of 2013 by the French government and the French Federation of Insurance Companies (FFSA). The fund brings together bank loans and reorganizes them in a single untranching loan that is sold to insurance companies.

The loan originates with the banks, and because there are no tranches the transparency and visibility of the credits are maintained. The bank is also obliged to maintain a certain credit exposure to align its incentives with those of the insurance companies.

The loans are generally between 10 and 50 million euros, with an expiry period of between five and seven years. No rating is necessary.

The French government encouraged the creation of the fund by modifying norms, including the possibility for the insurance companies to invest more than 5% of their balance in non-rated marketable assets. In this way the insurance companies become borrowers of funds for the SMEs.

The Bank of France publishes a rating about the capacity of companies to meet their financial obligations over a period of three years, which includes both large firms and SMEs. The Bank is recognized as an External Credit Assessment Institution, which means that the rating system meets all the international requirements for an effective system of credit risk rating.

The system establishes ratings based on a company's turnover and credit quality, which includes an evaluation of its financial statements, its bank bonds, the economic situation in its sector, and its duties to others.

These figures are based on information collected by the French business register, the company's own accounts, and other public information, including judicial decisions.

The system covers more than 250,000 resident non-financial companies with annual billings of more than 750,000 euros. The banks are not obliged to use this information in credit evaluations, but they have it at their disposal, and they should use it in financing operations with the Bank of France to calculate the degree to which company assets are a guarantee for a loan.

Graph 25
Principal problems que affecting the Spanish financial market

Source:
Own compilation with data from the survey of the "Barometer of the Círculos", 2015.

Note: The percentages are calculated according to the number of people surveyed who have chosen that option as one of the three most relevant.

Best International Practices V.

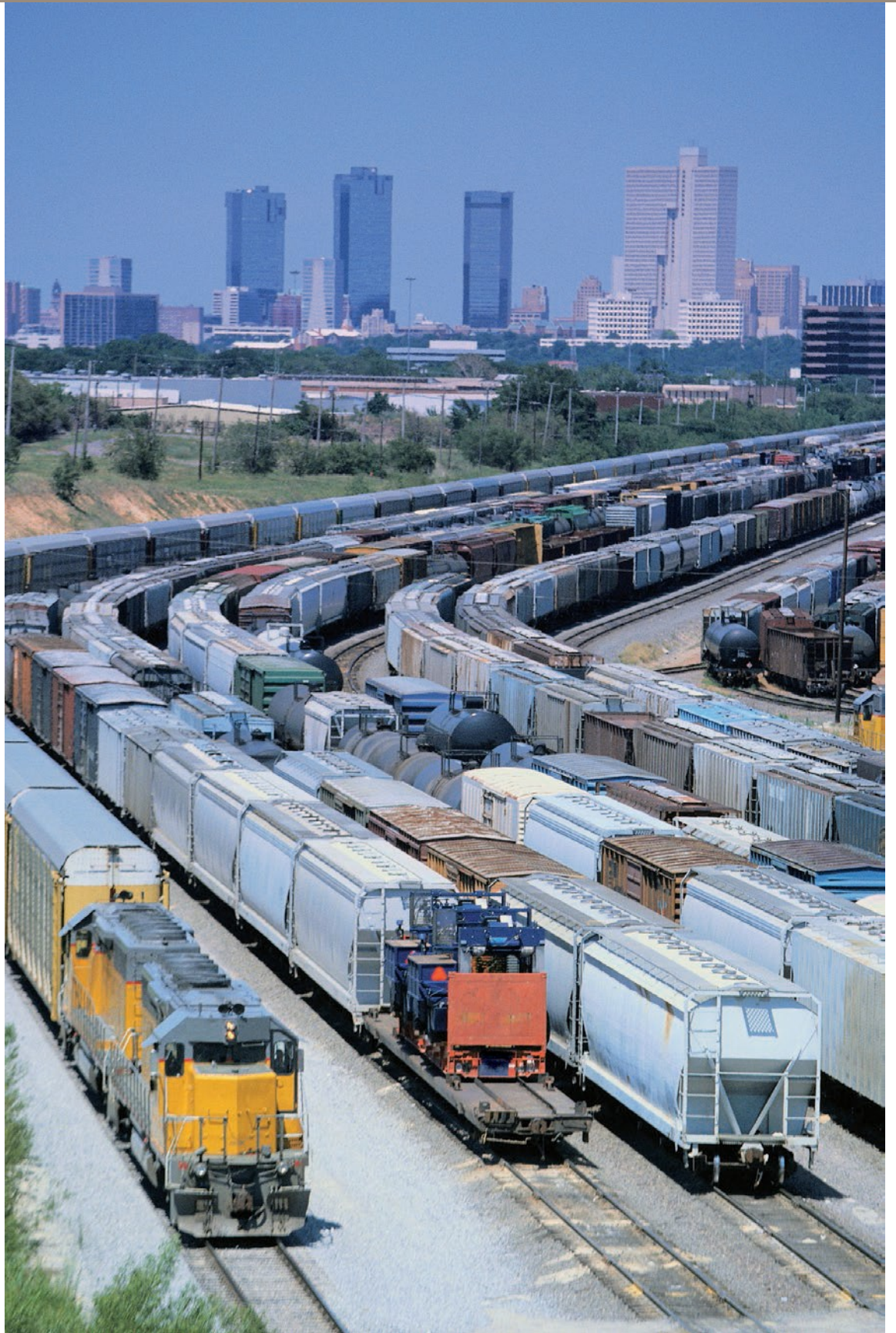
Banking disintermediation for SMEs. The NOVO fund, France

Source: Own compilation with data from TheCitiUK, 2013

Best International Practices VI.

The credit rating system for SMEs, France

Fuente: Own compilation with data from the OECD JOURNAL: FINANCIAL MARKET TRENDS 172 – VOLUME 2014/2

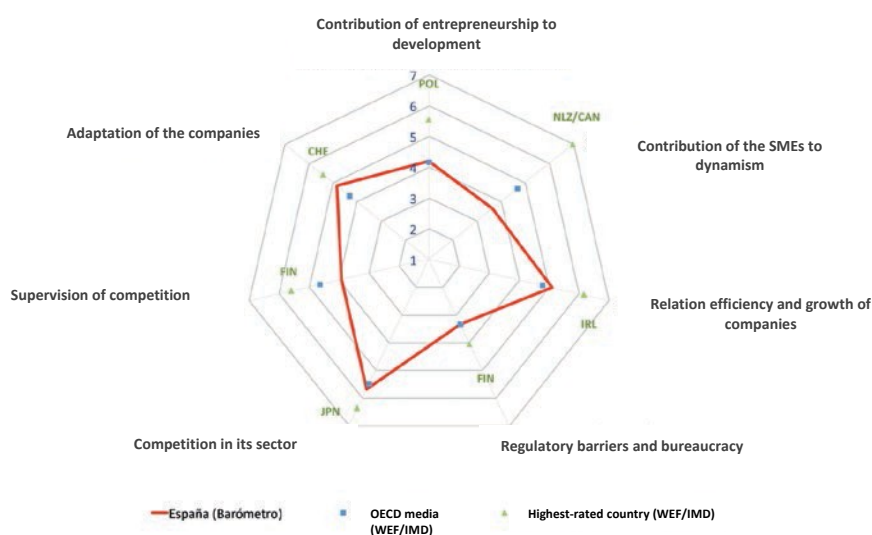


6. Company Dynamism

This section deals with public and private aspects that reflect competitiveness in the real estate and services markets. They include levels of competition and the effectiveness of their supervision, the contribution of the SMEs and their capacity for growth, the levels of entrepreneurship, and the bureaucratic and regulatory impediments for developing markets.

As reflected in last year's Barometer, the results in this section are positive, but there are significant imbalances. Thus high grades are assigned in

subjects like the level of competition in the sector, the companies' ability to adapt, or the relationship between their efficiency and growth. In all these aspects, Spain is ranked at the same or higher levels than the OECD average. Areas for improvement are in regulatory and bureaucratic barriers –while things have improved since 2014, this continues to be a weakness, a problem that also affects the rest of the OECD countries, as can be seen in Graph 26– the contribution of entrepreneurship and the SMEs to dynamism, and the supervision of competition.



Graph 26
Evaluations in the Barometer of the Círculos

Source
Own compilation with data from the survey of the Barometer of the Círculos, 2015, Global Competitiveness Report (World Economic Forum), 2014-15 and World Competitiveness Yearbook (IMD), 2014.

Note: For each indicator there is a relative evaluation from "1" (the worst) to "7" (the best).

Graph 27
Evaluations in the
Barometer of the Círculos

Source: Own compilation with data from the Barometer of the Círculos, 2015 and 2014.

Note: For each indicator there is a relative evaluation from "1" (the worst) to "7" (the best)

With respect to the report of 2014, the evaluations do not change significantly, although there are improvements with regard to the contributions of entrepreneurship to development and to resolving regulatory and bureaucratic barriers. The contribution of the SMEs to dynamism declines slightly in this edition.

Evaluation of the contribution of entrepreneurship to development rises slightly in comparison with the Barometer 2014, although it continues to be an area that needs improvement.

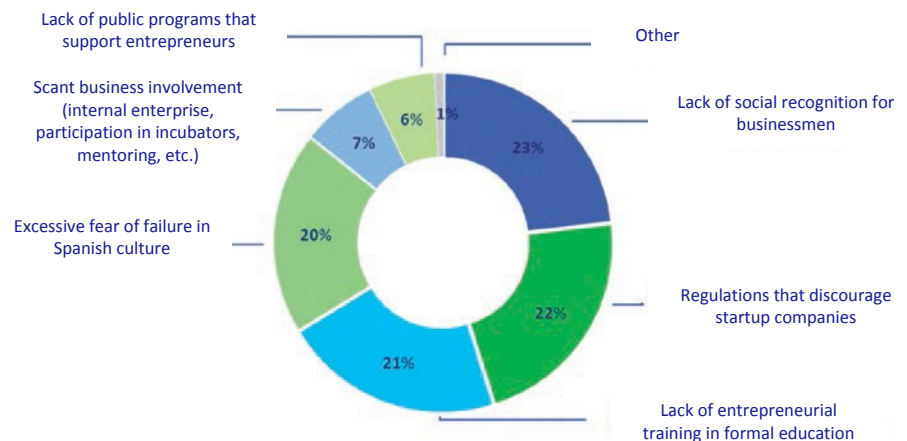
Those surveyed give several reasons why there is not greater entrepreneurship in Spain, including cultural aspects, such as the fact that society does not fully recognize the role of businessmen or that there is a fear of failure. In this sense, Spain is completely different from other countries with a greater spirit of enterprise, such as the United States. The businessmen feel that this spirit should be more present in the educational system, and that it should affect regulations so as to favor the creation of companies.



Graph 28
Reasons that prevent a
higher level of
entrepreneurship in
Spain

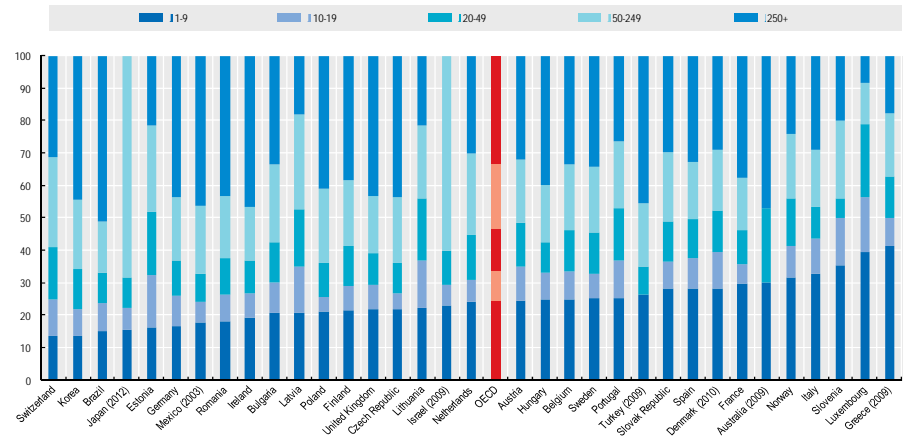
Source: Own compilation with data from the Barometer of the Círculos, 2015

Note: The percentages are calculated according to the number of people surveyed who have chosen that option as one of the three most relevant.



Also notable are the low grades received by the SMEs as regards their contribution to business dynamism: their rating drops slightly with respect to 2014, especially taking into account the characteristics of Spain's production fabric: 99% of the companies are small and middle-sized and they account for 65% of GDP and 75% of the jobs, in all cases a higher percentage than in most of the OECD countries, as can be seen by Graph 29.

Among the difficulties the SMEs have in growing, the most important is that the financial markets are reluctant to assume risks. While access to financing has improved substantially in the last year, there are still especially acute difficulties in these small and medium-sized companies. A large part of their problem in finding finance may come from the fact that, since 2009, some 300,000 of them have gone out of business.



Graph 29
Added value by size of
company

In 2012 the government of the United Kingdom launched SEIS (Seed Enterprise Investment Scheme) to encourage entrepreneurship by creating special conditions to facilitate investments in startups and young companies. It complements other programs such as EIS (Enterprise Investment Scheme), which offers lower taxes for investments in small high-risk firms.

Investors participating in the program receive a 50% reduction in taxes for investments of up to £100,000, which they can direct to other companies, although without ever assuming more than a 30% share in any of them. Profits from these investments are tax-free, as are profits from other investments making use of this program. Investors do not have to be residents of the UK.

Companies that are financed through the SEIS program also have to fulfill a series of requirements: the plan is only applicable to companies in the United Kingdom; the firms must have fewer than 25 employees and assets of less than £200,000; they should be in operation for less than two years; and they cannot obtain more than £150,000 through the SEIS program.

The program is receiving strong support. In 2013 the average weekly investment was £1.3 million for 19 companies, for a total of £82 million invested in 18 months. The cost estimated by the Treasury is £20 million.

Best International Practices VII.

Support for entrepreneurship in the United Kingdom

Source: Own compilation on information from the UK Government www.gov.uk and the Financial Times (Take-up on seed capital tax relief scheme improves, 7 November 2013)

Graph 30
Principal difficulties that
keep the Spanish SMEs
from becoming large
companies

Source:
Own compilation with data from the
Barometer of the Círculos 2015.

Note: The percentages are calculated
according to the number of people
surveyed who have chosen that option
as one of the three most relevant.

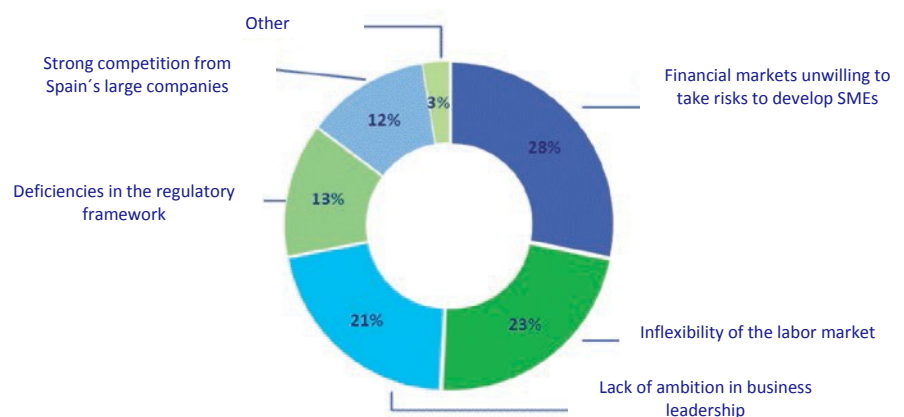
According to those businessmen interviewed, another reason why the SMEs do not grow is because they lack flexibility in hiring and firing. And part of the blame goes to the entrepreneurs themselves: they are perceived to lack ambition.

There are also regulations that limit and restrict growth of the SMEs, such as the "threshold effect": those labor and tax obligations that SMEs must assume when they reach a certain size, and which bring additional problems. Examples of this are obligations with regard to trade union representation, fewer benefits in staggered payments of the Corporate Tax, differences in the periods for paying VAT, etc.

By contrast, the large companies find it easier to meet these obligations and be competitive, and

because they are more attractive to well-trained young employees and they can develop their own training programs. They have the resources to develop their own innovation or associate themselves with outside institutions, they have more access to the financial markets, and their capacity to deal with Public Administrations is greater.

With regard to efficiency and company growth, the general opinion is that the two are related. However the heads of the SMEs gave a 4.6 mark to this opinion –perhaps because they know firsthand the difficulties of smaller firms in achieving a larger market share– as against the 5.1 from the leaders of the firms overall.



Best
International
Practices VIII

Support for the
development and
growth of SMEs in
New Zealand

Source: Own compilation with data
from the Government of New Zealand
(www.mbie.govt.nz)

Some 97% of New Zealand's companies are small and medium-sized firms.

To promote their development and growth, the New Zealand government has introduced a number of different measures. On the one hand, it made it easier to hire by establishing a 90-day trial period for employees of firms with fewer than 20 workers. The success of this measure led it to be applied to all companies, not just the SMEs.

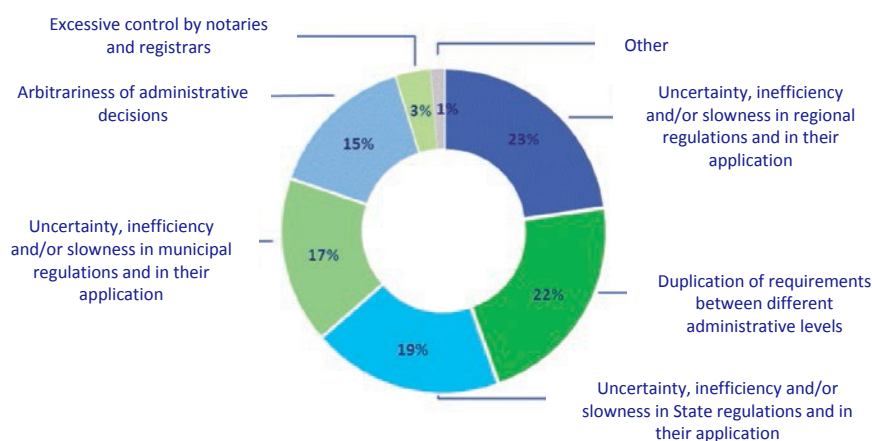
Tax breaks have also been adopted to promote R+D by the SMEs, so that they can eliminate losses through I+D (cash-out), rather than have to carry them forward. This is of special relevance in New Zealand, where the middle-sized firms carry out significantly more R+D than in other countries.

Other advantages for small and medium-sized companies in New Zealand include the chance to present simplified financial accounts, aids to export (\$ 69 million in 2014), and the creation of a Research Hub to stimulate research in the SMEs.

The mechanisms to supervise competition do not seem to be of great concern to those businessmen who were interviewed, but as can be seen in Graph 27,

Spain is below the average of OECD countries in efficiency of supervision. In this sense, the businessman stress that the supervising bodies lack independence, a problem that must be resolved.

Finally, the regulatory and bureaucratic barriers receive the greatest criticism in this section. Among the principal obstacles that companies encounter: uncertainty, inefficiency and delays in applying regulations, especially on the regional autonomous level. There is also unnecessary duplication among the different levels of Public Administration. Once again this section reveals one of the principal requests by impresarios: that the Single Market Act be applied effectively throughout Spain.

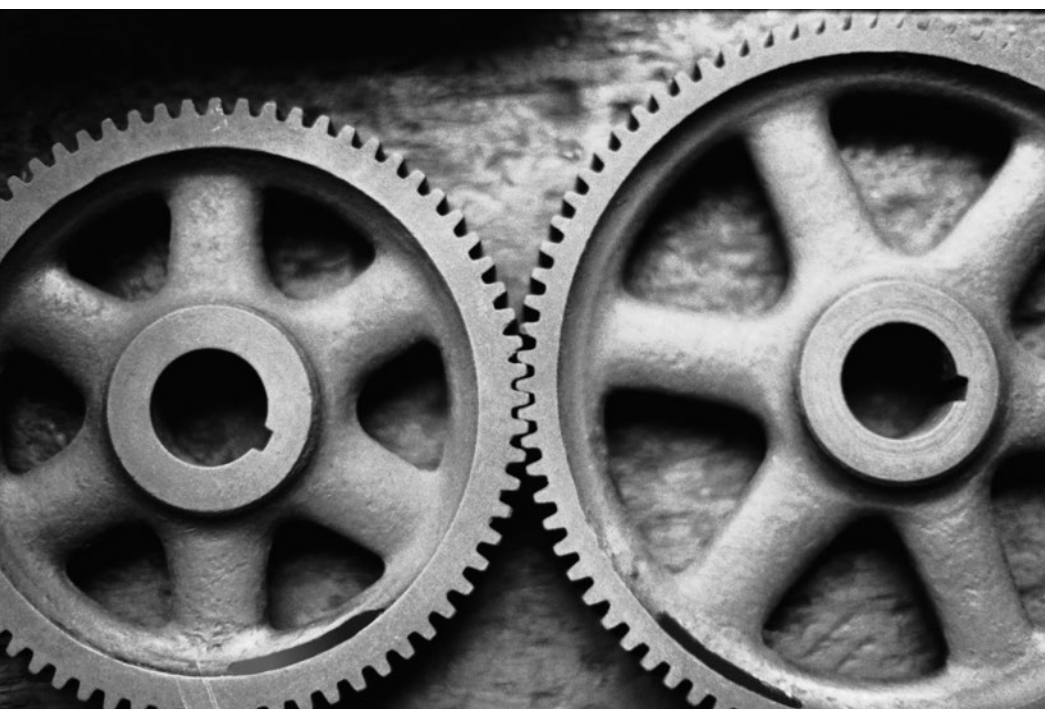


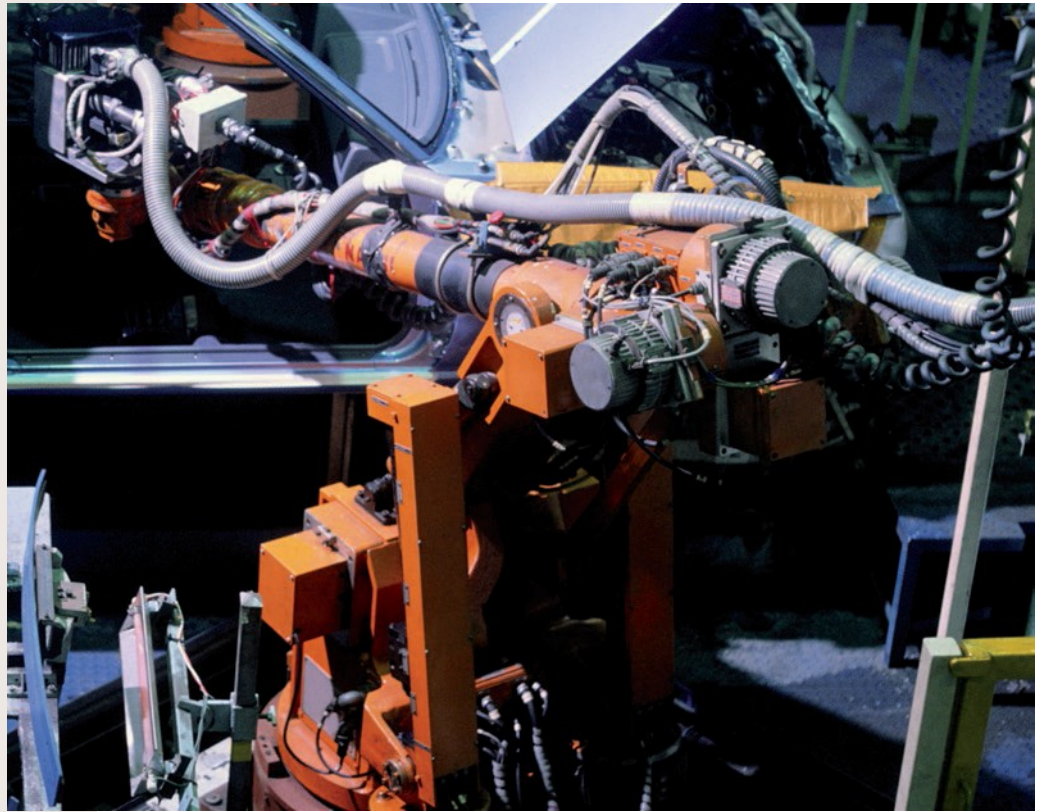
Graph 31

Impediments to streamlining procedures and paperwork

Source: Own compilation with data from the survey of the Barometer of the Círculos 2015.

Note: The percentages are calculated according to the number of people surveyed who have chosen that option as one of the three most relevant.

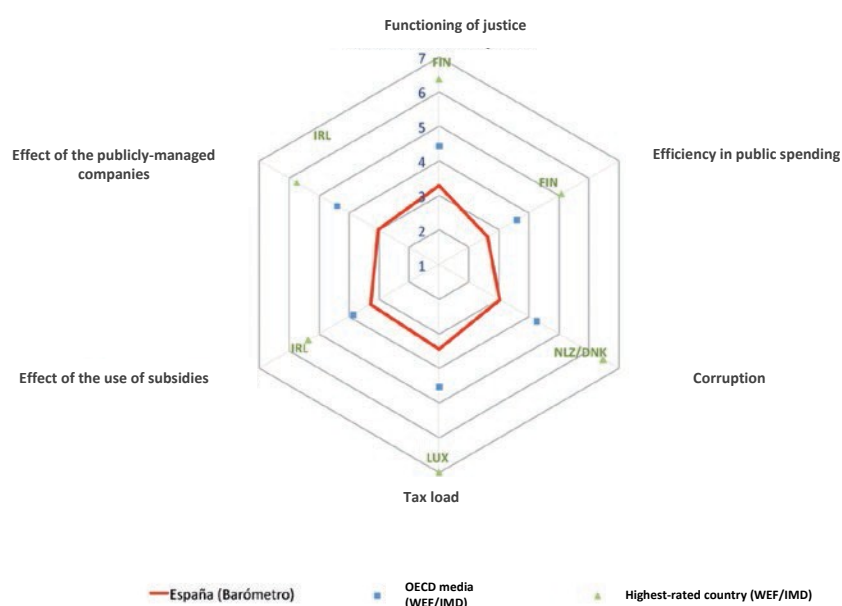




7. Contribution of the Administrations

The functioning of the Public Administrations is the economic aspect that received the worst grades in the Barometer 2015. As was the case in the Barometer 2014, there is the perception that the problem has a structural cause –because of an excessive and unnecessarily complex State organization– and that the public sector is unresponsive to the needs and demands of a market economy.

The Barometer survey assigns very low evaluations (close to 3) to every aspect of the Public Administrations, with the lowest mark for the efficiency of public spending. These results are very similar to those contained in the Barometer 2014, with the exception of the corruption aspect, which showed slight improvement. This evaluation is also substantially below the average in OECD countries, as obtained from international studies.



Graph 32

Contribution of the Administrations. Evaluations in the Barometer of the Círculos

Source:
Own compilation with data of the Barometer of the Círculos, 2015, Global Competitiveness Report (World Economic Forum), 2014 and World Competitiveness Yearbook (IMD), 2014.

Note: For each indicator there is a relative evaluation from "1" (the worst) to "7" (the best)

Best International Practices IX

The functioning of justice in Finland

Source
Own compilation from information provided by the European Commission (Study of the functioning of judicial systems in the EU member states, March 2014) and www.courtexcellence.com

The administration of justice continues to receive very poor marks, and this is one of the aspects that foreign partners find the hardest to understand. There is a worrisome slowness and lack of predictability in judicial decisions. Respondents coincide in the need to provide the justice system with more people and material, and

that its management and internal organization should be improved. This shortcoming, along with an unpredictable regulatory and supervisory attitude, has given foreign investors a negative idea about judicial security in Spain.

El funcionamiento de la justicia en Finlandia, al igual que en la mayoría de países nórdicos, recibe excelentes calificaciones en los rankings internacionales. En el caso de Finlandia, la función judicial tiene algunas peculiaridades:

- se accede a ella sin examen ni oposición, es necesario tener un grado en derecho, y experiencia en puestos subordinados;
- los jueces en este país tienen salarios superiores a la media de la Unión europea (€61.000 vs. €45.000);
- la duración de los procesos es de menos de 6 meses en primera y segunda instancia, y de menos de 12 meses en tercera instancia, siendo los procedimientos de insolvencia resueltos en menos de 250 días (en España, 547 días).
- los jueces desempeñan un papel muy activo en la mediación, y de hecho un 32% de los casos civiles se resuelven en la fase preparatoria.

Se ha implantado un sistema de benchmark de la Calidad del sistema, que ha sido premiado a nivel internacional, y que mide el desempeño en términos de proceso, tiempos de resolución, gestión y organización, así como las competencias y las habilidades de los jueces. Estos son evaluados mediante el uso de estadísticas, la opinión de expertos y de encuestas.

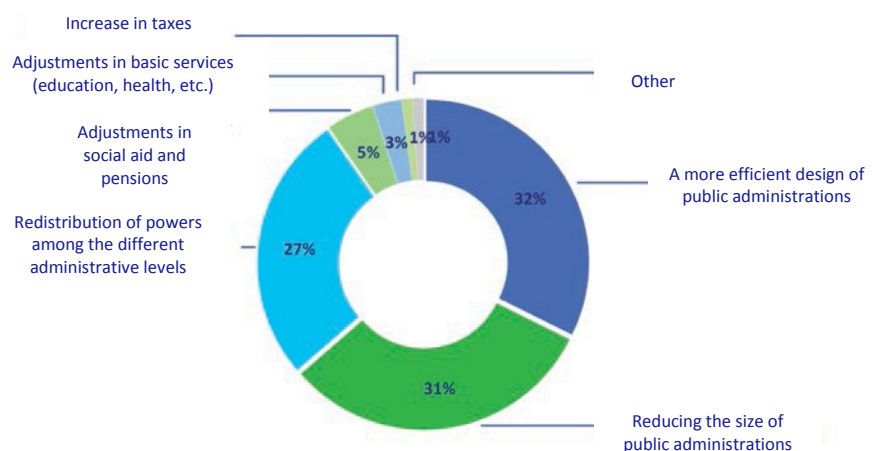
Most of those people surveyed feel that to control the public deficit the priorities should be to redesign the territorial model of the Public Administrations, reduce their size, and redistribute

their powers to other entities. It is considered less urgent to raise taxes or reduce public benefits or services

Graph 33 The most important initiatives to assure an adequate control of the public deficit

Source:
Own compilation with data from the survey of the Barometer of the Círculos 2015.

Note: The percentages are calculated according to the number of people surveyed who have chosen that option as one of the three most relevant.



In this sense there is a general perception among businessmen that the adjustments to the public sector have not been correctly executed. They feel that the profound modernization carried out by many large Spanish companies has not occurred in the Administration – for example in managing

purchases, using digital technology, and simplifying organizational structure. The size and inefficiency of the Public Administrations are seen in part as the result of different political parties safeguarding their interests by placing their own people in these entities.

In Denmark, 19% of public employment is considered part of the civil service, and is regulated by the Civil Servants Act. The remaining 81% of Administration workers are subject to the same norms as those in the private sector.

Hiring is done through direct application and selection for a specific job. All vacancies are publicly announced and are open to external contracting. Of the hours worked in the public sector, some 33.9% are carried out by part-time employees.

The base salary is set by a single collective agreement that includes all jobs in the central Administration, but specific remuneration adjustments and economic incentives are negotiated in a decentralized manner. The specific content of the work is the principal factor in determining the base salary, and there are adjustments for performance, experience and seniority.

The businessmen feel it is a mistake to make large cuts in spending, especially in education and innovation. The public institutions are also

criticized for not taking advantage of the synergies that could exist between public and private management.

On January 1, 2007, Denmark got a new administrative map, the result of a reform of local governments. The number of municipalities was reduced from 271 to 98 through mergers, and its 13 departments were replaced by five regions.

The towns just weren't able to provide the necessary public services. But instead of recentralizing these services, it was decided to design a system that combined the creation of larger towns –with a minimum of 20,000 residents– with a more rational division of functions and tax collection.

That same year Finland began to restructure its local government and services (the PARAS reform). Unlike Denmark, the high level of municipal autonomy prevented the Finnish government from imposing an obligatory fusion of towns. Instead, the government opted for encouraging this through a program of financial aid and subsidies for municipalities that did merge. Their number has dropped from 452 in 2001 to 317 in 2015.

Best International Practices X

The public function, Denmark

Source: Own compilation via information from the OECD, Human Resources Management Country Profiles.

Best International Practices XI

Reforming the territorial administrative structure, Denmark and Finland

Source: Own compilation from information provided by the OECD, Reforming Fiscal Federalism and Local Government, and from www.localfinland.fi

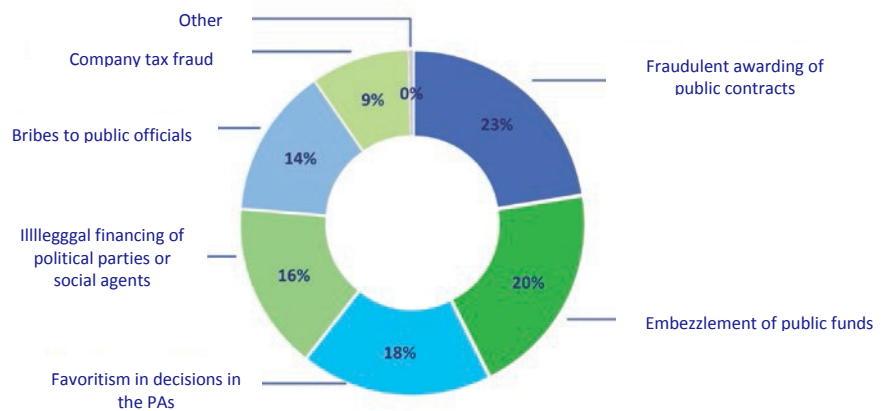
Graph 34
The areas of corruption that are most worrisome for business activity

Source:
Own compilation with data from the survey of the Barometer of the Círculos 2015.

Note: The percentages are calculated according to the number of people surveyed who have chosen that option as one of the three most relevant.

The Barometer has also included the impresarios' opinions about corruption in Spain. They consider that, from the business point of view, the worst kinds are the fraudulent awarding of contracts,

misappropriation of funds, and favoritism in administrative decisions. Secondly are the illegal financing of the political parties and the social partners, followed by bribes to public officials.



Corruption in Spain is not considered to be more common than in other European countries, although it is felt to be more concentrated at certain levels of the Administration and in certain fields of activity. But it does have a more important negative effect when it comes to evaluating the Spanish economy. This is confirmed by data from Corruption Perceptions Index, 2014, from Transparency International, where Spain is ranked 37 out of a total of 175 countries (Germany is

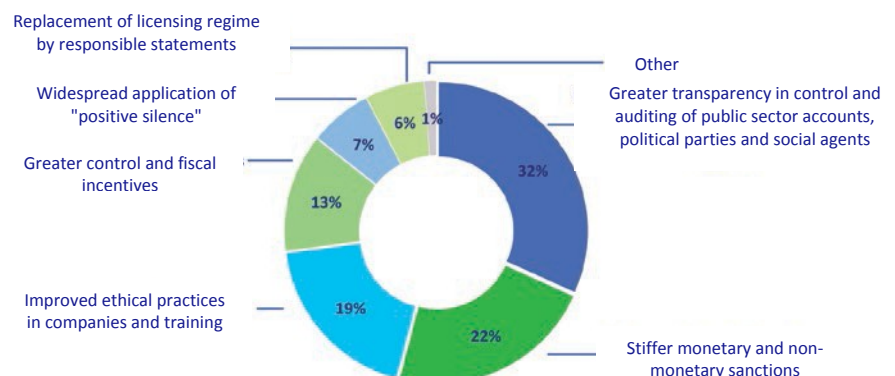
number 12, France 26, Portugal 31 and Italy 69). However, this is an improvement for Spain over 2013, when it was ranked 40.

The people surveyed list the most effective measures to fight against corruption: greater transparency in the control procedures, auditing and accounts of the public sector, the political parties and the social partners; tougher sanctions; and improvements in the ethical practices in companies and training.

Graph 35
Most effective measures to fight corruption

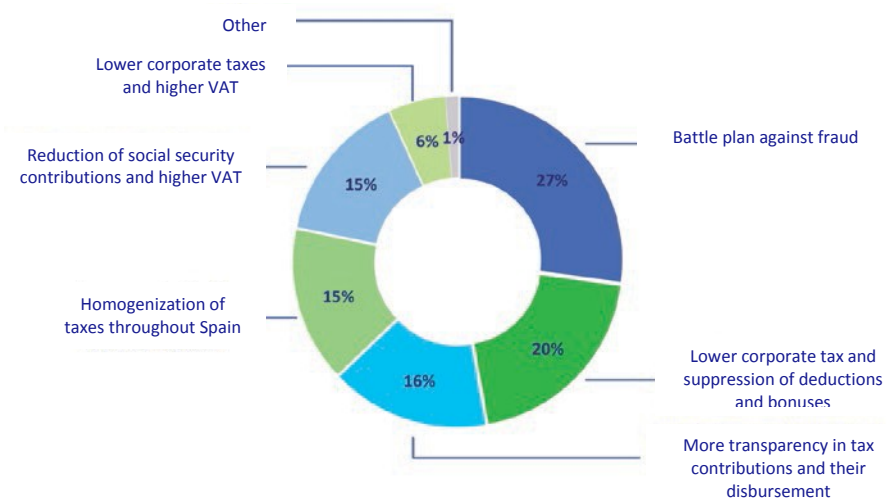
Source:
Own compilation with data from the survey of the Barometer of the Círculos 2015.

Note:
The percentages are calculated according to the number of people surveyed who have chosen that option as one of the three most relevant.



Finally, the businessmen feel that any tax reform must take into account its impact on Spanish companies and their competitive environment. Among the measures to best increase tax

revenues are the fight against fraud; a reform of the corporate tax law; and a reduction in interest rates in exchange for the elimination of deductions and bonuses.



Graph 36
Most beneficial tax reforms for the growth of Spanish business

Source:
Own compilation with data from the survey of the Barometer of the Círculos 2015.

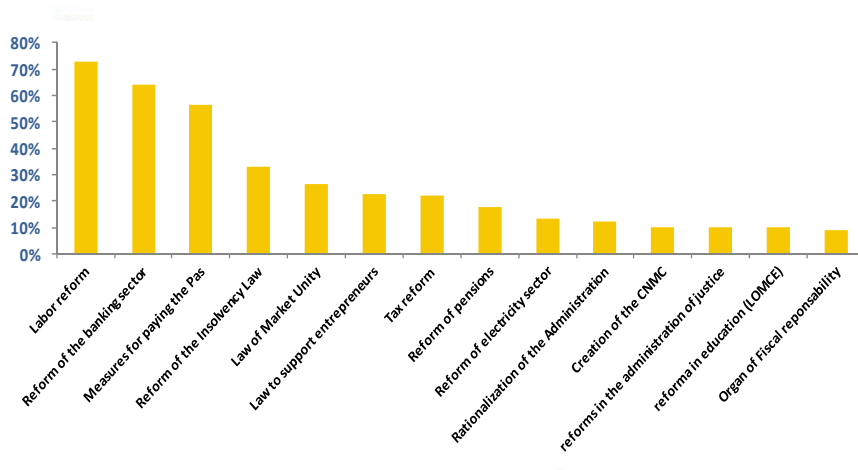
Note: The percentages are calculated according to the number of people surveyed who have chosen that option as one of the three most relevant.



8. Evaluating recent reforms and priorities for the future

The Barometer 2015 also sought opinions about what recent reforms have had the greatest impact on the business world. The three measures most highly valued by the businessmen were, by order,

the labor reform, the reform of the financial sector, and the measures to facilitate payment by the Public Administrations.



Graph 37
Recent measures of the greatest positive impact on the business world

Source:
Own compilation with data from the survey of the Barometer of the Círculos 2015.

Note: The percentages are calculated according to the number of people surveyed who have chosen that option as one of the three most relevant.

Graph 38
Reform measures that
require greater effort

Source:
: Own compilation with data from the
survey of the Barometer of the
Círculos 2015.

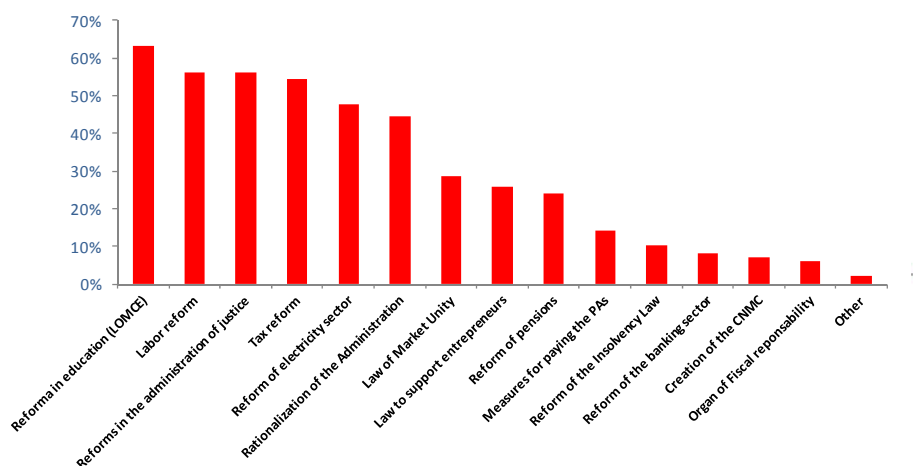
Note: The percentages are calculated
according to the number of people
surveyed who have chosen that option
as one of the three most relevant.

Asked which reforms they think require still greater effort, the businessmen chose the educational system in first place, followed by the administration of justice, the tax system, the labor market, the electrical sector, and the rationalization of the Public Administrations.

Regarding education, these businessmen support a system that gives greater value to such as aspects as enterprise, excellence and competitiveness.

The labor reform, while it is the aspect most highly valued by these managers, is yet to be completed: for example the courts must be more consistent and restricted in their interpretations of the law. It is also thought that the courts should be more independent, and that the judges should receive more specific training in their respective fields.

In general terms, it is felt that the Law of Market Unity has not been sufficiently applied and that it is an important instrument to guarantee one of Spain's competitive advantages: its large market.



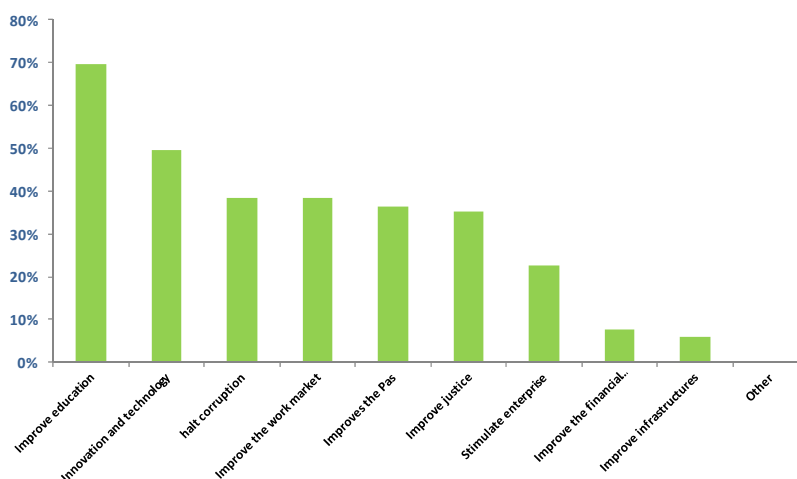
Finally, with regard to the important priorities in economic policy, most of these businessmen said that it is necessary to give greater importance to education and innovation, and then stop corruption,

continue to reform the labor market, and improve the regulation and functioning of the Public Administrations and the justice system.

Graph 39
Short and
medium-term
priorities in
economic policy

Source:
Own compilation with data from the
survey of the Barometer of the
Círculos 2015.

Note:
The percentages are calculated
according to the number of people
surveyed who have chosen that option as
one of the three most relevant.



9. Recommendations

Basic Resources

INFRASTRUCTURES

Spain has the chance to be an important European logistical platform and a center of industrial competition for multinationals: it has a privileged geographical location, quality infrastructures, a highly qualified workforce, and a growing number of exporting firms. To achieve this, it must carry out reforms. Among them:

- Develop intermodal connections and redesign the management of the infrastructures, principally the railway-port transportation of merchandise.
- Decide on investment in infrastructures –at all levels of the Administration– in a manner that is transparent and competitive, and is based on cost-benefit analysis carried out by independent experts.
- To have a guaranteed supply of competitive and sustainable energy, it is necessary to create a stable regulatory framework, one that is transparent and predictable. It must limit all kinds of subsidies and incentives that reduce competition, and do away with those charges and taxes on consumers that distort the real price of energy.
- Speed up interconnection projects, principally electrical, with Europe, in view of Spain's status as an "energy island". This will help achieve greater efficiency in the energy mix.

EDUCATION

Our high levels of academic failure and youth unemployment, and changes in concepts of traditional employment based on profiles and professional abilities, call for an educational reform based on consensus. It must be founded on traditional values, merit, effort, creativity, communications skills and a knowledge of different languages.

- At all levels of education it is necessary to stress a spirit of enterprise, respect for the value of businessmen, social responsibility, responsibility for failure as part of the learning process, and greater training in economic and finance.
- Promote dual vocational training by creating a system of scholarships and/or loans, with greater resources and increased integration of companies in the system.
- Take into account the needs of the market and the companies when designing study plans.
- Invest in continuous training for teachers to meet these new technological and professional market requirements.

THE ECONOMY OF KNOWLEDGE

Competing in the global economy means supporting knowledge and innovation. There is room for improvement, since Spain is out of the Top 20 countries in these fields.

- Support applied research according to society's needs, with public-private funding and cooperation in projects. This requires closer ties between companies, universities and R+D centers.
- Facilitate the access of the technological SMEs to resources and aid in R+D, so that they can develop and provide technological solutions for the large companies.
- Draft fiscal, labor and regulatory measures that attract the specialized innovation centers of the multinationals.

Labor Market

The high level of unemployment –with structural unemployment at 18% and youth unemployment at 50.1%, and the negative predictions about lowering it– demand new regulatory measures that will improve conditions for the active population.

- Reformulate active policies and work with the companies to find jobs for the unemployed in sectors where they are really needed. In addition, the companies should have greater power in designing, managing and financing these training programs, as is the case in Germany, Denmark and the United Kingdom.
- Make young people more employable through dual vocational training, incentive contracts, and a specific guaranteed minimum wage that is pegged to training. These measures are already applied in Germany Austria, Holland and the UK.
- Rationalize and simplify the hiring system with three kinds of contracts, applicable to both part-time and full-time workers: a permanent contract; a contract based on business needs (of a set duration); and a contract for youth employment (formative).
- Worker compensation when temporary or permanent contracts are terminated should progressively be brought into line with that which is offered in other European countries.

- Link salaries to productivity, with greater importance to negotiations about wages on the company level.
- Promote a more flexible job environment where workers can move among different tasks, and reduce administrative requirements and the need for official approvals.

Financial Market

Access to financing is one of the biggest problems for Spanish companies. They depend too much on financing from the banks –it constitutes 70% of their total financing– and they have accumulated huge debt during the economic boom years.

- Develop new sources of company financing that improve the level of capitalization and competitiveness. This can be achieved through debt issue, the stock market, corporate credits, structured finance, venture capital funds, and crowd funding. All this within the framework of the European Union's recently launched Capital Markets Union.
- Both companies and Administrations must demonstrate greater compliance with payment deadlines to suppliers, as established in the current legislation.

Company Dynamism

Spanish companies face global challenges: competition with new economic players, changes in consumer habits due to an ageing population in the developed countries and a growing middle class in the emerging nations, new migratory flows of talented workers, and a "new technological revolution" that will change our traditional concept of employment. The larger companies will have a better chance to adapt to this new situation: to become more international and innovate, and to attract, train and retain talent. For these reasons, our companies should grow in size.

- Increase threshold effect measures in the labor, tax and regulatory framework, which will discourage the appearance of new middle-sized companies. Discourage the appearance of middle-sized companies.
- Provide tax incentives for the concentration of small and middle-sized companies.
- Promote and effectively apply the Law of Market Unity. The Agency for Evaluation and Quality of the Treasury Department should evaluate the regional autonomous communities.

Taxation

Spain's greater dynamism and economic and social growth require a new fiscal framework that is more in line with the ones in the countries that are world leaders in competitiveness.

- Promote fiscal education and make citizens aware of their shared obligations toward the Welfare State.
- Intensify the fight against fraud. On the one hand, the Tax Agency should have more resources to carry out inspections and with greater speed, sanctions should be toughened and made more public (as in Norway and Holland), and there should be tax incentives to stimulate business. Secondly, measures should be adopted to make payment by electronic means more common, as in the Scandinavian countries and Korea.
- Simplify and clarify taxation rules, while at the same time changing the system of bonus remuneration for inspectors: it should not when they initiate proceedings against a firm but when the resulting sanctions are confirmed.
- Encourage cooperation between the taxpayer and the Tax Agency, following the lead of the UK and Belgium.
- Reduce taxes on companies, reduce and set a single rate of 20% in the Corporate Tax, and lower the contributions that employers must make to their workers' social security accounts. Both taxes should be more in line with the average in the OECD countries.
- Reconsider the exit tax, which has been in force since January 1, 2015, because it is a disincentive for entrepreneurs of technological startups and for innovation.

Contribution of the Administrations

Spain needs an Administration that guarantees the current Welfare State by using fewer resources, of greater quality and efficiency, and is at the service of people and companies. Likewise it is essential to have a regulatory framework that is simple, stable and predictable and that favors economic growth.

- Restructure the territorial Administration (provincial deputations and town halls).
- Encourage public-private cooperation in services, in developing professional training, and in promoting enterprise and R+D.
- Increase transparency and accountability in the Central Administration, the regional autonomous communities and the town halls.
- Change the model for hiring, dismissing and paying public-sector employees, making it more similar to the public sectors in the UK, Denmark and Sweden.
- Guarantee legal security through clearer and more stable laws. There should be improvements in the way laws are made, and mechanisms should be incorporated to evaluate them ex post from an economic point of view.
- There should be more legal personnel and greater technical and financial resources in the justice system, along with new management mechanisms that will speed up procedures.
- Accelerate the resolution of cases through administrative and judicial channels. It is also necessary to improve and strengthen alternative ways of resolving litigation through arbitration and mediation, as is done in the UK, Portugal and Belgium.





10. Annexes

Methodology

The Barometer of the Círculos has been produced jointly by the Círculo de Empresarios, the Círculo de Economía and the Círculo de Empresarios Vascos. In this present edition they have been joined by the Asociación Valenciana de Empresarios, the Club Financiero Vigo-Círculo de Empresarios de Galicia, and the Institución Futuro de Navarra.

The report uses published sources and a specifically designed survey, which have been complemented by personal in-depth interviews.

PUBLISHED SOURCES

There has been a comparative analysis of Spain's strengths and weaknesses by collecting data from different domestic and international sources, principally studies about competitiveness. In this sense we have used the Global Competitiveness Report of the World Economic Forum, the World Competitiveness Yearbook of IMD, Doing Business by the World Bank, and other prestigious studies, including Product Market Regulation and Going for Growth, both from the OECD; Innovation Scoreboard from the European Commission; World Governance Indicators by the World Bank; Country Reports from the International Monetary Fund, and Corruption Perceptions Index 2014, from Transparency International. The aim has been to provide a comparative vision of Spain's principal competitive advantages and disadvantages. All this has provided a basis for areas demanding deeper analysis and for the aspects that were added to this report.

The Survey of the Barometer of the Círculos

As in 2014, this report is based on a survey of Spanish businessmen to ascertain their principal conclusions and recommendations.

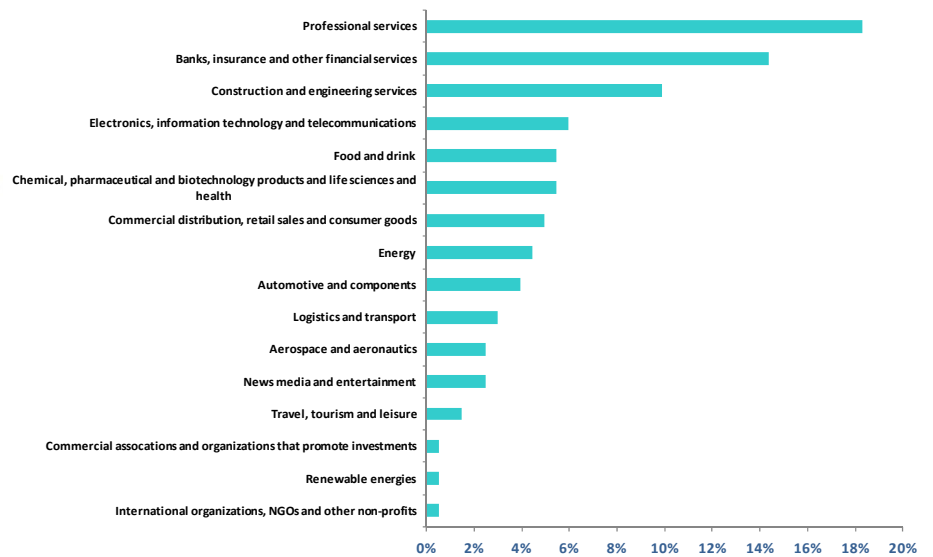
The sample includes 576 members of the Círculo and the participating institutions. To this survey have been added another 50 heads of Spanish companies who are not members of the Círculo: the aim is to make the survey as representative as possible in key areas like tourism and the automotive industry, and to include a sufficient

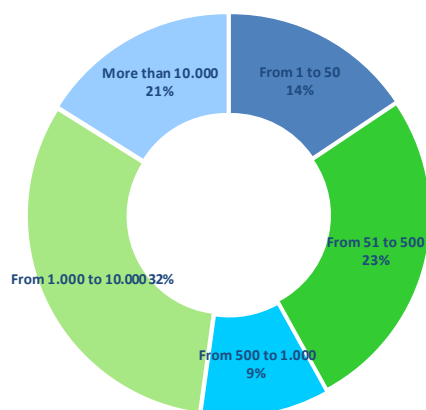
number of representatives of foreign companies operating in Spain. As a result, the total number of businessmen interviewed was 626.

209 surveys were answered, a significantly high rate of more than 33%. The companies surveyed are highly diverse, as can be seen in **¡Error! No se encuentra el origen de la referencia.**, although most come from the fields of professional services, finance, construction, electronics and communications. As for the size of these companies, approximately a third are large companies of between 1,000 and 10,000 employees, but again, the sample represents companies of all sizes.

Graph 40
Profile of those surveyed – Principal activity of their company

Source:
Own compilation





Graph 41
Profile of
those
surveyed –
Number of
employees in
their
company

Source:
 Own compilation

The survey consists of 48 questions, grouped in the following sections:

- I. Market situation and expectations
- II. Value of basic infrastructures in Spain
- III. Functioning of the labor market in Spain
- IV. Functioning of the financial market in Spain
- V. Dynamism and management in the Spanish economy
- VI. Information about those surveyed

In all these sections (with the exception of information about those surveyed) we have included questions demanding an evaluation (58% of the total) and questions requiring prioritization (42% of the total).

In the first category, we asked respondents to rate different aspects on a scale of 1 to 7, with 1 being the most negative evaluation and 7 the most positive.

In the questions about prioritization, we generally used a multiple-choice system: respondents were asked to choose the three most relevant options from among the different possibilities. In this type of question they were also given the chance of naming other relevant options that were not initially included.

To tabulate the answers of a numerical nature, a simple average was used.

In-depth interviews

The results of the survey were compared and complemented by in-depth interviews, lasting approximately an hour, with 27 businessmen included in the initial sampling.

To achieve a balanced, representative sampling of business in Spain, these interviewees were chosen from different industrial sectors and different geographical areas, from both Spanish companies and from Spanish branches of overseas firms.

The interviews examined more fully the areas that had been treated in the Barometer, thus providing a more detailed vision of how the different problems affect the companies, along with recommendations about the principal areas where action should be taken.

The **Barometer**
of the **Círculos**
2015

